

India

Neutral (no change)

Highlighted Companies

Hero MotoCorp

ADD, TP Rs5810, Rs4044 close

Rural demand recovery due to good monsoons and government policies, aided by new vehicle launches, to drive the market share recovery that was witnessed during the Diwali festive season.

Maruti Suzuki

ADD, TP Rs14593, Rs11498 close

The product mix improving from CNG vehicles and exports to drive ASP and margin in the short term. Channel inventory fears ease. EV launch in CY25F to ease concerns over technology.

Tata Motors

REDUCE, TP Rs746, Rs751 close

Supply challenges at JLR and demand weakness/ inventory challenges in Indian market to impact the performance. Recent consensus EPS cut overlooked by rich P/BV valuation.

Summary Valuation Metrics

P/E (x)	Mar25-F	Mar26-F	Mar27-F
Hero MotoCorp	16.67	15.14	13.89
Maruti Suzuki	23.97	20.71	19.16
Tata Motors	12.25	9.99	8.98

P/BV (x)	Mar25-F	Mar26-F	Mar27-F
Hero MotoCorp	4.12	3.78	3.48
Maruti Suzuki	3.38	3.05	2.76
Tata Motors	2.63	2.13	1.72

Dividend Yield	Mar25-F	Mar26-F	Mar27-F
Hero MotoCorp	3.96%	4.45%	4.95%
Maruti Suzuki	1.39%	1.65%	1.75%
Tata Motors	0.83%	1.11%	0%

Auto & Parts - Overall

3QFY25 results preview

- Industry demand slowdown widens, as it spreads to segments like 2W in the Dec 2024 quarter vs. CVs since Mar 2024 & in cars from the Sep 2024 quarter.
- We expect 3Q EBITDA growth leaders to be tractor OEMs Escorts Kubota and Mahindra & Mahindra. Laggards will be car makers Tata Motors and Hyundai.
- Steep fall eases sector valuation to below the 10-year mean. There is a need for government intervention-led demand revival, which will be keenly watched.

Volume weakness spreads to new sectors in 3QFY25

The industry's dispatch volume growth in the Dec 2024 quarter eased sharply for two-wheelers (2Ws) while it improved for tractors, indicating a diverse trend in rural markets. While the relief in car sales was due to heavy ASP discounts, commercial vehicles (CVs) benefited from improving Government of India's infrastructure spending. Export recovery across segments provides comfort. The yoy volume growth was led by Eicher Motors, Mahindra & Mahindra (M&M) and Maruti Suzuki for the quarter while the laggards were Ashok Leyland and Hero MotoCorp. M&M's tractor segment, Tata Motors' CV segment & TVS Motor Company gained market share, while weakness was seen in the market share of Hero MotoCorp & Tata Motors' passenger vehicle division, which is an area of concern.

Commodity softness continues but falling INR is an area of concern

Raw material prices softened sequentially (mid-single digit), except for aluminium whose prices spiked 6% qoq, which can impact 2W makers' profitability. The US dollar's strength against the Indian rupee (INR) will hit importers in the coming quarters. EBITDA growth turns selective. We expect a double-digit yoy growth in EBITDA for original equipment manufacturers (OEMs) aided by festive season-led volume growth & lower commodity costs. The yoy growth high achievers will be M&M, Escorts Kubota and Ashok Leyland. Laggards will be Tata Motors and Hyundai Motor India. In our coverage universe's EBITDA estimates, we are above Bloomberg consensus in the case of Escorts Kubota, Hyundai Motor India and Balkrishna Industries. We are below consensus estimates in the case of Ashok Leyland, Exide Industries and Bharat Forge.

Demand stimulus needed to revive the sector's performance

The sharp correction in the Nifty auto index in the last few months, leading to a 13% drop in a period of six months, is worse than our expectation of a Neutral sector rating. However, recent months' outperformance vs. Nifty-50 index is reversing this excess correction. While valuation concerns are easing, as the Nifty auto index's forward P/E slips below the 10-year mean, concerns over demand weakness persist. 2W OEMs' steep stock price correction of 20+% in the last quarter, we feel, offers value, as they seem to be fast transitioning to lead the electric vehicle or EV space, with a minimal impact on profitability. We prefer Hero MotoCorp, Eicher Motors and Bajaj Auto in that order. We maintain our ADD rating on Maruti Suzuki as its bulging exports to benefit from INR depreciation. We prefer Ashok Leyland for cyclical CV segment demand revival.

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Figure 1: 3QFY25F estimates of our coverage universe

(Rs m)	Revenue	YoY%	QoQ%	EBITDA	YoY%	QoQ%	Adjusted PAT	YoY%	QoQ%
Ashok Leyland	85,232	-5.6%	-2.8%	10,143	27.2%	-0.3%	6,193	74.8%	-5.1%
Bajaj Auto	1,32,148	9.1%	0.7%	27,108	11.6%	2.2%	22,749	11.4%	2.6%
Eicher Motors	51,504	23.3%	20.8%	12,835	17.7%	18.0%	11,777	18.3%	7.0%
Escorts Kubota	27,035	16.5%	9.2%	3,650	16.7%	36.4%	2,966	7.0%	25.8%
Hero MotoCorp	1,02,370	5.3%	-2.2%	14,588	7.1%	-3.8%	11,061	9.1%	-8.1%
Hyundai Motor India	1,86,408	-2.4%	-2.9%	21,733	0.0%	-1.4%	14,575	2.3%	6.0%
Mahindra	3,10,352	22.7%	12.6%	45,642	40.8%	15.6%	30,717	25.2%	-18.8%
Maruti Suzuki	3,91,340	17.5%	5.2%	45,398	16.2%	2.8%	36,259	15.8%	-7.2%
Tata Motors	12,15,151	9.9%	19.8%	1,74,000	-3.7%	19.0%	57,041	-21.1%	99.7%
TVS Motor Company	94,431	14.5%	2.3%	10,860	17.5%	0.6%	6,238	19.9%	-5.9%
Apollo Tyres	68,105	3.3%	5.8%	11,033	-8.7%	25.7%	4,320	-15.6%	42.8%
Balkrishna Industries	25,900	11.8%	5.1%	6,553	11.6%	6.3%	3,865	25.0%	10.5%
Bharat Forge	22,680	0.2%	1.0%	6,237	-5.9%	-0.3%	3,729	-5.8%	7.3%
Bosch Ltd.	46,000	9.4%	4.7%	6,280	8.6%	12.0%	5,085	10.7%	4.3%
Endurance Technologies	29,886	16.7%	2.6%	3,951	32.1%	3.4%	2,123	39.4%	4.6%
Exide Industries	41,186	7.2%	-3.5%	4,736	7.7%	-2.1%	2,634	9.6%	-11.6%
SAMIL	3,02,876	17.9%	8.9%	27,259	15.0%	11.4%	9,225	12%	23.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

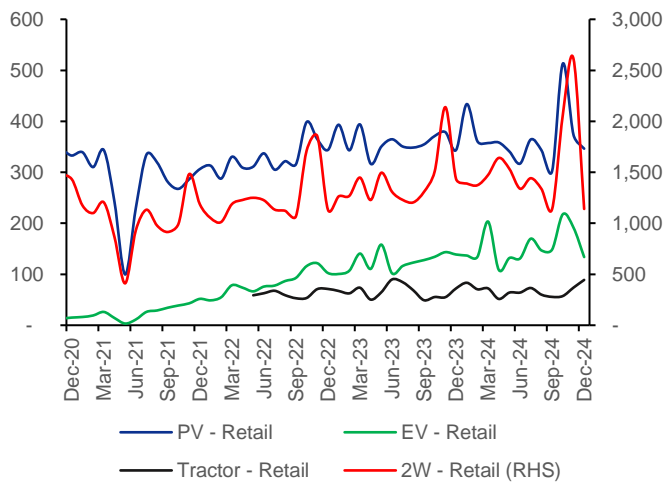
3QFY25 results preview

Figure 2: 3QFY25 sales volume performance of companies in our coverage universe

Company	3QFY25 Sales Volume	YoY%	QoQ%
Ashok Leyland	46,404	-7.0%	1.7%
Bajaj Auto	12,24,472	2.0%	0.2%
Eicher Motors	2,93,307	17.9%	18.0%
Escorts Kubota	32,556	10.2%	16.5%
Hero MotoCorp	14,63,802	0.3%	-3.7%
Mahindra & Mahindra	3,68,197	17.6%	13.5%
Maruti Suzuki	5,66,213	13.0%	4.6%
Tata Motors (ex-JLR)	2,51,718	8.5%	16.1%
TVS Motor Company	12,11,952	10.1%	-1.3%

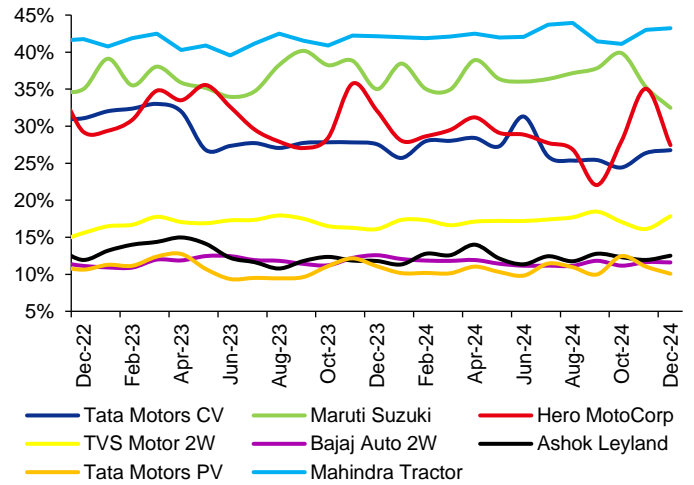
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Retail sales of various vehicle segments



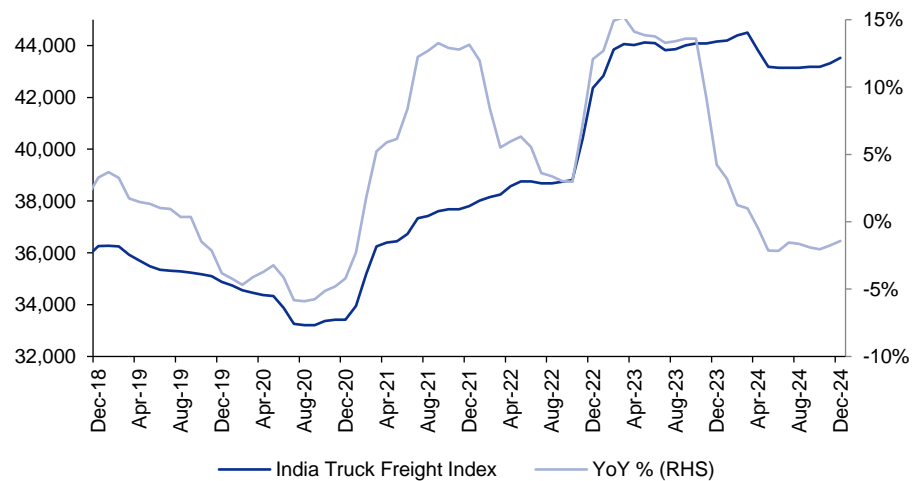
SOURCE: VAHAN, INCRED RESEARCH

Figure 4: Retail market share trend



SOURCE: VAHAN, INCRED RESEARCH

Figure 5: Truck Freight Index improvement shows the festive season-led movement



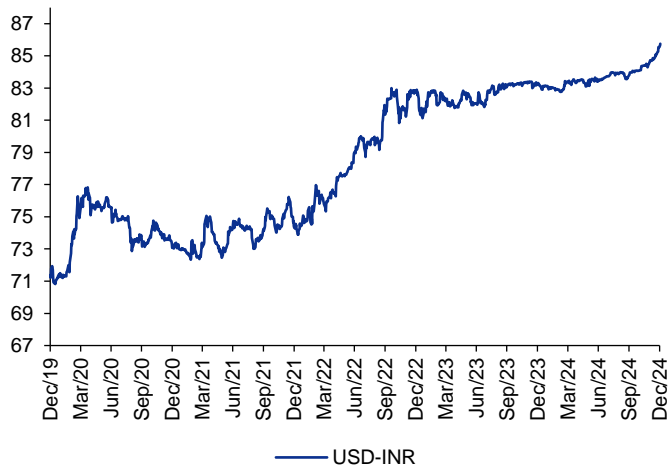
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 6: Currency trend for the Dec 2024 quarter

Average Rates	3QFY25	3QFY24	yoy (%)	2QFY25	qoq (%)
USD - INR	84.46	83.27	1.4%	83.77	0.8%
JPY - INR	0.55	0.56	-1.6%	0.56	-1.4%
EUR - INR	90.12	89.57	0.6%	92.00	-2.0%
USD - JPY	152.40	147.76	3.1%	149.20	2.1%
GBP - USD	1.28	1.24	3.2%	1.30	-1.5%
GBP - EUR	1.20	1.15	4.1%	1.18	1.5%

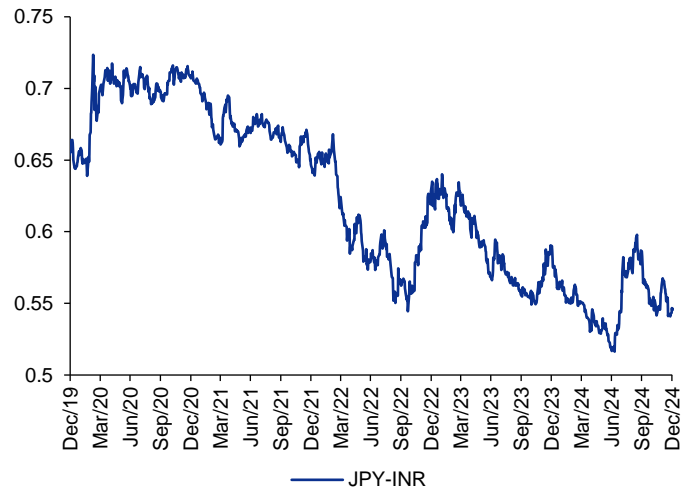
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 7: USD-INR currency movement on the rise



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: JPY-INR currency movement stable qoq



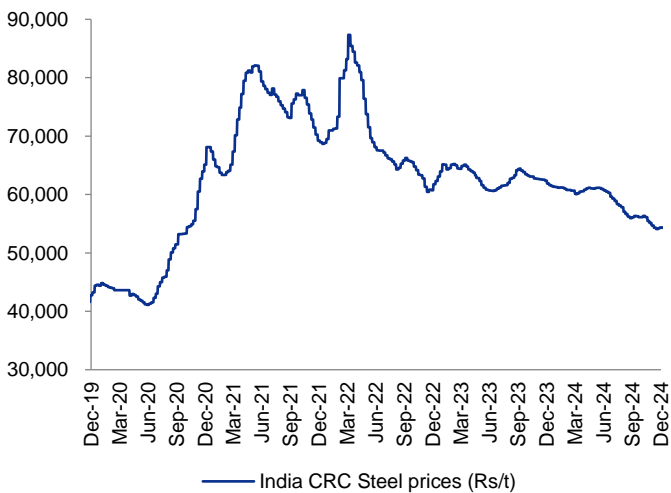
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Commodity price trend

	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)
CRC steel (Rs/t)	55,453	63,210	-12	58,401	-5
Lead (US\$/t)	2,005	2,125	-6	2,037	-2
Rubber (Rs/kg)	191	152	26	227	-16
Aluminium (US\$/t)	2,604	2,226	17	2,446	6
Copper (US\$/t)	9,318	8,249	13	9,340	0
Palladium (US\$/ounce)	1,014	1,087	-7	970	5
Rhodium (US\$/ounce)	4,656	4,488	4	4,695	-1

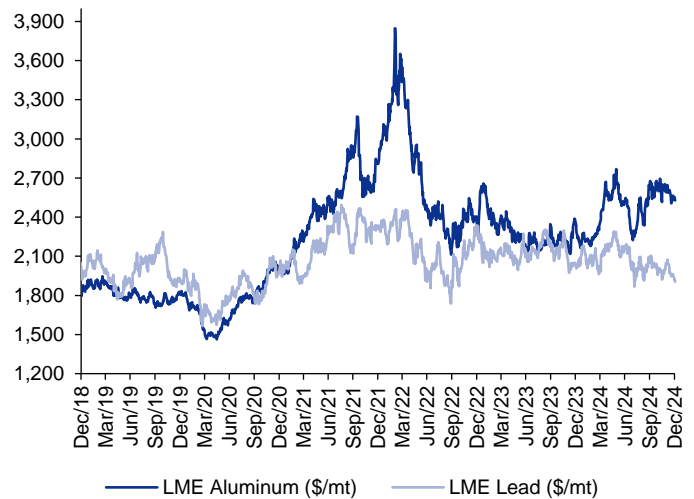
NOTE: PLATINUM GROUP METALS (PGM)
SOURCE: BLOOMBERG, STEEL MINT, INCRED RESEARCH

Figure 10: Steel prices continue to ease



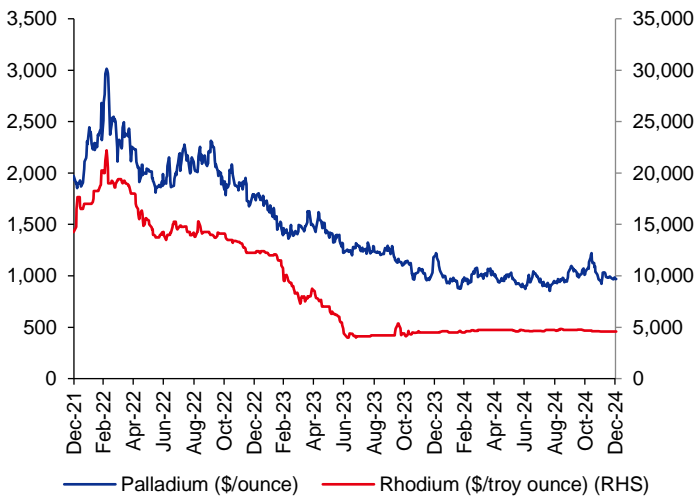
SOURCE: STEEL MINT, INCRED RESEARCH

Figure 11: Aluminum and lead price trends



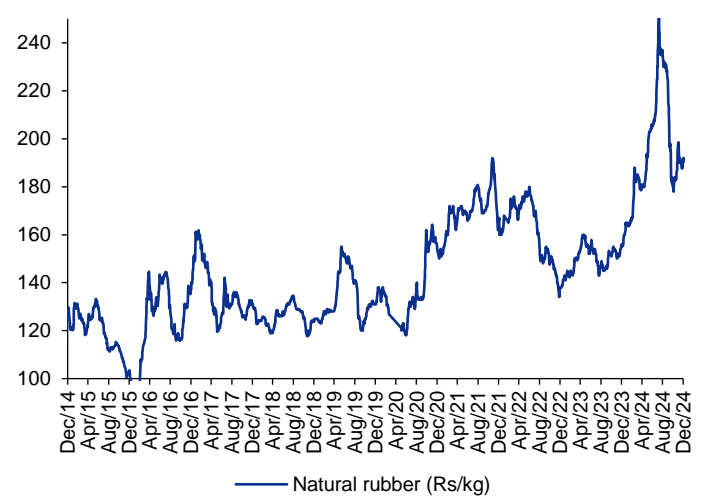
SOURCE: BLOOMBERG, LONDON METAL EXCHANGE, INCRED RESEARCH

Figure 12: Palladium and rhodium prices are stable



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 13: Natural rubber prices are on the decline, of late



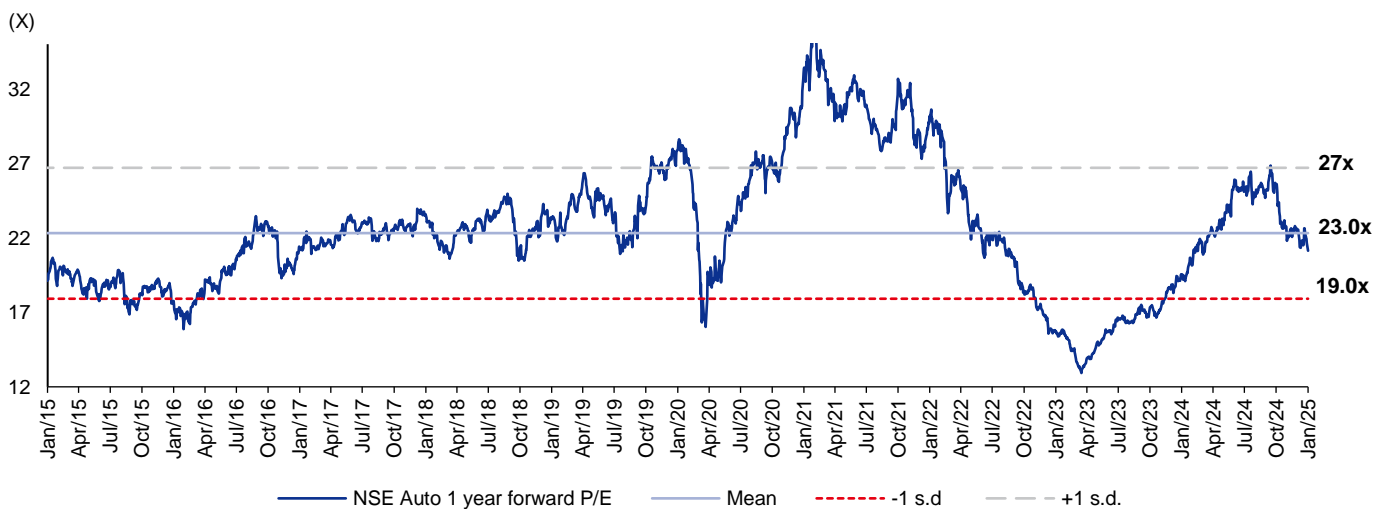
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 14: 3QFY25F earnings and their comparison with Bloomberg consensus estimates

3QFY25F (Rs m)	Bloomberg Estimates			Bloomberg EBITDA Margin	InCred Research Estimates			InCred EBITDA Margin	% Variation		
	Revenue	EBITDA	PAT		Revenue	EBITDA	PAT		Revenue	EBITDA	PAT
Ashok Leyland	91,540	10,970	6,449	12.0%	85,232	10,143	6,193	11.9%	-7.4	-8.2	-4.1
Bajaj Auto	1,32,897	27,630	22,273	20.8%	1,32,148	27,108	22,749	20.5%	-0.6	-1.9	2.1
Eicher Motors	49,200	12,917	11,644	26.3%	51,504	12,835	11,777	24.9%	4.5	-0.6	1.1
Escorts Kubota	23,891	2,676	3,080	11.2%	27,035	3,650	2,966	13.5%	11.6	26.7	-3.8
Hero MotoCorp	1,05,300	15,086	12,014	14.3%	1,02,370	14,588	11,061	14.3%	-2.9	-3.4	-8.6
Hyundai Motor India	1,70,893	15,086	13,279	8.8%	1,86,408	21,733	14,575	11.7%	8.3	30.6	8.9
Mahindra & Mahindra	2,98,361	42,968	26,591	14.4%	3,10,352	45,642	30,717	14.7%	3.9	5.9	13.4
Maruti Suzuki	3,73,386	44,621	35,102	12.0%	3,91,340	45,398	36,259	11.6%	4.6	1.7	3.2
Tata Motors	11,66,105	1,60,270	69,845	13.7%	12,15,151	1,74,000	57,041	14.3%	4.0	7.9	-22.4
TVS Motor	91,143	10,814	6,604	11.9%	94,431	10,860	6,238	11.5%	3.5	0.4	-5.9
Apollo Tyres	67,821	10,590	4,252	15.6%	68,105	11,033	4,320	16.2%	0.4	4.0	1.6
Balkrishna Industries	25,374	5,936	3,857	23.4%	25,900	6,553	3,865	25.3%	2.0	9.4	0.2
Bharat Forge	24,109	6,680	3,987	27.7%	22,680	6,237	3,729	27.5%	-6.3	-7.1	-6.9
Bosch Ltd.	45,788	6,117	5,196	13.4%	46,000	6,280	5,085	13.7%	0.5	2.6	-2.2
Endurance Technologies	30,679	4,059	2,218	13.2%	29,886	3,951	2,123	13.2%	-2.7	-2.7	-4.5
Exide Industries	42,023	5,183	2,946	12.3%	41,186	4,736	2,634	11.5%	-2.0	-9.4	-11.9
SAMIL	2,93,126	25,935	9,118	8.8%	3,02,876	27,259	9,225	9.0%	3.2	4.9	1.2

SOURCE: BLOOMBERG CONSENSUS ESTIMATES, INCRED RESEARCH, COMPANY REPORTS

Figure 15: Forward P/E valuation remains comfortable below the mean level



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 16: Valuations of companies in our auto sector coverage universe

Company Name	Reco.	Price	Target Price	Market Capital	Market Capital	EPS (Rs)		P/E (x)		P/BV (x)		EV/EBITDA	Dividend Yield (%)	Upside/Downside%	ROE
		Rs	Rs	(Rs m)	(US\$ m)	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY25F		FY25F
Maruti Suzuki	ADD	11,549	14,593	38,48,272	45,980	506	555	22.8	20.8	3.4	3.1	15.6	1.4%	26.4%	16.7%
Tata Motors	REDUCE	763	746	37,48,952	44,793	61	75	12.5	10.1	2.7	2.2	5.8	0.8%	-2.3%	23.7%
Hero MotoCorp	ADD	4,057	5,810	11,95,863	14,288	242	267	16.7	15.2	4.1	3.8	16.8	3.9%	43.2%	25.8%
Mahindra & Mahindra	HOLD	3,035	2,915	30,88,326	36,900	108	114	28.2	26.6	5.5	4.8	14.2	0.8%	-4.0%	21.1%
Escorts Kubota	REDUCE	3,327	3,064	4,30,928	5,149	102	126	32.6	26.4	3.6	2.9	31.1	0.5%	-7.9%	11.7%
Bajaj Auto	HOLD	8,645	11,860	33,05,631	39,496	329	381	26.3	22.7	8.5	7.5	28.0	2.3%	37.2%	34.4%
Ashok Leyland	ADD	206	265	7,05,694	8,432	10	13	19.8	15.9	5.8	4.9	14.5	2.7%	28.5%	31.8%
Eicher Motors	HOLD	4,952	4,841	13,29,331	15,883	159	175	31.1	28.3	7.1	6.2	23.7	1.1%	-2.2%	23.6%
TVS Motor Company	REDUCE	2,204	1,782	13,39,758	16,008	47	51	47.3	43.4	13.7	10.9	33.6	0.4%	-19.2%	28.9%
Endurance Technologies	ADD	2,052	2,832	3,38,688	4,047	65	85	31.4	24.3	5.1	4.3	21.1	0.6%	38.0%	17.2%
Hyundai Motor India	REDUCE	1,769	1,585	12,55,425	15,000	72	76	24.6	23.1	10.4	8.3	16.8	0.0%	-10.4%	19.2%
Balkrishna Industries	ADD	2,643	3,517	5,94,591	7,104	89	101	29.6	26.1	5.0	4.4	22.1	0.8%	33.1%	18.1%
Exide Industries	REDUCE	382	395	4,08,850	4,885	14	17	26.4	22.9	2.4	2.3	19.1	2.2%	3.3%	9.2%
Bharat Forge	ADD	1,200	1,622	7,45,017	8,902	29	36	40.9	33.7	5.2	4.5	25.7	0.9%	35.1%	15.3%
Apollo Tyres	REDUCE	447	408	3,29,141	3,933	29	27	15.4	16.6	1.9	1.7	7.4	1.8%	-8.8%	12.7%
Bosch Ltd	REDUCE	31,475	26,379	10,23,332	12,227	661	733	47.6	42.9	7.3	7.0	37.9	1.4%	-16.2%	15.8%
SAMIL	HOLD	142	173	13,24,109	15,821	6	8	23.9	18.3	3.3	2.9	12.9	0.9%	22.1%	14.5%

NOTE: VALUATION MULTIPLE OF M&M IS ADJUSTED FOR SUBSIDIARIES' VALUATION OF RS691/SHARE
SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS, PRICES AS ON 13 JAN 2025

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Recommendation Framework**Stock Ratings**

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.

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.