Low volumes, discounts may have dented auto margins

Downside risks from rare-earth magnets an overhang for the sector

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Mumbai, 13 July

The first quarter (Q1) performance of auto original equipment manufacturers (OEMs) in 2025-26 (FY26) is likely to be impacted by factors like muted volumes, commodity inflation, shortage of rare-earth magnet components, discounts and dent on exports due to the Iran-Israel conflict.

Analysts feel that revenue growth for OEMs is likely to be in the range of 4-8 per cent year-on-year (Y-o-Y), varying with the coverage mix. And, margins are likely to taper owing to commodity inflation, negative operating leverage, and changes in regulatory norms.

Axis Securities said in its report that it expects the revenue for its OEM coverage universe to grow by 4 per cent Y-o-Y while the earnings before interest, taxes, depreciation, and amortisation (Ebitda) or profit after tax (PAT) is expected to decline by 3.4 per cent. The expected Ebitda margin decline would be due to higher discounts, advertisement expenses, negative operating leverage (production halts) being partly offset by richer product mix (higher exports) and price hikes taken over the past year, the analysts said.

On a sequential basis, however, the revenue is expected to decline by 7.6 per cent, while PAT would fall by 15.7 per cent with over 100 basis points (bps) decline in Ebitda margin.

Nirmal Bang analysts forecast an 8 per cent uptick in consolidated top line but margins are expected to taper for OEMs as prices of steel and other precious metals have seen an increase. The scale, however, should offset the increase in raw material prices. "Supply chain-related issues with regard to rare earths would be something to watch out for as multiple OEMs have guided for production cuts unless restrictions are lifted by China," Nirmal Bang noted.

	Net sales (₹ cr)			PAT (₹ cr)		
		Change %			Change %	
	Q1FY26E*	Q-o-Q	Y-o-Y	Q1FY26E*	Q-o-Q	Y-o-Y
Maruti Suzuki India	36,463	-6.1	2.6	3,178	-14.4	-12.9
Tata Motors	101,076	-15.0	-6.5	3,972	-54.1	-29.0
Mahindra & Mahindra	34,086	8.7	26.1	3,006	23.3	12.5
Hyundai Motor India	16,709	-6.9	-2.5	1,263	-21.8	-15.2
Hero MotoCorp	9,857	-0.8	-2.8	1,074	-0.6	-4.3
Ashok Leyland	8,781	-26.2	2.6	605	-51.1	15.0
Bajaj Auto	12,408	2.1	4.0	2,038	-0.6	2.5
Eicher Motors	4,972	-5.1	13.2	1,155	-15.2	4.9
TVS Motor Company	9,960	4.3	18.9	758	-11.1	26.9

PAT: Profit after tax, * estimates

Source: Bloomberg

Q1 RESULTS PREVIEW

Nomura said that auto OEMs in their coverage (excluding Jaguar Land Rover) may report cumulative revenue growth of 5 per cent and Y-o-Y Ebitda decline of 3 per cent.

In the case of JLR, margin predictability for Q1FY26 is low due to the tariff uncertainty.

"We estimate the tariff impact for the quarter at around 300 bps. The company has reduced incentives by 100 bps quarter-on-quarter (Q-o-Q) in the US. Thus, earnings before interest, taxes (Ebit) margins for JLR are estimated at around 5.2 per cent, near the low end of the guidance range," Nomura said.

Motilal Oswal, too, indicated a similar trajectory — revenue growth flattish Y-o-Y while Ebitda/PAT is likely to decline by 12 per cent each, respectively.

Volume growth remained a challenge in Q1FY26. Motilal Oswal said that auto OEMs under its coverage universe have posted 1.5 per cent Y-o-Y volume growth overall.

Among listed companies, two-wheeler and passenger vehicle (PV) OEMs reported 1 per cent volume growth. Commercial vehicle (CV) volumes were down 2 per cent.

"In two-wheelers, listed OEMs saw a 4 per cent Y-o-Y decline in the domestic market, while exports jumped 25 per cent," Motilal Oswal said. Royal Enfield and TVS continued to outperform peers, with 18 per cent and 17 per cent growth, respectively. On the other hand, Bajaj Auto two-wheeler sales were flat Y-o-Y (domestic down 9 per cent, exports up 14 per cent).

"In PVs, Mahindra and Mahindra (M&M) was the only player that reported strong double-digit growth in utility vehicles (UVs) at 22 per cent Y-o-Y on the back of launches. Maruti Suzuki India posted just 1 per cent volume growth Y-o-Y, supported by a strong 37 per cent export surge. On the other hand, Tata Motors and Hyundai recorded a 10 per cent and 6 per cent Y-o-Y decline in volumes," the analysts noted.

Discounts also increased Q-o-Q. In CVs, Volvo Eicher continued to outperform peers with 10 per cent Y-o-Y growth in Q1. Ashok Leyland's CV volumes inched up 1 per cent Y-o-Y while Tata Motors' fell 6 per cent in Q1. In tractors — the only segment that saw steady demand — the two listed entities posted an aggregate 8.5 per cent volume growth in Q1. Here again, M&M (10 per cent) outperformed Escorts (1 per cent).

Nomura said: "None of the Indian suppliers have secured approval to import rare earth magnets from China yet, raising further concerns."