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28 August 2025

RESEARCH

AUTOMOBILES | Q1FY26 REVIEW

Volume slow; ASPs stay listless; margins intact

PHARMACEUTICALS | Q1FY26 REVIEW

In-line quarter, new products to drive growth

SUMMARY

AUTOMOBILES: Q1FY26 REVIEW

- Overall volume growth at ~3%, premium 2Ws lift the 2W segment by 2% YoY; 4Ws up ~7% with MM in driver's seat
- ASP stays range-bound in the PV and 2W base segments; discounts on a high to push volume, margins hold in a tough Q1 as RM cost rescues
- Post Q1FY26, we maintain BUY on AL/MM/MSIL; 2W ratings retained at HOLD with a positive bias on TVSL, and SELL on ESCORTS

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PHARMACEUTICALS: Q1FY26 REVIEW

- Overall, in-line set of earnings where sales and EBITDA grew 2% and 6% each above our estimates. PAT declined 1% below estimates
- Alkem and Laurus Labs reported earnings well above our estimates, while Abbott and Cohance fell significantly short
- Upgraded ALKM to HOLD from SELL and downgraded Eris to HOLD from BUY. Top Picks: SUN, LPC, BOOT, COHANCE

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BOBCAPS Research
research@bobcaps.in

AUTOMOBILES | Q1FY26 Review | 26 August 2025

Volume slow; ASPs stay listless; margins intact

- **Overall volume growth at ~3%, premium 2Ws lift the 2W segment by 2% YoY; 4Ws up ~7% with MM in driver's seat**
- **ASP stays range-bound in the PV and 2W base segments; discounts on a high to push volume, margins hold in a tough Q1 as RM cost rescues**
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Milind Raginwar
research@bobcaps.in

Premium motorcycles aid 2W growth: Two-wheeler (2W) OEMs delivered ~2% YoY volume growth in Q1FY26, driven by the volume growth of premium-products-focused companies. While EIM and TVS grew in double digits, BJAUT was flat and HMCL volume fell by ~11% YoY, due to supply-chain issues. EV scooters growth was healthy, too, on a lower base. For our coverage universe (ex-EIM), ASPs were healthy at ~4% YoY, due to a better product mix. However, higher discounts (to help volume gains) effectively implied that gross margins were flat YoY but continued to soften for EIM as intense competition kept ASPs soft.

SUVs in the fast lane helping 4Ws: Passenger vehicle (PV) OEM volumes in our coverage grew ~7% YoY, despite the industry volume fall of ~2% in Q1 (MSIL + MM + TTMT + Hyundai + Kia). MM posted volume growth of ~15% YoY driven by Thar Roxx; while MSIL grew ~1% as weakness in the small car segment continued. Gross margin softened as for MM, they fell by 2.3% YoY at ~24% indicating aggressive offers (discounts) by MM to push volume. MSIL margins stayed flat at ~28%

Strong tractor volumes driven by market leader: Volumes in the tractor segment were healthy, with MM gaining ~11.3% YoY on a higher base. ESCORTS continued to underperform, largely due to adverse regional mix as it volumes stayed flat. VSTT's tractor volume too stayed flat. Healthy monsoons and better MSPs have boosted rural affordability. Demand remains in the higher 40HP-50HP segment.

CV volumes stay listless: CV volumes were a mixed bag with AL gaining ~1% and TTMT falling ~10% YoY, while the overall industry volume softened by 1.4%. EIM volumes gained a healthy ~`18%, albeit on a weak base.

Top picks MM and AL; positive on MSIL: We remain positive on MSIL (revised TP Rs 14,574) following its leadership in SUVs and healthy margins. We also prefer MM (TP Rs 3,693) for its focus on volume growth, capacity addition to cater to incremental demand and strong launch pipeline. We maintain BUY on AL (TP of Rs 151 ex-bonus) following its steady gains in MHCV segment and focus on the margins. Healthy bus segment order book add cushion.

PHARMACEUTICALS | Q1FY26 Review | 26 August 2025

In-line quarter, new products to drive growth

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- **Alkem and Laurus Labs reported earnings well above our estimates, while Abbott and Cohance fell significantly short**
- **Upgraded ALKM to HOLD from SELL and downgraded Eris to HOLD from BUY. Top Picks: SUN, LPC, BOOT, COHANCE**

Foram Parekh
research@bobcaps.in

In-line earnings: 1QFY26 earnings were in line for our coverage companies where sales grew by 10.87% to Rs 569 bn, EBITDA grew by 10.82% to Rs 131bn, PAT grew by 3.2% to Rs 92 bn. EBITDA margin was flattish, growing by 74 bps YoY to 25.3%. During the quarter, overall growth was broad-based where all geographies like North America, Europe, ROW and domestic market performed better.

Domestic region: Sales grew above IPM at 9.9%, driven by new launches and price hikes. Amongst our coverage companies, Ajanta Pharma reported a volume-driven 16% growth (the highest), whereas Eris reported the lowest growth of -1.8%. From our coverage companies, Alkem earnings at 12% were a positive surprise, largely due to early monsoon. Cipla earnings were below our estimates due to realignment of the respiratory portfolio.

US region: Sales grew by 4.7% YoY to Rs 129 bn and were flat with -0.8% in cc terms to USD 1.9bn. Amongst our coverage companies, Lupin surprised positively with USD 283 mn while Aurobindo reported sales below our estimates to USD420 mn. The growth was driven by off-generic products like specialty products for Sun, complex generics products for companies like Lupin, Cipla and Revlimid for Dr.Reddy's.

CDMO: Within our coverage companies, sales grew by 28.6% to Rs 53bn. Laurus reported earnings above our estimates, mainly due to a lower base and higher growth from custom synthesis. Divi's and Cohance reported below our estimates, given the pricing pressure in the generics segment for Divi's and destocking in 2 large molecules in Cohance.

Preferred Picks: Upgraded ALKM to HOLD from SELL and downgraded Eris to HOLD from BUY. Top Picks: SUN, LPC, BOOT, COHANCE.

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Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
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