

**US-Iran Conflicts: Energy Supply Tightness & Geopolitical Risks**

- Near-Term Production Disruptions:** Ongoing gas supply constraints could impact automotive paint shops and forging operations that rely heavily on gas-based heating processes, potentially leading to near-term production constraints across the auto manufacturing ecosystem. Some OEMs have already begun witnessing minor disruptions, which could intensify if industrial gas allocations are curtailed further. However, the overall impact is expected to remain manageable in the near term, as most OEMs currently maintain 3–5 weeks of channel inventory, which can partially cushion temporary supply disruptions. Moreover, since the issue is industry-wide, customers are generally expected to accommodate modest delivery delays rather than cancel vehicle orders.
- Demand Remains Resilient (CNG Advantage):** The Government of India has prioritised gas allocation for CNG transport, ensuring stable availability of CNG fuel at retail stations despite the broader supply constraints. This policy helps preserve the total cost of ownership advantage for gas-powered vehicles and supports demand for OEMs with a strong CNG portfolio, such as **Maruti Suzuki** and **Bajaj Auto**. As a result, while factories may face gas shortages affecting production schedules, consumer demand for CNG vehicles is likely to remain intact due to continued fuel availability and cost advantages compared with petrol or diesel vehicles
- Margin Pressure Due to Higher Energy Costs:** Industrial gas supply restrictions are likely to compel several OEMs to shift from piped natural gas to costlier alternatives such as spot LNG or other fuels, potentially increasing manufacturing costs by approximately **15-25%**. This rise in energy expenses could lead to EBITDA margin compression of around **80-100 bps** in Q4FY26 for natural gas-dependent auto manufacturers. Additionally, elevated energy costs may increase conversion costs across the broader auto component ecosystem, placing pressure on suppliers and potentially leading to cost pass-through measures across the value chain.
- Raw Material Cost Headwinds:** Geopolitical tensions have also led to a rise in crude oil prices, creating additional raw material cost pressures for auto manufacturers. Several crude derivatives such as **plastics, paint, synthetic rubber, and tyres** are widely used in vehicle manufacturing and together account for approximately **3-7% of OEM revenues**. Sustained increases in these input costs could require **price hikes of around 0.5-1%** across vehicle segments to maintain profitability, while also contributing to broader cost inflation across the automotive supply chain.
- Supply Chain Risk - Forging and Casting Vendors:** Tier-1 suppliers engaged in forging and casting operations are among the most vulnerable to gas supply disruptions due to the energy-intensive nature of their production processes. These manufacturers rely significantly on high-temperature furnaces, and any gas supply constraints could disrupt the production of critical components supplied to multiple OEMs. Such disruptions have the potential to create cascading supply chain effects, particularly within the commercial vehicle segment, where forged components are extensively used
- Limited Direct Export Impact:** Exports account for roughly **15-20% of PV and 2W volumes, and 8-9% of MHCV volumes** in the Indian auto industry. Direct export exposure to the Middle East remains relatively limited for most OEMs, with notable exceptions such as **Ashok Leyland**, which has a stronger presence in the region. However, geopolitical tensions around key shipping routes such as the **Strait of Hormuz** could still result in higher logistics costs, insurance premiums, and shipping delays, thereby affecting export profitability.
- Outlook and Recommendation:** Going ahead, key variables to monitor include the duration and extent of natural gas supply disruptions and any further restrictions on industrial gas allocation by the Government of India, which could influence manufacturing continuity across OEMs and component suppliers. In addition, developments in geopolitical tensions affecting critical shipping routes such as the Strait of Hormuz will be important to track, as any escalation could disrupt energy supplies and increase global logistics costs. The trajectory of crude oil prices and its pass-through impact on crude-linked raw materials such as plastics, paint and synthetic rubber will also remain a key determinant of cost pressures. Lastly, potential disruptions in OEM production schedules, supplier operations, and broader supply chain stability, along with any slowdown in vehicle demand due to elevated energy costs or economic uncertainty, will be critical factors shaping the near-term outlook for the Indian automobile sector. We continue to favour companies with strong domestic exposure, healthy pricing power, and a favourable product mix, which offer relatively lower downside risk amid current market uncertainties. Within Auto OEMs, our top picks remain **Eicher Motors** and **TVS Motor Company**, while in the Auto Ancillary space, we prefer **Minda Corporation Ltd.**

**Current Ratings:**

Company	Rating	Target price
<b>Auto OEM's</b>		
Ashok Leyland	BUY	230
Bajaj Auto	BUY	10,790
Eicher Motors	BUY	8,060
Escorts Kubota	HOLD	3,590
Hero MotoCorp	BUY	6,400
Maruti Suzuki	BUY	16,860
TVS Motors	BUY	4,165
<b>Auto Ancillary</b>		
Automotive Axle	BUY	2,170
CIE	BUY	530
Automotive Endurance Technology	BUY	2,880
Minda Corp	BUY	710
Sansera Engineering	BUY	2,275
Steel Strips Wheels Ltd	BUY	220
Uno Minda	HOLD	1,260

Source: Axis Securities Research

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## Impact on Coverage Companies (Auto OEMs & Ancillary)

Company Name	Impact	Rationale
<b>Maruti Suzuki</b>	<b>High</b>	Sensitive to gas shortages due to a large CNG portfolio and gas-intensive paint shop operations, which could potentially impact production.
<b>Ashok Leyland</b>	<b>High</b>	High export exposure to GCC markets may increase logistics costs; indirect risk from gas-intensive forging/casting suppliers.
<b>Bajaj Auto</b>	<b>High</b>	Buffered by strong export diversification; gas use in supplier forging/component manufacturing may increase conversion costs.
<b>Hero MotoCorp</b>	<b>Moderate</b>	The extensive forged-parts vendor ecosystem faces higher costs; margin pressure from crude-linked raw materials.
<b>TVS Motor</b>	<b>Moderate</b>	Lower dependence on gas-intensive processes; strong focus on premium and EVs provides resilience.
<b>Eicher Motors</b>	<b>Moderate</b>	Premium focus and lower volumes mitigate impact; strong pricing power (Royal Enfield) helps pass on energy cost increases.
<b>Escorts Kubota</b>	<b>Low</b>	Moderate indirect exposure through forging suppliers; stable rural demand and inventory buffers limit disruption.

Source: Axis Securities Research

Company Name	Impact	Rationale
<b>Sansera Engineering</b>	<b>High</b>	Strong presence in precision forging and heat treatment makes it highly sensitive to gas supply and cost.
<b>CIE Automotive</b>	<b>High</b>	Forging and casting processes depend on high-temperature manufacturing; exposed to energy cost spikes.
<b>Automotive Axles</b>	<b>Moderate</b>	Energy-intensive machining and heat treatment; exposure to CV production slowdowns.
<b>Steel Strips Wheels</b>	<b>Moderate</b>	Energy-intensive wheel manufacturing; sensitive to steel price volatility and logistics costs.
<b>Endurance Tech</b>	<b>Moderate</b>	Aluminium die-casting requires significant energy; impacted by both energy costs and aluminium price fluctuations.
<b>Uno Minda</b>	<b>Low</b>	Portfolio (lighting, electronics) is less gas-intensive; risks are limited to general raw material inflation.
<b>Minda Corp</b>	<b>Low</b>	Lower energy intensity due to focus on electronics and plastics; primary risks are logistics and material costs.

Source: Axis Securities Research

**Exhibit 1: Valuation Sheet**

Company Name	CMP	Market Cap (Rs Cr)	Sales (Rs Cr)			EBIDTA (Rs Cr)			PAT (Rs Cr)			EPS (Rs)			ROE (%)			RoCE (%)		
			FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
<b>Auto OEMs</b>																				
Ashok Leyland Ltd	171	1,00,361	38,753	42,891	46,669	4,931	5,442	6,523	3,224	3,599	4,337	11	6	7	31	27	26	26	24	24
Bajaj Auto Ltd	8,875	2,47,969	50,010	57,411	62,648	10,283	11,762	12,824	8,288	9,649	10,495	297	341	371	26	26	26	26	25	25
Eicher Motors Ltd	6,741	1,84,931	18,451	22,766	25,353	4,768	5,824	6,455	4,240	5,122	5,729	155	187	210	25	26	26	23	25	24
Escorts Kubota Ltd	3,121	34,920	10,244	11,264	12,251	1,165	1,456	1,740	1,124	1,149	1,390	100	103	124	12	11	12	14	15	15
Hero MotoCorp Ltd	5,206	1,04,146	40,756	45,801	49,394	5,872	6,429	7,439	4,612	5,287	5,763	230	265	288	23	24	23	22	23	23
Maruti Suzuki India Ltd	12,591	3,95,709	1,52,160	1,75,853	1,93,835	18,248	20,023	21,444	14,740	15,984	16,755	469	508	533	16	16	15	16	16	15
TVS Motor Company Ltd	3,324	1,58,014	36,251	45,836	52,014	4,458	5,871	6,806	2,711	3,575	4,367	57	75	92	30	30	28	25	27	25
<b>Auto Ancillary</b>																				
Automotive Axles Ltd	1,772	2,663	2,078	2,129	2,237	220	225	258	154	172	194	103	115	129	16	16	16	23	21	21
CIE Automotive India Ltd	439	16,616	9,406	9,991	10,575	1,362	1,521	1,649	828	1,000	1,106	22	26	29	11	12	12	14	15	14
Endurance Technologies Ltd	2,403	33,825	11,561	14,318	16,373	1,551	1,908	2,285	827	934	1,197	59	68	85	15	15	17	19	19	21
Minda Corporation Ltd	481	11,497	5,056	6,081	6,978	575	717	873	255	338	439	11	14	18	12	14	17	15	16	19
Sansera Engineering Ltd	1,953	12,159	3,017	3,432	4,030	515	594	717	217	292	377	37	47	60	11	10	12	14	14	17
Steel Strips Wheels Ltd	183	2,887	4,429	5,090	5,896	484	501	625	195	183	246	12	12	16	13	11	13	19	17	20
UNO Minda Industries Ltd	1,013	58,548	16,775	19,613	22,662	1,874	2,278	2,679	943	1,241	1,515	16	22	26	18	20	21	19	19	20

Source: Axis Securities Research

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