AUTOMOBILES | Q3FY26 Review | 14 February 2026

Soft rates aid solid volume; cost headwinds a mild dampener

- **Strong overall volume growth of ~18% YoY solidifying the structural revival of the Automobiles sector, over and above the festive demand**
- **Discounts keep realisations range-bound due to high competitive pressure. Price actions undertaken to offset commodity inflation**
- **Post Q3FY26, we maintain BUY on MM/MSIL; 2W ratings retained at HOLD (positive bias on TVSL). Downgrade AL and SELL on ESCORTS**

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Favourable macros bolster 2W Premium: 2W OEMs volume grew by a strong 18% YoY in Q3FY26, pushed by festive demand, GST rationalisation, improving rural sentiment and a strong traction in mid-segment motorcycles alongside premium segment and scooters. TVS led with an impressive 27% YoY volume surge, driven by the ramp-up in EVs; with 24% YoY domestic growth EIM was second. In the commuter segments, HMCL improved (+16% YoY), driven by ICE scooters (+55% YoY) and portfolio refreshes; BJAUT registered a modest 2% YoY domestic gains.

PVs follows path: PV OEMs in our coverage grew by a strong 20% YoY in Q3FY26 amid festive strength, GST cuts, and sustained SUV/UV preference. MM volume grew 26% YoY, led by robust SUV traction and LCV gains. MSIL grew ~18% YoY with recovery in Mini/Compact segments (+25% YoY) with realisations (+9% YoY). Gross margin pressures persisted on commodity cost inflation, rare earth issues, and higher discounts leading to a fall of 190bps YoY for MSIL.

Tractors remain structurally strong: Tractor volumes were up by a healthy ~21% YoY, helped by the strong rabi sowing, favourable rains/reservoir levels, higher MSPs, and GST cuts. This also aided purchases towards higher-HP models (40-50HP+). MM farm equipment segment grew 23% YoY (premiumisation helped); ESCORTS posted 14% YoY volume gains, though skewed toward North and West regions; VSTT delivered 32% YoY domestic tractor growth.

CV strengthens on replacement revival: CV volumes showed a sharp revival, with industry growth at ~21% YoY, fueled by the post-monsoon freight uptick, infrastructure spending, GST-led consumption spike, and replacement demand. MHCV expanded ~23% YoY and LCV surged ~25-30%. For AL, MHCV/LCV volume added 23%/30%.

Top picks MM/ AL/MSIL: We remain positive on MSIL (revised TP Rs 18,821), given the sweet spot of a healthy presence in the entry segment and SUV leadership driving margins. We prefer MM (TP Rs 4,625) as automotive segment will be driven by SUV presence and strong revival in high-end tractor markets. We downgrade AL (TP of Rs 199) given its stretched valuations though believe in its strong structural strength.

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Fig 1 – Revenue growth

(Rs mn)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)
AL	1,15,339	94,787	21.7	95,882	20.3
BJAUT	1,52,203	1,28,069	18.8	1,49,221	2.0
EIM	59,878	49,081	22.0	59,021	1.5
ESCORTS	32,805	29,480	11.3	27,916	17.5
HMCL	1,23,284	1,02,108	20.7	1,21,264	1.7
MM	3,85,168	3,05,382	26.1	3,34,216	15.2
MSIL	4,98,915	3,87,523	28.7	4,23,323	17.9
TVSL	1,24,763	90,971	37.1	1,19,054	4.8
VSTT	3,143	2,191	43.5	3,152	(0.3)
Aggregate	14,95,497	11,89,591	25.7	13,33,047	12.2

Comment
- Realisations were higher across 2W OEMs by an average ~7%, driven by mix shift and pricing intervention and came as a positive surprise.
- PV mix favourably tilts towards Compact SUVs on GST affordability gains driving premium segment volume higher.
- Rabi sowing has been progressing well, driving rural cashflow visibility and fueling a shift towards higher HP variant in tractors, aiding MM and ESCORTS performance.

Source: Companies, BOBCAPS Research | 2W: Two-wheeler, PV: Passenger vehicles,

Fig 2 – Volume growth

(Units)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)
AL	57,625	46,404	24.2	49,116	17.3
BJAUT	13,41,252	12,24,472	9.5	12,94,120	3.6
EIM	3,25,773	2,69,039	21.1	3,26,375	(0.2)
ESCORTS	36,955	32,556	13.5	33,877	9.1
HMCL	16,96,777	14,63,802	15.9	16,90,702	0.4
MM	4,48,469	3,67,273	22.1	3,82,826	17.1
MSIL	6,67,769	5,66,213	17.9	5,50,874	21.2
TVSL	15,44,454	12,11,952	27.4	15,06,950	2.5
VSTT	14,206	8,086	75.7	14,450	(1.7)
Aggregate	61,33,280	51,89,797	18.2	58,49,290	4.9

Comment
- Volume growth was robust at ~18% YoY in Q3FY26 (Coverage universe). Domestic markets sustained the festive trend amid affordability gains
- Healthy export trend alleviated volumes further (HMCL 41% on lower base, TVSL +35%, BJAUT+ 18%, AL 20%) providing demand boost
- CV revival picked up, as early signs of replacement cycle kicking in on affordability gains and the pickup in consumption driving logistics demand.
- Tractors and farm machinery momentum continue on healthy reservoir levels and rural income pushing mechanisation further.

Source: Companies, BOBCAPS Research | 3W: Three wheelers, EV: Electric Vehicle

Fig 3 – Average realisation

(Rs/vehicle)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)
AL	20,01,536	20,42,641	(2.0)	19,52,152	2.5
BJAUT	1,13,478	1,04,591	8.5	1,15,307	(1.6)
EIM	1,61,492	1,82,432	(11.5)	1,80,837	(10.7)
ESCORTS	8,87,699	9,05,523	(2.0)	8,24,028	7.7
HMCL	72,658	69,755	4.2	71,724	1.3
MM	8,58,851	8,31,486	3.3	8,73,023	(1.6)
MSIL	7,47,137	6,84,412	9.2	7,68,457	(2.8)
TVSL	80,781	75,061	7.6	79,003	2.2
VSTT	2,21,245	2,70,962	(18.3)	2,18,097	1.4
Aggregate	5,71,653	5,74,096	(0.4)	5,64,736	1.2

Comment
- Realisations were flat YoY overall with marginal increase QoQ (1.2%) as major companies preferred GST rate cut driven volume momentum to continue
- However, majority OEMs have taken price hikes at the start of Q4FY26 to pass on the cost inflation that was prevalent in Q3 and continued in early Q4.
- Favorable macro environment has led to consumers opting for higher-end variants using the GST saving to up-trade driving mix towards higher-margin products or shift to higher segment.

Source: Companies, BOBCAPS Research

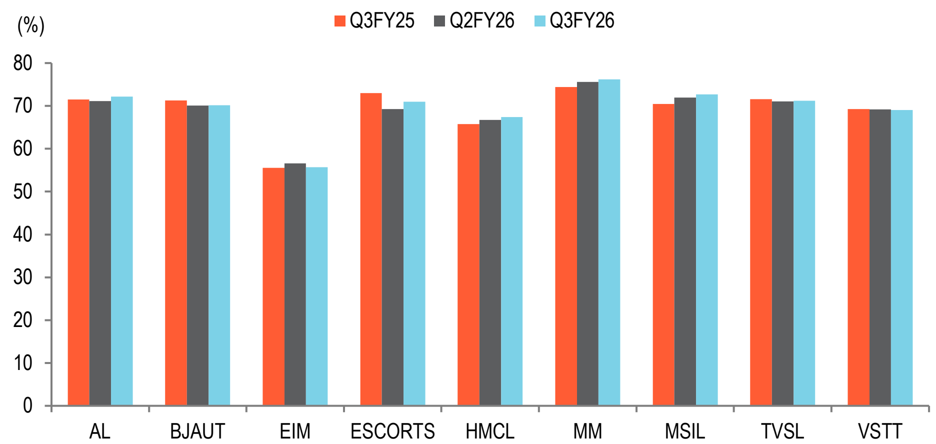
Fig 4 – EBITDA growth

(Rs mn)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comment
AL	15,350	12,114	26.7	11,622	32.1	▪ EBITDA growth remained robust, supported by operating leverage, improved operating efficiencies and a richer product mix; which helped sustain realisations even amid elevated festive discounting. ▪ Effectively, margins expanded (~93bps YoY) despite inflationary pressures. With the price hikes taken in Q4FY26, margins should be well guarded going forward. ▪ MSIL has sustained aggressive discounts to support the Compact segment demand, while HMCL, despite the continued brand investments and higher marketing spends, remained steady.
BJAUT	31,605	25,807	22.5	30,517	3.6	
EIM	15,899	12,237	29.9	14,687	8.2	
ESCORTS	4,347	3,327	30.6	3,597	20.9	
HMCL	18,101	14,765	22.6	18,234	(0.7)	
MM	56,676	44,681	26.8	48,615	16.6	
MSIL	55,717	50,646	10.0	50,848	9.6	
TVSL	16,341	10,815	51.1	15,086	8.3	
VSTT	407	196	108.2	409	(0.5)	
Aggregate	2,14,442	1,74,587	22.8	1,93,615	10.8	

Source: Companies, BOBCAPS Research | OEMs: Original equipment manufacturers

Persistent cost headwinds driven by commodity pressures (steel, copper, aluminium, noble metals) have kept Raw material cost inflationary. Though, the raw material-to-sales ratio showed a mixed trend across OEMs HMCL saw RM/sales rise to 67.4% (50bps impact of commodity inflation) while BJAUT benefitted from ~160bps decline in RM/sales aided by export and forex realisations.

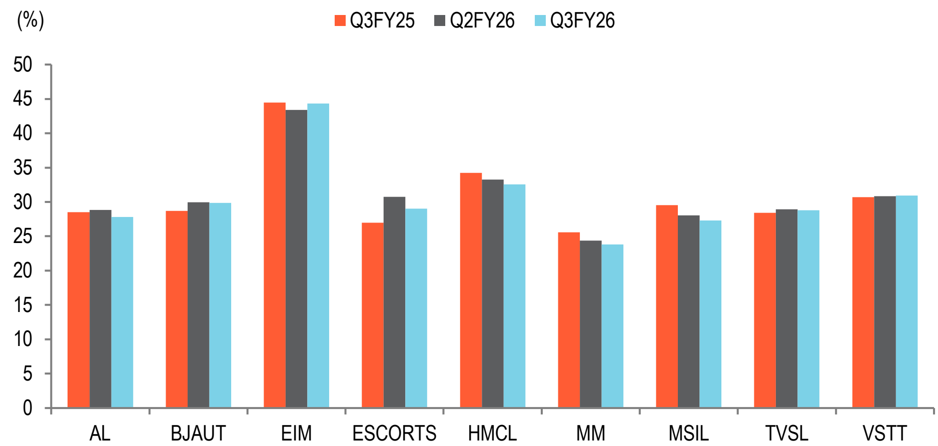
Fig 5 – Raw material cost-to-sales



Source: Companies, BOBCAPS Research

Aggregate gross margins softened by ~30bps YoY amid festive discounting and commodity headwinds. MSIL saw a steep decline of ~220bps YoY with aggressive discounting, while MM declined by ~178bps YoY weighed by commodity inflation across the segment. However, a blend of selective RM cost benefits in select players like BJAUT, due to exports and favourable currency and marked-up ASPs from mix shifts/ premiumisation — all helped a few exceptions like TVSL

Fig 6 – Gross margin

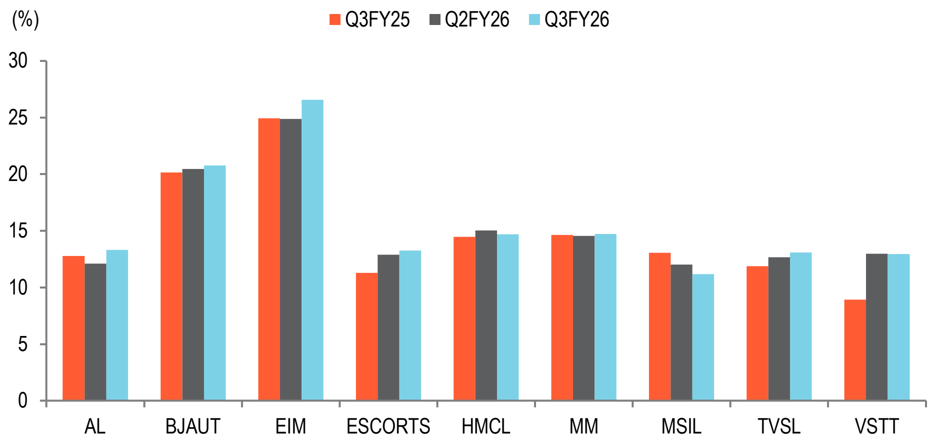


Source: Companies, BOBCAPS Research

Aggregate EBITDA margins remained benign YoY at ~15.6% in Q3FY26, as operating leverage from strong volume growth helped offset the higher other expenses, driven by elevated promotional intensity, brand investments and continued push toward premiumisation. This was across major OEMs.

TVSL achieved a significant margin expansion (+120bps YoY to 13.1%) via scale, mix, and disciplined pricing; HMCL added +22bps to 14.7% despite higher brand investment (+11% YoY other expenses); EIM improved significantly (+196bps YoY to 26.6%) amid commodity inflation through value engineering, price hikes and operating leverage.

Fig 7 – EBITDA margin



Source: Companies, BOBCAPS Research

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