SECTOR UPDATE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

AUTOMOBILES | Q3FY25 Review | 25 February 2025

Slow yet steady post-festive quarter; premiumisation key driver

- **Volume push by 2W and passenger vehicle segments in Q3; healthy traction in tractors segment; commercial vehicles volume stay listless**
- **Raw material cost savings aid gross margin gains; EBITDA margin lacks pace on premium product and electric vehicle segment expenses**
- **Post Q3FY25, we maintain our BUY rating on AL and MM, and positive stance on MSIL, 2W ratings retained at HOLD and SELL on ESCORTS**

Milind Raginwar
research@bobcaps.in

2W segment's focus stays on scooters and premium products: Two-wheeler (2W) OEMs in our coverage delivered 11% YoY volume growth in Q3FY25, driven by healthy festive sales, focus on premium products and push to the EV scooter segment. Realisation gains for our 2W coverage universe was healthy at ~3% YoY due to better product mix but higher discounts were on offer which aided volume gains. The 2W segment was a mixed bag as TVSL and HMCL's gross margins improved, but fell for BJAUT and EIM (average increase of +177bps YoY).

PV growth momentum continues: Passenger vehicle (PV) OEM volumes in our coverage grew 15% YoY, with industry volume growth of 13% in Q3 (MSIL + MM + TTMT + Hyundai). MM posted robust volume growth of ~17% YoY driven by SUVs, while MSIL grew 13% as the revival in the small car segment kept the focus on high-end products. Gross margin for our coverage universe was a mixed bag with MM adding 72bps YoY, but MSIL falling by 69bps due to higher discounts. MM maintained a steady gross margin of ~26% in Q3FY25, while MSIL fell to 28%.

Strong tractor volumes driven by healthy monsoon: Volumes in the tractor segment were healthy, with MM gaining ~20% YoY on a higher base, ESCORTS's volume rose by 25% while VSTT's gains were on a weak base and fell sharply QoQ. The major boost for tractor sales was the above-normal monsoon and healthy reservoir levels in India. Demand continues to be in the higher 40HP-50HP segment.

Commercial vehicle volume continues to be tepid: The commercial vehicle recovery continues to be postponed as AL volume fell ~2% and TTMT stayed flat. EIM volumes gained a healthy 10% but on a weak base. However, QoQ volume indicated signs of recovery with AL gaining ~2% and TTMT by double digits.

Top picks MM and AL, continue positive stance on MSIL: We remain positive on MSIL (TP Rs 13,806) following its leadership in SUVs and healthy margins. We prefer MM (TP Rs 3,689) for its focus on volume growth, capacity buildup to cater to additional demand, and timely addition of variants and strong launch pipeline. We also maintain BUY on AL (TP of Rs 274) following its focus on LCV segment.

Fig 1 – Revenue growth

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
AL	94,787	92,730	2.2	87,688	8.1
BJAUT	1,28,069	1,21,135	5.7	1,31,275	(2.4)
EIM	49,081	40,542	21.1	42,054	16.7
ESCORTS	29,480	27,276	8.1	22,773	29.5
HMCL	1,02,108	97,237	5.0	1,04,632	(2.4)
MM	3,05,382	2,53,829	20.3	2,75,533	10.8
MSIL	3,84,921	3,33,087	15.6	3,72,028	3.5
TVSL	90,971	82,450	10.3	92,282	(1.4)
VSTT	2,191	1,700	28.9	2,834	(22.7)
Aggregate	**11,86,989**	**10,49,986**	**13.0**	**11,31,099**	**4.9**

Comment

- Our auto coverage reported healthy double-digit aggregate revenue growth of ~13% YoY, driven by 2W and PV companies in our coverage.
- Commercial vehicles (CV) continued their listless performance due to lack of policy clarity, postponement of steel and cement demand owing to delayed budget (FY25) and cost inflation. An above-normal monsoon forecast 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 improving sentiments in rural/urban India.

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

Fig 2 – Volume growth

(Units)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
AL	46,404	47,241	(1.8)	45,624	1.7
BJAUT	12,24,472	12,00,997	2.0	12,21,504	0.2
EIM	2,72,297	2,28,073	19.4	2,27,872	19.5
ESCORTS	32,556	25,999	25.2	25,995	25.2
HMCL	14,63,802	14,59,934	0.3	15,19,684	(3.7)
MM	3,67,273	3,13,115	17.3	3,23,420	13.6
MSIL	5,66,213	5,01,207	13.0	5,41,550	4.6
TVSL	12,11,952	11,00,843	10.1	12,28,223	(1.3)
VSTT	8,086	6,039	33.9	12,542	(35.5)
Aggregate	**51,93,055**	**48,83,448**	**6.3**	**51,46,414**	**0.9**

Comment

- Aggregate volumes for our auto coverage grew 6% YoY and we expect this momentum to continue with added vigour following healthy monsoon, higher budgetary provisions for disposable income and signs of rural demand revival.
- The 2W segment was a clear winner owing to the strong EV scooter segment and the preference for high-end products and better exports.
- We expect 2W, 3W and PV volumes to hold steady in Q4FY25, while CV recovery is likely to be gradual and tractor volumes could remain strong in 4Q owing to seasonality.

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

Fig 3 – Average realisation

(Rs/vehicle)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
AL	20,42,641	19,62,916	4.1	19,21,977	6.3
BJAUT	1,04,591	1,00,862	3.7	1,07,470	(2.7)
EIM	1,80,250	1,77,758	1.4	1,84,553	(2.3)
ESCORTS	9,05,523	10,49,121	(13.7)	8,76,034	3.4
HMCL	69,755	66,604	4.7	68,851	1.3
MM	8,31,486	8,10,657	2.6	8,51,934	(2.4)
MSIL	6,79,817	6,64,570	2.3	6,86,969	(1.0)
TVSL	75,061	74,897	0.2	75,135	(0.1)
VSTT	2,70,962	2,81,437	(3.7)	2,25,985	19.9
Aggregate	**5,73,343**	**5,76,536**	**(0.6)**	**5,55,434**	**3.2**

Comment

- Realisations were flat largely due to the higher discounts offered to boost volume gains. This negated the price gains owing to better product mix.
- Cost inflation contributed by normative/statutory factors (introduced by the government) will continue to be passed through, especially in the 2W segment.

Source: Companies, BOBCAPS Research

Fig 4 – EBITDA growth

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
AL	12,114	11,139	8.8	10,173	19.1
BJAUT	25,807	24,299	6.2	26,522	(2.7)
EIM	12,237	11,148	9.8	11,049	10.8
ESCORTS	3,327	3,254	2.2	2,299	44.7
HMCL	14,765	13,620	8.4	15,159	(2.6)
MM	44,681	32,950	35.6	39,497	13.1
MSIL	44,711	39,079	14.4	44,166	1.2
TVSL	10,815	9,244	17.0	10,798	0.2
VSTT	196	95	104.9	378	(48.3)
Aggregate	**1,68,652**	**1,44,829**	**16.4**	**1,60,041**	**5.4**

Comment:

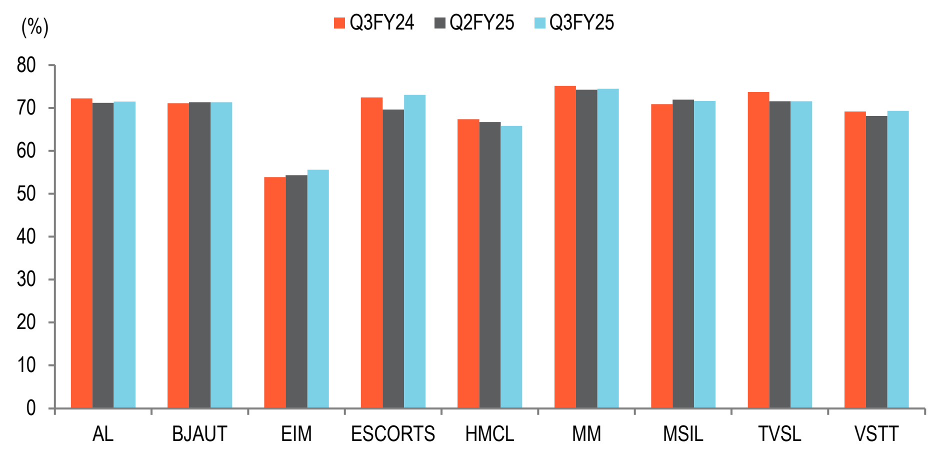
- EBITDA growth was healthy in Q3 largely owing to commodity cost pressure easing and, in some cases, realisation gains.
- All OEMs reported strong EBITDA growth YoY, except for ESCORTS and BJAUT due to higher other expenses. VSTT's higher gains are on a weak base.

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 dropped on average by 0.3% YoY for our coverage, with the highest drop for TVSL and HMCL in the 2W segment. MM and AL were the other gainers.

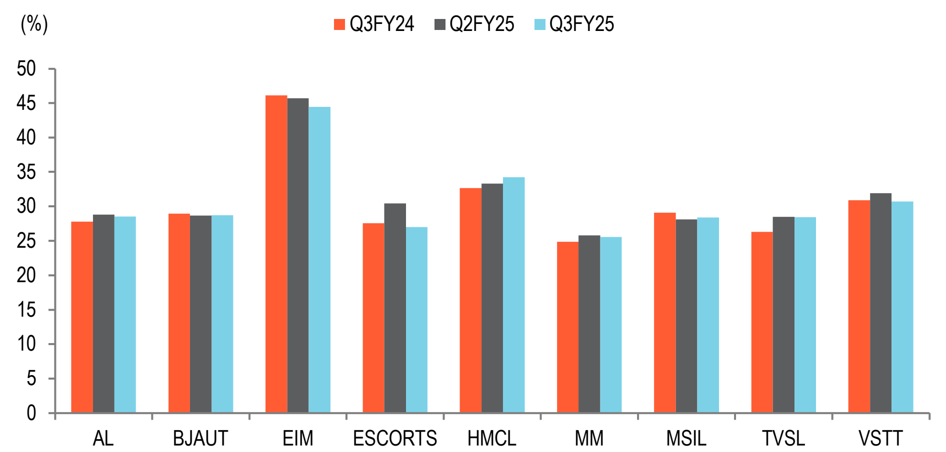
Fig 5 – Raw material cost-to-sales



Source: Companies, BOBCAPS Research

Aggregate gross margin was flat at ~27%%, mostly contributed by softening raw material costs. HMCL led with 34% in the overall coverage, while EIM continued to be the outlier. In the commercial vehicles pack AL's gross margin jumped by 80bps YoY to 28.5%

Fig 6 – Gross margin

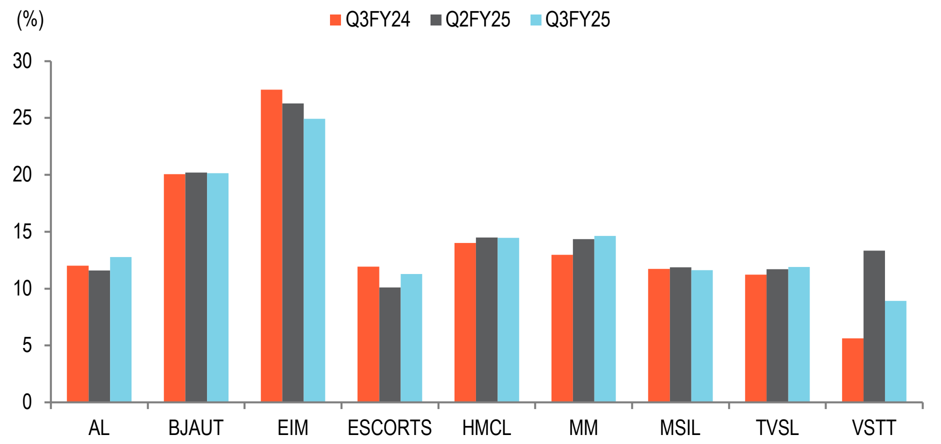


Source: Companies, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

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/employee cost (for electric vehicles) was a contributing factor too.

Fig 7 – EBITDA margin



Source: Companies, BOBCAPS Research

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("**MSL**") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as **"MAYBANK**"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.