India

Neutral *(no change)*

Highlighted Companies

Bajaj Auto

ADD, TP Rs9944, Rs8796 close

Leadership in the fast-growing E2W and E3W segments, with the least impact on corporate margin, provides comfort in respect of heathy dividend yield. The GST rate cut will revive its domestic sales. We maintain our ADD rating on the stock.

Maruti Suzuki

ADD, TP Rs14509, Rs14250 close

Better positioned to benefit from demand revival because of GST rate cut and easing interest rates. New SUV launch to help plug the product gap and revive market share. We maintain our ADD rating on the stock.

Tata Motors

REDUCE, TP Rs642, Rs700 close

Domestic market share challenges in car and CV segments to prolong, as the company's management focuses on profitability and IVECO merger. JLR's recovery has been delayed to CY26F. We maintain our REDUCE rating on the stock.

Summary Valuation Metrics

P/E (x)	Mar26-F	Mar27-F	Mar28-F
Bajaj Auto	26.7	23.4	20.9
Maruti Suzuki	27.8	24.5	21.9
Tata Motors	10.0	8.3	6.9

P/BV (x)	Mar26-F	Mar27-F	Mar28-F
Bajaj Auto	7.0	6.5	5.9
Maruti Suzuki	4.3	3.8	3.4
Tata Motors	1.9	1.6	1.3

Dividend Yield	Mar26-F	Mar27-F	Mar28-F
Bajaj Auto	2.6%	3.0%	3.4%
Maruti Suzuki	1.1%	1.3%	1.5%
Tata Motors	1.2%	0.0%	0.0%

Auto & Parts - Overall

GST beneficiaries post 1Q results review

- The 1Q EBITDA trend was mixed, with only 50% of the coverage companies beating our/Bloomberg consensus estimates. A few missed by a big extent.
- While the GST reduction hopes rise, the probability of it aiding demand revival is high in 2Ws & compact cars. Consensus EPS increase was marginal in 1Q.
- With Nifty auto sector forward P/E valuation rising to the 10-year mean, we remain selective & prefer 2W OEMs, & Maruti Suzuki in compact car segment.

1QFY26 performance

1QFY26 sales growth yoy was tough to come through for OEMs, while raw material costs and a tough pricing scenario led to continuation of gross margin pressure in the OEM segment (Fig. 4). However, better cost management led to driving home EBITDA beat for 50% of our OEM coverage universe. Most automobile component companies (70%) missed our EBITDA estimates. Bloomberg consensus EBITDA beat was seen in the case of almost half of the companies (48%) in our coverage universe. The major disappointment was in Samvardhana Motherson International or SAMIL, Balkrishna Industries, and Bharat Forge, who have a large global exposure.

Minor upgrades, but sharp EBITDA cut seen in consensus estimates

All hopes are on the festive period demand recovery, starting from the end of the current month. Company managements maintain industry volume outlook of mid-single digit growth for most segments. Based on 1Q results, Bloomberg consensus FY27F EBITDA upgrades have been minor and restricted to only Endurance Technologies, Mahindra & Mahindra or M&M and TVS Motor Company. However, a few companies witnessed a sharp 3-9% cut.

GST rate cut proposal provides demand revival hope in two-wheelers

Prime Minister Narendra Modii, on 15 Aug 2025, proposed reforms in the Goods and Services Tax or GST, with a plan to reduce the tax slabs to only 5% and 18%. This raises hopes of a sharp reduction in GST rates for the auto sector, as most products are in the 28% bracket (Fig. 7). We feel the GST on 2Ws, in all probability, will get reduced to 18% and based on demand sensitivity of the segment to prices, there can be revival of double-digit growth in the segment for the next two years. Entry-level cars have the second-best probability to get a cut, from 28% now. Companies in this segment having the highest exposure are Hero MotoCorp, TVS Motor Company, Bajaj Auto, and Maruti Suzuki. Sports utility vehicles or SUVs and tractors have a low probability of demand revival from GST cut.

Macroeconomic factors discounted quickly in auto index returns

The sharp rally in Nifty Auto Index recently (6% in one month and 16% in six months) provides a big outperformance to the broader index. This spike has raised Nifty Auto Index's forward P/E valuation to near the 10-year mean level. We maintain our Neutral sector rating, with a preference for the 2W segment (major beneficiary of GST cut), where we have an ADD rating on Bajaj Auto and Hero MotoCorp. In the car segment, we prefer Maruti Suzuki (ADD rating) over Hyundai Motor India and Tata Motors (REDUCE ratings). Recently, we downgraded Bharat Forge to HOLD (from ADD), as its global revenue will be impacted by a tariff-led slowdown.

Figure 1: Sales and gross margin performance of our coverage universe

(Rs m)	Revenue	YoY %	QoQ %	Gross Margin	YoY	QoQ
Ashok Leyland	88,394	3%	-25%	29.4%	152	(7)
Bajaj Auto	1,25,845	6%	4%	29.7%	(38)	(53)
Eicher Motors	50,418	15%	-4%	46.5%	(215)	6
Escorts Kubota	24,834	-3%	2%	31.9%	165	25
Hero MotoCorp	95,789	-6%	-4%	33.6%	99	(124)
Hyundai Motor India	1,64,129	-5%	-9%	29.3%	122	54
Mahindra & Mahindra	3,40,832	26%	9%	26.5%	(231)	(196)
Maruti Suzuki	3,84,136	8%	-6%	29.0%	(202)	(31)
Tata Motors	10,44,070	-3%	-13%	38.5%	(306)	(196)
TVS Motor Company	1,00,810	20%	7%	27.2%	22	(18)
Apollo Tyres	88,394	3%	-26%	46.1%	(143)	66
Balkrishna Industries	27,595	1%	-3%	58.8%	(157)	30
Bharat Forge	21,047	-10%	-3%	59.7%	307	90
Bosch Ltd	47,886	11%	-2%	34.5%	520	305
Endurance Technologies	33,189	17%	12%	42.7%	62	(85)
Exide Industries	45,098	5%	8%	34.3%	15	(40)
SAMIL	3,02,120	5%	3%	43.6%	17	68

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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GST beneficiaries post 1Q results review

Gross and EBITDA margin trends in 1QFY26

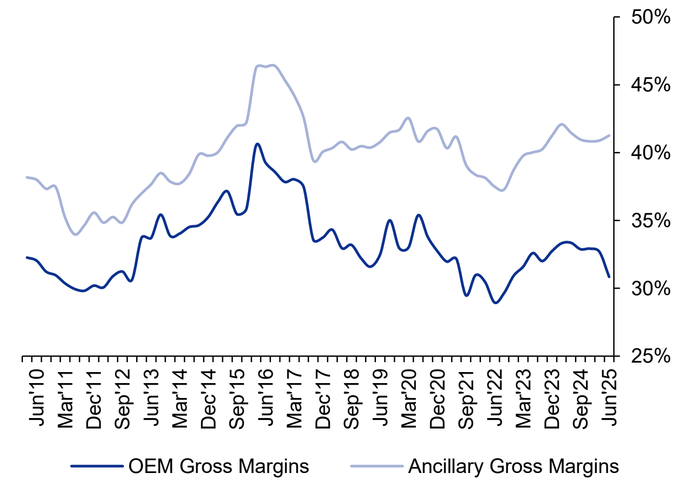
1QFY26 sales growth yoy was tough to come through for OEMs, except for a double-digit growth witnessed in Eicher Motors, M&M and TVS Motor Company. The gradual uptick in raw material costs and a tough pricing scenario led to continuation of qoq gross margin pressure in the OEM segment. However, better cost management led to driving home the EBITDA beat in around 50% of our OEM coverage universe. Most auto ancillary companies (70%) missed our EBITDA estimates. Bloomberg consensus EBITDA beat was seen in most companies (77%). The major disappointment was in SAMIL, Balkrishna Industries, and Bharat Forge, missing our expectations as well.

Figure 2: 1QFY26 results analysis versus our and Bloomberg consensus expectations

(Rs m)	Revenue	YoY%	QoQ%	EBITDA	YoY%	QoQ%	Adjusted PAT	YoY%	QoQ%	INCRED EBITDA miss/ beat	INCRED EPS miss/ beat	Bloomberg EBITDA miss/ beat	Bloomberg EPS miss/ beat
Ashok Leyland	88,394	3%	-26%	9,900	9%	-45%	6,413	22%	-49%	0.0%	0.0%	0.6%	6.0%
Bajaj Auto	1,25,845	6%	4%	24,818	3%	1%	20,960	6%	2%	-3.0%	-0.6%	1.2%	3.0%
Eicher Motors	50,418	15%	-4%	12,028	3%	-4%	12,052	18%	-12%	-2.7%	-0.5%	0.4%	4.9%
Escorts Kubota	24,834	-3%	2%	3,250	3%	11%	3,726	40%	49%	6.3%	41.5%	1.7%	26.7%
Hero MotoCorp	95,789	-6%	-4%	13,817	-5%	-2%	11,257	0%	4%	3.1%	5.3%	0.1%	4.8%
Hyundai Motor India	1,80,399	-6%	-6%	21,852	-7%	-14%	13,692	-8%	-15%	4.7%	3.8%	7.0%	8.0%
Mahindra & Mahindra	3,40,832	26%	9%	48,840	21%	4%	35,981	38%	14%	5.0%	20.4%	-0.9%	19.9%
Maruti Suzuki	3,84,136	8%	-6%	39,953	-11%	-6%	37,117	2%	0%	-10.9%	3.0%	4.7%	17.8%
Tata Motors	10,44,070	-3%	-13%	1,22,400	-33%	-35%	35,590	-32%	-60%	-4.8%	-1.0%	16.3%	-10.4%
TVS Motor Company	1,00,810	20%	7%	12,630	32%	8%	7,509	37%	8%	8.0%	8.7%	2.3%	-0.9%
Apollo Tyres	65,608	4%	2%	8,677	-5%	4%	3,830	12%	26%	-3.1%	13.3%	0.2%	27.7%
Balkrishna Industries	27,595	1%	-3%	6,568	-8%	-5%	2,876	-40%	-21%	-10.6%	-36.6%	-8.0%	-32.9%
Bharat Forge	21,047	-10%	-3%	5,718	-12%	-7%	3,385	-18%	-7%	-5.8%	-10.0%	-6.2%	-3.5%
Bosch Ltd.	47,886	11%	-2%	6,393	23%	-1%	5,594	20%	1%	4.5%	7.4%	5.5%	11.0%
Exide Industries	45,098	5%	8%	5,482	11%	17%	3,205	15%	26%	-0.3%	0.0%	2.7%	5.9%
Endurance Technologies	33,189	17%	12%	4,439	19%	5%	2,264	11%	-3%	4.1%	-5.0%	2.3%	-2.6%
SAMIL	3,02,120	5%	3%	24,583	-11%	-7%	7,426	-25%	-29%	-14.0%	-27.9%	-8.8%	-19.1%

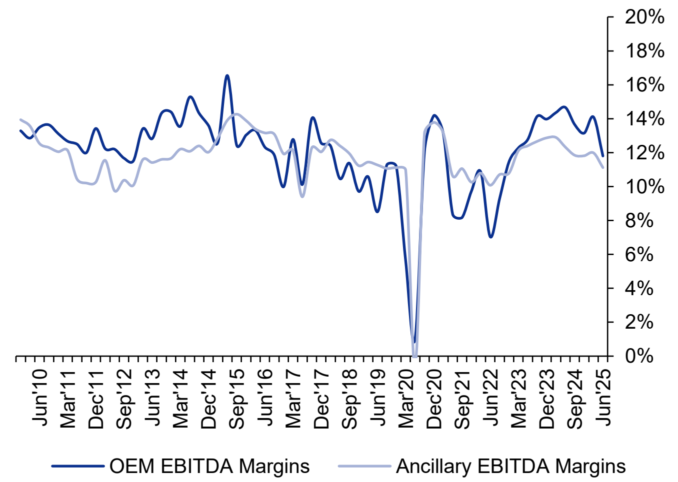
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Industry's gross margin eases from its peak



SOURCE: ACE EQUITY, INCRED RESEARCH, COMPANY REPORTS

Figure 4: Industry EBITDA margin declines



SOURCE: ACE EQUITY, INCRED RESEARCH, COMPANY REPORTS

Bloomberg consensus EBITDA/EPS upgrades/downgrades

Marginal FY27F Bloomberg consensus EBITDA upgrades were seen in M&M and TVS Motor Company, while major downgrades were witnessed in the case of Tata Motors and Eicher Motors in the OEM segment. In the auto component segment, major upgrade was seen in Endurance Technologies, while major downgrades were witnessed in the case of Apollo Tyres, Bharat Forge, and SAMIL. The common thread for EBITDA downgrade has been global business exposure to tariff-led uncertainty.

Figure 5: Bloomberg consensus estimate changes for Jun-Aug 2025; most companies witness a downgrade in FY27F EBITDA

Bloomberg Consensus Estimates	FY26F EPS (Rs)		FY26F EPS change %	FY27F EPS (Rs)		FY27F EPS change %	FY26F EBITDA (Rs m)		FY26F EBITDA change %	FY27F EBITDA (Rs m)		FY27F EBITDA change %
	01-Jun-25	18-Aug-25		01-Jun-25	18-Aug-25		01-Jun-25	18-Aug-25		01-Jun-25	18-Aug-25	
Ashok Leyland	5.9	6.0	1.3%	6.6	6.7	1.5%	53,712	53,601	-0.2%	59,206	59,013	-0.3%
Bajaj Auto	338.3	333.2	-1.5%	382.7	374.7	-2.1%	1,14,877	1,12,948	-1.7%	1,30,743	1,28,182	-2.0%
Eicher Motors	183.5	183.7	0.1%	207.8	207.2	-0.3%	53,309	52,339	-1.8%	60,597	59,305	-2.1%
Escorts Kubota	108.2	116.0	7.2%	128.7	129.5	0.6%	13,873	13,608	-1.9%	16,095	15,826	-1.7%
Hero MotoCorp	247.3	245.2	-0.8%	264.6	268.2	1.4%	64,341	63,489	-1.3%	70,313	69,522	-1.1%
Hyundai Motor India	71.2	72.1	1.2%	84.8	85.3	0.6%	95,152	94,894	-0.3%	1,11,778	1,11,771	0.0%
Mahindra and Mahindra	116.2	116.8	0.5%	129.6	131.3	1.3%	1,95,451	1,95,942	0.3%	2,19,557	2,20,672	0.5%
Maruti Suzuki	499.5	496.7	-0.6%	561.8	559.9	-0.4%	1,96,426	1,91,623	-2.4%	2,22,962	2,20,194	-1.2%
Tata Motors	60.3	53.1	-12.0%	73.2	64.5	-11.9%	5,60,818	5,07,406	-9.5%	6,43,359	5,84,425	-9.2%
TVS Motor Company	69.6	69.8	0.3%	83.2	83.3	0.1%	52,871	53,194	0.6%	61,620	62,025	0.7%
Apollo Tyres	27.8	26.3	-5.1%	33.7	32.4	-4.0%	41,683	40,500	-2.8%	46,768	45,390	-2.9%
Balkrishna Industries	96.7	91.2	-5.7%	109.8	107.6	-1.9%	28,908	28,210	-2.4%	32,207	32,002	-0.6%
Bharat Forge	28.6	27.3	-4.6%	37.8	35.8	-5.2%	29,713	28,854	-2.9%	35,335	34,296	-2.9%
Bosch Ltd	785.8	829.5	5.6%	882.5	901.3	2.1%	26,604	26,705	0.4%	30,037	30,180	0.5%
Endurance Technologies	72.6	73.5	1.3%	86.6	89.1	3.0%	18,679	19,090	2.2%	21,633	22,429	3.7%
Exide Industries	14.7	15.0	1.6%	16.5	16.5	0.3%	21,839	22,123	1.3%	24,120	24,095	-0.1%
SAMIL	4.4	4.0	-8.4%	5.4	5.1	-4.9%	1,19,751	1,14,179	-4.7%	1,35,197	1,31,338	-2.9%

SOURCE: BLOOMBRG, INCRED RESEARCH, COMPANY REPORTS

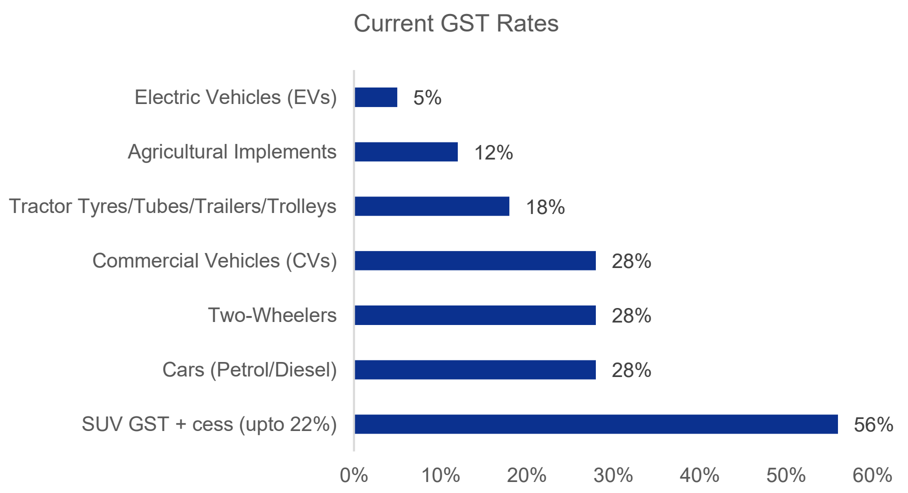
GST change benefit and management outlook

Demand outlook ➤

- Management commentaries dwelt on the government's income-tax rate relief and RBI repo rate cuts leading to better festive season-led demand in rural India. Early monsoon impacted dealer footfalls and enquiries in Jun 2025, which, managements expect, will improve around the festivals. On the demand front, the early festive season this year is expected to be followed by a healthy marriage season in the Dec 2025F quarter.
- Company managements are not concerned about finance availability and systemic non-performing assets or NPAs as of now. The marginal hikes seem to be seasonal and should improve in 2HFY26F.
- The export outlook provided by OEMs is in strong double digits for FY26F. However, auto component makers are still evaluating the global tariff war-led impact and adjustment of supply chains for this major event.
- The GST rate slab revamp plan has raised hopes of a sharp vehicle price reduction around Oct 2025F. This will disturb sales conversion in the short-term, as customers expect a big price cut of 8-15% later (around Oct 2025F) while there will be also challenges for OEMs to build inventory for the festive season-led rush.
- The automobile sector accounts for an impressive 16% of total GST collections. Therefore, cutting GST across various products, we feel, will be a big revenue loss for the Government of India, which is already struggling on the income-tax and corporate tax growth front. 2Ws definitely deserve a GST cut. The challenge will be a reduced price gap between electric vehicles or EVs and ICE vehicles, leading to a slowdown in EV sales in the short term.
- Cars at the entry level fit the bill for GST cut from 28% to 18% (as they have been shrinking as a segment for the last five years), but the details about engine and body size classification terms will be a key thing to watch out for the beneficiaries. SUVs and premium cars have a varying cess rate of 1-22%, which have limited merit to classify for a cut (as they continued to grow last few years) and so should have the lowest probability to get a cut, or the extent of the cut to be minimal.
- For the tractor segment, the abolition of the 12% slab will push it down to the 5% slab. However, it will demand that components also should be pushed down to the 5% slab to neutralize on input credit or else the benefit will be much lower than the 5-7% product price cut expectation.
- In tyres, the car tyre segment at a 28% slab getting a favourable treatment to 18% can drive good replacement demand growth, as it's a price-sensitive segment, while for others the GST rates range from 12-28% and the demand will be utility-based rather than on price sensitivity.

- The next six weeks will be choppy. For GST cut-realized segments, the Diwali festival-related spike will more than compensate for short-term loss. For others, the incentives may have to be increased in the Dec 2025F quarter to clear the inventory.
- We feel that more than a 5% cut in GST results in better pricing power for OEMs, leading to better price hikes from Jan 2025F to reinforce profitability, especially in the car segment.

Figure 6: GST rates in India for various vehicle categories and components



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Company-wise management commentary

- **Ashok Leyland**: Management expects the domestic MHCV volume to grow at a mid-single digit rate in FY26F, with domestic LCV volume likely to grow slightly higher, supported by a stronger 2HFY26F driven by new product launches, increased capex, healthy freight rates, and potential easing in steel costs. The MHCV market share increased from 29.8% in 1QFY25 to 32.1% in 1QFY26, while the LCV share expanded by 120bp yoy to 12.9%. The non-CV business revenue grew by 8% yoy, power solutions revenue rose by 29% yoy, and the defence equipment order book stood at Rs10bn, with Rs20bn worth of tenders won.
- **Apollo Tyres**: Strong topline growth is expected in India, driven by the replacement segment, and also in Europe. In 2HFY26F, infrastructure and mining activity post-monsoons is likely to further support domestic growth. The endeavour is to post 15% margin in the medium term. The overall volume growth was flattish YoY. Growth in the commercial vehicle or CV OEM segment was driven by pre-purchases ahead of the government's air-conditioning mandate, while the car OEM segment saw a decline. The replacement segment performed in line with the industry, with high single-digit growth expected going ahead. In the replacement segment, TBR (truck & bus radial tyre) volume grew in mid-single digits, outperforming the market, while PCR (passenger car radial tyre) replacement volume grew in low single digit, slightly lagging the market.
- **Bajaj Auto**: Management indicated short-term rare earth material supply challenges impacting the production of Chetak scooter by 50% and electric three-wheelers or E3Ws by 25% in 2QFY26F. Bajaj Auto will be launching its E-rick later this month and gradually scale up. Management indicated that the EV portfolio is inching towards a double-digit EBITDA margin in 2QFY26F with the help of government incentives. Management indicated its constructive dialogue with the Government of India on ABS norms implementation, for which alternative technology/cost solution are at the discussion stage. KTM exports have restarted, which traditionally accounted for 5% of Bajaj Auto's total exports.

InCred Equities

- **Balkrishna Industries**: Europe witnessed a 20% yoy decline due to weak economic sentiment and higher input costs affecting farmer sentiment. The company does not source machinery or direct raw materials from Russia, minimizing the impact of EU sanctions on Russia. In the US, the current 10% tariff is shared to the extent of 60% by customers and 40% by the company, and the expected reduction to 5% in the near future will enhance competitiveness. The capital expenditure plans, including Rs35bn over the next three years for carbon black, PCR tyres, and CVR tyres are progressing as per schedule. The company is entering the premium and radial categories in the PCR and TBR tyre segments to maintain margins, leveraging operational advantages. Commercial production of TBR and PCR tyres is expected to commence in Jun/Jul 2026F, respectively.
- **Bharat Forge**: Management gave guidance that 2QFY26F performance will be weak because of lower US exports and seasonality. Management remains optimistic that 2HFY26F will be better than 1H, driven by the defence equipment order book execution and new opportunities. Commercial vehicle (CV) parts exports to Europe saw some revival, after the lows witnessed last year, while North American commercial vehicle or CV parts revenue saw a decline due to a pause to the emission norm changes and the ongoing trade policy flux. Management indicated that it is discussing with its US clients (15% of standalone sales) for an amicable solution to the tariff barrier, as the US faces machining capacity shortage.
- **Bosch Ltd**: Management indicates that improved gross margin is a combination of product mix, localization and easing commodity costs. Export benefits are limited by weak end-market demand, tariff and logistic costs in the short term. The global economic environment remains volatile amid geopolitical conflicts, trade tariffs, and supply chain challenges. However, India continues to stand out with robust government infrastructure spending and easing inflation. HCVs seeing strong growth due to pre-purchases ahead of the mandatory air-conditioning regulation for truck cabins (effective 1 Oct 2025), which are expected to increase the costs by 1–2%. The bus segment is seeing strong growth supported by the PM eSewa. LCVs experienced a slight decline; passenger carriers stable, but goods carriers face challenges from a softening economy and competition from three-wheelers in the low-tonnage category.
- **Eicher Motors**: Management is bullish on festive demand, with new colour vehicle launches, marketing activations, and product alignments planned to drive momentum and is also cautiously optimistic about markets like ASEAN (e.g., Indonesia) and Brazil, prioritizing brand pull over aggressive distribution. In 1Q, the rural sales mix increased from 30% to ~50% of the total sales, driven by accessible products like Bullet, Classic, and Hunter. Enhanced financing support for rural dealers (575 dealers have signed up for floor financing) to boost festive season sales, in our view.
- **Endurance Technologies**: Management is excited about the opportunity from the mandatory 2W ABS (anti-lock braking system) regulation, to be effective from 2026. The company is expanding capacity by 40% to 0.84m units by Mar 2026F, based on initial customer enquiries. Considering the five-fold jump expected in the addressable market, management plans to double the market share to 25% in the coming years. New order wins for car brakes aids the company’s ambition to build its four-wheeler component portfolio. Exports are expected to improve from castings shipments to developed market customers, to parts shipments to JLR & China 2W OEMs.
- **Hero MotoCorp**: Management expects the retail 2W industry’s growth at 3.5% in 1QFY26 to improve during the festive season so as to achieve FY26F growth of 6%. During the quarter, its Vahan market share expanded by 100bp to 30.9%, and new launches are expected to drive market share further. Management expects the EBITDA margin to stay in the 14–16% range, with the near-term’s likely at the lower end; commodity cost pressure up 0.5% but remains range-bound. Current inventory stands at seven weeks and is expected to ease during the festive season. Export volume rose by 27% yoy,

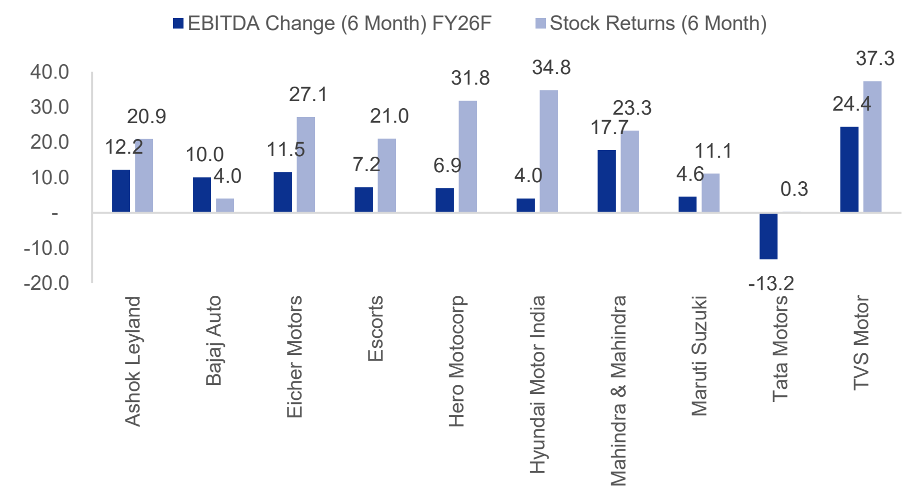
with strong momentum in the top-10 focus markets. Management is comfortable on its rare earth material supply chain to sustain volume.

- **Mahindra and Mahindra**: Management maintains its SUV industry growth guidance in mid- to high-teens for FY26F. Two new EV models are planned for launch in early 2026F, alongside aggressive facelifts of the existing models. The rural market sentiment remains strong, supported by an above-average monsoon season. The urban market sentiment is currently weak but is expected to improve in the coming festive season. Management expects increased competition to expand EV penetration. While the market share may be impacted, the overall volume growth is expected to remain strong. Government initiatives for EV charging infrastructure to aid further growth.
- **Maruti Suzuki**: The company is entering the electric vehicle or EV market with the E-Vitara, built on a dedicated BEV platform for superior performance. The company is setting a new paradigm with a comprehensive Eco Solution—home chargers with every vehicle, fast chargers every 5-10km in the top 100 high-sales cities, 24x7 roadside assistance, and EV-ready workshops in 1,000 cities. Exports have already started and there are plans to cover 160 countries to gain scale and emerge as the largest EV maker of India by FY31F.
- **SAMIL (Samvardhana Motherson International)**: Management expects a recovery in 2HFY26F aided by seasonality and cost measures yielding benefit. Dynamic production environment led by US tariff changes, with forex volatility impacting the supply chain. Emerging markets drove the growth, while developed markets declined 4% YoY. European OEMs are still finalizing their powertrain strategies; SAMIL is ahead of the curve, catering to almost all powertrains. A recent acquisition is expected to yield benefits over the next two quarters; 2Q and 3QFY26F likely to deliver stronger results. US tariff impact: Most of the production is localized for SAMIL in the US; in discussions with its customers to partially pass on the tariff costs on a few parts sourced from outside. Exports from India to the US were below US$10m in 1QFY26. No impact on the consumer electronics business from the current US tariff, as electronics are exempted for now; new facilities to support business from mid-FY27F.
- **Tata Motors**: Management highlighted its full provision for JLR tariff in 1Q impacting margins, while China luxury tax is yet to be absorbed, but maintained JLR's FY26 EBIT margin guidance of 5–7% with a medium-term target of 10%. Demand revival is expected in 2QFY26F for CVs and cars during the coming festive season, while the free cash flow guidance is close to zero for FY26F, improving in FY27F–28F with £1.4bn annual enterprise mission benefits (excluding tariff offsets). North America witnessed a disruption due to US tariffs and shipment pauses, although the strong dealer inventory helped to partially offset the impact. Europe delivered a solid quarter, despite Jaguar-related constraints. China continued to struggle due to the newly introduced 10% luxury tax and broader demand headwinds. MENA (Middle East and North Africa) and other overseas markets performed well and have now been split for focused tracking.
- **TVS Motor Company**: The above-normal monsoon season is expected to boost rural demand in 2HFY26F and 2Q is expected to show strong growth driven by the festive season in both domestic and international markets. Demand is stabilizing in Africa with growth opportunities, and TVS Motor Company is targeting market share gains in the Latam region, and Asia witnessing growth in Sri Lanka and Nepal, with a further recovery expected in Sri Lanka in 2QFY26F. Domestic ICE two-wheelers sales grew by 8% yoy, despite the overall industry decline. International sales maintained their strong momentum, up 21% yoy, with exports touching a record 0.37m units, driven by robust demand.

Stock performance and valuations

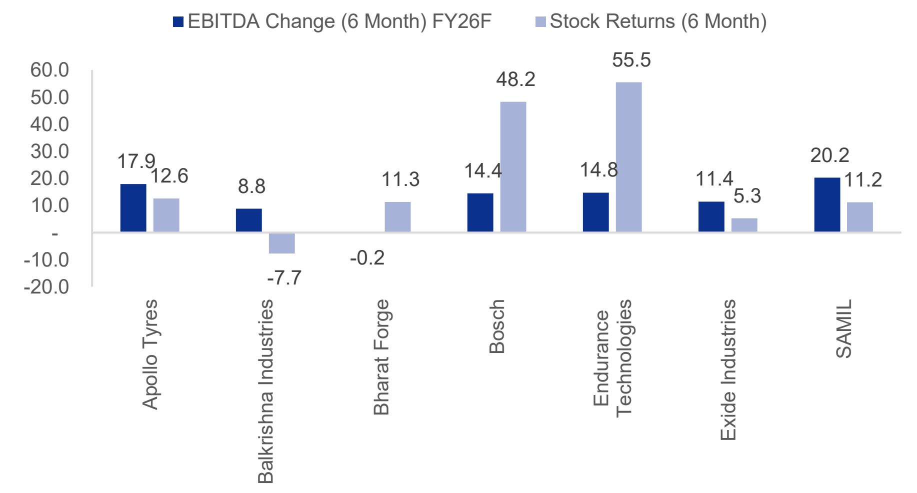
The sharp rally in the Nifty Auto Index from its recent lows (14% in three months and 5% in one month) is an outperformance of 200bp to the broader indices like Nifty-50 and Nifty-100. The momentum recently has been broad-based across the OEM and component segments. Improvement in the macroeconomic factors seems to be driving an improved allocation to the sector, like above-average rainfall outlook and easing global crude oil prices, while individual company management commentary is still cautious on the demand and margin outlook. The major underperformers on a three-month basis have been Balkrishna Industries, Maruti Suzuki, and Hyundai Motor India. Based on recent consensus EBITDA changes vs. stock price movements (excluding the corporate event impact), we feel M&M (HOLD) and Ashok Leyland (ADD) provide comfort. The double-digit rally in the Nifty Auto Index has lifted forward P/E valuation to close to the 10-year mean level. We maintain our Neutral rating on the sector.

Figure 7: FY26F BB consensus EBITDA changes vs. six-month price performance of OEMs; excess stock reaction is in Hyundai Motor India and Hero MotoCorp; Bajaj Auto and Maruti Suzuki provide value



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 8: FY26F EBITDA changes vs. six-month price performance of auto component companies; the value in lies in ApolloTyres, Exide Industries, and SAMIL



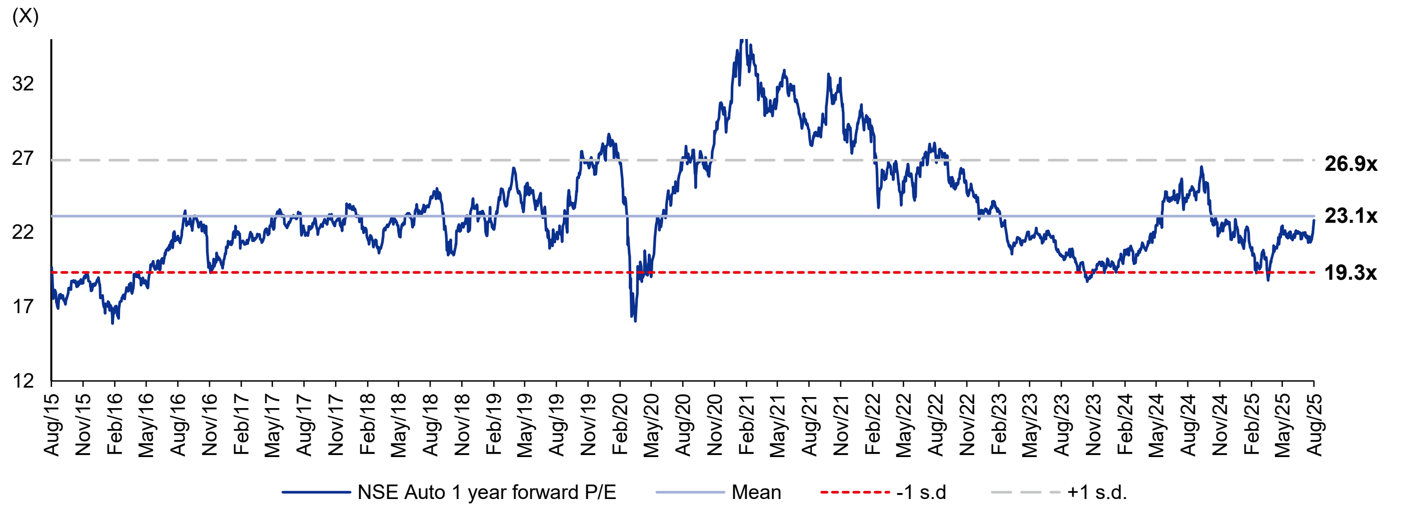
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 9: Valuation summary of our coverage universe

Company Name	Rating	Price	Target Price	Market Cap.	Market Cap.	EPS (Rs)		P/E (x)		P/BV (x)		EV/EBITDA (x)	Dividend Yield (%)	Upside/ Downside%	ROE
		Rs	Rs	(Rs m)	(US$ m)	FY26F	FY27F	FY26F	FY27F	FY26F	FY27F	FY26F	FY26F		FY26F
Maruti Suzuki	ADD	14,044	14,509	39,29,686	45,972	513	582	27.4	24.1	4.2	3.8	16.4	1.1%	3.3%	17.1%
Tata Motors	REDUCE	678	642	26,01,884	30,439	69	83	9.8	8.1	1.8	1.5	3.7	1.2%	-5.3%	20.0%
Hero MotoCorp	ADD	4,992	5,231	8,78,461	10,277	255	280	19.6	17.8	4.7	4.4	11.1	3.6%	4.8%	24.8%
Mahindra & Mahindra	HOLD	3,397	3,254	34,59,836	40,475	122	129	27.8	26.3	5.3	4.6	14.0	0.8%	-4.2%	20.4%
Escorts Kubota	REDUCE	3,621	3,098	3,71,125	4,342	106	122	34.2	29.8	3.3	3.0	26.4	1.0%	-14.4%	11.9%
Bajaj Auto	ADD	8,582	9,944	23,11,750	27,044	329	376	26.1	22.8	6.9	6.3	18.6	2.7%	15.9%	27.4%
Ashok Leyland	ADD	132	139	3,65,617	4,277	6	8	20.9	17.3	5.9	5.1	6.5	2.7%	5.7%	30.0%
Eicher Motors	HOLD	5,922	5,652	15,26,381	17,857	175	195	33.9	30.4	7.5	6.7	26.3	1.3%	-4.6%	22.4%
TVS Motor	REDUCE	3,227	2,328	13,70,806	16,037	63	67	51.4	48.5	12.3	10.2	27.5	0.3%	-27.9%	26.7%
Endurance Technologies	ADD	2,798	3,041	3,79,368	4,438	77	89	36.2	31.3	5.9	5.1	18.4	0.4%	8.7%	17.6%
Hyundai Motors India	REDUCE	2,402	1,612	17,17,380	20,091	72	75	33.6	31.9	9.7	8.2	18.4	1.0%	-32.9%	17.6%
Balkrishna Industries	REDUCE	2,452	2,400	5,10,892	5,977	86	98	28.4	25.1	4.0	3.6	19.3	0.7%	-2.1%	15.1%
Exide Industries	REDUCE	378	349	3,27,208	3,828	14	17	26.2	22.7	2.2	2.1	15.0	2.4%	-7.6%	8.4%
Bharat Forge	HOLD	1,193	1,209	5,74,798	6,724	25	31	46.9	38.2	4.5	4.1	21.5	0.8%	1.3%	11.1%
Apollo Tyres	REDUCE	462	378	2,88,748	3,378	23	29	20.1	16.1	2.5	2.3	7.3	1.5%	-18.1%	13.1%
Bosch Ltd	REDUCE	39,437	27,910	11,28,877	13,206	777	833	50.8	47.3	8.0	7.5	37.7	1.3%	-29.2%	16.1%
SAMIL	ADD	95	118	10,51,020	12,296	4	5	23.2	17.8	2.6	2.4	9.5	1.1%	24.6%	12.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: NSE Auto Index's one-year forward P/E is below the mean level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.

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.

Sector Ratings	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.

Country Ratings	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.