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Top Conviction Ideas: Automobile Industry

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Auto Sector: Q1FY26 Review

Q1FY26 Auto OEM Review – Growth in 2W/Tractor OEMs

✓ ***Financial Performance***

- Revenue/EBITDA in Q1FY26 grew by 7%/1% YoY, respectively, against our expectations of ~4%/-3% YoY for Auto OEMs under our coverage. The revenue growth was largely driven by 9%/10% volume growth in the tractor/3W industry (though Escorts was up only 2%), while PV/MHCV/LCV were flat, and 2Ws down 2% YoY. Revenue/EBITDA declined by 5%/9% QoQ against our estimates of 8%/13% QoQ, respectively. The YoY EBITDA margin decline was due to increased operational expenses and higher personnel costs due to annual wage revision, higher marketing and advertisement spends, partly offset by a richer product mix (higher exports) and price hikes taken over the past year. PAT grew by 10% YoY (our estimate of -3%), aided by other income, mainly MTM forex gains in certain OEMs, while declining 4% QoQ (our estimate: -16%).
- Maruti, Eicher Motors, and Bajaj Auto faced downward pressure on margins by 239 bps, 277 bps, and 52 bps, respectively. However, margins were largely positive for Ashok Leyland and TVS Motor, up 52 bps and 106 bps, respectively.

Q1FY26 Auto Ancillaries Review – Mixed Performance

✓ ***Financial Performance***

- The companies under our coverage reported 13%/14% growth in Revenue/EBITDA in Q1FY26, respectively, slightly better than our expectations of ~11% each YoY. This was driven by sales volume growth (3Ws and tractors) and the premiumization trend. Revenue/EBITDA grew by 2.5%/1.2% QoQ, largely in line with our estimates of 1.3%/1.3% QoQ, respectively. EBITDA growth was supported by cost-control initiatives and operating leverage, partially offset by a marginal impact from commodities for some auto ancillaries. PAT was up by 7% YoY (our estimate: 9%), but declined 7% QoQ (our estimate: 6%).
- Endurance Technologies, UNO Minda, SSWL, and Minda Corp delivered strong YoY EBITDA growth, while Sansera Engineering and Automotive Axles remained largely flat (+/-) 2%YoY. CIE Automotive saw a 6% YoY decline due to an unfavourable product mix in the Indian business and one-time restructuring expenses at Metalcastello, Europe.

Sector Outlook (Q1FY26 Vs Q1FY25)

Two-Wheelers (2W)

- **Exports:** Up 23.2% - Sustained export volumes suggest a revival in demand from African, LATAM, and ASEAN regions, potentially helped by better dollar liquidity and macro stabilisation.
- **Domestic:** Down 6% - Underperformance on account of weak demand on account of affordability issues from buyers. Motorcycles down 9% YoY.
- **Outlook**: Positive

Commercial Vehicles (CV)

- **Exports:** Up 23.4% - Sustained export volumes YoY, possibly from a low base and improving infrastructure push in target geographies.
- **Domestic:** Down 0.6% - 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: Company Specific Bottom Up Approach.**

Passenger Vehicles (PV)

- **Exports:** Up 34.4% - Export momentum may be driven by newer models and OEM push in Africa and South America.
- **Domestic:** Down 1.4%- 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.

Tractors

- **Exports: Up 2.7%** - Export stagnation reflects continued weakness in the U.S. and Europe, where large tractor sales are under pressure.
- **Domestic: Up 9.2%** - Domestic growth likely aided by pre-election schemes, improved rabi output, and slightly better monsoons.
- **Outlook: Cautiously Positive**
- FY26 is expected to end in mid-high single digits.

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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, while raw material headwinds could exert slight pressure.

- We expect 2W sales volumes to sustain mid to 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. The expected GST rate cut by Sep-Oct'25 to 18% (from 28% currently) in 150cc/350cc (unclear as per media reports) and lower engines will be a booster/immunity shot in the post covid era, which may result in the revival of the domestic entry-level 2W industry.

- Overall PV sales growth, which has been largely led by the UV segment, is expected to remain in the mid single digits in FY26E (earlier low single digit expectations) due to expectations on the GST rate cut, which may arrest declining entry-level PV domestic sales.

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

- We remain selective in our approach. Among OEMs under our coverage, our Top Conviction Ideas in 2Ws are **Hero Motocorp, Bajaj Auto;** 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 the "**Buy On Dips" Strategy** for TVS Motors and Maruti Suzuki Ltd.

Auto Ancillaries

- In the long run, product premiumization, strong order books, growing exports, GSt rate cut 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. We also suggest a "Buy on Dips" approach for Endurance Technologies and UNO Minda for long-term gains.**

Short & Medium-Term Outlook

Short to Medium term

Expected GST rate cut by Sept-Oct'25 – To boost demand for small entry-level cars and 2Ws.

Recovery in CV/Tractor expected.

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

Premiumisation across segments to drive ASPs higher.

Export-focused companies to benefit.

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

Uncertainty on the GST rate cut decision to delay purchases.

Restrictions on Rare Earth Minerals by China.

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 Revival; Pick-up in Exports*

Top Conviction Ideas: Auto

Stock	Reco.	TP	Recommendation Rationale
Hero Motocorp Ltd	BUY	Rs 5,220*	✓ **Market Share Recovery:** Hero's VAHAN market share increased to 30.9% in Q1FY26, reaching an 11-quarter high with a 100 bps sequential gain. Recovery is being driven by strong traction in the Deluxe 100cc segment and renewed momentum in the 125cc scooter and motorcycle categories (Destini 125, Xoom 125, Xtreme 125). In the EV segment, market share doubled YoY to 7% in Q1FY26 and further rose to 10% in July, supported by the successful rollout of VIDA VX2. ✓ **EBITDA Margin** Improvement Despite EV Investments: Hero's ICE EBITDA margin improved to 16.8% in Q1FY26, driven by a stronger mix and cost efficiencies, while overall margins remained stable at 14.4% despite EV investments of ~Rs 189 Cr. The recent PLI certification for VIDA V2 Pro is expected to enhance EV profitability. Although margins may remain at the lower end of the 14–16% range in the near term, structural levers and incentive support position the company for medium-term improvement. ✓ **Global Business:** Hero MotoCorp's global business grew 27% YoY in Q1FY26, continuing the strong momentum seen in FY25. With a focus on 10–12 strategic markets, the company is introducing localised, premium-oriented products to drive market share gains. Hero targets scaling its global operations to contribute ~10% of overall revenue and volumes, positioning exports as a critical growth and diversification lever over the medium term.

***** Note: Target Price is based on our Q1FY26 Result Update Report***

Top Conviction Ideas: Auto

Stock	Reco.	TP	Recommendation Rationale
Bajaj Auto Ltd	BUY	Rs 9,360*	✓ **International Market:** Q1FY26 exports touched an all-time high (~$500 Mn) in revenue terms despite volume still being ~20-25% below FY22 levels, highlighting pricing power and premium mix benefits. As per management, LATAM and Southeast Asia (apart from Nigeria, Africa) are in an upward cycle, and Brazil—a structurally tough market—is now showing clear traction (7,000 units). Dominar, Pulsar 400Z, and KTM export momentum is expected to sustain. Capacity expansion in Brazil is expected to unlock the next leg of volume growth (50,000 units per annum). Management guides for 15–20% QoQ export growth in FY26, supported by strong demand, market recovery, and product mix improvement. ✓ **EVs Gaining Momentum:** Bajaj's EV portfolio (Chetak and E-3Ws) is now at high single-digit EBITDA margins, a sharp reversal from red territory in FY24. Despite near-term HRE magnet-based supply chain headwinds, Bajaj is pursuing multiple mitigation strategies. The company has thus cemented the pole position at 31% in e-2W vehicles. Short-term supply bottlenecks are likely priced in, but structural cost leadership and product acceptance offer a high-ROI EV optionality. ✓ **Bajaj Auto Credit Limited:** A Silent Value Compounder: BACL delivered Rs 102 Cr PAT in Q1FY26, doubling FY25 annual PAT. AUM now stands at Rs 12,000 Cr and penetration at 40%. Bajaj has infused Rs 300 Cr this quarter to support aggressive but profitable growth. This captive NBFC flywheel is increasingly accretive to core RoE and valuations.

***** Note: Target Price is based on our Q1FY26 Result Update Report***

Top Conviction Ideas: Auto Ancillaries

Stock	Reco.	TP	Recommendation Rationale
Ashok Leyland	BUY	Rs 135*	✓ **Product Innovation & New Launches –** Strengthening Portfolio: The company introduced the Intelligent Vehicle Acceleration Control (I-VAC) system to boost fuel efficiency in AC trucks and plans multiple launches in FY26—including high-horsepower MHCV tippers and tractor trailers (280, 320, 360 HP), LNG-powered trucks, upgraded 13.5-meter buses, a new 15-meter bus with unique value propositions, and bi-fuel LCVs targeting metro demand. E-trucks on BOSS and AVTR platforms are gaining traction domestically and internationally, reinforcing Ashok Leyland's technological edge. ✓ **Defence & Power Solutions:** Despite Q1FY26 defence revenue of Rs 120 Cr vs Rs 400 Cr last year, management remains bullish, backed by a Rs 1,000 Cr order book and Rs 2,000 Cr in tenders won. The power solutions segment posted a 28.5% YoY revenue increase, diversifying income streams and enhancing margin stability. ✓ **Capacity Expansion & Dealer Network** – Enabling Scale: Capacity expansion is targeted and demand-driven—the new Andhra Pradesh plant will ramp to 200 units/month by year-end, while the upcoming Lucknow bus plant (Q3FY26) and expanded Alwar and Trichy capacities will raise fully built bus production from 950 to 1,650 units/month. Dealer reach is widening rapidly, with 23 MHCV and 13 LCV touchpoints added in Q1, taking totals to 1,073 (MHCV) and 851 (LCV), with a goal of 2,000+ combined touchpoints by FY26-end**.**

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Top Conviction Ideas: Auto Ancillaries

Stock	Reco.	TP	Recommendation Rationale
Sansera Engineering	BUY	Rs 1,500*	✓ **Revenue Outlook:** The company posted a modest 3% YoY revenue growth in Q1FY26, subdued due to multiple short-term headwinds in both domestic and export markets. However, its diversified portfolio—spanning geographies, segments, and customers—provides resilience and positions it well for acceleration in the coming quarters. Management's commentary indicates that most challenges, including US tariff uncertainties and temporary export softness, are transitory and a rebound is expected from FY27. Growth drivers include strong ADS traction, Sweden's sustained performance, new aluminium forging opportunities, agricultural and industrial demand tailwinds, and gradual stabilisation in xEV. ✓ **Orderbook:** Sansera's orderbook stands at Rs 2,024 Cr in peak annual revenue potential, which is well-diversified across ADS (24%), xEV (10%), tech-agnostic auto components (9%), ICE PV+CV (30%), and two-wheelers (15%). In Q1FY26, the company secured orders worth Rs 173 Cr, reinforcing its ability to win business despite challenging market conditions. Key wins included xEV orders from North American OEMs, order wins from a new American tractor OEM, and new business from Collins Aerospace. This robust order inflow not only enhances revenue visibility but also strengthens its foothold in premium, high-value segments that are expected to drive margin accretion over the medium term. ✓ **EBITDA Margins:** The 17.2% EBITDA margins achieved in Q1FY26 were supported by Sweden's scale-up (80% YoY revenue growth with a 4% gross margin expansion), Fitwell's 21% YoY growth with stable margins, improved raw material yields, and a richer ADS mix. Additionally, initiatives focused on optimising manpower and capacity utilisation are further contributing to performance. US tariff impacts have so far been passed through to most customers, limiting downside risk.

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