

FIRST LIGHT

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RESEARCH

AUTOMOBILES | Q3FY25 REVIEW

Slow yet steady post-festive quarter; premiumisation key driver

SUMMARY

AUTOMOBILES: Q3FY25 REVIEW

- Volume push by 2W and passenger vehicle segments in Q3; healthy traction in tractors segment; commercial vehicles volume stay listless
- Raw material cost savings aid gross margin gains; EBITDA margin lacks pace on premium product and electric vehicle segment expenses
- Post Q3FY25, we maintain our BUY rating on AL and MM, and positive stance on MSIL, 2W ratings retained at HOLD and SELL on ESCORTS

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AUTOMOBILES

Q3FY25 Review

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2W segment's focus stays on scooters and premium products: Two-wheeler (2W) OEMs in our coverage delivered 11% YoY volume growth in Q3FY25, driven by healthy festive sales, focus on premium products and push to the EV scooter segment. Realisation gains for our 2W coverage universe was healthy at ~3% YoY due to better product mix but higher discounts were on offer which aided volume gains. The 2W segment was a mixed bag as TVSL and HMCL's gross margins improved, but fell for BJAUT and EIM (average increase of +177bps YoY).

PV growth momentum continues: Passenger vehicle (PV) OEM volumes in our coverage grew 15% YoY, with industry volume growth of 13% in Q3 (MSIL + MM + TTMT + Hyundai). MM posted robust volume growth of ~17% YoY driven by SUVs, while MSIL grew 13% as the revival in the small car segment kept the focus on highend products. Gross margin for our coverage universe was a mixed bag with MM adding 72bps YoY, but MSIL falling by 69bps due to higher discounts. MM maintained a steady gross margin of ~26% in Q3FY25, while MSIL fell to 28%.

Strong tractor volumes driven by healthy monsoon: Volumes in the tractor segment were healthy, with MM gaining ~20% YoY on a higher base, ESCORTS's volume rose by 25% while VSTT's gains were on a weak base and fell sharply QoQ. The major boost for tractor sales was the above-normal monsoon and healthy reservoir levels in India. Demand continues to be in the higher 40HP-50HP segment.

Commercial vehicle volume continues to be tepid: The commercial vehicle recovery continues to be postponed as AL volume fell ~2% and TTMT stayed flat. EIM volumes gained a healthy 10% but on a weak base. However, QoQ volume indicated signs of recovery with AL gaining ~2% and TTMT by double digits.

Top picks MM and AL, continue positive stance on MSIL: We remain positive on MSIL (TP Rs 13,806) following its leadership in SUVs and healthy margins. We prefer MM (TP Rs 3,689) for its focus on volume growth, capacity buildup to cater to additional demand, and timely addition of variants and strong launch pipeline. We also maintain BUY on AL (TP of Rs 274) following its focus on LCV segment.

25 February 2025

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