

Riding the strong pre-festive demand push; continuity is key

- Q2 volume push by 2W and passenger vehicle segments; commercial vehicle awaits strong trigger; tractors a mixed bag
- Raw material cost savings and steady realisation gains of 2% aided gross margins; EBITDA margin lacks pace on higher other expenses
- Post results, we raised MSIL to BUY (from HOLD) due to overall improved scenario, 2W ratings retained at HOLD. Maintain BUY on AL

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2W segment continues to grow: Two-wheeler (2W) OEMs in our coverage delivered sub-par volume growth of ~9%/6% YoY/QoQ in Q2FY25, driven by strong pre-festive volume growth. Domestic and export demand revival contributed to growth. Realisation gains for our 2W coverage universe was healthy at 4% YoY due to price hikes and better product mix. The 2W segment was a mixed bag as TVSL and HMCL's margins improved, while falling for BJAUT (average gain of +78bps YoY).

PV growth momentum continues: Passenger vehicle (PV) OEMs in our coverage grew 5% YoY, with industry volume growth of 8% in Q2. MM posted volume growth of ~20% YoY driven by SUVs, while MSIL grew 3% partially due to the slow revival in the small car segment and retail inventory clearance. Gross margin for our coverage universe expanded by 157bps YoY on average with MM adding 442bps YoY, but MSIL falling by 128bps due to higher discounts. MM maintained a steady gross margin of ~29% in Q2FY25, while MSIL fell to 28%.

Healthy tractor volumes driven by market leaders: Volumes in the tractor segment were tepid, however MM gained 2% YoY and ESCORTS's volume stayed flat and caught up towards the end of the quarter. VSTT was unable to recover from weak volumes. The major boost for tractor sales was the above-normal monsoon. Higher demand continues to be in the 40HP-50HP segment.

Rating changes post Q2: In the Q2 result updates, we upgraded **MSIL** (TP Rs 13,451) to BUY from HOLD, and retained HOLD rating with positive bias on **HMCL** (TP Rs 5,262, upside of 14%) given the overall positive business outlook and valuations. We maintain SELL on **ESC** (TP Rs 2,426) and **VSTT** (TP Rs 3,420).

Top picks – MSIL and MM: We remain positive on MSIL (BUY, TP Rs 13,451) following its strong product mix of SUVs, healthy margins and reasonable valuations. We prefer **MM** (TP Rs 3,344) for its focus on volume growth, capacity buildup to cater to additional demand, and timely addition of variants and strong launch pipeline. We also have a positive bias on **HMCL**.



Fig 1 – Revenue growth

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
AL	87,688	96,380	(9.0)	85,985	2.0	<ul style="list-style-type: none"> Our auto coverage reported higher single-digit aggregate revenue growth of ~8% YoY, driven by 2W companies in our coverage. Commercial vehicles (CV) continued their listless performance due to lack of policy clarity, monsoons across regions in India and the delayed Union budget. An above-normal monsoon boosts tractor volume. We expect growth momentum to continue following strong signs of revival in rural India, healthy crop season following above-normal monsoon, policy framework in place, and healthy sentiments in urban India.
BJAUT	1,31,275	1,07,773	21.8	1,19,280	10.1	
EIM	42,054	39,307	7.0	42,313	(0.6)	
ESCORTS	24,885	24,777	0.4	28,184	(11.7)	
HMCL	1,04,632	94,454	10.8	1,01,437	3.1	
MM	2,87,183	2,43,099	18.1	2,71,328	5.8	
MSIL	3,72,028	3,70,621	0.4	3,55,314	4.7	
TVSL	92,282	81,446	13.3	83,755	10.2	
VSTT	2,834	2,785	1.8	1,906	48.7	
Aggregate	11,44,863	10,60,643	7.9	10,89,502	5.1	

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

Fig 2 – Volume growth

(Units)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
AL	45,624	49,846	(8.5)	43,893	3.9	<ul style="list-style-type: none"> Aggregate volumes for our auto coverage grew 9% YoY and we expect this momentum to continue following very healthy pre-festive demand in the month of October. We expect 2W, 3W and PV volumes to hold steady in Q3FY25, while CV recovery is likely to be gradual and tractor volumes could remain strong in 2H owing to seasonality. The 2W segment was a clear winner owing to the revival of the entry-level segment and the preference for high-end products, better exports and healthy demand for EVs. The tractor segment was a mixed bag driven by leader MM and backed by very healthy monsoon.
BJAUT	12,21,504	10,50,975	16.2	11,02,056	10.8	
EIM	2,27,872	2,29,280	(0.6)	2,26,021	0.8	
ESCORTS	25,995	26,241	(0.9)	30,370	(14.4)	
HMCL	15,19,684	14,16,526	7.3	15,35,156	(1.0)	
MM	3,23,420	3,02,139	7.0	3,32,042	(2.6)	
MSIL	5,41,550	5,52,055	(1.9)	5,21,868	3.8	
TVSL	12,28,223	10,74,378	14.3	10,87,175	13.0	
VSTT	12,542	12,170	3.1	7,375	70.1	
Aggregate	51,46,414	47,13,610	9.2	48,85,956	5.3	

Source: Companies, BOBCAPS Research | PV: Passenger vehicles, 3W: Three wheelers

Fig 3 – Average realisation

(Rs/vehicle)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
AL	19,21,977	19,33,563	(0.6)	19,58,975	(1.9)	<ul style="list-style-type: none"> Realisation gains at 3% were largely due to the better product mix and price revival in the 2W. This was partially offset by PV segment companies extending festive discounts. Cost inflation contributed by normative factors (introduced by the government) will continue to be passed through, especially in the 2W segment.
BJAUT	1,07,470	1,02,545	4.8	1,08,234	(0.7)	
EIM	1,84,553	1,71,437	7.7	1,87,207	(1.4)	
ESCORTS	9,57,296	9,44,213	1.4	9,28,018	3.2	
HMCL	68,851	66,680	3.3	66,076	4.2	
MM	8,87,958	8,04,593	10.4	8,17,148	8.7	
MSIL	6,86,969	6,71,348	2.3	6,80,850	0.9	
TVSL	75,135	75,808	(0.9)	77,039	(2.5)	
VSTT	2,25,985	2,28,850	(1.3)	2,58,427	(12.6)	
Aggregate	5,68,466	5,55,449	2.3	5,64,664	0.7	

Source: Companies, BOBCAPS Research

Fig 4 – EBITDA growth

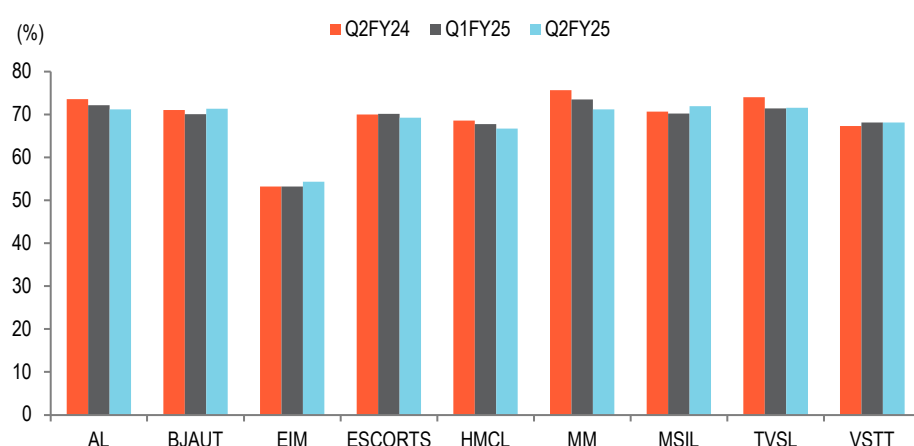
(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comment
AL	10,173	10,798	(5.8)	9,109	11.7	
BJAUT	26,546	21,329	24.5	24,153	9.9	
EIM	11,049	10,974	0.7	11,786	(6.3)	EBITDA growth was healthy in Q2 largely owing to commodity cost pressure easing and, in some cases, realisation gains.
ESCORTS	2,647	2,642	0.2	3,677	(28.0)	
HMCL	15,159	13,283	14.1	14,598	3.8	All OEMs reported strong EBITDA growth YoY, except for AL and MSIL due to higher other expenses. VSTT continues its disappointing show.
MM	51,148	29,341	74.3	41,162	24.3	
MSIL	44,166	47,842	(7.7)	45,023	(1.9)	
TVSL	10,798	8,998	20.0	9,601	12.5	
VSTT	378	431	(12.3)	134	181.4	
Aggregate	1,72,064	1,45,637	18.1	1,59,241	8.1	

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

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

Raw material cost to sales dropped on average by 1.3% YoY for our coverage, with the highest drop for MM and followed by TVSL and HMCL in the 2W segment

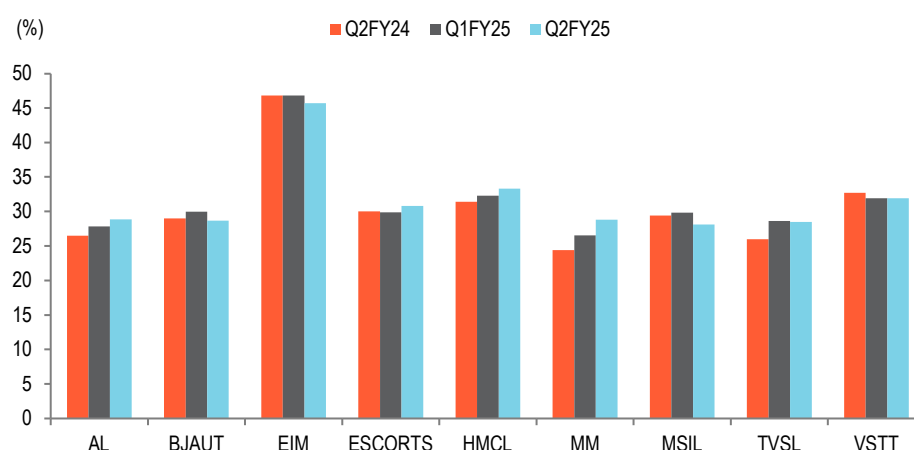
Fig 5 – Raw material cost to sales



Source: Companies, BOBCAPS Research

Aggregate gross margin expanded 93bps YoY to ~32%, mostly contributed by softening raw material costs. HMCL and TVSL led with 33%/29% in the overall coverage, while EIM continued to be the outlier. In the commercial vehicles pack AL's gross margin jumped by 235bps YoY to 28.8%

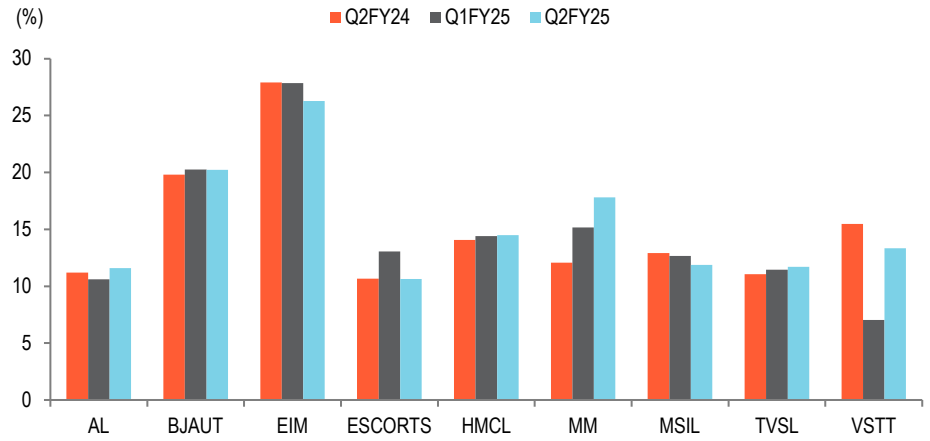
Fig 6 – Gross margin



Source: Companies, BOBCAPS Research

Aggregate EBITDA margin gains, however, only improved by 31bps YoY to 15.3% as other expenditure rose for most of the companies in our coverage due to higher promotional and branding expenses resulting from a greater focus on premiumisation. Higher spend on technology (for electric vehicles) was a contributing factor too

Fig 7 – EBITDA margin



Source: Companies, BOBCAPS Research

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Note: Recommendation structure changed with effect from 21 June 2021

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