

India

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Overweight (no change)

Highlighted Companies

Ashok Leyland

ADD, TP Rs208, Rs162 close

Product expansion into alternative fuels and pricing discipline of the sector, in our view, to drive volume and profit margin going ahead.

Mahindra & Mahindra

HOLD, TP Rs1765, Rs1844 close

Leadership in E3W and the pick-up segment, which are less cyclical within the CV segment, provides a good edge. However, the risk of tractor demand weakness, witnessed recently, spiraling into a downcycle is a cause of concern.

Tata Motors

REDUCE, TP Rs639, Rs940 close

The recent demerger of its CV and PV divisions provides a value creation opportunity for the FCF-positive CV division versus the capital and technology-intensive PV division.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Ashok Leyland	19.08	16.93	15.48
Mahindra & Mahindra	20.19	19.22	17.85
Tata Motors	18.58	14.97	12.57

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Ashok Leyland	4.87	4.28	3.79
Mahindra & Mahindra	3.99	3.49	3.08
Tata Motors	5.54	4.16	3.21

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Ashok Leyland	2.48%	3.1%	3.41%
Mahindra & Mahindra	1.39%	1.61%	1.76%
Tata Motors	0.44%	0.66%	0.89%

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Autos

CV and logistics conference takeaways

- The recent ET Auto Commercial Vehicle and Logistics Conclave helped to get a perspective on the current demand sentiment, future opportunities & threats.
- The caution seen in recent months from financiers & truck operators is a healthy sign while multimodal transport, involving railway & road segments, is evolving.
- Logistics cost reduction drivers can be by way of warehousing and inventory cost optimization. Also, a reduction in the waiting time for trucks at check posts.

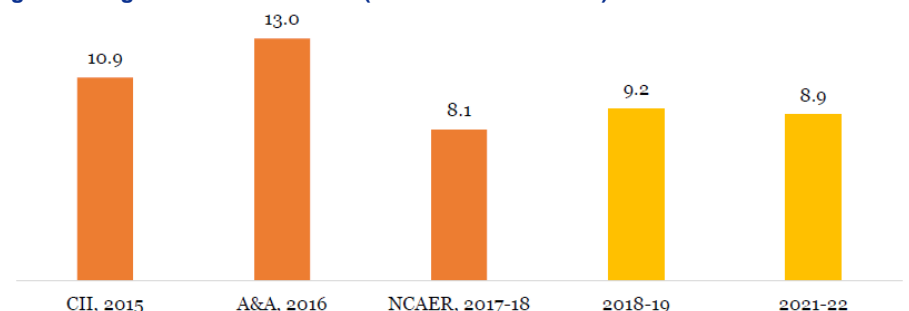
Logistics and CV industry outlook takeaways

- Cost inefficiency in logistics as a proportion of India's GDP, which was discussed by different consultancy firms, is primarily in warehousing & inventory management. Warehousing is a recent-decade phenomenon here & scale benefit yet to come through.
- In terms of trucking inefficiency, the waiting time for return load and also at state check posts needs to be addressed. The commerce and industry ministry is planning to incentivize state check posts so that they address this problem on priority, as a measure of ease of doing business.
- Transporters/CV financiers have not seen major stress from the Dedicated Freight Corridor or DFC, but a few transporters have asked for loan tenure extension. Truck resale prices are steady. Financiers are going very slow and seasoned players' loan approval rate is around 70% of the applications received.
- Shortage of drivers continues to impact the trucking industry, as per the latest AITWA study, and nearly 22% of the trucking capacity is underutilized due to this reason. The government plans to construct 1,000 driver rest houses along the national highways and the air-conditioned cabin norm for trucks may help in the medium term.
- The improved scale of freight tonnage and rolling stock availability has made Indian Railways an attractive alternative mode of transport, especially for multimodal logistics companies. However, the wide dispersion of India's geography is a challenge.

New product innovation and challenges

- The E3W segment got incubated from the e-commerce sector's adoption of the product. Later came commercial transporters and captive users. The optimization of performance helped OEMs push their fully built vehicles. The challenge is to provide variants to fit the wider-user cases. The E4W proposition is still not apt for EV momentum in the segment.
- Charging anxiety at charging stations, instead of battery range anxiety, is a problem that needs to be resolved. Big multi-vehicle charging stations are a viable model.
- India seems to be building an advantage in ICE hydrogen competence in case of large buses and trucks in the medium term while the fuel cell advantage is with China.
- We feel the commercial vehicle or CV sector is in a mid-cycle consolidation phase as no major excesses have been created in this upcycle while the production-linked incentive or PLI investment-led manufacturing sector's recovery driving freight demand would be the driver for volume to scale a new high over FY24F-26F. Ashok Leyland is our preferred pick. We have a HOLD rating on M&M and a REDUCE rating on Tata Motors.

Figure 1: Logistics cost estimates (as a % of India's GDP) from various studies



SOURCE: ARMSTRONG AND ASSOCIATES, CONFEDERATION OF INDIAN INDUSTRY, NATIONAL COUNCIL FOR APPLIED ECONOMIC RESEARCH, INCRED RESEARCH

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