# Price hikes, lower input costs to aid auto firms' Q1

## Analysts predict 18% growth in revenues for automotive OEMs

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Auto industry volumes have grown by 2.5 per cent overall, led by domestic sales of three-wheelers, two-wheelers and passenger vehicles (PVs) in the first quarter of this financial year.

Analysts predict 18 per cent growth in revenues for automotive original equipment manufacturers (OEMs) and profit growth of 69 per cent year-on-year (YoY).

However, on a sequential basis, a decline in revenues as well as earnings before interest, taxes, depreciation, and amortisation (Ebitda) margins is expected.

Axis Securities expects revenue growth of 18 per cent for automotive OEMS, and Ebitda growth of 49 per cent in Q1. It sees profit after tax (PAT) growing by 69 per cent YoY. This will be led by growth in the PV segment, the brokerage said, with domestic sales growing by 10 per cent. In the case of two-wheelers, the strong domestic growth (12 per cent YoY) is partially offset by a drop in exports (down 30 per cent). Three-wheelers have been on a strong trajectory, up more than 50 per cent YoY during the quarter.

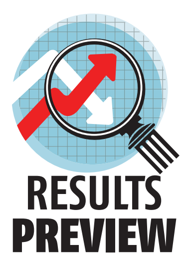
Commercial vehicle (CV) sales were down 4 per cent, mainly due to pre-buying in the fourth quarter of FY23. This was ahead of the BS-6 II emission norms that kicked in from April.

Most auto OEMs have increased their prices in the past few months and analysts feel that higher average selling price on a YoY basis would aid margins. Further, correction in raw-material prices over the high base of last year (commodity prices are down YoY) will lead to higher gross margins — up by 260 basis points.

Nuvama Research pointed out that rupee depreciation against the US dollar is positive for Bajaj Auto and TVS. Moreover, rupee-depreciation vis-à-vis pound and euro will help Tata Motors-Jaguar Land Rover's profitability.

At a consolidated level, Tata Motors is expected to clock a 43 per cent growth in revenue, thanks to the overall growth across divisions. Also, the Ebitda margin is expected to expand by 270 basis points, owing to higher margin at Jaguar-Land Rover, it said.

Domestic PV volumes grew by 10 per cent, thanks to ramp-up in production.




Analysts at Nuvama Research expect 33 per cent revenue growth for M&M's auto division, 19 per cent for Maruti Suzuki and 10 per cent for Tata Motors India PV division.

The medium and heavy commercial vehicles (MHCV) grew 6 per cent. A 17 per cent revenue jump is expected for Volvo-Eicher Commercial Vehicle, 10 per cent for Ashok Leyland, while for Tata Motors India CV division, there is 5 per cent decline in revenues. As for two-wheelers, domestic volumes jumped 10 per cent YoY in Q1 of FY24, riding on positive rural and urban demand and adequate finance availability.

Bajaj Auto revenues are expected to see a 25 per cent rise, while TVS is at 19 per cent and Eicher Motor (Royal Enfield) at 19 per cent. Tractors, on the other hand, witnessed a marginal 2 per cent decline on a high base and delays in rainfall season in certain regions.

Nuvama said it expects a 9 per cent revenue rise for Escorts and 7 per cent for M&M's farm division.

In Q1, the key thing to watch out for is operating margin trajectory and the management's commentary on recovery in rural markets. This is along with demand trends in overseas markets and margin retention, said Sharekhan by BNP Paribas.

"While volume growth is expected to moderate in FY24 due to a high base, we believe that earnings growth would be driven by improvement in operating performance. This would be led by a rise in premiumisation, efficient cost control, a better product mix and raw material cost tailwind. Going forward, the demand momentum would follow the recovery in rural sentiment and response to product launches and the monsoon," the brokerage said.

Besides, analysts believe that the legacy players would be more aggressive on their EV roadmap in FY24 as compared to earlier years.

**TOP GEAR**

| Q1FY24E | Net sales (₹ cr) | YoY Chg (%) | Ebitda* (₹ cr) | YoY Chg (%) | PAT** (₹ cr) | YoY Chg (%) |
|---|---|---|---|---|---|---|
| Maruti Suzuki India | 31,745 | 19.8 | 3,253 | 70.1 | 2,469 | 143.7 |
| Tata Motors | 101,554 | 42.6 | 12,014 | 277.7 | 2,552 | - |
| Bajaj Auto | 10,375 | 33.5 | 1,981 | 52.7 | 1,652 | 40.8 |
| TVS Motor | 7,346 | 22.3 | 779 | 30.0 | 437 | 36.2 |
| Ashok Leyland | 7,891 | 9.8 | 719 | 119.9 | 353 | 385.2 |

*Ebitda: Earnings before interest, taxes, depreciation, and amortisation; **PAT: Profit after tax

Source: *Bloomberg*; Compiled by *BS* Research Bureau