

# Automobiles

## Navigating 2W resurgence amid initial PV slowdown

Change in sector preference as we like 2W over PV; remain positive on MHCV

The auto sector witnessed a healthy rebound in terms of demand, supply chains, and operational costs after overcoming its numerous macro as well as sector-specific challenges. The Nifty Auto index grew ~29% YoY, outperforming the Nifty index, which grew by 6%, reflecting the robust sectoral performance. While volumes of PVs, and tractors reached new highs in FY23, those of CV/2W have been relatively slower to approach their earlier peaks, suggesting that the extent of recovery differed between categories. Though growth in other sectors should stabilize, we are already witnessing a reversal in demand patterns, especially in the 2W segment, wherein we anticipate high growth potential, along with the MHCVs. We have modified our sector preferences in light of the same and now favor 2Ws above other sectors, followed by MHCVs, while we turn cautious on the PV outlook.

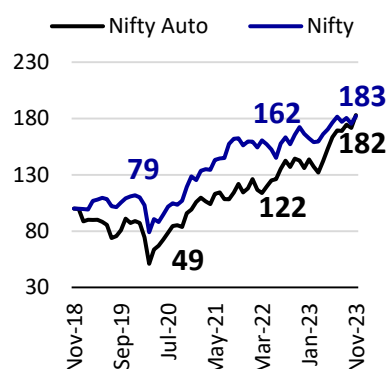
### Demand outlook for 2W improving, MHCV remain stable

- **2W demand recovery anticipated albeit at slower pace:** Demand sentiments have been improving in 1HFY24, as urban continued to do well, while rural markets are also showing signs of recovery. We believe new model launches along with the lower base of previous year and improved supplies should drive 9-11% volume CAGR over FY23-26E.
- **MHCV better placed among all the sectors:** Fleet utilization level is expected to improve, led by growth in infra-led activities, and improving demand from ports. However, replacement demand has not yet picked up sharply, and is going to be a key monitorable in the coming quarters. We expect MHCV volumes to register a CAGR of 7-9% over FY23-26E.
- **PVs signs of growth moderating, while the mix continues to improve:** PV dispatches continue to witness healthy growth, led by new model launches and improving supply chain. However, we are seeing signs of slowdown in the lower-end segment, along with a declining waiting period for SUVs (partially due to improved supplies). We expect volumes to register 5-7% CAGR over FY23-26E.
- **Tractors would see growth in 2HFY24:** Volumes declined ~4% YoY in 1HFY24 due to festive mismatch, uneven distribution of rainfall and elimination of subsidies in key states. While the demand is expected to improve in 2HFY24, we believe FY24 volumes should stay flat YoY.

### 2W/3W/CV yet to reach the peak volumes

Domestic volumes (in 000's)	1H FY24	YoY growth %
2W	8,739	4.1
3W	340	72.8
PV	2,070	6.9
LCV	293	-2.5
M&HCV	172	10.3
Tractor	469	-3.7

### The divergence between Nifty and Nifty Auto index has been coming off



### Exports: Gradual recovery expected from 2HFY24

- **Receding headwinds across key global markets:** While the challenges related to global macros continue, the situation seems better this year vis-à-vis FY23. This has been further supported by improving supply chain and improved availability of semi-conductors.
- **Management commentaries indicate ramp up from 2HFY24 onwards:** Most of the management commentaries indicate that exports remained under pressure in 1QFY24 but that they sequentially recovered in the second quarter. Headwinds have now started moderating and exports should see a gradual recovery from 2HFY24 onwards.
- **Companies with high global exposure continues to trade at a discount-** Within our coverage universe, several companies have material exposure in key geographies such as EU, NA, China, Africa and others (refer exhibit 10). Most of

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these companies are trading (based on FY25E EPS) at a discount of 10-35% vs their 10-years LPA.

### 2QFY24 margin fully reflect benefits of RM saving

- **Commodity prices to remain stable:** After a sharp increase in 1HFY23, most of the RMs have witnessed significant correction in their prices. Commodities such as steel/aluminum/rubber/polymer have corrected 10-25% from their peaks.
- **Mix and operating leverage to play a key role in driving margins:** In 2Ws, mix for >125CC models have increased from 30% in FY22 to 33% in 2QFY24. Similarly, for PVs, the SUV mix has increased from 45% in FY22 to 53% in 2QFY24. We estimate gross margin/EBITDA margin to improve 210bp/260bp over FY23-26E for our OEM universe (ex-JLR), led by operating leverage, cost control, and product mix.
- However, we see limited scope of EBITDA margin expansion over 2QFY24 as gross margin is expected to have peaked out.

### Stable growth outlook and lower capex to drive FCF in the coming years

- **Capex intensity to come off for most of the companies:** While the absolute capex is expected to increase over the next three years, it will be significantly lower than the revenue growth. Also, capex cycle looks more prudent now vs. the previous growth cycle as average capex for FY24-26 is expected to be 3.6%/4.6% of revenue for OEMs/Ancs (vs. 4.5%/8.2% in FY17-19).
- **Stable earnings and lower capex should drive healthy growth in FCF:** Improved earnings visibility and lower capex intensity should help generate better free cash flows over the next few years. We anticipate ~36%/49% CAGR in FCF for our OEM/Ancs coverage universe over FY23-26E. This should result in average FCF to sales of 6.6% each over FY24-26E vs. 6.3%/1% over FY17-19 for OEMs/Ancs coverage, respectively.

### Shifting focus to 2Ws; maintain positive view on MHCVs

- **Positive on 2Ws and being cautious on PVs:** We are already witnessing a reversal in demand patterns especially in the 2Ws wherein we anticipate high growth potential. As compared to other categories, 2Ws have a relatively better scope for growth over FY23-26E. On the other hand, we turn cautious on PV growth outlook due to slowdown in demand trend and high base.
- **Maintain our positive view on MHCVs while LCV and tractors rank at the bottom of our segment pick:** Growth momentum in MHCV have sustained, led by strong demand in all underlying industries. We anticipate MHCVs to volumes to register a CAGR of 7-9% from FY23 to FY26E. This keeps MHCVs as our second choice within the auto pack. Tractors, on the other hand, reported their highest volumes in FY23. We anticipate minimal space for growth in both LCV and tractors over the next three years, with expected CAGRs for both ranging 3-5%.
- **We prefer TTMT, HMCL among OEMs and ENDU, CRAFTSMA among Ancs-** We reiterate TTMT as our top pick in the sector, while we have added HMCL as our second preferred pick among OEMs as it is a good proxy, especially on a rural market recovery, with its stronghold in the 100cc Motorcycle segment. Among Ancillaries, we prefer i) ENDU, as it is a proxy play to domestic 2W industry and ii) CRAFTSMA, led by ongoing CV growth cycle coupled with expectations of strong growth and superior capital efficiency.

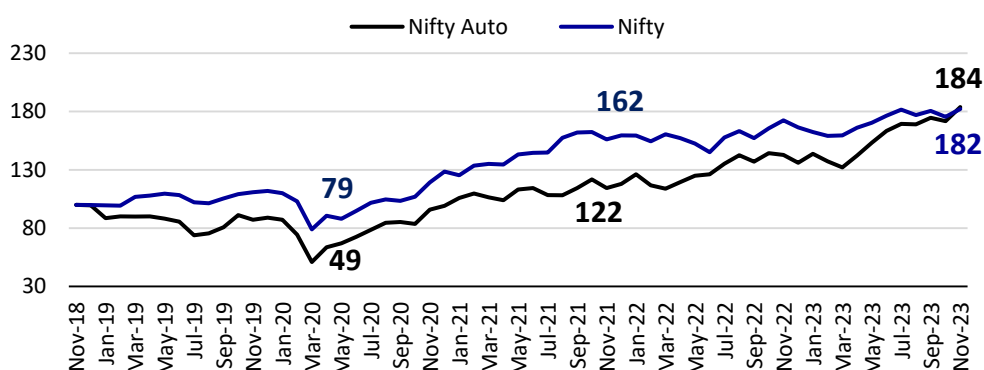
## How the sector is placed now...

**Exhibit 1: 2W/3W/MHCV yet to reach the peak volumes**

Domestic volumes (in 000's)	1HFY24	YoY growth %	FY23 volumes (000s)	% off from previous peak
2W	8,739	4.1	15,859	-25.0
3W	340	72.8	516	-26.3
PV	2,070	6.9	3,890	15.3
LCV	293	-2.5	603	-2.3
M&HCV	172	10.3	359	-7.9
Tractor	469	-3.7	945	5.1

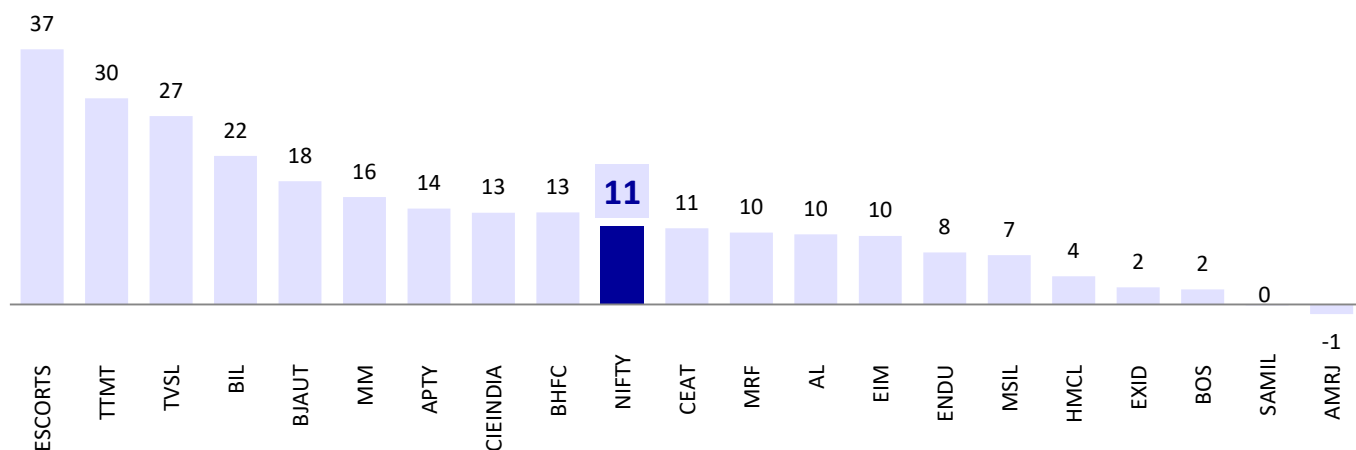
Source: Industry, MOFSL

**Exhibit 2: The divergence between Nifty and Nifty Auto index has come off in last one year**



Source: Industry, MOFSL

**Exhibit 3: Five year compounded returns % across our coverage universe over Nov'18-Nov'23 vs. NIFTY Index**



Source: Bloomberg, MOFSL

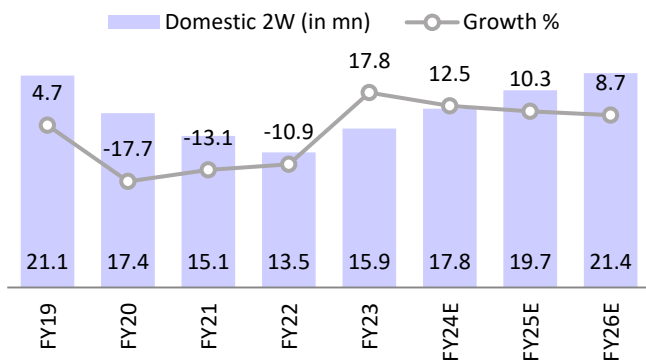
## Demand outlook for 2W improving, MHCV remain stable

### ...2W and PV witnessed double digit volume growth during the festivals

- **2W- Healthy growth visibility due to demand recovery and low base:** Demand sentiments have been improving in 1HFY24, as urban continued to do well, while rural markets are also showing signs of recovery. As compared to other categories, two wheelers have a relatively better scope for growth over FY23-26E as demand sentiments are turning positive, further supported by their weaker recovery over the last two years, which has led to a lower base. This should be followed by a gradual but orderly rebound in the exports. We hence anticipate 9-11% CAGR over FY23-26E for the segment.
- **CV- MHCV better placed among all the sectors; LCV growth moderating:** fleet utilization level has started improving, led by growth in infra-led activities and improving demand from ports. However, replacement demand has not yet picked up sharply, and is going to be a key monitorable in the coming quarters. Nevertheless, we believe that the current upcycle has reached close to its peak and that demand may stabilize in FY25. Based on the same, we anticipate MHCV volumes to register a CAGR of 7-9% from FY23 to FY26E. This keeps MHCVs as our second preference within the auto pack. Volume growth for LCVs in FY24 should remain under check due to higher base, slower recovery in rural markets, especially due to agri segment. Hence, we expect 3-5% CAGR for LCVs over FY23-26E.
- **PV- Healthy volume growth during the festive season; however, we are turning cautious, considering initial signs of weakness:** PV dispatches continue to witness healthy growth, led by new model launches and improving supply chain, resulting in execution of order backlogs. However, we noted signs of slowdown in the lower end PV models and declining waiting period in SUVs (partially due to improved supplies), indicating moderation in the growth momentum. However, the product mix remains favorable as the share of SUVs and high-end models continue to improve. We expect PV volumes to register a CAGR of ~4-6% over FY23-26E.
- **Tractors- High base, lower-than-expected monsoon to keep growth under check:** Domestic tractor volumes declined ~4% in 1HFY24, led by festive mismatch in 1Q, uneven distribution of rainfall, and high base of last year. Despite multiple headwinds, such as subdued monsoon and high base, volume growth is expected to be flattish a YoY basis.. However, we anticipate lower space for growth due to high base and cyclical nature of the business. Hence, tractors are ranked the last in our sector pack.
- **Premiumization trend continues:** The product mix continues to improve for both 2Ws and PVs, led by higher customer preference toward premium-end models, coupled with improving supply chain. In 2Ws, mix for >125CC models have increased from 30% in FY22 to 33% in 2QFY24. Similarly, for PVs, the SUV mix has increased from 45% in FY22 to 53% in 2QFY24. With the introduction of new models in both 2Ws and PVs, we are witnessing a surge in traction. We believe that the trend of improving product mix will persist in the foreseeable future.

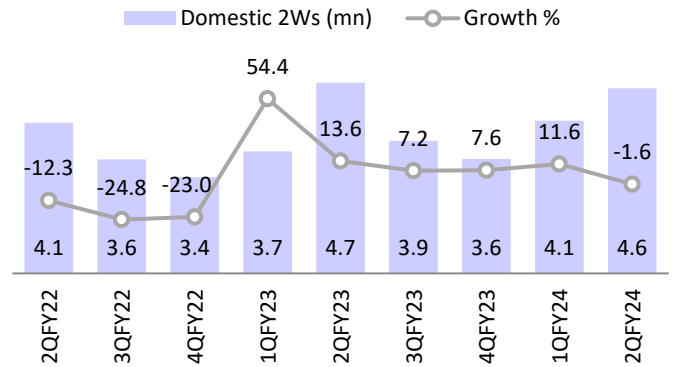
## 2Ws likely to outperform; signs of slowdown in PVs and tractors

**Exhibit 4: Domestic 2W- Expect 11% volume CAGR over FY23-26E**



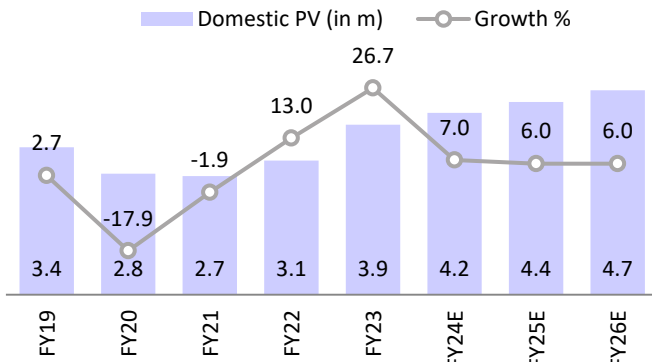
Source: SIAM, MOFSL

**Exhibit 5: Demand recovery visible; improvement in rural demand crucial to achieve the next leg of growth**



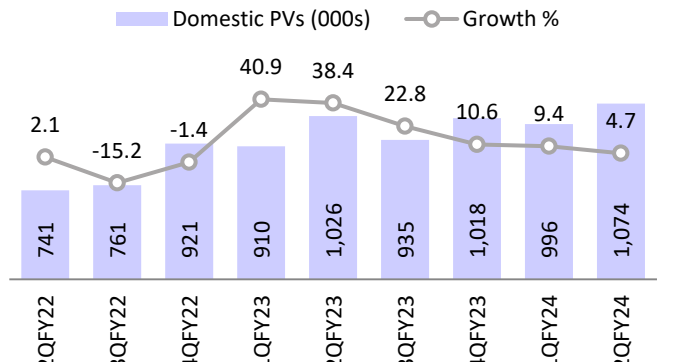
Source: SIAM, MOFSL

**Exhibit 6: Domestic PV- Volumes to register a CAGR of ~6% over FY23-26E; signs of weakness in lower-end models**



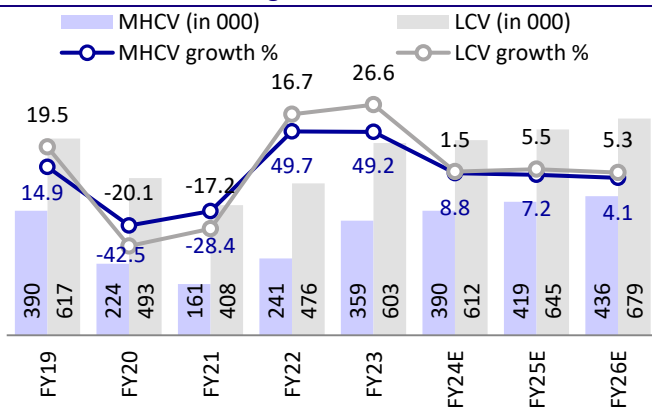
Source: SIAM, MOFSL

**Exhibit 7: Order book execution and improving supply chain should drive healthy festive growth**



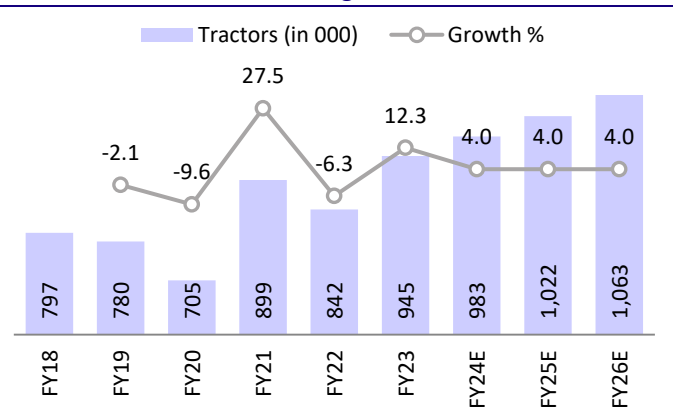
Source: SIAM, MOFSL

**Exhibit 8: Domestic CV- MHCV to register a volume CAGR of ~7% over FY23-26E; LCV growth to moderate at ~4% CAGR**



Source: SIAM, MOFSL

**Exhibit 9: Domestic tractor- Expect 4% volume CAGR over FY23-26E; uneven monsoon, high base should dent demand**



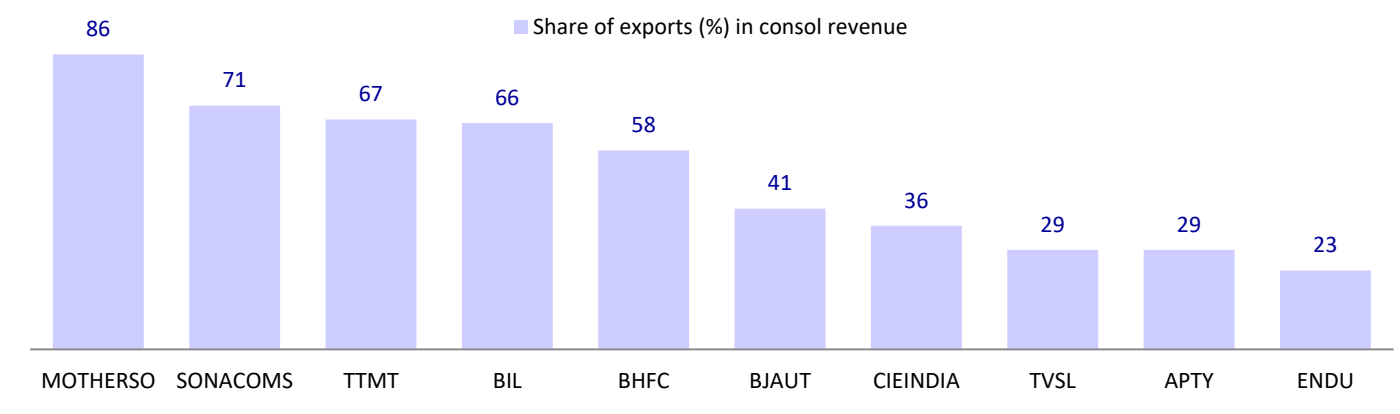
Source: TMA, MOFSL

## Exports- Gradual recovery expected from 2HFY24

...however signs of growth moderation visible in NA Class 8 trucks

- **Receding headwinds across key geographies-** While the challenges related to global macros continue, the situation seems better this year vis-à-vis FY23. This has been further supported by improving supply chain and availability of semi-conductors. Despite multiple headwinds, underlying demand has been positive in PVs and CVs, resulting in improving volumes. This coupled with correction in channel inventory lends medium-term visibility for demand.
- **Exports- 1HFY24 has bottomed out; witnessed moderate growth in 2QFY24:** Most of the management commentaries indicate that exports in 2QFY24 remained under pressure with initial signs of recovery in some markets and a gradual recovery is expected going ahead as challenges related to Fx availability has started to moderate. However, full-fledged recovery is expected to kick in from 2HFY24 onwards, resulting in better utilizations and profitability thereafter.
- **2W exports to register a CAGR of ~7% over FY23-26E despite flattish FY24-** Exports form a major part of revenue for 2W OEMs like BJAUT (~41% of revenue) and TVSL (~29% of revenue). Despite a ~20% YoY decline in 2W exports in 1HFY24, we expect FY24 volumes to be flattish with recovery coming in from 2HFY24. This will be driven by better availability of Fx in some geographies and easing supply issues, which are largely showing signs of easing.
- **Companies having high global exposure are trading at discounts-** Within our coverage universe, several companies have material exposure in key geographies such as EU, NA, China, Africa and others (refer exhibit 10). Most of these companies are trading (based on FY25E EPS) at a discount of 10-35% vs. their 10-year LPA.

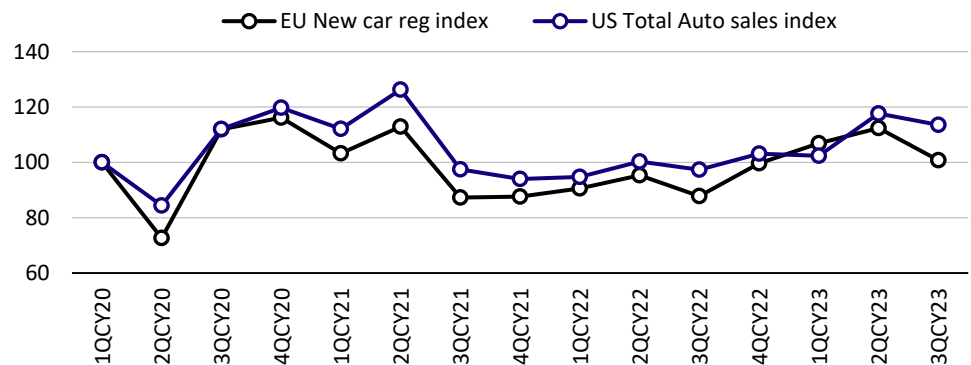
Exhibit 10: Companies within our coverage having higher dependency on exports



Source: Company, MOFSL

### Global PVs- Improving supply chain and receding macro headwinds to help growth in global PV industry volumes

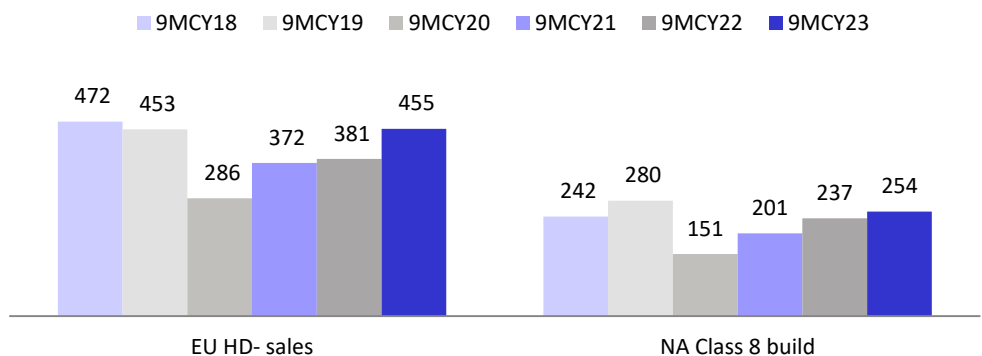
**Exhibit 11: Volumes (index) for light vehicles gradually moving up in both EU and US**



Source: Bloomberg, MOFSL

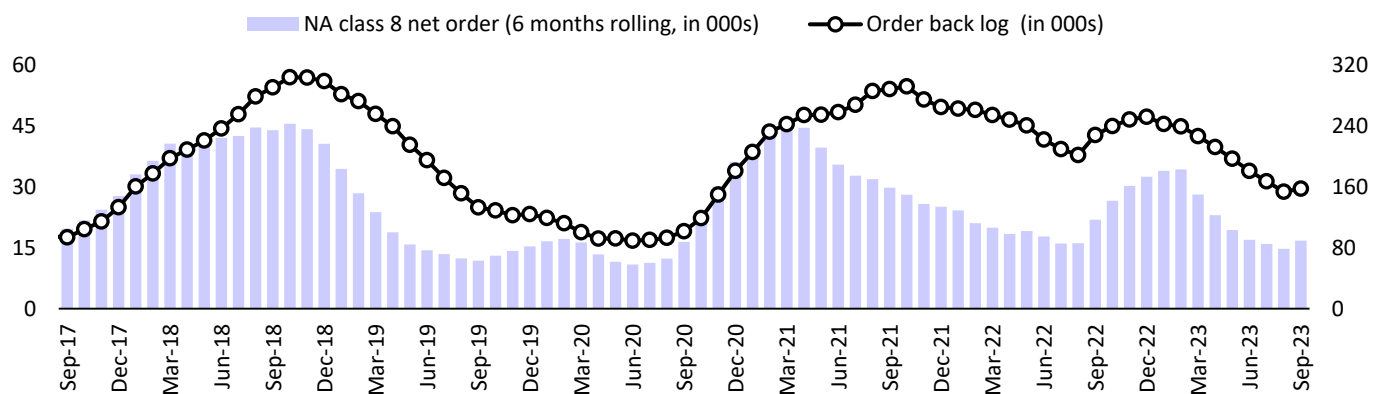
### NA Class 8- While overall volumes continue to grow, led by execution of order backlog, there has been some moderation in net orders trend, indicating weakness in underlying demand.

**Exhibit 12: Volumes (in 000s) for HD trucks witnessing healthy growth on YoY basis**



Source: Bloomberg, MOFSL

**Exhibit 13: NA class 8 trucks: Witnessing moderation in net orders**

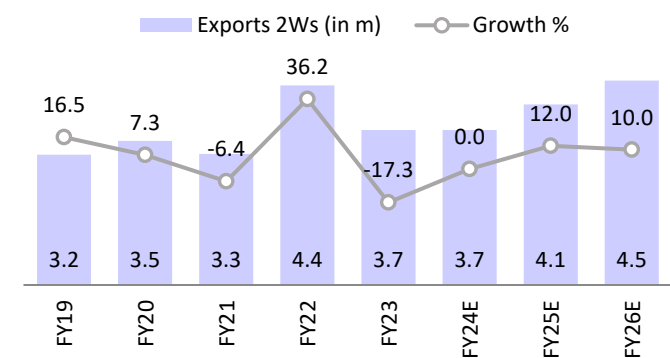


Source: Bloomberg, MOFSL



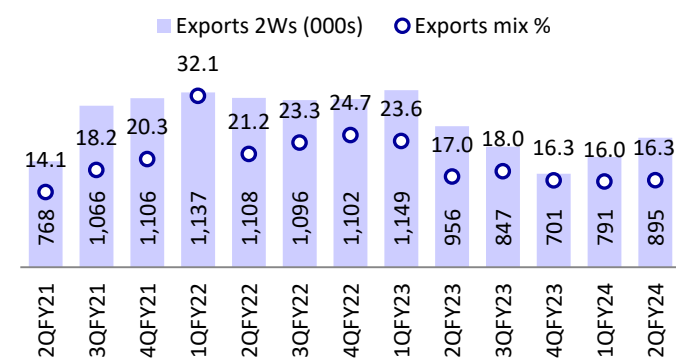
**Recovery in 2W exports will be crucial for BJAUT and TVSL as it contributes ~41% and 29% of their overall revenue, respectively. We expect 2W exports to register a CAGR of ~7% over FY23-26E despite flattish FY24 volumes.**

**Exhibit 14: Exports- FY24E growth should be flattish despite a ~31% YoY decline in 1QFY24; expect 7% CAGR in FY23-26E**



Source: SIAM, MOFSL

**Exhibit 15: 2W exports mix was 11 quarters low at ~16% in 1QFY24, largely remained stable in 2QFY24**



Source: SIAM, MOFSL

**Exhibit 16: Most of the companies have hinted toward recovery in 2HFY24**

Companies	Commentary on exports
<b>Bajaj Auto</b>	<ul style="list-style-type: none"> <li>The macro environment, along with new geopolitical challenges, has remained subdued, but improving FX availability has helped. Currency-led inflation continued to dampen the pace of recovery. Exports still at 66% of peak volumes in FY22.</li> <li>8-10% QoQ growth in both retail and shipments across all regions: i) Africa saw double-digit improvement, led by Nigeria on a QoQ basis; ii) Asia/MENA/ LATAM saw single-digit improvement. BJAUT expects the recovery to continue at this gradual pace.</li> </ul>
<b>TVS Motors</b>	<ul style="list-style-type: none"> <li>International markets, including Africa, are settling down and retail is picking up. TVSL does not have much stock in the market.</li> <li>The entire European market is experiencing a period of limited growth coupled with high inflation, significantly impacting consumer demand. Interest rates are in the range of 5-6%.</li> <li>Gradual improvements in supply chain to continue in 2HFY24. Chip and other supply constraints continued to ease in 2Q, along with the benefit of agreements and relationships with key suppliers.</li> </ul>
<b>Tata Motors- JLR</b>	<ul style="list-style-type: none"> <li>3Q/4Q production and wholesale are expected to improve further. Order book remained strong with over 168,000 client orders, with RR, RR Sport, and Defender accounting for 77% of the order book.</li> </ul>
<b>Bharat Forge</b>	<ul style="list-style-type: none"> <li>CV and industrial business is likely to witness flattish growth in the US market.</li> <li>PV exports are now one-fourth of the total exports, led by market share gains, increasing value additions, and geographical expansion. The growth is expected to continue as there were multiple business wins. Some of them have ramped up and some got affected by the current problems in the US.</li> </ul>
<b>Balkrishna Industries</b>	<ul style="list-style-type: none"> <li>The management feels that the worst is over for export markets and that it is monitoring new geopolitical tensions. Inventory in the export markets has normalized, but the confidence level in the distribution channel remains moderate (dealers carrying 2-3 months of inventory).</li> <li>Dispatches to global markets are marginally lower with a slow and gradual recovery expected.</li> </ul>
<b>Apollo Tyres</b>	<ul style="list-style-type: none"> <li>Demand is expected to remain sluggish in the near term, and the focus will be on cost-control measures. However, demand is expected to recover from the current level.</li> </ul>
<b>Endurance Tech</b>	<ul style="list-style-type: none"> <li>The outlook remains weak. Recessionary pressure is hurting order intake. ENDU is confident of managing the situation over the next two quarters as it focuses on starting new projects. In 1HFY24, the company has won EUR19.76m business (vs. ~EUR80m in FY23).</li> </ul>

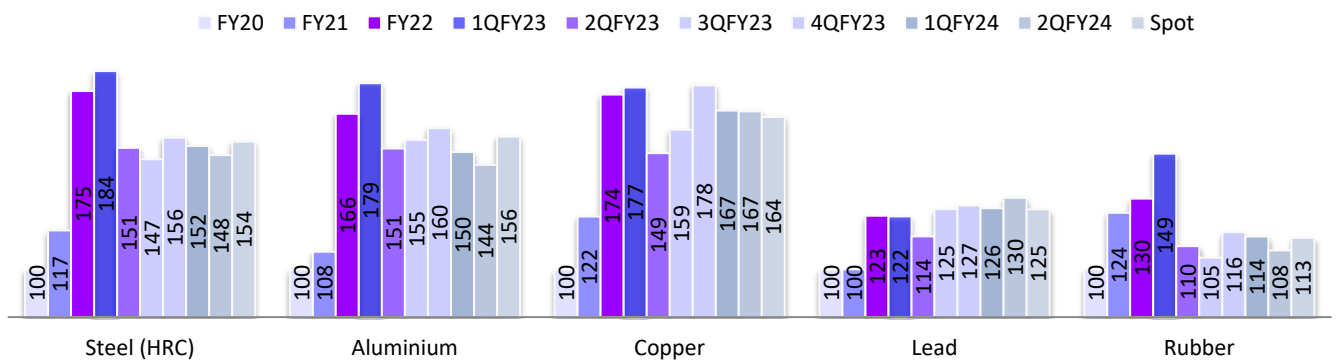


## 2QFY24 margin fully reflect benefits of RM saving

...commodity prices stable; favorable mix, operating leverage to aid margin

- **Commodity basket has stabilized after significant correction from its peak:** After a sharp increase in 1HFY23, most of the RMs have witnessed significant correction in their prices. Commodities such as steel/aluminum/rubber/polymer have corrected 8-25% from their peaks. Moreover, 2QFY24 has remained favorable in terms of commodity prices vs. the previous quarter as average prices for most of the commodities have declined up to 5% sequentially.
- **Premiumization trend continues:** Product mix continues to improve for both 2Ws and PVs, led by higher customer preference toward premium-end models, coupled with improving supply chain. In 2Ws, mix for >125CC models have increased to 33% in 2QFY24 from 30% in FY22. Similarly, for PVs, the SUV mix has increased to 53% in 2QFY24 from 45% in FY22. With new model launches, both in 2Ws and PVs gaining healthy traction, we believe the trend of improving product mix should continue going forward.
- **Operating leverage will be crucial for margin expansion:** While operating leverage benefits are likely to be fueled by expectations of healthy volume growth and cost-control measures, better product mix will further boost profitability for the auto industry. We estimate gross margin/EBITDA margin to improve 210bp/260bp over FY23-26E for our OEM universe (ex-JLR). However, we see limited scope of EBITDA margin expansion over 2QFY24 as gross margin is expected to have peaked out.

**Exhibit 17: Key RM index (FY20 base)- Most of the commodity prices except lead remained flat in 1HFY24, after seeing a moderation from its peak**



Source: Bloomberg, MOFSL

**Exhibit 18: Product mix has been improving consistently for 125CC and scooters**

Domestic 2W mix	FY19	FY20	FY21	FY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
<125CC	37	37	36	37	34	32	32	34	32	31
125CC	12	13	16	16	19	17	17	14	18	17
125CC-300CC	11	10	11	9	7	11	10	10	10	10
>300CC	4	4	4	4	5	4	6	6	5	5
Scooter	32	32	30	30	32	33	32	33	31	34
Moped	4	4	4	4	3	2	3	3	3	3

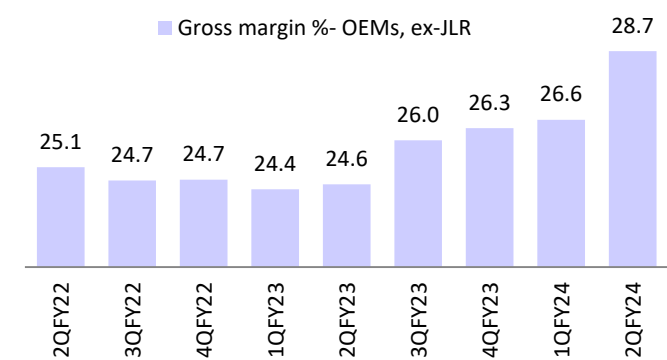
Source: SIAM, MOFSL

**Exhibit 19: SUV mix has increased to 52% in 2QFY24 vs 45% in FY22**

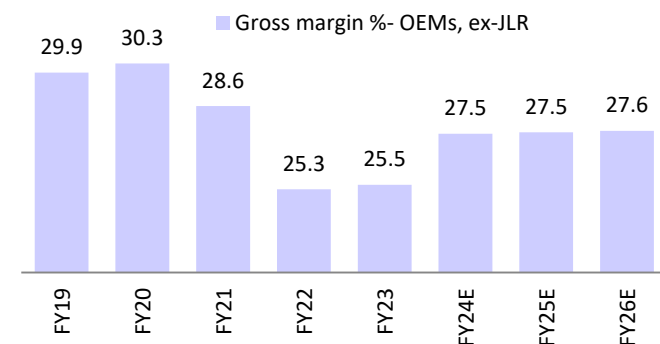
Domestic PV mix %	FY19	FY20	FY21	FY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Mini	17	18	17	15	12	13	11	11	10	7
Compact	30	28	29	23	22	22	23	23	22	20
Sedan	18	14	11	10	10	9	10	9	9	8
UVM	0	1	2	5	6	6	6	5	5	5
UVC	12	14	18	20	20	20	19	20	23	22
UV	12	15	16	20	22	20	25	23	23	25
MPV	6	5	4	4	4	4	3	4	4	4
Others	4	4	3	4	5	5	3	4	5	8

Source: SIAM, MOFSL

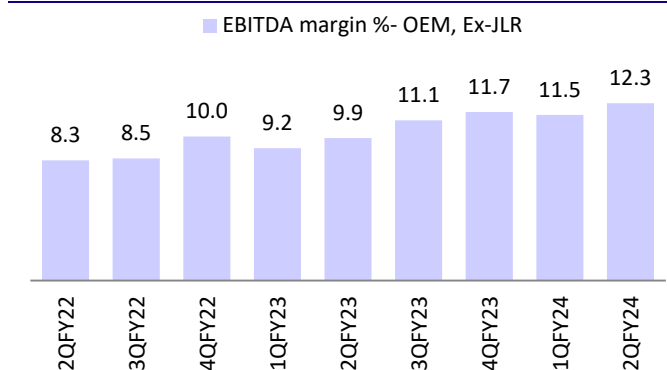
**Product mix continues to improve for both 2Ws and PVs, with increased customer preference for premium-end models, coupled with improving supply chain.**

**Exhibit 20: Gross margin remains flat QoQ for OEMs, ex-JLR**

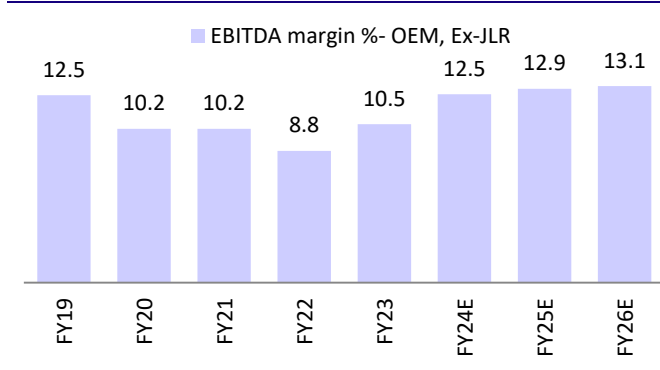
Source: Company, MOFSL

**Exhibit 21: Stable RM and better mix should help GM**

Source: Company, MOFSL

**Exhibit 22: 2QFY24 largely factor in the benefits of softening RM**

Source: Company, MOFSL

**Exhibit 23: Op leverage, mix will be crucial to drive margin**

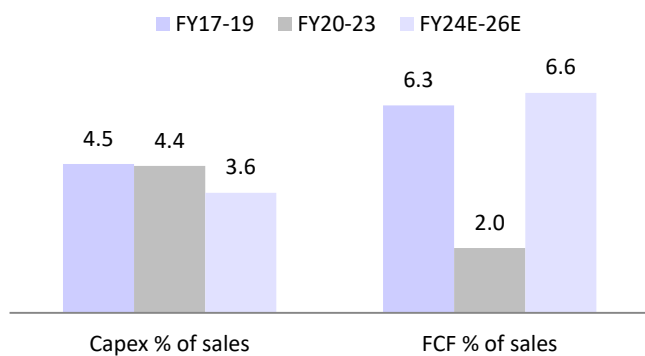
Source: Company, MOFSL

## Stable growth outlook and lower capex to drive FCF

FCF for our coverage universe of OEM/Ancs to grow 2.5x/3.3x in FY23-26E

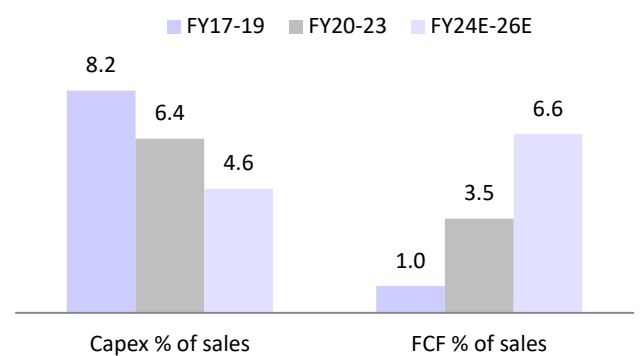
- **Capex intensity to come off for most of the companies:** We estimate revenue CAGR of ~12%/11% over FY23-26E for our Auto OEM/Ancs coverage. To facilitate this growth, we estimate cumulative capex of INR670.2b over FY24-26 for OEMs (vs. INR425.7b over FY21-23) and INR417.7b for Ancs (vs. INR354.3b). While the absolute capex is expected to increase over the next three years, it will be significantly lower than the revenue growth. Also, capex cycle looks more prudent now vs. the previous growth cycle as average capex for FY24-26E is expected to be 3.6%/4.6% of revenue for OEMs/Ancs (vs. 4.5x/8.2x in FY17-19).
- **Stable earnings and lower capex should drive healthy growth in FCF:** Improved earning visibility and lower capex intensity should help generate better free cash flows over the next few years. We anticipate ~36%/49% CAGR in FCF for our OEM/Ancs coverage universe over FY23-26E. This should result in average FCF to sales of 6.6% each over FY24-26E vs. 6.3%/1% over FY17-19 for OEMs/Ancs coverage respectively.

Exhibit 24: OEM- Average Capex and FCF trend



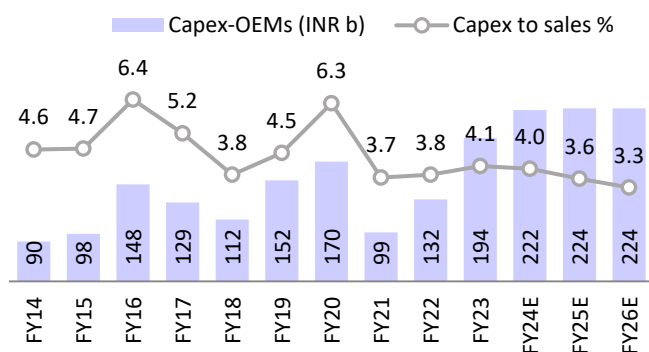
Source: Company, MOFSL

Exhibit 25: Ancs- Average capex and FCF trend



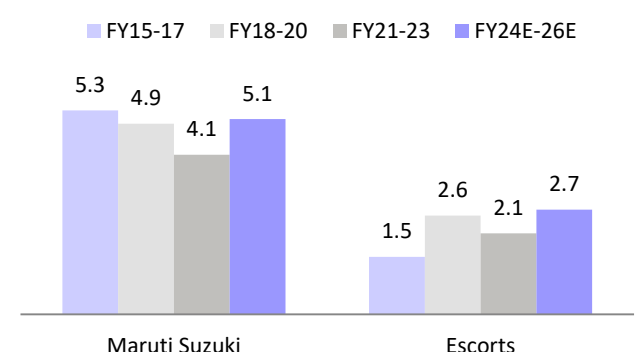
Source: Company, MOFSL

Exhibit 26: Capex to sales (%) for our OEM coverage universe is expected to decline over FY24-26E vs. FY21-23



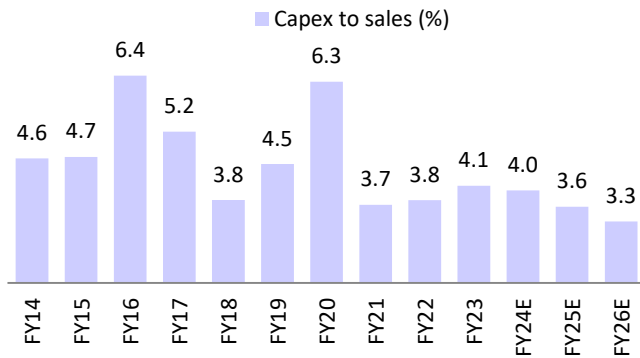
Source: Company, MOFSL

Exhibit 27: MSIL and ESCORTS are the only OEMs wherein capex as a percentage to sales is expected to increase



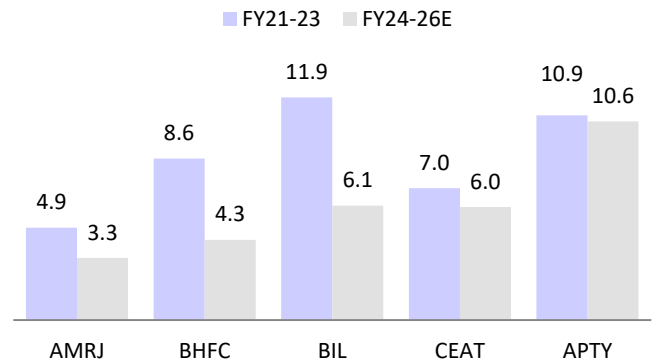
Source: Company, MOFSL

**Exhibit 28: Capex to sales (%) for our ancillary coverage universe is expected to decline over FY24-26E vs. FY21-23...**



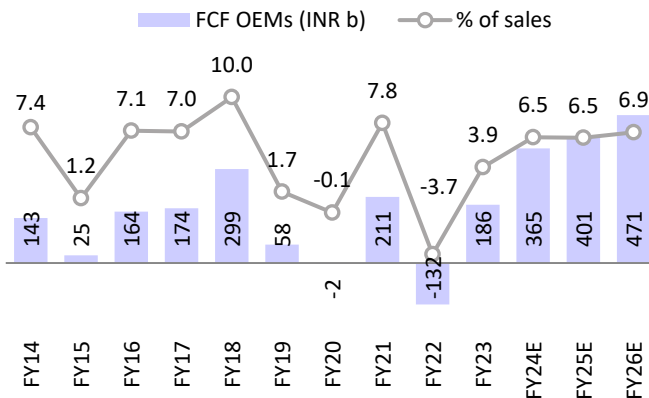
Source: Company, MOFSL

**Exhibit 29: ...largely led by prudent capex plans by tyre players and lower capex estimates for AMRJ, BHFC and BIL**



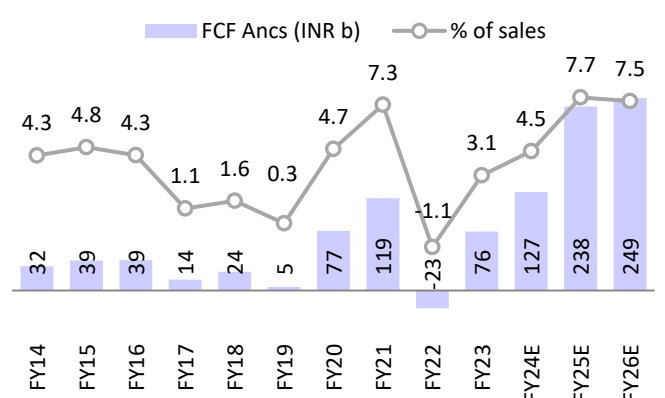
Source: Company, MOFSL

**Exhibit 30: Stable earnings growth and lower capex should drive FCF growth for OEM universe**



Source: Company, MOFSL

**Exhibit 31: Healthy OE demand and recovery in industrials along with lower capex should result in FCF growth for anc**



Source: Company, MOFSL

## Shifting focus to 2Ws; maintain positive view on MHCV

### Turning cautious on PVs due to relatively lower growth expectations

- **Positive on two wheelers and being cautious on passenger vehicles:** As compared to other categories, two wheelers demonstrate a more promising growth potential over FY23-26E due to the positive shift in demand and their slower recovery, resulting in a lower starting point for growth. This should be followed by a gradual but orderly rebound in the exports market. Hence, we anticipate 9-11% CAGR over FY23-26E for the segment. On the other hand, we anticipate that PV growth will stabilize over 5-7% CAGR during FY23-26E due to reduced inquiry levels, particularly for the lower-end segment, declining waiting periods in SUVs (partially due to reducing booking rate), and an unappealing model launch pipeline.
- **Maintain our positive view on MHCVs, while LCV and tractors rank at the bottom of our segment pick:** Growth momentum in MHCVs have sustained, supported by strong demand in all underlying industries. Nevertheless, we believe that the current upcycle has reached close to its peak and that demand may stabilize in FY25. Based on the same, we anticipate MHCVs to increase 7-9% CAGR over FY23 to FY26E. This keeps MHCVs as our second choice within the auto pack. Tractors, on the other hand, reported their highest volumes in FY23. Foreseeing limited growth opportunities in the next three years for both tractors and LCVs, we expect CAGRs for ranging 3-5%. This projection stems from incomplete rural demand recovery and the considerable impact of a high base. Tractors hold the lowest position in our sector pack due to their high cyclicity, while LCVs follow closely, securing the second-lowest rank.
- **Slower growth and uncertain global cues should delay broad base recovery:** Even while the exports volumes have grown, a full recovery still looks to be some time off. When combined with global challenges, marked by geopolitical disruptions and FX-related problems in critical regions, these factors might cause the recovery to be further delayed. We prefer companies with substantial exposure in the domestic market. This inclination stems from the assurance of consistent demand growth anticipated in the next few years.

### TTMT, HMCL are preferred picks in OEMs and ENDU, CRAFTSMA in Ancs

- **Tata Motors:** While the India CV and PV businesses would see some moderation in growth in 2HFY24E, the focus shifts to margin expansion-led earnings growth. JLR is witnessing a recovery, led by improvement in chip supplies, a healthy order book, and a favorable product mix. This should aid TTMT becoming net cash by FY26 (from INR437b in FY23). The stock trades at 14.7/14.6x each for FY24E/FY25E consolidated P/E and 4.1x/3.2x EV/EBITDA. TTMT continues to remain our preferred BUY among OEMs with Dec'25E SOTP-based TP of INR750.
- **Hero MotoCorp:** We have added HMCL as our second preferred pick among OEMs as it is a good proxy, especially on a rural market recovery, with its stronghold in the 100cc Motorcycle segment. It has low vulnerability to EVs, as it garners 8% volumes from Scooters and its core 100cc Motorcycle is less prone to EVs. We expect market share gain, driven by rural recovery (peaking interest rates and inflation), and new product launches every quarter. We expect a revenue/EBITDA/PAT CAGR of ~10%/30%/21% over FY23-25E. The stock

currently trades at ~15.2x/14.3x FY24E/FY25E EPS. We have a BUY rating with a TP of INR3,850 (16x Sep'25E EPS + INR226/INR116 for Hero FinCorp/Ather after 20% holding company discount).

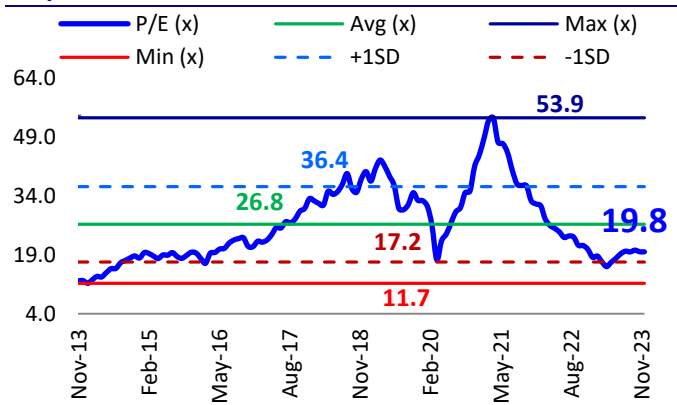
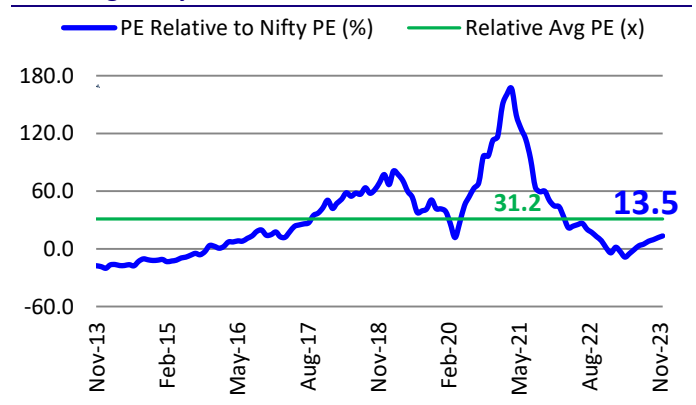
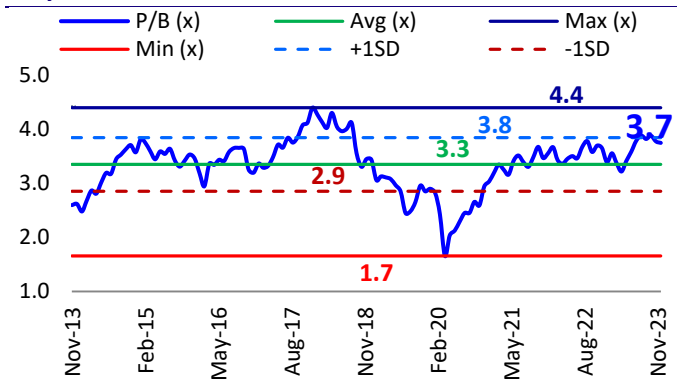
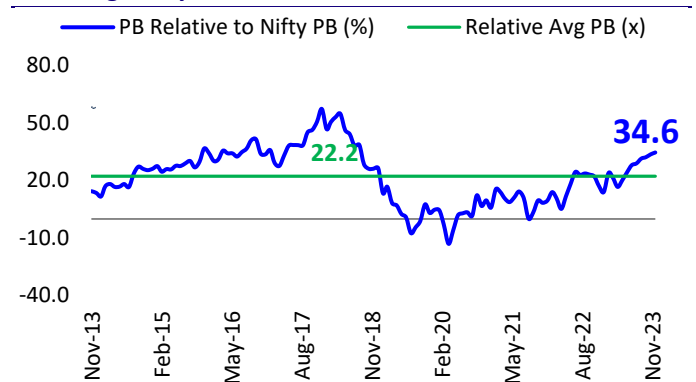
- **Endurance Technologies:** Given ENDU's strong positioning in the 2W segment, it is the best proxy to play the India 2W opportunity, keeping in mind the underlying trends of premiumization and an uptrend in scooters. Due to its strong business franchisee and management, the stock should continue to command premium valuation multiples in comparison to most domestic Auto Ancillary companies. In the latter, there are only a handful of high-quality, large-scale, multi-product Auto Component suppliers. We estimate a consolidated revenue/EBITDA/PAT CAGR of ~15%/24%/32% over FY23-25. The stock trades at 34.2x/27.1x FY24/25E consol EPS. We have a BUY rating with a TP of INR2,000 (based on Dec-25E consol EPS).
- **Craftsman Automation:** CRAFTSMAN's track record of creating and gaining market leadership organically is uncommon in the auto component industry. This has enabled it to deliver a good balance of strong growth and superior capital efficiency. We estimate a consolidated revenue/EBITDA/PAT CAGR of 31%/31%/38% over FY23-25. However, the same is yet to fully reflect in its valuations of 27.9x/23.1x FY24E/FY25E consolidated EPS. We reiterate our BUY rating on the stock with a TP of INR5,800 (premised on 22x Dec'25E consolidated EPS).

**Exhibit 32: Earnings CAGR for FY23-26E is expected to be ~23%/40% for our OEM/Ancs coverage universe**

	Vol/Rev Gr (%)				EBITDA margins %				EPS (INR)				ROE (%)			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23E	FY24E	FY25E	FY26E
<b>Auto OEM's</b>																
Bajaj Auto	-8.8	12.6	11.9	9.2	18.0	19.4	19.5	19.6	214.2	276.1	309.0	344.2	23.3	29.3	29.9	30.4
Hero MotoCorp	7.8	6.1	8.5	7.7	11.8	14.0	14.0	14.2	145.6	201.0	213.2	239.1	17.9	22.8	21.7	21.8
TVS Motor	11.2	15.6	10.9	8.9	10.1	11.2	11.5	11.7	30.4	45.1	53.0	61.8	26.6	30.7	28.0	25.7
Eicher Motors	36.4	55.4	72.2	38.3	24.3	26.8	27.4	27.5	106.5	148.6	168.7	196.4	21.1	24.8	23.7	23.3
Maruti Suzuki	19.0	10.4	6.5	6.5	9.4	12.0	12.1	12.3	271.8	450.8	470.7	518.1	13.3	19.0	15.3	15.0
M&M	34.8	13.7	7.4	7.1	12.3	12.9	13.2	13.3	64.9	90.7	95.6	106.1	19.1	22.8	20.4	19.4
Tata Motors	31.5	2.6	9.1	7.2	9.2	13.6	13.8	14.1	2.2	44.4	44.5	51.6	1.8	32.1	24.1	22.6
Ashok Leyland	49.8	8.6	7.8	5.9	8.1	11.3	11.6	11.6	4.5	9.2	11.5	12.7	16.8	28.4	28.3	25.2
Escorts	9.6	-1.0	6.0	8.0	9.2	13.9	14.5	14.6	51.3	90.9	106.3	122.8	8.6	12.8	13.3	13.6
<b>Auto Ancillaries</b>																
Bharat Forge	23.4	16.6	9.4	5.3	13.8	18.6	20.3	20.4	11.6	27.6	38.6	42.4	17.9	17.9	21.3	19.6
Exide Industries	17.6	13.0	11.7	11.6	10.7	11.4	11.8	12.2	10.6	12.8	15.0	17.3	8.1	9.1	9.8	10.4
Amara Raja	19.4	7.9	9.8	7.0	13.0	13.5	13.8	13.7	42.7	48.7	53.7	56.1	14.8	14.9	14.8	13.9
BOSCH	26.7	14.6	9.6	8.8	12.1	12.0	13.9	14.1	483.0	562.1	687.4	757.5	13.1	14.2	15.7	15.9
Endurance Tech	16.6	17.2	11.9	10.8	11.8	12.8	13.8	14.0	34.7	47.5	60.0	69.4	11.7	14.2	15.8	16.0
SAMIL	23.4	23.4	7.8	5.1	7.9	9.1	9.1	9.2	2.3	4.3	5.0	5.5	7.3	12.5	13.0	13.1
CIE Automotive	29.4	9.1	10.8	10.1	13.4	15.6	16.2	16.7	18.1	22.5	27.1	31.5	13.3	15.6	16.6	16.9
CEAT	20.8	6.3	8.7	8.5	8.6	13.8	13.9	13.9	51.9	162.9	186.7	207.7	6.3	17.6	17.2	16.5
Balkrishna Ind	18.6	-8.4	17.6	14.8	19.6	24.5	26.4	28.0	52.1	71.1	95.6	119.4	13.9	17.3	20.7	22.3
MRF	19.1	9.2	6.7	7.3	10.4	17.9	17.1	17.1	1,814	5,331	5,258	5,717	5.4	14.3	12.4	12.0
Apollo Tyres	17.3	4.0	7.2	6.9	13.5	17.5	17.4	17.3	17.1	28.0	33.3	37.0	8.8	13.1	13.9	13.8
Sona BLW	25.6	22.1	25.8	17.8	26.0	28.0	28.0	27.9	6.8	8.9	11.6	13.8	18.5	21.1	23.4	23.8
Tube Investments	20.2	12.2	14.1	6.9	12.6	13.5	13.7	13.9	40.5	59.2	71.2	80.3	22.3	25.8	25.0	23.0
MSUMI	25.2	16.0	15.0	12.0	11.1	11.9	12.8	13.1	1.1	1.4	1.78	2.06	39.8	41.3	42.2	39.6
CRAFTSMAN	44.2	49.4	14.6	12.3	21.5	20.9	21.5	21.9	117.6	186.0	224.9	277.2	19.7	25.2	24.3	23.9

**Exhibit 33: Auto PE trading at ~26% discounts to its 10 Year's LPA while PB trading at a premium of ~12%**

Company	Current P/E (x)	10 YR PE (x)	Prem / Dsc PE (x)		Current P/B (x)	10 YR PB (x)	Prem / Dsc PB (x)	
		Avg PE (x)	Avg (x)	Nifty		Avg PB (x)	Avg (x)	Nifty
<b>Automobile</b>	<b>19.8</b>	<b>26.8</b>	<b>-26.1</b>	<b>13.5</b>	<b>3.7</b>	<b>3.3</b>	<b>11.9</b>	<b>34.6</b>
Amara Raja Batt.	11.9	22.4	-46.8	-31.5	1.7	3.8	-55.7	-39.7
Ashok Leyland	15.1	22.1	-31.4	-13.1	3.9	3.8	4.5	41.6
Apollo Tyres	12.3	13.9	-11.4	-29.1	1.3	1.1	12.7	-54.7
Balkrishna Inds	29.1	21.3	36.7	66.9	5.4	3.7	44.3	93.3
Bajaj Auto	18.0	17.5	3.0	3.2	5.1	4.3	19.6	83.6
Bharat Forge	28.2	41.3	-31.6	62.1	5.4	4.9	10.1	94.9
Bosch	29.3	37.6	-22.2	68.0	4.6	5.4	-16.1	64.3
CEAT	11.9	16.9	-29.6	-31.7	1.9	1.6	16.4	-31.2
CIE Automotive	18.8	26.1	-27.8	8.1	2.9	2.2	32.1	3.4
Craftsman Auto	23.1	20.1	15.0	32.7	5.1	3.9	31.5	83.1
Eicher Motors	22.0	31.5	-30.2	26.2	4.8	7.2	-34.3	70.9
Endurance Tech.	28.4	32.4	-12.5	62.9	4.2	5.0	-14.4	52.5
Escorts Kubota	30.4	15.8	92.5	74.6	3.8	1.9	101.3	35.8
Exide Inds.	18.1	20.4	-11.2	3.9	1.7	2.4	-28.6	-38.2
Hero MotoCorp	14.8	18.1	-18.2	-15.2	3.1	4.6	-33.3	11.1
Mahindra & Mahindra	16.1	18.5	-13.1	-7.7	3.1	2.7	14.9	10.9
Maruti Suzuki	22.1	29.2	-24.3	27.0	3.7	4.0	-8.8	31.3
MRF	20.4	21.5	-5.2	17.0	2.5	2.2	11.8	-10.4
Samvardhana Motherson	19.6	47.4	-58.8	12.3	2.4	3.3	-27.5	-15.1
Sona BLW Precis.	51.4	70.7	-27.3	195.0	10.8	13.0	-16.6	289.6
Tata Motors	0.0	17.3	-100.0	-100.0	3.4	2.1	60.4	22.9
TVS Motor	31.7	29.3	8.2	82.2	8.1	6.2	30.7	191.1
Tube Investments	47.6	31.3	52.3	173.3	10.8	6.4	70.2	289.2

**Exhibit 34: Automobile P/E is trading at 26% discount to its 10-year LPA****Exhibit 35: Automobile P/E is trading at a premium of ~14% vs average nifty PE****Exhibit 36: Automobile P/B is trading at 12% premium to its 10-year LPA****Exhibit 37: Automobile P/B is trading at a premium of ~35% vs average nifty PB**

Source: Company, MOFSL

Source: Company, MOFSL

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