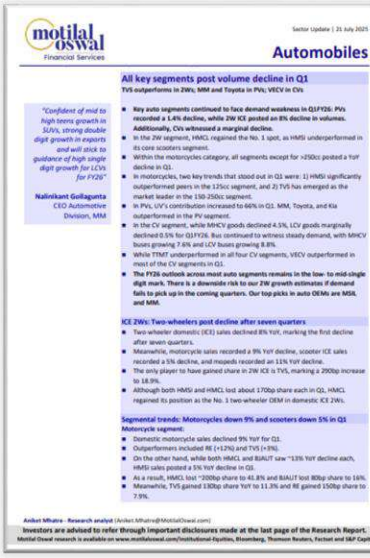
Automobiles


Sector Update | 21 July 2025

Automobiles

All key segments post volume decline in Q1

TVS outperforms in 2Ws; MM and Toyota in PVs; VECV in CVs

"Confident of mid to high teens growth in SUVs, strong double digit growth in exports and will stick to guidance of high single digit growth for LCVs for FY26"

Nalinikant Gollagunta
CEO Automotive Division, MM

- Key auto segments continued to face demand weakness in Q1FY26: PVs recorded a 1.4% decline, while 2W ICE posted an 8% decline in volumes. Additionally, CVs witnessed a marginal decline.
- In the 2W segment, HMCL regained the No. 1 spot, as HMSI underperformed in its core scooters segment.
- Within the motorcycles category, all segments except for >250cc posted a YoY decline in Q1.
- In motorcycles, two key trends that stood out in Q1 were: 1) HMSI significantly outperformed peers in the 125cc segment, and 2) TVS has emerged as the market leader in the 150-250cc segment.
- In PVs, UV's contribution increased to 66% in Q1. MM, Toyota, and Kia outperformed in the PV segment.
- In the CV segment, while MHCV goods declined 4.5%, LCV goods marginally declined 0.5% for Q1FY26. Bus continued to witness steady demand, with MHCV buses growing 7.6% and LCV buses growing 8.8%.
- While TTMT underperformed in all four CV segments, VECV outperformed in most of the CV segments in Q1.
- The FY26 outlook across most auto segments remains in the low- to mid-single digit mark. There is a downside risk to our 2W growth estimates if demand fails to pick up in the coming quarters. Our top picks in auto OEMs are MSIL and MM.

ICE 2Ws: Two-wheelers post decline after seven quarters

- Two-wheeler domestic (ICE) sales declined 8% YoY, marking the first decline after seven quarters.
- Meanwhile, motorcycle sales recorded a 9% YoY decline, scooter ICE sales recorded a 5% decline, and mopeds recorded an 11% YoY decline.
- The only player to have gained share in 2W ICE is TVS, marking a 290bp increase to 18.9%.
- Although both HMSI and HMCL lost about 170bp share each in Q1, HMCL regained its position as the No. 1 two-wheeler OEM in domestic ICE 2Ws.

Segmental trends: Motorcycles down 9% and scooters down 5% in Q1

Motorcycle segment:

- Domestic motorcycle sales declined 9% YoY for Q1.
- Outperformers included RE (+12%) and TVS (+3%).
- On the other hand, while both HMCL and BJAUT saw ~13% YoY decline each, HMSI sales posted a 5% YoY decline in Q1.
- As a result, HMCL lost ~200bp share to 41.8% and BJAUT lost 80bp share to 16%.
- Meanwhile, TVS gained 130bp share YoY to 11.3% and RE gained 150bp share to 7.9%.

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Company	Rating	Target Price
Bajaj Auto	Neutral	9,326
Hero MotoCorp	Buy	6,168
TVS Motors	Neutral	3,549
Eicher Motors	Sell	5,610
Maruti Suzuki	Buy	17,890
M&M	Buy	4,145
Hyundai	Buy	2,979
Tata Motors	Neutral	686
Ashok Leyland	Buy	154
Escorts	Neutral	3,624

Back in the reckoning

Multiple tailwinds likely to drive demand revival and hence sector re-rating

The GST Council has provided a much-needed booster shot to the auto sector by reducing the tax rates on the majority of auto segments to 18% from 28% earlier, effective 22nd Sep'25. The GST rate on all SUVs above 4mtr (and other specifications) has been reduced to 40% without cess from an average of 43-50% earlier. For tractor/tractor components, the rates have been cut to 5% from 12%/18% earlier. These timely rate cuts, coupled with other sectoral tailwinds like normal monsoon boosting rural sentiment, a ~100bp reduction in interest rates in CY25 so far and income tax benefits, are expected to revive demand for the auto sector from this festive season. Further, while we expect the premiumization trend to continue, we also expect small car demand to grow over a very low base. We have now raised our FY26/FY27 volume growth estimates for 2Ws to 4%/7.5% (vs. 1%/5.7% earlier), PVs to 3%/8% (vs. 2%/4% earlier), CVs to 5%/7% (vs. 2%/4% earlier) and tractors to 10%/6% (vs. 8%/5% earlier). With a pick-up in demand, we also expect discounts to trend down across key segments, which should drive margin expansion going ahead. On the back of demand revival and much better earnings growth, we expect a re-rating for the sector. Our top picks among auto OEMs are Maruti Suzuki (new launches and export ramp-up to drive 16% earnings growth) and M&M (new launches and positive rural sentiment to drive 20% earnings growth). We also like Hyundai, Hero MotoCorp and Ashok Leyland. We maintain our Sell on Eicher Motors. We have a Neutral rating on Tata Motors, Bajaj Auto and TVS.

GST rate cut a boon for the auto sector

The GST Council in its meeting on 3rd Sep'25 announced the much-awaited GST rate rationalization, which has largely happened on expected lines as below: 1) the majority of the auto pack will shift from a 28% GST + cess structure to a flat rate of 18%; 2) all SUVs above 4mtr (and other specifications) will move to a 40% rate without cess from the earlier avg of 43-50%; 3) 2Ws above 350cc will move to a 40% rate from 31% earlier. The revised rates would be effective from 22nd Sep'25. One of the key positive surprises in this restructuring was the fact that the government has also reduced GST rates for the luxury segment (where there was some ambiguity earlier). Further, another positive factor was for the tractor segment, where the government has not only reduced rates but also taken away the inverted duty structure by reducing GST rates on tractor parts to 5%.

Exhibit 1: Segment-wise GST rates (in %)

Segments	Sub segments	GST	Cess	Total	Revised
PVs petrol, CNG, LPG	❖ Up to 4mtr and up to 1200cc	28	1	29	18
PV diesel	❖ Up to 4mtr and up to 1500cc	28	3	31	18
PV	❖ Up to 1500cc	28	17	45	40
PV	❖ above 1500cc	28	20	48	40
PV	❖ >4mtr and >1500cc and >1700mm ground clearance	28	22	50	40
PV hybrid	❖ Up to 4mtr and 1200cc petrol	28	0	28	18
PV hybrid	❖ above 4mtr or above 1200cc petrol	28	15	43	40
Two wheelers	❖ up to 350cc	28	0	28	18
Two wheelers	❖ >350cc	28	3	31	40
Three wheelers		28	0	28	18
CV	❖ goods	28	0	28	18

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Exhibit 2: Assessment of key beneficiaries

Segments / Players	GST rate change	Extent of benefit	Comments
Two Wheelers			
Hero MotoCorp	❖ 18% from 28%	*****	❖ Benefits 95% of its portfolio
Bajaj Auto	❖ 18% from 28%	***	❖ Benefits 51% of its mix, no change for exports and EVs
TVS Motors	❖ 18% from 28%	***	❖ Benefits 69% of its mix, no change for exports and EVs
Eicher Motors	❖ 18% from 28% up to 350cc, but 40% from 31% for >350cc+	***	❖ Benefits 81% of mix, no impact on 11%, negative on 8% which is 350cc+
Passenger Vehicles			
Maruti Suzuki	❖ 18% from 29% on cars, 40% from range of 43-50% on UVs	****	❖ strong benefits on 48% of mix, some benefit on large UVs + Vans - 31% of mix
M&M	❖ 40% from avg of 43 to 50% on UVs; 5% from 12% on tractors	***	❖ some benefit to UVs (40% mix), strong benefits to tractors (31% mix)
Tata Motors	❖ 18% from 29% on cars, 40% from range of 43-50% on UVs	*	❖ India business ~28% of consol revenue, of this 13% comes from cars and 47% from UVs
Hyundai	❖ 18% from 29% on cars, 40% from range of 43-50% on UVs	****	❖ strong benefit to 51% of mix, some benefit on large UVs (28% mix)
Escorts	❖ 5% from 18%on tractors	****	❖ Tractors is 83% of revenues which benefits positively
Commercial Vehicles	❖ 18% from 28% on trucks	NA	❖ indirect benefit from improvement in consumption

After the GST announcement, here are some of the key factors to watch out for from hereon:

- Considering the prime minister’s announcement of an expected GST cut on Independence Day, retails were weak in Aug’25, and the weakness has continued in Sep’25 too as customers look to have postponed their purchases to take advantage of the rate cut.
- Given the festive season beginning on 22nd Sep and huge pent-up demand, there is expected to be a surge in retails that day onward. Thus, like-to-like retails comparison YoY in this festive season may not make sense.
- Moreover, given that compensation cess can be offset only against cess and cess has been discontinued from 22nd Sep, most OEMs will see some one-time impact as they would need to absorb this amount for the unsold inventory as of 22nd Sep. This is also the reason why players like MM had curtailed wholesales in Aug’25 as the bulk of its models would have attracted higher cess.
- Further, M&M is the only player that has passed on the entire GST reduction to consumers immediately from 6th Sep. It was a smart move by the company as many of its models have cess of around 15-22%. Given that cess can only be compensated with cess, MM has chosen to “lose” 10% by reducing vehicle prices upfront by 10% so that it can look to take credit of cess until 22nd Sep instead of losing the “15-22%” of cess credit after 22nd Sep on unsold inventory. However, given that we are in the midst of an inauspicious Shradh period, retails are seasonally weak in this period. Hence, it remains to be seen how effective MM’s move has been.

In our assessment, in the PV segment, MSIL and HMIL stand to emerge as the biggest beneficiaries of this rate cut, as they have a sizeable portion of their mix coming from the sub-4mtr segment. MM has also emerged as a key beneficiary given: 1) the reduction in GST rates on tractors and tractor parts, and 2) no hike in GST on high-end vehicles, as was earlier anticipated. Further, we expect the CV segment to see an indirect benefit, as a reduction in GST rates on key segments would increase consumption in the economy, which would, in turn, help revive CV volumes in the coming quarters. However, the only pure-play CV company that would benefit from this is Ashok Leyland (AL).

Favorable tailwinds besides GST cut to further boost consumer sentiment

The GST rate cut has indeed been a much-needed booster for the sector. However, even beyond this, the sector enjoys quite a few tailwinds that should help drive demand revival from this festive season. We elaborate below on some of these favorable factors:

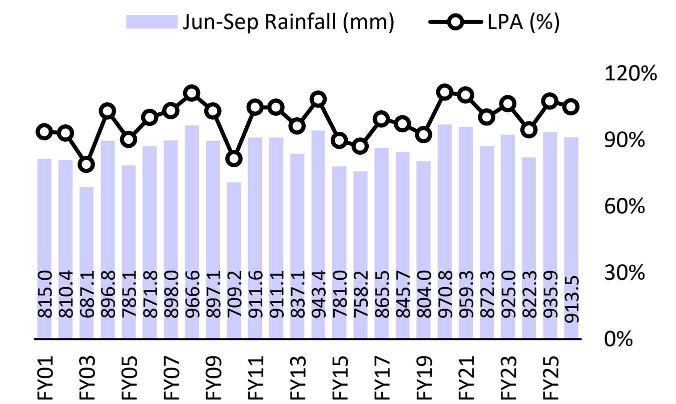
Positive rural sentiment

CY25 monsoon is expected to be at 105% of LPA, resulting in better kharif sowing – Kharif sowing area has increased by ~38.48 lakh hectares YoY. Further MSP increases for 14 kharif crops for FY26 would also support rural income. According to NABARD's latest Rural Economic Conditions and Sentiments Survey (RECSS) done in Jul'25, 76.6% of the households reported increased consumption and almost 40% saw a rise in income over the last year. The survey report has shown that this year, 39.6% of rural families reported a rise in income, the highest since the survey began. Normal monsoons, good sowing patterns and improved crop realization are expected to drive positive rural sentiment going forward.

Reduction in income tax rates in FY26 Budget

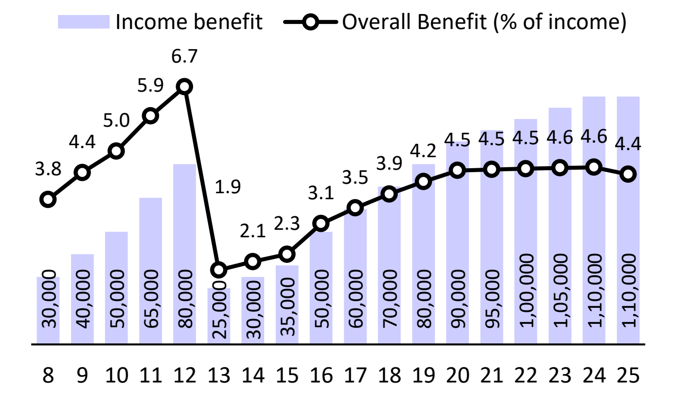
For an individual earning Rs8-25 lakh, the revised income tax rates can increase the disposable income by Rs30,000-1.1 lakh. A second-order impact would be better credit profiles and loan eligibility on account of higher net disposable income. This higher disposable income is also likely to aid discretionary consumption. In addition to the above, the 8th Pay Commission, which is expected to be implemented from 1st Jan'26, will increase the minimum wage from INR18k to INR41k, along with the dearness allowance, house rent allowance and travel allowance. This pay commission would also increase the minimum pension from INR9k to INR20.5k for eligible government employees. This implementation would significantly increase the disposable income in the hands of central government employees and retirees.

Exhibit 3: 2nd year of normal monsoon in India



Source: Company, MOFSL

Exhibit 4: Income boost in consumer hands post IT cuts



Source: Company, MOFSL

Gradual reduction in interest rates

With rising aspiration levels, an average Indian's spending ability has risen far ahead of the rise in his income levels over the last few years. This has naturally resulted in the need for financing these ever-rising requirements. This is also the reason why financing mix across auto segments has been seeing a gradual uptick for the last few years. On the other hand, in a bid to tame inflation and boost consumption, the RBI has cut interest rates by ~100bp cumulatively in 2025. This sharp reduction in interest rates will reduce EMI payouts, improve consumer sentiment and drive a buyer's propensity to increase discretionary consumption with the help of cheap financing.

Historically, major interest rate cuts following the periods of economic crisis have led to strong growth in the automotive industry, albeit with a lag of approximately 1 to 1.5 years. For example, the RBI's rate cut of ~150bp following the Global Financial Crisis in 2008-09 triggered an impressive CAGR of ~13% in the automotive sector over FY08-10. Similarly, the multiple rate reductions made by the RBI during CY15 and CY16 played a critical role in driving the industry to peak performance by FY19.

While the benefit of reduced rates is often gradual, this, coupled with other favorable indicators, is expected to help improve consumer confidence and hence aid discretionary consumption going forward.

Accordingly, we believe that the GST restructuring, along with multiple tailwinds highlighted above, will drive a demand revival for the auto sector from the upcoming festive season.

Expect sector volumes to revive from this festive season

- FY26 had started off on a weak note for the auto sector as most segments, except tractors, were currently trailing growth expectations.
- After the first five months of FY26, domestic 2W industry was down 1% YoY (earlier estimate of high-single-digit growth for FY26E), PVs were down 3% YoY (est of 2-4% growth) and CVs were up just 1% YoY (estimate of mid-single digit growth).
- While favorable indicators highlighted above are likely to revive demand, one has to note that retails have remained weak in Aug'25 and they are expected to be extremely weak for the first three weeks of Sep'25. This would also mean limited ability of OEMs to dispatch to dealers.
- Thus, while OEMs would still push stock as much as they can in the last week of Sep, the big festive push is likely to happen from October onwards.
- Accordingly, 2HFY26 is likely to see strong demand revival, though overall FY26 growth numbers may still remain somber given the demand weakness in most parts of 1H.
- **Further, it is yet to be seen whether the GST rate cuts will benefit entry-level PVs/2Ws or continue to drive the premiumization trend. We believe that it is likely to drive both – it will help to accelerate the premiumization trend in the country and will also make entry-level products (PVs and 2Ws) more affordable for customers, who have been either postponing their erstwhile purchase decisions due to affordability issues or have opted to buy a used vehicle as the new vehicle was beyond their original budget earlier.**

Sectoral growth forecast

- After a 1% YoY decline in volume in the first five months of FY26, we expect the domestic 2W ICE segment to bounce back and deliver ~4% growth in FY26E and ~8% in FY27E.
- PV segment has seen a 3% YoY decline on YTD basis so far. Given the favorable factors highlighted above, we expect PV demand to revive from 22nd Sep onward. Overall, we expect the PV segment to post 3% growth in FY26E and 8% growth in FY27E. While we expect the UV segment to post 8% volume CAGR over the next two years, car demand is expected to revive over an extremely low base (we factor in ~3% growth in car industry volume in FY27E).
- CV segment is expected to be an indirect beneficiary of the rate cut as it is expected to revive consumption, which should, in turn, drive up CV demand. Some of the other tailwinds for the CV segment include an aging truck fleet, lower interest rates, and healthy fleet operator profitability. Overall, we expect the CV segment to clock 5% growth in FY26E and ~7.4% in FY27E.
- While all other auto segments were witnessing weak demand as of Aug'25, the tractor segment bucked this trend. The tractor segment is expected to sustain its healthy demand momentum on the back of the GST rate cuts and positive rural sentiment. Overall, we expect the segment to see 10% growth in FY26E and 6% growth in FY27E.

Exhibit 5: Revision to Segmental growth assumptions

Sectoral Assumptions	Old			New		
	FY25	FY26E	FY27E	FY25	FY26E	FY27E
Two Wheelers						
Motorcycles	1,22,52,305	1,20,97,697	1,28,58,020	1,22,52,305	1,24,43,488	1,33,46,063
Growth (%)	5	-1.3	6.3	5	1.6	7.3
Scooters	60,80,121	63,84,127	67,03,333	60,80,121	66,10,533	71,42,110
Growth (%)	13	5	5	13	8.7	8
Mopeds	5,01,813	4,76,722	4,86,257	5,01,813	4,76,722	5,00,558
Growth (%)	4.2	-5	2	4.2	-5	5
Total 2W domestic	**1,88,34,239**	**1,89,58,546**	**2,00,47,610**	**1,88,34,239**	**1,95,30,743**	**2,09,88,732**
Growth (%)	7.5	0.7	5.7	7.5	3.7	7.5
Passenger Vehicles						
Cars	13,53,287	12,72,090	12,21,206	13,53,287	13,06,306	13,46,022
Growth (%)	-13	-6	-4	-13	-3.5	3.0
UVs	27,97,229	29,65,063	3202267.8	27,97,229	29,71,537	32,82,150
Growth (%)	11	6	8	11	6.2	10.5
Vans	1,51,332	1,49,819	1,48,320	1,51,332	1,55,715	1,67,693
Growth (%)	1	-1	-1	1	2.9	7.7
Total Passenger Vehicles Domestic	**43,01,848**	**43,86,971**	**45,71,794**	**43,01,848**	**44,33,559**	**47,95,866**
Growth (%)	2	2	4.2	2	3.1	8.2
Commercial Vehicles	8,61,350	8,78,577	9,13,720	8,61,350	9,03,569	9,70,443
Growth (%)	-2	2	4	-2	4.9	7.4
Tractors	9,39,713	10,14,890	10,65,635	9,39,713	10,33,684	10,95,705
Growth (%)	7	8	5	7.3	10	6

Reassessing our key assumptions

- We have realigned our key assumptions for all OEMs after the GST rate cut.
- While we do expect a volume revival across all segments from this festive season, this is also likely to help reduce the ongoing discounting burden at an industry level and hence aid some margin expansion for many OEMs.

Player-wise assumptions

2Ws

- **Hero MotoCorp (HMCL)**: We expect HMCL volumes to revive from the festive season. While the recently launched new Glamor is likely to help ramp up its presence in 125cc segment, it is likely to cannibalize its existing models. Overall, after a weak start to the fiscal, we expect HMCL to end FY26 with about 1% volume growth and post a much better 6% volume growth in domestic business in FY27E. We also factor in a marginal 30bp margin improvement in both years.
- **Bajaj Auto (BJAUT)**: BJAUT has been doing well in exports and we expect it to post healthy 11% YoY growth in exports in FY26E and 8% in FY27E. In domestic motorcycles, it has underperformed the industry, though we expect its volumes to revive from this festive season. However, given the weak start, it will still end up with a 2% decline in volumes in FY26E. We then factor in BJAUT to post 7% growth in FY27E. For BJAUT, we have not changed our margin assumptions as we expect it to use this lever to regain its lost share and cushion rising EV volumes in the mix.
- **TVS Motors**: Apart from the benefits of GST cuts, earnings upgrade for TVS is driven by its own outperformance relative to our estimates. Its outperformance has been commendable, especially in the scooter and export segments. In scooters, we now estimate a robust ~29% volume growth in FY26E and 13% in FY27E. In 2W exports, we factor in ~30% growth in FY26E and 15% in FY27E. We have marginally raised our margin assumptions for TVS as the company focuses on market share growth over profitability. As a result, TVS has seen the highest upgrade in estimates at 12%/15% for FY26E/FY27E.
- **Eicher Motors (EIM)**: For RE, we now estimate 12%/11% domestic volume growth in FY26/FY27. We have also raised our margin assumptions as RE may not need to push as much to make the brand accessible as earlier.
- **Maruti Suzuki (MSIL)**: MSIL has seen a weak demand trend as of Aug'25. However, this is expected to sharply change going forward, led by its new launch (Victoris), ramp-up of e-Vitara in its key export markets and some stabilization in the small car segment. As a result, we now factor 5%/11% volume growth in FY26/FY27. While we keep FY26E margins stable, we raise FY27E margins by about 60bp to 12.2%.
- **M&M**: For MM, we factor in 11% volume CAGR in UVs over FY25-27E. We also expect a demand revival in the Pick-Up segment and factor in 7% vol CAGR over FY25-27E. We also factor in 10%/6% growth in tractors in FY26/FY27E. We have marginally raised our margin assumptions for tractors while maintaining auto segment margins.
- **Hyundai (HMIL)**: After a weak start to the fiscal, we expect HMIL to end FY26 with just 2% growth. However, led by a ramp-up of the new Pune plant and new launches, we expect HMIL to deliver 15% volume growth in FY27E.
- **Ashok Leyland (AL)**: We now factor in 6% domestic volume CAGR over FY25-27E. We have also raised our margin assumptions, as we expect discounts to decline at the industry level.
- **Tata Motors (TTMT)**: For PVs, we now factor in flat volume growth in FY26E and 4% growth in FY27E. For CVs, we factor in 4%/7% growth in FY26/FY27. We have not changed JLR estimates at this stage.

Exhibit 6: OEM Coverage Universe: Change in volume growth assumptions

Company	FY26 Estimates		FY27 Estimates	
	Old	New	Old	New
Bajaj Auto	3.8	5.6	9.2	9.6
Hero MotoCorp	1.6	2.6	6.2	6.3
TVS Motors	11.8	20.9	8.5	12.3
Eicher Motors	10.5	14.6	9.8	11.5
Maruti Suzuki	5.1	5.2	8.4	11.4
M&M – UVs	15.5	10.9	10.8	10.6
M&M - tractors	9.0	10.4	5.0	6.0
Hyundai	1.2	1.6	15.4	15.4
Ashok Leyland	2.5	5.6	7.5	8.3
Escorts	3.0	10.5	5.0	6.0
Tata Motors PV	-4.1	-0.2	1.9	4.0
Tata Motors CV	-0.7	4.4	5.0	6.9

Exhibit 7: OEM Coverage Universe: Change in EBITDA margin assumptions

Company	FY26 Estimates			FY27 Estimates		
	Old	New	Change bp	Old	New	Change bp
Bajaj Auto	19.7	19.8	0bp	20.0	20.1	0bp
Hero MotoCorp	14.3	14.6	30bp	14.5	14.8	30bp
TVS Motors	12.5	12.7	20bp	13.0	13.2	20bp
Eicher Motors	24.0	25.1	110bp	24.1	25.4	130bp
Maruti Suzuki	11.2	11.1	-10bp	11.6	12.2	60bp
M&M	14.2	14.5	40bp	14.4	14.9	50bp
Hyundai	12.5	12.5	0bp	13.0	13.5	50bp
Ashok Leyland	12.7	12.9	20bp	13.2	13.4	20bp
Escorts	12.2	12.2	0bp	12.2	12.2	0bp
Tata Motors PV	5.1	5.6	60bp	4.7	5.5	90bp
Tata Motors CV	12.2	12.5	30bp	12.2	12.6	40bp
Tata Motors Consol	10.4	10.5	10bp	11.3	11.5	20bp

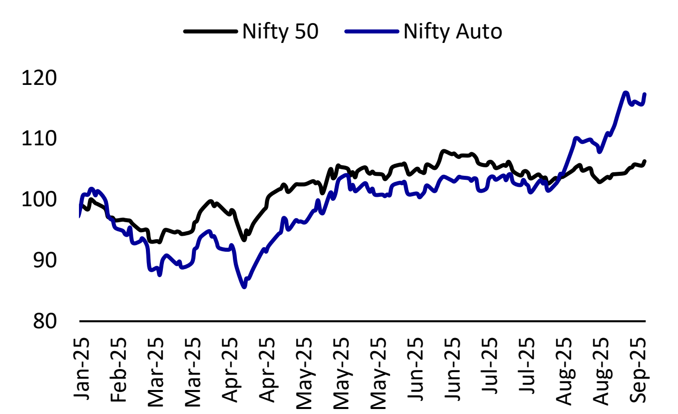
Exhibit 8: OEM Coverage Universe: Change in EPS estimates

Company	FY26 Estimates			FY27 Estimates		
	Old	New	% change	Old	New	% change
Bajaj Auto	322	326	1.1	361	366	1.4
Hero MotoCorp	248	251	1.5	269	273	1.6
TVS Motors	67	75	11.8	80	91	14.7
Eicher Motors	179	189	8.8	195	209	12.1
Maruti Suzuki	489	495	1.3	539	598	10.9
M&M	119	120	0.2	137	141	3.4
Hyundai	67.9	67.9	0.0	84.6	89.5	5.9
Ashok Leyland	5.8	6.0	3.8	6.7	7.2	7.0
Escorts	105	111	5.7	117	123	4.9
Tata Motors Consol	45.8	47.4	3.5	51.9	54.6	5.2

Valuation and View

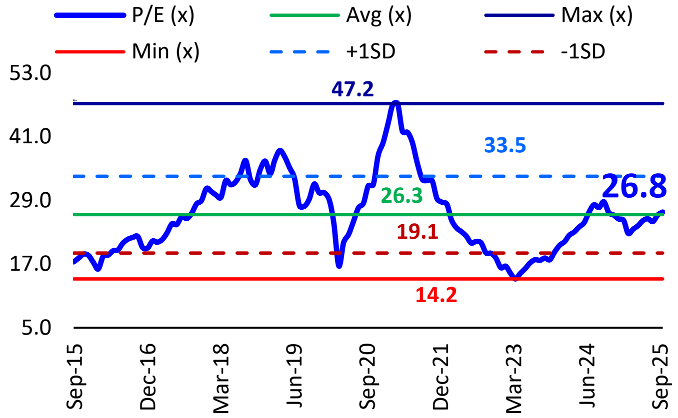
The auto industry has been seeing lackluster demand across its key segments, with 2W down 1%, PVs down 3% and CVs up 1% on YTD basis as of Aug'25. This was also visible in the underperformance of the sector as of mid-Aug'25. However, with the GST rate cuts, the sector has got a much-needed reprieve and has since outperformed the broader index.

Exhibit 9: Auto Index has outperformed Nifty only recently



Source: Company, MOFSL

Exhibit 10: Auto PER back at long term average



Source: Company, MOFSL

The long-term avg one-year fwd sector PE chart also highlights the re-rating the sector has seen in the recent past. It is now trading marginally above its historic avg one-year fwd multiple, possibly for the right reasons.

How to look at the auto sector from here?

Having seen the first leg of outperformance, it is critical to understand how to play the sector from hereon and identify top ideas to invest in. We highlight below a few key pointers to note:

- While most stocks have rallied, demand revival would be visible only after 22nd Sep. However, given the positive sentiment after the GST cuts, we expect auto demand to recover from this festive period.
- Once the demand momentum picks up, the average discounting in the sector is expected to come down. This is likely to drive the next level of re-rating in the sector, in our view

Our top auto picks

Maruti Suzuki

- MSIL continues to be our top idea in the auto OEM space.
- We believe its recent new launch of Victoris would help MSIL recover its lost share in the SUV segment. While there will surely be some cannibalization with Grand Vitara, we expect MSIL’s total volumes in this category to improve significantly, thereby driving market share gains.
- Further, the ramp-up of e-Vitara in key export markets of Suzuki and Toyota would boost volume growth in the coming months.
- We also understand that MSIL would continue to focus on the SUV segment in the coming years and hence expect incremental new launches in this segment.
- With market share improvement, we expect a re-rating in the stock. We expect MSIL to post 16% earnings CAGR over FY25-27E. We maintain our BUY with a revised TP of INR17,890, valued at 28x Sep27E EPS.

Mahindra and Mahindra

- The company targets to launch seven ICE SUVs (two mid-cycle enhancements), five BEVs, and five LCVs (of which two would be EVs) by 2030. In CY26, the company targets to launch three ICE SUVs (two mid-cycle enhancements), two BEVs, and two LCVs (of which one would be an EV in the below-3.5T category). Driven by a strong order backlog and new launches, we expect MM would continue to outperform industry growth, even in FY26. We have assumed an 11% volume CAGR in passenger UVs for MM over FY25-27E.

- Farm sentiment is now positive given: 1) good crop sowing, 2) healthy reservoir levels, and 3) positive terms of trade for farmers, where output inflation is higher than input inflation. Considering these factors coupled with the GST rate cuts, we expect the tractor demand momentum to sustain in the coming quarters. We estimate MM to post 8% volume CAGR in tractors over FY25-27E.
- MM has identified nine businesses as its growth gems and has set an ambitious target of achieving 5x growth in 5-7 years for each of these segments. Any incremental value unlocked in any or all of the growth gems in the coming years is likely to provide additional returns for MM shareholders.
- We believe MM is well-positioned to outperform across its core businesses, fueled by a healthy recovery in rural areas and new product launches in both UVs and tractors. We estimate MM to post a CAGR of ~15%/16%/20% in revenue/ EBITDA/PAT over FY25-27. While MM has outperformed its own targets of earnings growth and RoE of 18% in FY24, management remains committed to delivering 15-20% EPS growth and 18% RoE. This ensures sustained profitability and shareholder value. **Reiterate BUY with our SoTP-based TP of INR4,145 (Sep'27E SoTP).**

Our view on other OEMs

- **HMCL:** We maintain BUY rating on HMCL as it would emerge as one of the major beneficiaries of the GST rate cut, along with positive rural sentiment.
- **HYUNDAI:** We maintain BUY rating on Hyundai Motors given its healthy launch pipeline (targets to launch 8 models over FY26-27E including variants) and its focus on exports.
- **AL:** With an expected pick-up in consumption in the coming months, we expect CV demand to revive and AL would be a key beneficiary of this demand revival.
- **EIM:** We maintain our Sell rating on EIM. Although the reduction in GST would make its 350cc portfolio affordable, the above 350cc mix (~9%) has seen a 10% increase in GST, which is likely to impact demand for this segment.
- **TTMT:** We maintain our Neutral rating on TTMT. Its India business would benefit from the GST cuts, though JLR continues to see multiple headwinds, the latest being the plant closure due to a cybersecurity attack.
- **TVS:** We have a Neutral on TVS. The company is doing extremely well with market share gains in scooters and exports. However, it trades at 38x FY27E EPS and hence appears fairly valued post the recent rally.
- **BJAUT:** We also have a Neutral rating on BJAUT. Domestic market share loss in motorcycles and uncertainty around benefits from KTM integration are likely to weigh on the stock in the near term.
- **ESCORTS:** While the tractor industry outlook is positive, continued market share loss for ESCORTS remains the key concern. Also, the stock at 29.9x FY27E appears fairly valued. Hence, we maintain Neutral on Escorts.

Exhibit 11: Change in target multiples and TPs

	Target Multiple (x)		Target Price (INR)	
	Old	Revised	Old	Revised
Bajaj Auto	22	25	8,618	9,326
Hero MotoCorp	18	20	5,355	6,168
TVS Motors	32	35	2,839	3,549
Eicher Motors - SOTP based			4,698	5,610
Maruti Suzuki	26	28	14,476	17,890
M&M - SOTP based			3,687	4,145
Hyundai	27	30	2,408	2,979
Tata Motors - SOTP based			631	686
Ashok Leyland	11	11	141	154
Escorts	28	28	3,380	3,624

Exhibit 12: Comparative valuations: Auto OEMs

Auto OEM's	Rating	CMP	P/E (x)		EV/EBITDA (x)		PB (x)		FY25 Yield (%)	EPS CAGR (%)
		(INR)	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	Div	FY25-27E
Bajaj Auto	Neutral	9,074	27.8	24.8	20.3	17.7	7.3	6.8	2.2	10.5
Hero MotoCorp	Buy	5,309	21.1	19.4	14.2	12.7	5.0	4.6	3.1	10.0
TVS Motor	Neutral	3,499	46.6	38.3	29.1	24.3	12.9	10.0	0.3	26.5
Eicher Motors	Sell	6,933	36.7	33.2	24.9	21.8	7.8	6.8	1.0	9.9
Maruti Suzuki	Buy	15,571	31.5	26.0	22.2	17.2	4.6	4.1	0.9	16.1
M&M	Buy	3,612	30.2	25.5	20.8	17.5	3.0	2.5	0.7	19.7
Tata Motors	Neutral	715	15.1	13.1	4.9	4.0	2.0	1.8	0.8	-7.1
Hyundai	Buy	2,602	38.3	29.1	23.4	17.7	10.5	8.3	0.8	13.6
Ashok Leyland	Buy	135	22.4	18.8	13.5	11.2	6.0	5.2	2.3	14.3
Escorts	Neutral	3,666	32.9	29.9	27.3	27.5	3.9	3.6	0.8	15.6

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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