Q3FY25 Quarterly Results Review

Automobile and Automobile Ancillaries

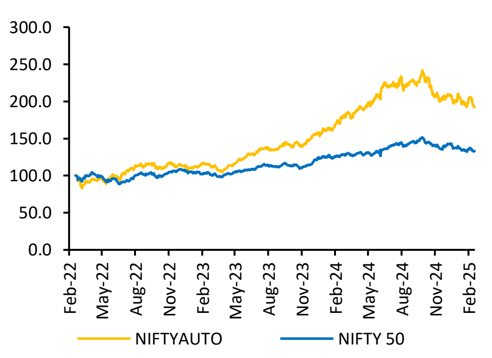
Recommendation

Company (Ticker)	CMP (INR)	TP (INR)	Rated
Ashok Leyland (AL)	222	260	Buy
Bajaj Auto (BJAUT)	8,508	9,854	Buy
Eicher Motors (EIM)	4,965	5,375	Hold
Hero MotoCorp (HMCL)	3,854	5,099	Buy
Maruti Suzuki (MSIL)	12,320	13,958	Buy
M&M (MM)	2,668	3,790	Buy
TVS Motors (TVSL)	2,328	2936	Buy
Endurance Tech (ENDU)	1,871	1,980	Hold
Fiem Industries (FIEM)	1,385	1485	Hold
Gabriel India (GABR)	484	565	Buy
Lumax Auto (LMAX)	558	851	Buy
Lumax Ind (LUMX)	2,302	3,260	Buy
MSWIL (MSUMI)	49	71	Buy
Sansera Eng. (SANSERA)	1,202	1,374	Buy
Suprajit Eng. (SEL)	418	364	Sell
Uno Minda (UNOMINDA)	854	1177	Hold

*CMP as on Feb 21, 2025

Relative Performance (%)

YTD	***3Y***	***2Y***	***1Y***
NIFTYAUTO	91.0	65.5	6.5
NIFTY 50	32.7	28.5	3.7



Automobile OEMs: PV segment drives robust performance

- For Q3FY25, the OEM stocks under our coverage showed robust growth compared to last year, led by healthy growth in PV OEMs. The growth in the PV segment was supported by strong festive demand and a shift towards premiumisation. The recovery in rural demand, coupled with robust consumer sentiment, significantly contributed to the growth of the 2W industry. The CV segment faced a challenging H1FY25 but has started showing signs of recovery, led by better government capex flow in the second half of the quarter.
- 2W OEMs experienced revenue growth of 8.3% on a YoY basis and PV OEMs saw a 17.1% revenue growth on a YoY basis. On the EBITDA margin front, OEMs under our coverage saw a margin expansion of 42bps YoY and 2bps QoQ. Overall, retail sales during Q3FY25 were 1.12Mn units (+9.2% YoY) for PV, 5.90Mn units (+12.9% YoY) for 2W, and 0.21Mn units (-1.6% YoY) for CV.
- **Budget 2025 - Positive outlook for automobile sector driven by consumer spending and rural growth:** Going forward, we expect the automobile sector to maintain strong demand, supported by increased consumer spending due to new taxation policies that encourage greater consumption. We believe increased rural demand will continue, aided by government initiatives announced in the Union Budget 2025 to boost agricultural output and the rural economy. This will be positive for the 2W segment and entry-level cars in the PV segment.
- For the CV segment, we anticipate pent-up demand to materialize in Q4FY25, driven by positive macroeconomic indicators such as rising government spending, following the slowdown in H1FY25 due to the impact of elections and the monsoon.
- **Limited impact of US Reciprocal Tariffs due to minimal exposure to US market:** US President Donald Trump announced on February 18, 2025 that he intends to impose auto tariffs of around 25%. We believe this development will not have any significant impact on the OEMs under our coverage, as the US is not a major export market for any of the companies under our coverage. (Please note: Tata Motors is not part of our coverage).

Positive Outlook for Auto Ancillaries: Driven by New Products and Premiumisation

- The automobile ancillaries under our coverage registered solid performance, with revenue growth of 16.3% YoY, while the EBITDA margin was down 26bps YoY but up 3bps QoQ.
- For auto ancillary space, we remain positive driven by new product launches in FY25. We expect auto ancillary companies under our coverage to continue benefiting from the trend of premiumisation, technological upgrades and the EV transition.

TOP PICKS

- Mahindra & Mahindra
- Lumax Industries
- Gabriel India

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Top Picks:

1. Mahindra & Mahindra Ltd.(MM) | Rating: BUY | Target Price–Rs. 3,790

Key Financials					
INR Bn	*FY23*	*FY24*	*FY25E*	*FY26E*	*FY27E*
Revenue	850	991	1,177	1,402	1,675
YoY (%)	47.0	16.6	18.7	19.2	19.4
EBITDA	104	131	172	202	240
EBITDAM %	12.3	13.3	14.6	14.4	14.3
Adj PAT	76	106	139	165	200
EPS	61.3	85.6	111.6	132.9	161.0
ROE %	18.7	22.3	24.3	24.4	25.1
ROCE %	15.7	19.0	22.8	23.5	24.4
PE(x)	52.2	37.4	28.7	24.1	19.9
EV/EBITDA	38.1	30.0	22.9	19.2	16.0

- **Market Share Gains and Capacity Expansion to Drive Growth to Meet Rising Demand:** MM expects the auto industry to grow over 15% in Q4, potentially leading to full-year growth of over 7%. Capitalizing on this momentum, the company reported a 16% YoY increase in auto volumes, with SUV market share expanding by 200 bps to 23% and LCV market share rising by 230 bps to 51.9%. Its new EV models are expected to generate a combined monthly sales volume of 5,000 units, with minimal concern over ICE cannibalization as both will be sold through the same retail network. The simultaneous EV launch also created a positive multiplier effect, driving multiple bookings from some customers. To meet rising demand, MM is debottlenecking and expanding capacity for the 3XO and Roxx models, targeting an additional 1,500–2,000 units per model by June–July.
- **View and Valuation:** We have marginally tweaked our FY26/27 EPS estimates by -3.2%/-5.2% % and have rolled over our forecasts forward to come up with a revised TP of INR 3,790; (valuing at 21x 27E EPS + Subsidiary Valuation), while maintaining our 'BUY' rating. We retain our positive view on MM driven by its focus on scaling up the premium product portfolio and a strong boost to rural demand.

2. Lumax Industries Ltd.(LUMX) | Rating: BUY | Target Price – Rs. 3,260

Key Financials					
INR Bn	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Revenue	23.2	26.4	33.3	38.7	43.9
YoY (%)	32.4	13.7	26.4	16.1	13.5
EBITDA	2.1	2.3	2.5	3.0	3.6
EBITDAM %	8.9	8.7	7.4	7.8	8.1
Adj PAT	1.1	1.1	1.3	1.7	2.0
EPS (INR)	121.9	118.8	136.2	178.0	217.3
ROE %	19.5	16.5	16.9	19.4	20.5
ROCE %	12.6	9.9	8.4	10.0	11.2
PE(x)	19.0	19.5	17.0	13.0	10.7
EV/EBITDA	12.5	12.3	11.9	9.8	8.2

- **LUMX to mitigate Margin Pressure through operating leverage and localization efforts:** LUMX saw a slight dip in EBITDA margin during the quarter. While improved operating leverage from higher utilization at the Chakan plant Phase-2 (70% in Q3FY25 vs 50% in Q2FY25) helped, it was offset by a 50-60 basis point cost increase from anti-dumping duties on PCB imports and rising raw material prices. The company plans to pass these increased raw material costs onto customers with a 3-6 month lag and intends to localize a significant portion of its imported PCBs in FY26 to mitigate the duty impact. We expect EBITDA margin to improve starting FY26, driven by operating leverage and localization efforts.
- **View and Valuation:** We have revised our FY26/27 EPS estimates by 1.9%/(6.2)% and have rolled over our forecasts forward to come up with a revised TP of INR 3,260; valuing the company at 15x (unchanged) on FY27E EPS while maintaining our 'BUY' rating. We retain our positive view on LUMX driven by its strong relationship with the majority of the OEMs, new model additions in the PV segment and increasing share of LED.

3. Gabriel India Ltd.(GABR) | Rating: BUY | Target Price – Rs. 565

Key Financials					
INR Bn	*FY23*	*FY24*	*FY25E*	*FY26E*	*FY27E*
Revenue	29.7	34.0	40.4	46.1	53.0
YoY (%)	27.4	14.5	18.7	14.3	14.9
EBITDA	2.1	2.9	3.8	4.5	5.4
EBITDAM %	7.2	8.6	9.3	9.7	10.2
Adj PAT	1.3	1.8	2.4	2.9	3.5
EPS	9.2	12.4	16.8	20.1	24.6
ROE %	15.2	17.8	20.1	20.3	20.8
ROCE %	18.7	21.6	23.6	24.1	25.0
PE(x)	48.0	35.5	26.3	21.9	18.0
EV/EBITDA	29.6	21.8	16.9	14.1	11.6

- **GABR to double its capacity for the sunroof business:** The sunroof business is experiencing strong demand, and the company is set to double its existing capacity to 360K units per year before end of CY 2025. The company has won new business for sunroof with Kia and started the production. With this the current capacity will run at full utilization. We believe GABR's strong position in suspension systems, combined with its diversification into the sunroof business, has reduced the company's reliance on a single product. The overall margin profile of the company has been positively impacted as the sunroof business has better EBITDA margin (12%-14%) compared to the suspension systems business (8%-9%).
- **View and Valuation:** We have revised our FY26/27 EPS estimates downwards by 2.0%/3.3% and have rolled over our forecasts forward to come up with a revised TP of INR 565; valuing the company at 23x (unchanged) on FY27E EPS while maintaining our 'BUY' rating. We remain positive on the company driven by its entry into the high-growth, powertrain-agnostic sunroof system, benefitting due to rising SUV demand and new order wins across multiple segments.

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