

India

**Neutral** (no change)

**Highlighted Companies**

**Ashok Leyland**

**ADD, TP Rs281, Rs228 close**

The commercial vehicle demand cycle is recovering from a mid-cycle consolidation. Market share expansion, pricing discipline in the segment and low new technology challenges provide comfort.

**Eicher Motors Ltd**

**REDUCE, TP Rs4086, Rs4728 close**

Eicher Motors' volume growth is disappointing and may not support its rich EBITDA margin. Stretched valuation is a cause of concern.

**Maruti Suzuki**

**ADD, TP Rs15541, Rs12777 close**

Improving product mix in the case of CNG vehicles and Ertiga's capacity increase to drive ASP and margins in the short term. The EV launch in CY25F to ease technology concerns for the company.

**Summary Valuation Metrics**

P/E (x)	Mar24-A	Mar25-F	Mar26-F
Ashok Leyland	25.55	20.72	17.67
Eicher Motors Ltd	32.48	30.33	28.46
Maruti Suzuki	30.41	24.68	22.59
P/BV (x)	Mar24-A	Mar25-F	Mar26-F
Ashok Leyland	7.59	6.47	5.48
Eicher Motors Ltd	7.17	6.88	6.02
Maruti Suzuki	4.78	3.72	3.35
Dividend Yield	Mar24-A	Mar25-F	Mar26-F
Ashok Leyland	2.17%	2.55%	2.85%
Eicher Motors Ltd	1.08%	1.16%	1.27%
Maruti Suzuki	0.98%	1.25%	1.49%

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# Auto & Parts - Overall

## 2QFY25 results preview

- Industry volume growth turns selective in 2Q, with growth in 2Ws & tractors while the weakness expands to cars & CVs. The new EV policy provides hope.
- EBITDA growth eases as the double-digit yoy growth is only for a select few companies while the majority to post single-digit growth for the quarter.
- We maintain our Neutral rating on the sector as its valuation rises above the mean level while volume and EBITDA growth turn selective.

### Premium bike, CV volume weakens in 2QFY25

The industry's dispatch volume growth in the Sep 2024 quarter remained selective, with two-wheelers or 2Ws leading the pack with double-digit yoy growth. A low single-digit dip was seen in cars while CVs had a double-digit decline. The yoy volume growth was led by TVS Motor Company, Bajaj Auto, Mahindra & Mahindra, and Hero MotoCorp for the quarter while the laggards were Tata Motors and Ashok Leyland. The premium segment's slowdown in 2Ws and sports utility vehicles or SUVs in recent months disappoint, while rural recovery is captured in bike and tractor growth. Maruti Suzuki and TVS Motor Company gain market share, while the weakness in market share of Hero MotoCorp and Tata Motors' passenger vehicle division is an area of concern.

### Easing prices of commodities, barring rubber, likely to drive margins

Raw material prices softened sequentially (mid-single digit), except for rubber whose prices spiked by 20% qoq, while precious metal prices remained flat. Currency fluctuations in JPY-INR and GBP-USD are significant for Maruti Suzuki and Tata Motor-JLR financials.

### EBITDA growth turns selective

We expect single-digit yoy growth in EBITDA for original equipment manufacturers or OEMs aided by volume growth and lower commodity costs. The yoy growth high achievers are likely to be Bajaj Auto, TVS Motor Company, Hero MotoCorp and Mahindra & Mahindra or M&M. In our coverage universe EBITDA estimates, we are above Bloomberg consensus in the case of Hero MotoCorp, Maruti Suzuki, Escorts, Balkrishna Industries and Bosch. We are below consensus estimates in respect of Eicher Motors and Bharat Forge.

### Maintain Neutral rating due to easing volume and EBITDA growth

The sharp rise in the Nifty Auto Index (3.8%) in recent months has helped overcome its underperformance to the broader Nifty-50 index in the Sep 2024 quarter. Big gains in a few stocks (Bajaj Auto, M&M, TVS Motor Company) helped overcome the weakness in most automobile stocks. The one-year forward P/E valuation above the mean level and easing volume growth led to our Neutral sector rating. The key downside risks are prolonged high interest rates impacting consumption, apart from the high base effect. The pecking order of our ADD-rated stocks is Maruti Suzuki, Hero MotoCorp, Ashok Leyland, Balkrishna Industries, Endurance Technologies, and Bharat Forge. We retain our REDUCE rating on Tata Motors, Eicher Motors, Escorts Kubota and TVS Motor Company, and a HOLD rating on M&M and Samvardhana Motherson International or SAMIL.

**Figure 1: 2QFY25F estimates of our coverage universe**

(Rs m)	Revenue	YoY%	QoQ%	EBITDA	YoY%	QoQ%	Adjusted PAT	YoY%	QoQ%
Ashok Leyland	86,453	-10.3%	0.5%	10,201	-5.5%	12.0%	5,898	1.2%	12.2%
Bajaj Auto	1,30,974	21.5%	9.8%	26,607	24.7%	10.2%	22,406	22.0%	12.7%
Eicher Motors	42,700	3.8%	-2.8%	11,096	2.1%	-4.8%	10,420	2.5%	2.0%
Escorts Kubota	21,260	3.9%	-7.3%	2,828	7.4%	-13.6%	2,587	10.1%	-10.6%
Hero MotoCorp	1,06,399	12.6%	4.9%	15,641	17.8%	7.1%	12,196	15.7%	8.6%
Mahindra & Mahindra	2,73,518	11.7%	1.2%	38,486	18.3%	-4.3%	39,329	16.6%	50.5%
Maruti Suzuki	3,78,111	2.0%	6.4%	48,820	2.0%	8.4%	39,358	5.9%	7.8%
Tata Motors	10,17,931	-3.2%	-5.8%	1,68,847	3.7%	-7.6%	49,874	25.5%	-4.9%
TVS Motor Company	94,971	16.6%	13.4%	11,397	26.7%	18.7%	6,680	33.8%	21.7%
Apollo Tyres	65,952	5.0%	4.1%	10,355	-10.7%	13.9%	3,886	-20.1%	13.5%
Balkrishna Industries	25,740	14.6%	-6.1%	6,435	17.6%	-9.8%	3,983	18.7%	-16.6%
Bharat Forge	22,910	1.9%	-2.0%	6,186	1.9%	-5.0%	3,713	6.7%	-10.5%
Bosch Ltd.	46,800	13.3%	8.4%	6,271	27.6%	20.7%	5,078	137.4%	9.1%
Endurance Technologies	30,663	20.5%	8.5%	4,144	30.2%	10.8%	2,303	49.0%	13.0%
Exide Industries	45,577	11.0%	5.7%	5,469	13.2%	10.6%	3,202	11.6%	14.5%
SAMIL	2,89,672	23.4%	0.3%	27,809	47.2%	0.2%	9,906	82%	-0.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

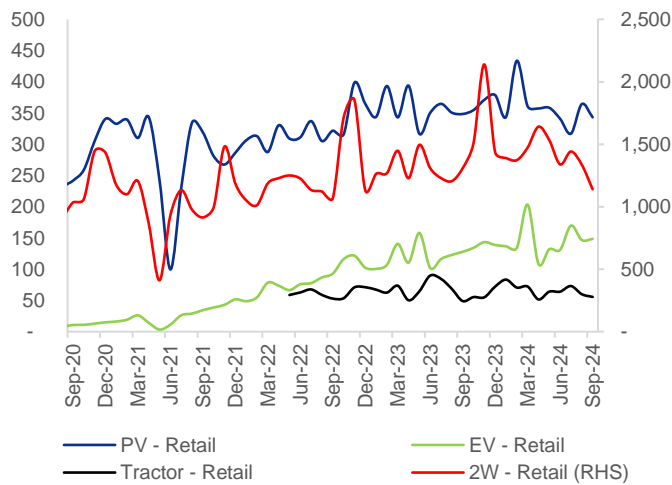
## 2QFY25 results preview

Figure 2: 2QFY25 sales volume performance of OEMs

Company	2QFY25 sales volume	YoY%	QoQ%
Ashok Leyland	45,624	-8.5%	3.9%
Bajaj Auto	11,80,504	12.0%	8.3%
Eicher Motors	2,48,646	-2.8%	0.8%
Escorts Kubota	23,763	2.3%	-7.6%
Hero MotoCorp	15,19,684	7.3%	-1.0%
Mahindra & Mahindra	3,24,420	7.7%	-2.6%
Maruti Suzuki	5,41,550	-1.9%	3.8%
Tata Motors (ex-JLR)	2,15,034	-12.4%	-8.1%
TVS Motor Company	12,28,223	14.3%	13.0%

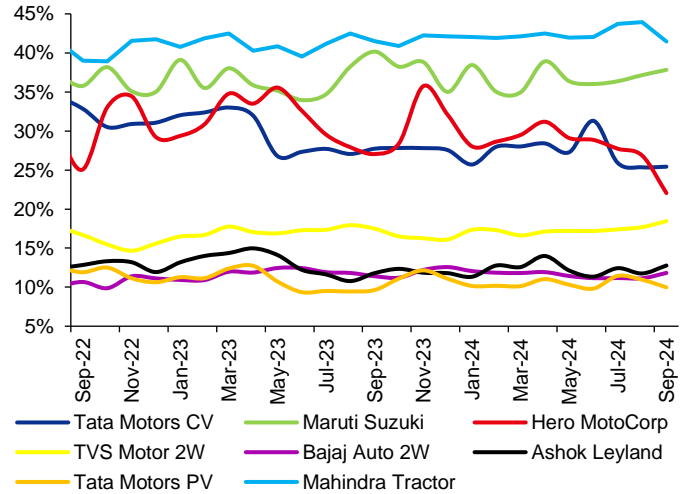
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Retail sales of various vehicle segments



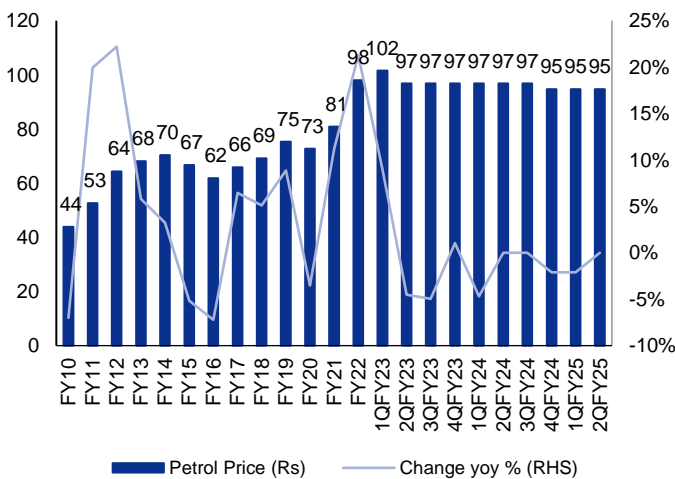
SOURCE: VAHAN, INCRED RESEARCH, COMPANY REPORTS

Figure 4: Retail market share trend



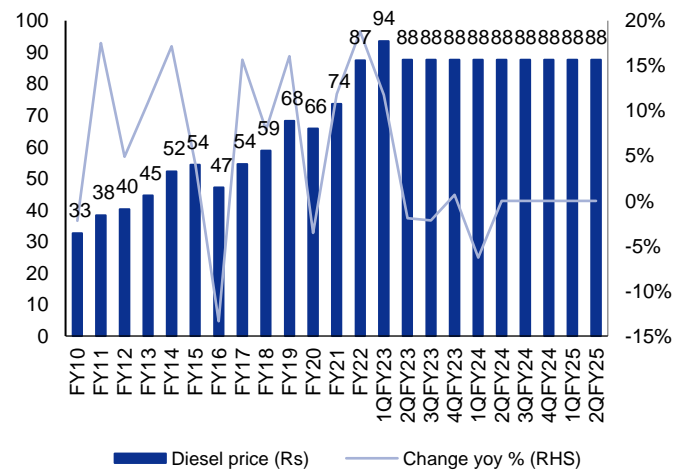
SOURCE: VAHAN, INCRED RESEARCH, COMPANY REPORTS

Figure 5: Petrol prices stable since last quarter (Rs/L)



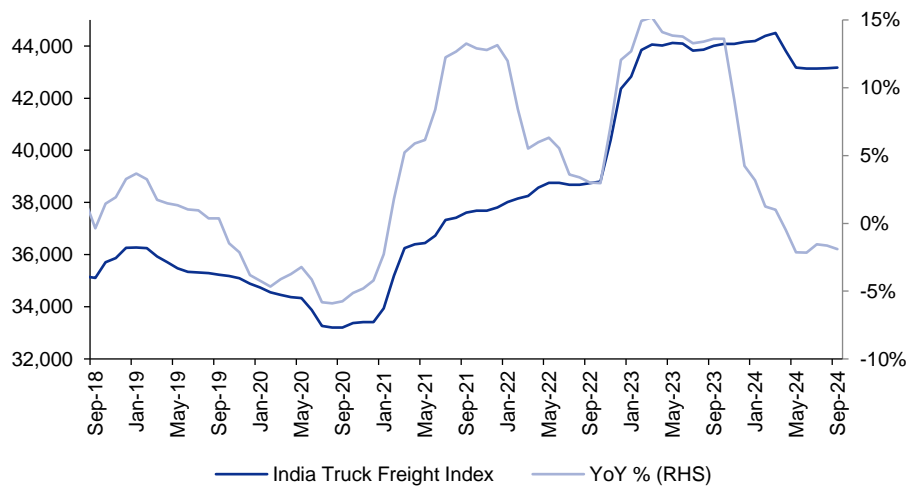
SOURCE: INDIAN OIL CORPORATION (IOC), INCRED RESEARCH

Figure 6: Diesel prices stable since last quarter (Rs/L)



SOURCE: INDIAN OIL CORPORATION (IOC), INCRED RESEARCH

Figure 7: Truck Freight Index weakening is a cause of concern



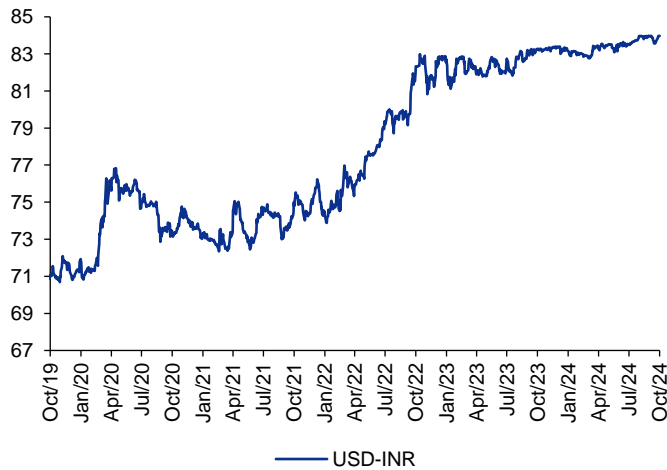
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 8: Currency trend for the Sep 2024 quarter

Average Rates	2QFY25	2QFY24	yoy (%)	1QFY25	qoq (%)
USD - INR	83.77	82.65	1.4%	83.42	0.4%
JPY - INR	0.56	0.57	-1.7%	0.54	5.1%
EUR - INR	92.00	89.97	2.3%	89.83	2.4%
USD - JPY	149.20	144.51	3.2%	156.03	-4.4%
GBP - USD	1.30	1.27	2.7%	1.26	3.0%
GBP - EUR	1.18	1.16	1.7%	1.17	1.0%

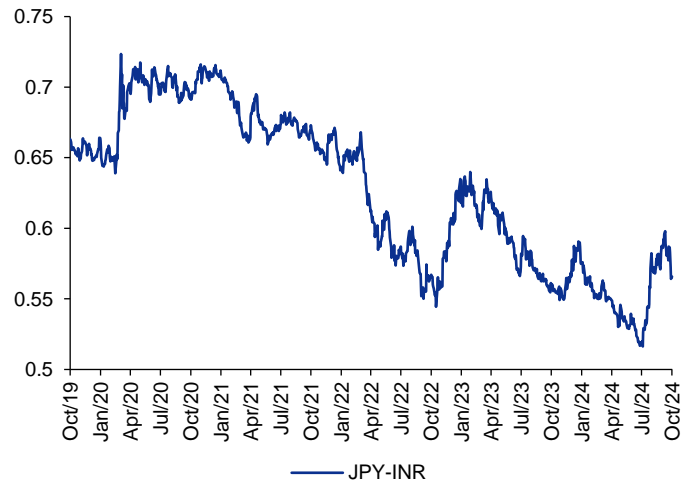
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 9: USD-INR currency trend is flattish



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 10: JPY-INR currency movement shows volatility



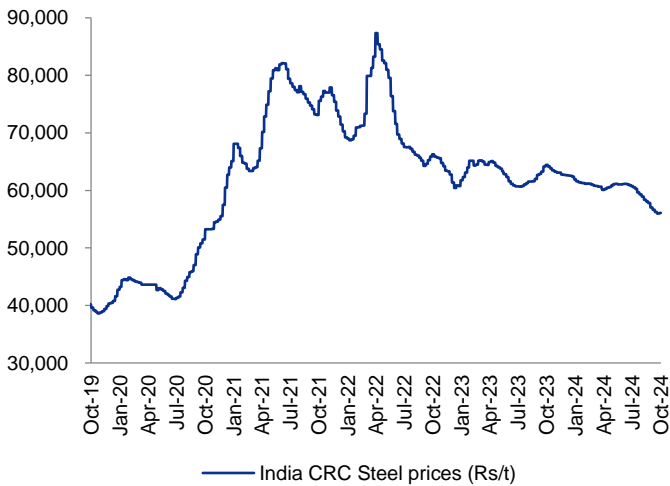
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 11: Easing trend in raw material prices

	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
CRC Steel (Rs/t)	58,401	61,791	-5.5	60,830	-4.0
Lead (US\$/t)	2,037	2,160	-5.7	2,167	-6.0
Rubber (Rs/kg)	227	149	51.8	189	20.0
Aluminium (US\$/t)	2,446	2,204	11.0	2,565	-4.6
Copper (US\$/t)	9,340	8,401	11.2	9,873	-5.4
Palladium (US\$/ounce)	970	1,251	-22.4	973	-0.3
Rhodium (US\$/ounce)	4,695	4,164	12.8	4,718	-0.5

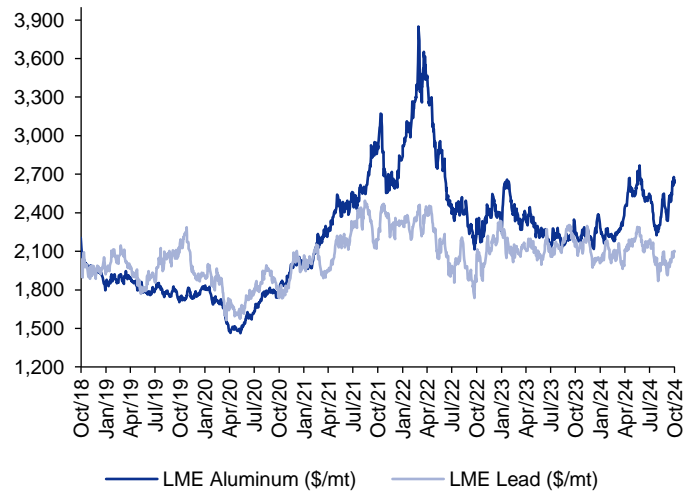
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 12: Steel prices soften



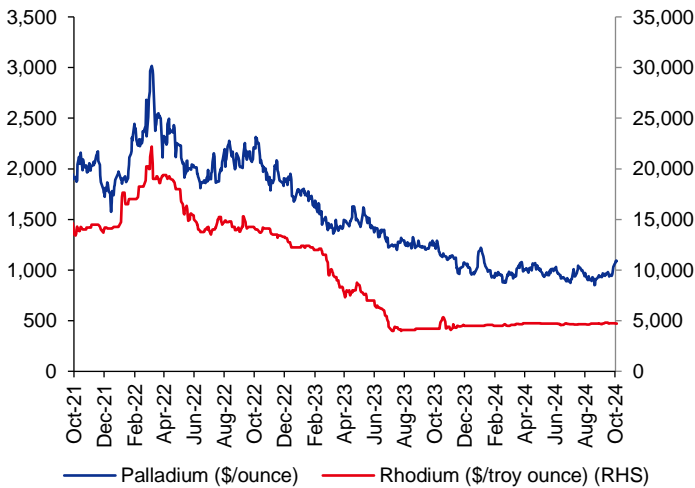
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 13: Aluminium and lead prices witness sequential uptick



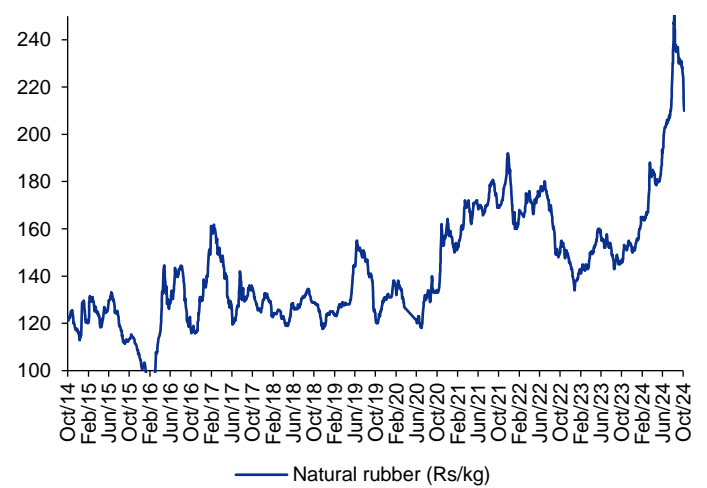
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 14: Palladium and rhodium prices stabilize



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 15: Natural rubber prices scale a new high, but ease from their peak



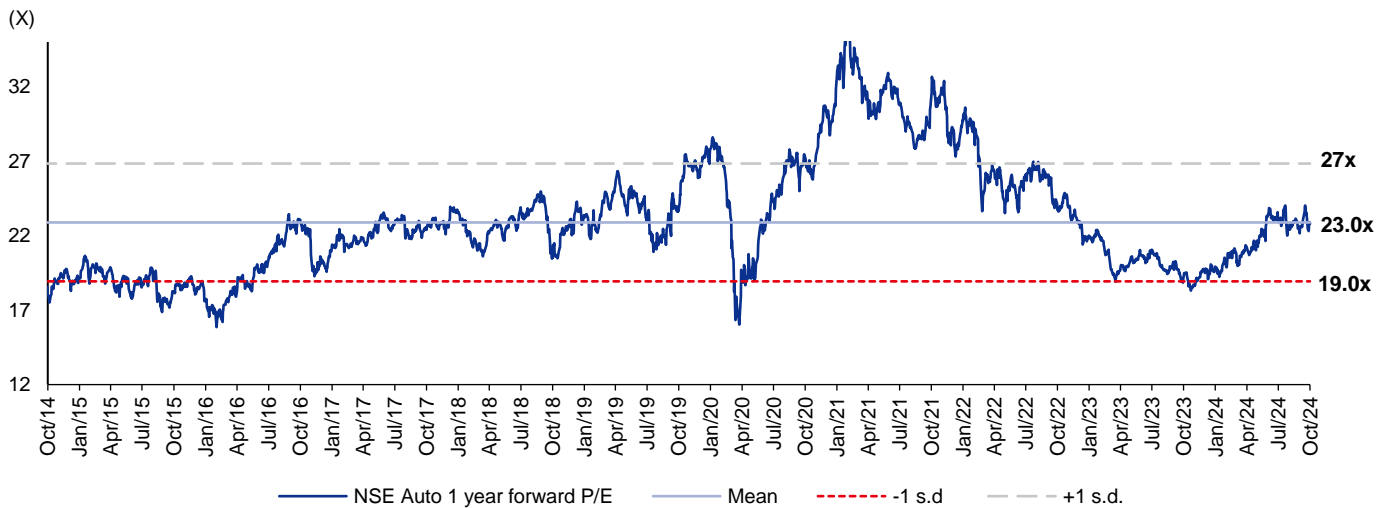
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 16: 2QFY25F earnings of our coverage universe and their comparison with Bloomberg consensus estimates

2QFY25F (Rs m)	Bloomberg Estimates				Bloomberg EBITDA Margin	InCred Research Estimates				InCred EBITDA Margins	% Variation		
	Revenue	EBITDA	PAT	EBITDA		Revenue	EBITDA	PAT	EBITDA		Revenue	EBITDA	PAT
Ashok Leyland	91,356	10,099	5,905		11.1%	86,453	10,201	5,898		11.8%	-5.7	1.0	-0.1
Bajaj Auto	1,31,939	26,840	21,908		20.3%	1,30,974	26,607	22,406		20.3%	-0.7	-0.9	2.2
Eicher Motors	44,129	11,730	11,047		26.6%	42,700	11,096	10,420		26.0%	-3.3	-5.7	-6.0
Escorts Kubota	22,120	2,661	2,608		12.0%	21,260	2,828	2,587		13.3%	-4.0	5.9	-0.8
Hero MotoCorp	1,02,283	14,936	11,608		14.6%	1,06,399	15,641	12,196		14.7%	3.9	4.5	4.8
Mahindra & Mahindra	2,69,145	37,770	35,786		14.0%	2,73,518	38,486	39,329		14.1%	1.6	1.9	9.0
Maruti Suzuki	3,74,212	46,948	36,385		12.5%	3,78,111	48,820	39,358		12.9%	1.0	3.8	7.6
Tata Motors	10,68,985	1,45,245	47,073		13.6%	10,17,931	1,68,847	49,874		16.6%	-5.0	14.0	5.6
Escorts Kubota	22,120	2,661	2,608		12.0%	21,260	2,828	2,587		13.3%	-4.0	5.9	-0.8
TVS Motor	92,675	11,035	6,849		11.9%	94,971	11,397	6,680		12.0%	2.4	3.2	-2.5
Apollo Tyres	64,482	9,672	3,702		15.0%	65,952	10,355	3,886		15.7%	2.2	6.6	4.7
Balkrishna Industries	24,268	5,843	3,505		24.1%	25,740	6,435	3,983		25.0%	5.7	9.2	12.0
Bharat Forge	24,123	6,675	3,808		27.7%	22,910	6,186	3,713		27.0%	-5.3	-7.9	-2.5
Bosch Ltd.	43,751	5,589	5,042		12.8%	46,800	6,271	5,078		13.4%	6.5	10.9	0.7
Endurance Technologies	29,346	3,898	2,091		13.3%	30,663	4,144	2,303		13.5%	4.3	5.9	9.2
Exide Industries	44,733	5,420	3,201		12.1%	45,577	5,469	3,202		12.0%	1.9	0.9	0.0
SAMIL	2,89,972	28,378	9,334		9.8%	2,89,672	27,809	9,906		9.6%	-0.1	-2.0	5.8

SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 17: Forward P/E valuation remains above the 10-year mean level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 18: Valuations of companies in our automobile sector coverage universe

Company Name	Reco.	CMP Rs	Target Price Rs	Market Capital (Rs m)	Market Capital (US\$ m)	EPS (Rs)		P/E (x)		P/BV (x)		EV/EBITDA (x)	Dividend Yield (%)	Upside/Downside%	ROE FY25F
						FY25F	FY26F	FY25F	FY26F	FY25F	FY26F				
Maruti Suzuki	ADD	12,777	15,541	38,48,272	45,980	518	566	24.7	22.6	3.7	3.4	15.4	1.3%	21.6%	16.9%
Tata Motors	REDUCE	931	831	37,48,952	44,793	60	73	15.4	12.7	3.4	2.7	5.0	0.6%	-10.7%	24.3%
Hero MotoCorp	ADD	5,476	5,812	11,95,863	14,288	241	263	22.7	20.8	5.6	5.1	16.9	2.9%	6.1%	25.6%
Mahindra & Mahindra	HOLD	3,134	2,455	30,88,326	36,900	101	110	30.9	28.6	5.7	5.0	15.3	0.7%	-21.7%	19.9%
Escorts Kubota	REDUCE	3,938	3,064	4,30,928	5,149	107	124	36.8	31.8	4.3	3.8	31.4	0.5%	-22.2%	12.2%
Bajaj Auto	HOLD	11,877	9,811	33,05,631	39,496	331	377	35.9	31.5	11.6	10.2	27.8	1.7%	-17.4%	34.6%
Ashok Leyland	ADD	228	281	7,05,694	8,432	11	13	20.7	17.7	6.5	5.5	13.1	2.5%	23.3%	33.7%
Eicher Motors	REDUCE	4,728	4,086	13,29,331	15,883	153	166	30.9	28.5	6.9	6.0	25.1	1.2%	-13.6%	22.7%
TVS Motor	REDUCE	2,794	1,782	13,39,758	16,008	47	51	60.0	55.0	17.4	13.9	33.6	0.3%	-36.2%	28.9%
Endurance Technologies	ADD	2,343	2,549	3,38,688	4,047	65	85	35.9	27.7	5.8	4.9	21.1	0.5%	8.8%	17.2%
Balkrishna Industries	ADD	3,023	3,542	5,94,591	7,104	89	101	33.8	29.8	5.7	5.0	22.1	0.7%	17.2%	18.1%
Exide Industries	REDUCE	531	412	4,08,850	4,885	14	17	36.7	31.7	3.3	3.2	19.1	1.6%	-22.3%	9.2%
Bharat Forge	ADD	1,492	1,831	7,45,017	8,902	29	36	50.9	41.9	6.5	5.5	25.7	0.7%	22.7%	15.3%
Apollo Tyres	REDUCE	505	414	3,29,141	3,933	29	27	17.4	18.7	2.1	2.0	7.4	1.6%	-18.0%	12.7%
Bosch Ltd	REDUCE	38,487	26,302	10,23,332	12,227	661	733	58.2	52.5	8.9	8.5	37.9	1.2%	-31.7%	15.8%
SAMIL	HOLD	213	177	13,24,109	15,821	6	8	35.9	27.4	4.9	4.3	12.9	0.6%	-16.8%	14.5%

NOTE: VALUATION MULTIPLE OF M&M IS ADJUSTED FOR SUBSIDIARIES' VALUE OF RS638/SHARE  
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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<b>Recommendation Framework</b>	
<b>Stock Ratings</b>	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
<b>Sector Ratings</b>	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
<b>Country Ratings</b>	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.