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Fortnightly review

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2W volume stays healthy, small car segment revival helps 4W

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SUMMARY

INDIA ECONOMICS: BONDS WRAP

Global yields traded in a wide range with no directional convergence between 10Y yield of major economies. For US, we have seen a softening bias in yields. This was further supported by Fed Chair's recent statements hinting at rate cut in Sep'25. CME Fed watch tool is also showing that traders are pricing in a higher probability for the outcome of rate cut in Sep'25. However other Advanced Economies (AEs) showed stickiness in yield amidst growing expectation of a wait and watch policy response in the near term. India's 10Y yield also showed significant firmness in Aug'25, with longer part of the curve exhibiting maximum movement, a phenomenon called bear steepening.

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AUTOMOBILES

- PV segment sales decline on postponements due to the much-awaited structural tax rate rationalisation. Base segment revival encouraging
- Premium 2W motorcycles segment spurts on expectations of higher tax brackets post GST rationalisation
- 3W segment surges, hinting at a healthy demand revival in rural segment, backed by strong tractor sales. CV segment in recovery mode

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CONSUMER STAPLES

- QComm penetration is ~15% of relevant retail spends which can go up to 30%. Potential is the top ~80mn of Indian population
- Fastest migration in dry groceries; regional staples remain GT-heavy. QComm unit economics improving; potential for 26-28% gross margins
- FMCG implications: Manage pack/price architecture to compete with pvt label, innovate to premiumise, reallocate A&P to higher ROI QComm

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EQUITY RESEARCH 04 September 2025



BONDS WRAP

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Dipanwita Mazumdar Economist

This was primarily led by lower expectations of rate cut by RBI amidst growth holding ground. Apart from this, concerns of excess supply of government papers also weighed on sentiments. We expect India's 10Y yield to trade in the range of 6.50-6.60% in the current month. The release of H2 borrowing calendar would only give a clearer picture about the allocation of securities towards different maturity buckets, and hence some respite in yields may be seen. Another point of comfort for yields could be the rising interest rate differential with the US in the wake of Fed again embarking on the rate cut cycle and RBI maintaining status quo momentarily.

India, an outlier of the month:

Global yields remained divergent in Aug'25. US 10Y yield has fallen sharply as expectations of rate cut by Fed have increased. CME Fed watch tool shows a 90% probability of 25bps rate cut in its 17 Sep 2025. On macro front, indicators showed mixed performance. Core retail sales softened, University of Michigan's inflation expectation index (1 &5-Yr) remained well anchored. Core PCE (broadly gauged by Fed as a measure of inflation) remained stable. Core durable goods orders picked up, so are new home sales. The Q2 second GDP estimate also showed upward bias led by consumption demand. Thus, not much has been felt on growth and inflation front as of now, due to tariff related uncertainty. This month's key event will be any developments on US Supreme Court ruling over Federal appeals court's which has claimed most of the tariffs imposed by US President as illegal under the 'International Emergency Economic Powers Act (IEEPA)'. Apart from this, US Fed projection of major macro variables will shed light on the pace of policy easing in the future. We expect US 10Y yield to trade with a downward bias in Aug'25.





AUTOMOBILES

03 September 2025

2W volume stays healthy, small car segment revival helps 4W

 PV segment sales decline on postponements due to the much-awaited structural tax rate rationalisation. Base segment revival encouraging Milind Raginwar research@bobcaps.in

- Premium 2W motorcycles segment spurts on expectations of higher tax brackets post GST rationalisation
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Lull continues ahead of structural changes: Domestic PV segment saw muted demand, declining ~7% YoY to 0.29mn units, impacted by adverse weather conditions and cautious consumer sentiment ahead of GST rationalisation. MSIL sales were nearly flat YoY, driven by ~3% rise in the compact segment. TTMT fell ~7% YoY but recorded ~44% growth in the EV segment, driven by Punch EV and Curvv EV launches. Hyundai volume fell 4.2% YoY. Geopolitical uncertainties and GST rationalisation continue to be areas of concerns, but festive season demand (Ganpati/Navratri/Diwali) and new launches in 2HFY26 will likely drive recovery.

Premium segment drives 2Ws: 2Ws sales grew ~15% YoY, led by EIM with a ~55% YoY surge to 114k units, driven by premium models (Hunter 350, Guerrilla 450) ahead of the expected GST rate rationalisation. TVSL (~30% YoY) and HMCL (~8% YoY) saw strong gains, fueled by premium scooters and EV models like iQube (TVSL) and Vida (HMCL), though rare earth shortages pose risks. Exports rose ~43% YoY, with HMCL up by ~72% YoY to 34.6k units albeit on a small base.

3Ws key driver of the month: 3W sales surged 24% YoY, as demand for last mile mobility sustains. TVSL led with ~47% YoY growth, with domestic sales up 109% YoY and exports up 31.7% YoY, supported by CNG and EV adoption in urban markets.

Tractors steady: Tractor sales rose 27.7% YoY, supported by robust monsoon and higher Kharif sowing. MM grew 28.3% YoY, maintaining market leadership, while ESCORTS grew 27.1% YoY with exports up 35.5% YoY, though on a small base. Tractor volume was driven by the 40-50HP segment.

CVs volume slowly gathering pace: CV sales grew 13.2% YoY. Domestic sales rose ~6% YoY, impacted by monsoon slowdowns, while exports soared 126% YoY, led by VECV's 132.5% YoY growth. AL overall volume grew 5.4% YoY. We expect post-monsoon recovery driven by infrastructure spending and mining activity.

Key ratings: BUY on MSIL, MM and AL, and SELL on ESCORTS and VSTT.





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- Fastest migration in dry groceries; regional staples remain GT-heavy.
 QComm unit economics improving; potential for 26-28% gross margins
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Structural adoption in India: We recently hosted Mr Varadharajan (Quick Commerce expert) to better understand Quick Commerce dynamics. QComm is rapidly turning into a structural part of urban spend. Drivers include India's frequent replenishment culture (small kitchens, cooks/maids, low/no pantry storage), preference for instant delivery, and personalised shopping. Current penetration stands at ~15% of the relevant wallet; top 80mn of the Indian population.

Category migration: Categories migrating fastest from General Trade to QComm include dry groceries, staples, beauty and personal care, and household utilities. Regional products, especially staples, remain strongholds in GT.

Shift in communication: Traditional recall advertising is weakening. QComm consumers are shopping more by "needs" ("detergent for whites") than brands. Retail media revenue; currently 3%-4% of GMV, can move to 5%+. For FMCG, this implies need for A&P reallocation to QComm platforms. Given slightly different consumer behaviour; attribute tagging, and visibility spend will gain importance.

Unit economics imply a sustainable model: Industry operates at 21%-23% gross margins, with advertising revenue adding ~300bps. This can potentially rise by 1-2ppt to upto 28% with the increase in the share of discretionary categories such as gifting, electronics and home, plus bank / credit card partnerships. QComm is a sustainable, scalable channel rather than a cash-burning experiment.

Industry structure & bargaining power: The market is consolidating on Blinkit, Zepto, and Instamart. Reliance, Amazon, and Flipkart likely to remain less competitive in QComm. Meaningfully higher retailer concentration vs a fragmented GT, is increasing the bargaining power of QComm companies.

Implications for FMCG: QComm offers both opportunities (innovation, efficient media ROI, premiumisation) and threats (rising share of private label, weaker bargaining power). FMCG firms need to manage pack-price architecture, innovate for premiumisation, and reallocate A&P from GT to QComm to leverage higher ROIs.





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