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Top Conviction Ideas: Automobile Industry

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Auto Sector: Q4FY25 Review

Q4FY25 Auto OEM Review – Growth in 2W/Tractor OEMs

✓ ***Financial Performance***

- Revenue/EBITDA in Q4FY25 grew by 9%/6% YoY, respectively, against our expectations of ~8%/7% on a YoY basis for Auto Ancillaries under our coverage on account of sale volume growth (2w's and tractors) and premiumization trend. Revenue/EBITDA grew by 7%/12% QoQ against our estimates of 7%/13% QoQ, respectively, on account of cost control initiatives, operating leverage with marginal impact from commodity headwinds for some auto OEMs. PAT was flat YoY inline with estimates due to one-offs in certain OEMs, while improved 16% QoQ (our estimates 14%).
- Margin pressures stemmed mainly from poor product mix, higher commodity prices and increased other expenses. While Maruti, Eicher Motors, Hero Motocorp faced margins pressure downward by 113bps, 24bps, 22bps respectively, margins were largely positive for Ashok Leyland and TVS - up by 226bps, 207bps respectively.

Q4FY25 Auto Ancillaries Review – Mixed Performance

✓ ***Financial Performance***

- The companies under our coverage reported 9%/6% growth in Revenue/EBITDA in Q4FY25, respectively, against our expectations of ~8%/7% on a YoY basis on account of sale volume growth (2w's and tractors) and premiumization trend. Revenue/EBITDA grew by 7%/12% QoQ against our estimates of 7%/13% QoQ, respectively. EBITDA growth was on account of cost control initiatives, operating leverage being set off with a marginal impact from commodities for some auto ancillary. PAT was flat YoY in line with estimates due to one-offs in certain OEMs, while improved 16% QoQ (our estimates 14%).
- Endurance Technologies, UNO Minda, SSWL and Minda Corp delivered strong YoY EBITDA growth, while Sansera Engineering and Automotive Axles remained largely flat. CIE Automotive saw a 7% YoY decline due to a delay in the ramp-up of new order wins from OEMs.

Auto Sector: FY25 – The Year Gone By

Segment	Export Growth	Domestic Growth	Comment
2W	Strong	Healthy	Broad-based recovery
CV	Strong	Weak	Mixed outlook
PV	Moderate	Flat to Mild	Saturation visible
3W	Flat	Decent	EV support crucial
Tractor	Flat	Good	Monsoon-sensitive

- **Overall Export Growth:** +18.75% YoY – Strong rebound led by 2Ws (21%YoY) and CVs (23% YoY), indicating export market revival.
- **Overall Domestic Growth:** +7.37% YoY – Driven mainly by 2Ws (9% YoY) and Tractors (8% YoY); CVs marginally down (1 % YoY) due to macro and cyclical softness.
- **Aggregate Outlook:** Moderately Positive
  - The Indian auto sector is witnessing export-led strength and a gradual domestic revival.
  - The rural economy revival and commodity price stability will play a key role.
  - While EV adoption continues to build traction, near-term challenges persist due to supply restrictions by China on Rare Earth Minerals to Indian OEMs..
  - A normal monsoon, festive season demand, and post-election policy clarity will be key monitorables for sustaining this growth into H2FY26.

Sector Outlook (FY25 Vs FY24)

Two-Wheelers (2W)

- **Exports:** Up 21.4% - Strong export rebound suggests revival in demand from African, LATAM, and ASEAN regions, potentially helped by better dollar liquidity and macro stabilisation.
- **Domestic:** Up 9.08% - Domestic demand continues to recover, aided by rural consumption, festive tailwinds, and improved affordability from entry-level buyers.
- **Outlook**: Positive

Commercial Vehicles (CV)

- **Exports:** Up 23.05% - Export recovery is strong, possibly from a low base and improving infrastructure push in target geographies.
- **Domestic:** Down 1.25% - High base of FY24; Cautious freight operators due to subdued infra activity post-elections. However, long-term prospects remain intact on government infra spending and mining/logistics revival.
- **Outlook:** Bottom Up Approach

Passenger Vehicles (PV)

- **Exports:** Up 14.62% - Export momentum may be driven by newer models and OEM push in Africa and South America
- **Domestic:** Up 1.97% - Domestic growth tapering off due to saturation in the upper-end SUV space, while the entry-level segment remains under pressure.
- **Outlook**: Stable to Slightly Positive
- Inventory levels need monitoring; a soft patch is expected in H1FY26 before a festive revival.

Tractors

- **Exports:** Up 1.01% - Export stagnation reflects continued weakness in the U.S. and Europe, where large tractor sales are under pressure.
- **Domestic:** Up 8.36% - Domestic growth likely aided by pre-election schemes, improved rabi output, and slightly better monsoons.
- **Outlook:** Cautiously Positive
- H2FY26 will depend on monsoon distribution and Kharif sowing trends.

Outlook – Industry Approaching Long Term CAGR volumes

- We expect EBITDA margins to remain largely stable in the near term, supported by a richer product mix. However, raw material headwinds could exert slight pressure. The price benefits realised in previous quarters for some companies may limit further margin expansion.

- We expect 2W sales volumes to sustain high single-digit growth in FY26E, supported by new premium segment launches, an extended replacement cycle, and recovery in exports. A favourable monsoon, income tax relief, and increased rural spending are likely to further drive demand for entry-level motorcycles.

- PV sales will be led by strong UV launches; however, overall growth is expected to remain in the low single digits in FY26E due to the high base of FY25.

- For FY26, OEMs remain optimistic about long-term structural growth drivers, including India's vast road network, policy measures aimed at reducing supply chain costs, the Vehicle Scrappage policy, reduced interest rate costs and continued infrastructure Capex outlined in the Union Budget.

- Tractor volumes are expected to grow in the mid-high single digits in FY26, supported by a favourable monsoon, lower financing costs and increased government allocations towards the farming sector before the state election.

- We remain selective in our approach. Among OEMs under our coverage, our Top Conviction Idea in 2Ws is **Hero Motocorp,** in CVs is **Ashok Leyland**, and in the PV/tractor segment, we favour **Mahindra & Mahindra** (non-coverage), given its strong SUV product portfolio and leadership position in the domestic tractor industry. We recommend "**Buy On Dips" Strategy** for TVS Motors, Bajaj Auto and Eicher Ltd.

Auto Ancillaries

- In the long run, product premiumization, strong order books, growing exports, and the shift toward EVs are expected to drive higher content per vehicle, boosting profitability. Considering current valuations, our top conviction picks in the ancillary space are **Sansera Engineering Ltd, Steel Strip Wheels Ltd. We also suggest a "Buy on Dips" approach for CIE Automotive, Endurance Technologies, and UNO Minda for long-term gains.**

Short & Medium-Term Outlook

Short to Medium term

Recovery in CV/Tractor expected

2W Demand – Shift towards e-2Ws, Premium scooters and Rural recovery

Premiumisation across segments to drive ASPs higher

Export-focused companies to benefit

Increasing share of EV/Hybrids/CNG in the fuel mix

Restrictions on Rare Earth Minerals by China.

Entry-level PV may see flattish volume on a a YoY basis

Increased competition in the SUV space in PV

Entry of Global Players in The EV may broaden Industry growth but increase competition for OEMs

Long-Term

Key monitorables – *Rural Recovery; Pick-up in Exports*

Top Conviction Ideas: Auto

Stock	Reco.	TP	Recommendation Rationale
Hero Motocorp Ltd	BUY	Rs 5,285*	✓ **Industry Growth Outlook:** The domestic economy has begun FY26 on a positive trajectory, supported by tapering inflation, declining interest rates, income tax cuts, strong marriage season and expectations of a favourable monsoon. These macroeconomic tailwinds are fueling optimism in the two-wheeler market. The 2W industry growth for FY26 is projected to be in the mid-to-high single digits, despite some headwinds from OBD 2 norms and related price increases. ✓ **Product Launches:** In Q4FY25, Hero MotoCorp rolled out a series of product launches across key segments, reinforcing its focus on both commuter and premium motorcycles. The company launched Splendor+ XTEC 2.0 and updated its commuter lineup with the 2024 Hero Glamour. In the premium segment, it introduced the Xtreme 250R and Xpulse 210 at Bharat Mobility 2025, along with the Mavrick 440 Thunderwheels and the Xpulse 200 4V Dakar Edition. The 2024 Harley-Davidson lineup, including the Breakout 117, Road Glide, and Street Glide, was also unveiled. In the scooter segment, Hero launched the new Destini 125 and the Xoom 125 and 160 models. These launches highlight Hero's ongoing efforts to strengthen its product portfolio and address a wider range of customers. ✓ **Focus on growing the EV vertical:** Hero ended Mar'25 with 7% EV market share; and also acquired 34.1% stake in Euler Motors for Rs 510 Cr, marking entry into the EV 3W space (e3W industry is valued at Rs 17,000 Cr, is expected to grow to Rs 22,000 Cr over the next 5 years, with 20%+ EBITDA margin potential). Overall profitability in EVs is expected to improve with localisation, cost reductions, and PLI benefits and the management projects EV break-even at 25k–30k units/month (currently 7k–8k/month).

Note: Target Price is based on our Q4FY25 Result Update Report

Top Conviction Ideas: Auto Ancillaries

Stock	Reco.	TP	Recommendation Rationale
Ashok Leyland	BUY	Rs 270*	✓ **Domestic CV Industry:** Ashok Leyland expects a positive FY26 for the CV industry, aided by favourable macroeconomic indicators such as robust monsoon forecasts, core sector expansion, and renewed government capex. While Q1FY26 may remain subdued due to high base effects, growth is expected to pick up meaningfully from Q2 onwards. The company anticipates low single-digit volume growth in FY26, in line with industry peers ✓ **EV & Alternative Fuel:** The company is intensifying efforts in the electric and alternative fuel space, with substantial investment earmarked for FY26. (1) 6 new LCV models, Intelligent Vehicle Acceleration Control (IVAC) for MHCVs, fully built CNG buses, and 19T and 55T EV trucks launched. (2) EV Terminal Tractor and 15mt SE Bus showcased at Auto Expo 2025 – commercial production due in FY26. (3) EV Centre of Excellence is operational to support critical component development (battery, motor, etc.). ✓ **Cost Leadership & Margin Levers:** Ashok Leyland is focused on premiumisation, cost optimisation, and service differentiation to strengthen margins. It targets Rs 100 Cr in cost savings for FY26 and is enhancing services to reduce vehicle downtime. Despite expected steel price increases, management anticipates stable margins due to internal efficiencies.

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Top Conviction Ideas: Auto

Stock	Reco.	TP	Recommendation Rationale
Sansera Engineering	BUY	Rs 1,580*	✓ **Revenue and EBITDA Margins:** Despite a challenging FY25 due to geopolitical headwinds, Sansera expects to report high-teen revenue growth in FY26, supported by continued strength in xEV, ADS, and overseas businesses. The management has guided a 50–60 bps expansion in EBITDA margins, driven by better product mix (more tech-agnostic, EV, and ADS), favourable operating leverage, and reduced dependency on commodity-heavy ICE components. ✓ **Robust Order Book:** As of Mar'25, Sansera's total unexecuted order book stood at Rs 1,851 Cr, with a diversified mix across geographies and end segments. Notably, 28% of the new orders originated from the ADS segment, highlighting the growing relevance of this business line. Geographically, 27% of the order book is linked to North America, 24% to Europe, and 9% to other Asian countries. ✓ **Capex to Support Orderbook**: Sansera is executing both brownfield and greenfield expansions to support its long-term growth strategy. In FY25, the company incurred a capex of Rs 591 Cr, largely towards enhancing capacity in machining, forging, and the ADS facility. Additionally, it acquired 55 acres of land in Karnataka for future greenfield expansion, expected to begin post FY27. These investments are to meet the growing demand from high-content EV products and aerospace-defence applications.

**** Note: Target Price is based on our Q4FY25 Result Update Report***

Top Conviction Ideas: Auto

Stock	Reco.	TP	Recommendation Rationale
Steel Strips Wheels Limited Wheeling Towards Excellence **Steel Strip Wheels Ltd**	**BUY**	**Rs 265***	✓ **Growth in Export Demand:** In Q4FY25, SSWL's export revenue stood at Rs 157 Cr, registering a 22% YoY growth. The company sold 2.35 Lc alloy wheels in FY25, generating revenue of Rs 102.68 Cr. The total export revenue for FY25 stood at Rs 561 Cr, with a target to reach Rs 1,000 Cr by FY27E. The USA accounted for 64% of the total exports, followed by the EU at 32%. Going forward, the company anticipates that India will benefit from a competitive advantage driven by a favourable US tariff structure compared to China, Vietnam, and Thailand. ✓ **Alloy Wheel Capacity Expansion**: The company plans to expand its annual capacity to 5.3 Mn units by FY26 from 4.8 Mn in FY25, with an anticipated capacity utilisation of 75–80%, supported by expected orders from Maruti and a gradual recovery in the European and US markets. In FY25, the company sold 33.28 Lc alloy wheels, contributing 32% to the overall sales mix. ✓ **Higher EBITDA Margins Moving Ahead:** The aggregate EBITDA/wheel for Q4FY25 stood at Rs 270/wheel and Rs 261/wheel for FY25, compared to Rs 253/wheel in FY24. Future growth is expected to be driven by a revival in CV and tractor wheel volumes, an increasing focus on a richer mix of higher-margin alloy products such as knuckles and alloy wheels, and higher exports.

Note: Target Price is based on our Q4FY25 Result Update Report

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