



Top Conviction Ideas: *Automobile Industry*

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Q3Y26 Auto OEM Review – Growth in 2W/Tractor OEMs

✓ *Financial Performance*

- **Strong Q3FY26 Outperformance Across Auto OEMs:** Revenue/EBITDA in Q3FY26 grew by 25.5%/21.3% YoY, respectively, in line with our expectations of ~26% for revenue, while our estimated EBITDA growth of 30% YoY was missed 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 11.2%/8.8% QoQ against our estimates of 11.5%/16%, 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 13.8% YoY versus our estimates of 27.2%, and increased by 6.3% QoQ (our estimate: 17.3%).
- **Margin Trends Across OEMs:** Maruti Suzuki faced downward pressure on margins by 180 bps YoY, respectively. However, margins were largely positive for Escort Kubota, Eicher Motors, TVS Motor, Bajaj Auto, Ashok Leyland, and Hero MotoCorp, up 196 bps, 162 bps, 121 bps, 61 bps, 53 bps, and 22 bps, respectively.

Q3FY26 Auto Ancillaries Review – Mixed Performance

✓ *Financial Performance*

- **Steady Q3FY26 Growth In Line with Expectations:** The companies under our coverage reported 20.7%/20.9% growth in Revenue/EBITDA in Q3FY26, respectively, in line with our expectations of ~17.3%/22% YoY. Growth was supported by higher sales volumes in 2Ws and tractors, the GST rate cut, and continued premiumization. Revenue/EBITDA rose by 3.9%/2.1% QoQ, largely in line with our estimates of 1%/3% QoQ, respectively. EBITDA performance was partly impacted by a marginal impact from commodities for some auto ancillaries. PAT grew by 16.5% YoY (our estimate:28.6%) and - 3.7% QoQ (our estimate:6.3%).
- **Mixed EBITDA Performance Across Auto Ancillaries:** Endurance Technologies, UNO Minda, Sansera Engineering, Automotive Axle, and Minda Corp delivered strong YoY EBITDA growth. Meanwhile, SSWL and CIE Automotive EBITDA margin down by 49 bps and 20 bps YoY due to an unfavourable product mix.

Sector Outlook (Q3FY26 Vs Q3FY25)

Two-Wheelers (2W)

- **Exports:** Up 24% - Sustained export volumes suggest a strong demand from African, LATAM, and ASEAN regions, potentially helped by better dollar liquidity and macro stabilisation.
- **Domestic:** Up 17% – Supported by improving affordability and recovering demand, with scooters and motorcycles rising by 26% and 12% YoY each.
- **Outlook:** **Positive**



Commercial Vehicles (CV)

- **Exports:** Up 13.6% - Sustained export volumes YoY, due to a low base and improving infrastructure push in target geographies.
- **Domestic:** Up 22% - Freight operators are showing increased activity as infrastructure work stabilises. Long-term prospects also remain strong, supported by sustained government infrastructure spending and an early replacement cycle due to GST rate cut.
- **Outlook:** **Positive**



Passenger Vehicles (PV)

- **Exports:** Up 12% - Export momentum may be driven by newer models and OEM push in Africa and South America.
- **Domestic:** Up 20% – Domestic growth strengthened due to rising demand in the SUV space and the entry-level segment, supported by the GST rate cut.
- **Outlook:** **Slightly Positive**



Tractors

- **Exports:** Up 20% - Export performance improved despite ongoing softness in the U.S. and Europe, where large tractor sales continue to face pressure.
- **Domestic:** Up 23% - 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 and new model launches, 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.
- **CV volumes are expected to grow in the high single digits** while tractor volumes are projected to grow at mid double digits pace 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 **Eicher Motor and 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 and Endurance Technologies Ltd.**

Short & Medium-Term Outlook

Short to Medium term

PV demanded by new SUV launches

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

Strong demand in MHCVs driven by GST rate cuts and an early replacement cycle.

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 industry may broaden Industry growth, but increase competition for OEMs

Long-Term


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

Stock	Reco.	TP	Recommendation Rationale
 <p data-bbox="140 746 438 782">Eicher Motor Ltd</p>	<p data-bbox="611 746 693 782">BUY</p>	<p data-bbox="835 746 1006 782">Rs 8,060*</p>	<ul style="list-style-type: none"> <li data-bbox="1082 297 2491 596">✓ Product Refresh Cycle Sustains Domestic Momentum: Royal Enfield reported 21% YoY volume growth in Q3FY26, driven by successful variant introductions across its core models - Classic, Bullet, and Hunter. Recent updates to the Meteor 350 and the pan-India expansion of the Bullet 350 have helped counter post-GST demand softness. This refresh cycle is also resonating well with younger buyers, with the Hunter 350 witnessing a 5-6% increase in customers in the 23-24 age cohort. <li data-bbox="1082 625 2491 975">✓ Exports Strengthened by Market Penetration and Local Assembly: International volumes surged 34% YoY to 1,04,506 units in 9MFY26, underscoring strong export momentum. Brazil remains a key growth driver with the second CKD unit now operational, while SAARC markets, notably Nepal and Bangladesh, continue to show robust demand. However, sentiment remains subdued in ASEAN markets, particularly Thailand. Management reiterated its strategic focus on strengthening its presence in existing high-potential markets rather than pursuing aggressive geographic diversification. <li data-bbox="1082 1003 2491 1246">✓ Volume Over Margins Strategy: Management continues to prioritize absolute EBITDA growth over margin protection to navigate rising competitive intensity. Standalone EBITDA grew 30% YoY, supported by robust 21% volume growth, a favorable mix shift toward higher-ASP variants, and improved pricing. We estimate an EBITDA CAGR of ~15–16% over FY25–28E, below historical trends and consensus expectations


* Note: Target Price is based on our Q3FY26 Result Update Report

Stock	Reco.	TP	Recommendation Rationale
 <p data-bbox="165 748 417 786">Bajaj Auto Ltd</p>	<p data-bbox="614 748 690 786">BUY</p>	<p data-bbox="828 748 1014 786">Rs 10,790*</p>	<ul style="list-style-type: none"> <li data-bbox="1082 311 2491 639">✓ International Market: Bajaj Auto delivered a strong recovery-led performance in international markets in Q3FY26, with export volumes exceeding 600,000 units, up 18% YoY, and monthly run-rates crossing 200,000 units for the first time in nearly 40 months. In the top 30 overseas markets, which account for ~75% of the industry, Bajaj’s volumes grew 15% versus ~10% industry growth, indicating continued market share gains. LATAM posted its best-ever quarterly performance, led by Colombia, while the Brazil subsidiary continued to scale and is nearing 10,000 units per month. While Nigeria remained negative YoY, its contribution to the overall portfolio has halved, with the rest of the export portfolio delivering an all-time high performance. Management remains constructive on exports, supported by a broad-based regional recovery and improving diversification beyond Nigeria. <li data-bbox="1082 661 2491 989">✓ 3W’s Portfolio: Bajaj Auto continues to remain strongly positioned across ICE autos, electric 3Ws, and e-rickshaws. GST rationalization has improved industry growth from a ~4% decline to ~4–5% growth, benefiting Bajaj, given its dominant 70%+ market share in ICE autos and 85%+ share in the CNG segment. In electric 3Ws, Bajaj exited the quarter as the market leader, supported by the widest e-cargo portfolio in the industry with battery options ranging from 9 kWh to 18 kWh. In the e-rickshaw segment, the company is seeding the L3 category under the “Ricky” brand across ~50 cities, targeting a shift from low-end lead-acid offerings to value-based lithium-ion solutions. Overall, management continues to view the three-wheeler business as a structurally large and profitable opportunity, supported by Bajaj’s scale, product breadth, and distribution strength. <li data-bbox="1082 1011 2491 1223">✓ Bajaj Auto Credit Limited: A Silent Value Compounder: BACL continued to scale profitably, emerging as a high-performing captive finance arm with an industry-leading ROE of ~21%. Assets under management reached Rs 16,500 Cr by the end of December, while PAT for the quarter stood at ~Rs 200 Cr, reflecting strong sequential growth. Management indicated that the recent Rs 300 Cr capital infusion is likely the final requirement, with the business now self-sustaining and maintaining a healthy capital adequacy ratio of ~19.8%.


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 <p data-bbox="122 742 458 785">Ashok Leyland Ltd</p>	<p data-bbox="611 742 687 785">BUY</p>	<p data-bbox="853 742 993 785">Rs 225*</p>	<ul style="list-style-type: none"> <li data-bbox="1082 299 2491 628">✓ Market Share Expansion– Sustained Industry Outperformance: Ashok Leyland continued to outperform the industry in Q3FY26, with domestic MSCV volumes growing 23.4% YoY, ahead of the industry growth of 21%, resulting in a 60 bps YoY gain in market share to 30.9% (YTD). In the LCV segment, domestic volumes surged 30% YoY vs industry growth of 23%, with Q3 market share improving by 70 bps to 12.1%, reflecting sustained competitive strength. The company has also strengthened its pan-India presence, with North India market share expanding to over 25% from a historical average of ~15%, underscoring its successful transition into a national CV player. <li data-bbox="1082 656 2491 913">✓ HLF Scaling Momentum with Strategic Consolidation: Ashok Leyland’s captive NBFC, Hinduja Leyland Finance (HLF), maintained steady growth momentum, with standalone AUM rising 18% YoY to Rs 56,470 Cr, while housing finance AUM increased 16% YoY to Rs 15,454 Cr. The reverse merger with NDL Ventures is progressing toward final closure post-necessary approvals, marking a key milestone in corporate simplification and paving the way for potential value unlocking, with Ashok Leyland retaining a majority stake. <li data-bbox="1082 942 2491 1229">✓ Capacity Augmentation & Retail Reach Acceleration: Ashok Leyland continues to strengthen its distribution footprint, adding 75 MHCV and 77 LCV touchpoints in 9MFY26, with 45% of new MHCV additions concentrated in the North and Northeast regions. The total network has expanded to 2,041 touchpoints. On the manufacturing front, the new Lucknow plant has been inaugurated, and bus body-building capacity is being ramped up to 20,000 units per annum. Management indicated that existing capacities are adequate to support growth over the next 2-3 years without requiring significant incremental capex.

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 <p>Sansera Engineering Ltd</p>	BUY	Rs 2,275*	<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. The highest ever Revenue reported stood at Rs 119 Cr in Q3FY26, taking 9MFY26 sales to Rs 206 Cr, with management maintaining its full-year guidance of ~Rs 300 to 320 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 3,868 Cr (lifetime value through FY30), ensuring strong multi-year revenue visibility. To support this growth trajectory, the company is augmenting capacity with a new 80,000 sq. ft. facility around two-thirds the size of the existing plant, expected to be operational by H1FY27. ✓ Diversified Orderbook: Sansera’s order book stands at Rs 2,412 Cr in peak annual revenue potential, well-diversified across ADS (24%), xEV (10%), tech-agnostic auto components (8%), ICE PV+CV (29%), and two-wheelers (16%). In 9MFY26, the company secured multiple new orders, demonstrating its strong execution capabilities and resilience amid challenging market conditions. Key business wins includes equipment component supplies to Malaysia in the semiconductor space with participation in India’s Semiconductor Mission 2.0, a Rs 70 Cr per annum order from a leading North American EV player in the energy segment, and the formation of a Nichdai JV to manufacture high-precision transmission and driveline components using advanced cold and warm forging, collectively improving medium-term revenue visibility and reinforcing Sansera’s positioning in premium, technology-agnostic, high-value segments supportive of sustained margin expansion. ✓ EBITDA Margins: The company reported an EBITDA margin of 18.1% in Q3FY26, supported by strong scale-up in Sweden operations (62.5% YoY revenue growth). Profitability was further supported by improved exports and highest ever quarterly performance from the ADS segment and a higher contribution from this 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, while management continues to anchor its long-term strategy around the “20-20-20” vision of 20% EBITDA margins, 20% growth, and 20% ROCE.

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Stock	Reco.	TP	Recommendation Rationale
 <p data-bbox="89 721 535 806">Endurance Technologies Ltd</p>	<p data-bbox="631 742 718 785">BUY</p>	<p data-bbox="835 742 1006 785">Rs 2,880*</p>	<ul style="list-style-type: none"> <li data-bbox="1095 278 2484 749">✓ Strategic Capex and Expansion Initiatives: In Q3FY26, Endurance Technologies Ltd continued progressing its India expansion plans, with multiple greenfield projects nearing commercialization, including the Chennai disc-brake plant (SOP Q2FY27), the Aurangabad (AURIC Shendra) aluminium casting facility targeting Rs 388 Cr peak revenue by FY29, the fully booked auric Bidkin alloy-wheel plant, and the battery-pack facility near Pune expected to commence operations around March-April 2026. The company is also preparing to begin in-house ECU production for single-channel ABS in Q1FY27, subject to regulatory guidelines, and commissioned a new integrated brake R&D center in January 2026. FY26 India capex is now expected to be slightly below Rs 800 Cr, largely toward these new facilities and automation, with management focusing on sweating existing assets while directing incremental investments toward high-margin products and cost efficiencies <li data-bbox="1095 763 2484 1006">✓ Strong Order book: As of Dec'25, the company has secured total business orders worth ~Rs 5,021 Cr over the last five years, along with cumulative replacement orders of Rs 730 Cr and Rs 4,291 Cr in new orders. This includes an order backlog of Rs 1,242 Cr in the Indian EV segment, including Bajaj. In Europe, Endurance has secured €244 Mn in orders as of Dec'25, representing the cumulative value over five years. Of this, €94 Mn (39%) pertains to EV applications, while €111 Mn (45%) is for Hybrid applications. <li data-bbox="1095 1021 2484 1249">✓ EV Systems Strengthening Order Book: The battery management system (BMS) is currently being supplied across 3Ws, scooters, tractors, and construction equipment, with plans to expand into high-voltage BMS supplies for ICE 4Ws and EVs. Orders at the Maxwell BMS subsidiary stood at Rs 45 Cr in 9MFY26, taking total EV-related orders (including battery packs and BMS) to Rs 1,058.7 Cr, indicating continued traction in the electrification portfolio.

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