kotak Institutional Equities

UPDATE

Automobiles & Components

India

Sector View: **Cautious** NIFTY-50: **22,913** **February 21, 2025**

CG2025 takeaways—contrasting trends

We hosted 13 Indian auto OEMs and ancillaries for our flagship Chasing Growth 2025 conference. Key takeaways are (1) domestic PV industry volumes are expected to grow low single digits yoy in FY2026E; newer launches and EV segment to drive growth, whereas entry-level segment demand trends remain weak, (2) domestic 2W demand trends remain steady (scooter and >125 cc motorcycle to outpace 110 cc motorcycle segment) and export segment recovery to continue, (3) CV segment demand trends to remain muted in the near term, (4) tractor segment to continue growth momentum in the coming quarters and (5) slowdown in export markets to weigh on growth prospects of select auto ancillaries. Remain selective; prefer PV OEMs (MM, MSIL and HMI) over 2W OEMs (HMCL, BJAUT and EIM).

Domestic PV industry volume growth pegged at low single digits in FY2026E

According to SIAM and domestic OEMs, domestic PV industry wholesale volumes are expected to grow low single digits yoy (flat yoy growth in FY2025E) in FY2026E, driven by (1) steady growth in the SUV segment due to newer launches and (2) an increase in BEV segment penetration, partly offset by continued weakness in entry-level segment demand and (2) a high base effect. However, we expect domestic PV industry volumes to grow 3-5%, driven by 6-8% yoy growth for the SUV/MUV segments (newer launches) and 3-4% yoy growth for the hatchback/sedan segments (lower base). We expect M&M (higher SUV mix) and Maruti Suzuki (newer launches) to gain market share in FY2026E. We expect the export segment of Maruti Suzuki to continue its growth momentum, driven by newer launches (e-Vitara, Jimny 5-door and Fronx).

Domestic 2W demand trends remain steady; export segment recovery continues

SIAM expects domestic 2W industry volumes to grow 6-9% yoy, driven by (1) double-digit yoy volume growth in the scooter segment, led by urbanization and (2) high single-digit yoy volume growth in the >125 cc motorcycle segment. We expect scooter segment demand momentum to continue, but believe there is a downside risk to domestic motorcycle segment growth assumptions, given (1) its persistent weakness in the 110 cc motorcycle segment and (2) an increase in delinquencies for financiers, which may weigh on the growth. The companies highlighted that recovery in the export market continues, driven by (1) strong demand trends in LATAM and (2) a recovery in the African market.

Mixed outlook on M&HCV segment; tractor segment to maintain its momentum

While OEMs (Ashok Leyland) expect domestic M&HCV industry volumes to grow by mid-single digits yoy, auto ancillaries (Bosch, Bharat Forge and Sona Comstar) expect this segment's growth to remain flat yoy in FY2026E. CV OEMs expect the margin trajectory to sustain, given pricing discipline, an increase in the non-CV mix and benign commodity prices. Tractor OEMs highlighted that near-term demand trends remain strong, owing to (1) an increase in Rabi sowing acreage, (2) higher reservoir levels and (3) an increase in MSP prices, resulting in favorable terms of trade for farmers. Tractor OEMs expect demand momentum to sustain going into 1HFY26E as well.

Full sector coverage on KINSITE

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Exports markets to impact the growth prospects of select auto ancillaries

Companies highlighted that the demand outlook in the European market remains uncertain, led by (1) the impending US tariff threat on imports of components, (2) the regulatory transition with new CAFÉ emission norms kicking in from January 1, 2025, without adequate infrastructure and withdrawal of EV incentives and (3) the impact of EV resale value due to price cuts, which impacted the overall EV demand. Demand trends in the US appeared relatively better until 4QCY24; however, there is uncertainty looming in demand trends, owing to policy changes. Overall, we expect near-term demand trends to remain muted for auto ancillaries with global exposure.

Exhibit 1: Valuation comparison of auto OEMs

Company	20-Feb-25 Price (Rs)	Rating	Market cap (Rs mn)	Market cap (USD mn)	EPS (Rs per share) 2025E	EPS 2026E	EPS 2027E	P/E (X) 2025E	P/E 2026E	P/E 2027E	EV/EBITDA (X) 2025E	EV/EBITDA 2026E	EV/EBITDA 2027E	RoE (%) 2025E	RoE 2026E	RoE 2027E
Indian OEMs																
Maruti Suzuki	12,441	ADD	3,911,372	45,131	482.6	530.4	581.1	25.8	23.5	21.4	17.3	15.4	13.5	17.2	17.1	17.0
Mahindra & Mahindra	2,832	BUY	3,522,109	40,640	105.0	119.0	131.1	27.0	23.8	21.6	20.1	17.7	15.7	21.2	20.1	18.8
Tata Motors	690	ADD	2,538,885	29,295	58.0	66.3	82.5	11.9	10.4	8.4	5.0	4.7	4.0	22.6	21.4	22.2
Bajaj Auto	8,630	SELL	2,410,049	27,808	305.1	340.0	377.5	28.3	25.4	22.9	21.5	19.3	17.3	33.1	34.5	35.7
Hyundai Motor	1,854	ADD	1,506,817	17,386	68.9	78.8	91.2	26.9	23.5	20.3	15.9	13.8	11.7	37.0	33.7	31.6
Eicher Motors	4,897	SELL	1,342,514	15,491	169.7	180.3	198.0	28.9	27.2	24.7	25.7	22.4	20.0	27.1	24.9	23.8
TVS Motor	2,419	SELL	1,149,355	13,262	53.2	64.5	76.5	45.5	37.5	31.6	28.0	23.3	19.9	33.0	35.3	33.0
Hero Motocorp	3,910	SELL	782,032	9,023	232.9	254.1	275.6	16.8	15.4	14.2	11.0	9.8	8.7	24.9	25.2	25.3
Ashok Leyland	226	ADD	665,094	7,674	10.6	11.2	12.1	21.4	20.2	18.6	13.3	12.4	11.3	30.9	27.6	25.8
Escorts Kubota	3,111	SELL	348,018	4,016	95.9	106.0	123.5	32.4	29.3	25.2	28.2	24.1	20.2	10.4	10.5	11.0
Ola Electric	62	REDUCE	271,707	3,135	(4.2)	(3.1)	(1.9)	NA	NA	NA	NA	NA	NA	(48.0)	(27.3)	(21.1)

Company	Fair value (Rs)	EPS CAGR (%) 2024-27E	EPS growth (%) 2025E	EPS growth 2026E	EPS growth 2027E	Net profit (Rs mn) 2025E	Net profit 2026E	Net profit 2027E	EBITDA (Rs mn) 2025E	EBITDA 2026E	EBITDA 2027E	Net Sales (Rs mn) 2025E	Net Sales 2026E	Net Sales 2027E
Indian OEMs														
Maruti Suzuki	13,500	9.6	14.4	6.3	8.1	151,739	166,752	182,709	184,602	204,072	226,581	1,528,003	1,704,196	1,850,294
Mahindra & Mahindra	3,500	12.6	14.3	13.4	10.2	121,647	137,920	151,955	167,485	187,260	207,585	1,149,712	1,276,178	1,391,361
Tata Motors	800	16.5	11	14.2	24.4	213,444	243,792	303,170	571,273	590,906	664,451	4,381,550	4,507,027	4,832,103
Bajaj Auto	7,800	12.1	13.9	11.4	11.0	85,183	94,909	105,383	103,553	114,559	127,628	509,145	563,607	618,722
Hyundai Motor	2,000	6.9	(7.7)	14.4	15.8	55,954	63,995	74,082	88,524	101,174	117,582	692,378	766,729	864,334
Eicher Motors	4,250	10.4	15.4	6.2	9.9	46,186	49,065	53,904	47,186	52,933	57,665	185,756	205,746	222,772
TVS Motor	2,200	20.4	21.3	21.3	18.5	25,277	30,654	36,335	42,134	50,197	57,839	358,096	398,250	440,237
Hero Motocorp	4,000	10.5	14.1	9.1	8.4	46,553	50,799	55,092	58,371	64,113	69,835	404,729	441,875	481,279
Ashok Leyland	240	9.6	14.4	6.3	8.1	31,029	32,987	35,655	48,733	50,970	54,644	387,621	405,417	431,737
Escorts Kubota	2,925	13.4	13.2	10.6	16.5	10,728	11,865	13,824	11,525	13,399	15,763	102,345	110,120	122,871
Ola Electric	65	NA	(2.4)	(26.9)	(39.4)	(18,468)	(13,623)	(8,253)	(13,735)	(8,128)	(1,239)	50,182	70,379	93,260

Source: Companies, Kotak Institutional Equities estimates

Exhibit 2: Valuation comparison of auto ancillaries

Company	20-Feb-25 Price (Rs)	Rating	Market cap (Rs mn)	Market cap (USD mn)	EPS 2025E	EPS 2026E	EPS 2027E	P/E (X) 2025E	P/E 2026E	P/E 2027E	EV/EBITDA (X) 2025E	EV/EBITDA 2026E	EV/EBITDA 2027E	RoE (%) 2025E	RoE 2026E	RoE 2027E
Indian auto ancillaries																
Samvardhana Motherson	132	ADD	926	10,684	5.3	6.0	7.2	24.6	22.0	18.3	9.6	9.1	7.9	12.5	11.7	12.6
Balkrishna Industries	2,722	SELL	526	6,072	86.7	91.6	104.3	31.4	29.7	26.1	19.6	17.2	15.0	17.6	16.3	16.3
Bharat Forge	1,086	SELL	519	5,990	22.0	29.0	38.1	49.3	37.4	28.5	21.0	19.4	16.0	14.1	16.8	19.2
Schaeffler India	3,110	REDUCE	486	5,609	60.0	69.1	80.4	51.9	45.0	38.7	32.8	28.4	24.4	18.5	19.2	20.1
Uno Minda	867	SELL	498	5,744	16.6	18.9	21.0	52.1	45.8	41.2	27.5	23.6	20.8	16.3	15.8	15.0
MRF	109,841	SELL	466	5,375	4,225	5,227	5,917	26.0	21.0	18.6	10.8	9.0	7.8	10.2	11.4	11.6
Sona BLW Precision	517	ADD	322	3,711	9.6	12.3	14.5	54.0	42.0	35.7	30.4	25.1	21.2	14.2	12.7	13.4
Exide Industries	375	SELL	318	3,673	13.1	15.3	16.7	28.5	24.5	22.4	16.8	14.7	13.4	8.2	8.9	9.0
Apollo Tyres	419	SELL	266	3,067	20.5	25.6	28.9	20.4	16.4	14.5	7.6	6.5	5.7	9.1	10.6	11.1
Endurance Technologies	1,881	REDUCE	265	3,052	55.1	65.3	75.2	34.2	28.8	25.0	16.9	14.5	12.6	13.9	14.6	14.8
Amara Raja Energy & Mobility	1,046	SELL	191	2,208	58.4	61.7	68.0	17.9	17.0	12.0	10.8	9.2	5.5	14.9	13.9	14.0
Timken	2,510	ADD	189	2,178	53.9	66.6	83.6	46.6	37.7	30.0	31.6	25.2	20.2	15.5	16.5	17.6
SKF	3,780	ADD	187	2,156	99.9	123.9	150.4	37.8	30.5	25.1	29.0	22.4	17.8	16.7	18.6	20.1
CIE Automotive	428	SELL	162	1,873	22.5	25.4	27.8	19.0	16.9	15.4	11.3	10.0	8.9	13.5	13.7	13.6
CEAT	2,711	SELL	110	1,266	124.0	152.5	162.3	21.9	17.8	16.7	8.7	7.5	6.9	11.9	13.2	12.8
Varroc Engineering	463	SELL	71	816	7.2	25.5	33.3	64.7	18.2	13.9	10.1	7.9	6.4	6.3	16.1	17.4

Company	Fair value (Rs)	EPS CAGR (%) 2024-27E	EPS growth (%) 2025E	EPS growth 2026E	EPS growth 2027E	Net profit (Rs mn) 2025E	Net profit 2026E	Net profit 2027E	EBITDA 2025E	EBITDA 2026E	EBITDA 2027E	Net Sales 2025E	Net Sales 2026E	Net Sales 2027E
Indian auto ancillaries														
Samvardhana Motherson	140	18.9	25.4	11.9	19.9	37,641	42,135	50,513	106,567	109,409	119,082	1,129,860	1,179,660	1,248,373
Balkrishna Industries	2,400	11.1	13.8	5.8	13.8	16,750	17,716	20,166	26,766	30,083	33,496	104,743	113,508	124,581
Bharat Forge	1,000	24.5	11.7	31.6	31.4	10,539	13,866	18,218	27,347	29,440	35,207	150,263	159,368	176,831
Schaeffler India	3,700	11.7	3.9	15.1	16.4	9,373	10,793	12,567	14,419	16,398	18,868	81,969	91,453	102,630
Uno Minda	930	11.8	10.6	13.9	11.0	9,522	10,842	12,039	18,737	21,881	24,729	166,373	190,214	213,723
MRF	106,500	6.4	(13.9)	23.7	13.2	17,912	22,162	25,087	39,916	45,200	48,466	282,488	302,040	319,985
Sona BLW Precision	585	17.7	8.0	28.5	17.5	6,046	7,610	8,945	9,676	11,600	13,528	35,440	42,141	49,151
Exide Industries	300	10.5	6.0	16.6	9.1	11,158	13,010	14,193	19,319	22,000	23,740	166,397	176,734	188,151
Apollo Tyres	385	1.2	(26.4)	24.6	13.1	13,091	16,310	18,446	36,495	41,198	44,380	264,668	280,558	292,306
Endurance Technologies	1,900	15.8	13.8	18.6	15.1	7,746	9,187	10,572	15,113	17,385	19,533	115,350	128,182	141,080
Amara Raja Energy & Mobility	950	11.2	18.0	5.6	10.3	10,686	11,282	12,445	17,206	19,744	21,739	125,035	136,355	148,228
Timken	3,175	17.0	3.4	23.6	25.5	4,054	5,010	6,288	5,812	7,152	8,756	31,446	35,748	42,247
SKF	140	10.5	(10.5)	24.0	21.4	4,940	6,127	7,437	5,962	7,610	9,373	50,194	55,211	60,288
CIE Automotive	450	9.6	6.7	12.7	9.5	8,513	9,595	10,508	14,005	15,076	16,251	90,788	96,246	102,822
CEAT	2,600	-1.4	(26.8)	22.9	6.5	5,016	6,168	6,567	14,681	17,127	18,481	131,693	141,709	149,673
Varroc Engineering	500	475.1		255.9	30.9	1,094	3,892	5,096	7,653	9,044	10,275	81,519	89,727	98,367

Source: Companies, Kotak Institutional Equities estimates

Exhibit 3: Sector outlook

Segment	Outlook
Two-wheeler	6-9% yoy wholesale domestic volume growth in FY2026E
PV	1-2% yoy wholesale domestic volume growth in FY2026E
CV	Mid-single digit yoy volume growth for M&HCV in FY2026E
Tractor	6-7% yoy volume growth in FY2026E and expect momentum to sustain in 1HFY26E
Exports	Demand trends continues to remain weak in EU whereas it remains steady in USA. Trump tariffs remains a key uncertainty at the current juncture

Source: Companies, Kotak Institutional Equities estimates

Bajaj Auto: February 17, 2025

Key takeaways

- **Domestic motorcycle segment demand trends:** The company highlighted the volume growth in the motorcycle segment is primarily driven by the 125+ cc segment with some stress in the entry-level segment. In the entry-level motorcycle segment, the company faced stiff competition with discounts significantly inching up and lasting for longer duration than usual during the festive season; the company has stayed away from the aggressive discounting, which led to double-digit decline in entry-level motorcycle volumes. The company indicated that the entry-level motorcycle segment is not a strategic focus area for Bajaj Auto, as the company makes single-digit operating profitability in that segment, which comprises 25% of the company's portfolio versus a 50% mix for the industry. Additionally, the company indicated the inventory correction, especially in entry-level motorcycles, is largely complete in January 2025. The company also mentioned that marginal discounts are still there in the entry-level segment in a few pockets, where demand remains weak. Overall, the company expects the domestic 2W industry volumes to grow by 6-7% in the coming months, led by strong growth in premium motorcycles and scooter segments.

- **Competitive intensity in the 125 cc motorcycle segment:** Post-Covid, Bajaj Auto has experienced significant growth in 125 cc and above segments, with its market share increasing to 25% (from nil). However, with the increase in competitive intensity over the past two years on account of TVS Ronin and Xtreme 125, the company started to concede some of the market share to the competitors. The company believes the competitive intensity will remain elevated in the >125 cc segment as the industry growth is primarily driven by 125 cc and above segments. However, Bajaj Auto is focusing on branding the Freedom 125 to target 110 cc and entry-level buyers, which, coupled with the growing CNG infrastructure and expansion of geographical presence, is likely to drive growth for Freedom 125 in FY2026E. The company targets to reach a volume run rate of 25k units per month for Freedom 125 over the coming months and plans to grow its capacity further based on demand trends.

- **Export segment performance**: In 3QFY25, Bajaj Auto experienced significant recovery, with volumes growing 27% and the company expects double-digit yoy volume growth to continue over the coming quarters. It saw strong performance across Latin America and Africa, with Latin America (LATAM) contributing to higher revenue share compared to Africa at this juncture. The company also indicated that LATAM 2W market is 2X/3X the size of Africa in terms of volume and value, respectively, which the company is aiming to focus on driving growth in the coming quarters. Additionally, the company indicated that margins in Africa have improved to corporate margins, while LATAM operates at higher profitability led by a higher mix of premium vehicles (higher ASP and margin). Despite the sharp depreciation of the Nigerian currency, the company indicated that the recovery is evident with Nigeria maintaining a steady retail volume of 35k units per month and over 55% market share. However, the company mentioned that it will take some time before reaching the 50k monthly volume run rate, which the company was doing earlier.

- **EV strategy:** EV scooter sales volume increased by 130% on a yoy basis (10% qoq) to 77.5k units in 3QFY25, mainly driven by (1) the scale-up of mass market scooter (Chetak 2901), (2) the launch of new Chetak model (Chetak 35 series with three variants) and (3) sharp increase in distribution network access for EVs, as the company started to use existing ICE motorcycle showrooms. Additionally, the company is extensively focusing on brand activation, network expansion, augmenting supply chain capability and cost reduction measures. The company indicated that with the launch of Chetak 35 series, there is clear visibility of achieving EBITDA breakeven over the next two years.

  Additionally, the company expanded the distribution network for electric 3W products to 800 locations by 3QFY25 and is gaining traction among consumers. It highlighted it is strategically entering the restricted markets for ICE 3W and is planning to capitalize on the end-of-life e-rickshaws to drive the adoption for the company's e-3Ws. Additionally, the company is planning to foray into the e-rickshaw segment by FY2025E to capitalize on the shift to organized players.

Hero MotoCorp: February 17, 2025

Key takeaways

- **Growth strategy:** The company highlighted that the volume growth in the coming quarters will be driven by (1) ramp-up of volumes of recently launched models in premium motorcycles (>125 cc), premium scooter and mass market EV scooters, (2) recovery in volumes in entry-level segment and (3) expansion and revamping of the distribution network. The company is also targeting to increase the export mix over the next three years, which would be a growth driver. Overall, the company guided for a double-digit revenue growth in FY2025/26E and continues to guide for a 14-16% EBITDA margin over the medium term. The company expects to increase the export revenue mix to 10% over the medium term.

- **Pricing strategies**: The recent changes in regulations by the RBI have led to an increase in (1) down payment and (2) higher interest cost based on the risk profile of the customers, impacting the overall demand. However, the company indicated that it has taken adequate measures to support the demand. Additionally, the company launched variants at lower price points to improve the demand. It indicated that there will be a 2-3% cost increase for the company's product portfolio on account of OBD 2(b) norms. However, the company mentioned that the cost increase would be higher in the case where the models are migrated from e-carburetors to comply with the upcoming new norms.

- **Brand equity:** In a bid to improve its brand equity within the premium market, the company has launched 'Premia' stores with modern architecture, appealing design and engaging new-age digital technologies to delight customers. Hero MotoCorp currently has 60 Premia stores and is planning to expand the network to 100 by the end of FY2025E. Additionally, the entire existing showrooms will be upgraded to Hero 2.0 stores in the next two years. The company is planning to revamp majority of its existing dealerships to Hero 2.0 to provide a premium customer experience for the entire range of offerings.

- **Product intervention:** The company has launched a mass market EV in 3QFY25 and is planning to launch another mass market electric scooter in 1HCY25E, which will be eligible for PLI benefits. The company continues to expand the premium portfolio and launched three new motorcycles and two new scooters at Auto Expo 2025 (Xoom 125, Xoom 160, Xpulse 210, Xtreme 250R and the Karizma XMR 250). Additionally, the company launched Destini 125 at the end of January 2025 on metal body, which comprises bulk of the scooter market.

- **Hero FinCorp:** The company indicated that Hero FinCorp works as an associate company that operates independently. Additionally, Hero FinCorp has a market share of 25-30% in the overall loans taken by the customers in HMCL and the overall automobile loan book mix for Hero FinCorp stands at 30%.

Bharat Forge: February 17, 2025

Key takeaways

- **Demand outlook**: Bharat Forge expects revenue to recover in FY2026E led by (1) a modest recovery in the CV segment in the domestic market and double-digit growth in Class 8 truck volumes in the US, (2) strong traction for the aerospace segment with new capex coming online in FY2026E, (3) robust growth in the casting business and (4) an uptick in defense segment revenues. The company believes there will not be any impact on its business operations due to impending tariffs announced by Donald Trump.

- **Overseas business:** The company mentioned that its overseas business continues to struggle in reaching the semblance of normalcy. Bharat Forge overseas manufacturing operations EBITDA margin came in at 0.3% in 3QFY25 (versus 1.7% in 3QFY24) as demand trends remain muted, especially in Europe. The company expects the US subsidiary to turn profitable in the coming quarters with gradual recovery of demand in the EV PV segment, price adjustments and improved capacity utilization. However, the company highlighted that demand trends remain muted in the EU and the company is doing a thorough review of the manufacturing footprint, especially in the steel business in the overseas business, with an endeavor to achieve operational stability in a challenging environment. The company indicated that it will continue to operate the aluminum business in the overseas market as the company has reported 15-16% EBITDA margin in the past, which gives confidence to the company that it can improve the margins in the future once capacity utilization improves in the coming quarters.

- **Defense business:** The company guided the defense business revenues are expected to grow by 40% in FY2025E, led by the total executable order book to Rs57 bn in 3QFY25, which can be executed over the next 3-4 years. The company highlighted that domestic defense requirement for guns is ~4k, out of which the government recently finalized vendors for 307 guns, with BHFC securing 60% of the order book, as it emerged as the lowest bidder. The incremental revenue opportunity from the ATAGS order for the company is around Rs35-37 bn, executable over 2-3 years. The company indicated that the contract signing is likely to take place by March 31, 2025, followed by SOP and the series deliveries will commence in 15-18 months. Additionally, the company is planning to shift the defense business to Kalyani Strategic Systems Limited (KSSL), barring the ATAGS business, which got approval from the government through Bharat Forge Limited and will stay there till the completion of the project.

- **Aerospace business:** For the aerospace business, the company has approved an investment for setting up a dedicated state-of-the-art machining line for landing gear components and a ring mill for manufacturing high-precision forging to address the growing demands for jet engine components from the global aerospace industry. The capacities will come online in FY2027E. We expect the aerospace business to witness strong growth over the coming 3-4 years, with revenues scaling up to Rs2.5 bn in FY2026E and doubling revenues in another 3-4 years.

- **Industrial business:** Bharat Forge is very optimistic about the growth prospects of the industrial business segment, led by a strong order book and the company is poised to achieve a revenue of Rs7 bn, with a 14-15% operating profit in FY2025E. The company highlighted that it has significant operating headroom to achieve the target and expects to improve the EBITDA margin to >16% over the next few years. Despite capex momentum slowing down, which can potentially impact the industrial business of the company in the near term, the company believes that sectors such as nuclear and space provide ample opportunity in the medium to long term to grow the industrial segment revenues.

- **Margin and capex guidance:** The company has guided for capex of Rs5 bn in FY2025E. In the medium to long term, the company is expecting the consolidated EBITDA margins to improve to >20%, led by (1) 27-28% operating margin in standalone business, (2) 16% EBITDA margins in JSA, (3) 25% operating margins in defense business, and (4) 10% EBITDA margins in overseas subsidiaries.

Samvardhana Motherson: February 17, 2025

Key takeaways

- **Demand outlook**: The company highlighted that the demand outlook in the European market remains uncertain, led by (1) the impending US tariff threat on the imports of components, (2) the regulatory transition with new CAFÉ emission norms kicking in from January 1, 2025, without adequate infrastructure and withdrawal of EV incentives and (3) the impact of EV resale value due to price cuts, which impacted the overall EV demand. The demand trends in the US appeared relatively better until 4QCY24; however, there is uncertainty looming in the demand trends owing to policy changes.

  The company believes that if the import tariffs were to be implemented in Mexico and Canada, the short-term impact would be very severe, as there would be inflationary pressure, which would adversely impact demand trends in the US. It also indicated that despite the imposition of import tariffs, importing components from Mexico will be more price competitive than setting up facilities in the US owing to (1) lack of skilled labor force and (2) higher labor costs.

  The company indicated that, incrementally, it won more orders in the EV segment (22-23% of order book), which is witnessing a slowdown, impacting the company's overall revenues in the near term due to a delay in production ramp-up by the clients on account of weak demand trends.

- **Consumer electronics:** The company's first greenfield consumer electronics business operations commenced in November 2024, which is a smaller capacity. Additionally, the company indicated that the second plant with similar capacity will be commissioned by 2QFY26 for a different set of parts and to obtain approvals from customers. The third manufacturing plant will be commissioned in 3QFY27 (largest among the lot), which coupled with backward integration capabilities will drive the scale for the company over the coming years.

- **Non-auto business:** The company got empaneled across the Airbus portfolio and became a tier I supplier to commercial aircraft companies; it is already a tier I supplier for Airbus Helicopter and Airbus Defense and Space. SAMIL formed two new joint ventures with Sanko, Japan, and Matsui, Japan, to strengthen its packaging business under the logistics solutions business, and process and industrial automation. Sanko is a market leader in providing sustainable material handling solutions in Japan.

- **M&A strategy:** The company indicated that the acquisitions done so far by the company are reactive in nature, which is in line with the customer requirement. However, increasingly the company is focusing on identifying companies, which can provide additional capabilities to foray into non-auto segment similar to the machining capabilities acquired in the recent Atsumitec acquisition, which can be extended to products in healthcare and aerospace.

- **Capex guidance:** The company plans to invest more than ~Rs45 bn in FY2025E to ramp up production capacities, with >70% of the capex to be spent on non-automotive businesses such as healthcare and medical, and aerospace, which will drive its growth. SAMIL plans to add 14 greenfield plants across countries (India, China and Poland) and businesses with higher capex spends in emerging economies, which is likely to drive growth over the coming years. The company commercialized operations of five greenfield projects in FYTD25. Overall, we expect its organic revenues to increase at a CAGR of 4-5% over FY2024-27E. SAMIL revised the range of its capex guidance to Rs45 bn with a buffer of +/-5% from Rs50 bn, with a buffer of +/-5%.

Tata Motors: February 18, 2025

Key takeaways

- **JLR:** The company expects the JLR performance to remain resilient with revenue growth in FY2026E and likely outperform the global luxury volume growth. In addition, the company highlighted that it is on track to achieve the guided EBIT margin target of >8.5% during FY2025E. Additionally, the company expects the EBIT margins to improve to >10% by FY2026E, primarily led by a richer product mix (higher mix of RR, RR Sport and Defender), stable volumes and lower VEM expenses. The company highlighted that the China mix has consistently come down over the years and expects to remain broadly around current levels. The company has guided for capex + investments of GBP3.5 bn in FY2025E. The company mentioned that since most of the manufacturing facilities of JLR are situated in the UK, which is a net importer with the US, there will be limited impact of tariffs on the country. Additionally, the company mentioned that emission costs are likely to increase from 1QCY25E, which will be met through the purchase of carbon credits.

- **Product launches:** The company is planning to launch Range Rover EV in CY2025E and Jaguar EV in CY2026E, which will aid the company in EV transition to reduce the emission norms. Additionally, the company indicated that the EV portfolio will be margin accretive at an overall company level. The company will be launching a few variants of Curvv in 4QFY25E, which the company expects will further improve the monthly run-rate. Tata Motors unveiled Harrier EV during the Bharat Mobility Expo, which is likely to be launched in March 2025. The company displayed Sierra with a production-ready design, which is likely to be launched in electric powertrain, followed by ICE powertrain in 2HCY25E. The company showcased the Avinya EV concept during the expo, which is nearing the production-ready stage with significant and enchanting improvement in the overall design of the vehicle. The company is also planning to launch MY2025 Tiago and refreshed Nexon model in CY2025E. The company will also launch multiple new nameplates in a bid to expand the total addressable market size to 80% from 60% with the series of launches over the coming quarters.

- **Domestic business:** The company indicated that the domestic PV segment volume growth is likely to moderate in FY2026E with the SUV segment growing at a higher pace. The company highlighted that it posted the highest ever monthly retail sales in October 2024 and 3QFY25. The company has brought down the inventory levels to <~25 days and maintained the inventory at close to 25 days thereafter. Additionally, the company has taken the route of price cuts rather than the discounting strategy followed by peers to improve the brand perception and value. It will continue to leverage CNG and EV growth to drive volume growth in the PV segment.

  Demand softness in the LCV segment can be attributed to financing challenges during the quarter. Over the past few years, the SCV segment demand trends have remained weak owing to (1) a sharp increase in prices due to the BS6 transition and (2) financing challenges, which led to the migration of fleet operators to the more economical 3W segment. However, the company is planning to launch Ace Pro in the coming quarters to regain the lost market share and drive growth in the SCV segment.

- **EV roadmap:** During 3QFY25, the company achieved a +3.5% EBITDA margin in the electric passenger car segment, adjusting for the EV development expense and PLI incentives. However, by considering the EV development expense and PLI incentives, the EBITDA margins jumped to 10% in 3QFY25 from (-)8.2% in 3QFY24 and (-)5% in 2QFY25. The company highlighted that increasing localization, a decline in battery prices, PLI incentives and the transition to new generational architecture will help improve the EV margins further in the coming years.

  The company is the market leader in the EV segment with a >53% market share in 3QFY25, with a strong product pipeline, growing charging infrastructure (80% growth in 9MFY25 from FY2024 levels), declining battery prices (improved TCO and lower upfront cost) and PLI benefits.

Bosch Limited: February 18, 2025

Key takeaways

- **Demand trends:** The demand for HCVs remained subdued due to mining and construction slowdown, rising vehicle costs and shift toward higher tonnage vehicles. In the LCV category, the demand trends remain weak due to a sharp increase in costs, coupled with economic slowdown in urban centers and a shift from <2-ton LCVs to three-wheelers. Overall, the company expects to continue to outperform the overall industry growth across segments and guided for a double-digit revenue growth in the aftermarket segment, led by diesel components, lubricants and filters.

- **EV components and alternative powertrain technology:** The company highlighted that it has the capability to supply all electric components, barring the battery for an electric vehicle. The key components that the company currently supplies are 3-in-1 e-axles (motor, inverter, gearbox), on-board chargers, DC-DC converters (12V and 48V) and VCUs. Bosch continues to invest 6-8% of sales in R&D, focusing on advanced technologies such as hydrogen and electrification. The company also supplies EV-related components to Maruti e-Vitara and born electric vehicles of M&M, which is manufactured by the sister entity of the company as most of the electronics-related business is manufactured through this firm. The company also mentioned that it is working on all the powertrain technologies such as hydrogen and LNG with partners. The company is also eligible for the PLI incentive for the traction motors supplied to the two-wheeler OEMs. The company also mentioned that it is well placed to supply EV components to buses as the global parent is manufacturing the components in some of the developed markets where the EV penetration is high.

- **Localization strategy:** The company indicated that majority of the auto parts are localized; however, it has also mentioned that the EV components at the current scale are not viable to localize. The company expects there should be a ramp-up in EV volumes to make business sense before localizing the content without significantly hurting the margins of the business. Additionally, the company is holding back on localization of some of the parts on account of higher technology transfer fees (royalty), which will make the margins inferior. Globally, some of the Bosch plants are being closed, which the company believes is an opportunity to export the products depending on the product portfolio. The company highlighted that the closure of plants will not impact the technology development, as the company will have lead plants for each of the product segments/technology, which are meant for manufacturing and technology development. The company is planning to increase the export revenue mix over the coming years from the current 9.0-9.5% revenue mix, which is likely to drive the growth and margin expansion.

- **Margins:** The company mentioned that the EBITDA margins were under pressure in the past few years as the emission norm transition in developed markets happened earlier, which led to a lot of capacity addition, owing to which it made economic sense to trade some products during the BS-VI transition, resulting in a margin decline to mid-teens. However, with the growing capex spends and focus on localization, the company expects the margins to improve by 50-70 bps in the next few quarters and it aspires to reach mid-teens margins over the medium term.

Mahindra & Mahindra: February 18, 2025

Key takeaways

- **EV roadmap:** The company expects the absolute EBITDA per vehicle to be similar to ICE vehicles by CY2028E led by (1) reduction in battery prices, (2) improvement in architecture, (3) operating leverage and (4) localization of the supply chain. The company indicated that 20% of the total SUV volumes will be EV by FY2028E. Additionally, the company is planning to scale up the EV capacity to 200k units annually over the next two years. The company indicated that the XEV 9E is already PLI-compliant, whereas BE 6 will become PLI-compliant over the coming months. The company also mentioned that it will reach a stable 5k units monthly volume run rate from April 2025. The company highlighted that 75% of the order book for the recently launched EVs was for the top trims of the vehicles.

- **Product launches:** The company highlighted that it will launch 9 ICE SUVs (including 3 refreshes) and 7 BEVs by FY2030E. The company is planning to expand the monthly SUV capacity to 64k and 72k units by FY2025E and FY2026E, respectively. 15k monthly run rate increase in capacity in FY2025E will be used to enhance the capacity of ICE SUVs for Thar 5-door and XUV3XO by 7k units each and 8k units for BEVs. The additional capacity to be built in FY2026E is primarily to enhance the BEV production rate. However, the company is planning to recalibrate the capacity expansion strategy between ICE and EV as the company's ICE products are seeing strong traction in the domestic market. The company is planning to expand the capacity of Thar Roxx and XUV 3XO by 1.5-2k units over the coming quarters. The company is planning to launch refresher ICE and new EV model in CY2025E. Overall, the company expects to increase the SUV capacity to 800 units per annum by FY2026E.

- **Income tax cuts:** The company indicated that the income tax rate cuts are likely to boost discretionary consumption; however, the company mentioned that there will be marginal tailwinds for the company as the income tax benefits will most likely accrue in the entry-level and micro/compact.

- **LMM:** The company remains optimistic on the growth prospects of the e-3W market, as the current penetration of EV vehicles in the L5 category is around ~25% in 3QFY25 and believes that increasing competition will aid in the overall category growth and penetration. The company aims to double the volumes over the next few quarters, which will aid in market share and margin expansion. Overall, margins will be dilutive on the automotive segment.

- **Tractor:** The company expects the demand trends in 4QFY25E to remain strong with mid-teens yoy volume growth for the industry, led by (1) increased reservoir levels, especially in southern and central regions, which bodes well for the upcoming rabi season, (2) hike in MSPs for key crops and (3) a favorable base. The company highlighted that the upcycles are much longer than the downcycles in the tractor industry and expects the volume growth to last for a few quarters, provided the monsoon is adequate. The company mentioned that it has gained market share by 240 bps yoy to 42.5% in 3QFY25 due to (1) strong performance in Southern and Central markets for the tractor industry and (2) cleaning of inventory much ahead of competitors. The company aspires to maintain the market share in the 42-44% range over the coming years. The company expects there will be a 10% cost increase due to a shift to TREM V norms, which is applicable for tractors in the below 50 hp segment. Additionally, the company believes that the TREM V norms will be delayed by another 1-2 years from the expected timeline of April 1, 2025.

- **Capex:** The company plans to invest an overall capex of Rs370 bn over FY2025-27E in the standalone entity, which encompasses M&M, MEAL and LMM Co. The breakup of capex of segments are as follows: Auto ICE at Rs140 bn, Auto EV (MEAL) at Rs120 bn, Farm at Rs50 bn, and investments in auto and growth gems at Rs60 bn.

Ashok Leyland: February 19, 2025

Key takeaways

- **Demand outlook:** The company indicated that volume started to recover in January 2025 after two quarters of yoy decline. The company expects 5-6% yoy growth in the truck segment and 20% yoy growth in buses for the next two months. The company expects the M&HCV industry volumes to decline by 1% yoy in FY2025E, with a 3% yoy decline in the truck segment's volumes and 25% yoy growth in the bus segment's volumes. For FY2026E, the company indicated 0-5% yoy growth for the M&HCV segment. The company highlighted the overall tonnage growth in 9MFY25 remained flat as ICV segment volumes are improving, whereas the haulage segment saw a marginal decline. Additionally, the company indicated that there is a shift in consumer purchasing behavior from MAV to tractor trailers (close to 10%) on account of better flexibility.

  The company indicated that freight operators' probability is good and remains intact, given there is no significant threat to the costs on account of (1) stable fuel prices (which form 60% of total operating costs) and (2) possible reduction in EMI cost over the coming quarters on account of softening of interest rates. In addition, the company pointed out that delinquency levels are not alarming in the new vehicle purchases, whereas it has increased to alarming levels in the second-hand CV market. The company highlighted that due to the dedicated freight corridor (DFC), M&HCV industry volumes are impacted by 2-3% on an annual basis.

- **KPIs:** The company mentioned that the key performing indicators (KPIs) for the bonus payouts for majority of the senior personnel is based on (1) EBITDA margin improvement, (2) operating working capital days and (3) market share position. The company mentioned the pecking order of margins in difference segment in descending order—(1) spares, (2) export vehicle business, (3) defense, (4) power solutions business, (5) domestic LCVs, (6) domestic buses and (6) domestic trucks.

- **Margin expansion:** The company will focus on price recovery (increases), internal cost reduction measures, and richer product mix to expand the margins over the coming quarters. It mentioned that it will continue to expand its export and defense business mix, which will also aid in growth and margins. The company was able to save close to Rs20 bn due to the company's cost-saving programs over the past three years. Export volumes are expected to grow to 15k units in FY2025E from 11k units in FY2024. Additionally, the company expects the spare revenues to grow 15% yoy to Rs15 bn in FY2025E. The company mentioned that the spares penetration in the M&HCV segment is 40% and expects to improve further over the coming quarters.

- **Market share:** The company aims to achieve a medium-term market share of 35% led by channel expansion in the north and eastern regions, and new product interventions. The company indicated that it will not indulge in price actions to gain market share and try to maintain the pricing discipline over the coming quarter unless compelled by competitors' actions. The company tries to attract the customers based on product capabilities over pricing and has taken several initiatives such as service level improvements, the use of the SCR+EGR mechanism to reduce the consumption of Ad blue by 5% thereby saving costs and more. It launched SAATHI marking its foray into the entry-level LCV segment, opening up a new customer segment. Overall, the company finished all six announced launches and expanded the addressable market to 54% and is expecting to improve further to 62% over the coming years.

- **Switch Mobility:** The company indicated Switch India business will become EBITDA breakeven over the coming quarters and has a very strong order book of 1.8k buses from various state transportation units. Additionally, the company sells 80-100 units of LCVs every month. However, the Switch UK business is reeling under pressure due to lower-than-expected order inflow and sustained cash burn. The company indicated that it will take a decision on the business operations in Switch UK in the coming months.

Sona BLW Precision: February 19, 2025

Key takeaways

- **Demand outlook:** Revenue growth was subdued in 3QFY25 owing to (1) muted demand trends in Europe, which the company expects to remain weak in the near term, (2) a slowdown in off-highway market demand in the US, (3) a decline in production volumes in the CV segment in India and (4) inventory destocking by North American OEMs during the quarter. Sona Comstar also indicated that the 4QFY25 revenue growth will be muted, as global EV OEMs are transitioning to revamped models, which is likely to result in halting the production of existing models for a couple of months and the order book starts to resume from March 2025. The company highlighted that the recovery in revenues over 1HFY26E will more than make up for the lost revenues in 4QFY25E. Additionally, the company indicated that the production schedules look higher in March 2025 when compared to January and February levels. Overall, the company indicated that the organic growth in FY2026E is likely to be higher than FY2025E.

- **Active suspension system:** Sona Comstar made an investment of US$4 mn in ClearMotion's current funding round for a stake of 1.5% on post-money basis. The key rationale for the investment is that ClearMotion's active suspension technology, controlled by the company's BLDC motor controller-based actuator, has 5X lower latency compared with other existing alternatives available in the market. The company indicated that ClearMotion has successfully commercialized the suspension motor technology and is already under production for Nio ET9 (Chinese EV OEM) and another unnamed EV OEM. The current addressable market for the product stands at US$14 bn, primarily targeting the premium car segment (Class E and above cars). The company indicated that it has a minimum volume commitment from Clear Motion, until which ClearMotion will not engage a secondary supplier; the current supply of volumes to the existing two orders will be significantly lower than the minimum volume commitment. The company highlighted the current content per vehicle is around US$800. Additionally, the company expects the cost of the product will come down as the volumes ramp up over the coming quarters, which can be adopted in mass market vehicles significantly expanding the total addressable market size (TAM).

- **Growth strategy:** The company highlighted that it will be incrementally focusing on Chinese and Asian OEMs, given the underperformance of the EU and US automotive markets, which impacted its overall growth rates. It highlighted that it faces competition across product segments globally, despite it having a stronghold position with majority of OEMs, indicating the price competitiveness and superior quality of the product. The company added zone monitoring sensors to the product portfolio, which will primarily be used in the industrial segment and expanded the future product portfolio with the addition of the limited slip differential (LSD), gearbox for robotics and EVTOL.

- **PLI:** The company indicated that it will recognize the full-year PLI incentives pertaining to FY2025E in 4QFY25E and it will recognize PLI incentive benefits on a quarterly basis from 1QFY26E based on auditor's feedback.

- **Railway business:** The company expects the integration of railway business to be completed by 2QFY26E and the company mentioned that it will maintain the profitability margins in railway business in the near term. The recently acquired railway business segment has limited presence in Vande Bharat and Metro rails; the company is looking to enter into a technical partnership to foray into these segments, thereby driving growth and aiding margin expansion over the medium term.

Escorts Kubota: February 20, 2025

Key takeaways

- **Agri machinery:** The company expects the domestic tractor industry volumes to grow 6-7% yoy in FY2025E. The company expects demand trends to remain strong in 4QFY25E due to (1) growth in sales in the southern and central regions due to higher reservoir levels, (2) an increase in MSP prices and (3) favorable terms of trade. It expects demand trends to remain strong over the coming quarters and the industry is expected to clock in double-digit volume growth yoy in 1HFY26E. The company's domestic market share stood at 11.8% in 3QFY25 versus 12.7% in 3QFY24. The company has lost market share in 9MFY25, primarily due to its geographical mix (outperformance of Western/Southern regions, where Escorts Kubota has lower market share) and loss in market share in the 30-40 HP segment (the company has recently launched a product in this segment under the Farmtrac brand).

  The company highlighted that it will follow a 360-degree approach to regain its lost market share led by (1) multiple new launches in the Kubota brand and refresher launches in the Farmtrac and Powertrac brands over the next 3-4 years, (2) expansion of the distribution network to 2.1k outlets from the current 1.5k outlets (1.2k: Escorts and 300: Kubota), (3) introduction of new products under Kubota brand where there are a lot of white spaces and (4) scale-up of captive finance arm by FY2025E, which is expected to have a faster turnaround time in loan approvals. The company also highlighted that the tractor inventories are at normal levels.

  The company expects the agri solutions segment to grow at a strong pace over the coming years as (1) the Kubota brand has strong capabilities in farm implements, which the company is planning to leverage (combined harvesters, rice transplanters, rotators and others) and (2) growing penetration of farm implements due to significant improvement in efficiency and cost savings.

- **Construction equipment business:** The company expects that growth in the construction equipment revenues will be driven by (1) investments by the government in infrastructure and (2) the launch of new products by the company. The company indicated that there will be a 5-6% price increase on account of a change in emission norms to CE Stage V, which are applicable from January 1, 2025. This is likely to weigh on overall volume growth of the construction equipment segment for the company in the coming quarters. The company derives about 60-65% revenues of construction equipment from cranes and it indicated that its growth is in line with the industry in 3QFY25.

- **Export and capacity expansion:** The company's product launches in US markets have been delayed as the company is re-working on the existing model to align with the requirement of the market. The company will enter the US market in FY2027-28E, once the greenfield manufacturing plant gets commissioned. The company is in talks with the Uttar Pradesh government for setting up a greenfield manufacturing plant and expects the land to be allotted by 1QFY26E after which the company will commence construction activities. The company indicated that the capex requirement for the greenfield project will be close to Rs45 bn over the next 3-4 years. It will localize the engine manufacturing and agri machinery over the coming years in the greenfield plant, which will improve the margin profile of the company over the medium to long term.

- **Emission norms:** While the government is planning to implement TREM V regulations for tractors in the below 50 HP segment from April 1, 2026; the industry is expecting implementation to be delayed by another 1-2 years as the emission norms are very stringent compared to the global standards. Additionally, the company indicated that the cost increases will be to the tune of 10-15% to comply with the emission standards, which can impact the overall demand for the industry.

Maruti Suzuki: February 20, 2025

Key takeaways

- **Demand outlook:** The company indicated that the demand trends remain muted in the domestic market and expects retail volumes to grow 3-4% in 4QFY25E. SIAM expects industry wholesale volume growth to be in the range of 1-2% in FY2026E (versus flat yoy wholesale volume growth in FY2025E), given persisting weak demand trends for entry-level cars. However, the company highlighted it will outgrow the market driven by newer launches, especially targeting the fast-growing SUV segment.

- **Mid-term plan by SMC:** The parent company SMC released a revised mid-term plan for FY2025-30E and according to the new plan, the company is aspiring to achieve a market share of 50% by FY2030E, led by an increase in the market share in the SUV segment, driven by strong SUV launches in the new product segments (especially the large SUV segment) over the next three years. SMC expects domestic industry volumes to report a CAGR of 2.5-3.0% over FY2025-30E, whereas expects its domestic volumes to report a CAGR of 5-6% over the same period. The company will be launching four BEV models by FY2030E (six BEV models earlier); however, it expects the BEV mix to remain at 15% by FY2030E (unchanged).

- **EV roadmap:** The company highlighted that it has already unveiled e-Vitara at the Auto Expo in January 2025 and plans to start the production in the coming months with an initial focus on export markets. The company will also announce the price of the e-Vitara over the coming months depending on the competitive intensity in the market. The company aims to emerge as the largest manufacturer of electric vehicles in the Indian market in CY2025E, considering e-Vitara and contract manufacturing volumes for Toyota. It also indicated that India will be the manufacturing hub for e-Vitara model for the global markets for SMC and Toyota, which will drive the growth in export markets.

  The company aims to offer comprehensive EV ownership with the launch of 'e for me' initiatives in a bid to elevate and ease the EV ownership led by (1) home charging solutions along with installations, (2) developing charging infrastructure in the top 100 cities, which will subsequently be expanded to other cities and (3) a new mobile app that will allow customers to access charging points, check real-time availability of slots, charge their vehicles and make payments.

- **Margins:** The company indicated that the margins for the electric vehicles will be lower compared to ICE models; however, it expects to make higher margins in the export EV segment than in the domestic EV segment owing to higher competitive intensity. Additionally, the company expects EBIT margin in the export EV segment to be positive. The company said that discounts remain at similar levels as compared to 3QFY25; however, the company mentioned that it has taken 30 bps of price hikes in February 2025.

- **Exports:** The company highlighted that the Jimny 5-door received strong reception in Japan market with 30k bookings and has been the second largest exported model for the company over the last 3 quarters and the company is poised that the Jimny will become the top selling model in export markets in the coming quarters. In the export mix, the company mentioned that the Toyota-badged vehicle mix has come down to 10% from 16-17%. The company incrementally entered the European and Japanese markets, with the recently launched models (Jimny, Fronx and e-Vitara). It also aims to scale up export volumes to 750-800k units by FY2030E from 300k units in FY2024.

Hyundai Motor India: February 20, 2025

Key takeaways

- **Demand outlook:** The company indicated that the volume growth moderated in FY2025E after two years of strong growth in the domestic passenger vehicle market. The company indicated that FY2026E will be a milestone year as it is likely to expand the capacity by 170k units in 3QFY26E. Post this, the company will be launching multiple new nameplates in multiple powertrains to drive growth, improve capacity utilization and regain lost market share. The company stated that the primary reason for market share loss was its decision to avoid aggressive discounting adopted by the competitors, which led to lower sales volumes and increased dealer inventory levels. The company expects the recent income tax rate cuts, coupled with the repo rate cut by the RBI will aid in improvement in demand trajectory over the coming quarters.

- **Product launches:** The company mentioned that it will launch 18 facelift and new model launches over the next four years, including four EV launches over the next three years. The company expects the recently launched Creta EV volumes to form 10% of total Creta volumes in the coming quarters. The company aims to maintain similar market share as ICE segment in the EV segment. The company indicated that it will come up with road map of launches prior to the commissioning of new capacity to give better visibility on the product line up.

- **Margin expansion:** The company indicated that the EV margins will be lower than the ICE vehicle margins in the medium term. However, the company expects the margins in the EV segment to expand from the current levels led by (1) localization of battery cells and (2) driver train. Future EV launches from the company will be PLI-compliant. The company improved the localization content on the overall portfolio to 76.6% in 3QFY25 from 73.5% in 3QFY24. The company stated that margins will be affected in 3QFY26E due to the commissioning of a new plant and anticipates a six-month breakeven time with a 50-60% capacity utilization.

- **Exports:** The company derives 20-21% of total volumes from the export markets driven by Middle East, Asia, Latin America and Africa regions. Additionally, the company indicated that the margins in 3QFY25 were impacted primarily due to inferior product mix (Africa mix improved to 27.8% in 3QFY25 versus 13% in 3QFY24) and higher discounts offered to distributors in Africa. The company expects the export mix to start normalizing in coming quarters as the supply chain constraints have eased. It also indicated that in line with the global HMC policy, sister companies are not allowed to compete in similar segments in the same markets.

Ola Electric: February 20, 2025

Key takeaways

- **Market share:** The company indicated that it has maintained a leadership position in the EV 2W segment, with a 25% market share. However, the company has highlighted that the Ola Electric's market share in 3QFY24 declined 7% qoq to 27%, owing to (1) the launch of mass market EV 2Ws by TVS Motors and Bajaj Auto, (2) ramp-up in distribution network for the EV segment by incumbents and (3) negative impact on brand due to rising complaints on the company's products and after-sales service. However, the company is planning to improve the market share over the coming quarters, led by launch of new models, especially in the motorcycle segment, coupled with network expansion in tier I and tier II towns. The company is planning to launch ~20 vehicles over the next four quarters.

- **Distribution network:** The company mentioned that it has expanded its distribution network by >2X to 4k+ touchpoints, as of December 2024, significantly higher than the target of 2k stores by March 2025. Out of the 4k+ touchpoints, 3k are owned and operated by the company and remaining 1k touchpoints are operated by channel partners. In addition to this, the company has launched the 'Network Partner Program' in September 2024. Currently, Ola Electric has onboarded 625 partners and aims to scale this network to 10k partners across sales and service by the end of 2025. The company claimed that with minimal capital investment required from partners, the Network Partner Program can be scaled rapidly and is likely to play an instrumental role in expanding EV footprint into the urban and rural markets. The company mentioned that its D2C model has been extremely successful and remains the anchor of the network. The Network Partner Program will further amplify the benefits of the D2C network and help increase EV penetration in India, as it requires low capital investment from network partners and can be scaled up rapidly.

  The company indicated it had faced a capacity issue at its service centers during 3QFY25, given service capacity growth lagged the company's sales volume growth over the past 2-3 quarters. However, the company reduced the service turnaround time to 1.1 days currently from the earlier 2.5 days in September 2024, led by investments in the service infrastructure across people, processes and technology. The company indicated that its one-time warranty and servicing would continue for another one to two quarters. Ola Electric currently has a provision of Rs3.3k as warranty cost per vehicle, which it expects to come down to <2% of overall vehicle cost after the shift to the Gen 3 platform.

- **Gen 3 architecture:** The company highlighted that it will be able to save close to 15-20% on BOM cost with the shift to the Gen 3 platform from Gen 2, owing to centralized architecture, compact packing, reduced controller units and associated wiring. According to the company, its BOM cost for comparable products of the competition is already lower by 20-23%, given its in-house capability across domains such as software, motors, cells and electronics, coupled with vertical integration manufacturing. The company is planning to sell Gen 2 and Gen 3 architecture vehicles simultaneously, as there is good demand for Gen 2 vehicles, which will be available at a lower price with lower specifications.

- **Cell:** The company started its trial production of cells in March 2024 and the company is on track to use in-house cells in its products from 1QFY26E. The company expects the business to have a positive impact on gross margin from inception; however, material savings will be achieved once the sales reach to 3-5 GWhr. The company indicated the Gigafactory will reach EBITDA breakeven at an operating capacity of 5 GWh and the company expects the capacity to be expanded to 5 GWh by CY2025E. It is also planning to foray into the battery storage industry, with container-sized batteries. The company is planning to scale up the capacity to 10 GWh by CY2026E; for the expansion of capacity to 10 GWH from 5 GWH, the company will use the Rs12 bn of proceeds raised from IPO (for 5.0 to 6.4 GWh) and the remaining will be funded through raising debt. The company mentioned that it will launch the Ola S1 Pro+ 5.3 kWh battery, with in-house battery cells in 1QFY26E.

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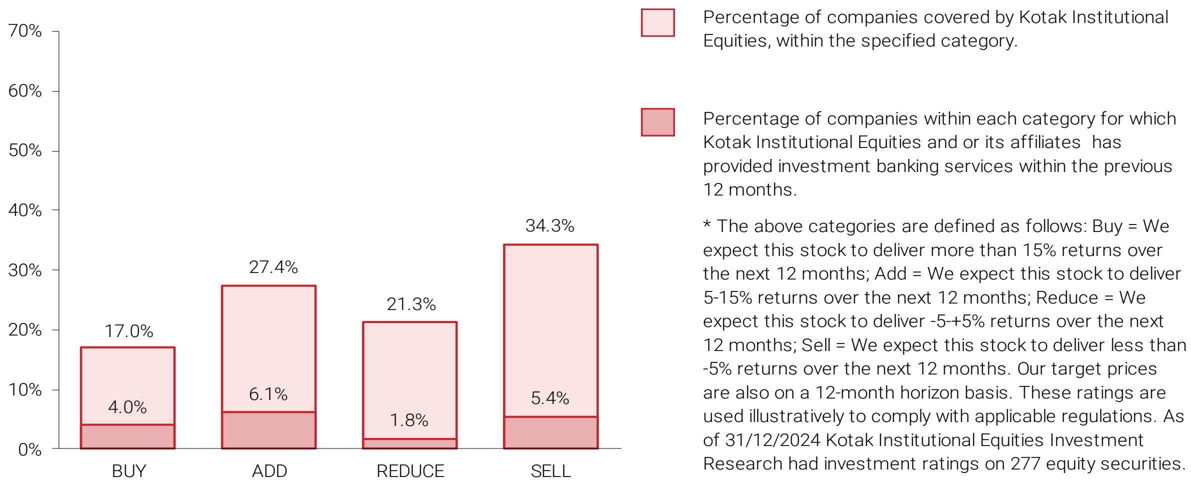

Source: Kotak Institutional Equities

As of December 31, 2024

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