March 27, 2020

Covid-19 adds to sector woes…

The domestic auto industry is going through difficult times, with industry sales volumes down nearly 16% YTDFY20. The industry was already in a transitory phase for the upcoming switchover to BS-VI norms with effect from April 1, 2020 that needed intense deliberation and strategising in areas related to products, pricing, production & inventory management. We were factoring in negative growth in Q1FY21, a neutral Q2FY21 and higher single digit growth in H2FY21 to finally end the year positive with ~5% industry growth for FY21. However, the recent outbreak of Covid-19 with associated nationwide lockdowns as well as plant closures of the entire ecosystem (auto OEM + auto ancillary) will meaningful change our estimates.

Rework estimates to build in delay in recovery…

As per SIAM estimates, the present suspension of production activities at OEMs and ancillaries would cost the industry ~₹ 2,300 crore/day in lost revenues. Q4FY20 (till March 15) was witness to production rationalisation at most OEMs as the focus remained firmly on rundown of BS-IV stock. With half of March slated to be a washout, the quarter is another poor one. Going forward, we expect industry volumes to decline sharply (~40-50%) in Q1FY21E amid plant closures, accounting for at least two months of subnormal operations (one month of complete closure i.e. April 2020 and corresponding one month of gradual resumption of work i.e. May 2020). Our reworked estimates bake in another year of de-growth at the industry level in FY21E (-5%), after adjusting for some pent up recovery in H2FY21E. We see meaningful growth returning to the industry only in FY22E post normalisation of BS-VI environment, expected uptick in economic activity and consumer spending and build in ~10% volume increase for that year.

Indian automobile industry leads by example!

The auto industry has stepped forward as a responsible stakeholder in this time of unprecedented crisis affecting the length and breadth of the country. The industry is one of the top tax contributors to the exchequer (our estimates suggest auto space accounts for ~8-10% of the total direct and indirect tax collected in India with GST collection itself pegged at ~₹ 1.5 lakh crore) and has assured commitment for supporting the most vulnerable section of its employees in the immediate future in aspects of job security and work compensation. Several OEMs have offered to manufacture vital requirements like ventilators and masks. Recent announcements of voluntary salary cuts by some senior managements are a welcome gesture that expresses their solidarity during prevailing tough business conditions. Domestic auto OEMs possess healthy B/S with adequate capital to support its staff in the present difficult times.

Valuation & Outlook

In the present times of despair and unprecedented economic slowdown due a Black Swan event like Covid-19 outbreak, we reiterate our preference for business models that are capital efficient in nature (RoE, RoCE >15%), possess healthy balance sheet (debt: equity < 0.5x) and are more domestic (India) centric in nature. We maintain our view that these businesses remain better placed to navigate the current downturn effectively and emerge stronger from it, leaving themselves primed for eventual recovery down the road. Among OEMs, we have valuation comfort and assign **BUY** rating to Hero MotoCorp, M&M, Bajaj Auto & Ashok Leyland while assigning **HOLD** rating to the rest of the pack i.e. Maruti Suzuki, Tata Motors, Eicher Motors and Escorts. Among ancillaries, we assign **BUY** rating to Exide Industries and **HOLD** rating to Apollo Tyres and Bharat Forge.

ICICI Direct Auto coverage universe

Company	Rating	CMP	Target price	Potential upside
Maruti Suzuki	Hold	5,000	4,800	-4%
Tata Motors	Hold	75	85	13%
M&M	Buy	290	400	38%
Ashok Leyland	Buy	45	55	22%
Hero Motocorp	Buy	1,750	2,110	21%
Bajaj Auto	Buy	2,110	2,500	18%
Eicher Motors	Hold	15,000	16,870	12%
Escorts	Hold	675	740	10%
Exide Industries	Buy	130	160	23%
Apollo Tyres	Hold	85	90	6%
Bharat Forge	Hold	285	320	12%

Recommend BUY on domestic market oriented business models viz. Ashok Leyland, Bajaj Auto, Hero MotoCorp, M&M and Exide Industries

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Impact on I-Direct auto & auto ancillary coverage universe

Maruti Suzuki (MSIL)

India's largest PV maker has been consistently outperforming not just its segment but the wider automotive industry as well on the volume front over the past six months. The company's proactiveness in introduction of BS-VI models well in advance of the mandated switchover has been key to its resilience, with popular models retaining their consumer appeal even in the upgraded versions. MSIL has closed all plant activities in Manesar and Gurugram (Haryana) until further government notice, with Suzuki Motor Gujarat (SMG) production halted till April 14. While plant and showroom closures would affect March, April and possibly May performance (as things stand), we believe the company remains best placed to stage a swifter recovery than most other OEMs courtesy having no unsold BS-IV stock on books and demonstrated acceptance of BS-VI models on the ground.

For MSIL, we build -13%, flat, 10.8% YoY volume trajectory in FY20E, FY21E, FY22E, respectively. Upgrading the stock to **HOLD**, we value it at ₹ 4,800 i.e. 20x P/E on FY22E EPS of ₹ 240/share.

We expect MSIL to clock total sales volume of 17.85 lakh units in FY22E vs. 16.22 lakh units in FY20E and 18.62 lakh units in FY19.

Exhibit 1: Revised financial summary for MSIL

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	79,762.7	86,020.3	78,476.7	77,344.0	86,910.3	5.2%
EBITDA	12,061.5	10,999.3	7,919.0	7,841.3	9,537.4	9.7%
EBITDA Margins (%)	15.1	12.8	10.1	10.1	11.0	
Net Profit	7,721.8	7,500.6	5,969.2	6,058.1	7,257.7	10.3%
EPS (₹)	255.6	248.3	197.6	200.5	240.3	
P/E	19.6	20.1	25.3	24.9	20.8	
RoNW (%)	18.5	16.3	12.1	11.5	12.6	
RoCE (%)	21.1	16.3	8.5	8.1	9.8	

Source: Company, ICICI Direct Research

Hero MotoCorp (HMCL)

The 2-W segment is likely to be most affected by the issue of unsold BS-IV inventory as Covid-19 spread and preventive measures to tackle it force closure of dealerships in most parts of the country. Industry sources estimate ~5-7 lakh units of BS-IV stock lying with dealers at present. Market leader HMCL has, thus, appealed to the Supreme Court to allow registration of BS-IV vehicles citing the unprecedented and unforeseen nature of present circumstances. On its part, HMCL has halted production at all global facilities (India, Bangladesh, Colombia) until March 31. It has broadly underperformed its peers in 11MFY20 owing to limited presence in exports and weakness in scooters and entry level motorcycle segments. However, a dominant slant towards domestic business is now expected to work to its advantage in the short-term as both demand and supply legs take a hit globally.

For HMCL, we build in -17%, -8%, 10% YoY volume trajectory over FY20E, FY21E, FY22E, respectively. We retain our **BUY** rating on HMCL courtesy its healthy B/S and dividend payout (50%+). We also draw comfort from CFO yield >10%, FCF yield >5% and attractive dividend yield of ~5% at HMCL. We value HMCL at ₹ 2,110 i.e. 13x P/E on FY22E EPS of ₹ 162/share.

We expect HMCL to clock total sales volume of 66 lakh units in FY22E vs. 65 lakh units in FY20E and 78 lakh units in FY19

Exhibit 2: Revised financial summary for HMCL

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-22E)
Net Sales	32,230.5	33,650.5	29,346.6	30,569.1	34,130.4	7.8%
EBITDA	5,280.2	4,929.8	4,226.7	3,748.2	4,496.4	3.1%
EBITDA Margins (%)	16.4	14.6	14.4	12.3	13.2	
Net Profit	3,697.4	3,384.6	3,683.6	2,679.6	3,241.1	-6.2%
Normalised Net Profit	3,697.4	3,384.6	3,253.0	2,679.6	3,241.1	-0.2%
EPS (₹)	185.1	169.5	184.5	134.2	162.3	
P/E	9.5	10.3	9.5	13.0	10.8	
RoNW (%)	31.4	26.3	22.8	17.6	19.5	
RoCE (%)	42.4	37.1	27.9	22.7	25.3	

Source: Company, ICICI Direct Research

Mahindra & Mahindra (M&M)

M&M has suspended production activities at all plants in Maharashtra in view of the heightened virus spread in the state. The company has been working hard on liquidating BS-IV stock over the past few months and had 3,500 units of unsold inventory as of March 22. With the BS-VI transition date upon us, M&M is likely to be one of the companies from our coverage universe to be affected as regards unsold inventory to an extent. Amid the ongoing nationwide lockdowns, ramp up of BS-VI production is expected to be gradual in nature, leading to a substantially weak Q1FY21E. Subsidiary SsangYong (domiciled in South Korea) has also seen 25-30% drop in domestic demand in February amid spread of virus in that country although its export performance was reported to be relatively unaffected. However, the tractor business is expected to fare better amid fewer demand concerns.

The Mahindra group has also stepped forward as a responsible corporate house and offered to start work on making ventilators and masks for Covid19 patients at its manufacturing plants.

In the tractor division, we build in 2.4%, 7% YoY volume growth for FY21E, FY22E, while for automobile division, we build in -4%, 10% YoY volume trajectory for FY21E, FY22E, respectively. M&M trades at a significant discount to its earnings & investment holdings in B/S. We retain **BUY** on M&M with a revised target price of ₹ 400 using SOTP valuation methodology, valuing its base business at 5x EV/EBITDA on FY22E numbers.

Total tractor sales are seen at 3.5 lakh units in FY22E vs. 3.06 lakh units in FY22E. Total automotive volumes are seen at 5.5 lakh units in FY22E vs. 5.2 lakh units in FY20E.

Exhibit 3: Revised financial summary for M&M

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E -22E)
Net Sales	48,685.6	53,614.0	48,039.2	50,320.6	55,646.3	7.6%
EBITDA	6,224.1	6,639.6	6,167.4	5,604.4	6,483.3	2.5%
EBITDA Margins (%)	12.8	12.4	12.8	11.1	11.7	
Net Profit	4,356.0	4,796.1	4,708.0	3,413.6	4,021.5	-7.6%
Adjusted Net Profit	4,046.5	4,818.6	4,129.1	3,413.6	4,021.5	-1.3%
EPS (₹)	35.0	38.6	37.9	27.5	32.3	
P/E	8.3	7.5	7.7	10.6	9.0	
RoNW (%)	13.4	14.1	11.0	8.5	9.4	
RoCE (%)	16.6	16.7	13.3	10.6	11.7	

Source: Company, ICICI Direct Research

Exhibit 4: SOTP based valuation matrix for M&M

Valuation Matrix (SOTP)					
Automotive Business (UV+PV+CV+Tractors)			**₹crore**	**₹/share**	
Standalone business					
FY22E EBITDA			6,483		
Assigning EV/EBITDA Multiple of 5x			5.0		
Enterprise Value			32,416	261	
Net Debt			(4,461)	-36	
Value of Standalone Business (A)			**36,878**	**300**	
Mahindra Vehicle Manufacturers Ltd					
Investment made by M&M (wholly owned subsidiary)			4,065		
Assigning 0.5x P/B on investment value			0.5		
Value of MVML attributable to M&M (B)			**2,033**	**16**	
Total value of automobile business (C=A+B)				**316**	
Value of Investments (listed companies)	**M&M stake**	**Estimated value**	**Contribution to M&M**		**Remark**
	(%)	**₹ crore**	**₹crore**	**₹/share**	
Tech Mahindra	26	48,807	12,719	102	Current market cap
M&M Financial Services	51	17,793	9,110	73	Current market cap
Mahindra Life space	52	1,026	529	4	Current market cap
Mahindra CIE	11	2,464	281.8	2	Current market cap
Mahindra Holidays & Resorts	67	2,000	1346.0	11	Current market cap
SsangYong Motors	75	1,200	900	7	Current market cap
Other subsidiaries & investments			9,850	79	
Total Value of subsidiaries & associates (D)			**34,735.5**	**280**	
Value of investments post 70% holding company discount (E=0.7*D)				**84**	
M&M Target Price (value of equity per share, C+E)				**400**	

Source: ICICI Direct Research

Tata Motors (TML)

Tata Motors (TML) has been facing supply, demand related disruptions related to Covid-19 longer than other coverage universe OEMs courtesy its significant exposure to China. The virus outbreak comes at a particularly unfortunate time as the JLR business was just starting to experience clearance of overhangs around demand slump in China and Brexit related uncertainty. JLR's manufacturing facilities in China have resumed production from late February, albeit at reduced capacity. Covid-19 spread in Europe, however, has forced suspension of production in the UK (till April 20) and Slovakia. The company expects China related impact alone to result in 1% reduction in EBIT margins for FY20. Domestically, TML has been suffering from poor demand offtake on the M&HCV side (trucks in particular). Its focus has shifted to retail sales for liquidation of BS-IV inventory. Operations at its Chakan plant have been scaled down given the spread of virus in India.

JLR's China February retail volumes were down 85% YoY

We expect TML (standalone as well as JLR) to be among the hardest hit in our coverage universe given its exposure to various global markets and weak CV industry demand prospects domestically. For domestic operations, we build in volume growth of -31%, -5%, 10% for FY20E, FY21E, FY22E, respectively. On the JLR front, we build in volume growth of -7.1%, -3.3%, 9.3% for FY20E, FY21E, FY22E, respectively. In the present uncertain times for the domestic CV space and global luxury car market, we continue to assign **HOLD** rating on the stock with a revised target price of ₹ 85.

Exhibit 5: Revised financial summary for TML

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-22E)
Net Sales	2,94,619.2	3,01,938.4	2,62,264.4	2,60,318.8	2,86,254.1	4.5%
EBITDA	38,058.3	29,794.8	25,802.0	30,101.2	37,492.1	20.5%
EBITDA Margins (%)	12.9	9.9	9.8	11.6	13.1	
Net Profit	9,091.4	(28,724.2)	(3,310.4)	(901.2)	3,490.7	NM
EPS (₹)	26.8	(84.6)	(9.1)	(2.4)	9.1	
P/E	2.8	(0.9)	(8.3)	(31.9)	8.2	
RoNW (%)	10.3	7.1	(0.0)	2.6	9.3	
RoCE (%)	9.1	5.4	4.6	5.7	8.5	

Source: Company, ICICI Direct Research

Bajaj Auto (BAL)

BAL has closed manufacturing plants at Akurdi, Waluj, Chakan and Pantnagar till further notice. Its erstwhile domestic outperformance has been arrested significantly in recent months with domestic volumes now trending in line with industry. BAL's exports exposure, however, continues to place it above the industry on an overall basis. Given the sharp slide in crude oil prices, demand in key oil-dependent export economies like Nigeria is seen turning softer in coming months although rupee depreciation is in BAL's favour. Back home, BAL has argued against relaxation in BS-IV registration deadline, with its stock position comfortably placed in the run up to the switchover.

The company has affirmed that while it is prepared for a halt of as long as eight weeks, it would stand by in support of employees in matters of pay as well as job security

For BAL, we build in -40%, -10%, 6.6% YoY volume trajectory over FY20E, FY21E, FY22E, respectively. The valuation parameters, however, are within our comfortable range. Therefore, we retain our **BUY** rating on the stock with a target price of ₹ 2500, valuing the core operations at 15x P/E on FY22E numbers. We also drive comfort from capital efficient operations at BAL & >5% FCF yield.

For Bajaj Auto, in FY21E, the volume decline is expected to be the steepest in our coverage universe courtesy high exposure to exports. We expect volumes to rebound to ~45 lakh units in FY22E vs. ~47 units to be clocked in FY20E

Exhibit 6: Revised financial summary for BAL

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-22E)
Net Sales	25,164.9	30,250.0	30,021.9	29,986.2	32,139.3	3.5%
EBITDA	4,783.4	4,982.0	4,949.5	4,480.4	4,918.6	-0.3%
EBITDA Margins (%)	19.0	16.5	16.5	14.9	15.3	
Net Profit	4,068.1	4,675.1	4,742.1	4,236.8	4,588.8	-1.6%
EPS (₹)	140.6	161.6	163.9	146.4	158.6	
P/E	15.0	13.1	12.9	14.4	13.3	
RoNW (%)	21.5	19.9	21.2	17.4	17.2	
RoCE (%)	22.9	21.0	20.5	22.6	22.5	

Source: Company, ICICI Direct Research

Exhibit 7: Valuation matrix for BAL

SOTP Valuation	Estimated value	Per share (₹)	Remark
Core Business			
FY22E EPS (₹)	158.6		
Multiple (x)	15.0		10% discount to its long period average
Value per share (₹)		**2,377**	
Stake in KTM (48%)			
KTM value derived back to Bajaj (₹ crore)	3660		3.0x of Invested Capital (₹ 1220 crore)
Value per share		**125**	
Total Value per Share (₹)		**2,500**	

Source: ICICI Direct Research

Ashok Leyland (ALL)

ALL's BS-IV inventory has been nearly extinguished and was at ~600 units as of the first half of March. This places the company in a comfortable position as far as the immediate impact of nationwide lockdowns is concerned. The company recently said production activities in China have started returning on track, which eases some concerns around supply of crucial BS-VI components to which ALL has indirect exposure, like fuel injection pumps. BS-VI production is expected to ramp up quite gradually, as the market adjusts to the pricing of new products (7-15% hike over BS-IV) in a depressed demand environment as structural and cyclical factors impacting the CV industry (and M&HCV in particular) remain in place. For ALL, LCV segment is an area of focus towards its stated intention of breaking into the top 10 CV players globally - and the company would be retaining capex plans here even as it focuses on costs and capex spend rationalisation in other areas. Going forward, we expect its product mix to evolve in favour of buses and LCVs.

For ALL, we build in -32%, -1%, 10% YoY volume trajectory over FY20E, FY21E, FY22E, respectively. However, we upgrade the stock to **BUY** given that the company has acted prudently by reconsidering its recent investment decision in its subsidiary i.e. Hinduja Leyland Finance (HLF). Choosing to retain ~ ₹ 800 crore on books improves the company's balance sheet position during the ongoing challenging business conditions. We value ALL at ₹ 55/share, valuing its base business at 6.5x EV/EBITDA on FY22E numbers and assigning 40% holding company discount to 1.5x P/BV on its investment book (largely HLF).

We expect ALL to clock total sales volume of ~1.5 lakh units in FY22E vs. ~1.35 lakh units in FY20E and 1.97 lakh units in FY19. ALL's return ratios are seen returning to its double digit mark In FY22E as the sales prospects improve at the company

Exhibit 8: Revised financial summary for ALL

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	26,356.4	29,055.0	18,403.1	19,665.5	22,587.7	-8.0%
EBITDA	2,963.5	3,135.7	1,222.5	1,420.4	2,027.1	-13.4%
EBITDA Margins (%)	11.2	10.8	6.6	7.2	9.0	
Net Profit	1,717.7	1,983.2	341.3	498.1	942.5	-21.8%
EPS (₹)	5.9	6.8	1.2	1.7	3.2	
P/E	7.7	6.7	38.7	26.5	14.0	
RoNW (%)	24.0	24.3	4.7	5.7	10.4	
RoCE (%)	27.8	26.9	6.0	7.0	11.9	

Source: Company, ICICI Direct Research

Exhibit 9: Valuation matrix for ALL

SOTP	
Target EV/EBITDA (x)	**6.5**
EBITDA (FY22E)	2,027.1
Net Debt	601.2
Enterprise Value (₹ Crore)	13,176.4
Target Market cap Core business (₹crore)	12,575.3
Value/Share (A)	**44**
Strategic Investments FY22E (₹ crore)	3,186.5
P/BV (x)	1.5
Total Value/Share post applying 40% Holdco. Discount (B)	**11**
Price target (₹, A+B)	**55**

Source: ICICI Direct Research

Eicher Motors (EIM)

Royal Enfield and VECV have suspended all production activities till March 31. EIM is best placed among the 2-W pack in respect of BS-VI transition as it has already liquidated all BS-IV inventory by March 20, well before the stipulated deadline. This leads us to expect that the company would be able to weather the financial impact of Covid-19 in a relatively better manner (lower discounting, no threat of dealer support to liquidate unsold stock) during Q4FY20. While supply constraints are limited, demand side challenges remain for Royal Enfield. Exports performance is likely to be severely hampered in coming months given the global scale of the outbreak. Domestically, being a premium product, sluggishness in sales is expected to worsen as the economic impact of Covid-19 slows discretionary consumption further. On the CV side, while VECV has been faring better than peers on the volume front in recent months, soft demand conditions remain in place for the industry. Hence, we remain conservative in our estimates.

For the RE brand, post demand slump in FY20E (down 13.5% YoY), we build in another 5% YoY decline in FY21E and 10% YoY growth in FY22E. On the VECV front, building on the recent outperformance by the JV vs. the industry, we build in volume decline of 2% YoY in FY21E and rebounding growth of 10.6% YoY in FY22. We continue to assign a **HOLD** rating to Eicher Motors with a revised target price of ₹ 16,870 using SOTP valuation methodology, valuing the RE franchise at 20x P/E on FY22E numbers.

Exhibit 10: Revised financial summary for EIM

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-22E)
Net Sales	8,965.0	9,797.1	9,388.6	9,569.8	10,792.3	7.2%
EBITDA	2,807.6	2,903.1	2,350.2	2,240.0	2,681.3	6.8%
EBITDA Margins (%)	31.3	29.6	25.0	23.4	24.8	
Net Profit	1,959.7	2,202.8	2,011.6	1,874.5	2,285.0	6.6%
EPS (₹)	718.9	808.1	737.9	687.6	838.2	
P/E	20.9	18.6	20.3	21.8	17.9	
RoNW (%)	29.9	24.8	19.1	15.6	16.4	
RoCE (%)	39.1	32.5	22.9	19.6	20.5	

Source: Company, ICICI Direct Research

Exhibit 11: Valuation matrix for EIM

	FY22E	Remarks
Two-wheeler business-Royal Enfield		
EPS (₹)	824	
Target PE multiple(x)	20.0	Valued RE business at 20x P/E on FY22E numbers
Per share value (₹)	16,474	
Target market cap (₹ crore)	44,909	
CV business-VECV`		
PAT	199	
Target PE multiple(x)	10.0	Valued VE-CV business at 10x P/E on FY22E numbers
Target market cap (₹ crore)	1,990	
Contribution towards EML	0.54	EML has 54.4% stake in VECV
Target market cap towards EML (₹ crore)	1,083	
Per share value-VECV Eicher (₹)	397	
Total target market cap (₹ crore)	45,992	
Per share value (₹)	**16,870**	

Source: Company, ICICI Direct Research

Escorts

Escorts has temporarily shut all its manufacturing facilities in Faridabad (Haryana) till March 31 at least. In our opinion, short-term Covid-19 related blip aside, the domestic tractor industry is set to perform better than the automotive industry over FY20 & FY21 on the back of expectations of healthy water table levels and the government's focus on rural incomes and announcements for rural infrastructure. Escorts has been gaining market share in the domestic tractor market amid good performance in traditionally stronger markets of North, Central and East India. We expect this trend to continue. The performance of the construction equipment segment, however, is seen as being subdued as a general pick-up in infrastructure activity is yet to pan out.

We have assumed 2.8% YoY tractor volume growth for FY21E, followed which tractor volumes are expected to grow 7% YoY in FY22E to ~1 lakh units vs. ~92,000 units in FY20E. We also build in profit from associates of the JV with Kubota for FY21-22E i.e. ₹ 3.8 crore in FY21E and ₹ 25.2 crore in FY22E. We continue to assign **HOLD** rating to Escorts with a target price of ₹ 740 using the SOTP valuation methodology.

Exhibit 12: Revised financial summary for Escorts

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	4,995.1	6,196.4	6,015.6	6,275.8	6,946.8	3.9%
EBITDA	557.2	733.3	677.7	720.6	835.5	4.4%
EBITDA Margins (%)	11.2	11.8	11.3	11.5	12.0	
Net Profit	344.8	484.9	472.8	557.0	660.9	10.9%
EPS (₹)	28.1	39.6	38.6	45.4	53.9	
P/E	24.0	17.1	17.5	14.9	12.5	
RoNW (%)	13.8	15.6	13.9	11.1	11.8	
RoCE (%)	21.0	21.7	17.7	14.5	14.9	

Source: Company, ICICI Direct Research

Exhibit 13: Valuation matrix for Escorts

Particulars	Amount (₹)
FY22E EPS (₹/share, A)	54
P/E Multiple (x, B)	12.0
Value of Base Business (C =A*B)	**646**
No of Treasury Shares (crore)	2.1
Current Market Price (₹/share)	675
Value of Investments (₹ crore)	1,448
Holding company discount (%)	20
Revised value of Investments (₹ crore)	1,158
Contribution per share (₹/share, D)	**93**
Target Price (C +D)	**740**
Potential Upside (%)	10

Source: Company, ICICI Direct Research

Exide Industries (EIL)

In step with business models that have a higher dependence on aftermarket sales, we expect EIL to be relatively better placed in terms of sensitivity to demand shocks caused by the Covid-19 outbreak. Being largely domestic-focused is a further positive for EIL. Thus far, it has announced closure of manufacturing facilities in most states till further notice in compliance with various directives issued by the central and local governments. We continue to prefer EIL in the automotive battery space over the medium to long term on account of its proactive steps on the lithium ion front as well as its relatively inexpensive valuations.

However, for EIL, given the correction in metal prices, its topline, in value terms, will tend to decline sharper than the OEM topline decline with scope for gross margin expansion as it tends to retain the RM benefits on aftermarket sales. We build in a topline decline of 13.2% YoY in FY21E and a rebound to the tune of 11.5% YoY growth in FY22E. We retain our **BUY** rating on EIL with a revised target price of ₹ 160 valuing the company on an SOTP basis.

We continue to like Exide given the debt free nature of its B/S, steady CFO (~10%) & FCF yields (~5%) and healthy return ratios (RoIC >25%)

Exhibit 14: Revised financial summary for EIL

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-FY22E)
Net Sales	9,210.2	10,588.3	10,013.4	8,688.2	9,690.5	-1.6%
EBITDA	1,240.8	1,411.3	1,384.9	1,196.1	1,426.8	1.5%
EBITDA Margins (%)	13.5	13.3	13.8	13.8	14.7	
Net Profit	668.4	844.0	802.2	646.5	799.7	-0.2%
EPS (₹)	7.9	9.9	9.4	7.6	9.4	
P/E	16.5	13.1	13.8	17.1	13.8	
RoNW (%)	12.9	12.9	12.9	9.6	11.1	
RoCE (%)	19.0	18.4	16.4	12.8	14.7	

Source: Company, ICICI Direct Research

Exhibit 15: Valuation matrix for EIL

SOTP Valuation	Estimated value	Value per share	Remark
Standalone Business			
2-year forward EPS (FY22E)	9.4		
P/E Multiple	12.0		
Value per share (₹)		**114**	
Insurance business			
Value of Exide Life Insurance (₹ crore)	3606		1.5x FY19 Embedded Value
Value per share (₹)		**42**	
Value of subsidiaries (₹ crore)			
Value of smelting subsidiaries (₹)	288	**3**	2x P/B on invesement (FY19)
Total Value per Share (₹)		**160**	

Source: Company, ICICI Direct Research

Bharat Forge (BFL)

Demand prospects remain challenging for BFL, particularly on the CV side - both domestic and globally. In the industrial segment, exposure to oil & gas space would also be a cause for concern as long as crude oil prices remain depressed. BFL intimated that its domestic manufacturing facilities were shut from March 23 (eight days before originally planned) while production in facilities abroad would also be suspended by March 27, depending on the specific geography. The company currently plans to resume production by mid-April. For BFL, the long term focus remains on de-risking its business model via continued shift away from the CV space towards PV and new-age opportunities including aluminium lightweighting, aerospace, electric/hybrid mobility. We have a positive view on the company's approach towards diversification (products as well as geographies) and its focus on conserving cash at this juncture. However, we await a turning of the CV demand cycle to revisit our stance meaningfully on BFL.

For Bharat Forge, the recovery can be delayed courtesy high exposure to domestic as well as global CV cycle as well exposure to industrials including US oil & gas segment

We factor in total revenues declining 5% YoY in FY21, post a sharp decline of ~20%+ in FY20E. For FY22E, we build in steady state demand recovery with consolidated sales growing at 10% YoY. We retain our **HOLD** rating on BFL, valuing the company at ₹ 320 i.e. 25x P/E on FY22E numbers.

Exhibit 16: Revised financial summary for BFL

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-22E)
Net Sales	8,357.7	10,145.7	8,014.7	7,642.7	8,416.5	2.5%
EBITDA	1,723.0	2,055.6	1,175.8	997.3	1,330.9	6.4%
EBITDA Margins (%)	20.6	20.3	14.7	13.0	15.8	
Net Profit	754.0	1,032.6	507.2	330.8	597.0	8.5%
EPS (₹)	16.2	22.2	10.9	7.1	12.8	
P/E	17.6	12.8	26.2	40.1	22.2	
RoNW (%)	17.3	19.1	9.4	5.8	9.9	
RoCE (%)	17.8	13.2	16.6	17.6	8.4	

Source: Company, ICICI Direct Research

Apollo Tyres

Apollo Tyres (ATL) has suspended all manufacturing activity domestically at plants in Kerala, Gujarat, Tamil Nadu till March 31. For tyre players, while replacement channel would also be impacted in the short-term, overall demand scenario is expected to be relatively resilient due to limited exposure to the OEM channel (~30-35% of sales). Risks at ATL, however, are two-fold, as major European OEMs have also announced suspension of production activities amid the virus outbreak. Europe accounts for ~30% of consolidated ATL revenues, with ATL having a manufacturing presence in the Netherlands and Hungary. We anticipate operating and profit margins remaining under greater pressure in Q4FY20, Q1FY21E courtesy negative operating leverage and elevated outgo on interest and depreciation.

As a gesture of solidarity in these troubled times, the senior management has undertaken a voluntary reduction in pay of 15-25%

We incorporate issuance of CCPS and corresponding conversion to equity shares in our financial model

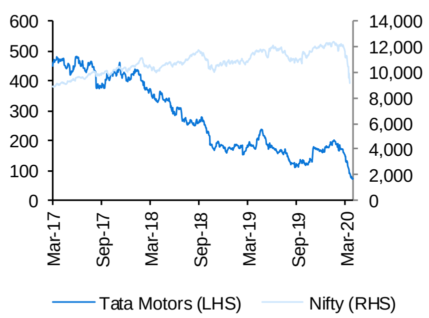
We build in nearly flat topline CAGR for ATL over FY20-22E. We continue to assign **HOLD** rating to the stock with a revised target price of ₹ 90 valuing the company at 4.5x EV/EBITDA on FY22E numbers.

Exhibit 17: Revised financial summary for ATL

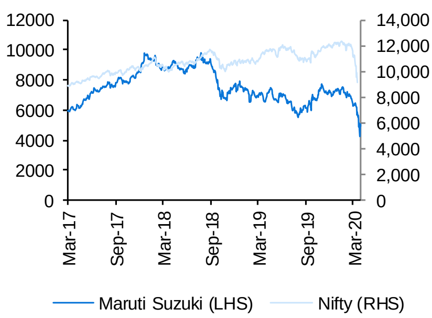
Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-22E)
Net Sales	14,840.5	17,548.8	16,692.1	15,232.2	16,963.2	0.8%
EBITDA	1,651.3	1,958.9	1,904.4	1,882.0	2,180.8	7.0%
EBITDA Margins (%)	11.1	11.2	11.4	12.4	12.9	
Net Profit	723.9	680.0	455.5	210.6	445.0	-1.2%
EPS (₹)	12.7	11.9	8.0	3.7	7.0	
P/E	6.7	7.2	10.7	23.1	12.1	
RoNW (%)	7.4	8.3	4.4	1.9	3.8	
RoCE (%)	7.7	8.0	4.7	4.1	5.7	

Source: Company, ICICI Direct Research

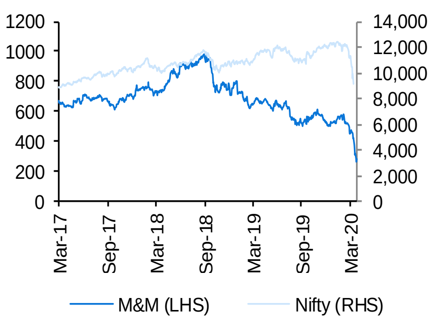
Tata Motors price chart



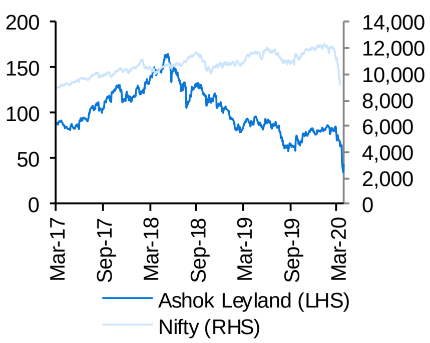
Maruti Suzuki price chart



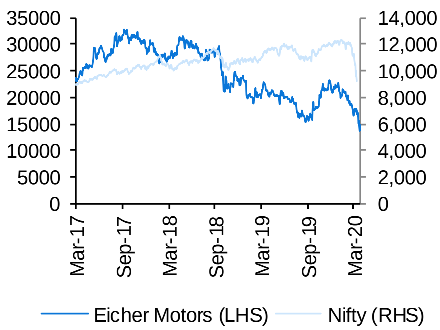
Mahindra & Mahindra price chart



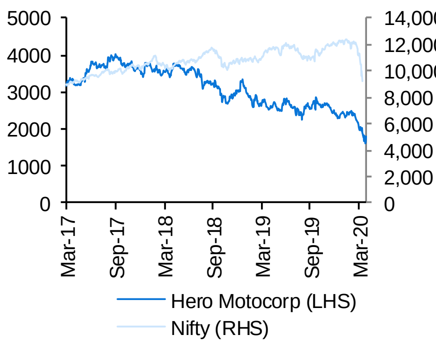
Ashok Leyland price chart



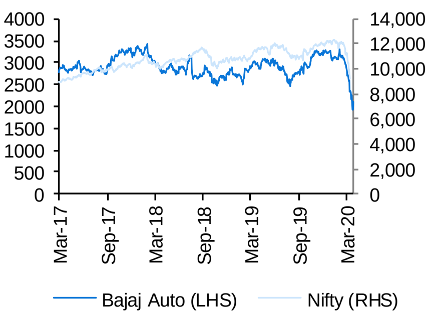
Eicher Motors price chart



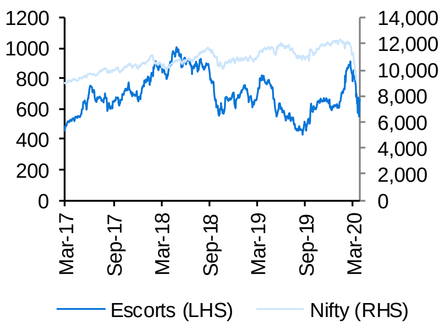
Hero MotoCorp price chart



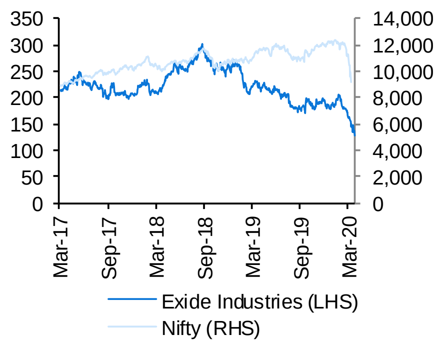
Bajaj Auto price chart



Escorts price chart



Exide Industries chart



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Reduce: -5% to -15%;

Sell: <-15%

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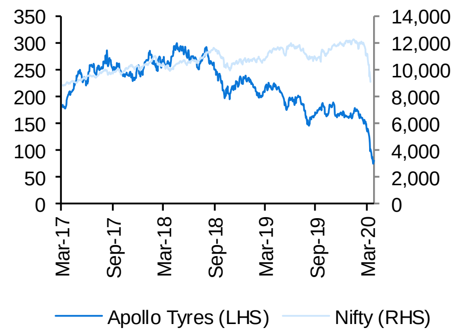
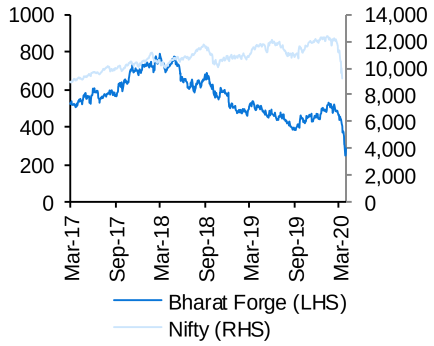


Bharat Forge price chart



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