Product mix, commodity tailwinds to aid auto industry margins

Brokerages expect marginal drop in two-wheeler volumes

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Automobile manufacturers are likely to report strong numbers for the September quarter of financial year 2023-24 (Q2FY24), riding on growth across segments and offset by a marginal drop in overall two-wheeler (2W) volumes.

Higher average selling price (ASP) year-on-year (Y-o-Y), which was necessitated by price hikes taken by original equipment manufacturers (OEMs), and an improved product mix will also aid revenues and margins. Moreover, commodity prices are down on a Y-o-Y basis, leading to higher margins in earnings before interest, taxes, depreciation and amortisation (Ebitda). Axis Securities said it expects Auto OEMs under its coverage to post revenue growth of 17 per cent, an Ebitda growth of 41 per cent and a profit after tax (PAT) growth of 50 per cent Y-o-Y in Q2 FY24.

Kotak Institutional Equities forecast that revenues of automobile firms will increase 23 per cent Y-o-Y, led by mid-single-digit growth in the passenger vehicle (PV) and commercial vehicle (CV) segments' production volumes. The brokerage expected the automobile sector to report a strong second quarter, driven by mix and commodity tailwinds.

RESULTS PREVIEW

Nirmal Bang analysts said that prices of major raw materials used by the sector declined YoY and quarter-on-quarter (Q-o-Q): Steel (-9 per cent YoY, -2.4 per cent Q-o-Q), aluminium (-6.6 per cent YoY, -2.9 per cent Q-o-Q), Copper (+8.6 per cent Y-o-Y, -0.9 per cent Q-o-Q) and RSS4-natural rubber (-8.5 per cent YoY, -3.7 per cent Q-o-Q).

"We expect Ebitda margin to improve 350 bps (basis points) Y-o-Y in 2QFY24 for auto OEMs, mainly led by operating leverage benefits, raw material tailwinds and richer product mix," said analysts at Kotak.

Domestic PV industry volumes grew 5 per cent Y-o-Y in Q2 FY24 due to pending order books and production ramp-up, said Nuvama Research analysts.

"Mahindra and Mahindra (M&M) and Maruti Suzuki India (MSIL) have outpaced the industry — Q2 revenue growth of 28 per cent YoY for MM's auto division (total revenue growth of 20 per cent for MM) and 24 per cent Y-o-Y for MSIL. In contrast, Tata Motors Indian passenger vehicle (PV) division would dip -1 per cent Y-o-Y," they said.

MSIL's Ebitda is estimated to improve 59 per cent Y-o-Y, led by operating leverage benefits, a richer product mix as well as raw material tailwinds. Brokerages said that MSIL's Ebitda growth will be partly offset by higher ad spends and employee costs.

IN TOP GEAR

	Net sales	Change %		PAT	Change %	
	Q2FY24E	Q-o-Q	Y-o-Y	Q2FY24E	Q-o-Q	Y-o-Y
Tata Motors	1,08,160	6.5 ▲	37.2 ▲	4,520	41.1 ▲	LTP
Maruti Suzuki India	37,145	14.9 ▲	30.1 ▲	3,014	19.4 ▲	42.7 ▲
Mahindra & Mahindra	25,058	4.2 ▲	20.2 ▲	2,923	5.4 ▲	29.1 ▲
Bajaj Auto	10,940	8.9 ▲	10.4 ▲	1,781	7.0 ▲	16.4 ▲
Ashok Leyland	9,935	21.9 ▲	20.2 ▲	624	8.1 ▲	213.0 ▲
Hero MotoCorp	9,346	6.6 ▲	3.0 ▲	972	3.7 ▲	35.7 ▲
TVS Motor Co	8,159	13.0 ▲	13.0 ▲	534	38.6 ▲	31.1 ▲
Eicher Motors	4,037	3.2 ▲	16.9 ▲	917	-0.2 ▼	39.6 ▲
	2,12,780	8.5 ▲	28.1 ▲	15,284	17.7 ▲	127.4 ▲

Figures in ₹ crore, LTP is loss to profit; Source: Bloomberg   Compiled by BS Research Bureau

Kotak Institutional Equities expected Tata Motors' PV business Ebitda to improve 110 bps YoY due to "commodity tailwinds", referring to correction in base metal and electric vehicle (EV) battery prices. CV OEMs will report a sequentially better quarter in Q2 FY24. "We expect Ashok Leyland to report a 37 per cent increase in Ebitda Q-o-Q, mainly led by a 21 per cent Q-o-Q improvement in volumes. We also expect Tata Motors' standalone Ebitda to improve 48 per cent Q-o-Q in 2QFY24," said Kotak analysts.

The domestic medium and heavy commercial vehicle industry grew by around 17 per cent in Q2, owing to robust demand for buses, higher volumes for cargo vehicles on better freight availability, government thrust on infrastructure spending and replacement demand, said Nuvama Research. It estimated Ashok Leyland's Q2 revenues would jump 19 per cent Y-o-Y and Tata Motors India CV division revenues would grow 34 per cent.

Brokerages said Bajaj Auto's Ebitda is expected to improve 9 per cent sequentially due to a higher mix of three-wheelers and the premium two-wheeler segment. This would, however, be offset by a higher mix of the electric two-wheelers.

On the other hand Hero MotoCorp's Ebitda margin is estimated to improve 50 bps sequentially thanks to price increases taken by the company and increase in gross margins due to raw material price correction. Hero MotoCorp, however, had higher advertisement spends due to newer launches. Despite strong urban demand and adequate finance availability, two-wheeler volume performance has been restricted due to the timing of the festive season (Navratri festival commenced in September last year), Nuvama analysts noted.

Kotak said that TVS Motors' Ebitda is likely to improve 19 per cent sequentially, while Eicher Motors' (standalone business) Ebitda to increase 4 per cent Q-o-Q.