FIRST LIGHT

09 June 2025

RESEARCH

BOB ECONOMICS RESEARCH | RBI MONETARY POLICY

RBI delivers a bumper cut

AUTOMOBILES | Q4FY25 REVIEW

Premium 2Ws, PVs anchor gains in a steady quarter

SUMMARY

INDIA ECONOMICS: RBI MONETARY POLICY

The MPC with a 5-1 vote lowered the repo rate by 50bps from 6% to 5.5%, as RBI announced frontloading of rate cuts. Stance was changed to 'neutral' from 'accommodative', signalling that there remains limited room for future rate cuts. The Governor noted that "price stability is a necessary condition, it is not sufficient to ensure growth. A supportive policy environment is vital". This provides a rationale for today's bumper rate reduction and also gives a hint that if growth falls substantially below RBI's projection then the central bank may lower rates further. In addition, to this, 100bps CRR cut announced will help speed up the transmission, which in turn will support credit growth and GDP.

Click here **for the full report.**

AUTOMOBILES: Q4FY25 REVIEW

- Premium segment pushes volumes for 2W as base models growth remains listless; PV growth identically pushed by SUVs over small cars
- ASP stays range-bound in the PV and 2W base/entry level segment; top-end segment drives the pricing higher, discounts also on a high
- Post Q4/FY25, we maintain BUY on AL/MM/MSIL, 2W ratings retained at HOLD with a positive bias on EIM, and SELL on ESCORTS

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RBI MONETARY POLICY

06 June 2025

RBI delivers a bumper cut

Sonal Badhan
Economist

The MPC with a 5-1 vote lowered the repo rate by 50bps from 6% to 5.5%, as RBI announced frontloading of rate cuts. Stance was changed to 'neutral' from 'accommodative', signalling that there remains limited room for future rate cuts. The Governor noted that "price stability is a necessary condition, it is not sufficient to ensure growth. A supportive policy environment is vital". This provides a rationale for today's bumper rate reduction and also gives a hint that if growth falls substantially below RBI's projection then the central bank may lower rates further. In addition, to this, 100bps CRR cut announced will help speed up the transmission, which in turn will support credit growth and GDP.

RBI also lowered its inflation projection for FY26 downward to 3.7% from 4% estimated in Apr'25. This is on account of significant moderation in food prices. This also augurs well domestic consumption. Going forward, we expect a pause from RBI in its next 2 meetings at least, as it evaluates the impact of monetary policy loosening done so far. More data on monsoon, and growth will also be awaited. For now we maintain that terminal repo rate will be held at 5.5%, also keeping in mind the impact on real rates, FPI inflows, and currency.

Hat-trick by RBI: The monetary policy committee decided to cut repo rate by 50bps (BoB est.: 25bps cut) to 5.5% from 6% in a 5-1 vote. Only Shri Saugata Bhattacharya voted for a 25bps cut. Consequently, the SDF rate now stands at 5.25% and MSF at 5.75%. This is the third rate cut announced by the central bank this year, taking the cumulative reduction to 100bps so far. Stance of the monetary policy was also changed to 'neutral' from 'accommodative'. To support permanent liquidity in the system, RBI in a surprise move, also lowered the CRR by 100bps to 3% from 4% earlier. This will be done in a staggered manner, in tranches of 25bps each, starting from fortnights beginning 6 Sep, 4 Oct, 1 Nov and 29 Nov 2025.

GDP growth unchanged: Mospi's data confirms that India's GDP in FY25 rose by 6.5%. For the current financial year (FY26), RBI expects economy to grow at a similar pace, as it left its growth forecast unchanged at 6.5%, as also estimated in its Apr'25 policy. The quarterly forecast were also maintained with growth in Q1 at: 6.5%; Q2: 6.7; Q3: 6.6%; and Q4: 6.3%. The central bank noted that gradual rise in discretionary spending (measured through production of consumer durables), healthy rural demand, improvement in urban demand, revival in investment activity, strong export growth and forecast of above normal monsoon bodes well for growth. Services activity is also maintaining momentum. However, downside risks to growth remain on account of continued geo-political tensions and weather related uncertainties.

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AUTOMOBILES | Q4FY25 Review | 06 June 2025

Premium 2Ws, PVs anchor gains in a steady quarter

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2W focus stays on scooters and premium segment motorcycles: Two-wheeler (2W) OEMs delivered ~7% YoY volume growth in Q4FY25, driven by growth in the volume of companies that focused on premium products. EIM and TVS grew in double digits, however, BJAUT and HMCL delivered tepid volume gains (lower single digit). EV scooters, too, contributed to gains. For our 2W coverage universe (exclude EIM for ASPs), ASPs were healthy at ~3% YoY due to a better product mix. However, higher discounts (to help volume gains) effectively implied gross margins were a mixed bag with TVSL and HMCL's GMs improved but softened for EIM.

PV growth limited to SUVs: Passenger vehicle (PV) OEM volumes in our coverage grew 8% YoY, ahead of the industry volume growth of 5% in Q4 (MSIL + MM + TTMT + Hyundai). MM posted robust volume growth of ~16% YoY driven by SUVs; while MSIL grew ~4% as the small car segment continued to be weak. Gross margin softened as margins for MM fell by 1% YoY at ~26%, but MSIL stayed flat at ~28%.

Strong tractor volumes driven by improved sentiment: Volumes in the tractor segment were healthy, with MM gaining ~20% YoY on a higher base. ESCORTS' volumes rose by 8% while VSTT's stayed flat. Predictions of above-normal rain boosted sentiments. Demand remains in the higher 40HP-50HP segment.

CV volumes continue to be listless: CV volumes were a mixed bag with AL gaining ~5% and TTMT falling ~4% YoY. EIM volumes gained a healthy 12%, albeit on a weak base. However, QoQ volumes were skewed on a lower base.

Top picks MM and AL, positive on MSIL: We remain positive on MSIL (TP Rs 13,899) following its leadership in SUVs and healthy margins. We also prefer MM (TP Rs 3,689) 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 276) following its steady gains in MHCV segment and focus on the LCV segment. Healthy bus segment order book add cushion.

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Note: Recommendation structure changed with effect from 21 June 2021

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