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AUTOMOBILES | Q1FY26 Review | 26 August 2025

Volume slow; ASPs stay listless; margins intact

- **Overall volume growth at ~3%, premium 2Ws lift the 2W segment by 2% YoY; 4Ws up ~7% with MM in driver's seat**
- **ASP stays range-bound in the PV and 2W base segments; discounts on a high to push volume, margins hold in a tough Q1 as RM cost rescues**
- **Post Q1FY26, we maintain BUY on AL/MM/MSIL; 2W ratings retained at HOLD with a positive bias on TVSL, and SELL on ESCORTS**

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Premium motorcycles aid 2W growth: Two-wheeler (2W) OEMs delivered ~2% YoY volume growth in Q1FY26, driven by the volume growth of premium-products-focused companies. While EIM and TVS grew in double digits, BJAUT was flat and HMCL volume fell by ~11% YoY, due to supply-chain issues. EV scooters growth was healthy, too, on a lower base. For our coverage universe (ex-EIM), ASPs were healthy at ~4% YoY, due to a better product mix. However, higher discounts (to help volume gains) effectively implied that gross margins were flat YoY but continued to soften for EIM as intense competition kept ASPs soft.

SUVs in the fast lane helping 4Ws: Passenger vehicle (PV) OEM volumes in our coverage grew ~7% YoY, despite the industry volume fall of ~2% in Q1 (MSIL + MM + TTMT + Hyundai + Kia). MM posted volume growth of ~15% YoY driven by Thar Roxx; while MSIL grew ~1% as weakness in the small car segment continued. Gross margin softened as for MM, they fell by 2.3% YoY at ~24% indicating aggressive offers (discounts) by MM to push volume. MSIL margins stayed flat at ~28%

Strong tractor volumes driven by market leader: Volumes in the tractor segment were healthy, with MM gaining ~11.3% YoY on a higher base. ESCORTS continued to underperform, largely due to adverse regional mix as it volumes stayed flat. VSTT's tractor volume too stayed flat. Healthy monsoons and better MSPs have boosted rural affordability. Demand remains in the higher 40HP-50HP segment.

CV volumes stay listless: CV volumes were a mixed bag with AL gaining ~1% and TTMT falling ~10% YoY, while the overall industry volume softened by 1.4%. EIM volumes gained a healthy ~`18%, albeit on a weak base.

Top picks MM and AL; positive on MSIL: We remain positive on MSIL (revised TP Rs 14,574) following its leadership in SUVs and healthy margins. We also prefer MM (TP Rs 3,693) for its focus on volume growth, capacity addition to cater to incremental demand and strong launch pipeline. We maintain BUY on AL (TP of Rs 151 ex-bonus) following its steady gains in MHCV segment and focus on the margins. Healthy bus segment order book add cushion.

Fig 1 – Revenue growth

(Rs mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
AL	87,245	85,985	1.5	1,19,067	(26.7)
BJAUT	1,25,845	1,19,280	5.5	1,21,480	3.6
EIM	49,084	42,313	16.0	51,066	(3.9)
ESCORTS	25,001	28,184	(11.3)	24,449	2.3
HMCL	95,789	1,01,437	(5.6)	99,387	(3.6)
MM	3,40,832	2,70,388	26.1	3,13,534	8.7
MSIL	3,84,136	3,45,069	11.3	4,06,738	(5.6)
TVSL	1,00,810	83,755	20.4	95,504	5.6
VSTT	2,825	1,906	48.2	3,014	(6.3)
Aggregate	**12,11,566**	**10,78,317**	**12.4**	**12,34,239**	**(1.8)**

Comment

- 2W segment continues to drive volume growth. TVS and EIM aid gains. Exports help growth, keeping the segment in a sweet spot
- Healthy monsoons help drive tractor volumes but CVs see a slight slowdown in activities due to monsoons. Recovery is expected post monsoon as activities resume. AL continues to beat industry growth.
- Growth momentum will likely sustain, driven by higher rural income on the backdrop of a healthy monsoon and MSPs. Urban sentiment is likely to follow post salary hikes (government employees).

Source: Companies, BOBCAPS Research | 2W: Two-wheeler, PV: Passenger vehicles,

Fig 2 – Volume growth

(Units)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
AL	44,238	43,893	0.8	58,823	(24.8)
BJAUT	11,11,237	11,02,056	0.8	11,02,934	0.8
EIM	2,65,528	2,26,021	17.5	2,82,823	(6.1)
ESCORTS	30,581	30,370	0.7	26,633	14.8
HMCL	13,67,070	15,35,156	(10.9)	13,80,545	(1.0)
MM	3,81,338	3,32,042	14.8	3,41,046	11.8
MSIL	5,27,861	5,21,868	1.1	6,04,635	(12.7)
TVSL	12,77,172	10,87,175	17.5	12,29,027	3.9
VSTT	12,955	7,375	75.7	13,278	(2.4)
Aggregate	**50,17,980**	**48,85,956**	**2.7**	**50,39,744**	**(0.4)**

Comment

- Volume growth for our coverage universe was ~3% YoY, on account of subdued PV segment and supply chain issues constraining productions. The trend is expected to reverse as budgetary stimulus kicks in and rural incomes pick up.
- Premium segment continues growth, along with key emerging markets helping exports. Shifts from commuters to scooters keep the volume sluggish.
- Tractor volumes should stay healthy while CV likely to recover as infrastructure activities resume. Healthy 3W volumes should continue while 2W and PV to stay uncertain until clarity on tax structure emerges.

Source: Companies, BOBCAPS Research | 3W: Three wheelers, EV: Electric Vehicle

Fig 3 – Average realisation

(Rs/vehicle)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
AL	19,72,176	19,58,975	0.7	20,24,159	(2.6)
BJAUT	1,13,247	1,08,234	4.6	1,10,142	2.8
EIM	1,84,855	1,87,207	(1.3)	1,80,558	2.4
ESCORTS	8,17,517	9,28,018	(11.9)	9,17,989	(10.9)
HMCL	70,069	66,076	6.0	71,991	(2.7)
MM	8,93,780	8,14,318	9.8	9,19,331	(2.8)
MSIL	7,27,722	6,61,219	10.1	6,72,700	8.2
TVSL	78,932	77,039	2.5	77,707	1.6
VSTT	2,18,024	2,58,427	(15.6)	2,27,015	(4.0)
Aggregate	**5,64,036**	**5,62,168**	**0.3**	**5,77,955**	**(2.4)**

Comment

- ASPs were largely flat at 0.3% YoY, as discounts were high in Q1 being seasonably weak quarter though better product mix alleviates the impact.
- Commodity cost inflation continues to pressurise margins; however, they have started to stabilise while pass-throughs have also been absorbed by consumers.
- PV realisations were benign with MM and MSIL gaining by ~10% as the premium top models with higher margins dominate the mix.

Source: Companies, BOBCAPS Research

Fig 4 – EBITDA growth

(Rs mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
AL	9,696	9,109	6.4	17,910	(45.9)
BJAUT	24,818	24,153	2.8	24,506	1.3
EIM	12,313	11,786	4.5	12,609	(2.3)
ESCORTS	3,214	3,677	(12.6)	2,875	11.8
HMCL	13,817	14,598	(5.3)	14,156	(2.4)
MM	48,840	40,222	21.4	46,825	4.3
MSIL	39,075	40,457	(3.4)	42,647	(8.4)
TVSL	12,630	9,601	31.6	13,326	(5.2)
VSTT	375	134	179.2	452	(17.0)
Aggregate	**1,64,777**	**1,53,736**	**7.2**	**1,75,305**	**(6.0)**

Comment

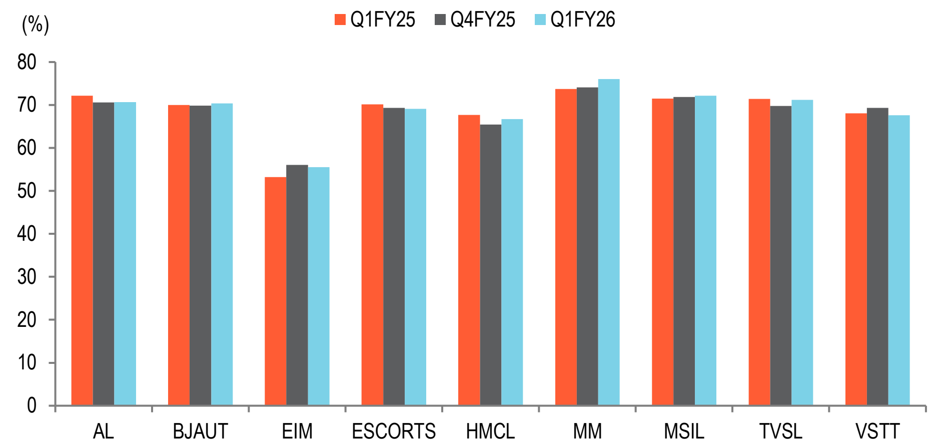
- EBITDA growth was a mixed bag in Q1 as cost saving measures taken by companies materialise while better product mix aids ASPs for premium product focused companies.
- MM and TVS recorded strong growth due to product placement in high growth segments. HMCL and MSIL had continued marketing expenses, coupled with lower ASPs.
- HMCL has received PLI approval for new EV scooters while TVS e3W has also received approval enhancing cost competitiveness.

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

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

Raw material-to-sales cost stayed flat YoY for our coverage, with the highest drop for AL as it continues prudent mix and HMCL in the 2W segment. Cost reversal was the sharpest for OEMs focused on premium products including EIM (up~4%) and MM commodity cost inflation at 3%.

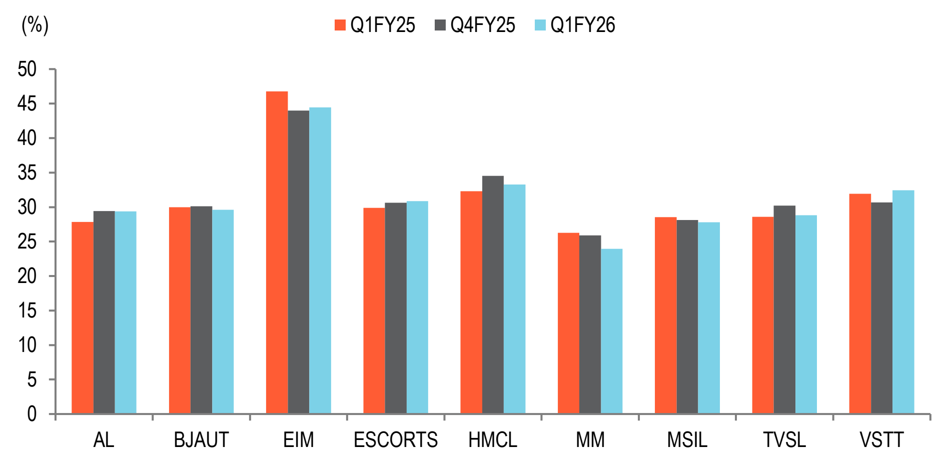
Fig 5 – Raw material cost-to-sales



Source: Companies, BOBCAPS Research

Effectively, aggregate gross margins were flat, softening marginally by 30bps at ~31.2%%; mostly contributed by a combination of RM cost benefits and marked up ASPs. AL led with 152 bps gain to 29.4% in overall coverage, while EIM continued to be the outlier at ~45%. In the 4W segment, MM lost 230bps in gross margins while MSIL stayed flat YoY despite pressure from rare-earth magnet supply.

Fig 6 – Gross margin



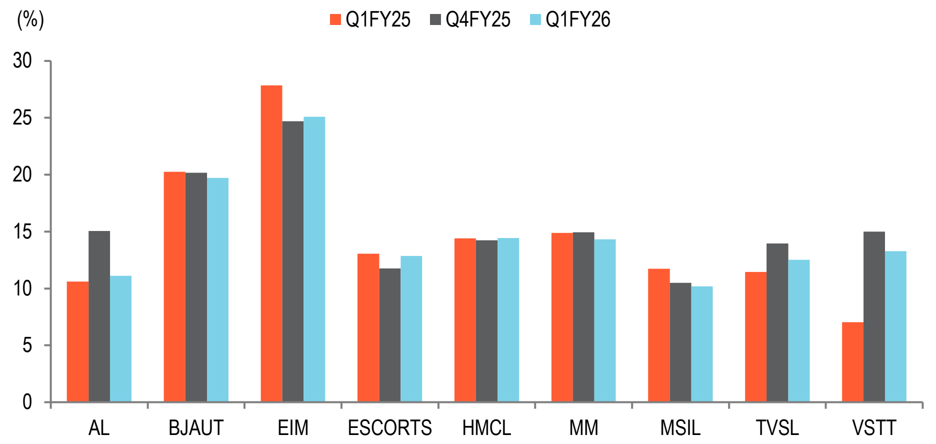
Source: Companies, BOBCAPS Research

Aggregate EBITDA margin gains were flat too YoY at 14.8% vs 14.6%, as other expenditure rose for most companies in our coverage due to higher promotional and branding expenses, resulting from a greater focus on premiumisation and the deleveraging impact due to limited volume growth.

AL's effort to de-couple margin impact despite the lacking growth, was commendable, as EBITDAM grew by 60bps in a challenging quarter.

MSIL had overhead costs due to newly commissioned Kharkhoda plant expenses.

Fig 7 – EBITDA margin



Source: Companies, BOBCAPS Research

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