2Ws, 3Ws likely drivers of auto sector growth

Muted PV, CV sales volume in Q2 may reflect in performance of segment leaders

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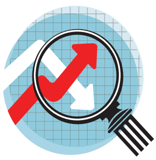
MIXED BAG Projected figures for Q2FY25 in ₹cr

Company	Net sales	Chg % Y-o-Y	Ebitda	Chg % Y-o-Y	PAT	Chg % Y-o-Y
Bajaj Auto	13,194	22.4	2,684	25.9	2,197	19.6
Tata Motors	106,338	1.2	14,363	5.0	4,707	23.3
M&M	26,932	4.5	3,786	-13.9	3,579	3.7
Hero MotoCorp	10,228	8.3	1,494	12.4	1,161	10.1
Eicher Motors	4,413	9.4	1,173	7.9	1,105	8.7
Ashok Leyland	9,115	-5.0	1,006	-6.8	592	5.5
TVS Motor Company	9,294	14.1	1,108	23.1	688	28.2
Maruti Suzuki India	38,484	8.3	5,438	33.1	4,054	7.7

Ebitda: Earnings before interest, tax, depreciation, and amortisation
PAT: Profit after tax
Source: Bloomberg

Automotive retail sales, in volume terms, for original equipment manufacturers (OEMs) were a mixed bag in Q2FY25.

On the one hand, two-wheelers experienced 4.7 per cent year-on-year (Y-o-Y) growth in sales volume, and three-wheeler sales rose by 4.9 per cent Y-o-Y, buoyed by robust rural demand. On the other, passenger vehicle (PV) sales declined by 5.1 per cent Y-o-Y, hit by subdued consumer sentiment and high inventory, while commercial vehicles (CVs) slipped 3.8 per cent, affected by low government spending and seasonal challenges.



Q2 RESULT PREVIEW

According to Motilal Oswal (MOSL) analysts, PV inventory levels have increased amid weaker retail demand, prompting deeper discounts and thus making the ongoing festival season even crucial. The brokerage forecasts a modest 2 per cent revenue growth for their OEM coverage (excluding Jaguar Land Rover), with Ebitda (earnings before interest, taxes, depreciation, and amortisation) expected to have expanded 4 per cent Y-o-Y in last quarter. However, profit after tax is anticipated to remain largely flat.

Some analysts are more optimistic, with Elara Capital projecting a 6 per cent Y-o-Y revenue increase during Q2FY25 for its OEM universe (excluding Tata Motors), and a 4 per cent improvement quarter-on-quarter (Q-o-Q).

MOSL estimates Ebitda margins will see a 30-basis-point Y-o-Y uptick to 13 per cent, driven by lower commodity costs and a favourable product mix. "However, Ebitda margin is expected to contract 40 bps on a sequential basis due to weak demand and rising discounts."

But Elara Capital expects auto margins have gained by 19 bps Y-o-Y due to softer steel and aluminum prices. Favourable commodity costs emerged in Q2FY25, with steel, aluminum, copper, and lead prices dropping 5–6 per cent Q-o-Q, although the sector might have only partially benefitted due to lag effects from Q1's price increases. Meanwhile, rubber prices spiked by 4 per cent Q-o-Q and were up 67 per cent Y-o-Y.

CV sales saw a low single-digit YoY decline in Q2FY25, while PV sales dropped by mid-single-digit Y-o-Y, driven by seasonal factors such as Shraddh and Pitrapaksha, observes Deven Choksey Research. "However, the two-wheeler segment saw robust growth of high double-digit numbers Y-o-Y, led by strong demand." The wealth management and investment advisory firm thus projects a 2.9 per cent Y-o-Y revenue decline for the sector overall, with Tata Motors sales volume down 6.1 per cent Y-o-Y, mainly due to slow PV and CV pickups.

Jaguar Land Rover's global wholesales fell by 10 per cent Y-o-Y to 87,303 units in Q2FY25. Jaguar contributed 5,961 units, while Land Rover contributed 81,342 units. Nevertheless, Deven Choksey Research anticipates a strong recovery in JLR's wholesale volumes in the second half of FY25.

The country's largest carmaker Maruti Suzuki India's Q2FY25 revenue likely remained flat Y-o-Y due to a 1.9 per cent Y-o-Y decline in volume, largely due to high inventory and fierce competition, notes Deven Choksey Research. However, sequential revenue is forecast suggests an uptick of 4.5 per cent due to positive seasonal effects.

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