



Top Conviction Ideas: Automobile Industry

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Q2Y26 Auto OEM Review – Growth in 2W/Tractor OEMs

✓ *Financial Performance*

- **Strong Q2FY26 Outperformance Across Auto OEMs:** Revenue/EBITDA in Q2FY26 grew by 16.5%/14.9% YoY, respectively, exceeding our expectations of ~12.6%/11.2% YoY for Auto OEMs under our coverage. Revenue growth was largely driven by mid-single-digit industry growth across 2Ws/PVs/CVs and mid-teens volume growth in the tractors, and the ongoing premiumization trend. Revenue/EBITDA grew by 14.5%/18.6% QoQ against our estimates of 10.7%/14.8% QoQ, respectively. The YoY improvement in EBITDA margin was driven by richer product mix (higher exports) and price hikes implemented over the past year. PAT grew by 14.9% YoY versus our estimate of 21.2%, and increased by 4.7% QoQ (our estimate: 10.3%).
- **Margin Trends Across OEMs:** Maruti Suzuki and Eicher Motors faced downward pressure on margins by 134 bps and 139 bps, respectively. However, margins were largely positive for Escort Kubota, Ashok Leyland, TVS Motor, Hero MotoCorp and Bajaj Auto up 279 bps, 52 bps, 97 bps, 55 bps and 25 bps, respectively.

Q2FY26 Auto Ancillaries Review – Mixed Performance

✓ *Financial Performance*

- **Steady Q2FY26 Growth In Line with Expectations:** The companies under our coverage reported 14.4%/13.4% growth in Revenue/EBITDA in Q2FY26, respectively, in line with our expectations of ~13.3%/13.9% YoY. Growth was supported by higher sales volumes in 2Ws and tractors, the GST rate cut, and continued premiumization. Revenue/EBITDA rose by 5.6%/4.7% QoQ, largely in line with our estimates of 4.6%/5.2% QoQ, respectively. EBITDA performance was partly impacted by a marginal impact from commodities for some auto ancillaries. PAT grew by 14.3% YoY (our estimate:15.7%) and 4.4% QoQ (our estimate:14%).
- **Mixed EBITDA Performance Across Auto Ancillaries:** Endurance Technologies, UNO Minda, Sansera Engineering, CIE Automotive and Minda Corp delivered strong YoY EBITDA growth. Meanwhile, SSWL and Automotive axle reported a 5.5%/ 6.5% YoY decline due to an unfavourable product mix.

Sector Outlook (Q2FY26 Vs Q2FY25)

Two-Wheelers (2W)

- **Exports:** Up 25% - Sustained export volumes suggest a revival in demand from African, LATAM, and ASEAN regions, potentially helped by better dollar liquidity and macro stabilisation.
- **Domestic:** Up 7% – Supported by improving affordability and recovering demand, with motorcycles rising by 5% YoY.
- **Outlook:** **Positive**



Commercial Vehicles (CV)

- **Exports:** Up 20.1% - Sustained export volumes YoY, possibly from a low base and improving infrastructure push in target geographies.
- **Domestic:** Up 9% - Freight operators are showing increased activity as infrastructure work stabilises. Long-term prospects also remain strong, supported by sustained government infrastructure spending and a revival in mining and logistics.
- **Outlook:** **Company Specific Bottom Up Approach.**



Passenger Vehicles (PV)

- **Exports:** Up 25% - Export momentum may be driven by newer models and OEM push in Africa and South America.
- **Domestic:** Up 3% – Domestic growth strengthened due to rising demand in the SUV space and the entry-level segment, supported by the GST rate cut.
- **Outlook:** **Stable to Slightly Positive.**



Tractors

- **Exports:** Up 4.4% - Export performance improved despite ongoing softness in the U.S. and Europe, where large tractor sales continue to face pressure.
- **Domestic:** Up 31% - Domestic growth likely aided by GST rate cut, Government schemes, improved rabi output, and slightly better monsoons.
- **Outlook:** **Cautiously Positive**
- FY26 is expected to end in mid-teens double digits.



Outlook – Gradual Margin Stability with Strengthening Volume Trends

- We expect EBITDA margins to remain largely stable in the near term, supported by a richer product mix, while raw material headwinds could exert slight pressure.
- We expect 2W sales volumes to sustain mid to high single-digit growth in FY26E, supported by new premium segment launches, an extended replacement cycle, and recovery in exports. A favourable monsoon, GST rate cut, income tax relief, and increased rural spending are likely to further drive demand for entry-level motorcycles.
- Overall PV sales growth, which has been largely led by the UV segment, is expected to remain in the mid single digits in FY26E (earlier low single digit expectations) due to the GST rate cut, which may help arrest declining entry-level PV domestic sales.
- For FY26, OEMs remain optimistic about long-term structural growth drivers, including India's vast road network, policy measures aimed at reducing supply chain costs, the vehicle scrappage policy, reduced interest rate costs and continued infrastructure Capex outlined in the Union Budget.
- Tractor/CV volumes are expected to grow in the high single digits in FY26E, supported by a favourable monsoon, lower financing costs, GST rate cut and increased government allocations towards the farming/infrastructure sector before the state election.
- **Auto Sector:** We remain selective in our approach. Among OEMs under our coverage, our Top Conviction Ideas in 2Ws are **Hero Motocorp, Bajaj Auto**; in CVs is **Ashok Leyland**, and in the PV/tractor segment, we favour **Mahindra & Mahindra** (non-coverage), given its strong SUV product portfolio and leadership position in the domestic tractor industry. We recommend the **"Buy On Dips" Strategy** for TVS Motors and Maruti Suzuki Ltd.
- **Auto Ancillaries:** In the long run, product premiumization, strong order books, growing exports, GST rate cut and the shift toward EVs are expected to drive higher content per vehicle, boosting profitability. Considering current valuations, our top conviction picks in the ancillary space are **Sansera Engineering Ltd. We also suggest a "Buy on Dips" approach for Endurance Technologies and UNO Minda for long-term gains.**

Short & Medium-Term Outlook

Short to Medium term

GST rate cut – To boost demand for small entry-level cars and 2Ws.

2W Demand – Shift towards e-2Ws, Premium scooters

Premiumisation across segments to drive ASPs higher.

Export-focused companies to benefit.

Restrictions on Rare Earth Minerals by China.

Increased competition in the SUV space in PV

Entry of Global Players in the EV may broaden Industry growth, but increase competition for OEMs

Long-Term

Key monitorables – *Rural Revival; Pick-up in Exports*

Stock	Reco.	TP	Recommendation Rationale
 <p data-bbox="122 749 458 785">Hero Motocorp Ltd</p>	<p data-bbox="611 749 700 785">BUY</p>	<p data-bbox="828 749 1006 785">Rs 6,245*</p>	<ul style="list-style-type: none"> <li data-bbox="1082 292 2491 535">✓ Market Momentum: Hero's VAHAN market share increased to 31.6% in Q2FY26, marking a 12-quarter high with a 70 bps sequential gain. The recovery is being supported by strong traction in the Deluxe 100cc segment and renewed momentum in the 125cc scooter and motorcycle categories (Destini 125, Xoom 125, Xtreme 125). In the EV segment, market share rose 3% YoY in Q2FY26 and further increased to 5% in H1FY26, aided by the successful rollout of Glamour X. <li data-bbox="1082 564 2491 806">✓ EBITDA Margin Improvement Despite EV Investments: Hero's ICE EBITDA margin expanded to 17.7% in Q2FY26, an improvement of 121 bps, driven by lower material costs, cost efficiencies, and a favourable product mix. The company continues to invest in brand building, new businesses, and new products, while overall margins improved 54 bps to 15.0% despite EV investments of approximately Rs 252 Cr. The recent PLI certification for VIDA V2 Pro is expected to support EV profitability. <li data-bbox="1082 835 2491 1189">✓ Global Expansion: The company's global business maintained its strong upward trajectory with dispatch growth of 77% during the quarter, nearly three times the industry growth, driven by Bangladesh, Nepal, Sri Lanka, and Colombia. Hero also entered the European and UK markets, expanding its footprint to 52 countries. Its Dow Jones Sustainability Index score improved to 75 in FY25 from 69 in FY24, underscoring the company's leadership in sustainable business practices. Over the medium term, Hero aims to scale its global operations to contribute ~10% of overall revenue and volumes, positioning exports as a key driver of growth and diversification.

* Note: Target Price is based on our Q2FY26 Result Update Report

Stock	Reco.	TP	Recommendation Rationale
 <p>Bajaj Auto Ltd</p>	<p>BUY</p>	<p>Rs 9,765*</p>	<ul style="list-style-type: none"> ✓ International Market: Bajaj Auto posted a strong Q2 international performance, with exports up 24% YoY to 550,000+ units, its highest-ever quarterly export revenue. The company outpaced industry growth in its top 30 emerging markets, which collectively grew ~14% with Bajaj growing at 1.5x, gaining market share. LATAM posted its best-ever quarter, led by Colombia and Mexico, with Brazil crossing 8,000 units and turning profitable through localised manufacturing. Asia and Africa saw double-digit growth, led by Sri Lanka, the Philippines, and East Africa, while Nigeria remained stable despite macro challenges. The CV export segment grew 67% YoY, reflecting sustained product and channel development efforts. Management expects export momentum to continue, supported by improved market conditions, localised manufacturing, and regional recovery. ✓ 3W's Portfolio: Bajaj Auto is well-positioned across ICE autos, e-autos, and e-rickshaws. The GST rate cut is expected to lift the ICE-auto segment from ~5% decline to slight growth, which is favourable given Bajaj's ~80% market share and strong profitability in RE CNG. In E-autos, industry growth has moderated to ~50% YoY, but Bajaj expects to regain market leadership from Q3 as supply constraints ease, supported by a wider product portfolio than peers. Bajaj has entered the consolidating e-rickshaw segment and aims to capture a significant share. Management sees the 3W business as a profitable opportunity, with Bajaj's brand, product range, and distribution supporting sustained leadership. ✓ Bajaj Auto Credit Limited: A Silent Value Compounder: BACL delivered Rs 132 Cr PAT in Q2FY26, a ~29% QoQ increase. AUM stands at Rs 14,000 Cr and penetration at ~40%. Bajaj infused Rs 500 Cr this quarter to support aggressive but profitable growth. This captive NBFC flywheel is increasingly accretive to core RoE and valuations.

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Stock	Reco.	TP	Recommendation Rationale
 <p data-bbox="155 748 422 786">Ashok Leyland</p>	<p data-bbox="608 748 693 786">BUY</p>	<p data-bbox="851 748 988 786">Rs 160*</p>	<ul style="list-style-type: none"> <li data-bbox="1082 332 2491 615">✓ Market Share Gains – Outperforming Industry Trends: Ashok Leyland’s MHCV volumes are estimated to have grown by 3–5% YoY in FY26, reflecting sustained demand momentum. We expect the company to maintain its market share at ~31.1% (vs 29.8% in the previous year) over the next two years. In the LCV segment, market share improved to ~15% YoY, highlighting the brand’s strong competitive positioning and product excellence across the commercial vehicle (CV) spectrum. <li data-bbox="1082 654 2491 891">✓ HFL- Strong Growth and Value Unlock Potential: Ashok Leyland’s captive NBFC, Hinduja Leyland Finance (HFL), reported 26% YoY growth in AUM during Q2FY26, reaching Rs 52,635 Cr, with HHF AUM at Rs 14,903 Cr. PAT stood at Rs 196 Cr and NNPA at 1.59%. The upcoming merger with NXTDigital will pave the way for a public listing, unlocking value and further strengthening the balance sheet, with Ashok Leyland holding a 61.1% stake. <li data-bbox="1082 929 2491 1212">✓ Capacity Expansion & Dealer Network – Enabling Scale: The Andhra Pradesh plant is expected to ramp up to 200 units/month by year-end, while the upcoming Lucknow bus plant (Q3FY26) will enhance bus body-building capacity from 12,000 to over 20,000 units per year. The company continues to strengthen its retail presence, adding 27 MHCV and 26 LCV touchpoints in Q2, taking the total network to 1,100 MHCV and 876 LCV outlets, with a target of over 2,000 combined touchpoints by the end of FY26.

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Top Conviction Ideas: Auto Ancillaries

Stock	Reco.	TP	Recommendation Rationale
 <p>Sansera Engineering</p>	<p>BUY</p>	<p>Rs 1,775*</p>	<ul style="list-style-type: none"> ✓ ADS Segment Demonstrates Strong Momentum and Visibility: Sansera's Aerospace, Defence and Semiconductor (ADS) segment continues to exhibit strong performance, reaffirming its position as a key growth engine for the company. Revenue stood at Rs 49.6 Cr in Q2FY26, taking H1FY26 sales to Rs 86.4 Cr, with management maintaining its full-year guidance of ~Rs 300 Cr, supported by consistent QoQ growth visibility. Segment margins remain significantly above the company average, estimated at 25–30%, and are currently trending toward the higher end of the range. The ADS business holds a robust cumulative order backlog exceeding Rs 3,950 Cr (lifetime value through FY30), ensuring strong multi-year revenue visibility. To support this growth trajectory, Sansera is expanding capacity with a new 70,000 sq. ft. facility, to be operationalised by H1FY27. Within verticals, it continues to deepen its presence in aerospace through complex machining solutions for Tier 1/2 customers such as Boeing and Airbus, while the semiconductor segment, backed by a state-of-the-art Class 1000 cleanroom, offers strong scaling potential. The defence business remains in its early stages, with a disciplined and selective approach toward customer acquisition. ✓ Diversified Orderbook: Sansera's order book totals Rs 2,146 Cr, diversified across ADS (24%), xEV (7%), auto components (10%), ICE PV+CV (31%), and two-wheelers (17%). In H1FY26, it secured Rs 1,168 Cr in new orders, highlighting strong execution amid market challenges. Key order wins included xEV programs from North American OEMs, new business from an American tractor OEM, and incremental orders from Collins Aerospace. This healthy order inflow enhances medium-term revenue visibility and further strengthens Sansera's position in premium, high-value segments expected to drive sustained margin accretion. ✓ EBITDA Margins: The company reported an EBITDA margin of 17.3% in Q2FY26, supported by strong scale-up in Sweden operations (79% YoY revenue growth), improved raw material yields, and a higher contribution from the ADS segment. Continued efforts toward manpower optimisation and enhanced capacity utilisation also contributed positively to profitability. The impact of US tariffs has been largely passed on to customers, thereby mitigating margin pressures and limiting downside risks.

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