

AUTOMOBILES

Q1FY25 Review

16 August 2024

Entry level revival in 2Ws; tractor segment adds volume

- Q1 volume steered by 2W and tractor segments despite overall lull in sentiments given the extreme weather and general elections
- Raw material cost savings aided gross margins; realisation gains a mixed bag
- Post results, we raised BJAUT to HOLD (SELL) due to overall improved business sentiment and downgraded TVSL to HOLD (BUY) on valuation

Milind Raginwar
 research@bobcaps.in

2W segment revives: Two-wheeler (2W) OEMs under our coverage delivered sub-par ~9% YoY volume growth in Q1FY25, further muted to 3.5% QoQ, driven by extreme weather in North and Central India, a shorter wedding season, and listless sentiments due to general elections. Realisation gains for our 2W coverage universe were tepid at 2% YoY due to volume push (inventory clearance) and extending discounts. The 2W segment came with flat margins of +98bps/+18bps YoY/QoQ driven by commodity softening and higher exports (BJAUT).

PV growth momentum continues: Passenger vehicle (PV) OEMs in our coverage grew 9.2% YoY, in line with industry volume growth of 9.3% in Q1. MM posted double-digit volume growth of 14% YoY driven by SUVs, while MSIL grew 5% due to the slow revival in the small car segment. Gross margin expanded by 222bps YoY on average for MM (181bps) and MSIL (262bps), backed by softening raw material cost and focus on high-end products. MM maintained a steady gross margin of 26.5% in Q1FY25 and MSIL improved to 29.8% (soft commodity cost).

Tractor volumes healthy, driven by market leaders: Volumes in the tractor segment revived, with MM gaining 7% YoY and ESCORTS's volume falling by 3%. VSTT was unable to recover from weak volumes. The major boost for tractor sales was the above-normal monsoon prediction by the India Meteorological Department. Higher demand continues to be in the 40HP-50HP segment.

Rating changes post Q1: In our quarterly result notes, we have upgraded **BJAUT** (TP Rs 9,286) from SELL to HOLD and **MM** (TP Rs 3,279) to BUY from HOLD given the overall positive business outlook for these companies, but downgraded **TVSL** (TP Rs 2,363) to HOLD (BUY earlier) due to fair valuations.

Top picks – AL and MM: We remain positive on **AL** (BUY, TP Rs 283) following its strong market share gains in the light commercial vehicle (LCV) segment, regional penetration and bus segment order book. We prefer **MM** (TP Rs 3,279) for its focus on volume growth, capacity buildup to cater to additional demand, timely addition of variants and strong launch pipeline.

Recommendation snapshot

Ticker	Price	Target	Rating
AL IN	256	283	BUY
BJAUT IN	9,888	9,286	HOLD
EIM IN	4,818	4,724	HOLD
ESCORTS IN	3,732	2,514	SELL
HMCL IN	5,128	5,245	HOLD
MM IN	2,840	3,279	BUY
MSIL IN	12,213	13,305	HOLD
TVSL IN	2,600	2,363	HOLD
VSTT IN	3,765	3,295	SELL

Price & Target in Rupees | Price as of 16 Aug 2024



Fig 1 – Revenue growth

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comment
AL	85,985	81,893	5.0	1,12,667	(23.7)	<ul style="list-style-type: none"> Our auto coverage reported double-digit aggregate revenue growth of 11% YoY driven by 2W companies under our coverage.
BJAUT	1,19,280	1,03,098	15.7	1,14,847	3.9	
EIM	42,313	39,012	8.5	41,921	0.9	
ESCORTS	22,925	23,277	(1.5)	20,825	10.1	<ul style="list-style-type: none"> Commercial vehicles (CV) continued their listless performance due to lack of policy clarity in the election phase, the heatwave in North and Central India and monsoons in the eastern region. Above normal monsoon forecast boosts tractor volume.
HMCL	1,01,437	87,673	15.7	95,193	6.6	
MM	2,71,328	2,40,561	12.8	2,51,090	8.1	
MSIL	3,55,314	3,23,269	9.9	3,82,349	(7.1)	<ul style="list-style-type: none"> We expect the growth momentum to continue following strong signs of revival in rural India, lack of policy clarity post elections and healthy sentiments in urban India.
TVSL	83,755	72,179	16.0	81,688	2.5	
VSTT	1,906	2,461	(22.6)	2,734	(30.3)	
Aggregate	10,84,244	9,73,423	11.4	11,03,314	(1.7)	

Source: Companies, BOBCAPS Research

Fig 2 – Volume growth

(Units)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comment
AL	43,893	41,329	6.2	56,269	(22.0)	<ul style="list-style-type: none"> Aggregate volumes for our auto coverage grew 10% YoY owing to an extreme heat wave in certain parts of the country and dull sentiment on account the general elections. 2Ws proved to be the exception.
BJAUT	11,02,056	10,27,091	7.3	10,68,576	3.1	
EIM	2,26,021	2,27,706	(0.7)	2,27,673	(0.7)	
ESCORTS	25,720	26,582	(3.2)	21,253	21.0	<ul style="list-style-type: none"> We expect 2W, 3W and PV volumes to hold steady in Q2FY25, while CV recovery is likely to be gradual and tractor volumes could remain soft owing to seasonality.
HMCL	15,35,156	13,52,574	13.5	13,92,423	10.3	
MM	3,32,042	3,01,147	10.3	2,91,109	14.1	
MSIL	5,21,868	4,98,030	4.8	5,84,031	(10.6)	<ul style="list-style-type: none"> The 2W segment was a clear winner owing to the revival of the entry-level segment, better exports and healthy demand for EVs. The tractor segment also gained traction driven by leader MM on the back of positive forecasts by the Met Department.
TVSL	10,87,175	9,53,244	14.1	10,62,529	2.3	
VSTT	7,375	10,596	(30.4)	13,139	(43.9)	
Aggregate	48,81,306	44,38,299	10.0	47,17,002	3.5	

Source: Companies, BOBCAPS Research | 3W: Three-wheelers

Fig 3 – Average realisation

(Rs/vehicle)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comment
AL	19,58,975	19,81,488	(1.1)	20,02,291	(2.2)	<ul style="list-style-type: none"> Realisation gains were limited due to higher discounts and inventory clearances.
BJAUT	1,08,234	1,00,378	7.8	1,07,476	0.7	
EIM	1,87,207	1,71,325	9.3	1,84,127	1.7	
ESCORTS	8,91,345	8,75,683	1.8	9,79,848	(9.0)	<ul style="list-style-type: none"> Cost inflation contributed by normative factors (introduced by the government) will continue to be passed through, especially in the 2W segment.
HMCL	66,076	64,819	1.9	68,365	(3.3)	
MM	8,17,148	7,98,814	2.3	8,62,528	(5.3)	
MSIL	6,80,850	6,49,095	4.9	6,54,672	4.0	
TVSL	77,039	75,719	1.7	76,881	0.2	
VSTT	2,58,427	2,32,295	11.2	2,08,113	24.2	
Aggregate	5,60,589	5,49,957	1.9	5,71,589	(1.9)	

Source: Companies, BOBCAPS Research

Fig 4 – EBITDA growth

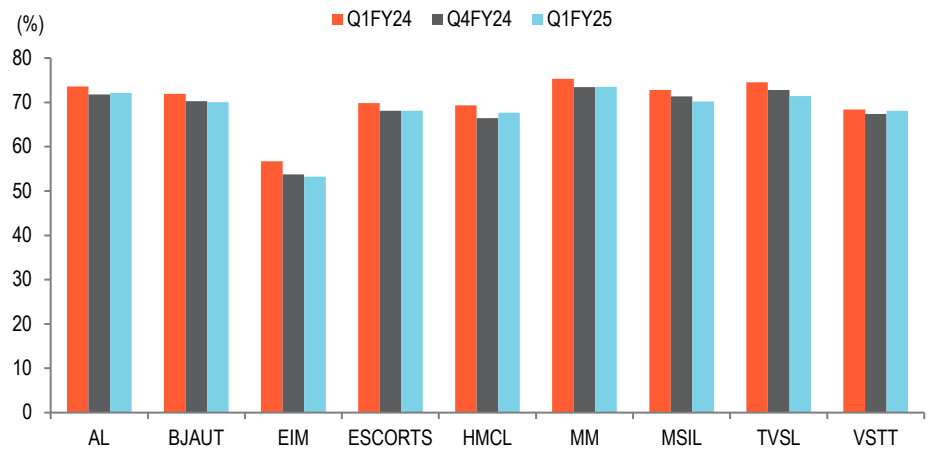
(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comment
AL	9,109	8,298	9.8	15,921	(42.8)	<ul style="list-style-type: none"> EBITDA growth was healthy in Q1 largely owing to commodity cost pressure easing and, in some cases, realisation gains. All OEMs reported strong EBITDA growth YoY, except for VSTT which declined due to a fall in revenue and cost escalation.
BJAUT	24,153	19,539	23.6	23,063	4.7	
EIM	11,786	10,127	16.4	11,553	2.0	
ESCORTS	3,271	3,269	0.1	2,659	23.0	
HMCL	14,598	12,063	21.0	13,592	7.4	
MM	41,162	32,351	27.2	32,401	27.0	
MSIL	45,023	29,830	50.9	46,850	(3.9)	
TVSL	9,601	7,638	25.7	9,262	3.7	
VSTT	134	317	(57.6)	398	(66.3)	
Aggregate	1,58,836	1,23,431	28.7	1,55,698	2.0	

Source: Companies, BOBCAPS Research | OEMs: Other equipment manufacturers

Cost of raw materials eased YoY, continuing to provide respite to the auto industry

Raw material-to-sales dropped by an average of 2.9% YoY for our coverage, with 2Ws being the biggest contributor

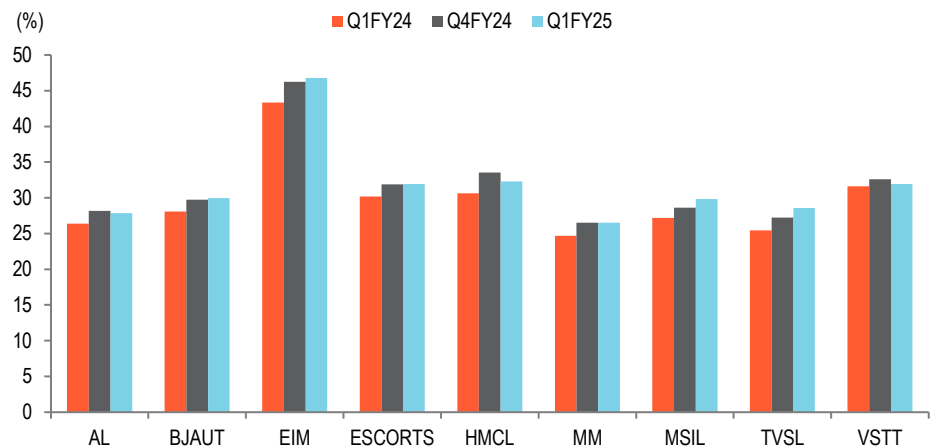
Fig 5 – Raw material cost-to-sales



Source: Companies, BOBCAPS Research

Aggregate gross margin expanded 201bps YoY to ~32%, mostly contributed by softening raw material costs. HMCL and BJAUT were in the lead with 32%/30% in the overall coverage, while EIM continued to be an outlier

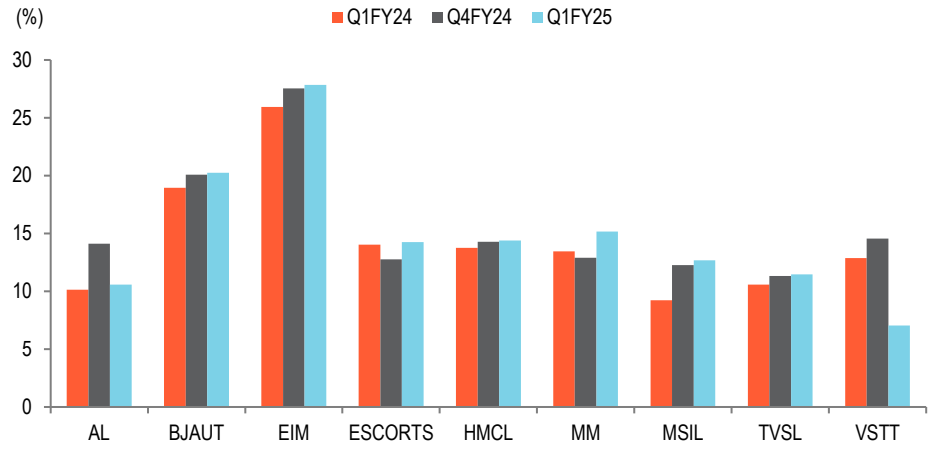
Fig 6 – Gross margin



Source: Companies, BOBCAPS Research

Aggregate EBITDA margin gains only improved by 52bps YoY to 14.9% as other expenditure swelled in most of the companies under our coverage on account of higher promotional and branding expenses due to higher premiumisation focus

Fig 7 – EBITDA margin



Source: Companies, BOBCAPS Research

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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Note: Recommendation structure changed with effect from 21 June 2021

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