FIRST LIGHT

03 July 2026

RESEARCH

AUTOMOBILES

Momentum continues for now; monsoon stays a key concern

CONSUMER STAPLES | Q1FY27 PREVIEW

Gradual recovery

SUMMARY

AUTOMOBILES

- Entry segment demand tapers off MoM in PVs; 2W commuter space faces headwinds; Premiumisation trend across remains indifferent
- Freight availability and utilisation trending upwards, despite the higher fuel cost, driving CVs up by ~33% YoY; exports swells ~83% YoY
- Despite weak rural sentiment expectations tractors maintain a healthy pace at ~13% YoY; 3Ws remain consistent performers at ~29% growth

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CONSUMER STAPLES: Q1FY27 PREVIEW

- Q1FY27E is likely to be a quarter of selective growth and gradual margin recovery across the Consumer sector
- Calibrated pricing and a favourable mix should support profitability, despite the overhang of high-cost inventory
- Margin recovery to begin easing crude and palm costs, with full benefits likely from H2FY27E

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BOBCAPS Research
research@bobcaps.in

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02 July 2026

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Milind Raginwar
Research Analyst
research@bobcaps.in

PVs YoY growth accelerates further: Momentum in passenger vehicles (PVs) strengthened further in June, with volumes across our coverage universe rising ~20% YoY. MSIL maintained a healthy ~19% YoY growth, supported by the sustained strength in small cars and exports; while MM delivered a strong ~28% YoY SUV-led performance. However, HMIL was impacted by temporary disruptions in production, resulting in a ~16% YoY decline in domestic volumes; but are expected to cover up the losses in Q2FY27.

2Ws continue premium drive: 2W demand stayed robust, despite domestic market divergence, though exports strength continued. TVSL (~47% YoY) remained the fastest grower, while BJAUT (~30% YoY) benefited from strong export demand (~49% 2W exports). HMCL volumes moderated (-2% YoY), driven by a partial higher base and weakness in commuter segment. EIM (~27% YoY) maintained a healthy momentum.

3Ws growth remains healthy: Passenger carrier demand was driven by last mile mobility and surging exports drive. MM/TVSL grew ~63%/51% YoY) and TVSL (~51% YoY) reported robust growth. BJAUT (~18% YoY) growth was normalised as domestic demand matured, though exports remained a key growth driver (+33% YoY).

Tractors remain healthy despite delayed monsoon: Demand for tractors stayed healthy, supported by Kharif sowing, resilient rural cash flows and reservoir levels despite a delayed monsoon. MM/ESCORTS (~12%/~19% YoY) growing in double digits (domestic growth), with Escorts outperforming on its specialised wetland tractor range. VSTT was flat, as strong power tiller demand offset the weaker tractor volumes.

CVs demand strengthens: CV momentum improved, supported by stronger freight availability, infrastructure activity and replacement demand. TMCV (~29% YoY) and AL (~25% YoY) posted robust growth, led by MHCV trucks and healthy LCV demand. VECV (~29% YoY) gained across domestic trucks and exports, highlighting a healthy recovery in the overall CV cycle.

Key ratings: Retain BUY on MSIL and MM; assign HOLD rating to the 2Ws pack (TVSL, EIM, BJAUT, HMCL) on fair valuations. SELL on VSTT.

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Lavita Lasrado
Research Analyst
Nistha Pala
Research Associate
research@bobcaps.in

Input cost outlook; calibrated pricing to support margins: Q1'27E is expected to mark the beginning of a margin recovery cycle, as crude prices have corrected sharply from the recent geopolitical spike, although the quarter is still likely to reflect higher-cost inventory, with the full RM benefit expected to flow through from H2FY27E. During the quarter, crude- and palm-oil-linked inflation remained a key headwind for HUL, GCPL and TCPL. Britannia, Nestlé and Marico were relatively better placed, supported by a favourable RM basket; including Marico benefiting from copra prices correcting ~45% from peak levels. Companies continued with calibrated pricing to protect profitability, with HUL taking cumulative ~2-5% price hikes (partly reflected), GCPL raising prices across soaps, detergents and household insecticides (4–7%), Marico increasing saffola prices by ~6–11%. Overall, the crude/palm-led cost pressure is expected to be a temporary headwind for HUL, GCPL and TCPL and largely a non-event for Marico, Nestlé and Britannia given their relatively favourable raw material baskets.

Performance Divergence Across Coverage: Nestlé India and Marico are expected to lead our coverage this quarter, likely to deliver ~15/18% YoY sales growth resp. Nestlé should also post healthy margin expansion (+96bps to 22.6%) on favourable input costs and operating leverage. Marico's margin is expected to contract modestly (-54bps to 19.6%), as the benefit of lower copra prices will likely flow through with a lag. TCPL is likely to face pressure in its tea portfolio amid the elevated LPG prices and the heatwave, although portfolio diversification should support margins. HUL is expected to report steady margin expansion (+29bps at 22.8%). In contrast, GCPL is expected to see margin pressure this quarter from input cost inflation and geopolitical-led raw material volatility, with recovery likely from H2FY27E (as per management). Britannia's growth may remain subdued due to weaker tea-linked consumption, though margins should stay resilient. ITC remains the key laggard, with soft cigarette volumes limiting its growth despite stable margins, while UBL is expected to report the sharpest margin contraction in our coverage.

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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 (Perpetual)**
SEBI Stock Broker Registration No: **INZ000159332**
SEBI Depository Participant Registration No: **IN-DP-728-2022**
SEBI Merchant Banker Registration No: **INM000009926**
Phone: +91-22-61389300
Name of the Compliance Officer: Mr. Sameer Khobrekar
Email ID: Compliance@bobcaps.in; Phone no.: +91-22-61389358
For any queries or grievances, you may contact the Grievance Officer.
Name of the Grievance Officer: Mr. Nilesh Mehta
Email ID: head-customercare@bobcaps.in; Phone no: 92288 60945

Brand Name: **BOBCAPS**
Website: **https://www.bobcaps.in/**
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