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# Auto – The Underdog Could Be The Dark Horse

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# AUTO STOCKS COULD HAVE A LONG RUNWAY

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# AUTO COULD BE A POTENTIAL MONEY SPINNER OVER 3-5 YEARS

- Auto stocks have not rewarded investors since 2018. Auto is a shadow of economic growth and works as a lead indicator. The sector took a back seat because economy took a back seat. Green shoots were seen in economy in the beginning of this calendar but Covid19 dashed all hopes.
- A lot has been done to perk up economic growth pre-Covid19 and a lot is being done even now. Government of India (GOI) has made its intention very clear that they will do all that takes to bring the economy back on track.
- GOI effort to fill the street with surplus liquidity will fuel consumptions in the times to come. Rural India is doing well and so is reflected in rural consumption too. 2-wheelers sales are also doing good as an impact of well performing rural economy.
- Personal mobility is being preferred as a fallout of Covid19. Though the larger impact is yet to be seen but it can be a fillip to 4-wheelers as well.
- Commercial vehicles are always the last to join the race but the situation seems to be improving as per the manufacturers.
- FY21 will be a year of economic contraction but FY22 is expected to demonstrate a V-shape recovery. Automobile sector always works as a precursor to the economic growth.
- A benign interest rate and pouring liquidity is favourable for consumption and therefore for Auto sector as well.
- Nifty Auto Index is showing some signs of preempting the potential economic growth. The index is about to retrace 50% fall from a high of 12,108.80 in December 2017 to about a low of 4,452.75 in March 2020. This raises hopes of a potential turnaround in the sector in the years to come.
- The rise will not be steep as it may still consolidate with upward bias for about a year, before taking a fresh and may be a little sharper rise.
- The current structure hints that there is a possibility of Auto Index revisiting all time high.
- Macro economic picture may become more clear by the end of FY21 and may set a new trend for Auto companies.
- The time consolidation points that Auto Index could be 24-36 months away from all time. So it would require a lot of patience and support from economy for this to happen but the behavior of Auto Index is preempting this possibility.
- As of now let us evaluate how Nifty Auto Index behave around 8,000 and 9,000 levels and if it happens to cross them in future then let us evaluate again. But at this juncture, it makes a lot of sense to do a cherry picking in this sector and sit tight. Also, buying at dips would make more sense here.
- By the time general crowd noticed the rally in Pharma, most of it was skimmed. It can happen here too. But it is not going to happen overnight. Also, there will not be a blind rally across. With time investors are becoming more aware and quality conscious and therefore a good amount of research would be required to identify winners in this sector.
- I see that what has happened in Pharma today, can happen in Auto in next 3-4 years. Patience and stocks selection technique will be important.
- Going by the current structure, if the Nifty Auto Index has the potential to move 50% higher from the current level. If that be the case then select stocks may have the potential to return 50-100% over 3-5 years.