CV makers or financiers, whom to bet on?

Exposure to used vehicles segment places financiers ahead of automakers

IN THE FAST LANE

FY18 estimates

Figures in ₹ cr

	Revenue	Change % y-o-y	Net profit	Change % y-o-y
Ashok Leyland	20,731	3.6	1,347	10.0
Chola Investments*	2,946	21.3	886	23.3
M&M	47,751	14.0	4,236	9.0
M&M Financial*	4,300	27.0	918	129.0
Shriram Transport*	6,219	11.1	1,465	16.5

* Revenue is total income less interest expenses

Source: Brokerage reports

HAMSINI KARTHIK

Automobile companies have been the biggest gainers on the bourses this year. The BSE Auto index scaled a 52-week high last week, with Maruti Suzuki, Hero MotoCorp and TVS Motor gaining 24–50 per cent year-to-date. Mahindra & Mahindra (M&M) and Ashok Leyland have been top gainers with a 17–18 per cent increase in their stock prices since January despite the overhang of a change in emission norms and a tough March quarter.

A part of stock price run-up for original equipment manufacturers (OEMs), or automakers, may also be credited to the hopes of a normal monsoon this year. Earnings and sales volume growth for OEMs may remain muted in the first half of FY18 for various reasons, including dealer-level adjustments for goods and services tax (GST), and the ability to implement a price hike.

The Street is anticipating a 100–120 basis point pressure on the operating margins of OEMs. But, it is likely that margins may deteriorate even further as OEMs, including commercial vehicle manufacturers, may have to undertake another round of price cuts to free up stocks at their dealers' end before the implementation of GST.

These further limit the capacity of vehicle makers to pass on the burden of escalating raw material costs. Considering this, investors wanting to optimise on India's rural spending theme, which gains more momentum in the background of a normal monsoon, may be better off accumulating stocks of vehicle financiers instead of commercial vehicle manufacturers.

While an uptick in sales of new vehicles will reflect in their financials, the numbers will also get a boost from the contribution of used vehicles financed. For instance, Shriram Transport, Cholamandalam Investments and M&M Financial have a 10–17 per cent exposure in the used vehicles segment. A good monsoon will lift revenues of the financiers from both the segments. Analysts at JM Financial highlight that a good rabi harvest will spur the demand for commercial vehicles even as some customers may be adversely impacted due to GST.

Consequently, Shriram Transport may expand its assets under management (AUM) by 12-15 per cent year-on-year in FY18, while the Street pegs a 15-17 per cent growth for M&M Financial. These numbers are ahead of the volume expansion expected for M&M and Ashok Leyland in FY18. Even on the profitability front, vehicle financiers are expected to score better than OEMs.

While M&M Financial may see a 70-basis point improvement in net interest margins (NIMs) at 8.3 per cent in FY18, from 7.6 per cent in FY17, NIMs are expected to stabilise at 7.2 per cent and 7.6 per cent for Shriram Transport and Cholamandalam, respectively.

With non-banking finance companies (NBFCs) having to adopt tighter standards for non-performing assets (NPAs, with the recognition time frame reduced to 90 days by FY19 against 120 days in FY17), the level of NPAs may remain high in FY18.