


AUTOMOBILES

Q2FY25 Preview

| 10 October 2024

PV demand takes a breather; bracing for strong festive recovery

- Aggregate 2W volume growth likely to remain strong at ~11% YoY for our coverage in Q2 with healthy margin recovery of 120bps
- PV segment growth muted at 6%/2% YoY/QoQ in the monsoon season; OEMs attempt to push demand by extending seasonal discounts
- Tractor segment gains traction with 6% YoY volume growth backed by above-normal monsoon, although MHCV segment awaits recovery

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Mixed bag for passenger vehicles (PV); SUV segment remains preferred

choice: We expect tepid aggregate revenue growth for PV OEMs (original equipment manufacturers) in our coverage (MSIL and MM) in Q2FY25. OEMs focus continues on premium products (SUV segment). MM showcased the Thar ROXX in 2QFY25, and the 3XO compact SUV's initial bookings are very encouraging. MSIL launched the New Swift S-CNG in the hatchback segment in 2QFY24. Gross margin growth is likely to average ~115bps driven by MM; backed by limited cost headwinds, while EBITDA margins are a mixed bag with MM gaining (300bps) and MSIL dropping marginally.

Two-wheeler (2W) growth packed with rural and high-end variants: Volume data shows healthy growth across the 2W pack continues even in the lean season backed by pick up in rural demand with 13% YoY growth, despite HMCL's weak show. This is driven by the CNG Freedom model launched by BJAUT and a couple of high-end launches by TVSL. Even so, we expect gross margins for our coverage to show strong gains averaging 150bps.

Commercial vehicles (CV) await recovery: CVs are awaiting revival, with AL's volumes increasing 4% YoY (aided by the bus segment). We expect higher volumes to fuel healthy revenue growth both YoY and sequentially. Management forecasts AL's gross margin will remain range bound and hover at ~10-11% dragged largely by the weakness in the MHCV segment. EIM's CV segment has fared well, with volumes rising 6%/5% YoY/QoQ. TTMT's (Not Rated) volumes decreased sharply by ~20% YoY.

Tractors: Volumes in the tractor segment increased steadily YoY, gaining on above-normal monsoons. MM's tractor volumes increased 3%/5% YoY/YTD. ESCORTS' volumes rose 8%/2% YoY/YTD gains. The gains in the tractor segment are encouraging, indicating that 5% YoY industry growth in FY25 may be revised upwards.

Top picks: We prefer MM in the passenger vehicles segment and AL in the commercial vehicles segment.



Fig 1 – BOBCAPS auto universe: Q1FY25 preview

Y/E March	Net sales (Rs mn)			EBITDA (Rs mn)			EBITDA margin (%)			Adj. PAT (Rs mn)		
	Q2FY25E	YoY (%)	QoQ (%)	Q2FY25E	YoY (%)	QoQ (%)	Q2FY25E	YoY (bps)	QoQ (bps)	Q2FY25E	YoY (%)	QoQ (%)
AL	88,483	2.9	(8.2)	9,170	0.7	(15.1)	10.4	(23.0)	(84.0)	5,271	0.3	(9.7)
BJAUT	1,28,905	19.6	8.1	26,546	24.5	9.9	20.6	80.3	34.5	21,811	18.8	9.7
EIM	40,953	4.2	(3.2)	11,308	3.0	(4.1)	27.6	(30.7)	(24.2)	9,654	2.9	(11.3)
ESCORTS	21,499	5.1	(6.2)	3,238	23.0	(1.0)	15.1	219.7	79.5	2,804	19.3	(3.2)
HMCL	1,02,315	8.3	0.9	15,131	13.9	3.7	14.8	72.6	39.8	11,518	9.3	2.6
MM	2,63,774	8.5	(2.8)	39,566	34.9	(3.9)	15.0	293.1	(17.1)	35,928	4.1	37.5
MSIL	3,49,760	(5.6)	(1.6)	44,691	(6.6)	(0.7)	12.8	(13.1)	10.6	35,115	(5.5)	(3.8)
TVSL	92,729	13.9	10.7	11,124	23.6	15.9	12.0	94.9	53.3	6,878	28.2	19.2
VSTT	3,274	17.5	71.8	476	10.4	254.5	14.5	(93.7)	749.5	407	11.7	77.8
Total	10,91,691	4.4	(0.3)	1,61,250	12.0	0.5	14.8	100.9	10.6	1,29,387	4.9	8.4

Source: Companies, BOBCAPS Research

Y/E March	Sales volume (units)			Realisation (Rs mn/vehicle)			Gross profit margin (%)		
	Q2FY25E	YoY (%)	QoQ (%)	Q2FY25E	YoY (%)	QoQ (%)	Q2FY25E	YoY (%)	QoQ (%)
AL	45,624	3.9	(8.5)	1.9	(1.0)	0.3	27.1	(73bps)	64bps
BJAUT	12,21,524	16.2	10.8	0.1	2.9	(2.5)	29.7	71bps	(26bps)
EIM	2,27,872	(0.6)	0.8	0.2	4.8	(4.0)	46.6	(20bps)	(19bps)
ESCORTS	23,763	7.9	(7.6)	0.9	(2.6)	1.5	34.6	223bps	265bps
HMCL	15,19,684	7.3	(1.0)	0.1	1.0	1.9	33.0	162bps	74bps
MM	3,24,420	7.4	(2.3)	0.8	1.1	(0.5)	26.5	210bps	(1bps)
MSIL	5,41,550	(1.9)	3.8	0.6	(3.8)	(5.1)	29.6	19bps	10bps
TVSL	12,28,223	14.3	13.0	0.1	(0.4)	(2.0)	28.2	217bps	(43bps)
VSTT	12,542	3.1	70.1	0.3	14.1	1.0	32.3	(39bps)	40bps
Total	51,45,202	9.4	5.3	0.2	(4.6)	(5.3)	29.6	90bps	4bps

Source: Companies, BOBCAPS Research

Fig 2 – Maruti Suzuki India (MSIL)

Particulars	Q2FY25E	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
Sales volume	5,41,550	5,52,055	(1.9)	5,21,868	3.8	MSIL's domestic volumes grew 4% QoQ and exports 10% in Q2. The focus on the SUV segment continues (now forming ~39% of volumes compared to ~35%/37% in Q2FY25/Q1FY24). Margins may soften due to higher discount but reverse in the medium term, in our view. The new Swift launch will aid gains in volume in the compact segment.
Realisations/Vehicle (Rs mn)	0.65	0.67	(3.8)	0.68	(5.1)	
Sales (Rs mn)	3,49,760	3,70,621	(5.6)	3,55,314	(1.6)	The recovery of mass products in the compact segment will only further boost the company's volume, in our view.
EBITDA (Rs mn)	44,691	47,842	(6.6)	45,023	(0.7)	
EBITDA margin (%)	12.8	12.9	(13bps)	12.7	11bps	
Gross profit (Rs mn)	1,03,450	1,08,931	(5.0)	1,05,985	(2.4)	
Gross margin (%)	29.6	29.4	19bps	29.5	10bps	
Adj PAT (Rs mn)	35,115	37,165	(5.5)	36,499	(3.8)	

Source: Company, BOBCAPS Research

Fig 3 – Mahindra & Mahindra (MM)

Particulars	Q2FY25E	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
Sales volume	3,24,420	3,02,139	7.4	3,32,042	(2.3)	MM's domestic automotive segment volumes are likely to grow 14% YoY in Q2FY25 with PVs leading the way. Given the company's focus on high-end product sales, margins will remain healthy. The addition of new capacities will ease the waiting period for PVs. Healthy launch pipeline will only ensure unabated growth.
Realisations/Vehicle (Rs mn)	0.81	0.80	1.1	0.82	(0.5)	
Sales (Rs mn)	2,63,774	2,43,099	8.5	2,71,328	(2.8)	MM's tractor volumes gained traction by 4% YoY driven by healthy growth in the domestic segment and backed by even stronger exports.
EBITDA (Rs mn)	39,566	29,341	34.9	41,162	(3.9)	
EBITDA margin (%)	15.0	12.1	293bps	15.2	(17bps)	
Gross profit (Rs mn)	69,900	59,306	17.9	71,933	(2.8)	
Gross margin (%)	26.5	24.4	210bps	26.5	(1bps)	
Adj PAT (Rs mn)	35,928	34,519	4.1	26,126	37.5	

Source: Company, BOBCAPS Research

Fig 4 – Bajaj Auto (BJAUT)

Particulars	Q2FY25E	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
Sales volume	12,21,524	10,50,975	16.2	11,02,056	10.8	<ul style="list-style-type: none"> BJAUT's volumes continued to improve (16% YoY) in Q2 as healthy domestic 2W sales (17%) offered support to the strong revival in domestic 3W sales (9%).
Realisations/Vehicle (Rs mn)	0.11	0.10	2.9	0.11	(2.5)	
Sales (Rs mn)	1,28,905	1,07,773	19.6	1,19,280	8.1	
EBITDA (Rs mn)	26,546	21,329	24.5	24,153	9.9	<ul style="list-style-type: none"> The revival in 3Ws indicates steady recovery in rural demand. In 2Ws, BJAUT remains focused on the >125cc segment.
EBITDA margin (%)	20.6	19.8	80bps	20.2	34bps	
Gross profit (Rs mn)	38,307	31,262	22.5	35,754	7.1	<ul style="list-style-type: none"> The launch of the CNG motorcycle is a radical shift in the segment. With the recovery in 3W demand and the company's focus on high-end 2Ws, we expect strong gross and EBITDA margin improvement.
Gross margin (%)	29.7	29.0	71bps	30.0	(26bps)	
Adj PAT (Rs mn)	21,811	18,361	18.8	19,883	9.7	

Source: Company, BOBCAPS Research

Fig 5 – Hero Motors (HMCL)

Particulars	Q2FY25E	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
Sales volume	15,19,684	14,16,526	7.3	15,35,156	(1.0)	<ul style="list-style-type: none"> HMCL recorded below par volume growth in motorcycles (7% YoY) and scooter sales continued to stay tepid in Q2. The slow but steady recovery in rural markets will aid growth.
Realisations/Vehicle (Rs mn)	0.07	0.07	1.0	0.07	1.9	
Sales (Rs mn)	1,02,315	94,454	8.3	1,01,437	0.9	
EBITDA (Rs mn)	15,131	13,283	13.9	14,598	3.7	<ul style="list-style-type: none"> HMCL launched the X440 (in collaboration with Harley Davidson) and Karizma XMR (210cc) in FY24, the full impact of which is now visible and helping growth to stay in the positive trajectory.
EBITDA margin (%)	14.8	14.1	73bps	14.4	40bps	
Gross profit (Rs mn)	33,803	29,675	13.9	32,766	3.2	<ul style="list-style-type: none"> We expect 160bps+ YoY expansion in gross margin to 33% from a combination of price hikes and softening raw material costs. The focus on premium products will help HMCL safeguard margins.
Gross margin (%)	33.0	31.4	162bps	32.3	74bps	
Adj PAT (Rs mn)	11,518	10,538	9.3	11,226	2.6	

Source: Company, BOBCAPS Research

Fig 6 – TVS Motor (TVSL)

Particulars	Q2FY25E	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
Sales volume	12,28,223	10,74,378	14.3	10,87,175	13.0	<ul style="list-style-type: none"> TVSL's domestic 2W segment registered steady volume growth of 15% YoY in Q2, but the 3W segment softened by double digits. Exports stayed weak for both segments.
Realisations/Vehicle (Rs mn)	0.08	0.08	(0.4)	0.08	(2.0)	
Sales (Rs mn)	92,729	81,446	13.9	83,755	10.7	
EBITDA (Rs mn)	11,124	8,998	23.6	9,601	15.9	<ul style="list-style-type: none"> A prudent mix leaning towards high-end models and smoother raw material supply should support margins, but we expect this to be partly offset by other expenditure.
EBITDA margin (%)	12.0	11.0	95bps	11.5	53bps	
Gross profit (Rs mn)	26,117	21,170	23.4	23,951	9.0	<ul style="list-style-type: none"> The launch of Apache RTR 160 racing edition in the last leg of Q1FY25 will be reflected from H2 sales and onwards. Further launch of RR 310 and Jupiter 110 will push volumes.
Gross margin (%)	28.2	26.0	217bps	28.6	(43bps)	
Adj PAT (Rs mn)	6,878	5,366	28.2	5,772	19.2	

Source: Company, BOBCAPS Research

Fig 7 – Eicher Motors (EIM)

Particulars	Q2FY25E	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
Sales volume	2,27,872	2,29,280	(0.6)	2,26,021	0.8	<ul style="list-style-type: none"> We expect EIM's volumes to be flat YoY/QoQ in Q2FY25 with domestic sales down marginally. We estimate that models up to 350cc may show sales decline of 5% YoY, whereas those over 350cc are likely to grow very healthy at 30-40%.
Realisations/Vehicle (Rs mn)	0.18	0.17	4.8	0.19	(4.0)	
Sales (Rs mn)	40,953	39,307	4.2	42,313	(3.2)	
EBITDA (Rs mn)	11,308	10,974	3.0	11,786	(4.1)	<ul style="list-style-type: none"> For VECV, total sales are forecast to grow flat with a higher contribution from Volvo on a weak base.
EBITDA margin (%)	27.6	27.9	(31bps)	27.9	(24bps)	
Gross profit (Rs mn)	19,084	18,394	3.7	19,799	(3.6)	<ul style="list-style-type: none"> Transition to higher end segment from < 300cc segment implies some pressure on margins YoY/QoQ.
Gross margin (%)	46.6	46.8	(20bps)	46.8	(19bps)	
Adj PAT (Rs mn)	9,654	9,385	2.9	10,880	(11.3)	

Source: Company, BOBCAPS Research, VECV volume snapshot | VECV: VE Commercial Vehicles Limited

Fig 8 – Ashok Leyland (AL)

Particulars	Q2FY25E	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
Sales volume	45,624.0	43,893.0	3.9	49,846.0	(8.5)	AL's volumes grew 4% YoY in Q2FY25, driven largely by the MHCV bus segment (which grew in the single digit) while the LCV segment revival in the domestic market helped. However, MHCV segment continues to under-perform.
Realisations/Vehicle (Rs mn)	1.94	1.96	(1.0)	1.93	0.3	
Sales (Rs mn)	88,483	85,985	2.9	96,380	(8.2)	
EBITDA (Rs mn)	9,170	9,109	0.7	10,798	(15.1)	The bus segment is a clear winner for AL, with volumes nearly doubling YoY. We believe the government's initiative to resolve financial troubles at state transport corporations and defense orders will continue to lend a boost to sales.
EBITDA margin (%)	10.4	10.6	(23bps)	11.2	(84bps)	
Gross profit (Rs mn)	23,990	23,939	0.2	25,515	(6.0)	AL's management indicates the blip in volume in the MHCV is only short term while medium-/long-term volume gains are intact.
Gross margin (%)	27.1	27.8	(73bps)	26.5	64bps	
Adj PAT (Rs mn)	5,271	5,256	0.3	5,839	(9.7)	

Source: Company, BOBCAPS Research | LCV: Light Commercial Vehicle, MHCV: Medium & Heavy Commercial Vehicles

Fig 9 – Escorts Kubota (ESCORTS)

Particulars	Q2FY25E	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
Sales volume	23,763	22,024	7.9	25,720	(7.6)	ESCORTS's volume grew by a healthy 8% YoY backed by better monsoon predictions and is expected to be even better in the festive season.
Realisations/Vehicle (Rs mn)	0.90	0.93	(2.6)	0.89	1.5	
Sales (Rs mn)	21,499	20,462	5.1	22,925	(6.2)	The company increased prices in May, which is reflected in Q2 with realisations gain of ~2% QoQ.
EBITDA (Rs mn)	3,238	2,633	23.0	3,271	(1.0)	
EBITDA margin (%)	15.1	12.9	220bps	14.3	79bps	Effectively, its margins profile was very strong, gaining traction of 200bps.
Gross profit (Rs mn)	7,431	6,616	12.3	7,316	1.6	
Gross margin (%)	34.6	32.3	223bps	31.9	265bps	
Adj PAT (Rs mn)	2,804	2,350	19.3	2,896	(3.2)	

Source: Company, BOBCAPS Research

Fig 10 – VST Tillers Tractors (VSTT)

Particulars	Q2FY25E	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
Sales volume	12,542	12,170	3.1	7,375	70.1	VSTT continues to disappoint on volumes of tippers and tractors.
Realisations/Vehicle (Rs mn)	0.26	0.23	14.1	0.26	1.0	
Sales (Rs mn)	3,274	2,785	17.5	1,906	71.8	Overall performance is largely driven by better realisations, however overall performance remains below par.
EBITDA (Rs mn)	476	431	10.4	134	254.5	
EBITDA margin (%)	14.5	15.5	-94bps	7.0	750bps	
Gross profit (Rs mn)	1,058	911	16.1	609	73.9	
Gross margin (%)	32.3	32.7	-39bps	31.9	40bps	
Adj PAT (Rs mn)	407	365	11.7	229	77.8	

Source: Company, BOBCAPS Research

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