# Investor's Eye

September 27, 2021

## Index

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy



# Godrej Consumer Products Ltd

## Building blocks to drive sustainable growth in Indonesia biz

| Consumer Goods | Sharekhan code: GODREJCP | Company Update |
|---|---|---|

| 3R MATRIX | + | = | - |
|---|---|---|---|
| Right Sector (RS) | ✓ | | |
| Right Quality (RQ) | ✓ | | |
| Right Valuation (RV) | ✓ | | |

\+ Positive = Neutral - Negative

**What has changed in 3R MATRIX**

| | Old | | New |
|---|---|---|---|
| RS | | ↔ | |
| RQ | | ↔ | |
| RV | | ↔ | |

| Reco/View | Change |
|---|---|
| Reco: **Buy** | ↔ |
| CMP: **Rs. 1,038** | |
| Price Target: **Rs. 1,249** | ↑ |

↑ Upgrade ↔ Maintain ↓ Downgrade

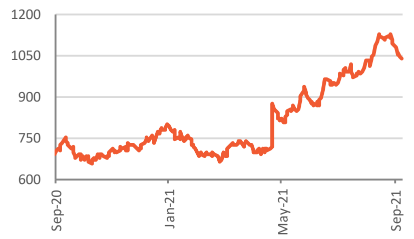
**Company details**

| | |
|---|---|
| Market cap: | Rs. 1,06,032 cr |
| 52-week high/low: | Rs. 1,138 / 644 |
| NSE volume: (No of shares) | 17.3 lakh |
| BSE code: | 532424 |
| NSE code: | GODREJCP |
| Free float: (No of shares) | 37.6 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 63.2 |
| FII | 27.0 |
| DII | 1.2 |
| Others | 8.6 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -1.6 | 18.1 | 42.7 | 45.4 |
| Relative to Sensex | -8.7 | 3.8 | 22.9 | -12.8 |

*Sharekhan Research, Bloomberg*


### Summary

- We maintain Buy on Godrej Consumer Products Limited (GCPL) with the revised PT of Rs. 1,249. The stock is currently trading at 44x/39x its FY2023E/FY2024E EPS, discount to some of the large peers.
- The company is focusing on growth levers such as 1) improving penetration of aerosols/ liquid vapourisers in household insecticide (HI); 2) regaining lost market share in wet-wipes through competitive pricing; and 3) gaining scale in hygiene to drive double-digit revenue growth in Indonesia.
- India business is expected to grow in double digits with all key categories (including soaps and HI) expected to report double-digit revenue growth in FY2022.
- Raw-material inflation will continue to put pressure on margins in the near term. Calibrated price hikes and operating efficiencies would help in mitigating cost pressures.


**Analyst Conference call with Mr. Akhil Chandra (business head of Godrej Consumer Products Limited (GCPL) – Indonesia business) gave a broader view on business recovery and growth plans in the Indonesian market. Indonesia business is gradually recovering from the significant impact of the second wave of COVID-19. The company has undertaken several initiatives to achieve sustainable double-digit revenue and earnings growth in Indonesia. On the other hand, demand environment is resilient in India business, which will help in maintaining good volume growth momentum in India business. Raw-material inflation will continue to put pressure on margins in the near term. However, better mix, premiumisation and efficiencies through various cost programmes would drive margins in the medium term.**

- Focus on achieving sustainable double-digit growth in Indonesia business: Indonesia business has been growing moderately for the past few quarters, affected by macro headwinds, pandemic-led impact on sales, and higher competitive intensity in the wet-wipe category. The company is focusing on growth levers such as 1) improving penetration of aerosols/liquid vapourisers in household insecticide (HI); 2) regaining lost market share in wet-wipes through competitive pricing; and 3) gaining scale in the hygiene business to drive sustainable growth in the medium term. It is focusing on expanding distribution by increasing direct reach and improving penetration through various channels such as pharmacy and e-commerce.
- Domestic business to grow in double digits in FY2022: Demand environment in the domestic market is resilient with rural demand remaining steady, while urban demand recovering faster. Personal wash and hygiene products (including hand wash) will continue to do well, while strong recovery is anticipated in the hair colour category. The company is scouting for sustained good growth in the domestic HI category. Overall, GCPL expects revenue of the domestic business to grow in double digits in FY2022.
- Raw-material inflation remains a risk on margins in the near term: Inflated input prices would continue to put pressure on gross margins in the near term. However, calibrated price hike (7-8% price increase since April 2021) and operating efficiencies through various cost-cutting initiatives would reduce stress on margins. Improving mix, premiumisation, and efficiencies would help consolidated operating profit margin (OPM) to gradually improve in the medium term.

### Our Call

**View: Maintain Buy with a revised PT of Rs. 1,249:** Focus on scaling up rural penetration in key categories in domestic markets, new product launches, distribution expansion, and market share gains are key catalysts of sustainable and profitable growth in the medium to long term. The change in leadership would further focus on improving the growth prospects in key markets through revamped strategies. The stock is currently available at attractive valuations of 43.8x/38.5x its FY2023/FY2024E earnings, which is at a discount to some of the large consumer goods companies. We maintain Buy recommendation on the stock with a revised PT of Rs. 1,249.

### Key Risks

Any sustained slowdown in the demand environment of key markets or inflation in raw-material prices would act as key risks to our earnings estimates in the medium to long term.

**Valuation (Consolidated)** Rs cr

| Particulars | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue | 11,029 | 12,760 | 14,174 | 15,869 |
| OPM (%) | 22.2 | 21.6 | 22.8 | 23.0 |
| Adjusted PAT | 1,765 | 1,999 | 2,419 | 2,753 |
| Adjusted EPS (Rs.) | 17.3 | 19.5 | 23.7 | 26.9 |
| P/E (x) | 60.1 | 53.0 | 43.8 | 38.5 |
| P/B (x) | 11.2 | 10.0 | 8.7 | 7.5 |
| EV/EBIDTA (x) | 44.1 | 39.0 | 33.0 | 29.1 |
| RoNW (%) | 20.4 | 19.9 | 21.2 | 20.9 |
| RoCE (%) | 18.3 | 20.9 | 23.0 | 23.4 |

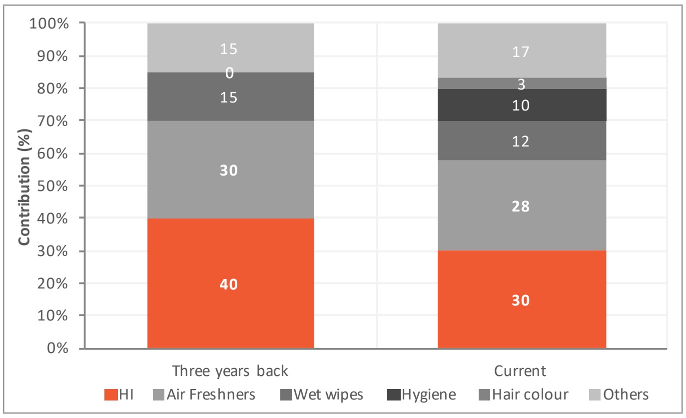
*Source: Company; Sharekhan estimates*

## Key highlights of conference call with Mr Akhil Chandra, business head of Indonesia business

- **Focus on achieving sustainable double-digit growth in Indonesia business:** Indonesia business has been growing moderately for the past few quarters, affected by macro headwinds, pandemic-led impact on sales, and higher competitive intensity in the wet wipe category. Indonesian government has undertaken various initiatives to improve the macro environment with increased number of jobs and standard of living in the medium term. GCPL is focusing on growth levers such as 1) improving penetration of aerosols/ liquid vaporisers in HI; 2) regaining lost market share in wet-wipes through competitive pricing; and 3) gaining scale in the hygiene business to drive sustainable growth in the medium term. It is focusing on expanding distribution by increasing direct reach and improving penetration through various channels such as pharmacy and e-commerce.

- **Scaling up of the hygiene category aiding in achieving better performance ahead of the industry:** GCPL entered the hygiene space with the launch of Saniter brand in FY2021. The brand gained good acceptance in the domestic market and within the launch of one year contributed ~10% to overall revenues of the Indonesian business in Q1FY2022. About 50% of Saniter's portfolio is in the aerosol category, which gained strong acceptance in the pandemic environment. It recorded market share of 60%, ahead of prominent brands in the Indonesian market. The company is also present in the hand-sanitising gels/sprays, fabric disinfectants, wipes and recently entered soaps and powder hand wash categories. Need for sanitisation products in-house and for external use will continue to drive growth for the hygiene category in the medium term.

**Increased salience of hygiene category**




*Source: Company, Sharekhan Research*

- **Focus on improving penetration of aerosols and electrical in the HI category:** With a strong brand portfolio, GCPL is the number one player in Indonesia's HI category. The company has gained market share by 50-100 bps per year in the past three years. It is a dominant player in the aerosol category with ~50% market share. The category contributes around 85% to the overall HI business in Indonesia. Electricals (liquid vaporiser) salience is around 9-10%. GCPL holds 50% market share in the category. The penetration of coils is around 30% and the company is focusing on converting most of the coil users to aerosols/liquid vapourisers in the medium term. Further, it is focusing on users of cards/mats upgrading to liquid vapouriser in the medium term. GCPL is banking on the non-mosquito HI category to drive sustainable growth in the long run.

- **Air fresheners category to achieve gradual recovery:** Air fresheners (contributes 27-28% to the Indonesia business revenue) was badly affected by the slowdown in the discretionary category in the past few years. With expected improvement in the economy, the air fresheners category is expected to see gradual recovery in the coming years. It is banking on two pronged strategies of premiumisation in the core air freshener products and upgradation in bathroom fresheners category. The company is focusing on mid-market consumers upgrading to products such as air pockets for bathroom fresheners compared to products such as naphthalene balls.

- **Focus on regaining lost market share in wet wipes:** Intensifying competition and significant price war between the competitors led to loss in the market share of GCPL in the category. The contribution of wet-wipes category has reduced to 12-13% from 15% earlier. The company has undertaken corrective pricing steps in key channels and enhanced market activities to regain the lost ground in the wet-wipes categories.

- **Distribution to scale up significantly:** GCPL's Indonesian business is banking on project Rise to scale-up its distribution in the Indonesia market. Its direct distribution increased to 1,60,000 outlets from 1,00,000 outlets two years back. The company is targeting to reach direct distribution of 2,00,000 outlets over the next two years. Further, it has coverage of 40,000-50,000 outlets through spreaders. The company is banking on wholesalers, spreaders and dealers to further expand its distribution reach in the domestic market. GCPL has tied up with national pharmacy distributors to improve its product penetration through the pharmacy channel.

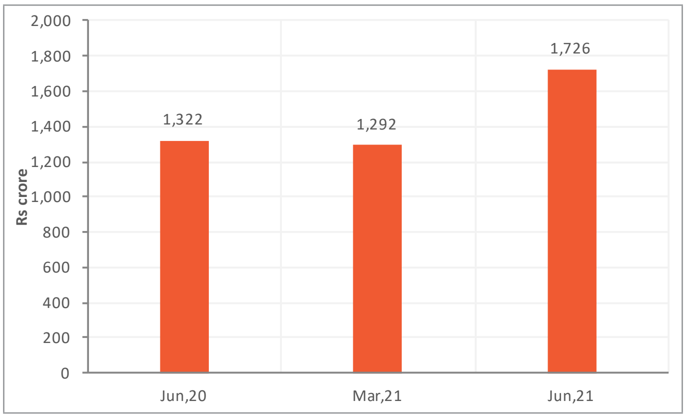
**Increase in direct distribution reach**


*Source: Company, Sharekhan Research*

## Other business highlights

- **Domestic demand remains resilient; to report double-digit growth in FY2022:** Demand environment in the domestic market is resilient with rural demand remaining steady, while urban demand is recovering faster. Personal wash and hygiene products (including hand wash) will continue to do well, while strong recovery is anticipated in the hair colour category. The company is scouting for sustained good growth in the domestic HI category. Discretionary products have started coming back very strong, with the festive season not getting disrupted by any external factors such as a third wave; and with the vaccination in full swing, the company expects discretionary categories to fuel further growth in the coming six months. GCPL expects double-digit growth in the current fiscal with expansion across all segments.
- **Raw-material inflation remains a risk on margins in the near term:** Inflated input prices would continue to put pressure on the gross margins in the near term. Some of the key input prices continued to remain at inflated levels. Management had expected that there may be some cooling off from July and August, but that trend right now is not visible. So, now it is expected that current inflationary levels may hold for another six months or so. However, calibrated price (7-8% price increase since April 2021) and operating efficiencies through various cost-cutting initiatives would reduce stress on margins. Improving mix, premiumisation, and efficiencies would help consolidated OPM to gradually improve in the medium term.
- **Strong liquidity position:** GCPL's liquidity position is strong, supported by cash and bank balances and liquid investments of over Rs. 1,700 crore in Q1FY2022. Stable working capital and improving business outlook across key geographies would help the company to generate healthy cash flows in the coming years. With limited capital expenditure plans in the coming years, we expect a large part of cash generation to be utilised for organic and inorganic initiatives coupled with reduction in debt in the coming years.

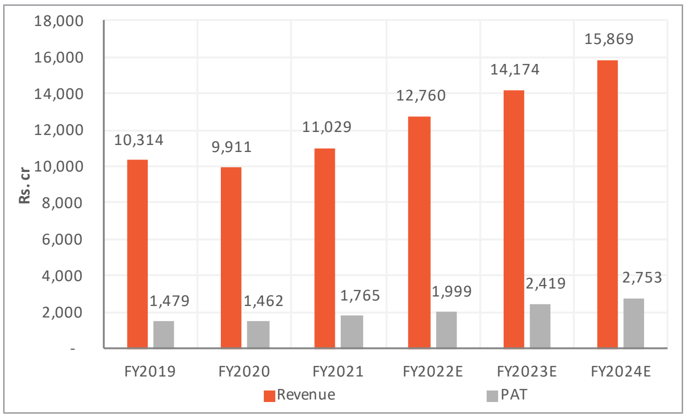
**Strong liquidity position**




*Source: Company, Sharekhan Research*

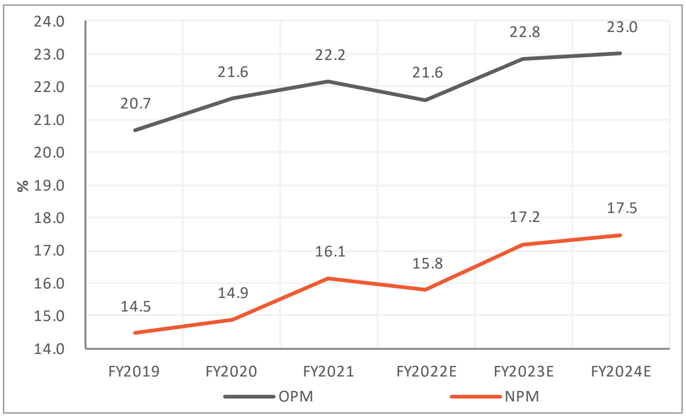
## Financials in charts

### Revenue & PAT to grow at 12 & 17% CAGR



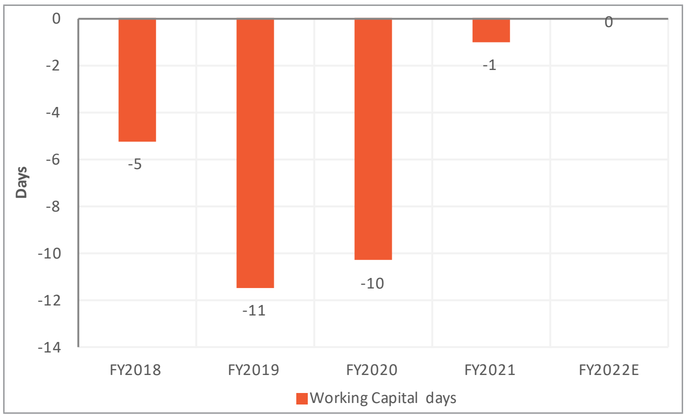

Source: Company, Sharekhan Research

### Margins to improve from current level



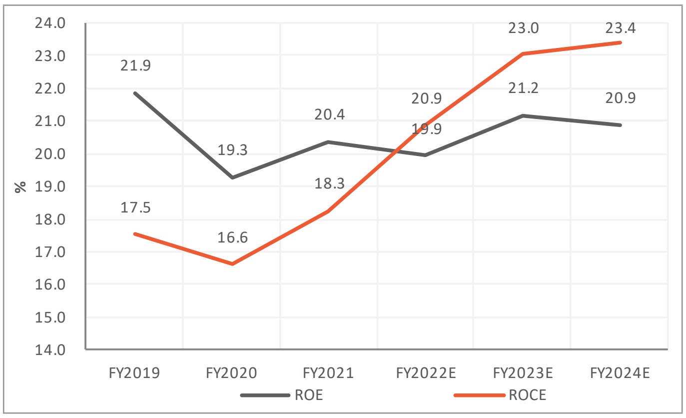

Source: Company, Sharekhan Research

### Negative working capital days



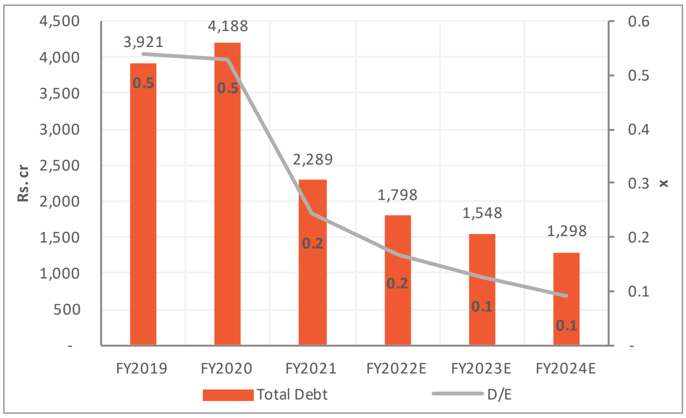

Source: Company, Sharekhan Research

### Return ratios to rise going ahead



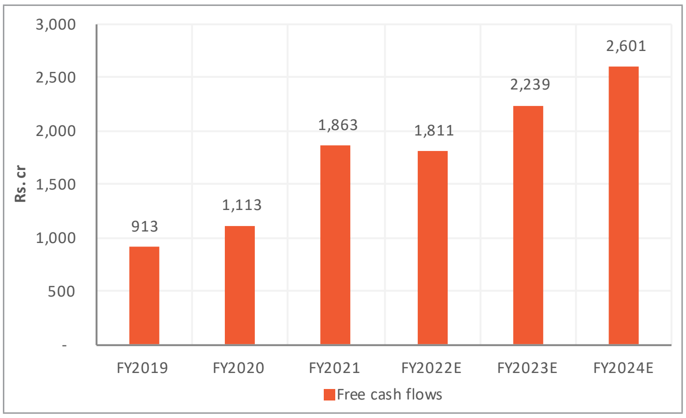

Source: Company, Sharekhan Research

### Improvement in debt position




Source: Company, Sharekhan Research

### Significant free cash flow generation




Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector outlook – Demand remains resilient; Margins to improve sequentially

Pre-quarter commentary of most consumer goods companies indicated strong sales recovery from June 2021 with easing of lockdown restrictions in most parts of India. Demand, which started recovering from Q3FY2021, remained resilient in Q1FY2022. With a normal monsoon expected for the third consecutive year, agricultural production is predicted to be better in Kharif season 2021. This will give further boost to rural demand in the coming quarters. We believe the shift in demand for branded products, rural demand staying ahead of urban demand, gradual recovery in out-of-home categories, and product launches remain key catalysts for revenue growth in the near to medium term. On the other hand, prices of key raw materials (including palm oil, copra, and raw tea) have started correcting from their high. The substance of same along with calibrated price hikes would enable consumer goods companies to post better OPM on a sequential basis. Profitability is likely to be better off in H2FY2022. Improving revenue mix and better operational efficiencies remain key margin drivers in the medium term.

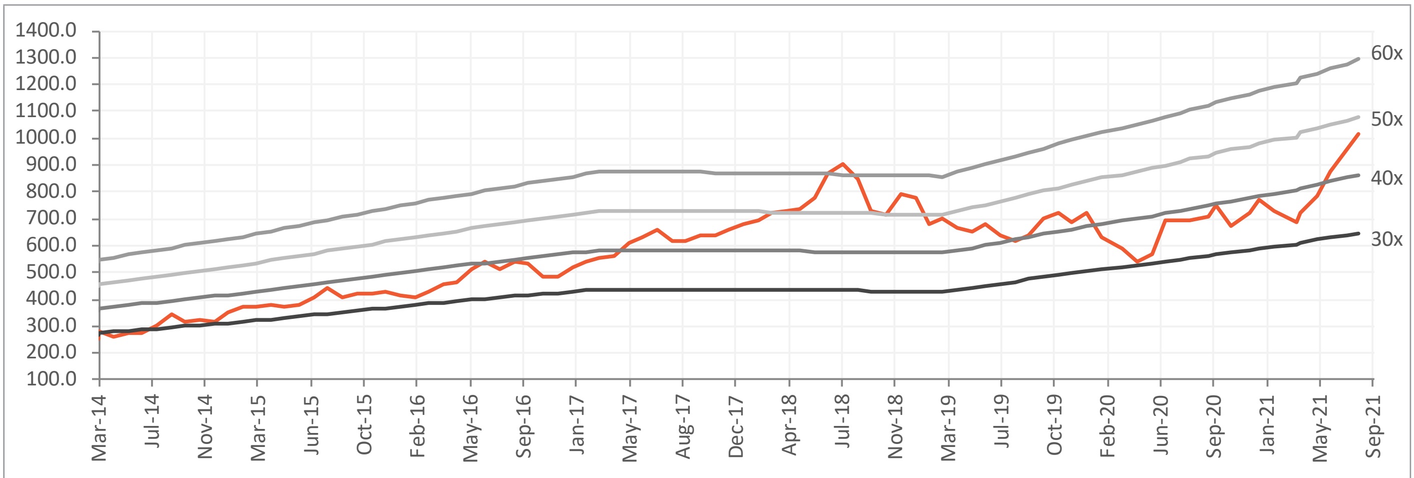
### ■ Company outlook – Change in leadership likely to drive consistent growth ahead

Under the new leadership of Mr. Sudhir Sitapati, the company will focus on achieving consistent double-digit revenue growth in the medium term. Improvement in penetration of HI in rural markets, scale up in performance of new categories such as hygiene (including hand wash/surface cleaners), sustained double-digit growth in Africa business, and recovery in Indonesia business are key medium-term revenue growth drivers for the company. Indonesia will take time to get back on the growth path. The company expects to mitigate input cost pressures by improving revenue mix, better cost-saving initiatives in key geographies, and prudent price hikes in key SKUs.

### ■ Valuation – Maintain Buy with revised PT of Rs. 1,249

Focus on scaling-up rural penetration in key categories in domestic markets, new product launches, distribution expansion, and market share gains are key catalysts sustainable and profitable growth in the medium to long term. The change in leadership would further focus on improving growth prospects in key markets through revamped strategies. The stock is currently available at attractive valuations of 43.8x/38.5x its FY2023E/FY2024E earnings, which is at a discount to some of the large consumer goods companies. We maintain our Buy recommendation on the stock with a revised PT of Rs. 1,249.

**One-year forward P/E (x) band**




*Source: Sharekhan Research*

**Peer Comparison**

| Particulars | P/E (x) | | | EV/EBIDTA (x) | | | RoCE (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E |
| Hindustan Unilever | 78.3 | 66.5 | 55.4 | 55.8 | 48.2 | 40.4 | 36.5 | 26.4 | 31.3 |
| Dabur India | 66.0 | 56.6 | 45.4 | 53.8 | 44.3 | 35.3 | 26.4 | 29.1 | 32.6 |
| Godrej Consumer Products | 60.1 | 53.0 | 43.8 | 44.1 | 39.0 | 33.0 | 18.3 | 20.9 | 23.0 |

*Source: Company, Sharekhan estimates*

## About company

GCPL is a leading emerging market company with a turnover of more than Rs. 10,000 crore. The group enjoys the patronage of 1.15 billion consumers globally across businesses. GCPL is present in key product categories such as soaps, hair colour, and HI. The company's power brands include *Godrej No. 1 soap*, Godrej expert range of hair colours, and *Good Knight*. GCPL operates internationally in Indonesia, Latin America, and GAUM (Africa, U.S., and Middle East) regions.

## Investment theme

GCPL has a '3 by 3' approach to international expansion by building presence in '3' emerging markets (Asia, Africa, and Latin America) across '3' categories (home care, personal wash, and hair care products). The company has a leadership position in most categories in the domestic and international markets. Sustained innovation, cross pollination, enhanced distribution reach, and foray into new categories have remained the company's key growth pillars. The company saw good recovery in key domestic categories such as HI and international markets (including Indonesia and Africa), which will drive earnings growth in the near term.

## Key Risks

- Currency fluctuation in key international markets including Africa and Indonesia will affect earnings performance.
- Increased prices of key raw materials such as palm oil would affect profitability and earnings growth.
- Increased competition in highly penetrated categories such as soaps would threaten revenue growth or any competition from illegal entrants in the HI category would affect its performance.

## Additional Data

**Key management personnel**

| | |
|---|---|
| Nisaba Godrej | Chairperson & Managing Director |
| Adi Godrej | Chairman |
| V. Srinivasan | CFO and Company Secretary |

*Source: Company Website*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | First State Investments ICVC | 2.97 |
| 2 | Temasek Holdings Pte. Ltd. | 2.46 |
| 3 | Capital Group Cos Inc. | 1.76 |
| 4 | St James Place Asia Pacific | 1.18 |
| 5 | Vanguard Group Inc. | 1.17 |
| 6 | BlackRock Inc. | 1.09 |
| 7 | Republic of Singapore | 1.07 |
| 8 | Kotak Mahindra Asset Management Co. | 0.48 |
| 9 | DSP Investment Managers Pvt Ltd | 0.42 |
| 10 | Veritas Asset Management LLP | 0.33 |

*Source: Bloomberg*

## Understanding the Sharekhan 3R Matrix

| | |
|---|---|
| **Right Sector** | |
| Positive | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies |
| Neutral | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies |
| Negative | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| **Right Quality** | |
| Positive | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance. |
| Neutral | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable |
| Negative | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet |
| **Right Valuation** | |
| Positive | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment. |
| Neutral | Trading at par to historical valuations and having limited scope of expansion in valuation multiples. |
| Negative | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple. |

*Source: Sharekhan Research*

Sharekhan
by BNP PARIBAS

# Automobiles

## On the festive roll

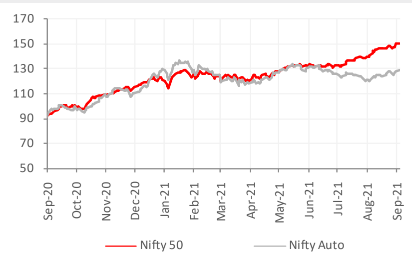
**Sector: Automobile**
**View: Positive**

**Coverage universe**

| Companies | CMP (Rs) | Reco. | PT (Rs) |
|---|---|---|---|
| Alicon Castalloy Limited # | 771 | Buy | 1,056 |
| Amara Raja Batteries | 763 | Buy | 1,146 |
| Apollo Tyres | 232 | Buy | 290 |
| Ashok Leyland | 130 | Buy | 151 |
| Bajaj Auto | 3,914 | Buy | 4,800 |
| Balkrishna Industries | 2,626 | Hold | UR |
| Bosch | 15,785 | Buy | 18,156 |
| Escorts | 1,459 | Positive | 1,549 |
| Exide Industries $ | 182 | Buy | 229 |
| Gabriel India | 147 | Buy | 173 |
| GNA Axles | 949 | Buy | UR |
| Greaves Cotton | 136 | Buy | 194 |
| Hero Motocorp | 2,912 | Buy | 4,030 |
| Lumax Auto Technologies# | 142 | Buy | 207 |
| M&M @ $ | 811 | Buy | 1,000 |
| Maruti Suzuki | 7,404 | Buy | 7,707 |
| Mayur Uniquoters | 457 | Buy | 670 |
| Ramkrishna Forgings | 1,034 | Buy | 1,204 |
| Schaeffler India | 7,289 | Buy | 8,000 |
| Sundram Fasteners # | 909 | Buy | 1,100 |
| Suprajit Engineering # | 321 | Buy | 401 |
| Tata Motors # | 332 | Buy | 430 |
| TVS Motors $ | 555 | Buy | 688 |
| VST Tillers and Tractors Limited | 2,688 | Positive | 3,246 |

*@ MM and MVML; # Consolidated; $ Core business valuation; UR: Under Review*
*Source: Company data, Sharekhan estimates*

**Price chart**




*Source: NSE India, Sharekhan Research*

**Automotive monthly sales are expected to continue their recovery in September 2021, as economic activities are getting back to normal and the festive season is nearing. Dealers are witnessing a strong rise in enquiries and order booking across segments and expect strong sales in the festive season going ahead. Also, automobile companies are launching new and upgraded models. The demand scenario remains robust; however, concerns of chips shortage is affecting supply side. We expect commercial vehicles (CV) sales to recover strongly, followed by tractors, two-wheelers (2W), and passenger vehicles (PV).**

- **CV segment to outperform other segments:** We expect a robust recovery in CV sales on the back of increasing economic activities, improving sentiments of fleet owners, and a lower cost of ownership under BS-VI vehicles. Tata Motors, Ashok Leyland, and Eicher Motors are expected to dispatch 30,020 units (up 35.8% m-o-m), 10,000 units (up 55.5% m-o-m), and 5,081 units (up 108% m-o-m), respectively, in September.
- **Chips shortage to impact PV production:** Chips shortage is a major concern and is affecting PV production not only in India but globally. Supply-side headwinds are expected to slow down domestic PV sales to 17-20% in FY2022E. Among the two –wheelers, the wholesales dispatches are expected to remain improved on m-o-m basis, while decline y-o-y basis. The 2W inventories were higher at the start of month. The 2W OEMs are witnessing strong demand across the segments and areas ahead of festive seasons. Exports are expected to continue to record strong momentum, with companies such as Bajaj Auto, TVS Motor, and Maruti Suzuki expected to continue to deliver export volumes near peak levels.
- **Tractor sales to remain healthy:** Dealers are optimistic about the tractor segment's growth due to good monsoon and improving economic activities. Agriculture and commercial equipment are witnessing an improvement in demand.

### Sector view

**Retain Positive view on the automobile sector:** We continue to remain positive on the sector despite near-term challenges of COVID-19 related disruptions and chips shortage. The PV segment, both for 2W and four-wheelers (4W), is expected to remain strong amid COVID-19, as a preference for personal transport. Rural demand is expected to drive sales of tractor, farm equipment and companies having strong rural and semi-urban presence. We expect a sequential improvement in M&HCV sales to continue, driven by expected rise in e-commerce, agriculture, infrastructure, and mining activities. We expect the strongest recovery in the CV segment in FY2022E and FY2023E, driven by improved economic activities, low interest rate regime, and better financing availability. The bus and three-wheeler (3W) segments are expected to improve gradually, as corporate office and educational institutions open. We retain our Positive view on the sector.

### Key risks

The fear of new variants and the third wave of COVID-19 remain a potential concern. Any significant delay in recovery from COVID-19 infection or vaccination rollout continues to be a key risk going forward. Moreover, the shortage of semi-conductors continues to impact production.

**Preferred picks:** In the OEM space, we prefer rural-centric companies with a strong balance sheet. In the 2W space, we prefer **Hero MotoCorp** because of positive sentiments in rural and semi-urban areas. In the tractor segment, we like **M&M**, given its leadership position in the tractor segment and its continued strong performance in other segments such as light commercial vehicles (LCV) and utility vehicles (UV). We like **Escorts** as well in the tractor segment, as it is well placed to benefit from a strong rural economy and rise in construction activity. In the auto-ancillary space, we like **Bosch** (due to its extensive network and brand equity), **Sundram Fasteners** (beneficiary of strong growth traction in CV, PV, 2Ws, and tractor and its strategy to de-risk business from cyclicality), **Suprajit Engineering** (on account of increased share of business with existing clients and new client additions), **Ramkrishna Forgings** (beneficiary of CV upcycle in India, North America, and Europe), **Gabriel India** (due to its leadership position and brand recall in the suspension components segment and focus on the e-mobility space), **Greaves Cotton** (beneficiary of e-2W adoption and focus on the non-automotive segment), and **Apollo Tyres** (strong brand recall in India and Europe and focus on profitable growth).

Valuation

| Company | CMP | Reco | PT (Rs) | EPS | | | P/E (x) | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E |
| Alicon Castalloy Limited # | 771 | Buy | 1,056 | (1.4) | 31.2 | 53.8 | NA | 24.7 | 14.3 |
| Amara Raja Batteries | 763 | Buy | 1,146 | 36.3 | 43.8 | 50.5 | 21.0 | 17.4 | 15.1 |
| Apollo Tyres | 232 | Buy | 290 | 11.6 | 18.3 | 24.0 | 20.1 | 12.7 | 9.7 |
| Ashok Leyland | 130 | Buy | 151 | (0.7) | 2.9 | 7.0 | NA | 44.2 | 18.6 |
| Bajaj Auto | 3,914 | Buy | 4,800 | 157.5 | 189.5 | 218.5 | 24.9 | 20.7 | 17.9 |
| Balkrishna Industries | 2,626 | Hold | UR | 59.8 | 75.4 | 87.4 | 43.9 | 34.8 | 30.0 |
| Bosch | 15,785 | Buy | 18,156 | 415.7 | 482.1 | 585.7 | 38.0 | 32.7 | 27.0 |
| Escorts | 1,459 | Positive | 1,549 | 86.4 | 87.0 | 96.8 | 16.3 | 16.2 | 14.6 |
| Exide Industries $ | 182 | Buy | 229 | 8.9 | 12.7 | 14.1 | 16.6 | 11.6 | 12.9 |
| Gabriel India | 147 | Buy | 173 | 3.8 | 7.0 | 8.9 | 38.8 | 21.0 | 16.6 |
| GNA Axles | 949 | Buy | UR | 32.9 | 48.1 | 63.2 | 28.9 | 19.7 | 15.0 |
| Greaves Cotton | 136 | Buy | 194 | 2.5 | 5.4 | 8.1 | 54.7 | 25.4 | 16.8 |
| Hero Motocorp | 2,912 | Buy | 4,030 | 145.8 | 191.0 | 212.1 | 20.0 | 15.2 | 13.7 |
| Lumax Auto Technologies# | 142 | Buy | 207 | 6.8 | 9.7 | 11.9 | 20.8 | 14.7 | 12.0 |
| M&M @ $ | 811 | Buy | 1,000 | 32.6 | 44.3 | 51.0 | 18.0 | 13.2 | 11.5 |
| Maruti Suzuki | 7,404 | Buy | 7,707 | 140.0 | 173.6 | 265.8 | 52.9 | 42.6 | 27.9 |
| Mayur Uniquoters | 457 | Buy | 670 | 19.6 | 24.2 | 29.4 | 23.3 | 18.9 | 15.5 |
| Ramkrishna Forgings | 1,034 | Buy | 1,204 | 8.8 | 32.0 | 52.9 | 117.5 | 32.3 | 19.5 |
| Schaeffler India | 7,289 | Buy | 8,000 | 93.1 | 161.3 | 203.2 | 78.3 | 45.2 | 35.9 |
| Sundram Fasteners # | 909 | Buy | 1,100 | 17.2 | 22.1 | 33.3 | 52.8 | 41.1 | 27.3 |
| Suprajit Engineering # | 321 | Buy | 401 | 9.6 | 13.4 | 16.5 | 33.5 | 24.0 | 19.5 |
| Tata Motors # | 332 | Buy | 430 | (3.6) | 19.5 | 33.0 | NA | 17.0 | 10.1 |
| TVS Motors $ | 555 | Buy | 688 | 12.9 | 20.7 | 25.2 | 39.2 | 24.4 | 20.0 |
| VST Tillers and Tractors Limited | 2,688 | Positive | 3,246 | 120.7 | 133.0 | 162.3 | 21.9 | 19.8 | 16.3 |

*@ MM & MVML; # Consolidated; $ Core business valuation; UR: Under Review*
*Source: Company data, Sharekhan estimates*

## Sector-wise expectations

### Two-wheelers

- Hero MotoCorp's volumes are expected to recover to ~5.3 lakh units in September 2021, reporting 24.8% m-o-m growth and a decline of 25.7% y-o-y. Sales are expected to improve sequentially as production is recovering to normal levels. We remain positive on Hero MotoCorp and expect it to deliver strong sales in FY2022, aided by recovery in rural markets. Hero MotoCorp remains focused on exports, premium bikes, and scooters, which are the company's new revenue drivers.
- TVS Motors' sales are expected to report 9.7% m-o-m growth to 3.2 lakh units in September 2021, aided by exports and recovery in domestic sales. We expect a robust performance in the export segment for both 2W and 3W.
- Bajaj Auto's monthly sales are expected to reach 3.9 lakh units, up 5.2% m-o-m and a decline of 11% y-o-y. Exports will continue to help the company to keep monthly run-rate at decent levels.
- Royal Enfield (RE) is expected to increase by 15.6% y-o-y in September 2021 to 53,000 units, driven by its robust order book and new launch. RE's orderbook continues to remain strong, as online orders are increasingly auguring well for the company.
- Overall outlook for the sector remains positive. We expect the demand from rural and semi-urban areas to improve in FY2022. All major 2W OEMs have undertaken price hike of 2-5% this year. Some OEMs have announced further price hikes from Q2FY2022 to mitigate the impact of raw-material prices.
- Structurally, we remain positive on the 2W industry owing to strong demand prospects post normalization of economic activities, driven by improving personal mobility preference, increasing penetration in the rural economy, and 2W being the most preferred mode of personal transportation.

### Three Wheelers

- The Demand recovery in the 3W segment is expected to be at a better pace, as offices and educational institutions are opening. Opening of local/metro trains will be key demand catalysts.
- Also, we expect 3W exports to remain buoyant and help OEMs mitigate the slow recovery in domestic demand.
- Bajaj Auto and TVS Motor are witnessing strong recovery in export demand, driven by a robust order book.

### Passenger Vehicles

- We expect strong recovery in orders in the PV segment, driven by the pent-up demand and preference for personal mobility amidst COVID-19. However, we remain concerned about the chips shortage that will impact supply/production adversely.
- Maruti Suzuki's monthly sales are expected at ~1,08,568 units in September 2021, which is a 17.9% decline m-o-m. Tata Motors are expected to deliver 36.8% y-o-y, M&M's UV sales are expected to show a growth of 9.1% y-o-y growth in September 2021.
- It is learnt that Maruti Suzuki has revised its schedules to vendors for the rest of the festive seasons at normalized monthly run rate in the range 1.6-1.8 lakh units over the next couple of months.
- Channel checks with dealers suggest strong order book in the PV segment. Retail sales are improving aided by opening of dealerships. Enquiries have gone up significantly over the past couple of months.
- The export market continues to remain buoyant and will witness better sales.

### Tractors

- We expect M&M and Escorts tractor sales to be around 21,400 units and 5,500 units, respectively, in September 2021.
- We remain positive on the tractor segment, although moderation in growth may be expected due to a high base. Tractor sales are expected to remain healthy, led by strong recovery in the rural economy. Rural economy is expected to remain healthy, aided by the government's grounded initiatives for agriculture and farming sector, a strong kharif crop in the previous year, higher reservoir levels, and positive forecast of above-normal rains this year by India Meteorological Department (IMD). Rural cash flows have further been supported by the Government's increased outlay for minimum support price (MSP) procurement (targeting farmers) and MGNREGS (targeting migrant labourers).

### Commercial Vehicles

- We expect a 25% m-o-m improvement in CV sales in September 2021.
- Tata Motors, Ashok Leyland, and Eicher Motors are expected to dispatch 30,020 units (up 35.8% m-o-m), 10,000 units (up 55.5% m-o-m), and 5,081 units (up 108% m-o-m), respectively, in September.
- We have been witnessing a strong sequential improvement in M&HCV sales since September due to rise in e-commerce, agriculture, infrastructure, and mining activities.
- We continue to remain positive on the CV sector and expect a rebound in FY2022E as the situation normalizes, driven by increasing economic activities, improving sentiments of fleet owners, and a lower cost of ownership under BS-VI vehicles.
- OEMs' digital initiative and real-time monitoring of CV are proving helpful for fleet owners. As per a survey conducted by an OEM, fleet owners are able to save 10-15% of costs, including 5-10% of fuel costs. Buoyant demand and CV manufacturers' focused approach for lowering fleet owners' total cost of operations (TCO) through BS-VI transition and digital initiatives are expected to increase replacement demand. We remain positive on the CV industry and expect M&HCVs to grow by 30-40% in FY2022 after a ~30% decline in FY2021.
- Demand for ICV and LCV is expected to remain strong and will continue to drive the industry's growth.

### Company-wise sales expectations for September 2021

| Maruti Suzuki | Sep-21 | Sep-20 | YoY(%) | Aug-21 | MoM(%) | YTD FY22 | YTD FY21 | YoY(%) | ^Residual 6M FY22 | YoY(%) | FY22E | YoY(%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dom PV | 93,568 | 1,52,608 | -38.7 | 1,10,080 | -15.0 | 6,52,981 | 4,37,646 | 49.2 | 2,65,063 | 32 | 16,83,949 | 23.7 |
| Exp PV | 15,000 | 7,834 | 91.5 | 20,619 | -27.3 | 1,02,362 | 32,083 | 219.1 | 15,500 | 5.3 | 1,08,000 | 12.3 |
| **Total Sales** | **1,08,568** | **1,60,442** | **-32.3** | **1,30,699** | **-16.9** | **7,55,343** | **4,69,729** | **60.8** | **2,80,563** | **29.7** | **17,91,949** | **22.9** |
| **M&M** | **Sep-21** | **Sep-20** | **YoY(%)** | **Aug-21** | **MoM(%)** | **YTD FY22** | **YTD FY21** | **YoY(%)** | **^Residual 6M FY22** | **YoY(%)** | **FY22E** | **YoY(%)** |
| UV | 16,000 | 14,663 | 9.1 | 15,786 | 1.4 | 95,153 | 50,671 | 87.8 | 34,033 | 45.0 | 2,20,200 | 41.6 |
| Cars + Vans | 200 | 194 | 3.1 | 187 | 7.0 | 1,268 | 804 | 57.7 | 50 | (80) | 500 | (70) |
| LCV < 3.5T | 9,100 | 18,907 | -51.9 | 8,329 | 9.3 | 67,833 | 62,533 | 8.5 | 32,067 | 44.7 | 2,01,500 | 32.7 |
| LCV 3.5T> + MHCV | 600 | 153 | 292.2 | 512 | 17.2 | 2,368 | 516 | 358.9 | 1,068 | 56 | 7,010 | 64 |
| 3W | 2,900 | 587 | 394.0 | 2,591 | 11.9 | 10,704 | 1,029 | 940.2 | 6,267 | 89 | 40,500 | 97 |
| **Total Dom** | **28,800** | **34,504** | **-16.5** | **27,405** | **5.1** | **1,77,326** | **1,15,553** | **53.5** | **73,485** | **47.3** | **4,69,710** | **40.7** |
| Exp | 2,900 | 1,569 | 84.8 | 3,180 | -8.8 | 14,750 | 6,275 | 135.1 | 3,017 | 7.7 | 21,000 | 14.2 |
| Total Auto | 31,700 | 36,073 | -12.1 | 30,585 | 3.6 | 1,92,076 | 1,21,828 | 57.7 | 76,502 | 45.2 | 4,90,710 | 39.3 |
| Tractor | 21,400 | 43,386 | -50.7 | 21,360 | 0.2 | 1,69,918 | 1,54,245 | 10.2 | 59,508 | 14.8 | 3,78,450 | 6.8 |
| **Total Sales** | **53,100** | **79,459** | **-33.2** | **51,945** | **2.2** | **3,61,994** | **2,76,073** | **31.1** | **1,36,010** | **30.1** | **8,69,160** | **23.0** |
| **Tata Motors** | **Sep-21** | **Sep-20** | **YoY(%)** | **Aug-21** | **MoM(%)** | **YTD FY22** | **YTD FY21** | **YoY(%)** | **^Residual 6M FY22** | **YoY(%)** | **FY22E** | **YoY(%)** |
| CV | 30,020 | 24,910 | 20.5 | 29,781 | 0.8 | 1,33,794 | 65,894 | 103.0 | 53,732 | 37.8 | 3,52,410 | 36.2 |
| PV | 29,000 | 21,199 | 36.8 | 28,018 | 3.5 | 1,51,589 | 69,365 | 118.5 | 37,542 | 12.2 | 2,54,250 | 14.5 |
| **Total Sales** | **59,020** | **46,109** | **28.0** | **57,799** | **2.1** | **2,85,383** | **1,35,259** | **111.0** | **91,273** | **26.0** | **6,06,660** | **26.2** |
| **Escorts** | **Sep-21** | **Sep-20** | **YoY(%)** | **Aug-21** | **MoM(%)** | **YTD FY22** | **YTD FY21** | **YoY(%)** | **^Residual 6M FY22** | **YoY(%)** | **FY22E** | **YoY(%)** |
| **Total Sales** | **5,500** | **5,050** | **8.9** | **5,693** | **-3.4** | **43,692** | **35,790** | **22.1** | **18,767** | **10.7** | **1,18,100** | **10.6** |
| **Ashok Leyland** | **Sep-21** | **Sep-20** | **YoY(%)** | **Aug-21** | **MoM(%)** | **YTD FY22** | **YTD FY21** | **YoY(%)** | **^Residual 6M FY22** | **YoY(%)** | **FY22E** | **YoY(%)** |
| MHCV | 5,100 | 3,642 | 40.0 | 4,632 | 10.1 | 22,604 | 8,590 | 163.1 | 14,002 | 74.4 | 89,111 | 72.0 |
| LCV | 4,900 | 4,702 | 4.2 | 4,728 | 3.6 | 23,393 | 14,167 | 65.1 | 11,818 | 60.4 | 75,810 | 55.0 |
| **Total Sales** | **10,000** | **8,344** | **19.8** | **9,360** | **6.8** | **45,997** | **22,757** | **102.1** | **25,820** | **67.7** | **1,64,921** | **63.7** |
| **Eicher Motors** | **Sep-21** | **Sep-20** | **YoY(%)** | **Aug-21** | **MoM(%)** | **YTD FY22** | **YTD FY21** | **YoY(%)** | **^Residual 6M FY22** | **YoY(%)** | **FY22E** | **YoY(%)** |
| CV | 5,081 | 3,506 | 44.9 | 4,793 | 6.0 | 19,951 | 10,296 | 93.8 | 9,978 | 59.0 | 64,950 | 57.8 |
| 2W Royal Enfield | 53,000 | 60,041 | -11.7 | 45,860 | 15.6 | 2,66,538 | 2,07,788 | 28.3 | 1,20,863 | 31.4 | 7,78,180 | 27.1 |
| **Hero Motocorp** | **Sep-21** | **Sep-20** | **YoY(%)** | **Aug-21** | **MoM(%)** | **YTD FY22** | **YTD FY21** | **YoY(%)** | **^Residual 6M FY22** | **YoY(%)** | **FY22E** | **YoY(%)** |
| **Total Sales** | **5,32,037** | **7,15,718** | **-25.7** | **4,53,879** | **17.2** | **24,64,833** | **23,79,348** | **3.6** | **9,96,090** | **17.7** | **65,08,576** | **12.4** |
| **Bajaj Auto** | **Sep-21** | **Sep-20** | **YoY(%)** | **Aug-21** | **MoM(%)** | **YTD FY22** | **YTD FY21** | **YoY(%)** | **^Residual 6M FY22** | **YoY(%)** | **FY22E** | **YoY(%)** |
| Dom 2W | 1,73,768 | 2,19,500 | -20.8 | 1,57,971 | 10.0 | 8,30,523 | 7,36,175 | 12.8 | 3,20,734 | 21.0 | 20,98,175 | 16.0 |
| Exp 2W | 1,82,000 | 1,85,351 | -1.8 | 1,80,339 | 0.9 | 10,93,429 | 6,28,219 | 74.1 | 3,28,970 | 22.5 | 21,55,822 | 20.0 |
| Total CV | 37,000 | 36,455 | 1.5 | 34,960 | 5.8 | 2,17,216 | 1,32,046 | 64.5 | 70,022 | 27.1 | 4,57,129 | 24.6 |
| **Total Sales** | **3,92,768** | **4,41,306** | **-11.0** | **3,73,270** | **5.2** | **21,41,168** | **14,96,440** | **43.1** | **7,19,726** | **22.3** | **47,11,126** | **18.6** |
| **TVS Motors** | **Sep-21** | **Sep-20** | **YoY(%)** | **Aug-21** | **MoM(%)** | **YTD FY22** | **YTD FY21** | **YoY(%)** | **^Residual 6M FY22** | **YoY(%)** | **FY22E** | **YoY(%)** |
| 2W | 3,00,000 | 3,13,332 | -4.3 | 2,74,313 | 9.4 | 14,55,742 | 10,89,774 | 33.6 | 4,94,962 | 13.9 | 32,69,774 | 12.0 |
| 3W | 19,000 | 14,360 | 32.3 | 16,381 | 16.0 | 90,565 | 44,993 | 101.3 | 20,168 | 12.3 | 1,40,009 | 14.7 |
| **Total Sales** | **3,19,000** | **3,27,692** | **-2.7** | **2,90,694** | **9.7** | **15,46,307** | **11,34,767** | **36.3** | **5,15,131** | **13.9** | **34,09,783** | **12.1** |

*^ Monthly run-rate*
*Source: Company data, Sharekhan estimates*

# Sharekhan Research Coverage/Universe

## Automobiles
Alicon Castalloy Limited
Apollo Tyres
Ashok Leyland
Amara Raja Batteries Limited
Bajaj Auto
Balkrishna Industries
Bosch Limited
Exide Industries Limited
Gabriel India Limited
GNA Axles Limited
Greaves Cotton
Hero MotoCorp
Lumax Auto Technologies Limited
M&M
Maruti Suzuki
Mayur Uniquoters
Ramkrishna Forgings Limited
Schaeffler India Limited
Sundram Fasteners
Suprajit Engineering Limited
Tata Motors Limited
TVS Motor

## Banks & Finance
AU Small Finance Bank
Axis Bank
Bajaj Finance
Bajaj Finserv
Bank of Baroda
Bank of India
Capital First
Cholamandalam Investment and Finance Company
City Union Bank
Federal Bank
Housing Development Finance Corporation
HDFC Bank
HDFC Life Insurance
ICICI Bank
ICICI Lombard General Insurance
ICICI Prudential Life Insurance Company Ltd
IndusInd Bank
Kotak Mahindra Bank
LIC Housing Finance
L&T Finance Holding
Max Financial Services
Mahindra & Mahindra Financial Services
Nippon Life India Asset Management Limited
Punjab National Bank
RBL Bank
Repco Home Finance Limited
SBI
Union Bank of India

## Consumer goods
Asian Paints Limited
Britannia
Colgate Palmolive (India)
Dabur India Limited
Emami
GSK Consumers
Godrej Consumer Products
Hindustan Unilever Limited
Indigo Paints Ltd
ITC
Jyothy Laboratories Limited
Marico
Nestle India Limited
Tata Consumer Products Ltd
Zydus Wellness

## IT / IT services
Birlasoft Limited
HCL Technologies
Infosys
Intellect Design Arena Limited
Larsen & Toubro Infotech
L&T Technology Services
Mastek Limited
Persistent Systems
Tata Consultancy Services
Tata Elxsi Limited
Tech Mahindra
Wipro

## Capital goods / Power
Amber Enterprises Limited
Blue Star Limited
Carborundum Universal Limited
CESC
Cummins India
Dixon Technologies Limited
Finolex Cables
Honeywell Automation India Limited
Kalpataru Power Transmission
Polycab India Limited
Power Grid Corporation of India Limited
NTPC Limited
KEC International
KEI Industries
Tata Power Company Ltd
Thermax
Triveni Turbine
V-Guard Industries
Va Tech Wabag Ltd.

## Infrastructure / Real estate
Ashoka Buildcon Limited
JMC Projects (India) Limited
Larsen & Toubro
Mahindra Lifespace Developers Limited
KNR Constructions Limited
PNC Infratech Limited
Sadbhav Engineering

## Oil & gas
Bharat Petroleum Corporation Limited
Castrol India Limited
GAIL (India) Limited
Gujarat Gas Ltd.
Gujarat State Petronet Limited
Hindustan Petroleum Corporation Limited
Indraprastha Gas Limited
Indian Oil Corporation Ltd
Mahanagar Gas
Oil India
Petronet LNG
Reliance Industries

## Pharmaceuticals
Abbott India Limited
Aurobindo Pharma
Biocon
Cipla
Cadila Healthcare
Divi's Labs
Dr Reddy's Laboratories Limited
Gland Pharma Limited
Granules India Limited
Ipca Laboratories Limited
Laurus Labs Limited
Lupin
Sanofi India
Solara Active Pharma Sciences
Strides Pharma Sciences
Sun Pharmaceutical Industries
Torrent Pharmaceuticals

## Building materials
Astral Poly Technik Limited
APL Apollo Tubes Limited
Dalmia Bharat Limited
Grasim Industries
Greenlam Industries Limited
Greenpanel Industries Limited
JK Lakshmi Cement Limited
Kajaria Ceramics Limited
Pidilite Industries Limited
The Ramco Cements
Shree Cement
UltraTech Cement

## Discretionary consumption
Aditya Birla Fashion and Retail Limited
Arvind Ltd.
Bata India Limited
Century Plyboards (India)
Inox Leisure
Indian Hotels Company Limited
Info Edge (India)
Jubilant FoodWorks Limited
PVR Ltd
Relaxo Footwear
Titan Company
Trent Limited
Welspun India Limited
Wonderla Holidays
Zee Entertainment Enterprises Limited

## Diversified / Miscellaneous
Aarti Industries Limited
Affle (India) Limited
Atul Limited
Bajaj Holdings & Investment
Bharti Airtel
Bharat Electronics
Coromandel International Limited
Coal India Limited
Gateway Distriparks
Insecticides (India) Limited
JSW Steel Limited
Mahindra Logistics Limited
MOIL Limited
NMDC Limited
PI Industries
Polyplex Corporation Limited
Quess Corp Limited
Ratnamani Metals and Tubes
Steel Authority of India Ltd
SRF Limited
TCI Express Limited
Transport Corporation of India Limited
Triveni Engineering & Industries Limited
Sudarshan Chemical Industries
Sumitomo Chemical India Limited
Supreme Industries
UPL
Vinati Organics Limited

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