FIRST LIGHT

18 August 2025

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Domestic demand: the only balancing factor

BOB ECONOMICS RESEARCH | WPI

WPI contracts sharply

ASHOK LEYLAND | TARGET: Rs 151 | +24% | BUY

Steady show in a challenging quarter; retain BUY

SOMANY CERAMICS | TARGET: Rs 600 | +18% | BUY

In-line Q1; capacity ramp-up to fuel margin expansion ahead

SUMMARY

INDIA ECONOMICS: MONTHLY CHARTBOOK

On global front, tariff led uncertainties have led to heightened tensions regarding global growth recovery. US has announced fresh tariffs on multiple countries and has also imposed additional 25% tariff India, taking total to as high as 50%. In contrast, tariffs on China have been paused for another 90-day period. Given that the latest CPI print in the US has come in cooler (2.7% in Jul'25) than expected (2.8%), odds of a 25bps rate cut by Fed in Sep'25 have increased sharply. Domestically, after pricing in the impact of fresh tariffs, we now expect GDP growth to range between 6.2-6.4% in FY26. At the time of external headwinds, growth will get support from domestic factors. Monsoon activity remains on track, which in turn will support rural demand. RBI's consumer sentiment index also reflects optimism. Notable softening in inflation and RBI's cumulative 100bps rate cut will further boost consumption and help revive investment demand.

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INDIA ECONOMICS: WPI

WPI inflation declined by (-) 0.6% in Jul'25—fastest pace of deceleration since Jul'23, from 2.1% in Jul'24. It was also lower when compared with last month's (Jun'25) decline of (-) 0.1%. From last year (Jul'24), food inflation has noted significant moderation, helped by vegetables (onion, tomato, and potato, cabbage, ginger), spices, pulses, fruits and paddy. Fuel inflation remained in deflation for the 4th consecutive month in Jul'25. Drop in mineral oil index, mirrors the trend in international oil prices.

Click here for the full report.

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ASHOK LEYLAND

- Q1FY26 revenue grew ~2% YoY to Rs 87.2bn in a challenging quarter, aided by volume gains of 1% YoY; realisations stay put
- EBITDAM expanded by 52bps YoY (-393bps QoQ) to 11.1%, despite deleveraging impact; gross margins gain by a healthy 152bps to 29.4%
- Revise FY26E/FY27E PAT by 2%/4%; introduce FY28E earnings. Retain BUY for a 1YF SOTP-based bonus adjusted TP of Rs 151 vs Rs138

Click here for the full report.

SOMANY CERAMICS

- SOMC tiles volume grew at a muted pace for the past 5 consecutive quarters, on a weak demand and still competition from Morbi
- Maintained guidance of growing tiles volume at high-single digit with improvement in EBITDA margin (+1.0-1.5%) for FY26
- Maintain BUY on healthy earnings growth prospects with reasonable valuations; TP raise by 9% to Rs 600 per share

Click here for the full report.

MONTHLY CHARTBOOK

14 August 2025

Domestic demand: the only balancing factor

Economic Research Department
Sonal Badhan | Aditi Gupta
Jahnavi | Dipanwita Mazumdar
Economist

On global front, tariff led uncertainties have led to heightened tensions regarding global growth recovery. US has announced fresh tariffs on multiple countries and has also imposed additional 25% tariff India, taking total to as high as 50%. In contrast, tariffs on China have been paused for another 90-day period. Given that the latest CPI print in the US has come in cooler (2.7% in Jul'25) than expected (2.8%), odds of a 25bps rate cut by Fed in Sep'25 have increased sharply. Domestically, after pricing in the impact of fresh tariffs, we now expect GDP growth to range between 6.2-6.4% in FY26. At the time of external headwinds, growth will get support from domestic factors. Monsoon activity remains on track, which in turn will support rural demand. RBI's consumer sentiment index also reflects optimism. Notable softening in inflation and RBI's cumulative 100bps rate cut will further boost consumption and help revive investment demand.

Mixed trends: Consumption demand for the month of Jul'25 has exhibited mixed trends. This was reflected in indicators such as digital payments, power demand along with consumer durable and non-durables output which registered an improvement. RBI's consumer confidence (urban) index also remained in the optimistic territory reflecting confidence in outlook. On the other hand, indicators such as non-oil-non-gold imports, auto sales and personal loans registered much slower growth in the same period. On agri front, steady progress in kharif sowing has been noted.

Central government finances: Centre's fiscal deficit ratio (12MMA trailing basis) rose to 5% as of Jun'25 from 4.5% as of May'25. In Q1FY26 (Apr-Jun), net revenue softened notably as it rose by 10% during Q1, following 24% rise between Apr-May'25. Moderation was led by direct tax collections, which fell by (-) 0.8% versus 5% rise noted between Apr-May'25. Indirect tax collections also eased (11.3% versus 19.2%). On the spending front, overall expenditure rose notably by 26% versus 19.7%. This was on account of revenue spending, which surged by 20% versus 9.4%. Capex growth also maintained momentum (52% versus 54.1%). Low base effect has also helped.

Yields to exhibit upside pressure: India's 10Y yield has firmed up by 16bps (Jul+Aug). This happened post RBI policy. Interestingly, it coincided with fears of elevated tariff rates by the US. However, the direction should have been reversed on account of risk off sentiments.It was tilted to the other side as RBI hinted that much of the frontloading of rate cuts has happened. At this juncture, some increasing gap between US and India 10Y yield might be witnessed as Fed may embark on its rate cut cycle again in Sep'25.

14 August 2025

WPI contracts sharply

WPI inflation declined by (-) 0.6% in Jul'25—fastest pace of deceleration since Jul'23, from 2.1% in Jul'24. It was also lower when compared with last month's (Jun'25) decline of (-) 0.1%. From last year (Jul'24), food inflation has noted significant moderation, helped by vegetables (onion, tomato, and potato, cabbage, ginger), spices, pulses, fruits and paddy. Fuel inflation remained in deflation for the 4th consecutive month in Jul'25. Drop in mineral oil index, mirrors the trend in international oil prices.

Sonal Badhan
Economist

Manufactured product inflation however inched up, led by items like transport equipment, wearing apparels, pharma products, chemicals, paper and leather products etc. Inflation in key components under basic metals (Aluminium and Lead) noted higher inflation, in line with movement seen in international prices. Going forward, as uncertainties remain regarding US sanctions on importers of Russian oil and status of a cease fire deal also remains in limbo, oil prices are noting some upward pressure. However renewed tariff related tensions are set to exert downward pressure on commodity prices as global growth prospects weaken. As a result, we expect WPI to remain contained in the coming months.

Food inflation continues to lead deflationary trend:

Headline WPI inflation fell to (-) 0.6% in Jul'25, following 2.1% increase in Jul'24 and (-) 0.1% decline in Jun'25. This is the fastest pace of decline in 2 years, and was led by continued deflation in food inflation. Food inflation fell (-) 2.1% in Jul'25 versus 3.6% increase last year, and (-) 0.3% decline in Jun'25. Owing to higher base, vegetable inflation index declined for the 6th consecutive month in Jul'25, and fell by (-) 29%, much sharper than (-) 8.6% decline noted during the same period last year. This was helped by decline in index for potato, onion, tomato, onion, cabbage, and ginger etc. Index for spices and condiments (-15.6% versus 1.1%) and fruits (-2.7% versus 15.6%) too declined. Index for milk (2.2% versus 4.6%) noted moderation, while that of eggs, meat and fish (-1.1% versus -1.6%) recorded a slower pace of decline. Food grain inflation index also fell in Jul'25 (-1.9% versus 11.1%), led by sharp decline in inflation index for pulses (-15.1% versus 20.3%). Cereal inflation too softened, mainly due to movement in paddy inflation (0.1% versus 11% in Jul'24). Wheat inflation eased less sharply (4.4% versus 7%). Comparing cereal prices on a global level (World Bank's pink sheet) shows that domestic prices are following international trend. Paddy prices internationally have fallen by (-) 33% in Jul'25, versus 7.7% increased noted in Jul'24. Wheat prices on the other hand are falling at a slower pace (-7% versus -19.5%).

RESULT REVIEW

BUY

TP: Rs 151 | ⮝ 24%

ASHOK LEYLAND | Automobiles | 14 August 2025

Steady show in a challenging quarter; retain BUY

- **Q1FY26 revenue grew ~2% YoY to Rs 87.2bn in a challenging quarter, aided by volume gains of 1% YoY; realisations stay put**
- **EBITDAM expanded by 52bps YoY (-393bps QoQ) to 11.1%, despite deleveraging impact; gross margins gain by a healthy 152bps to 29.4%**
- **Revise FY26E/FY27E PAT by 2%/4%; introduce FY28E earnings. Retain BUY for a 1YF SOTP-based bonus adjusted TP of Rs 151 vs Rs138**

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Steady revenue gains in a quarter hit by early monsoons: AL volume grew by 1% YoY (-24.8% QoQ) in Q1FY26 to 44.2k units. Further, net realisations were marginally up by 1% YoY, too (-2.6% QoQ). Effectively, revenue grew by 1.5% YoY (-26.7% QoQ) to Rs87.2bn. Key segment MHCV and LCV volumes were muted at ~1% YoY each (down 29.7%/16% QoQ). However, exports remain strong, growing 29% YoY (-44.8 QoQ), albeit on a favourable base.

Margins retained despite deleveraging disadvantage: Overall expenses were flat ~1% YoY (-23.7% QoQ), driven by a decline in raw material (RM) cost (adj. for inventory) by 1%/26.7% YoY/QoQ to Rs 68.1bn. Effectively, gross margins gained by 152bps YoY (-7bps QoQ) to 29.4% in Q1FY26. Other expenses were up by 38bps/232bps YoY/QoQ to 11.2% of sales. Similarly, staff costs were inflated by 62bps/155bps YoY/QoQ to 7% of net sales. Effectively, EBITDA grew 6.4% YoY (-46% QoQ) to Rs 9.7bn and EBITDAM expanded by 52bps YoY (-393bps QoQ) to 11.1%. APAT rose by 13% YoY (-53% QoQ) to Rs 5.9bn.

Expansion on track: Mandatory AC cabin rollout was smoothly executed, with cost passed on to customers amid strong adoption. AL introduced the Intelligent Vehicle Acceleration Control (IVAC) system across products to offset the mileage impact and enhance fuel efficiency. Upcoming launches include high-horsepower MHCV tippers, tractor trailers, multi-axles, LNG trucks, upgraded 13.5m and new 15m buses, and bi-fuel LCVs, aimed at premiumisation and operational efficiency.

Revise estimates: We revise FY26E/FY27E PAT by 2%/4%, earnings to factor in the expected momentum in business segments, steady recovery in MHCV and more focus on premiumisation. We introduce FY28E with a Revenue/EBITDA/PAT CAGR of 10%/9%/11% for FY25-FY28. We think AL will deliver on new launches, beat industry growth in CVs, maintain leadership in buses and improve on the MHCV space. LCV recovery and in-roads into EVs will broaden the portfolio. We assign 22x P/E to the standalone business, and value the vehicle finance arm at Rs 12/sh, to arrive at bonus adjusted TP of Rs 151 (from Rs 138). We maintain BUY the stock.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	AL IN/Rs 122
Market cap	US$ 4.1bn
Free float	49%
3M ADV	US$ 15.9mn
52wk high/low	Rs 265/Rs 115
Promoter/FPI/DII	52%/17%/15%

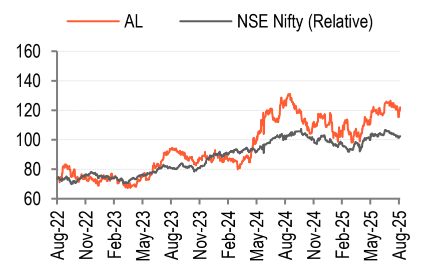
Source: NSE | Price as of 14 Aug 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	3,87,527	4,29,347	4,71,416
EBITDA (Rs mn)	49,306	54,230	58,892
Adj. net profit (Rs mn)	31,996	34,821	37,292
Adj. EPS (Rs)	11.3	5.9	6.4
Consensus EPS (Rs)	11.3	5.8	6.7
Adj. ROAE (%)	27.8	31.5	30.5
Adj. P/E (x)	10.8	20.6	19.2
EV/EBITDA (x)	6.7	5.9	5.8
Adj. EPS growth (%)	18.0	(45.6)	7.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 600 | 18%

SOMANY CERAMICS | Building Materials | 14 August 2025

In-line Q1; capacity ramp-up to fuel margin expansion ahead

- **SOMC tiles volume grew at a muted pace for the past 5 consecutive quarters, on a weak demand and still competition from Morbi**
- **Maintained guidance of growing tiles volume at high-single digit with improvement in EBITDA margin (+1.0-1.5%) for FY26**
- **Maintain BUY on healthy earnings growth prospects with reasonable valuations; TP raise by 9% to Rs 600 per share**

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In-line Q1: SOMC Q1FY26 results came broadly in line with our estimate (Revenue: +0.2%; EBITDA: +0.4%; APAT: +0.2%). Overall, SOMC revenue grew by 4.5% YoY, but EBITDA/APAT fell by 1.6%/15.6% YoY in Q1FY26.

Highlights: SOMC tiles volume grew at a muted pace of 3.0% YoY in Q1FY26 driven by higher outsourced volume (+55.0%). Own/JV tiles volume was down 1.4%/26.4% YoY in Q1FY26. Tiles realisation was relatively stable (-0.1% YoY) in Q1FY26. Non-tiles revenue grew sharply by 14.7% YoY in Q1FY26, driven by both bathware (+4.0%) and adhesives (+50.5%). EBITDA margin was down 49bps YoY to 8.0% in Q1FY26 due to low-capacity utilisation (-400bps YoY to 77%). Net debt has slightly increased from Rs 2.25bn in Mar'25 to Rs 2.31bn in Jun'25.

Outlook: Management believes demand conditions continues to remain challenging with stiff competition from Morbi players in view of weak exports scenario. However, the company has maintained its tiles volume growth guidance at high-single-digit rate in FY26. The company took a small price hike in Jul'25. Management aims to improve EBITDA margin by 1.0-1.5% in FY26 to be driven by operating leverage benefit. Max plant reported a loss of Rs 65mn in Q1FY26, but it is likely to become profitable due to the ramp-up of its plant (from 51% in Q1FY26 to 70-75% in H2FY26). The company targets to raise share of project business (23-25% in Q1FY26) by 5-6% in future to improve its capacity utilisation.

Maintain BUY; TP raise by 9% to Rs 600: We maintain our BUY as we see (a) strong earnings growth prospects (EPS to log 35.6% CAGR over FY25-FY28E); (b) improvement in ROE profile (from 7.2% in FY25 to 13.7% in FY28E) in anticipation of margin improvement (from 8.3% in FY25 to 10.1% in FY28E) due to gradual ramp-up of its capacity (c) reasonable valuation (trades at 21.5x on 1Y forward P/E vs. 5Y average of 31.1x). We have broadly maintained our EBITDA estimates, but we have increased our TP to Rs 600 (Rs 550 earlier), due to the roll forward of our valuation from Mar'27 to Jun'27. Our target P/E multiple remains unchanged at 20x.

Key changes

Target	Rating
▲	◄►

Ticker/Price	SOMC IN/Rs 510
Market cap	US$ 239.1mn
Free float	45%
3M ADV	US$ 0.4mn
52wk high/low	Rs 753/Rs 395
Promoter/FPI/DII	55%/1%/23%

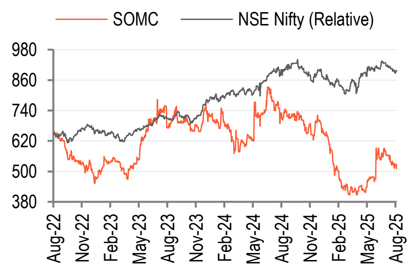
Source: NSE | Price as of 14 Aug 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	26,588	28,334	30,955
EBITDA (Rs mn)	2,209	2,449	2,936
Adj. net profit (Rs mn)	605	830	1,172
Adj. EPS (Rs)	14.8	20.2	28.6
Consensus EPS (Rs)	14.7	23.1	42.4
Adj. ROAE (%)	7.2	9.4	12.0
Adj. P/E (x)	34.6	25.2	17.9
EV/EBITDA (x)	8.2	7.6	6.6
Adj. EPS growth (%)	(39.0)	37.2	41.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Note: Recommendation structure changed with effect from 21 June 2021

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