

Autos

Operating leverage, RM cost to impact margin

Growth continues to remain under pressure, except for a few outliers

Softer demand both domestically and globally continues to impact volume growth. Key exceptions to this are TVS Motor, Eicher Motors, and Mahindra & Mahindra. While TVS Motors is riding on the back of its successful models and variants, including the EVs, it has also been expanding its geographic footprint, thus adding further legs to its growth. Eicher Motors continues to grow well on its revised strategy of volume over margin. Mahindra & Mahindra continues to see increasing traction for its UVs and tractors and continues to outperform the market. While key auto ancillary companies continue to face global headwinds on softer demand and tariff uncertainty.

OEM margin to get impacted QoQ on operating leverage, higher RM costs

Higher RM costs, especially steel and platinum group metals, to impact gross margins of OEMs. While EBITDA margin to get impacted further on operating leverage as volumes declined seasonally. For 2W OEMs we saw an adverse mix within the domestic segment, lower exports mix and lower EV mix. While Bajaj Auto and TVS Motors would have faced forex headwinds for the exports business, Bajaj Auto could negate this as its exports product mix was better QoQ. For PV OEMs, while Maruti witnessed better mix, both M&M and Tata Motors witnessed higher EV mix. We expect minor pricing revision to have happened for 2W and CV players, due to OBD 2 norms that got applicable from 1st April 2025 for 2Ws, and AC cabin norms that got implemented from 8th June 2025 for CVs.

Auto ancillary companies facing headwinds from global markets

Global demand continues to remain soft, while tariff uncertainty continues to impact medium to long term business planning. Tyre companies could see some respite on RM costs QoQ, while we expect Endurance Technologies to benefit from lower aluminum prices. A key surprise impact on margins could come on key export companies, especially Balkrishna Industries, from ocean freight costs that saw a spike. Another surprise impact for Balkrishna Industries would be if its plants in Bhuj witnessed a shutdown during the India-Pakistan conflict, as well as any delayed return back to work of migrant labour due to the same.

Rare-earth magnet shortage is a real imminent threat

While the rare-earth magnets form a small percentage of overall cost of a vehicle, it would be difficult to produce most vehicles without the same. The magnets are used in EV motors as well as components in ICE like ignition coils, sensors, speedometers, power steering, etc. Most of the processing of the magnets happen in China, as the process is radioactive and expensive. While some solutions could be for India to start manufacturing it and to import more from Japan, these are more medium term in nature. The only feasible near term solution, if not constrained by supplies, would be to import the impacted component in entirety from China, which would then increase costs and raise questions on quality. It would lead to reduced localization levels, and impact PLI.

Top picks

Our top pick is Ather Energy (though we are watchful of the magnet shortage) and Ashok Leyland due to a strong structural growth story over the medium to long term that increases the re-rating potential. From the ancillary space, our top pick is Bharat Forge on the back of strong defence segment potential, especially after the India-Pakistan conflict, which would increase the potential requirement of ATAGs, as well as long term structural shift in the forging segment from a high cost base like Europe to India.

Companies	CMP (INR)	TP (INR)	Rating
Autos			
Ashok Leyland	250	286	BUY
Bajaj Auto	8,272	7,876	REDUCE
Eicher Motors	5,649	5,942	ADD
Hero MotoCorp	4,316	4,846	BUY
M&M	3,160	3,557	ADD
Maruti Suzuki	12,644	14,766	BUY
Tata Motors	696	694	REDUCE
TVS Motor	2,828	2,810	ADD
Ather Energy	329	409	BUY
Ancillaries			
Apollo Tyres	472	399	SELL
Balkrishna Ind	2,636	2,191	SELL
Bharat Forge	1,224	1,427	BUY
Endurance Technologies	2,646	2,667	ADD
Motherson Sumi Wiring	65	66	ADD
Samvardhana International	153	173	ADD
Sansera Engineering	1,385	1,589	ADD
Suprajit Engineering	466	485	ADD

CMP as on 10 July 2025

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Exhibit 1: Change in Estimates/Rating

Company	CMP (INR)	Rating		TP (INR)		Target P/E (x)		Old EPS		New EPS		Change %	
		New	Old	Old	New	Old	New	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Auto													
Ashok Leyland	250	BUY	BUY	301	286	17	17	12.5	15.1	11.9	14.3	(5.0)	(5.5)
Bajaj Auto	8,272	REDUCE	REDUCE	8,184	7,876	21	21	335.8	385.1	322.7	366.6	(3.9)	(4.8)
Eicher Motors	5,649	ADD	ADD	5,731	5,942	26	26	175.7	200.9	174.9	201.4	(0.5)	0.3
Hero MotoCorp	4,316	BUY	BUY	4,874	4,846	15	15	255.8	293.2	252.9	287.7	(1.2)	(1.9)
Mahindra & Mahindra	3,160	ADD	ADD	3,386	3,557	19	19	117.4	130.6	117.7	131.7	0.3	0.9
Maruti Suzuki	12,644	BUY	BUY	14,834	14,766	24	24	538.7	618.1	514.5	596.8	(4.5)	(3.4)
Tata Motors	696	REDUCE	REDUCE	681	694	SOTP	SOTP	52.9	71.0	52.8	69.6	(0.3)	(2.0)
TVS Motors	2,828	ADD	ADD	2,833	2,810	30	30	71.2	89.2	67.5	84.9	(5.1)	(4.8)
Ather Energy	329	BUY	BUY	409	409	3.5	3.5	(25.1)	(25.2)	(25.1)	(25.2)	-	-
Auto Ancillaries													
Apollo Tyres	472	SELL	SELL	398	399	11.5	11.5	25.1	34.6	24.7	33.2	(1.6)	(4.1)
Balkrishna Industries	2,636	SELL	SELL	2,068	2,191	20	20	92.2	103.4	90.5	105.0	(1.8)	1.6
Bharat Forge	1,224	BUY	BUY	1,302	1,427	30	31	29.5	43.4	29.3	43.4	(0.8)	(0.1)
Endurance Technologies	2,646	ADD	ADD	2,435	2,667	27	29	70.0	90.2	68.5	86.1	(2.1)	(4.5)
Motherson Sumi Wiring	65	ADD	ADD	62	66	28	28	1.7	2.2	1.7	2.2	(2.2)	(0.0)
Samvardhana Motherson	153	ADD	ADD	171	173	20	20	6.7	8.5	6.2	8.2	(6.4)	(4.2)
Sansera Engineering	1,385	ADD	ADD	1,495	1,589	23	23	50.4	65.0	50.3	65.3	(0.1)	0.5
Suprajit Engineering	466	ADD	ADD	466	485	22	22	15.8	21.2	15.8	20.8	0.3	(1.6)

Source: HSIE Research

Note: In the Target P/E section, we have shown multiples for the core business of the companies. Additionally, for the valuation of Ather Energy, we use EV/Sales multiple and not P/E.

Exhibit 2: Valuation Summary

Company	Mcap (INR bn)	CMP (INR)	TP (INR)	RECO	EPS (INR)				P/E (x)				RoE %				Rev CAGR FY25- 28	EPS CAGR FY25- 28
					FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E		
Auto																		
Ashok Leyland	733	250	286	BUY	10.9	11.9	14.3	16.5	22.9	21.0	17.5	15.1	31.5	28.3	28.2	29.4	10.1	14.9
Bajaj Auto	2,309	8,272	7,876	REDUCE	292.0	322.7	366.6	414.6	28.3	25.6	22.6	20.0	28.6	27.1	28.6	29.9	11.9	12.4
Eicher Motors	1,549	5,649	5,942	ADD	156.1	174.9	201.4	230.7	36.2	32.3	28.1	24.5	25.0	24.0	23.8	23.5	14.3	13.9
Hero MotoCorp	863	4,316	4,846	BUY	230.6	252.9	287.7	328.4	18.7	17.1	15.0	13.1	23.3	23.8	25.1	26.4	10.4	12.5
Mahindra & Mahindra	3,794	3,160	3,557	ADD	98.7	117.7	131.7	151.0	32.0	26.8	24.0	20.9	22.3	21.1	20.2	19.9	13.6	15.5
Maruti Suzuki	3,975	12,644	14,766	BUY	461.2	514.5	596.8	670.6	27.4	24.6	21.2	18.9	16.3	16.2	16.8	16.7	11.4	13.3
Tata Motors	2,559	696	694	REDUCE	61.4	52.8	69.6	88.7	11.3	13.2	10.0	7.8	22.5	15.6	17.8	19.4	9.5	13.1
TVS Motors	1,344	2,828	2,810	ADD	57.1	67.5	84.9	98.9	49.6	41.9	33.3	28.6	30.7	28.5	28.4	26.4	14.3	20.1
Ather Energy	123	329	409	BUY	(27.9)	(25.1)	(25.2)	(25.8)	(11.8)	(13.1)	(13.1)	(12.7)	(156.4)	(50.4)	(36.1)	(58.3)	31.8	(2.6)
Auto Ancillaries																		
Apollo Tyres	300	472	399	SELL	17.6	24.7	33.2	39.2	26.7	19.1	14.2	12.0	9.0	10.3	12.9	14.0	7.9	30.5
Balkrishna Industries	510	2,636	2,191	SELL	80.7	90.5	105.0	123.2	32.7	29.1	25.1	21.4	16.2	15.8	16.1	16.6	11.4	15.1
Bharat Forge	585	1,224	1,427	BUY	21.5	29.3	43.4	54.0	57.0	41.8	28.2	22.7	12.5	14.4	19.1	20.5	17.9	58.6
Endurance Technologies	372	2,646	2,667	ADD	58.6	68.5	86.1	109.4	45.2	38.6	30.7	24.2	15.4	15.8	17.3	18.9	15.3	23.1
Motherson Sumi Wiring	287	65	66	ADD	1.4	1.7	2.2	2.8	47.4	39.0	29.3	23.1	35.9	40.4	45.7	48.3	15.0	27.1
Samvardhana Motherson	1,079	153	173	ADD	5.4	6.2	8.2	10.0	28.4	24.5	18.7	15.4	12.5	12.1	14.4	15.6	11.2	22.6
Sansera Engineering	86	1,385	1,589	ADD	35.3	50.3	65.3	80.4	39.2	27.5	21.2	17.2	10.7	10.8	12.6	13.7	18.1	31.6
Suprajit Engineering	64	466	485	ADD	7.2	15.8	20.8	25.6	64.4	29.5	22.4	18.2	7.5	15.9	18.4	19.6	12.8	52.4

Source: HSIE Research

Exhibit 3: Q1FY26 Auto OEM Estimates

Company	Revenue			EBITDA Margin (%)			PAT			Comment
	Q1 FY26E	YoY (%)	QoQ (%)	Q1 FY26E	YoY (bps)	QoQ (bps)	Q1 FY26E	YoY (%)	QoQ (%)	
Ashok Leyland	88,120	2.5	-26.0	11.8	117 bps	-328 bps	6,428	22.3	-49.0	Realizations to decline by 1% QoQ led by higher mix of LCV, though partially negated by price increases due to AC cabin norms. EBITDA margin to get impacted on negative operating leverage as volumes declined 25% QoQ.
Bajaj Auto	1,22,449	2.7	0.8	19.8	-45 bps	-37 bps	20,032	0.7	-2.2	Realizations to remain flattish QoQ as adverse domestic mix should negate a better exports mix, while price hike due to OBD 2 norms should get negated by higher discounts and adverse forex realizations. EBITDA margin to decline post being stable last year, on the back of higher RM costs and spike in ocean freight rates.
Eicher Motors	48,122	13.7	-5.8	24.0	-224 bps	-73 bps	10,220	0.4	-9.2	Realisation to remain flattish QoQ as the price hike was taken late into the quarter. While better exports mix and higher cc bikes to be negated by higher mix of Hunter 350. EBITDA margin to decline QoQ to 24.0% on the back of higher RM cost, negative operating leverage and expectation of continuing higher branding and marketing spends.
Hero MotoCorp	97,432	-3.9	-2.0	13.6	-80 bps	-65 bps	10,303	-8.2	-4.7	Realizations to decline by 1% QoQ on adverse mix led by lower exports mix and higher mix of entry level motorcycles, though partially supported by higher EV mix. EBITDA margin to deteriorate QoQ to 13.6% on higher RM costs and adverse mix.
M&M	3,33,103	23.2	6.2	14.2	-68 bps	-73 bps	28,541	9.2	17.1	Realisations for the auto segment to increase 2% QoQ on the back of higher PV mix, including higher EV mix within PV. While realisations for the farm segment to decline 2% QoQ on adverse HP mix. On a QoQ basis, EBIT margin to decline to 18.7% for the farm segment on the back of adverse mix and firm RM cost which would be partially negated by higher operating leverage, and to decline to 8.6% for the auto segment due to higher EV mix and higher RM cost.
Maruti Suzuki	3,59,423	1.2	-11.6	10.4	-223 bps	-5 bps	30,784	-15.7	-17.0	ASP to increase 0.75% QoQ on better product mix, though slightly negated by higher discounts. Margins to remain flattish QoQ as better product mix and currency tailwinds and non-presence of Q4 one-offs to be negated by higher RM cost and negative operating leverage
Tata Motors	10,10,285	-6.5	-15.5	10.7	-364 bps	-320 bps	43,560	-18.2	-50.2	JLR EBIT margin to decline sharply QoQ to 5.5% mainly due to negative operating leverage as the company has stopped exports to the US for most of April, though to be partially negated by better mix due to winding down of the Jaguar models. CV EBITDA margin to be 10.9% on negative operating leverage as volumes declined 19.0% QoQ. PV EBITDA margin to decline 160bps QoQ to 6.3% on negative operating leverage, higher EV mix, and launch costs of Harrier EV.
TVS Motor	1,00,686	20.2	5.4	12.1	64 bps	-185 bps	7,448	29.0	-12.6	Realizations to remain flattish QoQ as price hike due to OBD 2 norms to be negated by adverse product mix and adverse forex realizations. Adjusted margins to take a hit QoQ on the back of higher RM costs and ocean freight costs.
Ather Energy	6,451	N/A	-4.6	(23.5)	N/A	202 bps	(2,137)	N/A	-8.8	We expect the company to improve margins further, despite the higher Rizta mix, on the back of its focus to bring down costs which should lower other expenses QoQ.
Total (ex-Ather Energy)	21,59,621	1.0	-10.1	12.2	-220 bps	-184 bps	1,57,202	-6.5	-26.1	

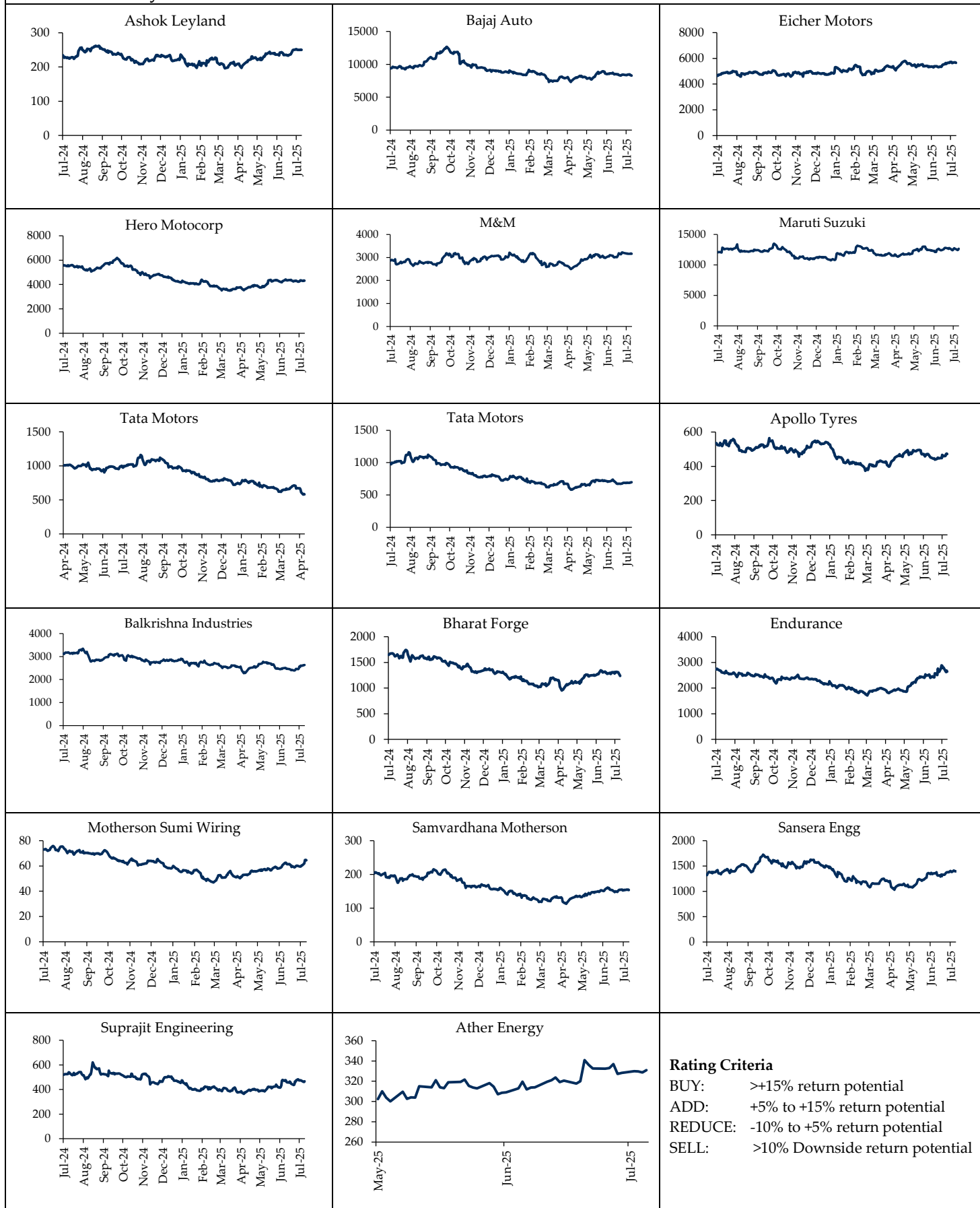
Source: HSIE Research

Exhibit 4: Q4FY25 Auto Ancillary Estimates

Company	Revenue			EBITDA Margin (%)			PAT			Comment
	Q1 FY26E	YoY (%)	QoQ (%)	Q1 FY26E	YoY (bps)	QoQ (bps)	Q1 FY26E	YoY (%)	QoQ (%)	
Apollo Tyres	66,190	4.5	3.0	13.0	-134 bps	-2 bps	2,933	-11.2	9.5	Revenue growth to remain subdued amidst weaker demand environment and management's focus on profitable growth. We expect EBITDA margin to remain flattish QoQ as minor RM benefit on the standalone operations should be negated by normalizing of product mix in the European operations.
Balkrishna Industries	27,327	-0.3	-3.7	24.4	-166 bps	-46 bps	3,940	-17.5	8.8	Volumes to decline 2.7% QoQ, led by probable impact from plant shutdown during the India-Pakistan conflict, which we believe would have also led to a delay in the return of migrant labour. Though RM costs have eased, we expect the benefits to be partially negated by higher ocean freight costs, leading to a QoQ dip in EBITDA margins.
Bharat Forge	21,630	-7.1	3.2	28.5	20 bps	-59 bps	3,608	-9.7	4.1	Standalone revenue to degrow YoY on subdued global environment and higher base of defence revenue. EBITDA margin to get impacted QoQ on higher RM costs.
Endurance Technologies	31,125	10.2	5.0	14.0	73 bps	-28 bps	2,385	17.0	2.4	QoQ revenue growth to be led by the fast growing alloy wheel and disc brake business as well as the aftermarket segment. EBITDA margin to get impacted due to other operating costs though partially negated by lower aluminium prices.
Motherson Sumi Wiring	24,470	12.0	-2.5	11.0	9 bps	21 bps	1,631	9.6	-1.1	Ramp up of new facilities and operating leverage benefits should be negated by slightly higher RM costs, leading to flattish margins YoY.
Samvardhana Motherson	3,10,429	7.5	5.9	9.2	-43 bps	17 bps	10,141	2.0	-3.5	Revenue to grow QoQ on execution of healthy orderbook and better integration of recent acquisitions.
Sansera Engineering	8,082	8.6	3.4	17.2	8 bps	97 bps	657	32.6	10.9	We expect margins to improve on minor operating leverage and improved product mix as the ADS business continues to ramp up and the adverse component mix of Q4FY25 starts to normalize.
Suprajit Engineering	8,652	17.7	-1.3	10.6	-118 bps	65 bps	394	3.2	44.6	We expect margins to bounce back partially on a QoQ basis as it was hit by higher staffing expenses at the corporate and technology center as well as operating inefficiencies in the Morocco and Germany businesses in Q4FY25.
Total	4,97,905	6.5	4.2	11.9	-67 bps	-2 bps	25,690	-2.8	2.3	

Source: HSIE Research

1 Yr Price history



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