

# Automobiles



- ❖ Strong growth opportunities ahead
- ❖ Relatively attractive valuations

## “Parts” is better than “whole”

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# Automobiles: “Parts” is better than “whole”

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The key factors currently shaping the auto industry dynamics include :1) focus on meeting emission targets backed by requisite policy support from the government 2) marked shift towards premiumization across segments. OEM’s who are the best placed to adapt to these changes are likely to be the key “winners” in the long run, in our view. On the growth front, the auto industry is likely to take a breather in FY25, after experiencing strong demand in the last two years. We expect the 2Ws/PVs/CVs to post 9%/6%/6% CAGR over FY24-26E. On the other hand, we believe the auto component industry is witnessing multiple growth opportunities in the long run with the emergence of India as one of the beneficiaries of the supply chain de-risking strategy by global OEMs. Given this and the relatively attractive valuations, we prefer Auto Ancillaries over OEMs at this stage. Our top picks in the Auto OEM segment are MSIL and AL and the same in Auto Ancillaries are CRAFTSMA, MOTHERSO, and HAPPYFORG.



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# Automobiles



## “Parts” is better than “whole”

### Prefer Auto Ancillaries over OEMs

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### India no longer a ‘cost-conscious’ market

We are now witnessing a noticeable shift in the vehicle purchasing patterns among consumers who are increasingly willing to pay a ‘premium’ for additional features such as safety, driving experience, plush interiors, aesthetics, and comfort. The key buying parameter has shifted from fuel efficiency and ‘value for money’ to the aesthetics and overall appeal of the product for a large section of the society. Two trends that support this shift are: 1) the UV mix in PVs has now increased to 60% of sales in FY24 from 28% in FY19; and 2) the proportion of 125cc+ segment in overall motorcycles has increased to 52% in FY24 from 38% in FY19. The key factors likely fueling these trends include favorable demographics, increased per capita income, and improved digital access across India.

Thanks to the rising influence of social media on consumers, more and more people feel the urge to follow the latest trends or even set trends themselves. Social media is also helping drive the latest lifestyles beyond metropolitan areas to Tier 2 and Tier 3 towns, as well as rural regions. Our channel checks suggest that these trends are now visible even in the rural parts of India, as the country’s youth simply do not want to purchase entry-level vehicles (cars or 2Ws). In addition to the above, easy access to finance is driving the trend towards premiumization in India across various categories. Given the tailwinds highlighted above, we believe this premiumization trend is here to stay in the long run.

### India to meet emission targets through a multi-technology approach

In order to achieve its goal of net zero emissions by 2070, India submitted its long-term low-emission development strategy to the UNFCCC at COP 27 in Nov'22. According to the strategy, apart from the push to increase electric vehicle (EV) adoption, there is also an emphasis on the increased use of biofuels, particularly ethanol blending in petrol, and the rising use of green hydrogen fuel. For instance, while the government is incentivizing the industry to transition to EVs, it is also

providing adequate support to ramp-up CNG adoption as well as work on flex fuels. The Government has also earmarked a National Hydrogen Mission to reduce emissions. As per recent reports, they are looking to support hybrids as well. We believe this approach is appropriate, considering the country's demographics.

### Indian Auto industry: Near-term softness likely; long-term outlook intact

While PVs have witnessed a 17% volume CAGR over the last two years 2Ws have reported a 14% volume CAGR in the same period. After rebounding strongly in the last couple of years, both 2Ws and PVs are anticipated to witness softer growth in FY25. We expect PVs to register a 5% volume growth in FY25, while 2Ws are likely to post an 9% volume growth in FY25. Conversely, CVs have already witnessed a weak demand in FY24 (flat YoY) over a relatively high base. Given an anticipated slowdown in the run-up to elections, we expect a revival in CV demand to begin with a lag of a quarter. Hence, we forecast CVs to report 6% volume growth in FY25 driven by bus segment and largely back-ended. Thus, while growth rates for most segments are likely to taper down to single digits, the auto industry is likely to be the fastest growing sector vs. other developed regions globally, which are witnessing recessionary trends.

### Auto ancillaries in a sweet spot; multiple tailwinds at play

The domestic auto component industry appears to be in a sweet spot as several tailwinds converge to drive a sustainable long-term growth opportunity. These include: 1) the emergence of the Indian component industry as one of the beneficiaries of the supply chain de-risking strategy by global OEMs, following the continued supply chain disruptions over the last 3-4 years; 2) outperformance to the core industry, which is likely to continue, driven by rising content due to premiumization and the transition to EVs; 3) favorable government policies that advocate 'Make In India'; and 4) emergence of India as an auto hub for global OEMs. Given the above trends and its inherent core strengths (global quality at low cost + improving R&D skills), the auto component industry is expected to invest around USD6.5-7.0b over next the five years, which is double of what it invested in the previous five years. Given these tailwinds, we see tremendous growth opportunities for the domestic auto component industry in the coming years.

### Valuation and top picks

- It is now an established fact that the majority of easy gains in Auto OEM stocks are now behind us, as we have witnessed significant volume growth across segments over the last two years, and input costs also appear to have bottomed out. Hence, one will have to make selective micro strategies to outperform from hereon. In this backdrop, **Maruti Suzuki is our top pick in Auto OEMs** as: 1) we expect it to continue outperforming the PV segment aided by new launches; 2) its improved mix will help margins sustain at elevated levels; and 3) it could be the key beneficiary if the government decides to reduce GST on hybrid vehicles. **We also like Ashok Leyland** as: 1) we anticipate near-term weakness in CV demand, but expect the same to revive by 2HFY25; and 2) its valuations are attractive compared to peers.
- Given the strong long-term growth opportunities for the domestic auto ancillary industry highlighted above, we are more positive on this sector than on Auto OEMs at this stage. Within the auto ancillary sector, **our top picks include: 1)**

**Craftsman Automation** (well-positioned to benefit from global supply chain de-risking, strong growth opportunities from lightweighting, and multiple growth drivers in the storage solutions business); **2) Samvardhana Motherson** (a key beneficiary of global trends towards premiumization and EV transition, and recent acquisitions); and **3) Happy Forgings** (enjoying a sustainable competitive advantage in forgings, with robust new orders helping to offset near-term weaknesses in core segments).

**Exhibit 1: Two wheelers volumes to witness ~9% CAGR over FY24-26E (volume in 000s)**

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	10yr CAGR%	5yr CAGR%
Scooters ICE	6,701	5,566	4,480	3,990	4,862	5,379	5,872	6,348	4	-4
Growth (%)	0	-17	-20	-11	22	11	9	8		
Motorcycles	13,598	11,215	10,020	8,984	10,230	11,653	12,714	13,862	1	-3
Growth (%)	8	-18	-11	-10	14	14	9	9		
Mopeds	880	637	617	473	442	482	506	531	-4	-11
Growth (%)	2	-28	-3	-23	-7	9	5	5		
<b>Two Wheelers ICE</b>	<b>21,179</b>	<b>17,418</b>	<b>15,117</b>	<b>13,447</b>	<b>15,534</b>	<b>17,514</b>	<b>19,093</b>	<b>20,741</b>	<b>2</b>	<b>-4</b>
Growth (%)	5	-18	-13	-11	16	13	9	9		

Source: SIAM, MOFSL

**Exhibit 2: Passenger vehicle volumes to witness ~6% CAGR over FY24-26E (volume in 000s)**

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	10yr CAGR%	5yr CAGR%
Cars	2,219	1,695	1,542	1,467	1,747	1,549	1,595	1,655	-1	-7
Growth (%)	2	-24	-9	-5	19	-11	1	3		
Utility Vehicles	941	945	1,061	1,489	2,004	2,521	2,692	2,934	17	22
Growth (%)	2	0	12	40	35	26	7	9		
Vans	217	132	109	113	139	149	156	164	-2	-7
Growth (%)	13	-39	-18	4	23	7	5	5		
<b>Passenger Vehicles</b>	<b>3,377</b>	<b>2,773</b>	<b>2,711</b>	<b>3,069</b>	<b>3,890</b>	<b>4,219</b>	<b>4,443</b>	<b>4,752</b>	<b>5</b>	<b>5</b>
Growth (%)	3	-18	-2	13	27	8	5	7		

Source: SIAM, MOFSL

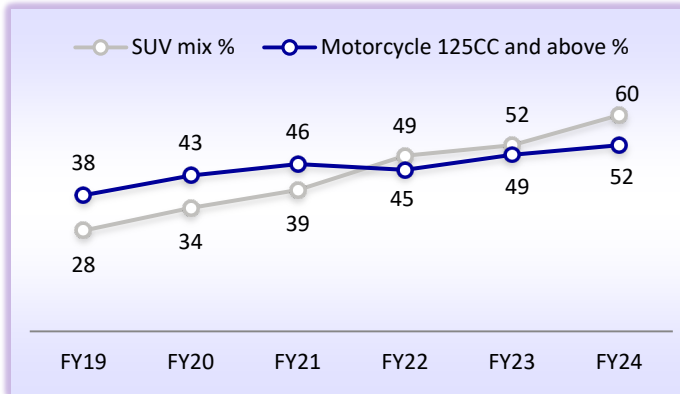
**Exhibit 3: Commercial vehicle volumes to witness ~6% CAGR over FY24-26E (volume in 000s)**

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	10yr CAGR%	5yr CAGR%
MHCV goods	351	185	153	229	321	320	337	360	7	-2
Growth (%)	15	-47	-17	49	40	0	5	7		
MHCV passenger	39	40	7	12	38	53	60	67	3	6
Growth (%)	10	2	-82	61	225	38	14	12		
LCV goods	564	448	396	456	559	543	570	604	3	-1
Growth (%)	21	-21	-12	15	23	-3	5	6		
LCV passenger	52	45	12	20	44	52	55	59	2	-0
Growth (%)	7	-13	-73	65	122	17	7	6		
<b>Total CVs</b>	<b>1,007</b>	<b>718</b>	<b>569</b>	<b>717</b>	<b>962</b>	<b>968</b>	<b>1,023</b>	<b>1,090</b>	<b>4</b>	<b>-1</b>
Growth (%)	18	-29	-21	26	34	1	6	7		

Source: SIAM, MOFSL

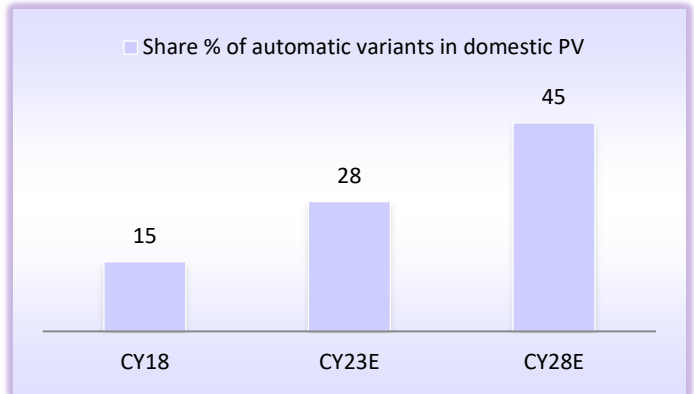
Story in charts

Premiumization trend visible in both 2Ws and PVs...



Source: SIAM, MOFSL

...with rising share of automatic variants



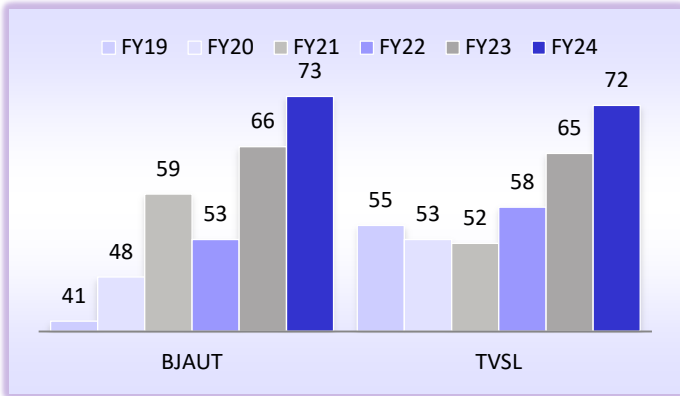
Source: Industry, MOFSL

Assessing OEMs' Positioning in the Premiumization landscape

OEMs	Rating (out of 5)	Factors driving the ratings
	●●●●	<ul style="list-style-type: none"> <li>It has gradually increased its mix in favour of the 125+ segment which now contributes to ~73% in FY24 vs 41% in FY19.</li> <li>It is now a close No. 2 in this segment behind HMSI with market share of ~26%.</li> </ul>
	●●	<ul style="list-style-type: none"> <li>Despite several product introductions, HMCL's market share has declined in 125cc+ segments even in FY24.</li> <li>While it is doing all the right things on the ground, we think it is likely to take some time for the company to establish its presence in the premium segment.</li> </ul>
	●●●●●	<ul style="list-style-type: none"> <li>Dominant player in the 250CC and above category.</li> <li>The only listed 2W company fully exposed to premium segment.</li> </ul>
	●●●●	<ul style="list-style-type: none"> <li>Over the years, it has developed a strong presence in the 150-250cc premium segment on the back of its Apache brand.</li> <li>In the last 24 months, it has further consolidated its position in the 125cc+ segment by launching the Raider which has been very well received in the market.</li> </ul>
	●●●	<ul style="list-style-type: none"> <li>MSIL has regained back its leadership position in UVs in FY24 on the back of strong demand for new launches</li> <li>It targets to continue to focus on ramping up presence further in the UV segment.</li> </ul>
	●●●	<ul style="list-style-type: none"> <li>Over the last 2-3 years, it has revamped its model line-up with a new design language. This has helped it gain market share in this period</li> <li>On the back of a strong order backlog and healthy launch pipeline, we expect it to recover back lost market share.</li> </ul>
	●●●	<ul style="list-style-type: none"> <li>TTMT has gained market share over the last 3-4 years in UVs on the back of new launches</li> <li>It has led EV transition from the front in India and is a dominant player in EVs today.</li> </ul>

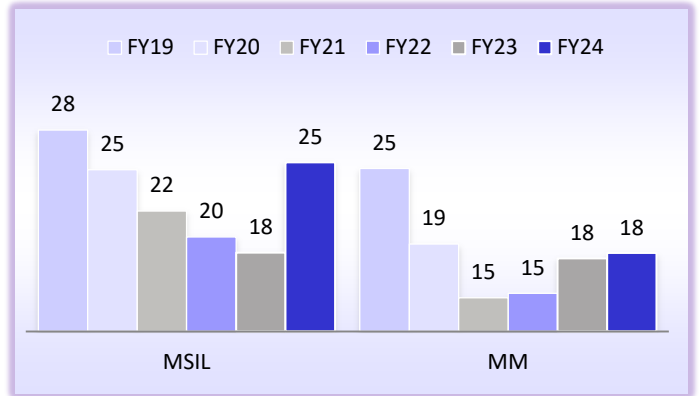
Source: Industry, MOFSL

**BJAUT and TVSL mix rising in line with industry trends**



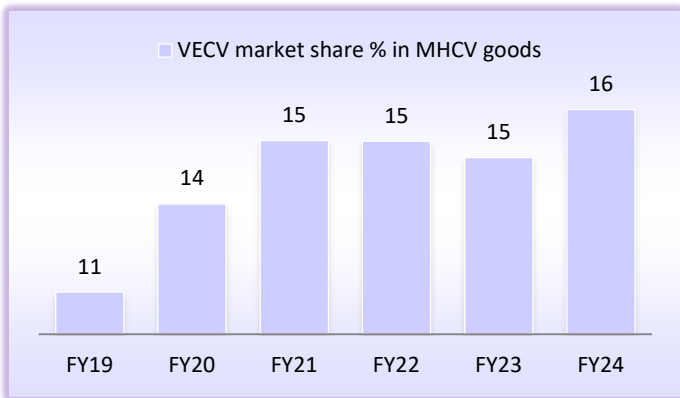
Source: SIAM, MOFSL

**MSIL and M&M recover back share in UVs in FY24**



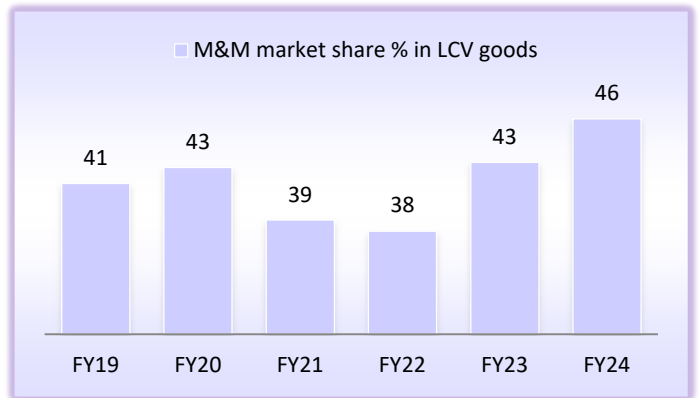
Source: SIAM, MOFSL

**VECV has outperformed peers in MHCV goods**



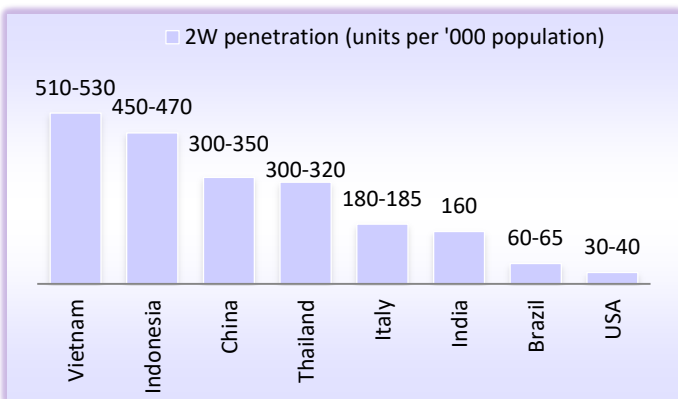
Source: SIAM, MOFSL

**M&M has outperformed peers in LCV goods**



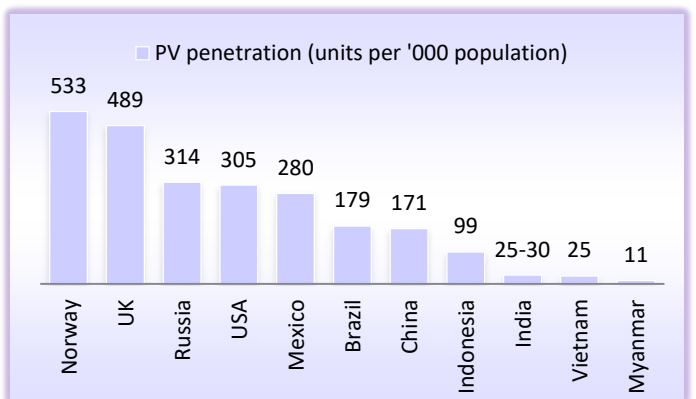
Source: SIAM, MOFSL

**Domestic 2Ws still under penetrated...**



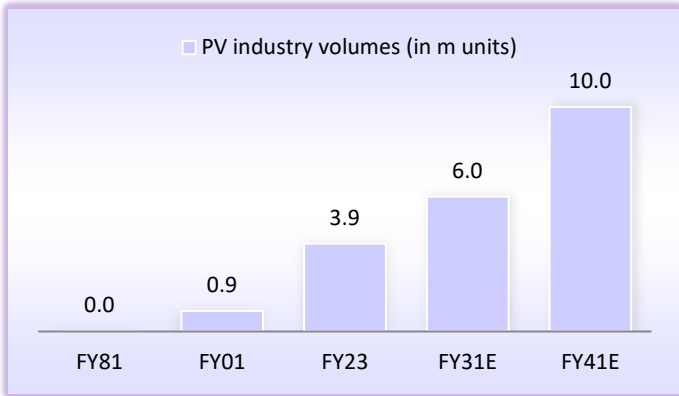
Source: Industry, MOFSL

**...and the same is the case with domestic PVs**



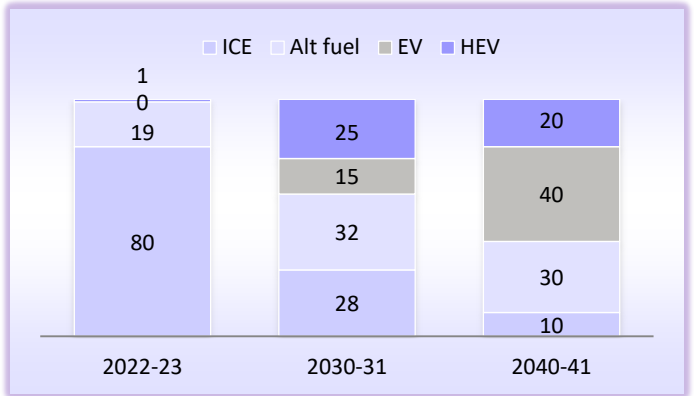
Source: Industry, MOFSL

MSIL expects PV industry vols to reach 10m units by FY41...



Source: Industry, MOFSL

...with a multi-tech adoption to meet emission targets



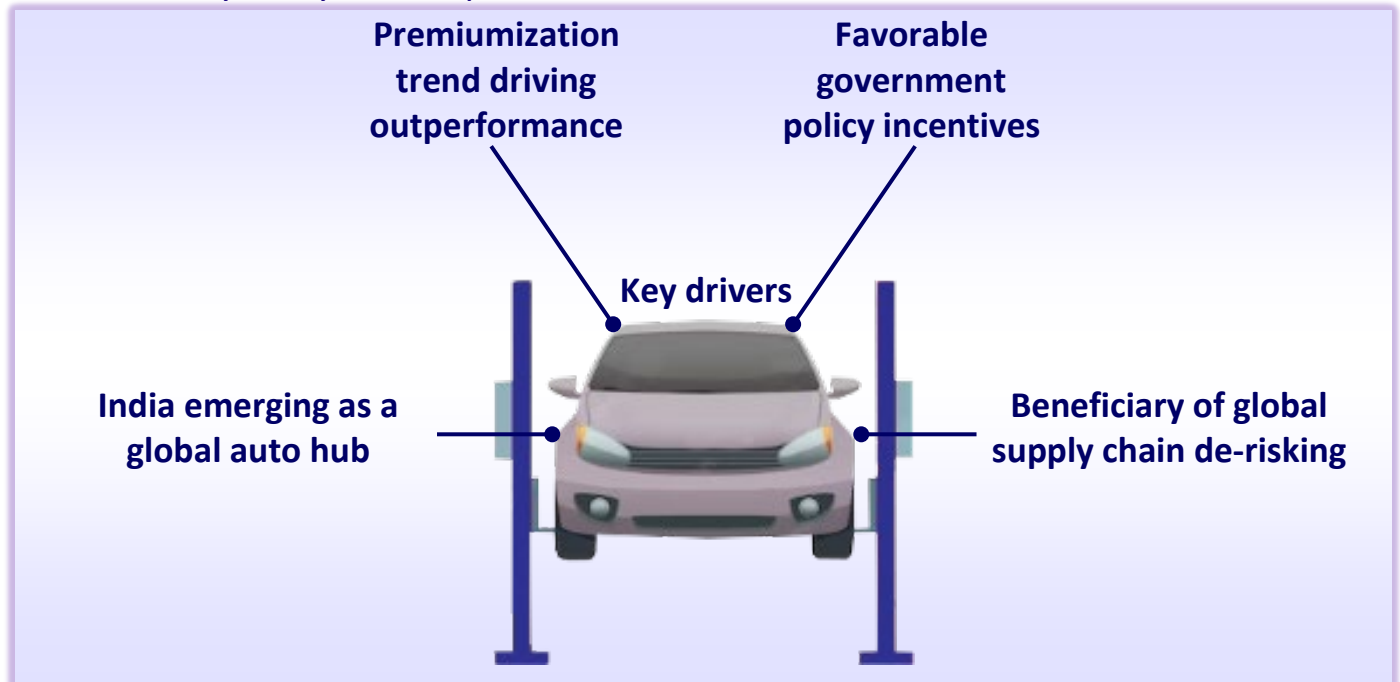
Source: Industry, MOFSL

Assessing OEMs' preparedness in adopting to multiple tech approach

OEMs	Rating (out of 5)	Factors driving the ratings
<b>MARUTI SUZUKI</b>	●●●●●	❖ MSIL is the only player in India who is working on all the relevant technologies to reduce emissions including CNG, hybrid, flex fuels and EVs.
<b>SPORT UTILITY VEHICLES</b>	●●●	❖ While it is the only other listed OEM to have EVs on road, it is not working on hybrids at the moment.
<b>TATA MOTORS</b>	●●●●	❖ It has a dominant position in the EV category with market share of 70% in e-PV space. Its recently unveiled twin-cylinder CNG technology has been very well accepted. However, unlike MSIL, it is not working on hybrids.

Source: Industry, MOFSL

Indian auto ancillary industry in a sweet spot



## India no longer a “price sensitive” market

### Both 2Ws and PVs witness an upgrade in the customer’s buying preference

“Functionality, price, value, cheaper spares, lower maintenance, and running costs used to be the key criteria for buyers. But they shifted as India's economy grew. In the new India, which was more urban, tech-savvy and aspirational, a new customer has emerged. With that came the liking for a new body type which signifies some sort of higher status, the presence on the road, which indicates you have reached a certain stage in life. As the economy grew, the market started shifting towards a slightly higher price, and at that time, SUVs were slightly higher priced”.

**Shashank Srivastava**  
Senior Executive Officer,  
Marketing and sales – MSIL

**Rising customer aspiration driven by favorable macro and demography:** About five years back, the total cost of ownership and resale value were the two primary considerations for an average Indian when purchasing a vehicle. Accordingly, India was labeled as a “cost-conscious” market. However, we are now witnessing a significant shift in consumer buying patterns, particularly after the pandemic. Features such as safety, driving experience, plush interiors, looks, and comfort have taken precedence in the purchasing decision of a vehicle over cost. Nowadays, customers are even willing to pay a higher price for these features. The key buying parameter has shifted from fuel efficiency/“value for money” to the aesthetics and overall appeal of the product for a large section of the society. From being a “price sensitive” industry, auto industry is gradually moving to be a “value conscious” industry.

**Key factors likely driving these trends** include favorable demographics, increased per capita income, and improved digital access across India. Gen Z is now entering the workforce and India has over 100mn GenZ consumers who are redefining consumption norms and evolving as trend-setters. GenZ consumers put short term goals above long-term ones, they want to travel, buy luxuries immediately and their propensity to spend is higher than their inclination to save.

Another factor that could be driving this change is the rapid evolution of digitization in India. With this, more and more Indians appear to be influenced by the Western culture. Thanks to the increasing influence of social media on consumers, more and more people feel the urge to follow the latest trends or even set trends themselves. This phenomenon appears to be fueling the rapid change in the market. Social media is also helping drive the latest lifestyles beyond metropolitan areas to Tier 2 and Tier 3 towns, as well as rural regions. In addition to the above, easy access to finance is driving the trend towards premiumization in India across various categories.

Further, it is important to highlight that the premiumization trend is visible across multiple Automobile segments. For instance, UV mix in total PVs has increased notably to 60% of sales in FY24 from 28% in FY19. As a result, the average ASP for PVs in India has increased to INR 1.15mn in FY24 from INR 0.76mn in FY19. The premiumization trend is visible even in 2Ws, wherein the share of motorcycles of 125cc and above has increased to 52% in FY24 from 38% in FY19.

In order to highlight the extent of premiumization trends, we enumerate below a few player-wise / technology-wise trends that would help one gauge the extent of shift towards richer mix that we are currently witnessing across segments.

In the domestic PV industry, automatic variants as a proportion of total PV sales have risen to more than 28% now from around 15% in 2018. This mix may further rise to 45% by 2028E, according to a FADA official. According to media reports, the penetration of connected cars in the Indian PV market has risen to 46% in CY22 from 35% in CY21, and is likely to have further increased to 63% in CY23.

### Customers prefer top end variants over base variants now

- According to industry sources, in PVs, the top variant contribution has increased to 43% of industry sales from 27% a year ago.
- The share of top variants in the SUV segment for the industry has risen to 77% from 65% over the last 5 years.
- For MSIL, the contribution from top variants has gone up to 33% now from 25% five years ago. As per the management, the share of top variants in the hatchback segment for the industry has increased to 67% from 60% over the last five years, while the same for sedans has improved to 77%.
- For TTMT, the top variant sales have grown 30% YoY and now contribute 55-60% of overall sales.
- For Kia, 57% of Seltos, 58% of Sonet, 41% of Carens, and 82% of Carnival sales are derived from its top variants at present.
- For Hyundai, i-10 Nios and Aura, the base variants contribute <10% of their sales. Similarly, about 45% of Hyundai's sales are in the >INR1m price bracket; 20% of vehicles sold are automatic variants, 26% come with connected technology, and 38% have a sunroof. Further, 75% of Exter sales consist of the sunroof-variant.

### Connected car technology experiencing rising adoption

- For MSIL, the penetration of connected car technology in models such as the Baleno, Ertiga, XL6, and Grand Vitara stood at 45% in FY23. With the introduction of Fronx, the penetration of connected cars (in these models) is likely to reach 56% in FY24, according to the management.
- For TTMT, the sales of connected cars doubled in 2022, resulting in a 22% penetration of this technology. Given the improving consumer aspirations, management expects this penetration to surpass 26% by the end of 2023.
- MG Motors has indicated that it has 50% penetration of connected variants in the mix.
- For Hyundai, the connected car penetration has risen to 30.4% of total sales from 25.0% in 1HCY22.
- For Honda, more than 95% of its Honda City sales are connected variants.
- According to media reports, the penetration of connected cars in the Indian PV market has risen to 46% in CY22 from 35% in CY21, and is likely to have further increased to 63% in CY23. Also, as per industry experts, the domestic connected car market is projected to report a 21% CAGR to reach USD45b by 2028 from an estimated USD17.2b in 2023.

### Customers now seem to prefer automatic variants over manual ones

- In the domestic PV industry, automatic variants as a proportion of total PV sales have risen to more than 28% now from around 15% in 2018. This mix may further rise to 45% by 2028E, according to a FADA official.
- For MSIL, the sales of automatic variants have increased to 12% of total sales in FY23 from 10% in FY21. In terms of model-wise trends, 15% of Celerio, 7% of WagonR, 16% of Ignis and 15% of S-Presso are automatic variants. Even in the Alto K10 which is a price sensitive segment, almost 9% of its sales are from automatic variants.

Market leader Maruti Suzuki launched 5 new models in the last 24 months, all of which were in the UV segment and include all new Brezza, Grand Vitara, Fronx, Jimny and Invicto. For MSIL, its UV mix has now increased to 36.5% for FY24 from 15.3% in FY19.

- For Hyundai, the automatic variants contribute ~25-30% of its overall sales in FY23. For its i-20 model, the mix of automatic variants stands at ~20%.
- For Honda, the automatic mix across various models is as follows: Elevate: 60-70%, City: 65%, and Amaze: 45%.
- For VW India, the automatic variant sales contribute 60% of its total sales.

#### ADAS feature witnessing a gradual rise despite the cost

- This high-end feature is also picking up in India in PVs, with ADAS contributing almost 2% of total domestic PV sales in FY23.
- For Hyundai models, ~85% of Tuscon and 36% of Verna sales come with ADAS features.

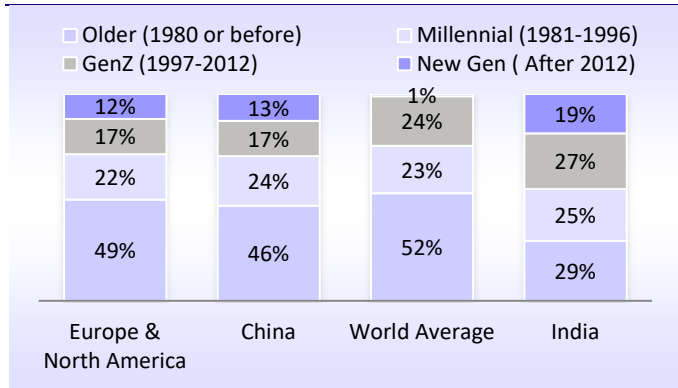
#### OEMs realign their strategy to serve rising customer aspirations

- Having identified this trend, Hero MotoCorp, who has almost 87% contribution coming from 100cc in domestic motorcycle segment, is now focusing aggressively on launching products in the 125cc+ segment. In FY24 itself, it has launched Xtreme160R, Karizma, Xtreme125R and Maverick 440, all in 125cc+ category.
- Even Bajaj Auto has launched 9 models in Pulsar, 6 in KTM and Triumph to continue to improve its share in the 125cc + segment. For Bajaj Auto, the 125cc and above segment has contributed ~73% of domestic motorcycle volumes in FY24 vs. 41% in FY19.
- Similarly, for TVS Motors, the 125cc and above segment has contributed ~72% of total motorcycle volumes in FY24 vs. 55% in FY19.
- In PVs, given the shifting trend, most OEMs are focused on introducing SUVs to entice customers. Almost 108 new SUV models, including upgrades, were introduced in CY23, setting a new record. Conversely, the number of sedan and hatchback launches within the same period was much smaller than it was in CY19.

Thus, today's Indian consumer looks beyond the "price" tag and seeks the "differentiating" quotient when purchasing discretionary products. More importantly, this trend is now picking up even in rural regions. Given the tailwinds highlighted above, we believe this premiumization trend is here to stay in India in the long run.

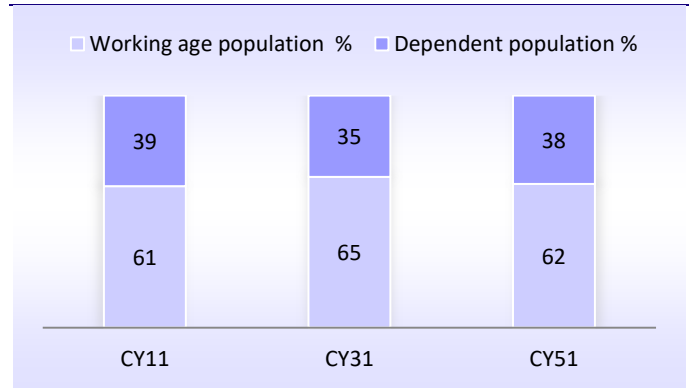
Premiumization trend across segments in India driven by favorable demographics

Exhibit 4: India enjoys demographic advantage due to its young age population...



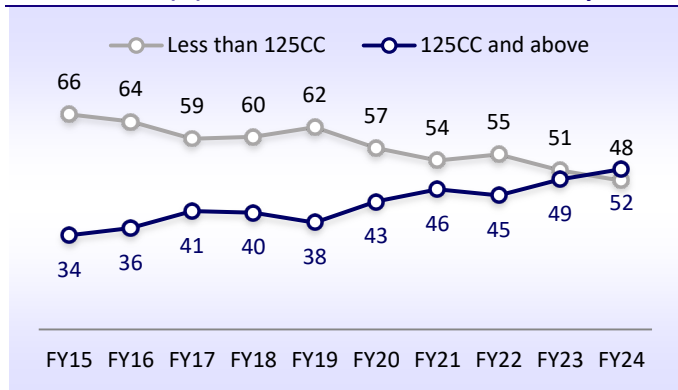
Source: Industry, MOFSL

Exhibit 5: ... and is expected to continue to benefit from its higher working population



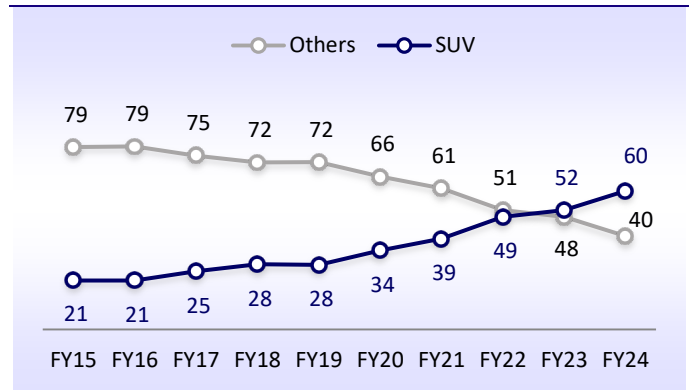
Source: Industry, MOFSL

Exhibit 6: Mix (%): Premiumization visible in motorcycles



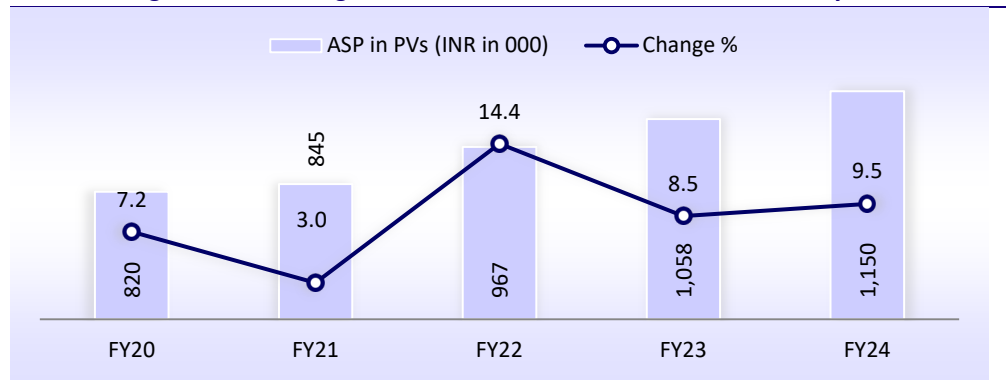
Source: SIAM, MOFSL

Exhibit 7: ... and also in PVs



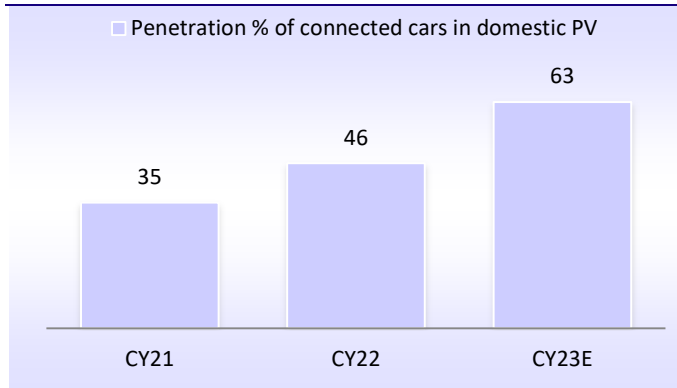
Source: SIAM, MOFSL

Exhibit 8: Avg ASP of PVs bought in India has seen a 9% CAGR rise in last 4 years



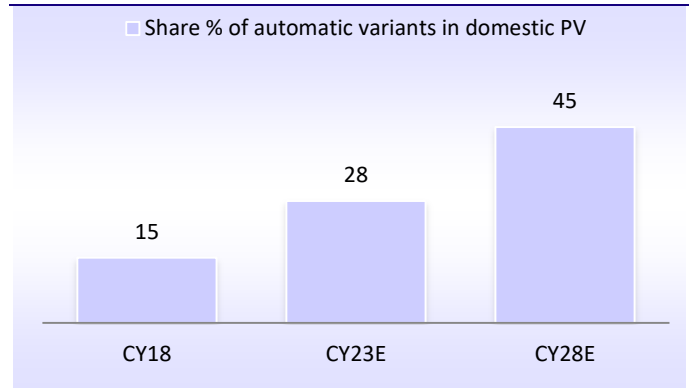
Source: Industry, MOFSL

**Exhibit 9: Penetration of connected cars in India on a rise**



Source: Industry, MOFSL

**Exhibit 10: Share of automatic variants in PVs is also rising**



Source: Industry, MOFSL

**Exhibit 11: Assessing OEMs' Positioning in the current landscape**

OEMs	Rating (out of 5)	Factors driving the ratings
	●●●●	<ul style="list-style-type: none"> <li>It has gradually increased its mix in favour of the 125+ segment which now contributes to ~73% in FY24 vs 41% in FY19.</li> <li>It is now a close No. 2 in this segment behind HMSI with market share of ~26%.</li> </ul>
	●●	<ul style="list-style-type: none"> <li>Despite several product introductions, HMCL's market share has declined in 125cc+ segments even in FY24.</li> <li>While it is doing all the right things on the ground, we think it is likely to take some time for the company to establish its presence in the premium segment.</li> </ul>
	●●●●●	<ul style="list-style-type: none"> <li>Dominant player in the 250CC and above category.</li> <li>The only listed 2W company fully exposed to premium segment.</li> </ul>
	●●●●	<ul style="list-style-type: none"> <li>Over the years, it has developed a strong presence in the 150-250cc premium segment on the back of its Apache brand.</li> <li>In the last 24 months, it has further consolidated its position in the 125cc+ segment by launching the Raider which has been very well received in the market.</li> </ul>
	●●●	<ul style="list-style-type: none"> <li>MSIL has regained back its leadership position in UVs in FY24 on the back of strong demand for new launches</li> <li>It targets to continue to focus on ramping up presence further in the UV segment.</li> </ul>
	●●●	<ul style="list-style-type: none"> <li>Over the last 2-3 years, it has revamped its model line-up with a new design language. This has helped it gain market share in this period</li> <li>On the back of a strong order backlog and healthy launch pipeline, we expect it to recover back lost market share.</li> </ul>
	●●●	<ul style="list-style-type: none"> <li>TTMT has gained market share over the last 3-4 years in UVs on the back of new launches</li> <li>It has led EV transition from the front in India and is a dominant player in EVs today.</li> </ul>

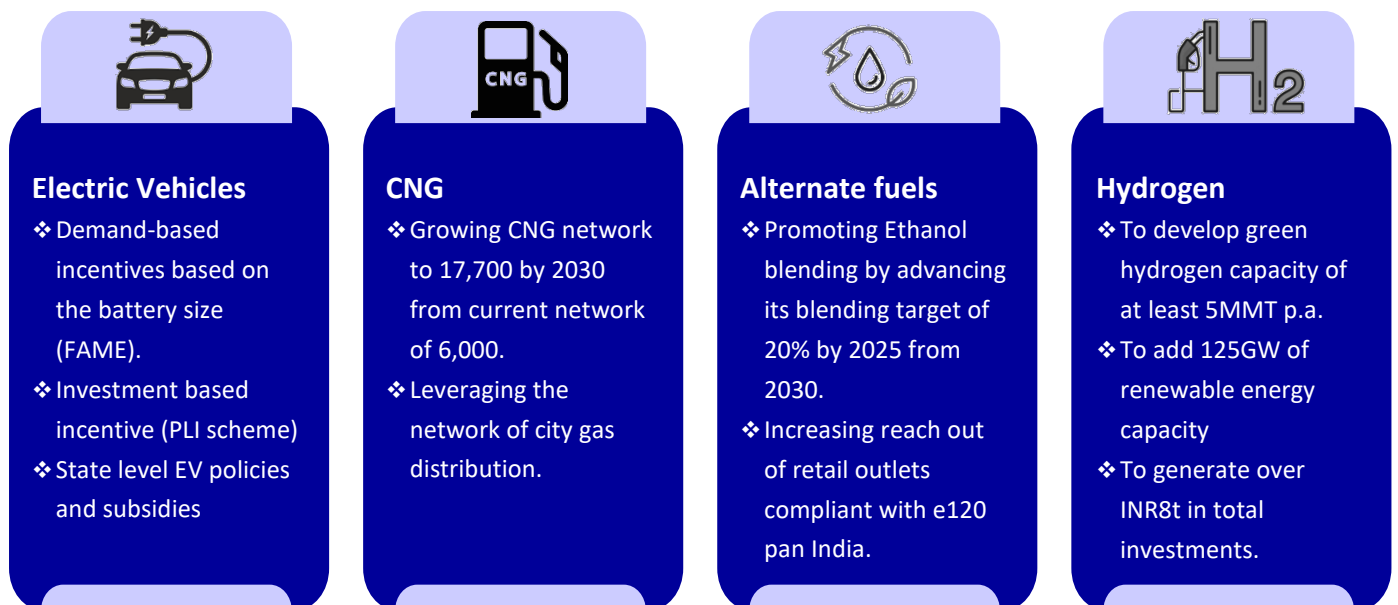
Source: Industry, MOFSL

## India to meet emission goals with multi-tech approach

### Government targets to push EVs, CNG, flex fuels and hydrogen

At the COP26 Summit, India has committed to achieving net zero emissions by 2070 and generating 50% of its energy from renewable sources by 2030. In order to achieve these targets, India submitted its long-term low-emission development strategy to UNFCCC at COP 27 in Nov'22. Among other notable focus areas in the automotive industry, the emphasis on: 1) the push to increase electric vehicle (EV) adoption 2) increased use of biofuels, particularly ethanol blending in petrol, and 3) the rising use of green hydrogen fuel, are expected to propel the low-carbon development of the transport sector. In accordance with its emission targets, the Government of India has been pushing the Auto Industry to focus on reducing tailpipe emission by moving towards cleaner fuels. It was also in this context that the Indian Government pushed the industry to leap-frog straight to BS6 norms within 3 years of implementing the BS4 norms, which has been a record in itself globally. Also, in a bid to incentivize the industry to use cleaner fuels, Government has also provided policy support on multiple fronts which we elaborate below.

**Exhibit 12: Government is incentivizing different technologies to achieve its emission targets**



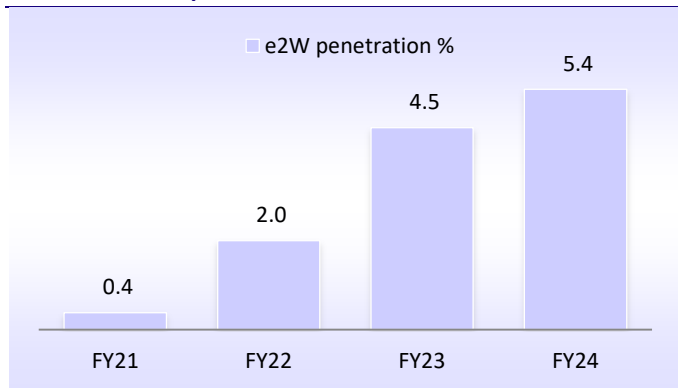
Source: Industry, MOFSL:

- Favorable Government policies helps the industry transition towards EVs:** Over the last two years, the Indian Government has implemented various policies to incentivize the industry to invest in EV technology. Some of these policies include:
  - Demand incentives, which included FAME 2 subsidy with an allocation of INR100b, GST rate for EVs at 5% vs. 28% for ICE, interest exemption of up to INR0.15m on loan taken for EVs, apart from various state-level subsidies like registration and road tax waivers etc., and
  - Production Linked Incentive (PLI) scheme for Autos (INR259.4b), and for ACCs (INR181b).

**EV transition is now clearly visible in sectors like 2Ws, 3Ws and buses:**

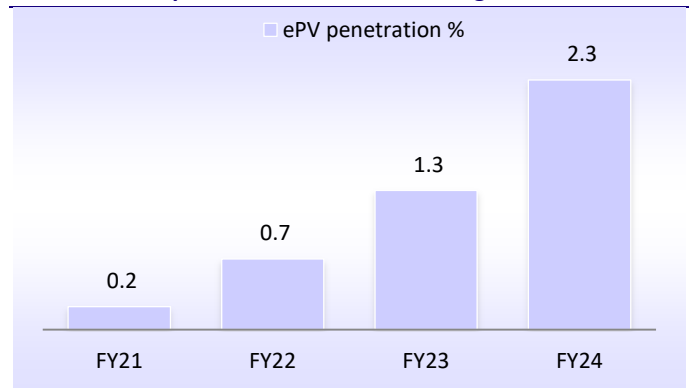
- Triggered by various State and Central level schemes / subsidies, EV penetration in 2Ws has now reached about 5% levels (from just 1.7% in FY22) in a very short period, with the scooter segment seeing EV penetration reaching 15% in FY24 (from just 5.5% in FY22).
- In the 3W segment, backed by a large unorganized sector, the EV penetration has already surpassed 50% levels. Further, with the recent entry of well-established players such as BJAUT, M&M, and Piaggio, we anticipate that the EV penetration in 3Ws will continue to accelerate even beyond the current levels in the coming years.
- Further, the government’s focus on decarbonizing the public transport sector has led to the implementation of the National Electric Bus Programme, which in turn has fueled the e-bus penetration to about 4% levels at present. The transition to EVs in buses is likely to receive a fillip with factors such as the implementation of a ‘payment security mechanism’, as large OEMs would also participate in the Government tenders now.
- However, while EV penetration has picked up pace in these segments, it continues to significantly lag in others like PVs (2%) and CV goods (negligible).

**Exhibit 13: e2W penetration continues to increase**



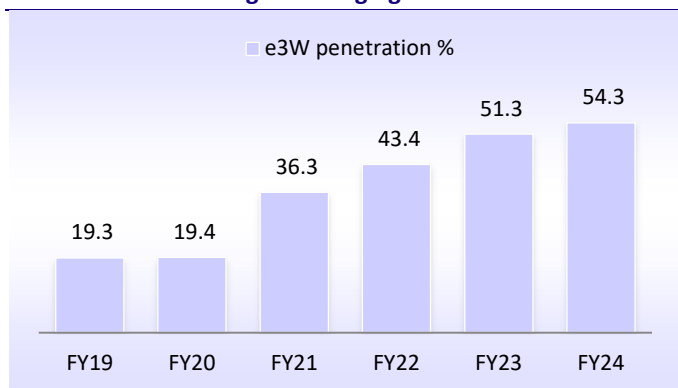
Source: Industry, MOFSL

**Exhibit 14: EV penetration continues to lag in PVs**



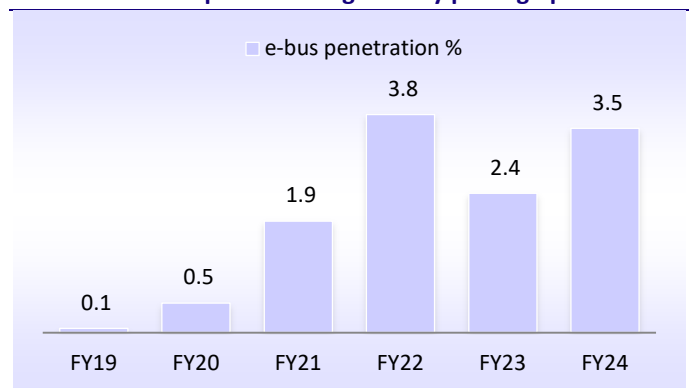
Source: Industry, MOFSL

**Exhibit 15: 3Ws seeing encouraging EV transition**



Source: Industry, MOFSL

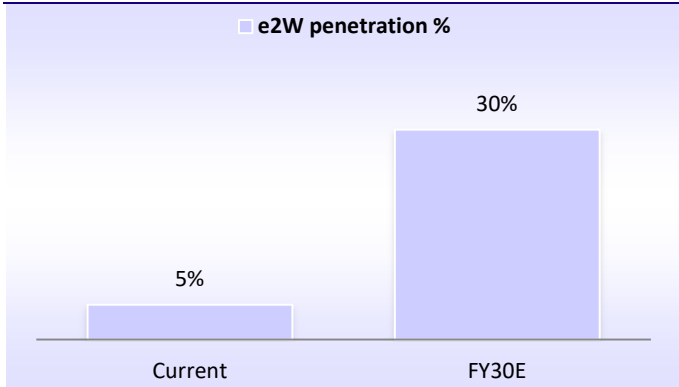
**Exhibit 16: e-bus penetration gradually picking up**



Source: Industry, MOFSL

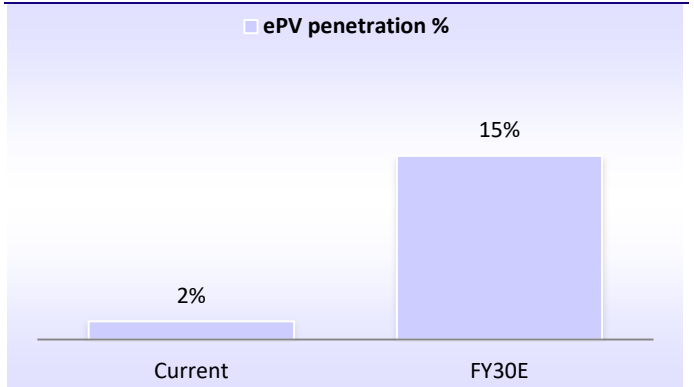
**2Ws to witness faster adoption of EVs vis-à-vis PVs...**

**Exhibit 17: e2Ws to see a sharp uptick in penetration level...**



Source: Industry, MOFSL

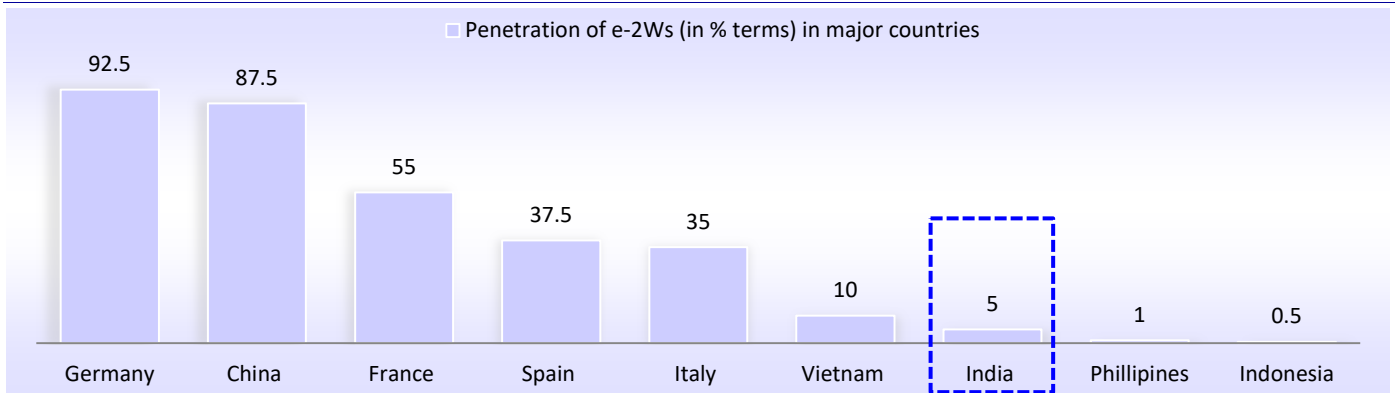
**Exhibit 18: ...PV to lag behind the 2Ws in terms of EV growth**



Source: Industry, MOFSL

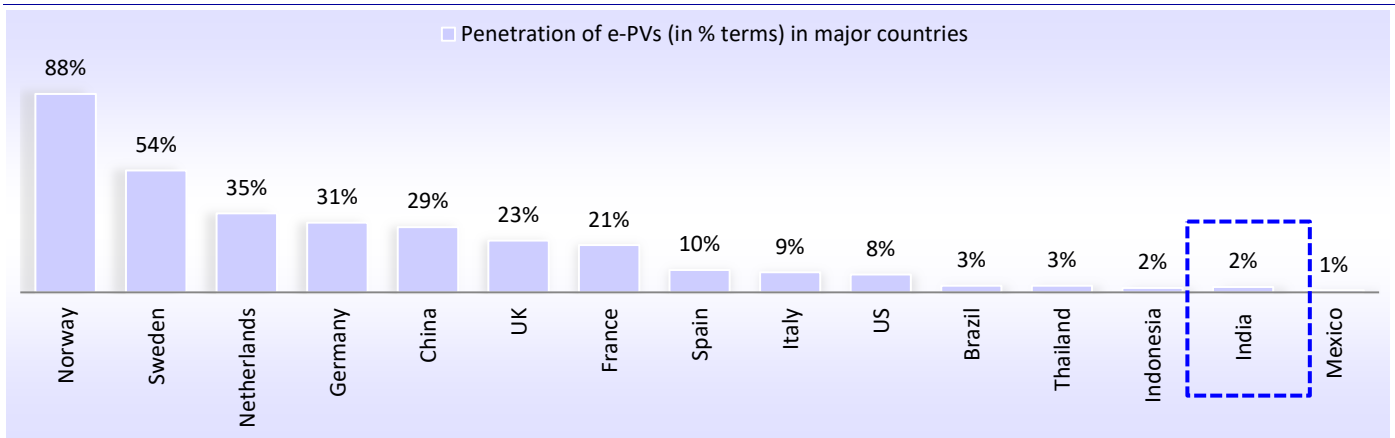
**...but India notably lags behind the other major countries in terms of electrification**

**Exhibit 19: Domestic e2W penetration is much below the major countries**



Source: Industry, MOFSL

**Exhibit 20: ePV penetration in India is much lower than the major countries**



Source: Industry, MOFSL

The government has set an aggressive target to increase the number of CNG fueling stations nationwide, leveraging the infrastructure of the city gas distribution (CGD) network that now covers over 88% of the country's land area, serving ~98% of the population, according to government statistics.

### **Pace of EV penetration across segments to depend on multiple-factors:**

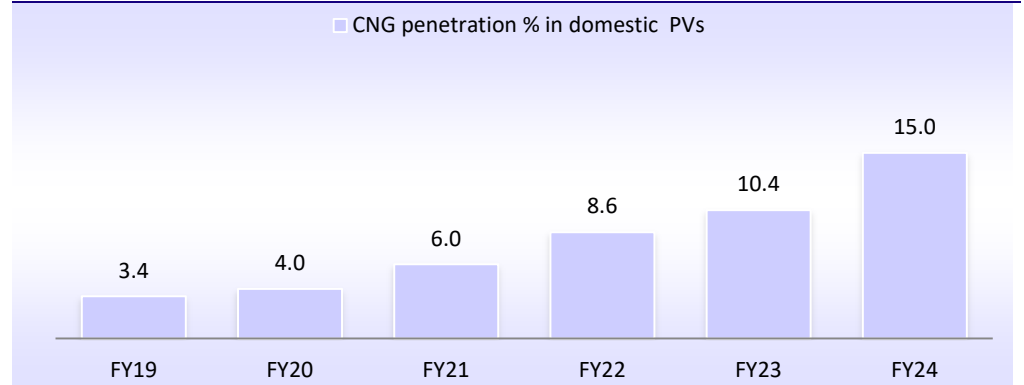
On the back of the various initiatives to push EV transition highlighted above, the Govt has set ambitious targets aiming for 80% penetration in 2Ws and 3Ws, 70% in CVs, and 30% in PVs by 2030. However, we are of the view that the pace of EV transition will depend upon:

- the continuation of government policy support in the initial stages (we understand that FAME subsidy may be withdrawn post July 2024),
- reduction in input costs, including battery prices, and
- Ramp-up in charging infra in the country (specifically for 4Ws)
- stabilization of technology

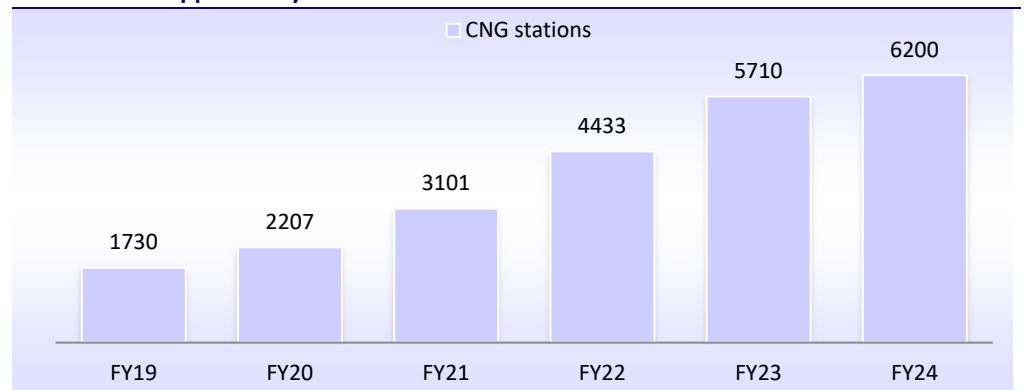
Given these factors and our demographic considerations, we remain somewhat cautious about the trends in EV penetration, and expect 3W penetration to increase to 70%, 2Ws to 30%, CVs (buses) to 20%, and PVs to 15% by 2030. Also, while India firms up its EV transition plans, we believe hybrids can continue to play a crucial role as an 'intermediate' technology before the country is ready to transition fully towards EVs. Accordingly, the market leader Maruti Suzuki, with the help of Toyota, has been introducing hybrid powertrains in India over the last couple of years. In recent developments, Union Minister for Road Transport and Highways, Mr Nitin Gadkari indicated that the proposal to reduce the GST on hybrid vehicles to 5% and flex engines to 12% has been sent to Finance Ministry for consideration. If the government provides some policy support in the interim, we believe that hybrid powertrains can certainly be scalable even in the mass market segments and can prove to be a good temporary solution in India's transition towards EVs.

### **Government driving CNG push through rapid ramp-up of CNG pumps:**

The government has set an aggressive target to increase the number of CNG fueling stations nationwide, leveraging the infrastructure of the city gas distribution (CGD) network that now covers over 88% of the country's land area, serving ~98% of the population, according to government statistics. While the network of CNG stations has increased to 6,000 currently (up from 1,700 in FY19), the Government of India has set a target to build 17,700 CNG stations by 2030. In line with this, the government recently launched the 12th CGD bidding round. It is important to highlight that after the completion of the 12th CGD bidding round, almost the entire country, except Mizoram, Andaman & Nicobar Islands, and Lakshadweep, will be covered under the CGD network. Given the rapid improvement in CNG infrastructure across India and the TCO benefits, the demand for CNG vehicles has also risen materially over the last few years. CNG penetration in domestic PVs has now increased to 15% for FY24 from 10% in FY23.

**Exhibit 21: CNG penetration has increased multifold...**

Source: Industry, MOFSL

**Exhibit 22: ...supported by the rise in CNG infrastructure**

Source:

- Government will continue to push bio-fuels to replace fossil fuels:** Apart from promoting CNG adoption, the Indian government has recognized that the production of indigenous biofuels will be crucial in reaching the goals of net zero emissions and import reduction. In line with this, the government has established a roadmap to increase ethanol blending in petrol. Accordingly, ethanol blending in petrol has increased to 11.5% as of Mar'23 from 1.5% in FY14. Given that the government was able to achieve its 10% blending target well ahead of the estimate, it has now advanced its 20% blending target by almost five years to 2025 from 2030 earlier (the 30% blending target has been set for FY30). The government has indicated that ~9,300 retail outlets in India are so far compliant with e-120 fuel and the government remains committed to implementing this nationwide by 2025. As per our understanding, from an OEM perspective, only engine design and after-treatment systems may undergo some changes to make an existing vehicle e-20 compliant. This is unlikely to necessitate any major increase in costs or capex for OEMs. Further, OEMs are already working to make their models e-20 compliant in line with government directives.
- National Green Hydrogen Mission – another incentive to decarbonize the mobility sector:** In the journey towards achieving net zero emissions, green hydrogen has the potential to decrease reliance on fossil fuels. Given its obvious long-term benefits, the Government of India has approved the National Green Hydrogen Mission, which aims to position India as a leading producer and supplier of Green Hydrogen to the world. With an outlay of INR197b, this

Mission aims to achieve the following by 2030: 1) develop green hydrogen production capacity of at least 5MMT per annum, 2) add 125GW of renewable energy capacity, 3) generate over INR8t in total investments, 4) create over 0.6m jobs, and 5) reduce 50MMT of annual greenhouse gas emissions.

- As is a well-known fact, hydrogen can be used in two types of vehicles: those with 1) internal combustion engines (ICEs) and 2) fuel cells. Hydrogen ICE vehicles can operate on a lean mixture and have a broad flammability range. In contrast, fuel cell electric vehicles (FCEVs) are more efficient, emitting only water vapor and warm air. FCEVs have zero emissions, great efficiency, silent operation, and a long range, combining the best qualities of battery EVs and ICE vehicles. Bosch India management believes that hydrogen-based ICE vehicles are likely to gain traction in India before FCEVs (which are likely to take longer to develop, even globally), and there are already a few pilot projects underway in this area.
- Given the long-term benefits of this technology and the government support, many industry leaders have come forward and are working to develop green hydrogen technology and infrastructure in India. We tabulate below some of the key initiatives taken by leading companies in this area so far.

**Exhibit 23: Many large players are working on hydrogen based technology to reduce emissions**

Companies	Actions
Reliance New Energy Solar Limited and Denmark’s Stiesdal A/S	❖ Formed a partnership to develop and manufacture hydrogen electrolyzers in India.
Toyota Kirloskar Motor Pvt. Ltd. in collaboration with the International Center for Automotive Technology (ICAT)	❖ Launched a pilot project to study and assess the performance of the hydrogen-powered vehicle Toyota Mirai on Indian roads and in various climatic conditions.
Reliance and Ashok Leyland	❖ Unveiled India’s first hydrogen Internal Combustion Engine powered heavy-duty truck in Bengaluru
Tata Motors has signed an agreement with Cummins Inc.	❖ A global provider of power solutions and hydrogen technologies, to collaborate on designing and developing low- and zero-emission propulsion technology solutions for commercial vehicles in India.
Volvo Eicher Commercial Vehicle	❖ Planned to invest INR2.5b over the next three to four years in different hydrogen technologies.

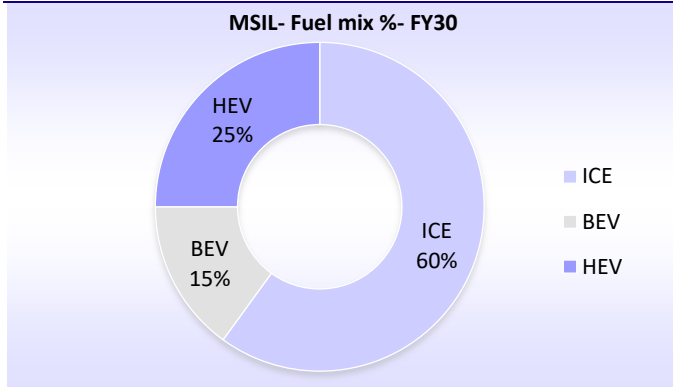
Source: Industry, MOFSL

**Summary thoughts:**

In summary, we believe that in order to meet its long term emission goals, India would adopt a mixed approach by promoting multiple viable technologies including EVs (BEV + hybrid) and alternative clean fuels like CNG and bio fuels

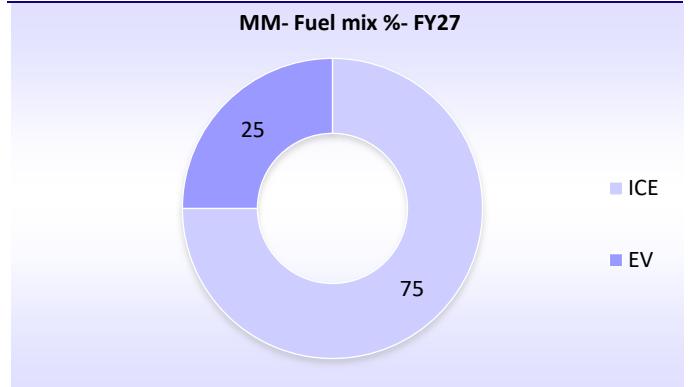
We believe this approach is appropriate, considering the country’s demographics. The market leader, MSIL, also appears to be aligned with this strategy. MSIL expects the Indian automobile industry to grow 1.5x to ~6m units by FY31. While it expects the share of ICE vehicles to decrease to 60% by that time, it anticipates that ICE vehicles will include CNG, biogas, flex fuel vehicles, ethanol, and blended fuel vehicles. Of the balance, hybrid would contribute 25% (from under 1% currently), while BEVs would garner the remaining 15% share. MSIL also expects the share of petrol to reduce to 28% by this time from 80% in FY23. It also anticipates the share of alternate fuels to increase to 32% by FY31-end from 19% in FY23.

**Exhibit 24: MSIL targets 40% of EV production by FY30**






Source: Company, MOFSL

**Exhibit 25: M&M targets 20-30% revenue from EV by FY27**



Source: Company, MOFSL

**Exhibit 26: Assessing OEMs' preparedness in adopting to multiple tech approach**

OEMs	Rating (out of 5)	Factors driving the ratings
 <b>MARUTI SUZUKI</b>	● ● ● ● ●	❖ MSIL is the only player in India who is working on all the relevant technologies to reduce emissions including CNG, hybrid, flex fuels and EVs.
 SPORT UTILITY VEHICLES	● ● ●	❖ While it is the only other listed OEM to have EVs on road, it is not working on hybrids at the moment.
 <b>TATA MOTORS</b>	● ● ● ●	❖ It has a dominant position in the EV category with market share of 70% in e-PV space. Its recently unveiled twin-cylinder CNG technology has been very well accepted. However, unlike MSIL, it is not working on hybrids.

Source: Industry, MOFSL

## Sector growth to moderate over a high base

### Two wheelers likely to outperform peers in the near term

#### Two wheelers: Premiumization + EV transition driving strategic decisions

- **The 2W industry has grown at ~10% YoY in FY24.** While the domestic industry has grown by healthy 13% YoY, this has been offset by weak export demand, which has declined by ~5% YoY. Exports have remained weak in FY24 due to adverse currency fluctuations and a sharp rise in inflation in the emerging economies such as Africa, which is India's largest 2W export market. Moreover, within the domestic 2W segment, while motorcycles have grown 14% YoY, scooters ICE have grown ~11% YoY. Overall, the motorcycle mix has remained largely stable at ~67% of total 2W sales vis-à-vis 66% in FY23.
- **125cc segment becomes the most "sought after":** In the domestic motorcycle segment, while the industry has seen a 13% YoY growth, its growth has largely been driven by the 125cc+ segment, which has grown 20% YoY in FY24. Conversely, the entry-level segment has posted only 8% YoY growth despite a low base. This trend has clearly been visible over the last few years. Over FY19-24, while the 125cc+ segment has posted ~3% volume CAGR, the 100cc segment has actually reported a compounded decline of ~8%. As a result, the 125cc+ segment now contributes to almost 52% of domestic motorcycle sales, up from ~38% in FY19. Further, within the 125cc+ segment, the 125cc segment has seen a compounding of 11% in the same period. As a result, the 125cc segment contribution to domestic motorcycle sales has nearly doubled now to 27.4% in FY24 from 14% in FY19. Thus, the 125cc segment is now emerging as the new customer favorite as it is seeing customers upgrade from 100cc due to better options and also downgrade from 150cc as they seek good value options.
- **Bajaj / TVS best placed to benefit from premiumization trend:** As highlighted above, the 100cc segment's contribution has now declined to ~48% in FY24 from ~62% in FY19, reflecting the premiumization trend. The market leader, Hero MotoCorp, has been losing market share over the past few years as: 1) the industry is shifting away from its core 100cc segment, 2) it has been losing material market share in the 125cc segment (market share down to 17% for FY24 from 40% in FY19), and 3) it has not been able to make a mark in the premium segment as yet. On the other hand, while Bajaj Auto has gained 90bp market share to 18.2% in domestic motorcycles, TVS has gained 160bp to 10.5% in FY24. Both these players have been the key beneficiaries of the industry's shift to the 125cc+ segment, where they enjoy a good presence. For Bajaj Auto, its 125cc+ segment now contributes to 73% of its domestic motorcycle volumes from 41% in FY19. Similarly, for TVS, its 125cc+ segment now contributes to 72% of its domestic motorcycle volumes from 55% in FY19.
- **EV transition trajectory to be decided by Government's "subsidy" stance:** The increase in FAME subsidy, effective from May'22, to INR15k per kw hr from INR10k per kw hr proved to be the inflection point for EV transition in scooters, which saw EVs grow ~3x in FY23. The pace of growth, however, has now decelerated to 32% for FY24 after the reduction in FAME subsidy back to INR10k per kw hr with effect from May'23. The FAME 2 scheme has now expired as of March2024 end and the Government has now replaced it with EMPS (Electric

In the domestic motorcycle segment, while the industry has seen a 14% YoY growth, its growth has largely been driven by the 125cc+ segment, which has grown 20% YoY in FY24. Conversely, the entry-level segment has posted only 8% YoY growth despite a low base. This trend has clearly been visible over the last few years.

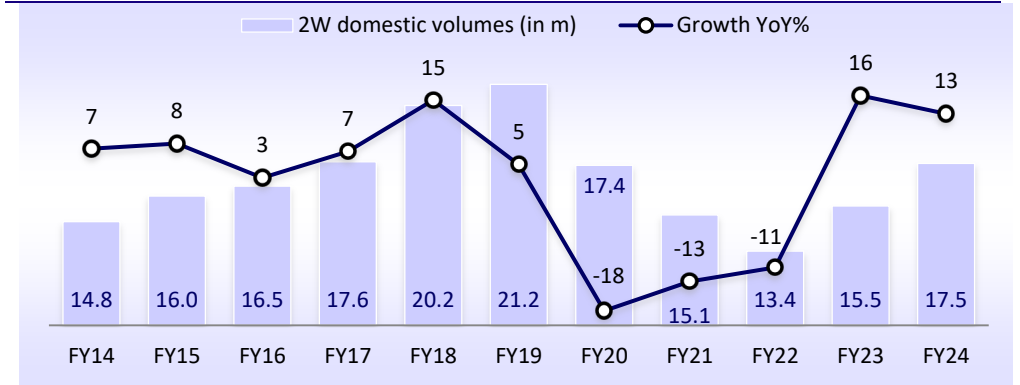
While we do understand that eventually subsidies should be phased out, we believe the government needs to continue them for at least one more year. This will allow time for PLI certifications to be obtained, technology to stabilize, scale benefits to kick-in and battery/manufacturing costs to decrease to a level where the industry can stand on its own. Hence, we clearly believe Government's stance on subsidy sustenance is likely to determine the pace of EV transition from here on.

Mobility Promotion Scheme 2024) for another 4 months till July 2024. As per EMPS, the subsidy has further reduced to INR 5k per kw hr and capped at INR 10,000 per vehicle, after which the government may decide on the subsidy allocation in the upcoming budget. Post this subsidy cut, EV's are now almost 30-40% expensive to ICE variants.

- Just to provide some context, following the reduction of the FAME subsidy in May'23, OEMs had passed on a portion of this increase to consumers and absorbed some of the costs themselves. Additionally, states have also discontinued their temporary incentives over the past 12-15 months. These steps have led to a sharp increase in on-road EV prices over the last few months. After the festive season, most of the EV players (driven by Ola's aggression) have been offering attractive discounts, clearly indicating that demand was not sustaining at the revised price levels. If this is true, then after the recent subsidy cut, demand is likely to slacken further, in our view.
- Hence, the government's decision regarding the FAME subsidy will play a crucial role in e2W demand beyond Jul'24. We believe the industry will need government support in the form of subsidies for at least one more year, and thereafter, a combination of operating leverage benefits, a reduction in input costs, localization and PLI benefits would help the industry stand on its own feet. We, hence, hope the government would continue its support beyond Jul'24 and until at least the end of this fiscal. In the absence of government support, the pace of EV penetration will lag expectations, in our view.
- **Industry likely to outperform peers in the near term:** As highlighted above, the domestic 2W ICE industry has posted ~13% YoY growth in FY24. Even after reporting consecutive double-digit growth for the last two years, the domestic 2W ICE industry is still 17% below its previous peak of 21.1m units achieved in FY19. Given the relatively low base and a good momentum observed in the 125cc+ segment, we anticipate the 2W ICE industry to achieve ~9% volume CAGR over FY24-26E.

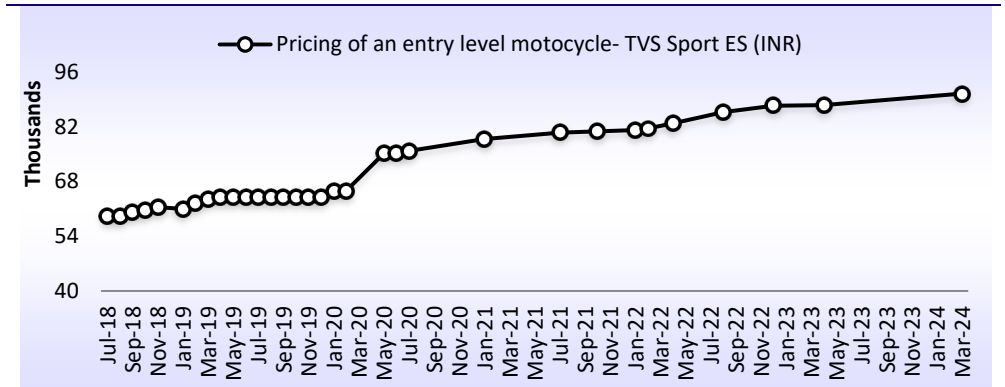
Domestic motorcycle reported 1% volume CAGR while scooters witnessed 4% volume CAGR over FY14-24.

Exhibit 27: Domestic 2W ICE volumes: 5YR CAGR: -4%; 10 YR CAGR: 2%



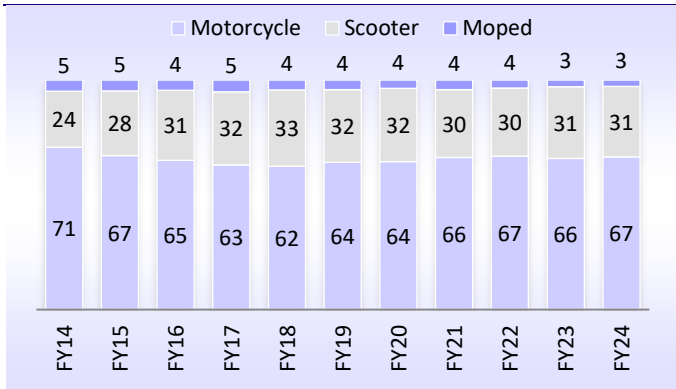
Source: SIAM, MOFSL

Exhibit 28: Two wheelers have seen sharp price hike over last 5 years



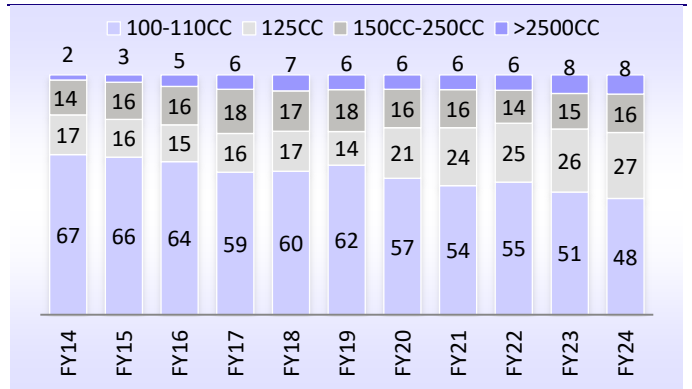
Source: Industry, MOFSL

Exhibit 29: Domestic 2W segmental mix %



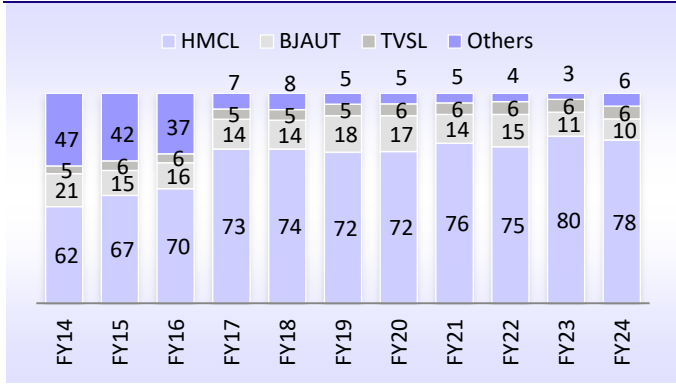
Source: SIAM, MOFSL

Exhibit 30: Domestic motorcycle segmental mix %



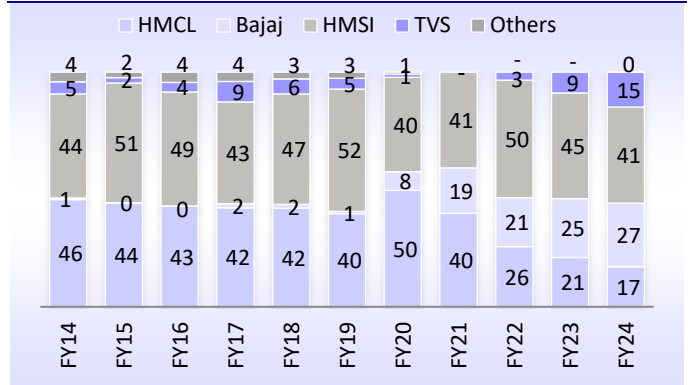
Source: SIAM, MOFSL

**Exhibit 31: Market share trend in entry level motorcycles**



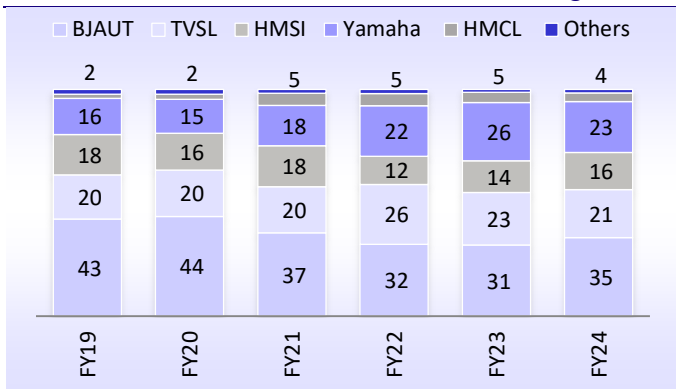
Source: SIAM, MOFSL

**Exhibit 32: Market share trend in the 125cc segment**



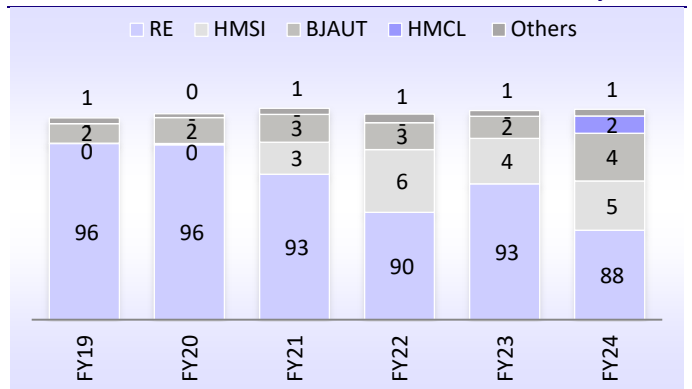
Source: SIAM, MOFSL

**Exhibit 33: Market share trend in the 150-250CC segment**



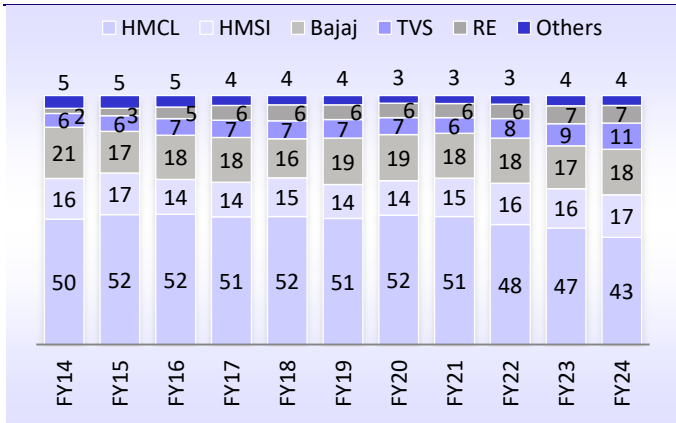
Source: SIAM, MOFSL

**Exhibit 34: Market share trend in the >250CC motorcycles**



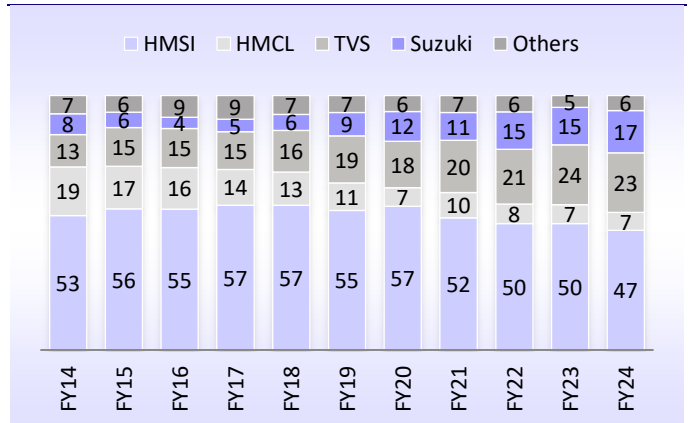
Source: SIAM, MOFSL

**Exhibit 35: Market share trend in domestic motorcycles**



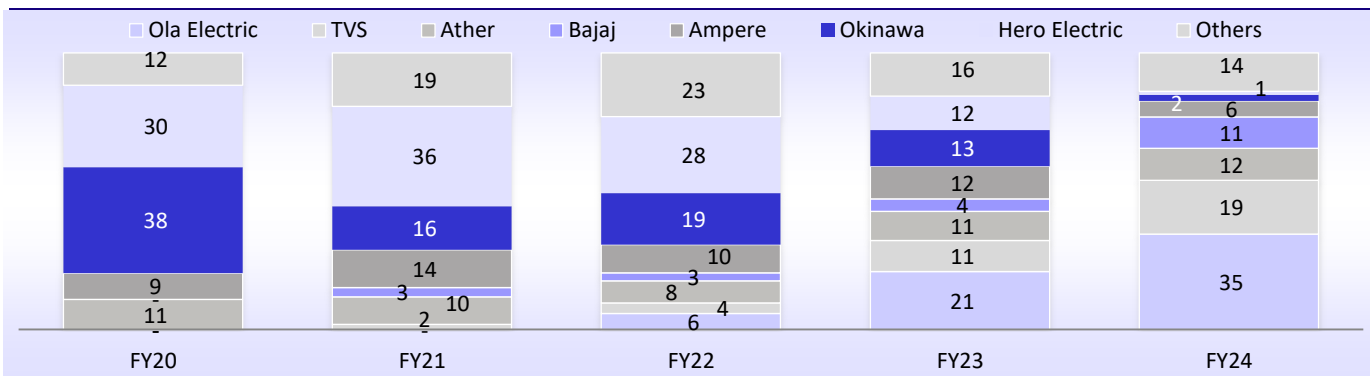
Source: SIAM, MOFSL

**Exhibit 36: Market share trend in domestic ICE scooters**



Source: SIAM, MOFSL

**Exhibit 37: Market share trend in E2W**



Source: SMEV, MOFSL

**Exhibit 38: Two wheelers volumes to witness ~9% CAGR over FY24-26E (volume in 000s)**

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	10yr CAGR%	5yr CAGR%
Scooters ICE	6,701	5,566	4,480	3,990	4,862	5,379	5,872	6,348	4	-4
Growth (%)	0	-17	-20	-11	22	11	9	8		
Motorcycles	13,598	11,215	10,020	8,984	10,230	11,653	12,714	13,862	1	-3
Growth (%)	8	-18	-11	-10	14	14	9	9		
Mopeds	880	637	617	473	442	482	506	531	-4	-11
Growth (%)	2	-28	-3	-23	-7	9	5	5		
<b>Two Wheelers ICE</b>	<b>21,179</b>	<b>17,418</b>	<b>15,117</b>	<b>13,447</b>	<b>15,534</b>	<b>17,514</b>	<b>19,093</b>	<b>20,741</b>	<b>2</b>	<b>-4</b>
Growth (%)	5	-18	-13	-11	16	13	9	9		

Source: SIAM, MOFSL

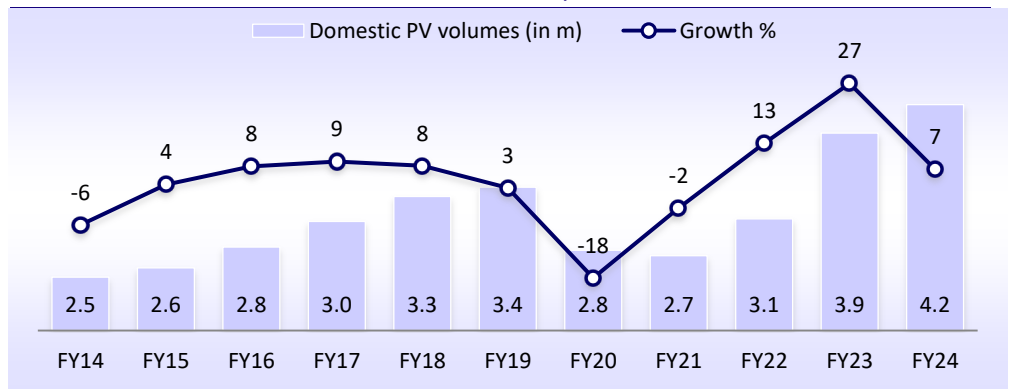
**PV demand to take a breather after the strong run-up in recent past**

- PV growth capped by weak car demand:** The PV industry has posted a 8.5% YoY growth in FY24. However, this growth has been arrested due to a dismal trend in the car segment. While car sales have witnessed a 11% YoY decline, the sales of UVs have surged 26% YoY aided by the strong order backlog that all OEMs had at the beginning of FY24.
- UV mix continues to rise in cars:** Since the previous peak in FY19, the PV industry has posted 5% CAGR in volumes. This growth has been primarily led by the UV segment, which has recorded 22% CAGR over the same period, relative to ~7% compounded decline in cars. The same is true even over a longer time horizon of 10 years. While UVs have reported ~17% CAGR during a 10-year period, cars have posted decline of ~1% CAGR. As a result, the UV mix in PVs has been continuously rising and has reached ~60% in FY24 from ~21% in FY14.
- MSIL has been the best performer in UVs in FY24:** While the UV industry has reported a strong 26% YoY growth in FY24, MSIL has significantly outperformed the industry and clocked 75% YoY growth boosted by new model launches. As a result, MSIL has gained the most 720bps share to 25.5% in UVs in FY24. However, given the decline in cars segment, its market share gain in domestic PVs has been capped at just 40bps to 41.7%. On the other hand, M&M has gained 170bp share to reach 10.9% in PVs. With supply-side issues now resolved, even Toyota has recouped 130bp share to reach 5.8%. Conversely, while Kia has lost 110bp market share to 5.8%, Tata Motors share has largely remained stable at 13.8%.
- EV transition has not gained momentum in PVs as yet:** While EVs have grown 88% for FY24 to 88,024 units, they still account for just about 2.3% of the PV mix. The key reasons for the relatively lower adoption are: 1) higher costs with

the risk of uncertainty for first-time users, 2) only 3-4 key players have introduced a handful of models, 3) lack of nationwide infrastructure presence, and 4) uncertainty regarding resale value. Until some or all of these issues are resolved, we believe the transition to EVs in the PV segment is likely to take a while to reach its inflection point.

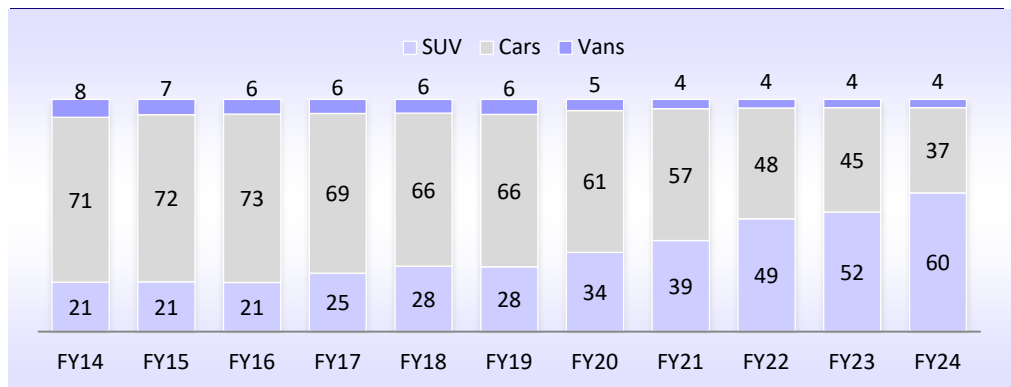
- PV industry likely to take a breather in FY25:** The capacity ramp-up by most of the OEMs in this fiscal year has helped them reduce their order backlog, with demand now being largely in line with supply. Moreover, the PV industry has now witnessed a strong 16% volume CAGR over the last three years. Hence, we expect the PV industry to take a breather in FY25. We anticipate it to report ~5% YoY growth in FY25E, driven largely by a high single-digit growth in UVs. While PVs may grow at a relatively slower pace in FY25E, India is still likely to continue to outperform the developed nations next year as well.

**Exhibit 39: Domestic PV volumes: 5 YR CAGR: ~5%; 10 YR CAGR: ~5%**



Source: SIAM, MOFSL

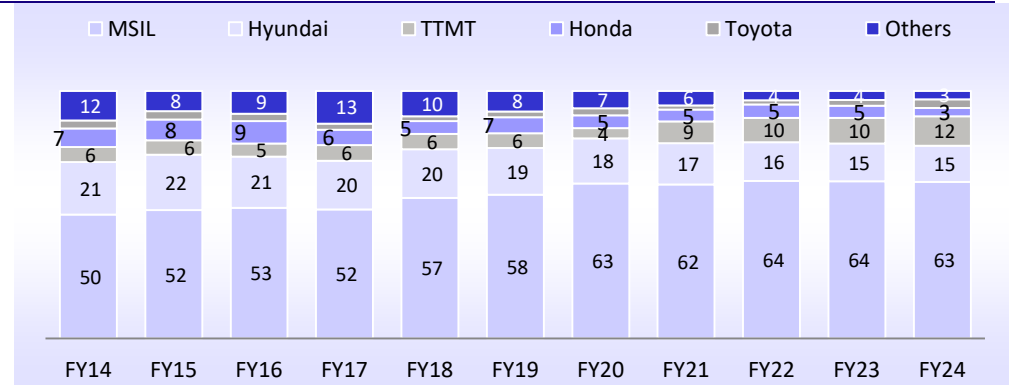
**Exhibit 40: UV contribution in domestic PVs has now risen to 60%**



Source: SIAM, MOFSL

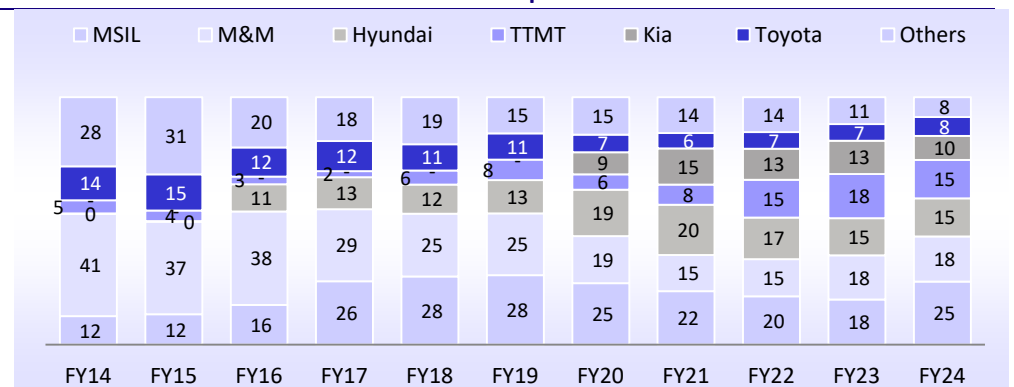
Domestic UV witnessed healthy ~22% volume CAGR over last 5 years while the other categories declined by ~7% during the same period.

**Exhibit 41: Passenger cars' market share % – MSIL maintains its dominant position**



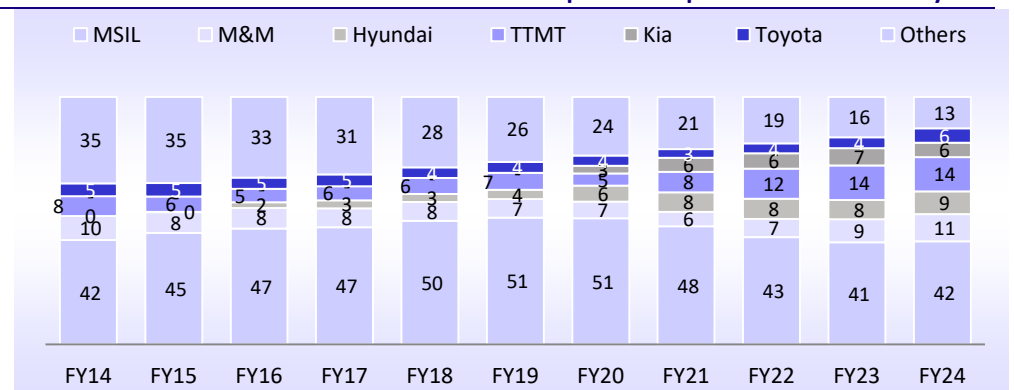
Source: SIAM, MOFSL

**Exhibit 42: UV market share % – MSIL has recouped back lost market share in FY24**



Source: SIAM, MOFSL

**Exhibit 43: Overall PV market share % – TTMT has outperformed peers over the last five years**



Source: SIAM, MOFSL

**Exhibit 44: Passenger vehicle volumes to witness ~6% CAGR over FY24-26E (volume in 000s)**

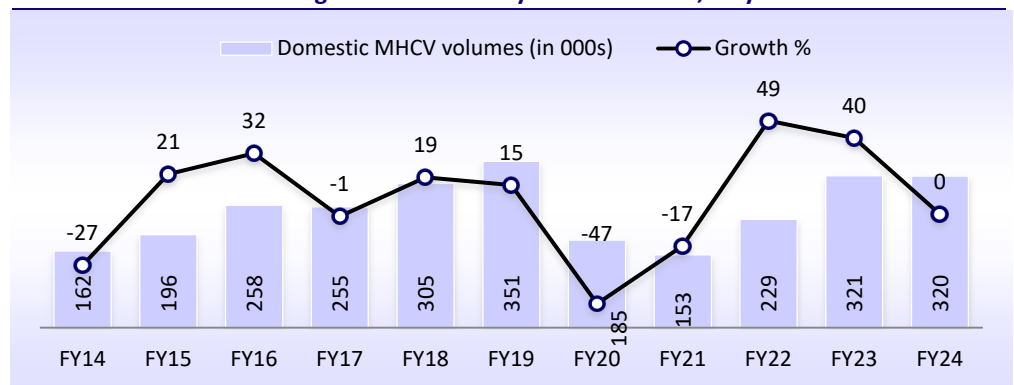
	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	10yr CAGR%	5yr CAGR%
Cars	2,219	1,695	1,542	1,467	1,747	1,549	1,595	1,655	-1	-7
Growth (%)	2	-24	-9	-5	19	-11	1	3		
Utility Vehicles	941	945	1,061	1,489	2,004	2,521	2,692	2,934	17	22
Growth (%)	2	0	12	40	35	26	7	9		
Vans	217	132	109	113	139	149	156	164	-2	-7
Growth (%)	13	-39	-18	4	23	7	5	5		
<b>Passenger Vehicles</b>	<b>3,377</b>	<b>2,773</b>	<b>2,711</b>	<b>3,069</b>	<b>3,890</b>	<b>4,219</b>	<b>4,443</b>	<b>4,752</b>	<b>5</b>	<b>5</b>
Growth (%)	3	-18	-2	13	27	8	5	7		

Source: SIAM, MOFSL

**CVs face near-term uncertainty; long-term growth drivers in place**

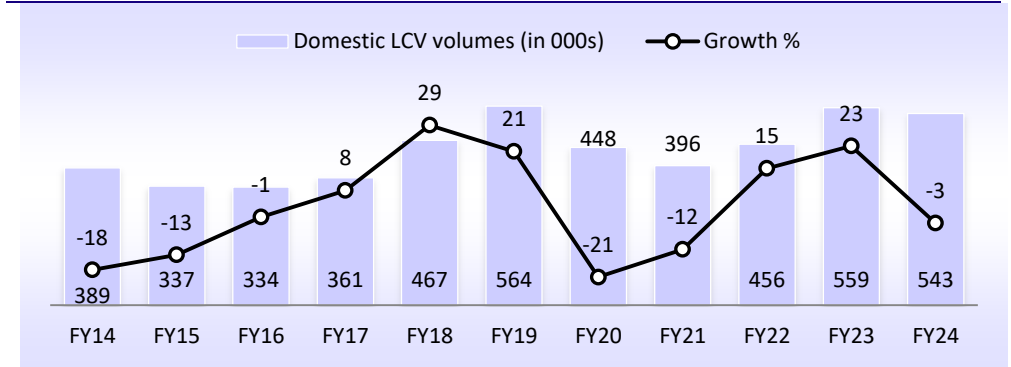
- **The Bus segment drives CV growth:** The CV segment has posted only 1% YoY growth in FY24. This growth was primarily led by a strong 27% YoY growth in the bus segment, while the goods segment declined 2% YoY. The slowdown in the goods segment was due to: 1) weak monsoon affecting agricultural output in FY24, 2) upcoming general elections resulting in a near-term slowdown in the economy, and 3) the high base of FY23. Further, while the MHCV goods segment remained flat YoY, the LCV goods segment has posted a 3% YoY decline in FY24.
- **Winners and losers in FY24:** In terms of player-wise performance in FY24, AL has lost 160bps market share to 30.7% MHCV goods segment largely to VECV who has gained 140bps share to 16.3%. On the other hand, in LCV goods, TTMT lost 330bps market share largely to M&M. One of the key highlights of the current fiscal year has been that the industry has maintained a healthy pricing discipline, which is reflected in the improved margins of all OEMs.
- **CV's seeing election-led near-term demand slowdown:** We believe the CV sector will encounter near-term headwinds due to the upcoming general elections. However, the long-term demand drivers for the CV industry remain in place. Besides, one has to note that, unlike in previous cycles a few factors that are favorable for the industry are: 1) the average fleet age is at a record high of more than nine years; and 2) fleet operator profitability has remained sound as fleet utilization levels have been healthy, allowing them to pass on the rising cost pressures. Further, the fleet sentiment index is also positive. Hence, beyond the near-term weakness, we expect the CV industry to revive from 2HFY25 onwards. However, given a relatively weak 1H, we expect the industry to report a mid-single-digit growth in FY25E.

**Exhibit 45: Domestic MHCV goods volumes: 5 years CAGR: -2%, 10 years CAGR: 7%**



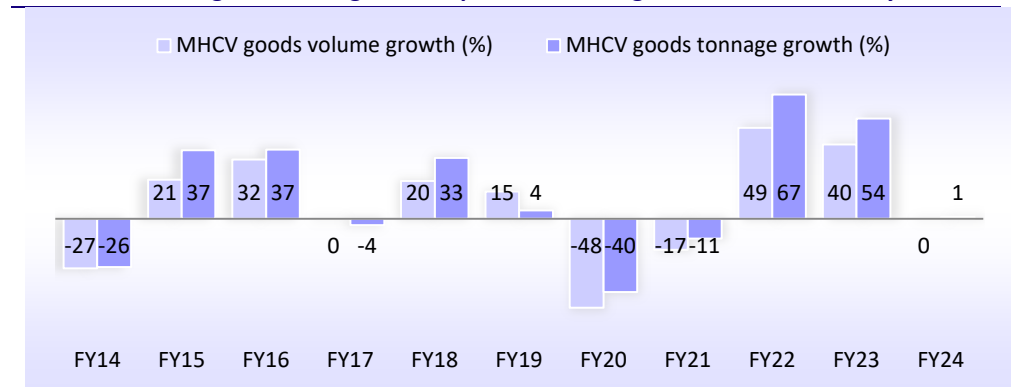
Source: SIAM, MOFSL

**Exhibit 46: Domestic LCV goods volumes: 5 YR CAGR: -1%, 10 YR CAGR: 3%**



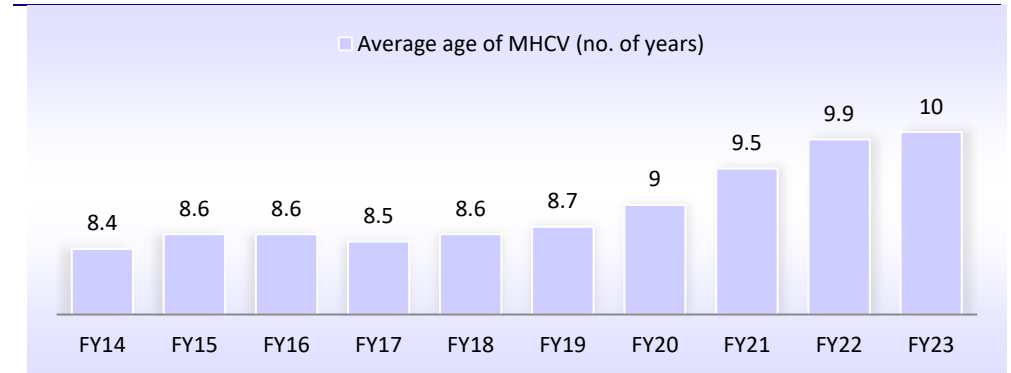
Source: SIAM, MOFSL

**Exhibit 47: MHCV goods tonnage has surpassed volume growth over last three years**



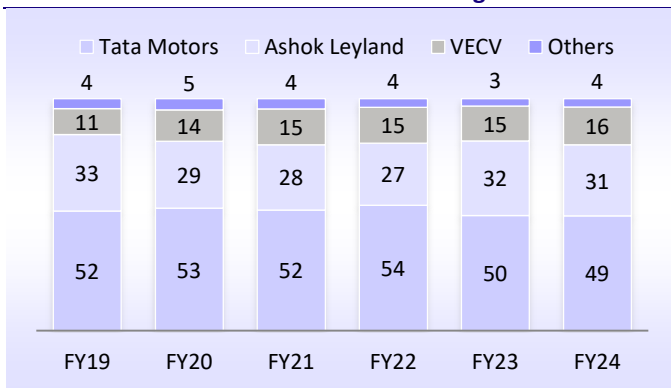
Source: SIAM, MOFSL

**Exhibit 48: Average age of MHCV trucks at an all-time high**



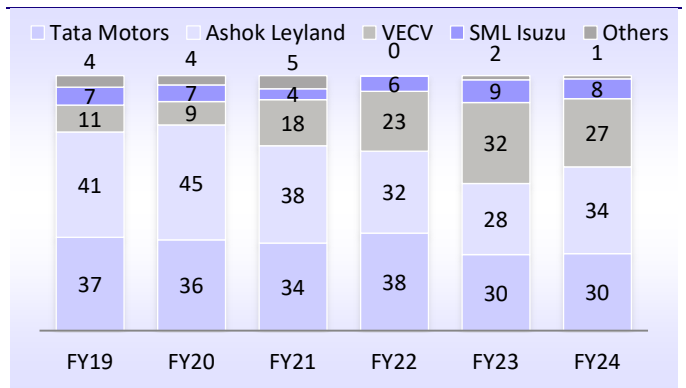
Source: AL, MOFSL

**Exhibit 49: Market share trend % – MHCV goods**



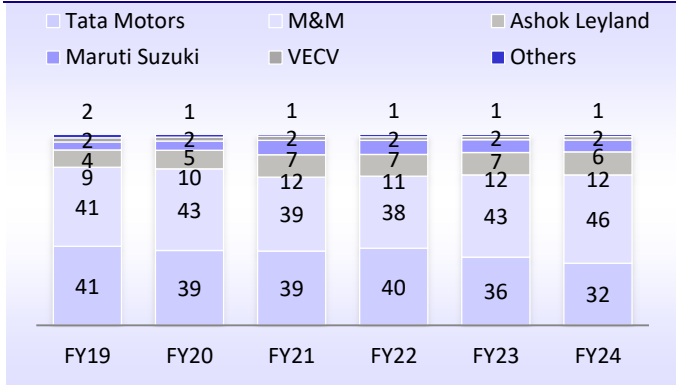
Source: SIAM, MOFSL

**Exhibit 50: Market share trend % – MHCV buses**



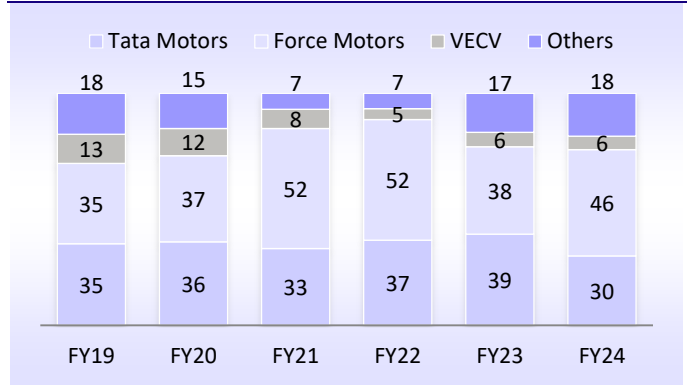
Source: SIAM, MOFSL

**Exhibit 51: Market share trend % – LCV goods**



Source: SIAM, MOFSL

**Exhibit 52: Market share trend % – LCV passenger**



Source: SIAM, MOFSL

**Exhibit 53: Commercial vehicle volumes to witness ~6% CAGR over FY24-26E (volume in 000s)**

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	10yr CAGR%	5yr CAGR%
MHCV goods	351	185	153	229	321	320	337	360	7	-2
Growth (%)	15	-47	-17	49	40	0	5	7		
MHCV passenger	39	40	7	12	38	53	60	67	3	6
Growth (%)	10	2	-82	61	225	38	14	12		
LCV goods	564	448	396	456	559	543	570	604	3	-1
Growth (%)	21	-21	-12	15	23	-3	5	6		
LCV passenger	52	45	12	20	44	52	55	59	2	0
Growth (%)	7	-13	-73	65	122	17	7	6		
<b>Total CVs</b>	<b>1,007</b>	<b>718</b>	<b>569</b>	<b>717</b>	<b>962</b>	<b>968</b>	<b>1,023</b>	<b>1,090</b>	<b>4</b>	<b>-1</b>
Growth (%)	18	-29	-21	26	34	1	6	7		





Source: SIAM, MOFSL

## Auto components: Multiple tailwinds ahead

### Auto Ancs well placed to benefit from multiple growth opportunities ahead

The domestic auto component industry has seen 33% growth in FY23 and is expected to end FY24 with mid-teens growth. This strong growth momentum for the Auto component industry is likely to sustain in the coming years on the back of multiple tailwinds as highlighted below.

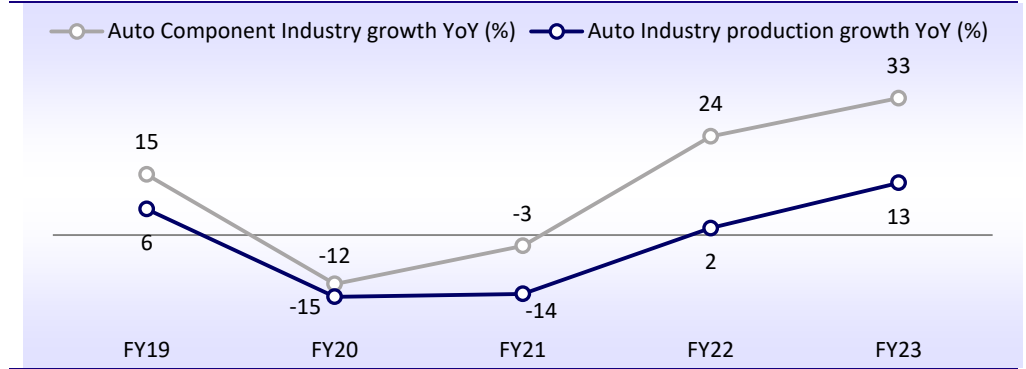
Exhibit 54: Auto Components: Multiple growth opportunities ahead

Premiumization		Favorable demographics ● Rapid digitization ● Influence of social media ● Easy access to finance
Global supply chain de-risking		Benefitting out of geopolitical disruptions ● Recessionary pressures in west ● Significant increase in global investments.
India emerging as a supply hub		Growing exports from India ● Best-in-class supply ecosystem ● Favorable government policies.
Government's localization push		Demand incentives such as GST rate cuts, FAME, etc. ● Investment incentives such as PLI for Auto/ACC, etc.

Source: Industry, MOFSL

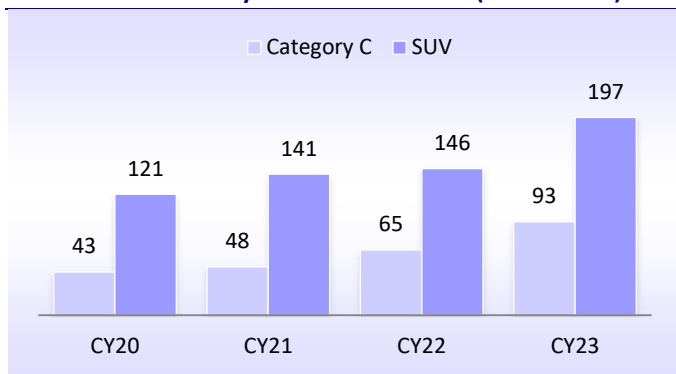
- Auto ancillaries benefiting from the premiumization trend in India:** As highlighted in the previous section, the Indian automobile industry is experiencing a rise in the premiumization trend across 2Ws and 4Ws. Auto ancillaries are the key beneficiaries of such trends as they are witnessing an increase in the content supplied to OEMs. For instance, the wiring harness content increases 1.4-1.5x when transitioning from hatchbacks to sedans or SUVs; plastic module content can rise 1.2-2.5x, and the same for mirrors can increase 1.7-3.0x.
- Apart from this, multiple government interventions in the recent past have led to a spike in vehicle prices for both 2Ws and 4Ws. Over the last five years, the Indian automotive industry has made significant investments to comply with regulatory mandates, particularly on safety and emission fronts. Needless to say, with rising premiumization and regulatory mandates mentioned above, the auto component sector has witnessed a marked increase in the content supplied to OEMs over the last few years. This has also, in turn, resulted in the outperformance of most of the ancillary players relative to auto industry growth. Given that we expect this premiumization trend to continue in the coming years, we expect the auto ancillary companies to continue to outperform domestic auto industry growth. This is also likely to be one of the key growth drivers of the Indian auto ancillary companies in the coming years.

**Exhibit 55: Auto component industry has consistently outperformed Auto sector growth**



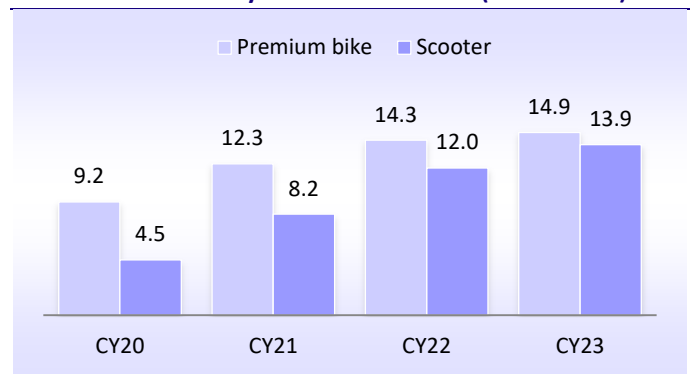
Source: Industry, MOFSL

**Exhibit 56: Case Study1: Kit value for 4Ws (in INR 000's)**



Source: Company, MOFSL

**Exhibit 57: Case Study2: Kit value for 2Ws (in INR 000's)**



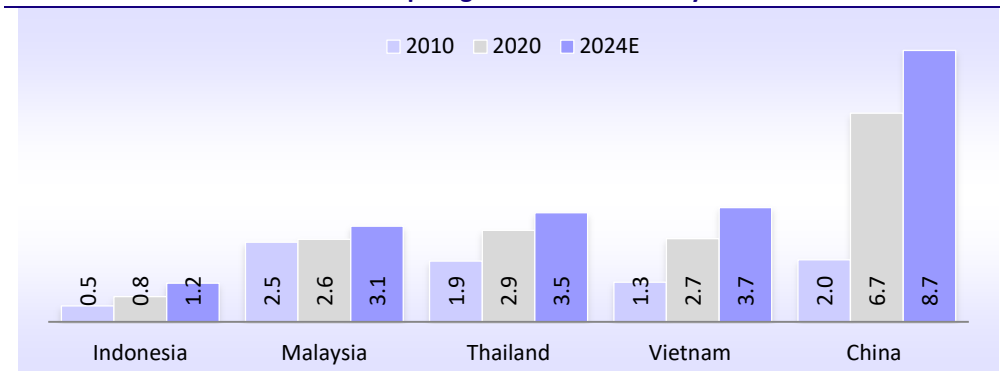
Source: Company, MOFSL

- India - a key beneficiary of the Global supply chain de-risking:** Over the last 4-5 years, the global automotive supply chain has witnessed multiple disruptions driven by the pandemic led chip shortage, the US-China trade war, the Russia-Ukraine conflict, and the Israel-Gaza conflict. While several global firms were already considering de-risking their global supply chains even before Covid-19, the recent consistent disruptions coupled with the US-China trade standoff are now forcing global players to work towards various alternative sourcing options apart from China and Europe. In addition to the adverse global scenario, there have been a few China-specific issues that are forcing this shift and one the key factors among this is the fact that China is no longer a low-cost destination as earlier. Since 2013, Chinese manufacturing wages have doubled to an average of USD8.27 per hour. This rise stands in stark contrast to hourly manufacturing wages in Vietnam, Thailand or Malaysia which are at around USD3 per hour. Further, China now has a shortage of factory workers, partly due to the younger workforce’s inclination towards flexible and autonomous employment opportunities.

In addition to China, companies based in Europe, especially Germany, are also considering a move away from the region given the rising inflationary costs including wage and power. The Euro annual inflation rate shot up to 10% from 5% a year ago. Some Eurozone member states remain severely impacted due to high inflation, such as Hungary (25%), Latvia (21%) and Lithuania (20%). The European supply chain also remains affected by severe raw material shortage due to unreliable and restricted access to certain raw materials.

While a complete shift away from China and Europe is impossible and completely ruled out, several companies are now considering setting up new capacities in Southeast Asian countries (e.g., Vietnam, Indonesia, Malaysia, Thailand, and Cambodia) and India in South Asia. This move aims to de-risk their global supply chain. These regions are increasingly emerging as alternative supply hubs to China as they have adaptable and high-quality industrial supplier bases. According to the EIU Business Environment Rankings, the key ASEAN economies and India appear to be well-positioned to benefit from the partial supply chain shift away from China.

**Exhibit 58: China has witnessed sharp wage increase over the years**

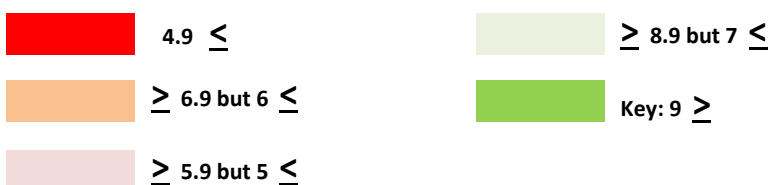


Source: Industry, MOFSL

**Exhibit 59: India and South East Asian countries emerge as preferred places for new business opportunities**

Economy	Political effectiveness	Macro environment	Market opp	FDI policy	FT & exchange controls	Labor market	Infra	Tech readiness	Overall score
Taiwan	6.7	7.8	5.7	8.2	9.1	6.8	7.8	9.2	7.8
South Korea	7.8	6.3	7.1	7.3	8.7	6.3	7.8	9.2	7.8
Japan	8.6	7.8	6.4	7.3	9.6	6.8	8.5	9.2	7.7
Malaysia	6.9	8.3	7.3	7.8	8.7	7.1	7	7.8	7.5
Thailand	5.5	8.3	6.7	7.3	8.7	6.6	5.8	7.5	7.2
Vietnam	5.5	8	8.3	6.4	8.2	6.7	5	6.1	6.6
India	5.5	7.2	7.8	6.9	6.9	6.3	5.3	6.3	6.3
Philippines	3.9	6.3	6.6	6.9	7.8	6.8	4.5	6.1	6.1
China	3.9	6.6	7.7	3.7	6.4	5.9	7	8.6	6
Indonesia	4.8	6.6	7.5	5.5	7.3	6.5	4.5	5.2	5.9
Bangladesh	4.1	6.1	6.4	5.1	6.4	5.8	3.8	3	5.1
SriLanka	4.3	4.1	4.5	8.2	4.2	6.1	7.3	5.2	5.2
Pakistan	2	3.8	4.9	5.1	4.6	6	3.3	3	4.1

Source: Industry, MOFSL



- India is also experiencing a significant increase in investments from global players. India's appeal to prominent foreign investors is linked to geopolitics, a vast consumer market, skilled low-cost labor, the government's promotion of localization (Make in India), and a renewed focus on preferential trade agreements with trading partners through a series of bilateral trade deals since 2022. While the US imports from China declined 10% during 2018-22 in inflation-adjusted terms, India's exports to the US surged by USD23b, a 44% increase over the same period. Further, while the value of announced US and European Greenfield investments in India has jumped 400% to USD65b in 2021 and 2022, the same in China declined to less than USD20b in 2022 from a peak of USD120b in 2018. It is thus evident that India is emerging as a key beneficiary of the global supply chain de-risking initiative in the global auto component industry.

#### Exhibit 60: Global automobile players India plans

Company	Comments around India plans
Continental	❖ Scaling up the R&D and manufacturing capabilities for connected tech in India; this is expected to significantly boost its export share to Europe, East Asia and ASEAN countries
Bosch Mobility Global CTO	❖ "There is such brilliant talent in India. India is a location where we are prepared to shift more competence, responsibility and accountability, particularly on the software side, on the software defined vehicles as well as application side"
Valeo	❖ To invest close to the M&M Pune plant, and localize electric powertrain in India
Schaeffler	❖ Plans to make India a manufacturing hub for specific products by shifting production from Europe
SEG Automotive India	❖ Positioning India as an exports hub of light electro-mobility and software solutions
Magna	❖ Opened an Asia Innovation Center in Bangalore at an investment of USD120m for assisting future trends such as EVs, driver assistance systems, etc.
Grupo Antolin (Ramon Sotomayor, Global CEO)	❖ "We see high competitiveness for technology products made out of India in the global marketplace, we will be looking at exporting lighting, electronics and technology product". "we have got every technology here in Pune. We are working on more advanced technology here than in Detroit or Europe"
Delta Electronics	❖ Taiwan-based Delta has invested USD500m in India so far on local manufacturing; plans to offer localized EV components, such as power electronics, from its global portfolio for automotive OEMs in India
Stuken	❖ Plans to commence deep-drawn parts production from India by 2025; setting up a plant in Pune, which will be its fifth site globally
Saietta VNA	❖ Commenced production of axial flux technology e-motor for EV's; while they are completely focused on India, the strategy to Make in India and export globally is a distinct possibility
Borg Warner	❖ Has set up a new tech center in Bangalore to offer end-to-end development, testing and validation support for its engineering centers in North America, Europe and Asia

Source: Industry, MOFSL

- **India emerging as a global supply hub:** For almost 7-8 years, there has been talk of India's potential to become a global automotive hub for OEMs to manufacture locally for global markets. Despite India's low-cost natural advantage, this theory did not materialize significantly until the occurrence of Covid-19. However, over the past 2-3 years, several enabling factors have been working in India's favor, finally turning this 'hope' into a 'reality'.

We highlight below some of the critical enablers that are driving global auto OEMs to set up their manufacturing bases in India.

- **India based "models" can be exported to global markets:** With the ever-rising premiumization trend in India, global OEMs are now seeing quality/features sold in Indian markets that are comparable to many of their global markets. Further, post-BS6 emissions, Indian emission regulations are now comparable to numerous global regions. Thus, some of the models sold in India can be sold in the same shape and form to multiple regions beyond India. Hence, many global OEMs are now finally considering India as a manufacturing hub for some of their global models.
- **Evolution of the best-in-class supply ecosystem:** Over the years, India's supplier ecosystem has developed itself into being highly competitive relative to its global peers. The fact that a lot of the local suppliers are already supplying to global OEMs is also a testimony of their capabilities. Global OEMs are now confident that the Indian supplier base is mature enough to satisfy their needs and that it can be used for their global requirements. Needless to say, a well-established and accessible supply chain is one of the key considerations before OEMs plan to set up a manufacturing base. The Indian vendors now qualify for the same.
- **Favorable government policies:** Policy incentives are in place both for localization at the OEM level as well as at the component level. This is in turn driving even global OEMs to invest in India, both to supply within India as also for their global needs.
- **Uncertain global dynamics:** As elaborated in the previous section, multiple global events in the recent past have forced OEMs to reconsider working on an alternate supply chain strategy. On similar lines, these developments with the above enablers have forced global OEMs to think of India as a global sourcing hub for: 1) some of their upcoming models and 2) some of their similar markets that can be penetrated.

Given these tailwinds, many existing OEMs have announced major long-term expansion plans and India is now finally emerging as one of the export hubs for several global OEMs. We have summarized below a list of OEMs (domestic and global) that have earmarked long-term investments in India either for ramping up existing investments or to make India a sourcing hub. While this is not an exhaustive list, we have tried to capture material announcements in this space in the recent past.

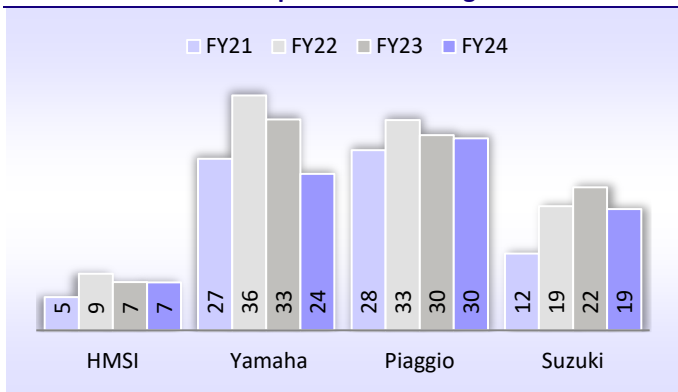
*Needless to say, India's evolution as a global automotive hub will in turn open up significant growth opportunities for domestic suppliers in the long run.*

**Exhibit 61: India emerging as a manufacturing hub for many OEMs**

OEM	❖ India plans
Maruti Suzuki	<ul style="list-style-type: none"> <li>❖ Doubling capacity to 4m units p.a. by FY31</li> <li>❖ targeting a 3x rise in exports to 0.75m</li> </ul>
Suzuki Corp	<ul style="list-style-type: none"> <li>❖ Investments: INR31b in BEV plant and INR73b in cell manufacturing plant</li> <li>❖ To make India its EV global hub and start EV exports to Japan from 2025 and also targets to supply to Toyota for its European needs</li> </ul>
Hyundai	<ul style="list-style-type: none"> <li>❖ Signed an MoU with TN Govt for EV investments over the next 10 years</li> <li>❖ Will launch five EVs by 2032</li> </ul>
Kia India	<ul style="list-style-type: none"> <li>❖ Targeting a PV market share of 10% by 2030 in India from 6-7% currently</li> <li>❖ To increase the capacity by 100k units p.a. in 2024 to 440k units</li> <li>❖ The first mass market EV to be launched in 2025; targets to have 15-17% share of India EV market by 2030; indicates that Made in India EVs would be tailored for emerging markets</li> </ul>
Toyota Kirloskar	<ul style="list-style-type: none"> <li>❖ To set up the third plant in India of 100k units p.a. capacity</li> </ul>
Tesla	<ul style="list-style-type: none"> <li>❖ Tesla plans to double its sourcing from India to USD1.9b in 2023</li> </ul>
Honda Cars India	<ul style="list-style-type: none"> <li>❖ Targets to focus on SUVs and EVs in India; would launch five new models in India by 2030; India to be the future export hub for Elevate. The Made in India Elevate will be exported to Japan soon</li> </ul>
Renault Nissan JV	<ul style="list-style-type: none"> <li>❖ To launch six new products, including two EVs, all will be exported</li> <li>❖ Nissan to use India as a big hub for exports; "India has the potential to beat Mexico as the "best plant in the world" for Nissan</li> </ul>
Stellantis	<ul style="list-style-type: none"> <li>❖ India is a critical export base for engine, gearboxes and all brands, the company has a sharp focus on localization; may consider localizing battery cells and parts in India as well and look for exports; the company's 40 suppliers are exporting from India to LatAm</li> </ul>
Skoda Auto India	<ul style="list-style-type: none"> <li>❖ Skoda's India unit will spearhead the group's expansion in Southeast Asia; Skoda to make India its export hub</li> </ul>
Mercedes Benz	<ul style="list-style-type: none"> <li>❖ India is the first region outside Germany to assemble its EV EQS; management indicated that India could be a production hub outside of Europe as it has an edge over peers</li> </ul>
HMSI	<ul style="list-style-type: none"> <li>❖ Make in India for the world, will export to 58 countries with 20 models in FY24</li> </ul>
Suzuki Motorcycles	<ul style="list-style-type: none"> <li>❖ Has made India an export hub for the 125-300cc 2Ws</li> </ul>
India Yamaha	<ul style="list-style-type: none"> <li>❖ India is among the key export hubs, will evolve as an export hub for EVs as well</li> </ul>

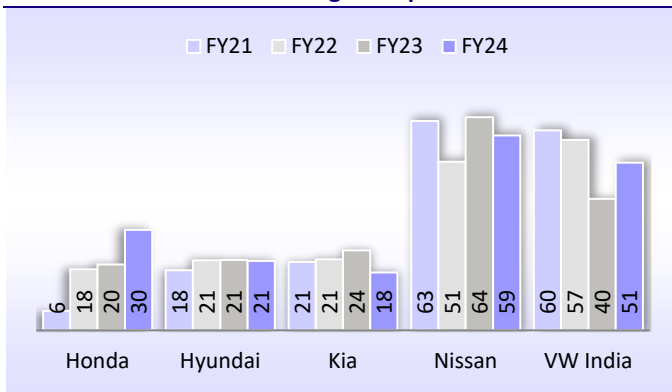
Source: Industry, MOFSL

**Exhibit 62: 2W OEMs: Exports mix on a high**



Source: Company, MOFSL

**Exhibit 63: PV OEMs: Focusing on exports from India**



Source: Company, MOFSL

■ **Government’s localization push driving investments from the sector:**

Over the past many years, the Indian Government has been advocating and pushing Indian companies to “Make In India” as much as possible and reduce their dependence on imports. To provide adequate encouragement, the government has also offered various incentives across multiple sectors. The Indian auto sector has also seen favorable policies from the government in a bid to drive localization initiatives across the value chain, particularly to boost EV transition, and localization of advanced technology components.

Apart from the demand incentives like FAME subsidy and State Government subsidies to drive EV adoption, the government is also providing target-based production-linked incentive (PLI scheme) to boost EV transition and local manufacturing of technologically advanced components that are currently being imported. Within the Auto sector, the government has offered two PLI schemes, namely: 1) PLI for Auto manufacturing with an outlay of INR259.4b, which includes OEM support (for OEMs that would invest in EVs and hydrogen fuel cells) as also support for ancillaries that invest in localization of advanced technologies, and 2) PLI scheme for investing in advanced cell chemistries (ACC) with an outlay of INR181b.

These favorable policies from the government are expected to incentivize the localization of advanced automotive technology in India and also help worthy suppliers participate in the evolving huge opportunity of these components in the global supply chain. It is also expected to help accelerate investments toward developing a local EV ecosystem. The entire automotive supply chain is highly enthusiastic about the PLI scheme, as evidenced by the fact that 115 players applied for it and 85 applicants were approved. The PLI scheme for the sector has attracted a proposed investment of INR677b over the next five years, far exceeding the government's target of INR425b.

- **Summary thoughts:** The domestic auto component industry has seen 33% growth in FY23 and is expected to end FY24 with mid-teens growth. We believe, the domestic component industry is well placed to benefit from multiple local and global factors highlighted in the section above. Driven by significant growth opportunities going forward, the auto component industry is expected to invest around USD6.5-7.0b over the next five years for capacity expansion and technology upgradation, which is nearly double the USD3.5-4.0b invested in the last five years. Given its own inherent strengths and the multiple tailwinds highlighted above, we expect this growth momentum for the industry to continue in the foreseeable future. Hence, we also expect the auto component industry to continue to outperform the core Auto industry growth in the coming years.

## Valuation and View: Auto OEMs

**Our top pick: Maruti Suzuki (MSIL IN) and Ashok Leyland (AL)**

### Auto Sector has outperformed the Nifty over the last 12M

The Auto sector has posted healthy earnings growth in this fiscal year backed by steady volume growth, improved mix, pricing discipline and benign input costs. This is also reflected in the outperformance of the Auto index relative to Nifty over the last 12 M by 43%. Within the Auto Index, all frontline Auto OEMs barring Ashok Leyland and Eicher Motors have outperformed the broader index.

**Exhibit 64: Auto OEM valuations relative to Nifty Index**

MOFSL OEM universe	Current P/E (x)	10 YR Avg PE (x)	Prem / Dsc PE (x) Avg (x)	PE Relative to Nifty PE (%)	Nifty PE (x)
<b>PVs</b>					
Mahindra & Mahindra	22.2	18.6	19.7	13.9	19.5
Maruti Suzuki	25.1	29.8	-15.8	28.5	19.5
<b>2Ws</b>					
Bajaj Auto	27.3	17.9	52.6	39.7	19.5
Eicher Motors	26.3	31.5	-16.3	34.9	19.5
Hero MotoCorp	19.2	18.2	5.6	-1.7	19.5
TVS Motor	36.4	30.7	18.4	86.2	19.5
<b>CVs</b>					
Ashok Leyland	18.8	21.9	-14.2	-3.6	19.5
Tata Motors	16.7	17.0	-1.6	-14.2	19.5
<b>Tractors</b>					
Escorts Kubota	35.8	17.3	107.1	83.5	19.5

Source: MOFSL

### Understanding the key reasons for this outperformance

As highlighted above, one of the critical reasons for the Auto Index to outperform Nifty has been its solid earnings growth this year which was driven by healthy volume growth and soft commodity costs. Apart from this, there have been sector specific events that have driven sub-sector outperformance relative to Nifty. We discuss the same in detail below.

### Two Wheelers

All 2W stocks barring Eicher Motors have significantly outperformed the Nifty over the last 12M. In fact, except Eicher, all the other 3 listed 2W OEMs have actually outperformed even the Auto Index by a fair margin. The rationale for the same is discussed below:

- Bajaj Auto and TVS Motors:** in 2Ws, Bajaj and TVS have been the best performers followed by HMCL over a 12M period. The key reasons for both Bajaj and TVS seeing strong rally is: 1) 2W market seeing shift towards premiumization and both these benefitting from the same 2) both these gaining share even within the 125cc+ segment 3) both these seeing strong traction in EVs as well and emerging as leading brands even in EVs thereby giving comfort to investors that these are emerging as tech agnostic plays. Beyond this, the key reason for BAL outperforming TVS has been its Investor friendly policy of distributing 70%+ of annual PAT to shareholders in each year when their Reserves are greater than INR 150bn. The Company recently concluded a 2<sup>nd</sup> buyback in 2 years and the buyback price was offered at a very lucrative

premium to the then CMP, which proved to be a solid positive sentiment booster for the stock.

- **Hero MotoCorp:** This stock has also outperformed the Auto Index over the last 12M on the back of expectations of: 1) rural revival driving 100cc demand 2) healthy launch pipeline driving market share gains.

### Passenger Vehicles:

Both M&M and MSIL have seen outperformance given their market share gains in UV segment in FY24, which has been the key growth driver for PVs. Apart from this, hopes of a potential hybrid tax cut has also fueled the last leg of rally in MSIL, as it is the best listed play, if GST rates are cut on hybrid.

- **Tata Motors:** Tata Motors has seen a sharp improvement in performance across key segments with record high margins at both JLR and India PVs and CVs and also debt repayment in line with their guidance.

### A word on Underperformers in FY24:

- **Eicher Motors:** EIM has underperformed the Auto Index primarily due to significant increase in competitive intensity.
- **Ashok Leyland:** AL has underperformed the Auto Index on expectation of slowdown in CV cycle in H2FY24 onwards.

### How are we looking at the Sector from here

It is now an established fact that the bulk of easy gains in Auto OEM stocks are now behind as we have seen a fair volume growth across segments over the last 2 years and input cost also seem to have bottomed out. Hence, one will have to take selective micro bets to outperform from here-on.

#### Exhibit 65: Comparative valuations-OEM

Auto OEM's	Rating	Mcap (INR b)	TP (INR)	P/E (x)			EV/EBITDA (x)			Div	FY25 Yield (%)	EPS CAGR (%)
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E		FCF	FY24-26E
Bajaj Auto	Neutral	2,532	8,360	32.8	27.8	24.2	26.0	21.8	18.7	2.2	2.6	16.5
Hero MotoCorp	Buy	1,009	5,320	24.6	21.2	18.0	16.6	14.3	12.0	2.7	3.6	16.9
TVS Motor	Neutral	1,014	1,930	48.7	38.6	32.8	29.1	23.9	20.5	0.4	1.6	21.9
Eicher Motors	Sell	1,293	4,020	32.3	28.9	26.0	29.9	26.7	23.7	1.2	4.4	11.6
Maruti Suzuki	Buy	4,029	14,700	29.9	25.7	22.7	20.4	16.7	14.2	1.1	1.9	14.7
M&M	Buy	2,720	2,155	26.0	23.6	21.1	19.9	16.6	14.1	1.0	3.8	11.0
Tata Motors	Neutral	3,547	955	16.4	16.6	14.4	6.7	5.7	4.9	0.4	5.1	7.0
Ashok Leyland	Buy	601	240	23.6	18.8	16.4	13.4	11.6	10.0	1.5	6.7	20.1
Escorts	Neutral	404	3,145	38.5	36.0	30.2	36.0	25.3	23.8	0.5	3.4	12.8

\*Except for M&M and Ashok Leyland, all other OEMs have reported their FY24 financials

**Two Wheelers:** While this is likely to see better volume growth than others as discussed in the previous section, we believe, most of the positives are already priced in the strong rally that the stocks have seen in the recent past. As highlighted in the table above, BJAUT is now trading at almost 53% premium to its 10 YR historic avg one-yr fwd PER. On the other hand, while TVS is trading at 18% premium, HMCL is trading at just 6% premium.

**Passenger Vehicles:** While both MSIL and M&M have done well in the recent past, we expect them to continue to outperform the PV industry in FY25 as well on the back of continued strong demand for new launches. Any incremental positive news flow around tax cuts on hybrids may drive MSIL's outperformance from here-on. Hence, we maintain our Buy rating on both MSIL and M&M.

**Tata Motors:** We have recently downgraded Tata Motors to Neutral as we believe margins are likely to have peaked out in Q4FY24 and margin sustenance at JLR in FY25 looks difficult given rising costs and weak demand macro. Also, in India PVs, EV transition is still not picking up pace on expected lines. Even in CVs, it has lost share in 2 of the 4 key segments in FY24. Hence, we think most of the positives now seem priced in post the recent rally in the stock.

### **Our top pick in Auto OEMs – Maruti Suzuki – Investment Rationale**

Over the last nine years since the launch of its first Nexa showroom in India in 2015, Maruti Suzuki (MSIL) has successfully transformed itself from just a “value for money” player to a “value” player in the INR1-2m price bracket. This is evident from the fact that MSIL has now become a market leader, even in the UV segment, holding a market share of 25.5%. Thus, investors' fears about MSIL's ability to effectively compete in the premium segment appear unwarranted. Further, MSIL is probably the only PV player in India that has embraced a multi-tech approach (working on CNG, flex fuels, hybrids, and EVs) to achieve its emission targets. We believe this strategy is appropriate, considering India's demographics. Besides, any government incentives for hybrid or flex fuels are likely to lead to a re-rating of MSIL in the future, as it is the primary beneficiary of such initiatives. While the domestic PV industry is likely to see some slowdown in FY25E, we anticipate that MSIL will continue to outperform the industry aided by a healthy order backlog and new launches. Further, while the bulk of input cost benefits are behind us, we expect MSIL to post ~120bp margin expansion over FY24-26E led by an improved product mix. Hence, we anticipate MSIL to post a steady 15% earnings CAGR over FY24-26. The stock trades at 25.4x/22.4x FY25E/FY26E consolidated EPS. Reiterate BUY with a TP of INR14,700 (premised on 26x FY26E EPS).

### **In Auto OEMs, we also like Ashok Leyland – Investment Rationale**

Over the years, Ashok Leyland (AL) has done well to reduce its business cyclicality by focusing on non-MHCV segments such as LCV (12% of sales), Spares (7%), Exports (5%) and Defense (1%). Further, while there has been some slowdown in the demand for CVs in the last few months, we believe this is largely due to the pre-election-led slowdown. We anticipate CV demand to revive from 2HFY25, as its key growth drivers (e.g., high replacement age, healthy fleet operator profitability, and the expectation of a stable government at the Center) are in place. Moreover, AL has set ambitious growth targets in the medium term, which include: market share gains in MHCV Goods to 35% from 31% currently; market share improvement in LCV Goods (2-3.5T) to 25% from 20% currently; and expansion in margins to the mid-teens. Beyond its growth aspirations, one other factor to highlight is that the CV industry is now witnessing healthy pricing discipline, which is evident in the record-high margins that all OEMs are posting in FY24. AL has recently underperformed the Auto index due to concerns of a slowing CV cycle, which we believe is transitory. We have raised our earnings estimates by 4-6% over FY25-26E. Maintain BUY on AL with a revised TP of INR240 per share (earlier INR 210 per share).

## Valuation and View: Auto Ancillaries

**Our top picks: Craftsman Auto, Happy Forgings and SAMIL**

### Auto Ancillaries: Outperformed the Nifty but underperformed Nifty Auto Index

While quite a few stocks within our Auto Anc coverage universe have outperformed the broader Index (Nifty) by a good margin, most of the Auto Ancs have actually underperformed the Nifty Auto Index over the last 12M. One of the key reasons that could be attributed to the same is the lower than expected ramp up in key export markets given the geo-political conflicts that we are currently witnessing.

#### Exhibit 66: Auto Ancillaries valuations relative to Nifty Index

MOFSL Ancs universe	Current P/E (x)	10 YR Avg PE (x)	Prem / Dsc PE (x) Avg (x)	PE Relative to Nifty PE (%)	Nifty PE (x)
Bharat Forge	32.0	43.6	-26.6	64.1	19.5
Tube Investments	53.9	34.3	57.1	176.3	19.5
Bosch	38.3	38.1	0.4	96.0	19.5
Sona BLW	49.7	68.4	-27.4	154.5	19.5
Endurance Tech	32.7	33.0	-1.1	67.3	19.5
CIE Automotive	19.4	25.6	-24.3	-0.7	19.5
Exide Industries	30.5	20.7	47.3	56.3	19.5
Craftsman Auto	24.1	23.3	3.7	23.7	19.5
Amara Raja	19.1	22.4	-14.5	-2.0	19.5
MRF	25.4	22.5	13.1	30.1	19.5
Balkrishna Industries	29.0	22.8	26.7	48.3	19.5
Apollo Tyres	15.8	14.4	9.7	-19.2	19.5
Ceat	14.5	17.5	-17.4	-26.0	19.5

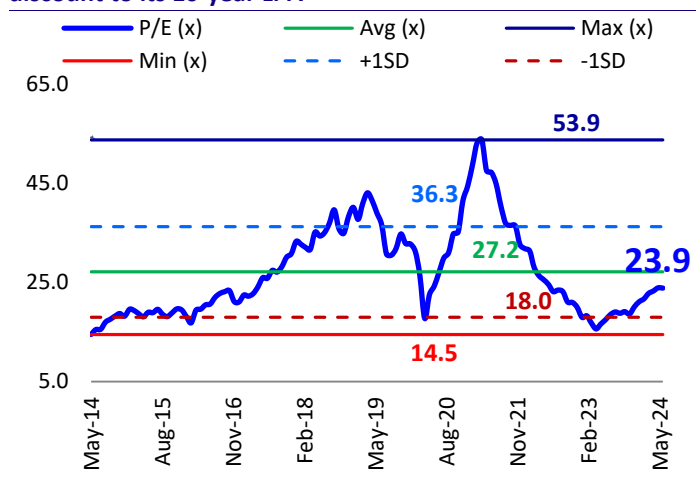
Source: MOFSL

#### Exhibit 67: Comparative valuations-Ancillaries

Auto Ancillaries	Rating	Mcap (INR b)	TP (INR)	P/E (x)			EV/EBITDA (x)			Div	FY25 Yield (%)		EPS CAGR (%)
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E		FCF	FY24-26E	
BOSCH	Neutral	941	27,280	53.2	39.3	35.1	42.1	31.7	27.7	1.1	1.5	23.1	
Samvardhana Motherson	Buy	864	150	38.3	20.4	17.1	11.8	8.9	7.9	1.5	5.1	49.6	
Tube Investments	Buy	704	4,245	109.2	57.8	47.1	38.8	28.5	23.5	0.2	2.8	52.2	
Bharat Forge	Neutral	671	1,370	70.0	37.2	29.5	28.4	21.5	18.1	0.8	0.0	54.1	
MRF	Sell	543	92,000	25.7	28.0	25.1	12.3	12.6	11.4	0.4	2.3	1.2	
Balkrishna Industries	Neutral	481	2,260	39.0	30.5	24.3	22.4	18.6	15.3	1.4	2.2	26.6	
Exide Industries	Neutral	392	320	37.2	30.8	27.6	20.9	17.9	16.0	0.7	2.4	16.2	
Sona BLW	Neutral	340	630	64.8	49.6	41.5	40.6	31.2	26.1	0.6	1.1	25.0	
Motherson Wiring	Buy	302	78	46.7	35.7	30.7	29.3	22.9	19.6	1.7	2.4	23.4	
Apollo Tyres	Buy	301	555	16.3	15.0	13.8	7.0	6.7	6.1	1.2	7.7	8.7	
Endurance Tech	Buy	284	2,135	43.5	35.1	28.4	22.3	19.1	16.2	0.5	1.6	23.7	
Amara Raja	Neutral	186	850	21.4	18.9	17.9	11.7	10.4	9.6	1.4	3.4	9.2	
CIE Automotive	Buy	185	565	23.1	19.9	16.5	12.8	11.8	9.9	1.0	2.6	18.5	
CEAT	Buy	93	2,930	13.5	14.3	11.7	6.6	6.9	6.0	1.3	5.1	7.4	
Craftsman Auto	Buy	92	5,305	30.1	24.8	18.8	12.1	10.2	8.5	0.4	4.4	26.5	
Happy Forgings	Buy	91	1,115	38.4	28.9	22.6	23.8	18.3	14.6	0.5	0.9	30.3	

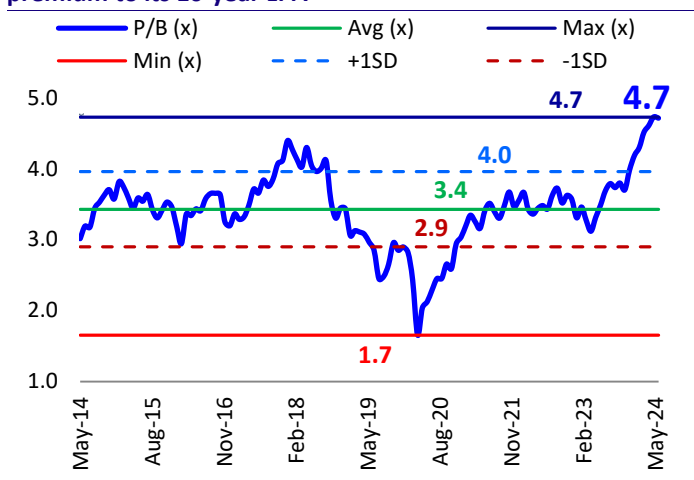
\*Bharat Forge, Tube Investments, MRF, Exide Ind, Sona BLW, Apollo Tyres, CIE Automotive, CEAT, Craftsman Auto have already reported their FY24 financials.

**Exhibit 68: Auto’s 1-year forward P/E still trading at ~14% discount to its 10-year LPA**



Source: Industry, MOFSL

**Exhibit 69: Auto’s 1-year forward P/B trading at 33% premium to its 10-year LPA**



Source: Industry, MOFSL

### Why are we Constructive on Auto Ancs over Auto OEMs

The domestic auto component industry appears to be in a sweet spot as several tailwinds collude to drive a sustainable long term growth opportunity which include: 1) Indian component industry emerging as one of the beneficiaries of the supply chain derisking strategy by global OEMs post continued supply chain disruptions over the last 3-4 years 2) outperformance to core likely to sustain going forward driven by rising content led by premiumization and EV transition 3) favorable Government policies advocating “Make In India” 4) India emerging as an auto hub for global OEMs. Given the above trends and its inherent core strengths (global quality at low cost + improving R&D skills), the auto component industry is expected to invest around USD 6.5-7bn over next 5 years, which is 2x of what they invested in the previous 5 years. We hence expect the Auto ancillary industry to continue to outperform core industry growth in the foreseeable future.

Further, while revenue growth is expected to be strong, operating leverage benefits and a weak commodity cycle are likely to drive strong earnings growth for the ancillary sector. According to Bloomberg, the auto component industry (summarized data for 40 auto ancillaries from Bloomberg) is expected to post a healthy 22% earnings CAGR over FY23-25, fueled by a steady 12% revenue CAGR.

Given the tremendous growth opportunities for the sector over the next 5 years and the relatively attractive valuations when compared to OEMs, we prefer Auto Ancillaries over Auto OEMs. We highlight below our top picks in this space.



### Craftsman Automation

On the back of its strong engineering capabilities, CRAFTSMA has emerged as the largest independent machining player, one of the top three players in storage solutions, and a credible competitor in the aluminum die-casting business. While the CV and tractors are seeing muted demand in the near term which would limit powertrain business growth, we factor in CRAFTSMA to deliver ~15% revenue CAGR over FY24-26E led by strong order wins in Aluminum and its Industrial Engineering business. Beyond the near term, its focus on tapping long term growth opportunities

excites us, which include: 1) growth visibility to scale up the off highway segment within Powertrain to USD100mn over next 4-5 years for which it is setting up a new facility in Kothavadi 2) long term opportunity from the domestic truck segment which is expected to move to higher engines from FY27 onwards, in line with global trends 3) target to penetrate the Aluminum business to OEMs in the North for which they are in the midst of setting up their Bhiwadi plant 4) focus on leveraging alternate sourcing opportunities in the capital goods segment for large castings (contract manufacturing) which will also be housed in the new facility at Kothavadi. We believe, these strong long term opportunities will drive sustainable growth for CRAFTSMA in the long run and hence improve returns from here-on. Reiterate BUY with a TP of INR5,305 (valued at 23x FY26 EPS).



### SAMIL

SAMIL is a market leader in wiring harnesses for PVs in India and CVs in the US and Europe. It is among the top players in the rear-view mirror business globally, a major supplier of plastic components (such as dashboards, bumpers, etc.) to premium OEMs worldwide, and a leading player in PV lighting systems in India. Given its well-diversified presence across components, geographies and customers, SAMIL is emerging as the key beneficiary of the growing popularity of EVs and the rising trend towards premiumization across segments. This is evident in a significant ramp-up in its order book, with its booked business scaling up to USD77.3b. Apart from this, SAMIL offers a huge scope for growth through inorganic opportunities – it has completed 15 acquisitions since Sep'22 and we expect these acquisitions to add INR 132bn in incremental net revenues to SAMIL in FY25E, apart from the synergy benefits on offer. Given its strong long-term growth opportunities and attractive valuations relative to peers, we reiterate our BUY rating on SAMIL with a TP of INR150, valued at 20x FY26E earnings.



### Happy Forgings

With over four decades of industry experience, Happy Forgings (HFL) is ranked as the fourth-largest engineering-led manufacturer in India for complex and safety-critical, heavy forged, and high-precision machined components. The company is well-established within the industries and customer segments it serves, including: a) supplier to each of the top 5 domestic CV OEMs (CVs contribute to 41% of revenue), b) supplier to 4 of the top 5 tractor OEMs in India (32% revenue contribution from tractors), c) off-highway vehicles (14%), and d) industrials (13%). HFL has a healthy order backlog of INR 12bn across key segments including CVs, PVs and Industrials which is likely to help it outperform the auto segment over our forecast period. We expect a 21%/24%/30% CAGR in standalone revenue/EBITDA/ PAT during FY24E-26. Given its strong growth opportunities going forward, we reiterate our BUY rating on the stock with a TP of INR1,115 (based on 26x FY26E EPS).



**Maruti Suzuki**

"Multi-tech" approach to emerge as its key advantage Pg45



**Ashok Leyland**

Focusing on profitable growth ..... Pg52



**Eicher Motors**

Market outperformance seems difficult from here-on Pg60



**Craftsman Automation**

Key beneficiary of infra push + supply chain derisking .. Pg68



**Samvardhana Motherson**

Key beneficiary of global technology shifts ..... Pg75



**Happy Forgings**

Opportunities galore ..... Pg83

# Maruti Suzuki

BSE SENSEX 73,105 S&P CNX 22,218



## Stock Info

	MSIL IN
Bloomberg	
Equity Shares (m)	314
M.Cap.(INRb)/(USDb)	4028.8 / 48.2
52-Week Range (INR)	13074 / 8961
1, 6, 12 Rel. Per (%)	6/9/17
12M Avg Val (INR M)	5629
Free float (%)	41.8

## Financials Snapshot (INR b)

Y/E MARCH	2024	2025E	2026E
Sales	1,409	1,572	1,744
EBITDA	164	196	224
Adj. PAT	132	155	176
Cons. Adj. EPS (INR)	424	499	565
EPS Gr. (%)	56.1	17.6	13.1
BV/Sh. (INR)	2,671	3,040	3,455

## Ratios

	2024	2025E	2026E
RoE (%)	15.7	16.3	16.2
RoCE (%)	20.5	21.1	21.0
Payout (%)	29.5	29.1	29.2

## Valuations

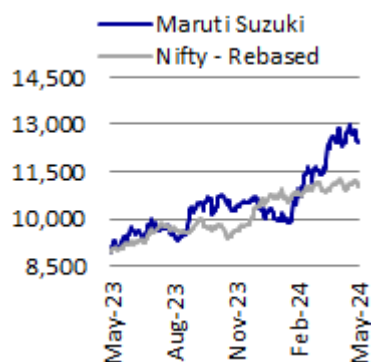
	2024	2025E	2026E
P/E (x)	30.2	25.7	22.7
P/BV (x)	4.8	4.2	3.7
EV/EBITDA (x)	20.4	16.7	14.2
Div. Yield (%)	1.0	1.1	1.3

## Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	58.2	58.2	56.5
DII	19.0	17.8	18.7
FII	19.7	20.6	21.1
Others	3.2	3.4	3.7

FII Includes depository receipts

## Stock Performance (1-year)



**CMP: INR12,814 TP: INR14,700 (+15%)**

**Buy**

## “Multi-tech” approach to emerge as its key advantage

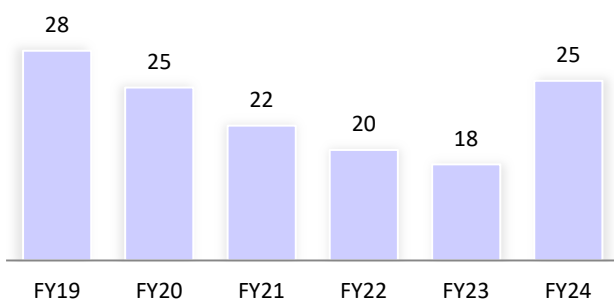
Over the last nine years since the launch of its first Nexa showroom in India in 2015, Maruti Suzuki (MSIL) has successfully transformed itself from just a “value for money” player to a “value” player in the INR1-2m price bracket. This is evident from the fact that MSIL has now become a market leader, even in the UV segment, holding a market share of 25.5%. Thus, investors’ fears about MSIL’s ability to effectively compete in the premium segment appear unwarranted. Further, MSIL is probably the only PV player in India that has embraced a multi-tech approach (working on CNG, flex fuels, hybrids, and EVs) to achieve its emission targets. We believe this strategy is appropriate, considering India’s demographics. Besides, any government incentives for hybrid or flex fuels are likely to lead to a re-rating of MSIL in the future, as it is the primary beneficiary of such initiatives. While the domestic PV industry is likely to see some slowdown in FY25E, we anticipate that MSIL will continue to outperform the industry aided by a healthy order backlog and new launches. Further, while the bulk of input cost benefits are behind us, we expect MSIL to post ~120bp margin expansion over FY24-26E led by an improved product mix. Hence, we anticipate MSIL to post a steady 15% earnings CAGR over FY24-26. The stock trades at 25.7x/22.7x FY25E/FY26E consolidated EPS. Reiterate BUY with a TP of INR14,700 (premised on 26x FY26E EPS).

- Successfully extending its brand presence in the premium segment:** Over the last nine years since the launch of its first Nexa showroom in India in 2015, MSIL has slowly built up its presence in the >INR1m price bracket. The launch of the Nexa format of showrooms has also emerged as an option for existing as well as erstwhile MSIL customers to upgrade to a higher-end car. Backed by successful new launches such as Baleno, Ciaz, Ignis, Grand Vitara, and Fronx, MSIL has now transformed itself from just a “value for money” player to a “value” player in the INR1-2m price bracket. It is worth noting that, not only has MSIL ramped up its presence in the UV segment, it has now regained back its leadership position in the UV segment (having gained 720bps share in FY24 to 25.5%). Given that MSIL is expected to continue to focus on the UV segment, we expect its market share to inch up even from here, in the coming years. Thus, investors’ fears about MSIL’s ability to effectively compete in the premium segment appears unwarranted.
- MSIL likely to continue outperforming the industry:** After reporting a strong 16% volume CAGR over the last three years, we expect the domestic PV industry to take a breather and post 5% growth in FY25E, largely led by UVs. MSIL has done very well in FY24, having regained the bulk of its market share in UVs (to reach ~25%) due to its new launches. Given an encouraging order backlog of 200k units and a steady launch pipeline, we expect MSIL to continue outperforming the PV industry over our forecast period. We factor in MSIL to post a 7% volume CAGR over FY24-26E.

- MSIL’s multi-tech approach suits Indian needs:** MSIL is probably the only domestic player that is working on multiple technologies to achieve its emission targets. In CNG, MSIL is a dominant market leader, and in PVs, the contribution from CNG increased to 24% in FY24 (to 450k units), with a target of selling 600k units in FY25E. It has also introduced strong hybrids in Grand Vitara and Invicto in partnership with Toyota. Given this, the contribution from green vehicles (CNG + smart hybrid + mild hybrid) has increased to 42% in FY24 from 37% YoY. Apart from this, it will also launch its first EV in the current fiscal, and has a clear roadmap to launch six new EVs up to 2031. MSIL is also working on vehicles compliant with flex fuels. While the company expects the share of ICE vehicles to decrease to 60% by FY31, it anticipates that ICE vehicles will include CNG, biogas, flex fuel vehicles, ethanol, and blended fuel vehicles. Of the balance, hybrids would contribute 25% (from under 1% currently), while BEVs would garner the remaining 15% share. MSIL also expects the share of petrol to reduce to 28% by this time from 80% in FY23. It also anticipates the share of alternate fuels to increase to 32% by FY31-end from 19% in FY23. Given the Indian demographics, we believe, this multi-tech approach is best suited for the country. Needless to say, MSIL would emerge as the major beneficiary if government considers a tax benefit on any of these technologies (hybrid or flex fuels), in the coming years.
- Recovery in operating performance under way:** In FY24, MSIL witnessed a strong 220bp margin improvement to 11.6%, which was driven by: 1) low input costs; 2) improved product mix; 3) operating leverage benefits led by strong demand for new launches. MSIL’s UV mix has improved to 36.5% for FY24 from 22.8% in FY23. While the bulk of the input cost benefits are likely to be behind us, we expect MSIL to post about 120bp margin improvement over FY24-26E (to ~12.8%), primarily led by an improved mix. This would in turn drive a steady 15% earnings CAGR over FY24-26E.
- Valuation and view:** While the domestic PV industry is likely to see some slowdown, we anticipate that MSIL will continue to outperform the industry in FY25. Overall, we expect MSIL to post a 15% earnings CAGR over FY24-26. Besides, any government incentives for hybrid or flex fuels are likely to lead to a re-rating of MSIL in the future, as it is the primary beneficiary of such initiatives. **The stock trades at 25.7x/22.7x FY25E/FY26E consolidated EPS. Reiterate BUY with a TP of INR14,700 (premised on 26x FY26E EPS).**

**Exhibit 1: MSIL has gained healthy market share in SUVs**

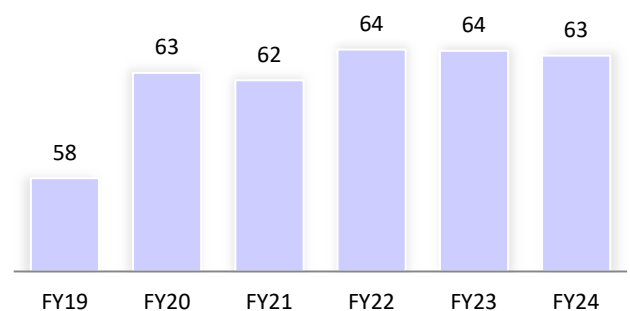
■ MSIL's market share in SUVs %



Source: SIAM, MOFSL

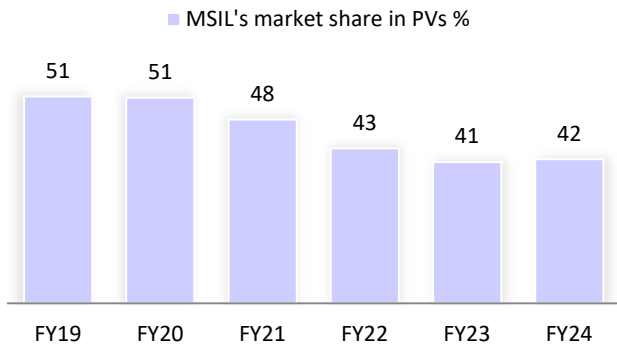
**Exhibit 2: Market share in pass car category remains intact**

■ MSIL's market share in passenger cars %



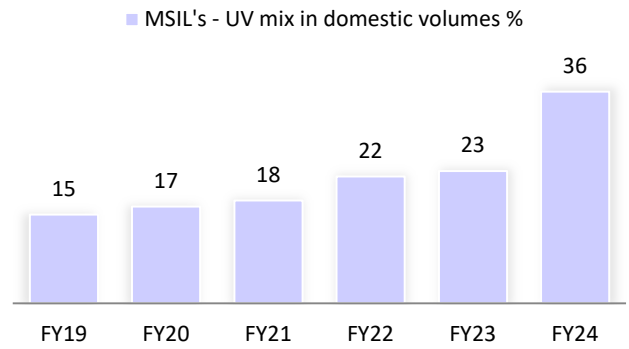
Source: SIAM, MOFSL

**Exhibit 3: Relatively slower improvement in PV share**



Source: SIAM, MOFSL

**Exhibit 4: MSIL UV mix has been gradually rising**



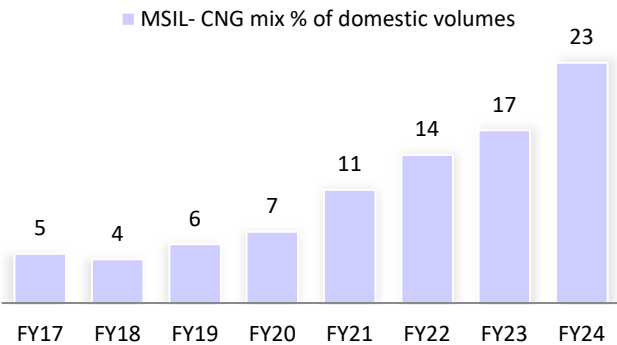
Source: SIAM, MOFSL

**Exhibit 5: MSIL well prepared to adapt to changing technology trends**

Category	Rating (out of 5)	Factors driving the ratings
Premiumization	● ● ●	<ul style="list-style-type: none"> <li>❖ MSIL has regained back its leadership position in UVs in FY24 on the back of strong demand for new launches</li> <li>❖ It targets to continue to focus on ramping up presence further in the UV segment.</li> <li>❖ Based on the similar parameters, we have rated M&amp;M and TTMT – 3 each, in line with MSIL</li> </ul>
Preparedness for technology shift	● ● ● ● ●	<ul style="list-style-type: none"> <li>❖ MSIL is the only player in India who is working on all the relevant technologies to reduce emissions including CNG, hybrid, flex fuels and EVs.</li> <li>❖ Based on the similar parameters, we have rated M&amp;M- 3 and TTMT- 4</li> </ul>

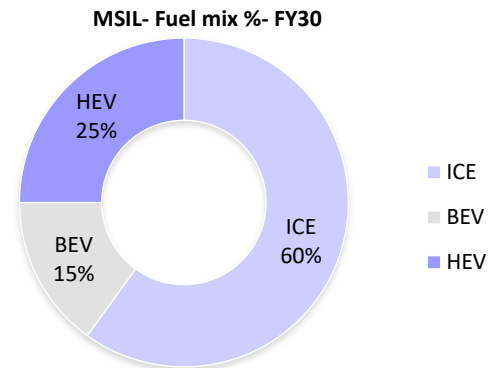
Source: Industry, MOFSL

**Exhibit 6: MSIL- Increasing CNG mix over the years**



Source: Company, MOFSL

**Exhibit 7: MSIL targets EV mix to reach 40% by FY30**



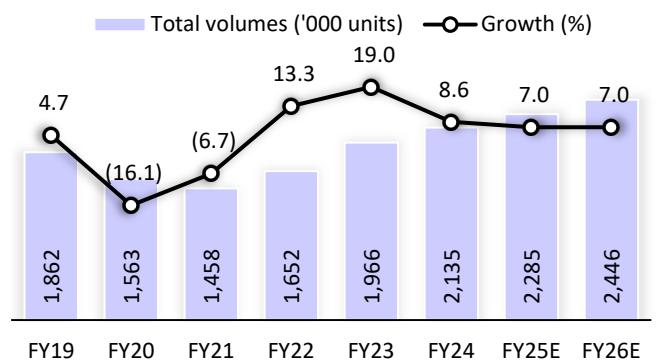
Source: Company, MOFSL

**Exhibit 8: MSIL regains back in UVs in FY24**

MSIL- Market share %	FY19	FY20	FY21	FY22	FY23	FY24
Pass cars	58	63	62	64	64	63
SUVs	28	25	22	20	18	25
Vans	82	90	97	96	94	92
Overall	51	51	48	43	41	42

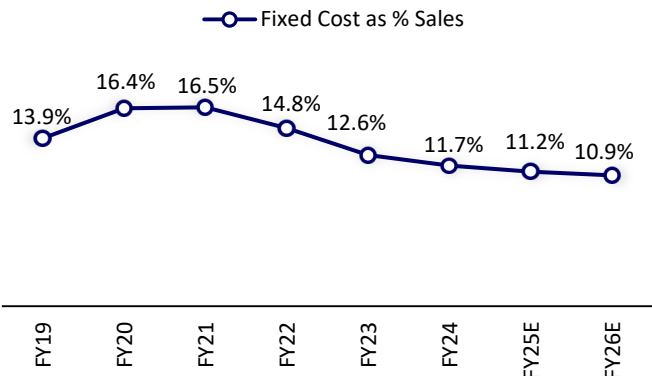
\*Excluding supplies to Toyota; Source: SIAM, MOFSL

**Exhibit 9: Trends in volume and growth over FY24-26E**



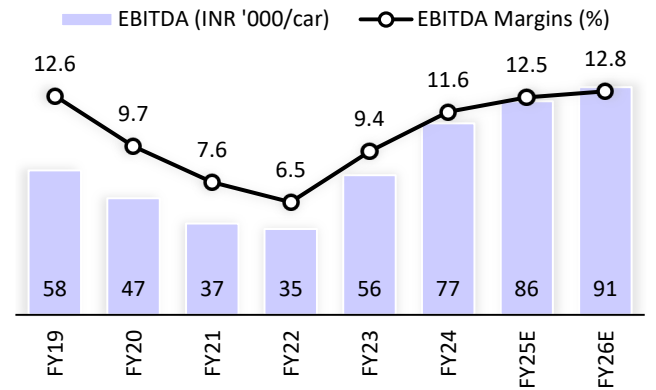
Source: Company, MOFSL

**Exhibit 10: Fixed cost as a percentage of sales**



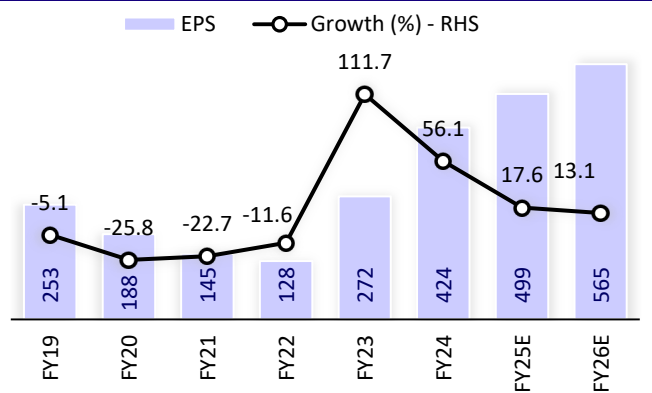
Source: Company, MOFSL

**Exhibit 11: EBITDA margin and EBITDA per car**



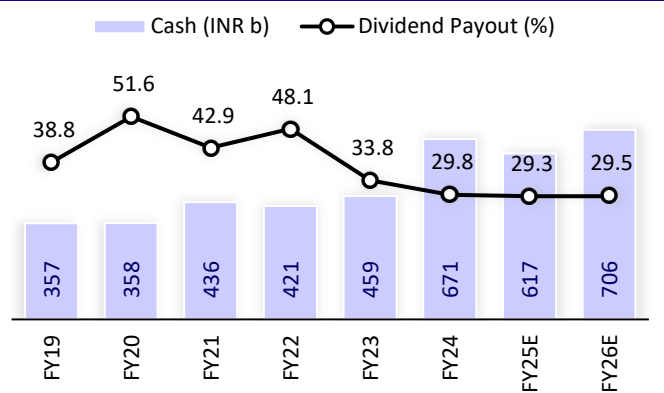
Source: Company, MOFSL

**Exhibit 12: EPS (INR) and growth in EPS**



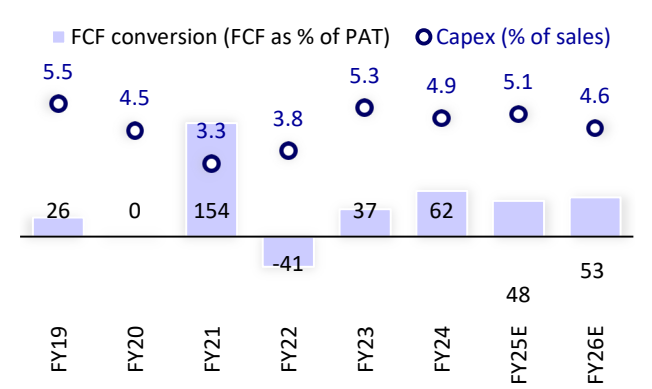
Source: MOFSL, Company

**Exhibit 13: Dividend payout (%) and cash balance (INR b)**



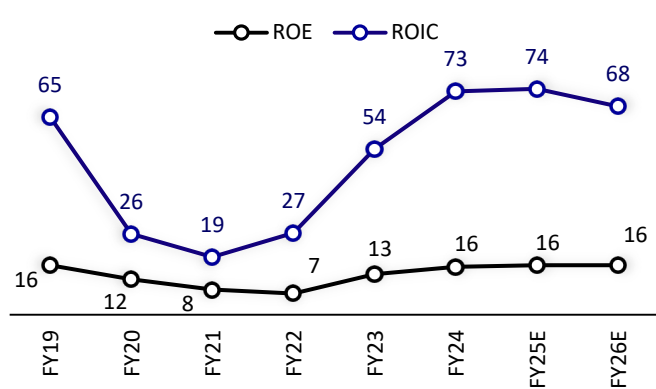
Source: MOFSL, Company

**Exhibit 14: FCF conversion trend**



Source: Company, MOFSL

**Exhibit 15: RoE vs. RoIC (%)**



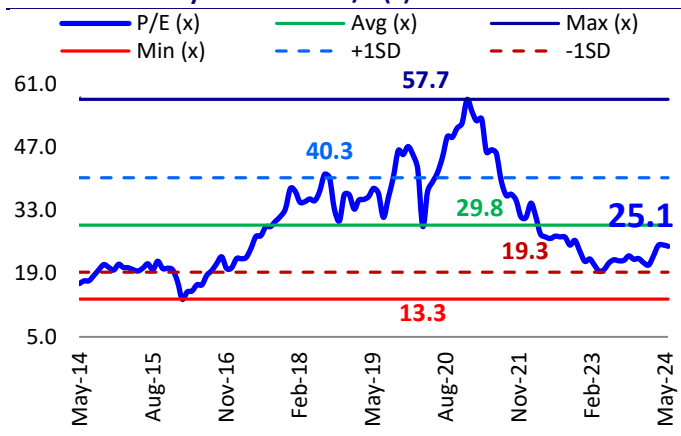
Source: Company, MOFSL

Exhibit 16: Snapshot of the revenue model

000 units	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
A1/LCVs	24	22	30	34	38	34	36	38
Growth (%)	138.0	-8.8	35.7	14.4	12.4	-11.2	6.0	7.0
% of Dom vols	1.4	1.5	2.2	2.4	2.2	1.8	1.8	1.8
MPV (Vans)	179	118	105	108	131	137	145	154
Growth (%)	15.1	-33.7	-11.3	3.1	21.1	4.5	6.0	6.0
% of Dom vols	10.2	8.1	7.7	7.7	7.7	7.4	7.4	7.3
A2 (other hatchbacks)	987	881	840	810	985	864	898	935
Growth (%)	5.5	-10.8	-4.6	-3.6	21.7	-12.3	3.9	4.1
% of Dom vols	56.3	60.3	61.7	57.3	57.7	46.7	45.4	44.2
A3 (Dzire, Ciaz)	300	204	142	145	164	175	181	187
Growth (%)	0.3	-31.9	-30.5	1.8	13.4	6.6	3.5	3.5
% of Dom vols	17.1	14.0	10.4	10.2	9.6	9.4	9.2	8.8
Uvs (Ertiga, Compact SUV)	264	235	245	317	388	642	717	802
Growth (%)	4.1	-10.9	4.3	29.3	22.4	65.4	11.6	11.9
% of Dom vols	15.1	16.1	18.0	22.4	22.8	34.7	36.3	37.9
<b>Total Domestic</b>	<b>1,754</b>	<b>1,460</b>	<b>1,362</b>	<b>1,414</b>	<b>1,707</b>	<b>1,852</b>	<b>1,977</b>	<b>2,116</b>
Growth (%)	6.1	-16.7	-6.7	3.8	20.7	8.5	6.7	7.1
% of Total vols	94.2	93.5	93.4	85.6	86.8	86.7	86.5	86.5
Exports	109	102	96	238	259	283	308	330
Growth (%)	-14	-6	-6	148	9	9	9	7
% of Total vols	6	7	7	14	13	13	13	13
<b>Total Volumes</b>	<b>1,862</b>	<b>1,563</b>	<b>1,458</b>	<b>1,652</b>	<b>1,966</b>	<b>2,135</b>	<b>2,285</b>	<b>2,446</b>
Growth (%)	4.7	-16.1	-6.7	13.3	19.0	8.6	7.0	7.0
<b>ASP (INR 000/unit)</b>	<b>462</b>	<b>484</b>	<b>482</b>	<b>534</b>	<b>598</b>	<b>660</b>	<b>688</b>	<b>713</b>
Growth (%)	3.0	4.8	-0.3	10.8	11.9	10.4	4.3	3.6
<b>Net Sales (INR b)</b>	<b>860</b>	<b>756</b>	<b>703</b>	<b>883</b>	<b>1,175</b>	<b>1,409</b>	<b>1,572</b>	<b>1,744</b>
Growth (%)	8	-12	-7	26	33	20	12	11

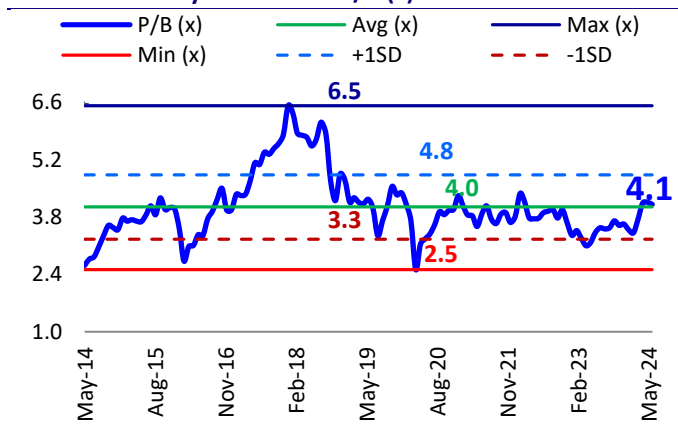
Source: MOFSL, Company

Exhibit 17: One-year forward P/E (x) band



Source: MOFSL

Exhibit 18: One-year forward P/B (x) band



Source: MOFSL

## Financials and valuations

### Standalone Income Statement

(INR Million)

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E
<b>Net Operating Income</b>	<b>8,60,203</b>	<b>7,56,106</b>	<b>7,03,325</b>	<b>8,82,956</b>	<b>11,75,229</b>	<b>14,09,326</b>	<b>15,72,386</b>	<b>17,44,043</b>
Change (%)	7.8	-12.1	-7.0	25.5	33.1	19.9	11.6	10.9
<b>EBITDA</b>	<b>1,07,993</b>	<b>73,026</b>	<b>53,453</b>	<b>57,012</b>	<b>1,10,077</b>	<b>1,64,011</b>	<b>1,96,007</b>	<b>2,23,603</b>
EBITDA Margins (%)	12.6	9.7	7.6	6.5	9.4	11.6	12.5	12.8
Depreciation	30,189	35,257	30,315	27,865	28,233	30,223	33,915	37,516
<b>EBIT</b>	<b>77,804</b>	<b>37,769</b>	<b>23,138</b>	<b>29,147</b>	<b>81,844</b>	<b>1,33,788</b>	<b>1,62,092</b>	<b>1,86,087</b>
EBIT Margins (%)	9.0	5.0	3.3	3.3	7.0	9.5	10.3	10.7
Interest	758	1,329	1,008	1,259	1,866	1,932	1,480	1,480
Other Income	25,610	34,208	29,464	17,935	21,613	38,548	39,908	42,308
EO Expense	-2,000	0	0	0	0	0	0	0
<b>PBT</b>	<b>1,04,656</b>	<b>70,648</b>	<b>51,594</b>	<b>45,823</b>	<b>1,01,591</b>	<b>1,70,404</b>	<b>2,00,519</b>	<b>2,26,915</b>
Effective tax Rate (%)	28.3	20.0	18.0	17.8	20.8	22.5	22.5	22.5
<b>PAT</b>	<b>75,006</b>	<b>56,506</b>	<b>42,297</b>	<b>37,663</b>	<b>80,492</b>	<b>1,32,094</b>	<b>1,55,403</b>	<b>1,75,859</b>
<b>Adj. PAT</b>	<b>73,573</b>	<b>56,506</b>	<b>42,297</b>	<b>37,663</b>	<b>80,492</b>	<b>1,32,094</b>	<b>1,55,403</b>	<b>1,75,859</b>
Change (%)	-6.8	-23.2	-25.1	-11.0	113.7	64.1	17.6	13.2

### Standalone Balance Sheet

(INR Million)

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E
<b>Sources of Funds</b>								
Share Capital	1,510	1,510	1,510	1,510	1,510	1,572	1,572	1,572
Reserves	4,59,905	4,82,860	5,12,158	5,39,350	6,02,310	8,38,248	9,54,351	10,84,622
<b>Net Worth</b>	<b>4,61,415</b>	<b>4,84,370</b>	<b>5,13,668</b>	<b>5,40,860</b>	<b>6,03,820</b>	<b>8,39,820</b>	<b>9,55,923</b>	<b>10,86,194</b>
Loans	1,496	1,063	4,888	3,819	12,158	331	331	331
Deferred Tax Liability	5,640	5,984	3,847	-2,027	-3,411	-1,124	-1,124	-1,124
<b>Capital Employed</b>	<b>4,68,551</b>	<b>4,91,417</b>	<b>5,22,403</b>	<b>5,42,652</b>	<b>6,12,567</b>	<b>8,39,027</b>	<b>9,55,130</b>	<b>10,85,401</b>
<b>Application of Funds</b>								
Gross Fixed Assets	2,63,293	2,97,260	3,14,553	3,24,892	3,89,704	4,26,831	5,42,170	6,12,170
Less: Depreciation	1,09,215	1,40,157	1,64,983	1,87,719	2,11,655	2,41,878	2,75,793	3,13,309
<b>Net Fixed Assets</b>	<b>1,54,078</b>	<b>1,57,103</b>	<b>1,49,570</b>	<b>1,37,173</b>	<b>1,78,049</b>	<b>1,84,953</b>	<b>2,66,377</b>	<b>2,98,861</b>
Capital WIP	16,001	14,083	14,898	29,294	28,970	65,339	30,000	40,000
Investments	3,65,150	3,64,676	4,17,867	4,07,633	4,77,564	6,85,137	7,55,137	8,45,137
<b>Curr.Assets, Loans</b>	<b>89,815</b>	<b>84,390</b>	<b>1,12,943</b>	<b>1,52,387</b>	<b>1,38,064</b>	<b>1,60,856</b>	<b>1,85,821</b>	<b>2,04,598</b>
Inventory	33,257	32,149	30,500	35,331	42,838	41,196	64,619	71,673
Sundry Debtors	23,104	21,270	12,766	20,301	32,958	46,013	43,079	47,782
Cash & Bank Balances	1,789	211	30,364	30,362	377	4,600	9,077	7,850
Loans & Advances	5,126	5,246	6,642	307	299	328	328	328
Others	26,539	25,514	32,671	66,086	61,592	68,719	68,719	76,965
<b>Current Liab &amp; Prov.</b>	<b>1,56,493</b>	<b>1,28,835</b>	<b>1,72,875</b>	<b>1,83,835</b>	<b>2,10,080</b>	<b>2,57,258</b>	<b>2,82,206</b>	<b>3,03,196</b>
Sundry Creditors	96,330	74,941	1,01,617	97,610	1,17,804	1,45,824	1,72,316	1,91,128
Others	51,069	44,889	60,252	71,104	75,939	91,329	91,329	91,329
Provisions	9,094	9,005	11,006	15,121	16,337	20,105	18,560	20,739
<b>Net Current Assets</b>	<b>-66,678</b>	<b>-44,445</b>	<b>-59,932</b>	<b>-31,448</b>	<b>-72,016</b>	<b>-96,402</b>	<b>-96,384</b>	<b>-98,597</b>
<b>Appl. of Funds</b>	<b>4,68,551</b>	<b>4,91,417</b>	<b>5,22,403</b>	<b>5,42,652</b>	<b>6,12,567</b>	<b>8,39,027</b>	<b>9,55,130</b>	<b>10,85,401</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E
<b>Basic (INR)</b>								
Adjusted EPS	243.6	187.1	140.0	124.7	266.5	420.1	494.3	559.3
Consol EPS	253.3	188.0	145.3	128.4	271.8	424.4	499.0	564.6
Cash EPS	353.2	304.7	245.7	220.7	365.3	520.5	606.9	683.9
Book Value per Share	1,527	1,603	1,700	1,790	1,999	2,671	3,040	3,455
DPS	80.0	60.0	45.0	60.0	90.0	125.0	145.0	165.0
Div. payout (%)	38.8	38.5	31.0	46.7	33.1	29.5	29.1	29.2
<b>Valuation (x)</b>								
Consol. P/E	50.6	68.2	88.2	99.8	47.1	30.2	25.7	22.7
Cash P/E	36.3	42.1	52.2	58.1	35.1	24.6	21.1	18.7
EV/EBITDA	32.5	48.0	64.1	60.3	30.9	20.4	16.7	14.2
EV/Sales	4.2	4.9	5.1	4.1	3.0	2.5	2.2	1.9
P/BV	8.4	8.0	7.5	7.2	6.4	4.8	4.2	3.7
Dividend Yield (%)	0.6	0.5	0.4	0.5	0.7	1.0	1.1	1.3
FCF Yield (%)	0.5	0.0	1.6	-0.4	0.7	2.0	1.9	2.3
<b>Profitability Ratios (%)</b>								
RoIC	64.7	26.5	18.9	26.8	54.2	73.1	73.9	68.1
RoE	16.3	11.7	8.2	7.0	13.3	15.7	16.3	16.2
RoCE	22.1	14.6	10.1	8.7	16.9	20.5	21.1	21.0
<b>Turnover Ratios</b>								
Debtors (Days)	10	11	7	9	11	12	10	10
Inventory (Days)	16	17	17	16	15	12	17	17
Creditors (Days)	59	51	73	54	50	53	56	56
Work. Cap. (Days)	-33	-23	-49	-29	-24	-28	-29	-29
Asset Turnover (x)	1.8	1.5	1.3	1.6	1.9	1.7	1.6	1.6
<b>Leverage Ratio</b>								
Net Debt/Equity (x)	-0.8	-0.7	-0.8	-0.8	-0.7	-0.8	-0.6	-0.6

### Standalone Cash Flow Statement

(INR Million)

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E
Profit before Tax	1,04,656	70,948	51,594	45,823	1,01,591	1,70,404	2,00,519	2,26,915
Interest	758	1,329	1,008	1,259	1,866	1,932	1,480	1,480
Depreciation	30,189	35,257	30,315	27,865	28,233	30,223	33,915	37,516
Direct Taxes Paid	-31,428	-14,357	-10,107	-11,769	-22,313	-35,557	-45,117	-51,056
(Inc)/Dec in WC	-13,196	-25,659	43,352	-28,098	3,787	22,777	4,459	986
Other Items	-25,047	-33,467	-27,774	-17,168	-20,884	-38,109	-39,908	-42,308
<b>CF from Oper. Activity</b>	<b>65,932</b>	<b>34,051</b>	<b>88,388</b>	<b>17,912</b>	<b>92,280</b>	<b>1,51,670</b>	<b>1,55,349</b>	<b>1,73,534</b>
(Inc)/Dec in FA	-47,000	-33,990	-23,279	-33,227	-62,474	-69,637	-80,000	-80,000
<b>Free Cash Flow</b>	<b>18,932</b>	<b>61</b>	<b>65,109</b>	<b>-15,315</b>	<b>29,806</b>	<b>82,033</b>	<b>75,349</b>	<b>93,534</b>
(Pur)/Sale of Invest.	11,617	29,351	-49,560	31,337	-17,708	-37,191	-30,092	-47,692
<b>CF from Inv. Activity</b>	<b>-35,383</b>	<b>-4,639</b>	<b>-72,839</b>	<b>-1,890</b>	<b>-80,182</b>	<b>-1,06,828</b>	<b>-1,10,092</b>	<b>-1,27,692</b>
Change in Networth	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	388	-524	3,723	-1,140	7,895	-11,960	0	0
Interest Paid	-732	-1,342	-1,006	-1,291	-1,854	-1,472	-1,480	-1,480
Dividends Paid	-29,134	-29,134	-18,125	-13,594	-18,125	-27,187	-39,300	-45,588
<b>CF from Fin. Activity</b>	<b>-29,478</b>	<b>-31,000</b>	<b>-15,408</b>	<b>-16,025</b>	<b>-12,084</b>	<b>-40,619</b>	<b>-40,780</b>	<b>-47,068</b>
<b>Inc/(Dec) in Cash</b>	<b>1,071</b>	<b>-1,588</b>	<b>141</b>	<b>-3</b>	<b>14</b>	<b>4,223</b>	<b>4,477</b>	<b>-1,226</b>
Add: Op. Balance	699	1,770	182	323	320	334	4,557	9,034
<b>Closing Balance</b>	<b>1,770</b>	<b>182</b>	<b>323</b>	<b>320</b>	<b>334</b>	<b>4,557</b>	<b>9,034</b>	<b>7,807</b>

E: MOFSL Estimates

## Ashok Leyland

BSE SENSEX  
73,105S&P CNX  
22,218

CMP: INR205

TP: INR240 (+17%)

Buy



ASHOK LEYLAND

## Stock Info

Bloomberg	AL IN
Equity Shares (m)	2936
M.Cap.(INRb)/(USDb)	600.6 / 7.2
52-Week Range (INR)	206 / 144
1, 6, 12 Rel. Per (%)	16/3/15
12M Avg Val (INR M)	2693
Free float (%)	48.9

## Financials Snapshot (INR b)

Y/E March	2024E	2025E	2026E
Sales	382.9	422.2	468.0
EBITDA	44.9	50.5	56.1
Adj. PAT	25.5	32.0	36.7
Adj. EPS (INR)	8.7	10.9	12.5
EPS Gr. (%)	92.2	25.7	14.7
BV/Sh. (INR)	35.3	43.2	51.7

## Ratios

RoE (%)	27.1	27.8	26.3
RoCE (%)	20.8	22.5	22.6
Payout (%)	23.1	27.5	32.0

## Valuations

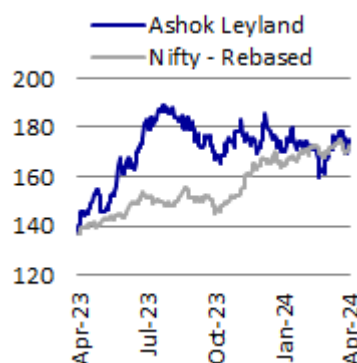
P/E (x)	23.6	18.8	16.4
P/BV (x)	5.8	4.7	4.0
EV/EBITDA (x)	13.4	11.6	10.0
Div Yield (%)	1.0	1.5	2.0

## Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	51.1	51.1	51.1
DII	12.2	14.6	22.1
FII	22.1	21.1	15.5
Others	14.6	13.2	11.3

FII Includes depository receipts

## Stock Performance (1-year)








## Focusing on profitable growth

Over the years, Ashok Leyland (AL) has done well to reduce its business cyclicality by focusing on non-MHCV segments such as LCV (12% of sales), Spares (7%), Exports (5%) and Defense (1%). Together, these segments now contribute to almost 25% of revenue, up from 21% in FY19. Further, while there has been some slowdown in the demand for CVs in the last few months, we believe this is largely due to the pre-election-led slowdown. We anticipate CV demand to revive from 2HFY25, as its key growth drivers (e.g., high replacement age, healthy fleet operator profitability, and the expectation of a stable government at the Center) are in place. Moreover, AL has set ambitious growth targets in the medium term, which include: market share gains in MHCV Goods to 35% from 31% currently; market share improvement in LCV Goods (2-3.5T) to 25% from 20% currently; and expansion in margins to the mid-teens. Beyond its growth aspirations, one other factor to highlight is that the CV industry is now witnessing healthy pricing discipline, which is evident in the record-high margins that all OEMs are posting in FY24. AL has recently underperformed the Auto index due to concerns of a slowing CV cycle, which we believe is transitory. We have raised our earnings estimates by 4-6% over FY25-26E. Maintain BUY on AL with a revised TP of INR240 per share (earlier INR 210 per share).

- Focused on reducing business cyclicality:** Over the years, AL has done well to reduce its business cyclicality by focusing on non-MHCV segments such as LCV (12% of sales), Spares (7%), Exports (5%) and Defense (1%). Some of its critical targets in these segments include: 1) a mid-term goal to achieve a 25% share in the LCV sub-segment (2-3.5T), up from 20% currently; 2) having already doubled its revenue in spares over the last five years, the next objective is to further double its revenue over the medium term; 3) increasing its presence in exports through new launches and expanding its footprint in key regions; and 4) the potential to significantly scale up its defense business, aided by the government's 'Make In India' initiative. Overall, tenders won in the land mobility business over the last 5 years are to the tune of INR 20bn and they expect to further win tenders of about INR 35bn over the next 3 years.
- CV demand likely to revive from 2HFY25 after the near-term hiccups:** The domestic CV industry has been witnessing weak demand over the last few months, largely due to: 1) postponement of new projects on account of the upcoming elections; and 2) high base of 2HFY24. However, we believe that the underlying long-term demand drivers remain intact, as: 1) the average fleet age has surged to a record high of over nine years, which is likely to fuel healthy replacement demand; 2) fleet operators' profitability remains strong with healthy utilization levels (and they have been able to pass on the rising cost pressure to end-consumers in the recent past); 3) the fleet sentiment index remains positive, indicating a growing optimism among fleet operators regarding the future business prospects; and 4) there is a high probability of political stability, which would mean continued infrastructure push in the coming years, as observed in the past decade. Taking these factors into consideration, there is a strong indication that the CV industry is poised for a recovery in demand, especially from 2HFY25, after the Union Budget is unveiled.

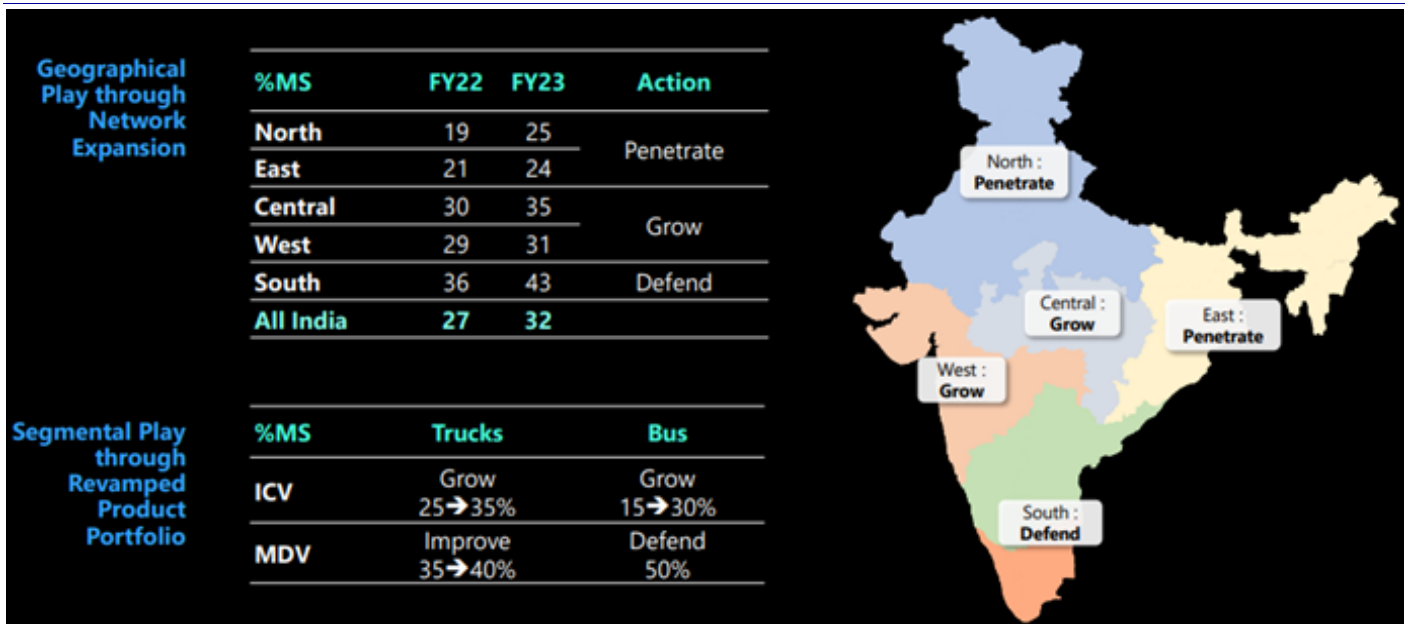
- **Strategy in place to gain market share in key segments:** On the back of the first-of-its-kind modular platform, AL has made significant strides in the MHCV Goods category, achieving ~31% market share in FY24 vs. ~28% in FY21. AL has earmarked an ambitious target to achieve a 35% share in the medium term. Apart from a healthy launch pipeline, AL's strategy focuses on ramping up presence in its weak markets, defending its strong market share in South, growing the West and Central regions into strongholds, and accelerating growth in North and East markets. Accordingly, AL aims to expand its MHCV outlets to 875 units from 809 in FY23 (vs. 679 in FY21). Even in the LCV Goods segment, AL has set a target to ramp-up its market share to 25% (from 20% currently) in the 2-3.5T segment. This growth is likely to be driven by the launch of new products and the resultant expansion of its addressable market, which currently stands at just over 50% and is projected to exceed 60% by FY25. The company also aims to expand its presence in the North and East regions by increasing the number of LCV dealer outlets to 350 by FY25, from 187 in FY23.
- **Aiming for profitable growth:** One of the key factors in the CV industry has been the healthy pricing discipline that the sector has maintained even in FY24, at a time when industry volumes were flat YoY. While a sharp reduction in input costs has been beneficial, it is important to note that discounts are now well under control. This has in turn led to an improvement in industry margins by 300bp in FY24 on YoY basis. Beyond this, AL aims to improve its medium-term margins to mid-teen levels fueled by: 1) growth in the non-MHCV business (including LCVs, defense, spares, etc.), which will also help reduce its business cyclicality; and 2) value engineering backed by Industry 4.0 and optimizing automation wherever feasible. However, we also remain cognizant of the fact that input costs are at the bottom currently and there is a risk of the same rising in the coming years. We hence expect margins to improve at a slower pace by about 30bps to about 12% by FY26E.
- **Valuation & View:** Over the last 12 months, AL has underperformed the Auto Index as investors remained concerned about a weakening in CV demand. However, we believe these concerns are overdone as this slowdown is likely to be near-term in nature and demand is expected to rebound from 2HFY25 onwards. After its underperformance, the stock is attractively valued at 16.4x FY26E P/E and 10.0x EV/EBITDA. **Reiterate BUY with a revised TP of INR240 (based on 11x Mar'26E EV/EBITDA + ~INR14.5/sh for the NBFC).**

Exhibit 19: AL's new energy portfolio – to be ready in the next 1.5 years across fuel types and segments

									
				Diesel	CNG	LNG	H <sub>2</sub> ICE	H <sub>2</sub> FC	BEV
<b>M&amp;HCV Trucks</b>		AVTR		OTHER MODELS					
<b>Long Haul Trucks</b>		AVTR		OTHER MODELS					
<b>ICV Truck</b>		E-Comet		BOSS					
<b>LCV Goods</b>		Dost		Bada Dost		Partner			
<b>MCV Bus</b>		Viking		ULE / EIV12		EIV22			
<b>Long Haul Coach</b>		13.5 m		15 m					
<b>ICV Bus</b>		Oyster		Sunshine					
<b>LCV Passenger</b>		Mitr		EIV7					

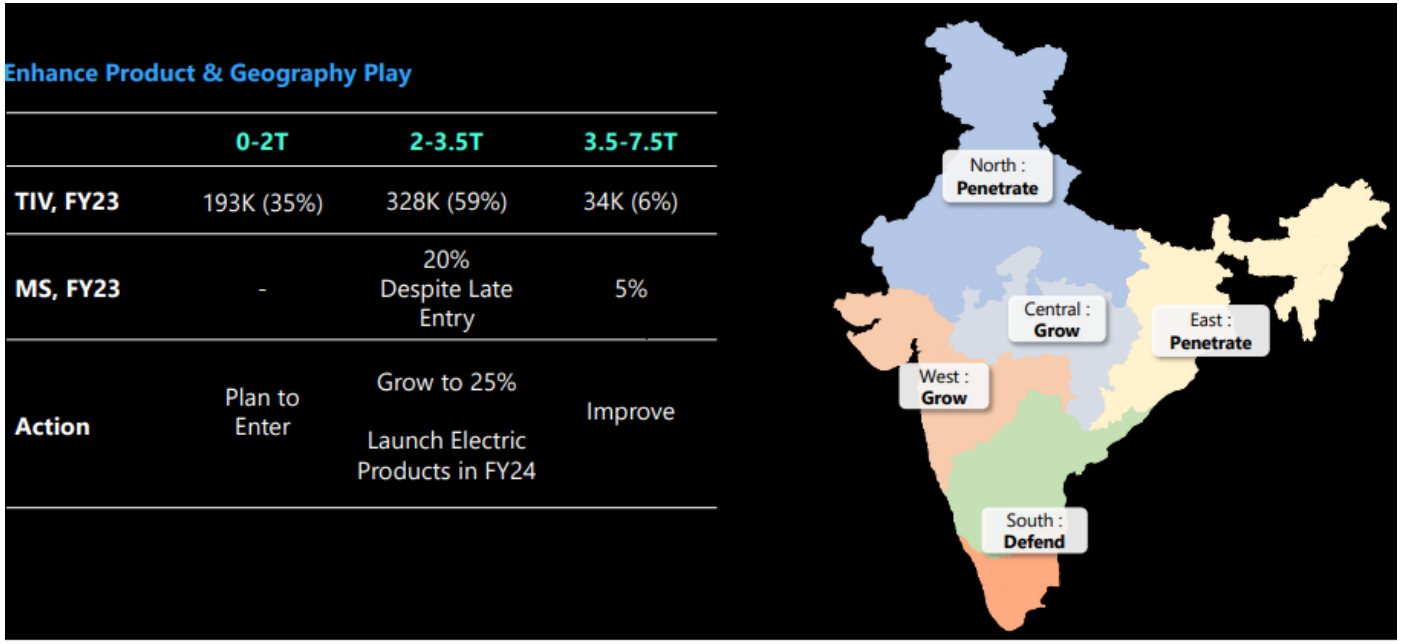
Source: Company, MOFSL

Exhibit 20: Aims to expand in less-penetrated areas



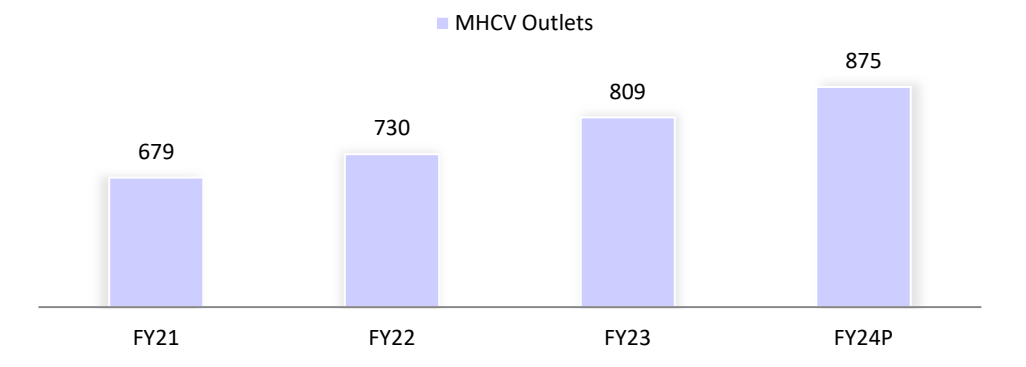
Source: Company, MOFSL

Exhibit 21: Aims to become a full-range player in the LCV business



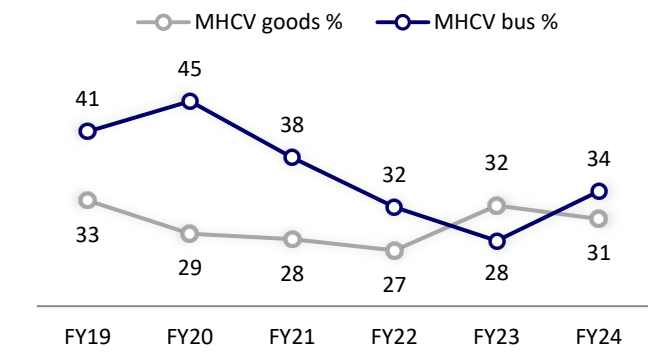
Source: Company, MOFSL

Exhibit 22: Rapid network expansion with focus on North, East and key mining pockets



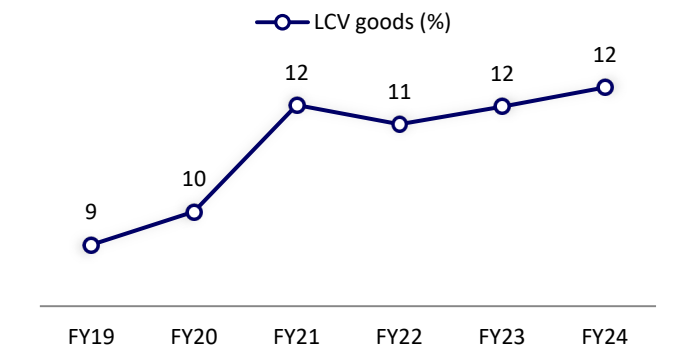
Source: Company, MOFSL

Exhibit 23: AL's market share in MHCV segment



Source: Company, MOFSL

Exhibit 24: AL's market share in LCV goods



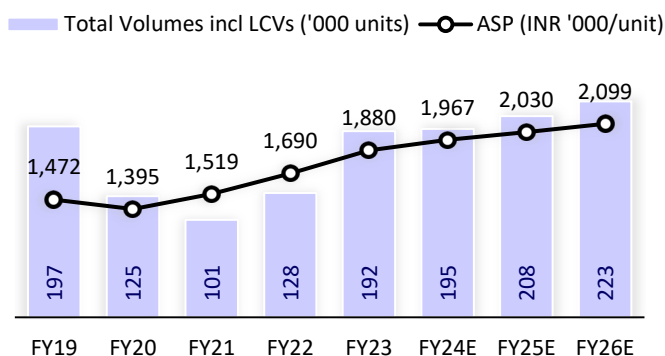
Source: Company, MOFSL

**Exhibit 25: Snapshot of Revenue model**

000 units	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>HCV Passenger (units)</b>	20	23	6	8	18	25	28	32
Growth (%)	-1.7	17.4	-75.7	37.7	135.1	34.5	15	12.8
<b>HCV Goods (units)</b>	123	55	46	66	106	100	105	112
Growth (%)	10.6	-55.1	-16.5	43.2	60.1	-5.3	5.1	6.2
<b>LCVs (units)</b>	55	47	49	54	68	70	74	79
Growth (%)	40.8	-76.7	137.3	-55	386.3	-12.4	7.7	7.1
<b>Total M&amp;HCV volumes (units)</b>	143	79	52	74	124	125	134	144
Growth (%)	8.7	-45	-34.1	42.6	68	0.6	7.1	7.6
<b>Total Volumes incl LCVs</b>	197	125	101	128	192	195	208	223
Growth (%)	12.9	-36.5	-19.6	27.4	49.8	1.3	6.8	7.2
<b>ASP (INR '000/unit)</b>	1,472	1,395	1,519	1,690	1,880	1,967	2,030	2,099
Growth (%)	-2.3	-5.3	8.9	11.2	11.3	4.6	3.2	3.4
<b>Net Sales (INR b)</b>	291	175	153	217	361	383	422	468
Growth (%)	10.2	-39.9	-12.4	41.7	66.7	5.9	10.3	10.8

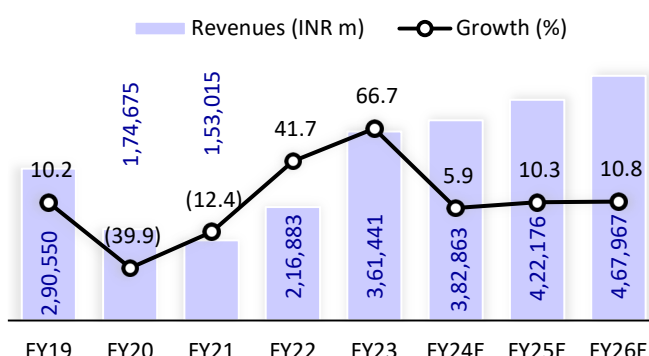
Source: Company, MOFSL

**Exhibit 26: Volume and realization growth trends**



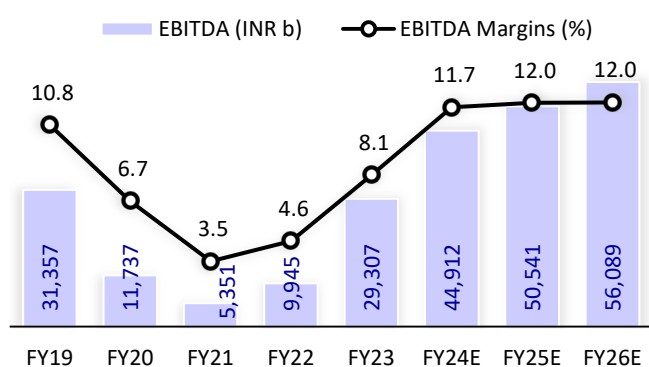
Source: Company, MOFSL

**Exhibit 27: Revenue growth trend**



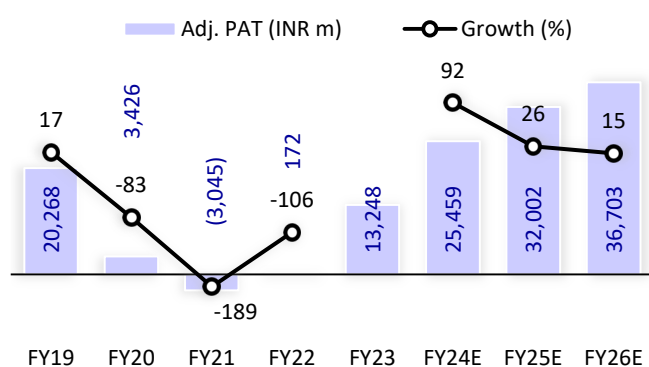
Source: Company, MOFSL

**Exhibit 28: EBITDA and EBITDA margin trend**



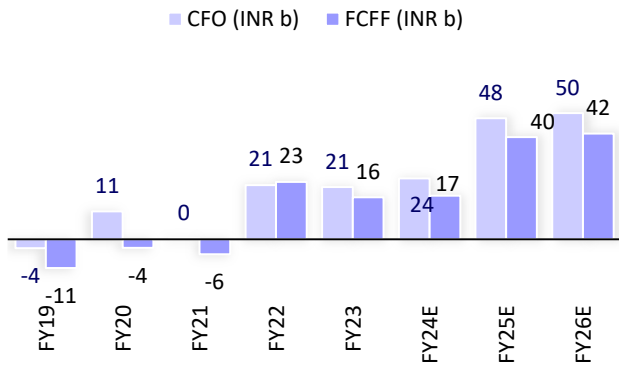
Source: Company, MOFSL

**Exhibit 29: Adj. PAT and growth trend**



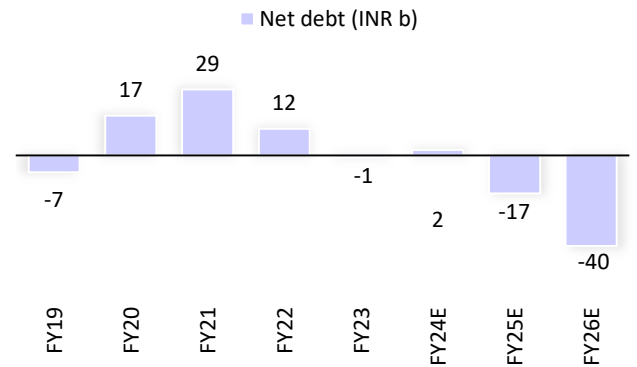
Source: Company, MOFSL

**Exhibit 30: CFO and FCFF trends**



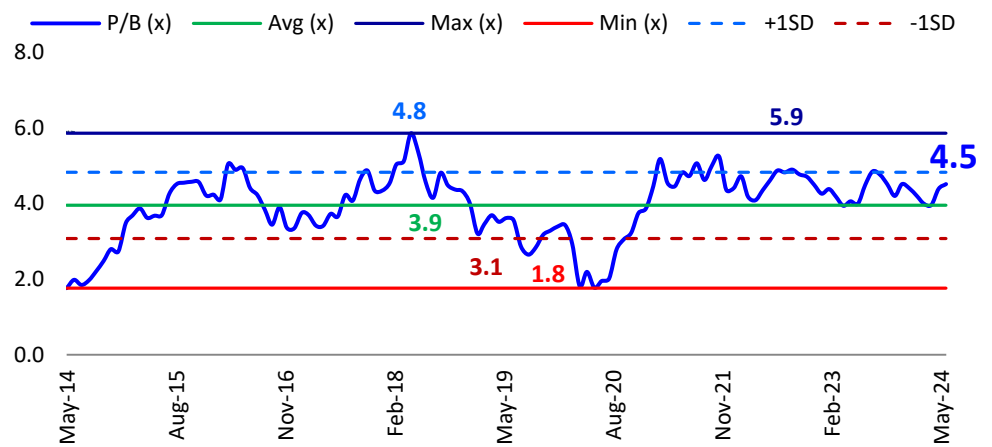
Source: Company, MOFSL

**Exhibit 31: AL's net debt likely to decline in FY25**



Source: Company, MOFSL

**Exhibit 32: AL's trend in P/B (x)**



Source: MOFSL

## Financials and valuations

Income Statement		(INR Million)						
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Volumes ('000 units)	197	125	101	128	192	195	208	223
Growth (%)	12.9	-36.5	-19.6	27.4	49.8	1.3	6.8	7.2
<b>Net Operating Income</b>	<b>2,90,550</b>	<b>1,74,675</b>	<b>1,53,015</b>	<b>2,16,883</b>	<b>3,61,441</b>	<b>3,82,863</b>	<b>4,22,176</b>	<b>4,67,967</b>
Change (%)	10.2	-39.9	-12.4	41.7	66.7	5.9	10.3	10.8
<b>EBITDA</b>	<b>31,357</b>	<b>11,737</b>	<b>5,351</b>	<b>9,945</b>	<b>29,307</b>	<b>44,912</b>	<b>50,541</b>	<b>56,089</b>
EBITDA Margins (%)	10.8	6.7	3.5	4.6	8.1	11.7	12.0	12.0
Depreciation	6,210	6,698	7,477	7,528	7,320	7,181	7,444	7,816
<b>EBIT</b>	<b>25,147</b>	<b>5,039</b>	<b>-2,126</b>	<b>2,418</b>	<b>21,987</b>	<b>37,731</b>	<b>43,097</b>	<b>48,273</b>
Interest & Fin. Charges	704	1,095	3,068	3,011	2,891	2,660	2,284	1,895
Other Income	1,099	1,233	1,195	761	1,161	1,640	1,970	2,690
<b>PBT</b>	<b>24,968</b>	<b>3,619</b>	<b>-4,119</b>	<b>5,276</b>	<b>21,104</b>	<b>36,470</b>	<b>42,783</b>	<b>49,069</b>
Tax	5,136	1,224	(982)	(142)	7,303	11,178	10,781	12,365
Effective Rate (%)	20.6	33.8	23.8	-2.7	34.6	30.7	25.2	25.2
<b>Rep. PAT</b>	<b>19,832</b>	<b>2,395</b>	<b>-3,137</b>	<b>5,418</b>	<b>13,801</b>	<b>25,292</b>	<b>32,002</b>	<b>36,703</b>
Change (%)	15.5	-87.9	-231.0	-272.7	154.7	83.3	26.5	14.7
% of Net Sales	6.8	1.4	-2.0	2.5	154.7	83.3	26.5	14.7
<b>Adjusted PAT</b>	<b>20,268</b>	<b>3,426</b>	<b>-3,045</b>	<b>172</b>	<b>13,248</b>	<b>25,459</b>	<b>32,002</b>	<b>36,703</b>
Change (%)	16.8	-83.1	-188.9	-105.7	7,587.8	92.2	25.7	14.7

Balance Sheet		(INR Million)						
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Share Capital	2,936	2,936	2,936	2,936	2,936	2,936	2,936	2,936
Reserves	80,389	69,704	66,837	70,434	81,322	1,00,742	1,23,935	1,48,894
<b>Net Worth</b>	<b>83,324</b>	<b>72,640</b>	<b>69,772</b>	<b>73,369</b>	<b>84,258</b>	<b>1,03,678</b>	<b>1,26,872</b>	<b>1,51,831</b>
Loans	6,324	30,648	37,163	35,071	31,801	32,301	24,801	17,301
Deferred Tax Liability	2,497	2,648	1,708	1,444	5,035	5,035	7,174	9,628
<b>Capital Employed</b>	<b>92,145</b>	<b>1,05,936</b>	<b>1,08,642</b>	<b>1,09,884</b>	<b>1,21,094</b>	<b>1,41,014</b>	<b>1,58,847</b>	<b>1,78,759</b>
Gross Fixed Assets	71,437	91,913	1,01,269	1,03,773	1,07,732	1,12,557	1,20,057	1,28,057
Less: Depreciation	19,791	28,376	35,264	41,626	48,470	55,651	63,095	70,910
<b>Net Fixed Assets</b>	<b>51,646</b>	<b>63,537</b>	<b>66,005</b>	<b>62,146</b>	<b>59,262</b>	<b>56,906</b>	<b>56,962</b>	<b>57,146</b>
Capital WIP	6,576	5,941	3,719	1,943	1,325	3,000	3,000	3,000
Goodwill	4,499	4,499	4,499	4,499	4,499	4,499	4,499	4,499
Investments	26,365	27,196	30,687	48,196	66,636	78,636	88,636	1,03,636
<b>Curr.Assets, L &amp; Adv.</b>	<b>93,158</b>	<b>62,723</b>	<b>79,590</b>	<b>86,554</b>	<b>94,194</b>	<b>1,15,455</b>	<b>1,35,294</b>	<b>1,54,073</b>
Inventory	26,847	12,380	21,423	20,752	27,745	33,566	37,013	41,027
Sundry Debtors	25,055	11,804	28,163	31,111	40,627	41,958	46,266	51,284
Cash & Bank Balances	13,736	13,225	8,230	10,470	5,013	2,189	13,869	19,477
Loans & Advances	27,520	25,314	21,774	24,221	20,810	37,742	38,147	42,285
<b>Current Liab. &amp; Prov.</b>	<b>90,099</b>	<b>57,960</b>	<b>75,857</b>	<b>93,454</b>	<b>1,04,822</b>	<b>1,17,481</b>	<b>1,29,544</b>	<b>1,43,595</b>
Sundry Creditors	50,189	26,239	51,647	68,752	71,751	73,426	80,965	89,747
Other Liabilities	29,386	23,666	17,665	17,997	22,686	31,468	34,699	38,463
Provisions	10,524	8,055	6,545	6,705	10,385	12,587	13,880	15,385
<b>Application of Funds</b>	<b>92,145</b>	<b>1,05,936</b>	<b>1,08,642</b>	<b>1,09,884</b>	<b>1,21,094</b>	<b>1,41,014</b>	<b>1,58,847</b>	<b>1,78,759</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>Basic (INR)</b>								
EPS	6.9	1.2	-1.0	0.1	4.5	8.7	10.9	12.5
EPS Fully Diluted	6.9	1.2	-1.0	0.1	4.5	8.7	10.9	12.5
EPS Growth (%)	16.4	-83.1	-188.9	-105.7	7,586.2	92.2	25.7	14.7
Cash EPS	9.0	3.4	1.5	2.6	7.0	11.1	13.4	15.2
Book Value per Share	28.4	24.7	23.8	25.0	28.7	35.3	43.2	51.7
DPS	3.4	0.5	0.6	1.0	2.6	2.0	3.0	4.0
Div. Payout (%)	59.4	51.5	-57.8	1,703.5	57.6	23.1	27.5	32.0
<b>Valuation (x)</b>								
P/E	25.0	148.0	-166.6	2,943.6	38.3	23.6	18.8	16.4
Cash P/E	19.2	50.1	114.4	65.9	24.7	18.4	15.2	13.5
EV/EBITDA	15.9	44.7	100.2	52.2	17.3	13.4	11.6	10.0
EV/Sales	1.7	3.0	3.5	2.4	1.4	1.6	1.4	1.2
Price to Book Value	6.1	7.0	7.3	6.9	6.0	5.8	4.7	4.0
Dividend Yield (%)	2.0	0.3	0.3	0.6	1.5	1.0	1.5	2.0
<b>Profitability Ratios (%)</b>								
ROE	26.0	4.4	-4.3	0.2	16.8	27.1	27.8	26.3
RoCE	23.2	4.2	-0.7	3.0	13.1	20.8	22.5	22.6
RoIC	64.0	6.3	-2.6	4.3	29.5	49.7	58.3	68.1
<b>Turnover Ratios</b>								
Debtors (Days)	31	25	67	52	41	40	40	40
Inventory (Days)	34	26	51	35	28	32	32	32
Creditors (Days)	63	55	123	116	72	70	70	70
Working Capital (Days)	2	-4	-5	-28	-3	2	2	2
Fixed-Asset Turnover (x)	5.6	2.7	2.3	3.5	6.1	6.7	7.4	8.2
<b>Leverage Ratio</b>								
Net Debt/Equity (x)	-0.1	0.2	0.4	0.2	0.0	0.0	-0.1	-0.3

### Cash flow Statement

(INR Million)

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
OP/(Loss) before Tax	24,968	3,619	-4,119	5,276	21,104	37,731	43,097	48,273
Int/Div Received	-413	-756	-945	-220	-404	1,640	1,970	2,690
Depreciation	6,210	6,698	7,477	7,528	7,320	7,181	7,444	7,816
Direct Taxes Paid	-5,603	-941	779	714	-4,002	-11,178	-8,642	-9,912
(Inc)/Dec in Work Cap.	-29,638	-1,756	-6,058	15,696	-4,265	-11,425	3,903	881
Other Items	853	4,105	3,198	-7,633	762	0	0	0
<b>CF from Oper. Activity</b>	<b>-3,624</b>	<b>10,969</b>	<b>332</b>	<b>21,361</b>	<b>20,514</b>	<b>23,949</b>	<b>47,772</b>	<b>49,748</b>
Extra-ordinary Items	-549	-1,558	-120	5,108	846	-241	0	0
<b>CF after EO Items</b>	<b>-4,172</b>	<b>9,411</b>	<b>211</b>	<b>26,469</b>	<b>21,360</b>	<b>23,709</b>	<b>47,772</b>	<b>49,748</b>
(Inc)/Dec in FA+CWIP	-7,315	-12,923	-6,166	-3,933	-4,884	-6,500	-7,500	-8,000
<b>Free Cash Flow</b>	<b>-11,487</b>	<b>-3,512</b>	<b>-5,954</b>	<b>22,536</b>	<b>16,477</b>	<b>17,209</b>	<b>40,272</b>	<b>41,748</b>
<b>CF from Inv. Activity</b>	<b>23,115</b>	<b>-21,775</b>	<b>-9,752</b>	<b>-14,589</b>	<b>-17,345</b>	<b>-18,500</b>	<b>-17,500</b>	<b>-23,000</b>
Inc/(Dec) in Debt	-6,621	25,655	4,780	-2,721	-3,918	500	-7,500	-7,500
Interest Rec./Paid	-1,029	-1,463	-2,720	-2,755	-2,598	-2,660	-2,284	-1,895
Dividends Paid	-8,598	-12,702	0	-1,761	-2,936	-5,872	-8,808	-11,744
<b>CF from Fin. Activity</b>	<b>-16,162</b>	<b>11,490</b>	<b>2,060</b>	<b>-7,238</b>	<b>-9,402</b>	<b>-8,032</b>	<b>-18,592</b>	<b>-21,139</b>
<b>Inc/(Dec) in Cash</b>	<b>2,781</b>	<b>-874</b>	<b>-7,481</b>	<b>4,643</b>	<b>-5,387</b>	<b>-2,824</b>	<b>11,679</b>	<b>5,609</b>
Add: Beginning Balance	13,423	16,205	15,330	7,850	12,492	7,105	4,282	15,961
<b>Closing Balance</b>	<b>16,205</b>	<b>15,330</b>	<b>7,850</b>	<b>12,492</b>	<b>7,105</b>	<b>4,282</b>	<b>15,961</b>	<b>21,570</b>

E: MOFSL Estimates

## Eicher Motors

BSE SENSEX  
73,105S&P CNX  
22,218

CMP: INR4,731 TP: INR4,020 (-15%)

Sell



## Stock Info

Bloomberg	EIM IN
Equity Shares (m)	274
M.Cap.(INRb)/(USDb)	1295.3 / 15.5
52-Week Range (INR)	4743 / 3159
1, 6, 12 Rel. Per (%)	11/15/9
12M Avg Val (INR M)	2724
Free float (%)	50.9

## Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	165.4	187.9	210.0
EBITDA	43.3	47.9	53.5
Adj. PAT	40.0	44.7	49.8
Adj EPS (INR)	146.3	163.3	182.1
EPS Gr (%)	37.3	11.6	11.5
BV/Sh (INR)	660	767	884

## Ratios

RoE (%)	24.2	22.9	22.1
RoCE (%)	23.7	22.2	21.3
Payout (%)	34.9	34.3	35.7

## Valuations

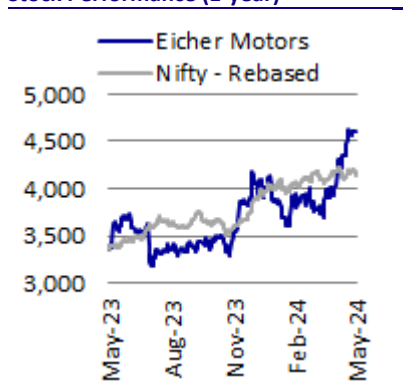
P/E (x)	32.3	28.9	26.0
P/BV (x)	7.2	6.2	5.3
Div. Yield (%)	1.1	1.2	1.4
FCF Yield (%)	2.3	3.6	2.2

## Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	49.1	49.2	49.2
DII	11.1	9.8	11.3
FII	29.0	30.3	28.6
Others	10.8	10.8	10.9

FII Includes depository receipts

## Stock Performance (1-year)



## Market outperformance seems difficult from here-on

Over the last 5 years, RE has posted just 1% volume CAGR and the key reason for the same is the substantial 50% price hike that this segment has seen in this period. RE is clearly no longer an “affordable cruiser” bike, which used to be one of its unique selling points in the past. Further, competitive intensity has gone up manifold in this segment following the introduction of new products from the Hero-Harley and Bajaj-Triumph partnerships. While the initial ramp-up from these peers has certainly been slower than expected, we expect RE to continue to underperform industry growth as these new players’ target to get their act right in India. We expect RE to post a 10% volume CAGR over FY24-26E led by: 1) slower domestic growth given saturation of large markets and rising competition 2) slower exports growth potential given increasing competition in exports, as Triumph ramp-ups exports from India. Overall, we expect RE to deliver 12% earnings CAGR over FY24-26. Given the expected slower earnings growth, premium valuations seem unjustified. Given the recent stock run-up, we have recently downgraded Eicher Motors to Sell ([click here for the report](#)) from Neutral, with a SoTP-based TP of INR4,020.

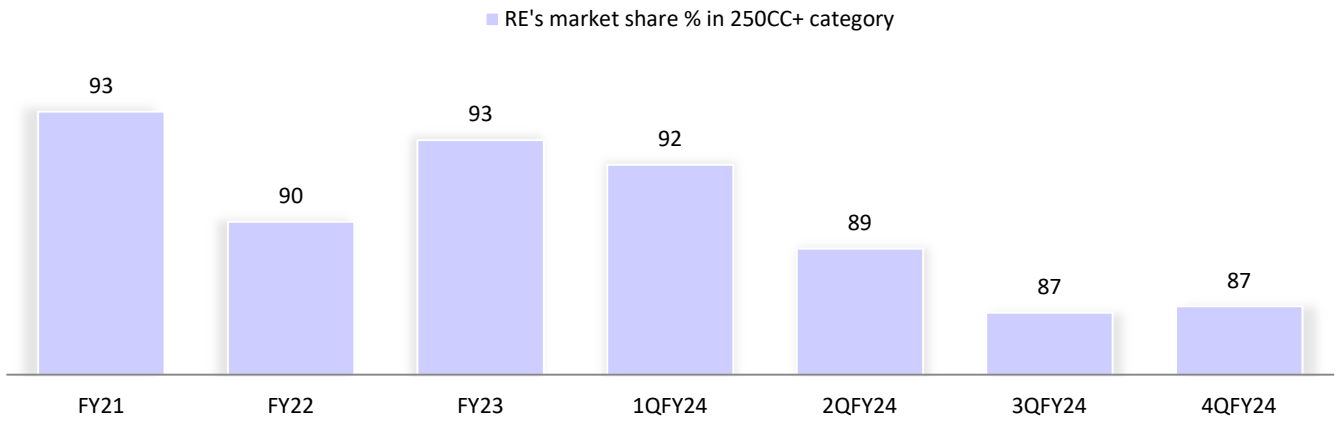
- **RE no longer an affordable cruiser bike:** After reporting a solid 26.5% volume CAGR over the last couple of years, RE has now surpassed its previous peak achieved in FY18. However, it is important to highlight that RE has actually posted only a 1% volume CAGR since FY18. Given that RE forms almost 88% of this segment, the entire 250cc+ segment has seen a similar trend - the entire 250cc+ industry has posted just 2% volume CAGR in the same period. The primary reason for the same has been the substantial price increase the industry has seen in this period. For instance, RE bikes have seen as much as a 50% price increase over FY18-24. Thus, RE has no longer remained an “affordable” bike for cruiser enthusiasts, as was the case a few years back. This sharp price increase is likely to be one of the factors that will continue to be a key growth inhibitor for RE in the coming years.
- **Competition to intensify from hereon:** The competitive landscape in the 250cc+ motorcycle segment has shifted significantly in the last twelve months with the introduction of new models from the partnerships of Hero-Harley and Bajaj-Triumph in India. For the first time, RE is confronted with competitors which can certainly be considered credible given: 1) they are well-established global brands; and 2) they have a tie-up with largest 2W OEMs in India who can ensure production at lowest cost 3) distribution can be ramped up to scale very quickly. It is certainly true that the ramp-up of these two competitors has been below expectations so far with both of them together now selling around 5k units per month in the domestic market. However, both these players continue to target to scale up to 10k units per month each in the next couple of quarters. It is also important to highlight that these are long term tie-ups, and they would keep launching new products in India with the intent of grabbing meaningful market share in the 350cc+ segment. Apart from these, players like HMSI and Jawa Motorcycles would keep launching new products in this segment. Even if all these competitors put together ramp-up to just 15k units per month in FY25E, it is a large share shaved off from RE’s existing market. This will certainly slowdown RE’s growth potential, in the coming years, in our view.

- **State-wise analysis reveals that RE has limited outperformance avenues:** Our state-wise analysis reveals that top 12 states contribute to about 76% of RE's volumes and this has remained stable for the last four years. This intuitively means that RE has not been able to materially expand beyond its top 12 states. It is important to highlight that in as many as 19 states, RE's market share has now reached double-digit levels, and in almost 11 states, it breached even the 20% mark. This certainly is a reasonably high market share in this category, which in turn means that many of these states are largely saturated and may not be continued growth drivers for RE in the coming years. Also, some of the large northern markets such as UP, Bihar, and Rajasthan are still largely 100cc segment markets, and hence RE continues to have a fairly low penetration. Therefore, its growth opportunity in such markets is limited in the near term. We, hence believe that RE has limited avenues to materially outperform domestic industry growth from hereon, as: 1) it seems to have reached fairly high market share in key markets; 2) some of the other large motorcycle markets are yet to be upgraded to the cruiser segment in a big way; and 3) competition intensifies with each passing year.
- **Can the new 450cc platform be a big growth driver? – We do not think so:** RE has recently launched its Himalayan range on the all-new 450cc platform. Our channel checks do indicate that this has been very well received by customers. However, we also understand that it is not helping RE gain any new customers at the moment, as the same customers who would have bought a 410cc Himalayan seem to be attracted to the new Himalayan 450cc. We also understand that RE is expected to launch new variants on the same 450cc platform in the coming quarters, which is currently driving positive Investor sentiment. The critical point to understand is whether this platform can help RE garner incremental new customers or whether it gives existing RE customers a very good upgrade option. Our view on this is that the 450cc platform with different form factors is unlikely to be a material growth driver for RE going forward. If this were to be the case, its own 500cc platform could have emerged as a strong upgrade option even earlier. However, we have seen that the 500cc segment has traditionally never been a volume driver for RE, and RE's sweet spot in India has always been in the 350cc segment. Hence, we do not expect the new 450cc platform to be a material growth driver for the company in the coming years.
- **Export prospects have weakened:** In exports markets, RE is strategically focused on establishing an affordable Leisure Biking segment within the 250-650cc range, targeting a price bracket of USD3-7k. Globally, the 250-650cc segment boasts an annual size of ~1m units, dominated by the Sports/Street Biking segment. Over the years, RE has worked hard to establish its presence in some of the developed regions in Europe, US and ASEAN. It has now emerged as the leading brand in its segment in the UK and the top 3 in Europe with 8-9% market share. It also has a market share of 8% in the Americas and 9% in the APAC region in the middle-weight motorcycle segment. However, RE is currently witnessing a slowdown in exports given the ongoing geopolitical crisis in various developed regions, including Europe. As a result, RE's exports declined 22% YoY in FY24, with an uncertain outlook at least for FY25. Also, in the long run, RE faces an incremental headwind. Given that Triumph would now use Bajaj Auto's

India facility as a manufacturing base for its exports for certain models, it seems to be directly competing with RE even in its key export markets. Given that Triumph already has an established distribution network globally, the impact is expected to be immediate. Triumph has already started exporting about 4k units per month from India. While we do understand that export market globally is huge, this added competition will certainly limit RE's export growth potential going forward.

- Valuation and view:** We have factored in a 10% volume CAGR over FY24-26E. We now expect margins to remain under pressure from here-on as any benefit from improving mix (higher spares and apparel sales) is likely to be offset by the rising competitive intensity. Overall, we expect RE to deliver 12% earnings CAGR over FY24-26. Given the expected slower earnings growth, premium valuations seem unjustified. Post the recent stock run-up, **we maintain Sell rating on the stock with a revised SoTP-based TP of INR4,020.**

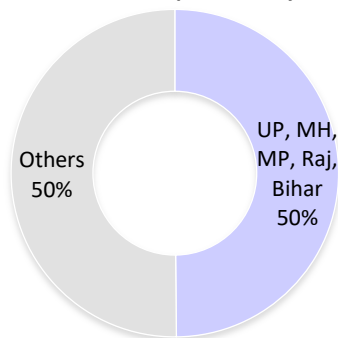
**Exhibit 33: Rising competition hurting RE's market share in FY24**



Source: SIAM, MOFSL

**Exhibit 34: 5 States contributes ~50% of motorcycle volumes**

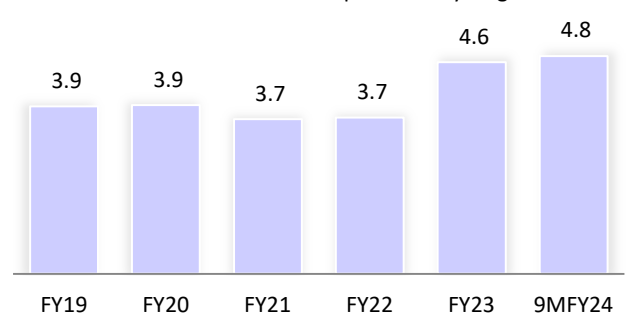
Volume share of top-5 motorcycle states



Source: SIAM, MOFSL

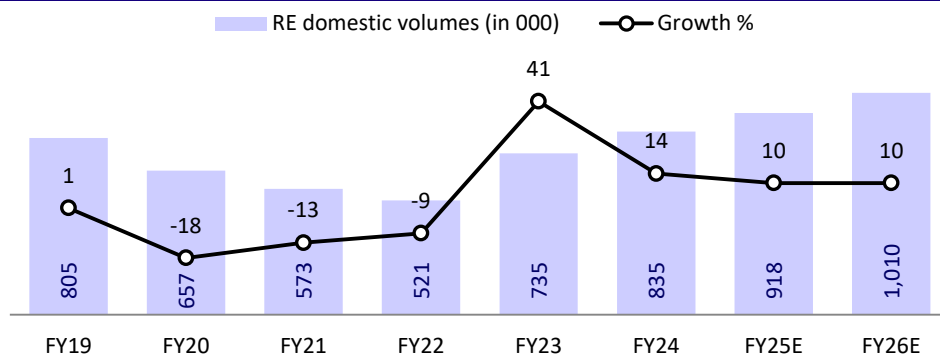
**Exhibit 35: RE has much lower presence in these 5 States**

RE's market share % in Top-5 motorcycling states



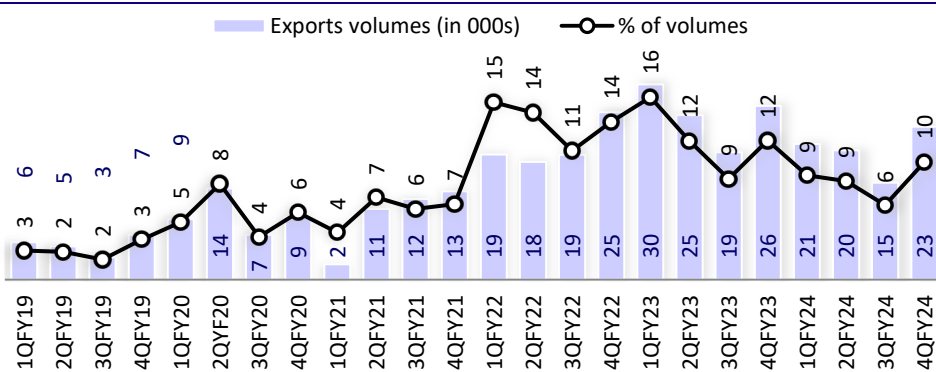
Source: SIAM, MOFSL

**Exhibit 36: Domestic volumes have grown by just ~1% CAGR over last 5 years**



Source: Company, MOFSL

**Exhibit 37: Exports are seeing subdued traction in the recent past**



Source: Company, MOFSL

**Exhibit 38: SoTP valuations – INR4,020 (Mar-26 based)**

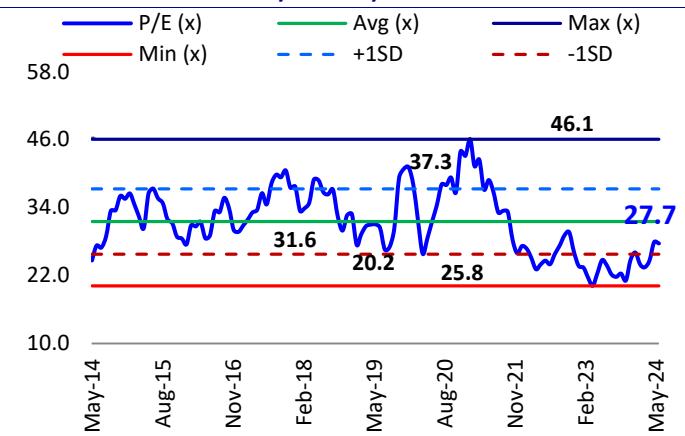
SOTP Valuations				
INR Mn		FY24E	FY25E	FY26E
<b>Royal Enfield</b>				
PAT		35,533	39,238	43,712
Equity Value	PE @ 22x	7,81,724	8,63,242	9,62,748
<b>VECV (@ 54.4% Economic interest)</b>				
EBITDA		9,330	10,590	11,665
EV	@ 10x EV/EBITDA	93,296	1,05,896	1,16,651
Net Debt		-12,164	-15,582	-20,029
Equity Value		1,05,460	1,21,478	1,36,680
<b>Total Equity Value</b>		<b>8,87,184</b>	<b>9,84,720</b>	<b>10,99,427</b>
<b>Target Price (INR/Sh)</b>		<b>3,244</b>	<b>3,600</b>	<b>4,020</b>

Source: Company, MOFSL

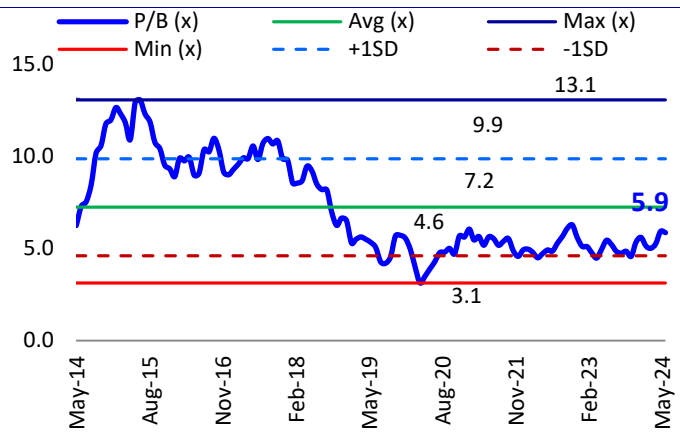
**Exhibit 39: Snapshot of Revenue Model**

000 units	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>ROYAL ENFIELD (S/A)</b>							
<b>Total 2W (units)</b>	<b>696</b>	<b>612</b>	<b>602</b>	<b>835</b>	<b>913</b>	<b>1,006</b>	<b>1,110</b>
Growth (%)	-15.8	-12.0	-1.6	38.6	9.3	10.2	10.4
<b>Net realn (INR'000/unit)</b>	<b>129</b>	<b>140</b>	<b>166</b>	<b>166</b>	<b>173</b>	<b>179</b>	<b>181</b>
Growth (%)	10.1	8.2	18.4	0.3	4.3	3.3	1.2
<b>RE Revenues (INR b)</b>	<b>91</b>	<b>86</b>	<b>101</b>	<b>141</b>	<b>161</b>	<b>183</b>	<b>204</b>
Growth (%)	-7.3	-5.1	17.4	39.0	14.3	13.6	11.8
<b>VECV</b>							
Dom - LMD	36	27	36	54	58	62	67
Growth (%)	-26.2	-23.3	33.0	47.6	7.4	7.8	7.9
% of CV Vols	75.1	68.3	65.4	69.3	69.6	69.7	69.6
Dom - HCV	7	8	11	19	22	23	24
Growth (%)	-45.2	6.0	41.3	74.0	13.5	6.0	7.0
% of CV Vols	15.3	19.2	19.5	24.4	25.9	25.5	25.3
<b>Total Dom.</b>	<b>43</b>	<b>35</b>	<b>47</b>	<b>73</b>	<b>79</b>	<b>85</b>	<b>92</b>
Growth (%)	-30.3	-18.3	34.8	53.6	9.0	7.3	7.7
% of CV Vols	90.4	87.5	84.9	93.7	95.5	95.2	94.9
Exports	5	5	8	5	4	4	5
Growth (%)	-54.4	10.0	67.7	-41.5	-24.6	15.0	15.0
% of CV Vols	9.6	12.5	15.1	6.3	4.5	4.8	5.1
<b>Total CV vols</b>	<b>48</b>	<b>40</b>	<b>56</b>	<b>78</b>	<b>83</b>	<b>89</b>	<b>97</b>
Growth (%)	-33.6	-15.6	38.9	39.3	6.9	7.7	8.0
<b>Net realn (INR'000/unit)</b>	<b>1,750</b>	<b>2,102</b>	<b>2,229</b>	<b>2,380</b>	<b>2,556</b>	<b>2,642</b>	<b>2,692</b>
Growth (%)	10	20	6	7	7	3	2
<b>VECV Revenues (INR b)</b>	<b>85</b>	<b>87</b>	<b>127</b>	<b>190</b>	<b>219</b>	<b>244</b>	<b>269</b>
Growth (%)	-26.5	1.8	46.7	48.9	15.4	11.5	10.3
<b>Net Consol sales (INR b)</b>	<b>92</b>	<b>87</b>	<b>103</b>	<b>144</b>	<b>165</b>	<b>188</b>	<b>210</b>
Growth (%)	-6.6	-4.7	18.1	40.2	14.5	13.6	11.8

**Exhibit 40: Valuations – P/E and P/B band**

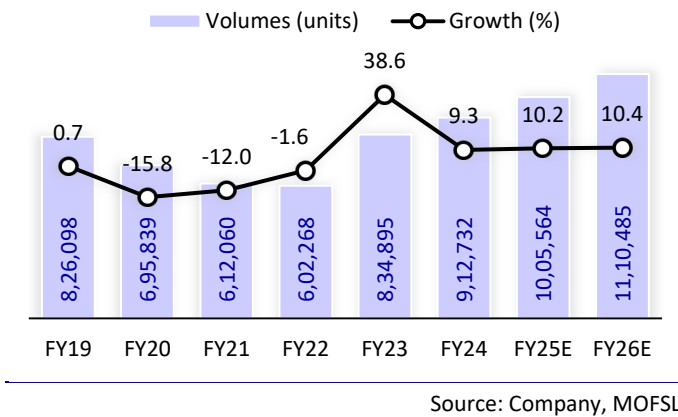


Source: MOFSL

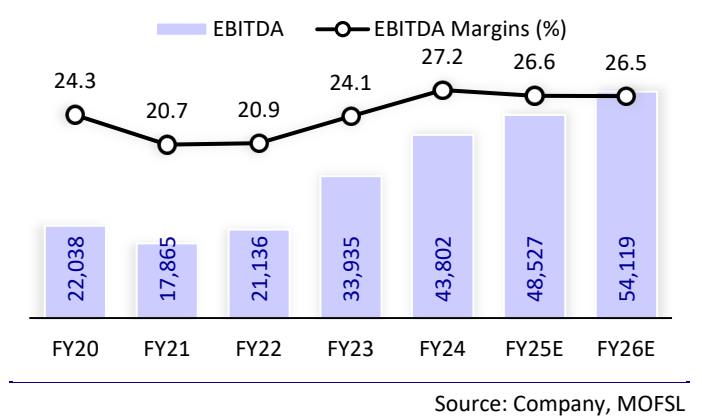


Source: MOFSL

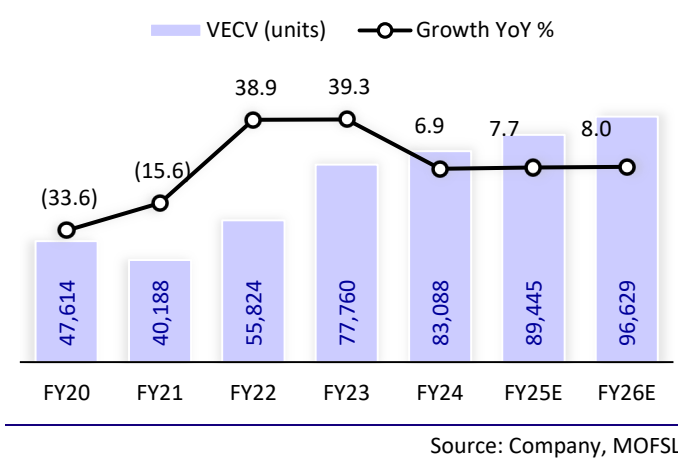
**Exhibit 41: Volume and growth trend for RE**



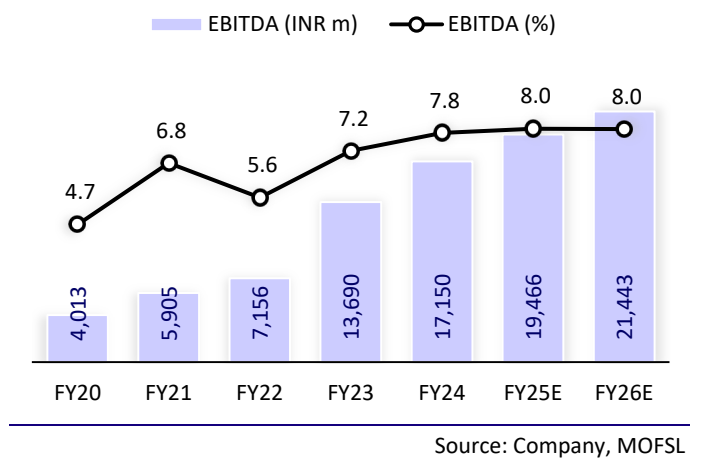
**Exhibit 42: EBITDA and EBITDA margin trend for RE**



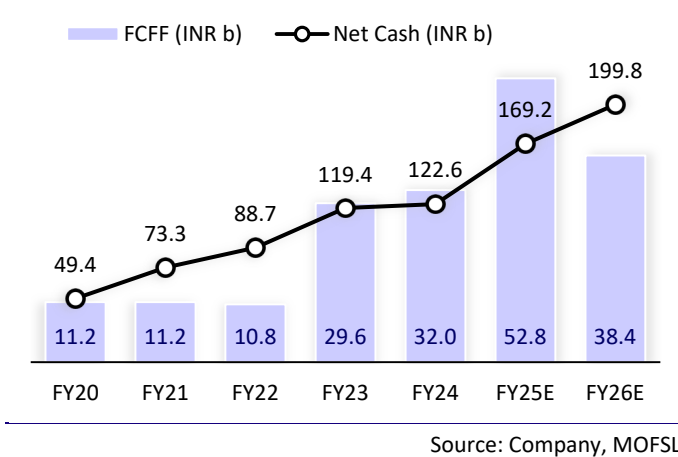
**Exhibit 43: Volume growth trajectory for VECV**



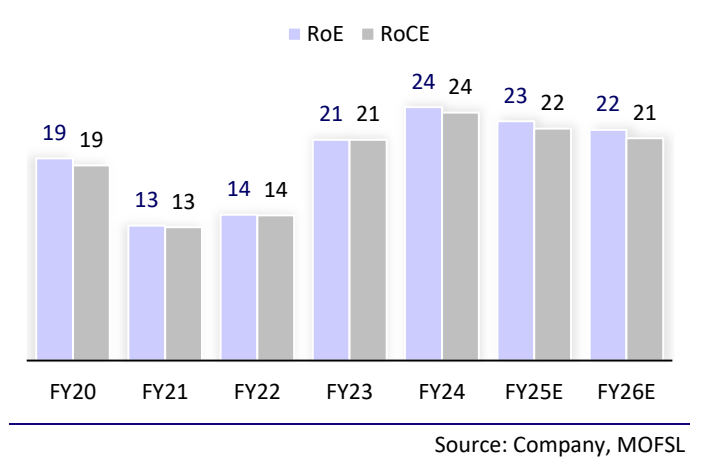
**Exhibit 44: EBITDA and EBITDA margin for VECV**



**Exhibit 45: Strong FCF generation and liquidity (pro-rata)**



**Exhibit 46: Return ratios to see gradual impact**



## Financials and valuations

Income Statement (Consolidated)									(INR Million)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Net Op. Income</b>	<b>92,193</b>	<b>97,971</b>	<b>91,536</b>	<b>87,204</b>	<b>1,02,978</b>	<b>1,44,422</b>	<b>1,65,358</b>	<b>1,87,885</b>	<b>2,10,000</b>
Change (%)	16.1	6.3	-6.6	-4.7	18.1	40.2	14.5	13.6	11.8
<b>EBITDA</b>	<b>28,076</b>	<b>29,031</b>	<b>21,804</b>	<b>18,313</b>	<b>21,723</b>	<b>34,436</b>	<b>43,269</b>	<b>47,942</b>	<b>53,454</b>
EBITDA Margin (%)	31.5	29.9	24.0	21.1	21.4	23.8	26.2	25.5	25.5
Depreciation	2,233	3,003	3,815	4,507	4,519	5,262	5,976	6,124	6,730
<b>EBIT</b>	<b>25,843</b>	<b>26,028</b>	<b>17,988</b>	<b>13,805</b>	<b>17,203</b>	<b>29,174</b>	<b>37,293</b>	<b>41,819</b>	<b>46,725</b>
Interest cost	53	73	189	165	188	280	509	300	200
Other Income	2,801	4,434	5,433	4,532	4,408	5,951	10,759	11,185	12,092
<b>PBT</b>	<b>28,591</b>	<b>30,389</b>	<b>23,232</b>	<b>18,173</b>	<b>21,424</b>	<b>34,845</b>	<b>47,543</b>	<b>52,704</b>	<b>58,617</b>
Tax	9,359	10,770	5,275	4,527	5,259	8,857	12,010	13,465	14,905
Effective Rate (%)	32.7	35.4	22.7	24.9	24.5	25.4	25.3	25.5	25.4
<b>PAT</b>	<b>19,232</b>	<b>19,619</b>	<b>17,957</b>	<b>13,646</b>	<b>16,165</b>	<b>25,988</b>	<b>35,533</b>	<b>39,238</b>	<b>43,712</b>
Change (%)	26.2	2.0	-8.5	-24.0	18.5	60.8	36.7	10.4	11.4
Less: Minority Interest	-2,566	-2,584	-317	-311	-602	-3,152	-4,477	-5,426	-6,086
<b>Adj. PAT</b>	<b>21,017</b>	<b>22,203</b>	<b>18,274</b>	<b>13,829</b>	<b>16,766</b>	<b>29,139</b>	<b>40,010</b>	<b>44,665</b>	<b>49,798</b>
Change (%)	22.7	5.6	-17.7	-24.3	21.2	73.8	37.3	11.6	11.5

Balance Sheet (Consolidated)									(INR Million)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Sources of Funds									
Share Capital	273	273	273	273	273	274	274	274	274
Reserves	70,028	88,914	99,536	1,14,108	1,25,807	1,49,629	1,80,182	2,09,530	2,41,550
<b>Net Worth</b>	<b>70,301</b>	<b>89,187</b>	<b>99,809</b>	<b>1,14,381</b>	<b>1,26,080</b>	<b>1,49,903</b>	<b>1,80,455</b>	<b>2,09,804</b>	<b>2,41,824</b>
Deferred Tax	1,421	2,739	2,522	2,215	2,201	2,913	4,483	6,741	9,102
Loans	1,508	1,868	1,444	1,574	588	1,957	2,756	1,723	1,723
<b>Capital Employed</b>	<b>73,230</b>	<b>93,794</b>	<b>1,03,775</b>	<b>1,18,170</b>	<b>1,28,869</b>	<b>1,54,773</b>	<b>1,87,694</b>	<b>2,18,268</b>	<b>2,52,649</b>
Application of Funds									
Gross Fixed Assets	21,443	27,673	36,194	40,904	44,234	51,415	59,636	68,149	78,149
Less: Depreciation	6,426	8,927	12,419	16,571	19,991	24,516	30,492	36,616	43,346
<b>Net Fixed Assets</b>	<b>15,017</b>	<b>18,746</b>	<b>23,775</b>	<b>24,333</b>	<b>24,243</b>	<b>26,899</b>	<b>29,144</b>	<b>31,533</b>	<b>34,803</b>
Capital WIP	3,332	4,497	3,122	3,143	5,048	4,721	5,551	5,000	5,000
- of which Goodwill	223	223	223	0	0	0	0	0	0
<b>Investments</b>	<b>55,808</b>	<b>49,225</b>	<b>57,488</b>	<b>39,021</b>	<b>77,206</b>	<b>1,23,207</b>	<b>1,35,270</b>	<b>1,39,339</b>	<b>1,43,904</b>
<b>Curr.Assets, L &amp; Adv.</b>	<b>21,065</b>	<b>41,400</b>	<b>40,113</b>	<b>79,089</b>	<b>55,514</b>	<b>37,149</b>	<b>61,187</b>	<b>88,438</b>	<b>1,20,415</b>
Inventory	3,946	6,334	5,724	8,746	11,324	12,784	14,096	15,014	16,785
Sundry Debtors	680	903	868	1,582	3,020	3,689	3,738	10,009	11,190
Cash & Bank Balances	12,120	29,653	29,506	58,304	27,225	8,571	1,463	46,650	73,697
Loans & Advances	7	13	1	4,592	6,768	5,889	4,769	8,007	8,952
Others	4,312	4,497	4,014	5,866	7,177	6,215	37,121	8,758	9,791
<b>Current Liab. &amp; Prov.</b>	<b>21,992</b>	<b>20,075</b>	<b>20,722</b>	<b>27,416</b>	<b>33,141</b>	<b>37,204</b>	<b>43,457</b>	<b>46,043</b>	<b>51,473</b>
Sundry Creditors	11,719	12,341	10,277	15,358	17,881	18,104	20,901	22,521	25,177
Other Liabilities	9,511	6,928	9,472	10,930	13,362	16,520	19,810	20,019	22,380
Provisions	763	807	974	1,128	1,898	2,579	2,746	3,503	3,916
<b>Net Current Assets</b>	<b>-927</b>	<b>21,325</b>	<b>19,391</b>	<b>51,673</b>	<b>22,373</b>	<b>-54</b>	<b>17,730</b>	<b>42,396</b>	<b>68,942</b>
<b>Application of Funds</b>	<b>73,230</b>	<b>93,794</b>	<b>1,03,775</b>	<b>1,18,170</b>	<b>1,28,869</b>	<b>1,54,772</b>	<b>1,87,694</b>	<b>2,18,268</b>	<b>2,52,649</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios (Consolidated)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Basic (INR)</b>									
<b>EPS</b>	<b>77.1</b>	<b>81.4</b>	<b>66.9</b>	<b>50.7</b>	<b>61.3</b>	<b>106.5</b>	<b>146.3</b>	<b>163.3</b>	<b>182.1</b>
EPS Growth (%)	23.5	5.6	-17.8	-24.3	21.1	73.7	37.3	11.6	11.5
Book Value per Share	258	327	366	419	461	548	649	767	884
DPS	11.0	12.5	12.5	17.0	21.0	37.0	45.0	56.0	65.0
Payout (Incl. Div. Tax) %	15.6	17.9	21.7	33.6	34.2	34.7	30.8	34.3	35.7
<b>Valuation (x)</b>									
P/E	59.6	56.5	68.7	90.7	74.9	43.7	31.4	28.9	26.0
EV/EBITDA	35.9	34.3	49.8	56.1	46.7	27.9	20.8	19.0	16.6
EV/Sales	8.3	7.4	8.8	8.9	6.9	4.7	4.0	3.6	3.1
Price to Book Value	17.8	14.1	12.6	11.0	10.0	8.5	7.1	6.2	5.3
Dividend Yield (%)	0.2	0.3	0.3	0.4	0.5	0.8	1.0	1.2	1.4
<b>Profitability Ratios (%)</b>									
RoE	34.0	27.8	19.3	12.9	13.9	21.1	24.4	22.9	22.1
RoCE	32.6	26.4	18.7	12.8	13.9	21.1	23.9	22.2	21.3
RoIC	1,373.6	298.2	117.5	67.6	72.4	128.0	148.9	96.8	137.4
<b>Turnover Ratios</b>									
Debtors (Days)	3	3	3	7	11	9	19	19	19
Inventory (Days)	16	24	23	37	40	32	29	29	29
Creditors (Days)	48	46	41	64	63	46	44	44	44
Working Capital (Days)	-29	-19	-15	-21	-13	-4	5	5	5
Asset Turnover (x)	1.2	1.0	0.9	0.7	0.8	0.9	0.9	0.8	0.8
<b>Leverage Ratio</b>									
Net Debt/Equity (x)	-0.7	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.8

### Cash Flow Statement (Consolidated)

(INR Million)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Profit before Tax	28,956	32,798	23,549	17,984	22,025	37,996	52,020	58,130	64,703
Depreciation	2,233	3,003	3,815	4,507	4,519	5,262	5,976	6,124	6,730
Direct Taxes Paid	-8,071	-9,085	-6,283	-4,566	-5,136	-7,703	-10,678	-11,335	-12,544
(Inc)/Dec in Working Capital	4,380	-4,557	862	2,578	-1,503	657	3,880	-5,569	-295
Interest/Div. Received	-394	-1,304	-2,207	-3,103	-2,440	-1,765	-2,037	-8,411	-9,170
Other Items	-2,282	-5,126	-2,795	-265	-2,195	-5,973	-11,924	15,205	-11,095
<b>CF from Oper. Activity</b>	<b>24,823</b>	<b>15,730</b>	<b>16,941</b>	<b>17,136</b>	<b>15,270</b>	<b>28,475</b>	<b>37,237</b>	<b>54,143</b>	<b>38,328</b>
(Inc)/Dec in FA+CWIP	-7,460	-7,874	-5,445	-5,375	-6,387	-6,737	-8,144	-7,962	-10,000
<b>Free Cash Flow</b>	<b>17,363</b>	<b>7,855</b>	<b>11,497</b>	<b>11,760</b>	<b>8,883</b>	<b>21,738</b>	<b>29,094</b>	<b>46,182</b>	<b>28,328</b>
(Pur)/Sale of Invest.	-13,991	1,301	-9,639	-11,104	-3,446	-17,479	-20,196	4,341	4,606
<b>CF from Inv. Activity</b>	<b>-21,450</b>	<b>-6,574</b>	<b>-15,084</b>	<b>-16,479</b>	<b>-9,833</b>	<b>-24,216</b>	<b>-28,339</b>	<b>-3,620</b>	<b>-5,394</b>
Issue of Shares	195	361	289	384	65	112	466	0	0
Inc/(Dec) in Debt	390	247	-709	130	-1,046	440	64	-1,033	0
Interest Paid	-34	-50	-75	-91	-142	-134	-250	-300	-200
Dividends Paid	-3,171	-3,482	-8,087	0	-4,647	-5,742	-10,129	-15,316	-17,778
<b>CF from Fin. Activity</b>	<b>-2,620</b>	<b>-2,923</b>	<b>-8,583</b>	<b>-148</b>	<b>-5,934</b>	<b>-4,174</b>	<b>-8,444</b>	<b>-16,649</b>	<b>-17,978</b>
<b>Inc/(Dec) in Cash</b>	<b>752</b>	<b>6,233</b>	<b>-6,725</b>	<b>509</b>	<b>-496</b>	<b>84</b>	<b>454</b>	<b>33,874</b>	<b>14,956</b>
Add: Beginning Balance	172	925	7,158	432	941	445	530	984	34,858
<b>Closing Balance</b>	<b>924</b>	<b>7,158</b>	<b>432</b>	<b>941</b>	<b>445</b>	<b>530</b>	<b>984</b>	<b>34,858</b>	<b>49,814</b>

E: MOFSL Estimates

# Craftsman Automation

BSE SENSEX 73,105 S&P CNX 22,218



## Stock Info

	CRAFTSMA IN
Bloomberg	CRAFTSMA IN
Equity Shares (m)	21
M.Cap.(INRb)/(USDb)	91.7 / 1.1
52-Week Range (INR)	5514 / 3336
1, 6, 12 Rel. Per (%)	-1/-24/4
12M Avg Val (INR M)	212
Free float (%)	45.0

## Financials Snapshot (INR b)

INR b	FY24	FY25E	FY26E
Sales	44.5	50.6	58.9
EBITDA	8.8	10.1	12.0
Adj. PAT	3.0	3.7	4.9
EPS (INR)	144.2	174.5	230.6
EPS Gr. (%)	22.6	21.0	32.2
BV/Sh. (INR)	785	941	1,150

## Ratios

RoE (%)	20.1	20.2	22.1
RoCE (%)	15.2	15.0	16.7
Payout (%)	7.8	10.3	9.5

## Valuations

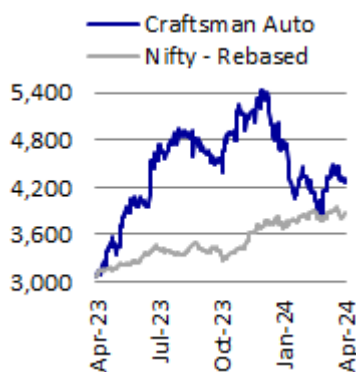
P/E (x)	30.1	24.8	18.8
P/BV (x)	5.5	4.6	3.8
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	-0.9	4.4	4.0

## Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	55.0	55.0	58.8
DII	16.0	17.2	16.6
FII	12.6	12.5	8.8
Others	16.5	15.3	15.9

FII Includes depository receipts

## Stock Performance (1-year)



**CMP: INR4,341 TP: INR5,305 (+22%)**

**Buy**

## Key beneficiary of infra push + supply chain derisking

On the back of its strong engineering capabilities, CRAFTSMA has emerged as the largest independent machining player, one of the top three players in storage solutions, and a credible competitor in the aluminum die-casting business. While the CV and tractors are seeing muted demand in the near term which would limit powertrain business growth, we factor in CRAFTSMA to deliver ~15% revenue CAGR over FY24-26E led by strong order wins in Aluminum and its Industrial Engineering business. Beyond the near term, its focus on tapping long term growth opportunities excites us, which include: 1) growth visibility to scale up the off highway segment within Powertrain to USD100mn over next 4-5 years for which it is setting up a new facility in Kothavadi 2) long term opportunity from the domestic truck segment which is expected to move to higher engines from FY27 onwards, in line with global trends 3) target to penetrate the Aluminum business to OEMs in the North for which they are in the midst of setting up their Bhiwadi plant 4) focus on leveraging alternate sourcing opportunities in the capital goods segment for large castings (contract manufacturing) which will also be housed in the new facility at Kothavadi. We believe, these strong long term opportunities will drive sustainable growth for CRAFTSMA in the long run and hence improve returns from here-on. Reiterate BUY with a TP of INR5,305 (valued at 23x FY26 EPS).

### ■ Sound and a well-diversified business model with an “engineering edge”:

With its strong engineering capabilities, CRAFTSMA has emerged as the largest independent machining player of automotive powertrains in India, one of the top three players in storage solutions, and a credible competitor in the aluminum die-casting business. Further, after the acquisition of DRA, the company now has a well-diversified portfolio. The powertrain business now contributes 35% of the mix (from 51% in FY23), the aluminum die castings business contributes 49% of the mix (from 25% in FY23) and the industrials and storage solutions business accounts for 16% (from 24% in FY23). Even in the Auto segment, the contribution to the highly cyclical CV business has now reduced to 22% of the mix from 30% in FY23, while the same for 2Ws and PVs has now increased to 47% from 22% earlier. This shift in product mix is expected to help reduce business volatility for the company in the long run.

■ **Targeting huge scale-up in the Powertrain business:** The current slowdown in demand in CVs (56% of powertrain mix) and tractors (13%) has been one of the key Investor concerns. However, as highlighted in our Sector section, we believe that the current slowdown in CVs is due to temporary factors and we expect CV demand to revive from H2FY25. Even for tractors, we expect the industry to report growth in FY25, following the correction in FY24, due to: 1) expectation of a normal monsoon; 2) positive terms of trade for farmers; and 3) normalization of festive anomaly in FY25. Management has also guided for a high single digit to low double digit growth in the powertrain business for FY25E on the back of its new order wins. However, beyond the near term, what excites us is the long term growth opportunity that the company is seeing in the Off-highway segment. In the stationary engines segment of power generation, management is now seeing lot of potential for manufacturing and machining from India for global markets. Craftsman is already working with 4 large global OEMs and has received an order from one

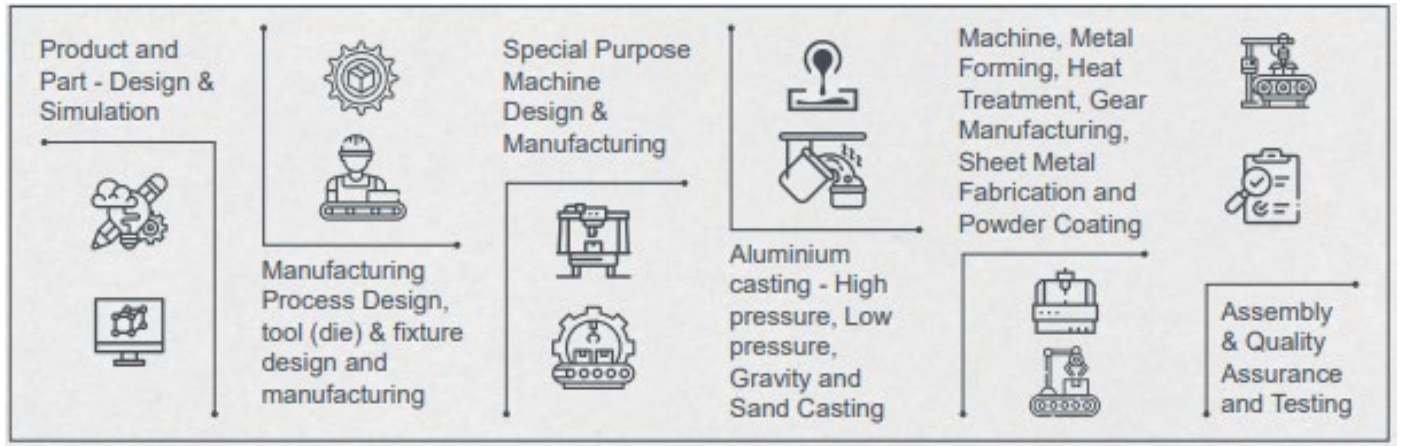
of them and is in advanced discussion for an order win from the 2<sup>nd</sup>. Given this opportunity, Craftsman is now in the midst of setting up a new facility in the same location of its existing capacity (Kothavadi, Coimbatore) which will initially cater to powertrain and Industrial engineering segment but would be open to expansion for AI business as well at a later stage. Such is the visibility of this business that management has given a revenue guidance of USD100mn to be achieved over 4-5 years from this business. These orders are expected to commence production from Q3FY26 and are likely to scale up sharply from FY27 onwards. Given the huge investments from the OEM side as well, these orders are very sticky in the long run. Beyond this, the other long term growth opportunity that management expects is the upgrade of domestic trucks. With improving road infrastructure, management expects industry to further shift to higher tonnage vehicles which would improve fleet turn-around times and hence profitability. The same trend has been visible globally where bulk of the trucks sold in developed markets are 350-450hp engines while in India, almost 90% of the CVs run on <250hp engines. Management expects the trend towards higher engines to pick up from FY27 onwards in India which is expected to be another strong long term growth opportunity for the company. Thus, while we expect this segment to post a steady ~10% CAGR to reach ~INR18.8b over FY24-26E, we believe, it has tremendous long term growth opportunities that are likely to scale up materially from H2FY26 onwards.

- **Aluminum castings to be among the key growth drivers:** Post-acquisition of DRA in 4QFY23, the share of aluminum division in overall consolidated revenue has nearly doubled to 49% in FY24 from about 25% in FY23. It is now a well-known fact that demand for aluminum-based components has surged over the last few years, given the need for light-weighting, as OEMs worldwide race to meet the upcoming stringent emission targets. Given its well-established presence in the aluminum castings business, CRAFTSMA is emerging as a major beneficiary of this trend. This segment continues to be the key growth driver for the company, both in revenues and profitability – it has seen strong 28% YoY growth in standalone entity. Further, synergy benefits with the parent are clearly visible given that DRA's margins have sharply improved by over 540bps YoY to 18.8% for FY24. Further, it recently commenced a new exports order from Q1FY25 which is expected to ramp-up over the course of the year. It also expects another order (3-year contract) at DRA for exports to Korea which is likely to commence from Q4FY25. Further, orders from Hyundai's new Talegaon facility are expected to commence from FY26 onwards. Apart from this, management has indicated that they are now seeing a lot of growth opportunity from the Northern auto hub in India where it has not been present so far. In order to cater to this opportunity, they are now setting up a new facility at Bhiwadi (Rajasthan). Almost 50% of the new plants capacity is already filled with confirmed orders which are expected to commence from FY26 onwards. Overall, the company is now looking at the global scale of operations in aluminum and aspires to scale up its operations to at least USD500m over the next 2-3 years. Accordingly, we have assumed CRAFTSMA to post ~17% CAGR in this business over FY24-26E to reach ~INR29.4b.
- **Industrials and Engineering – a play on capex growth:** The company is eyeing incremental growth through: 1) localization and import substitution, especially

in gears and gear boxes, where imports constitute about 35% of overall demand, 2) expanding machining opportunities in renewables and capital goods, and reorganizing supply chain globally, and 3) establishing a precision heavy parts manufacturing facility. They have already started execution of orders for gear box housing machining in the last few months which is expected to scale up to a sizeable business opportunity going ahead. Further, one is seeing a rising trend of Industrials casting requirement for engines and transmissions going up in India. This is because global MNCs are scaling down their operations in developed markets due to the ongoing geopolitical conflicts and considering alternate sourcing options in other regions including India. In lieu of this opportunity, Craftsman is setting up a casting foundry operation as well in the new Kothavadi facility being set up. It is likely to be one of the few foundries coming up in India for heavy parts in the range of upto 20T. Management also indicated that they earlier never focused on this contract manufacturing business in a big way. However, given these opportunities, they are now looking to ramp-up this business in the coming years. Further, the storage segment contributes ~48% of the revenue of Industrials and Engineering vertical, and after realigning its marketing strategy, the company has managed to secure business from sectors such as pharma, Auto, 3PL logistics and cold storage. While the storage business has posted flat growth in FY24, the outlook is optimistic as they now have 50% of the FY24 revenues as the opening order book already (opening order book now stands at INR2bn Vs INR 650mn last year). As a result, management expects to deliver about 25-30% growth in the storage business in FY25E. Given the strong growth opportunities, we expect revenue from Industrials and Engineering division to register ~21% CAGR over FY24-26 to INR10.7b (vs. ~INR7.3b in FY24).

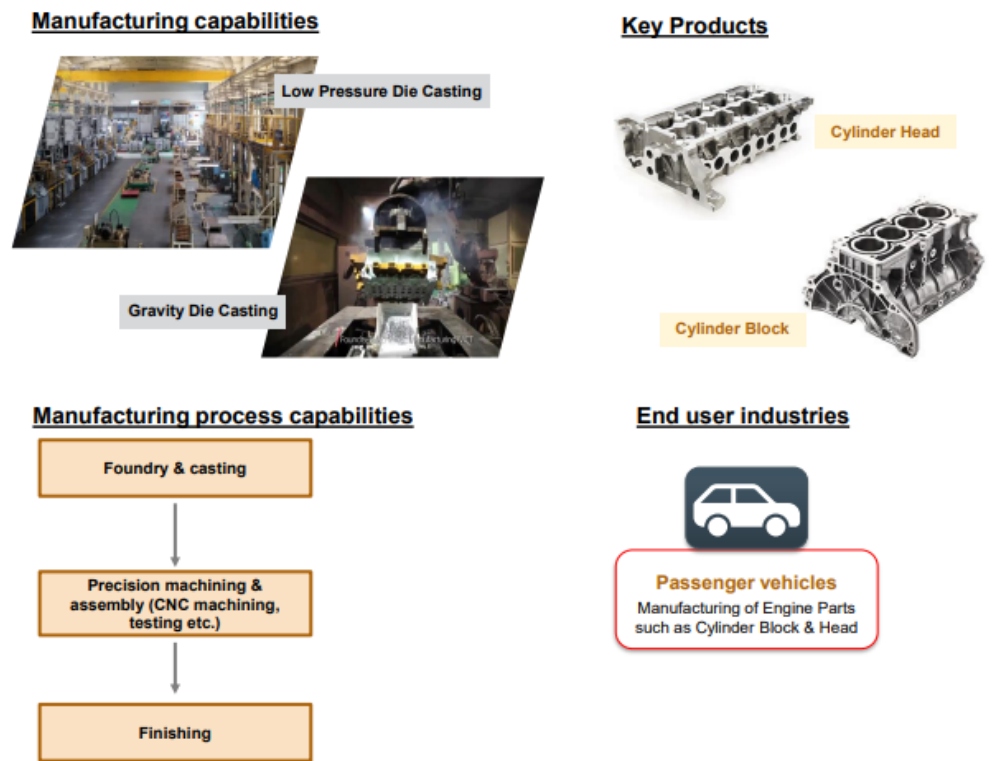
- **Valuation & View:** On the back of strong order book in Aluminum and Industrials division, we expect Craftsman to post a 15%/17%/27% CAGR in consolidated revenue/EBITDA/ PAT over FY24-FY26. This will translate into a 200bp improvement in RoE to 22.1% by FY26E. An improvement in FCF generation to INR7.8b over FY25-26E (from INR2.9b over FY22-24) should help reduce net debt to INR10.4b by FY26E (from INR14.6b as of FY24). At CMP, the stock appears attractively valued at ~25x/19x FY25E/FY26E consolidated EPS. Hence, we reiterate our BUY rating on the stock with a TP of INR5,305 (valued at 23x FY26 EPS).

**Exhibit 47: Strong in-house processes and product design capabilities**



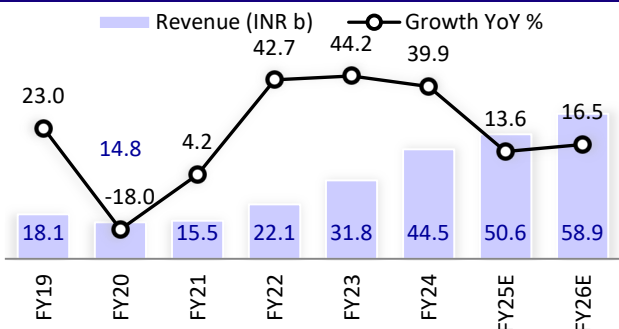
Source: Company, MOFSL

**Exhibit 48: DRA – acquisition driving multiple synergies**



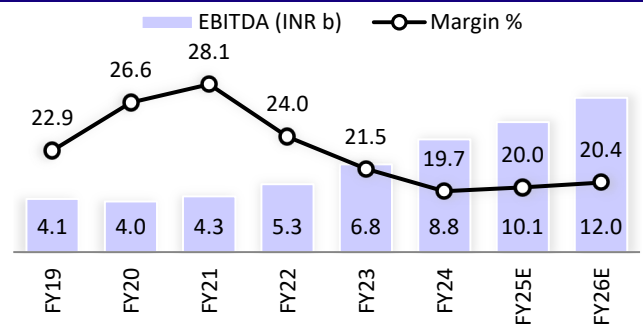
Source: Company, MOFSL

**Exhibit 49: Consol. revenue to post ~15% CAGR over FY24-26**



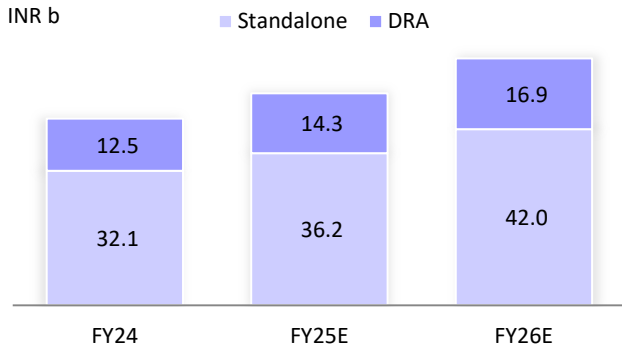
Source: Company, MOFSL

**Exhibit 50: Consol. EBITDA to record 17% CAGR over FY24-26**



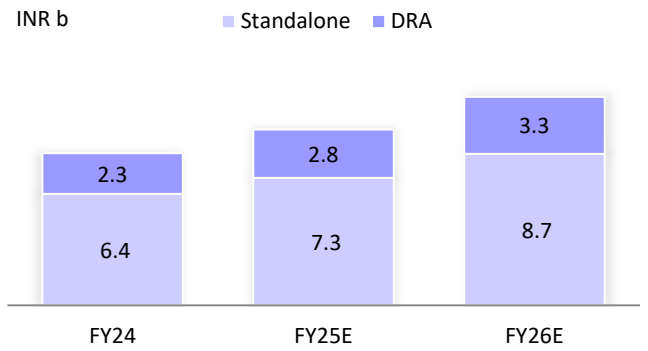
Source: Company, MOFSL

**Exhibit 51: DRA contribution rising in the company**



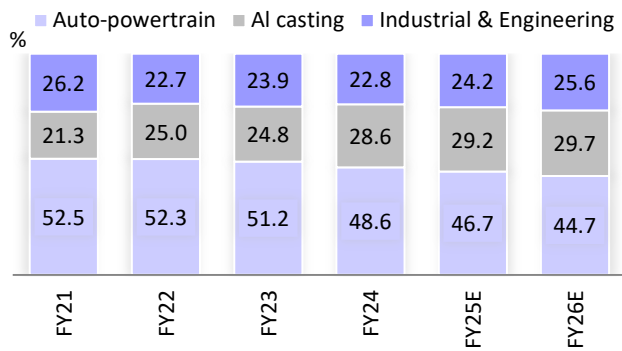
Source: Company, MOFSL

**Exhibit 52: Consol. EBITDA mix trend**



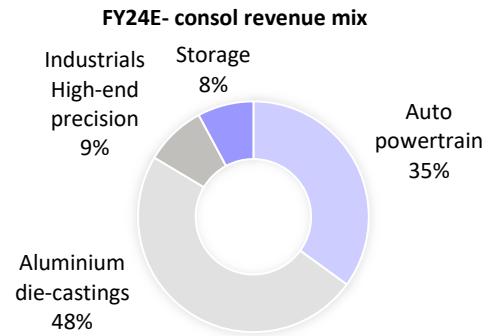
Source: Company, MOFSL

**Exhibit 53: Stalalone revenue mix trend over the years**



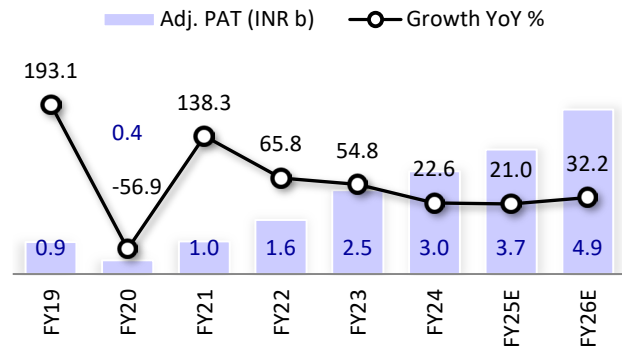
Source: Company, MOFSL

**Exhibit 54: Consol. revenue mix post-acquisition of DRA**



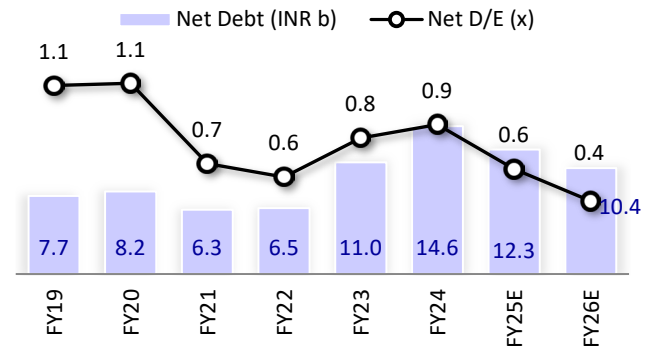
Source: Company, MOFSL

**Exhibit 55: PAT likely to report 27% CAGR over FY24-26**



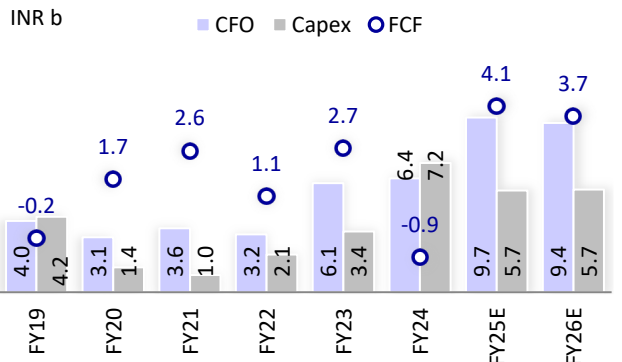
Source: Company, MOFSL

**Exhibit 56: Debt likely to be reduced**



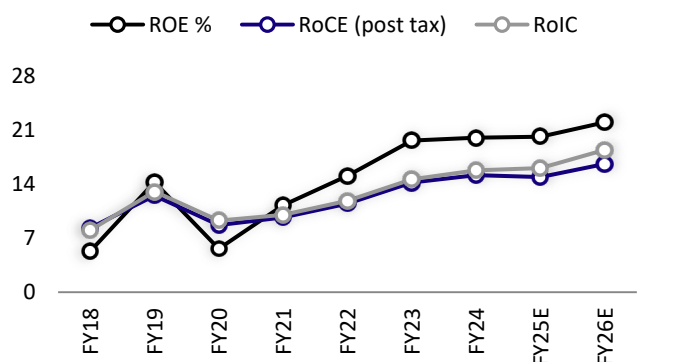
Source: Company, MOFSL

**Exhibit 57: CFO to jump ~1.5x over FY24-26E...**



Source: Company, MOFSL

**Exhibit 58: ...this should improve the return ratios**



Source: Company, MOFSL

## Financials and valuations

Income Statement (Consol)								(INR Million)	
Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E	
<b>Net Revenues</b>	<b>18,096</b>	<b>14,834</b>	<b>15,463</b>	<b>22,064</b>	<b>31,826</b>	<b>44,517</b>	<b>50,565</b>	<b>58,902</b>	
Change (%)	23.0	-18.0	4.2	42.7	44.2	39.9	13.6	16.5	
<b>EBITDA</b>	<b>4,145</b>	<b>3,951</b>	<b>4,340</b>	<b>5,293</b>	<b>6,836</b>	<b>8,789</b>	<b>10,129</b>	<b>12,027</b>	
EBITDA Margin (%)	22.9	26.6	28.1	24.0	21.5	19.7	20.0	20.4	
Change (%)	50.7	-4.7	9.9	22.0	29.2	28.6	15.3	18.7	
Depreciation	1,583	1,963	1,924	2,060	2,216	2,777	3,189	3,502	
<b>EBIT</b>	<b>2,562</b>	<b>1,988</b>	<b>2,416</b>	<b>3,233</b>	<b>4,620</b>	<b>6,012</b>	<b>6,940</b>	<b>8,525</b>	
EBIT Margins (%)	14.2	13.4	15.6	14.7	14.5	13.5	13.7	14.5	
Interest cost	1,309	1,486	1,073	842	1,202	1,745	1,676	1,573	
Other Income	127	92	132	93	125	172	161	178	
Non-recurring Expense	0	58	0	0	0	0	0	0	
<b>PBT</b>	<b>1,380</b>	<b>536</b>	<b>1,476</b>	<b>2,484</b>	<b>3,543</b>	<b>4,439</b>	<b>5,425</b>	<b>7,130</b>	
Eff. Tax Rate (%)	31.7	31.6	34.4	35.4	29.3	24.2	24.7	24.7	
<b>PAT</b>	<b>942</b>	<b>367</b>	<b>968</b>	<b>1,605</b>	<b>2,505</b>	<b>3,365</b>	<b>4,086</b>	<b>5,366</b>	
Minority Interest	-	-	-	-	20.9	320.1	401.7	494.3	
<b>Adj. PAT</b>	<b>942</b>	<b>406</b>	<b>968</b>	<b>1,605</b>	<b>2,484</b>	<b>3,045</b>	<b>3,684</b>	<b>4,871</b>	
Change (%)	193.1	-56.9	138.3	65.8	54.8	22.6	21.0	32.2	

Balance Sheet (Consol)								(INR Million)	
Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E	
Sources of Funds									
Share Capital	101	101	106	106	106	106	106	106	
Reserves	6,909	7,216	9,679	11,316	13,663	16,474	19,778	24,185	
<b>Net Worth</b>	<b>7,010</b>	<b>7,317</b>	<b>9,785</b>	<b>11,422</b>	<b>13,769</b>	<b>16,580</b>	<b>19,884</b>	<b>24,291</b>	
Minority interest	0	0	0	0	610	937	1,339	1,833	
Deferred Tax	375	398	691	1,168	1,411	1,315	1,315	1,315	
Loans	8,282	9,126	7,035	7,156	11,527	15,464	14,625	13,975	
<b>Capital Employed</b>	<b>15,667</b>	<b>16,840</b>	<b>17,511</b>	<b>19,746</b>	<b>27,317</b>	<b>34,296</b>	<b>37,162</b>	<b>41,413</b>	
Application of Funds									
Gross Fixed Assets	19,614	22,072	23,360	25,464	31,256	38,413	43,181	48,413	
Less: Depreciation	4,708	6,615	8,255	10,026	11,917	14,646	16,934	19,954	
<b>Net Fixed Assets</b>	<b>14,907</b>	<b>15,457</b>	<b>15,105</b>	<b>15,438</b>	<b>19,339</b>	<b>23,767</b>	<b>26,247</b>	<b>28,459</b>	
Capital WIP	906	888	320	420	966	1,786	1,645	1,645	
Investments	91	256	282	282	34	45	1,830	3,330	
Goodwill	-	-	-	-	1,900	1,900	1,900	1,900	
<b>Curr.Assets, L &amp; Adv.</b>	<b>6,589</b>	<b>6,599</b>	<b>7,909</b>	<b>10,700</b>	<b>15,828</b>	<b>19,560</b>	<b>18,695</b>	<b>21,308</b>	
Inventory	3,120	3,142	3,976	6,206	8,360	10,408	10,101	11,752	
Sundry Debtors	2,109	1,937	2,355	2,942	5,353	5,766	6,627	7,725	
Cash & Bank Balances	477	711	417	367	473	830	504	200	
Loans & Advances	883	809	1,161	1,185	1,641	2,555	1,464	1,631	
<b>Current Liab. &amp; Prov.</b>	<b>6,825</b>	<b>6,360</b>	<b>6,105</b>	<b>7,094</b>	<b>10,750</b>	<b>12,762</b>	<b>13,155</b>	<b>15,229</b>	
Sundry Creditors	3,307	2,833	3,523	4,654	7,116	8,006	9,709	11,289	
Other Liabilities	3,464	3,501	2,544	2,393	3,566	4,643	3,316	3,794	
Provisions	54	26	38	47	68	112	130	146	
<b>Net Current Assets</b>	<b>-237</b>	<b>239</b>	<b>1,804</b>	<b>3,606</b>	<b>5,078</b>	<b>6,798</b>	<b>5,540</b>	<b>6,080</b>	
<b>Application of Funds</b>	<b>15,667</b>	<b>16,840</b>	<b>17,511</b>	<b>19,746</b>	<b>27,317</b>	<b>34,296</b>	<b>37,162</b>	<b>41,413</b>	

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>46.8</b>	<b>20.2</b>	<b>45.8</b>	<b>76.0</b>	<b>117.6</b>	<b>144.2</b>	<b>174.5</b>	<b>230.6</b>
EPS Growth (%)	193.1	-56.9	127.0	65.8	54.8	22.6	21.0	32.2
Cash EPS	125.5	115.8	136.9	173.5	223.5	290.8	344.5	419.9
Book Value per Share	348.4	363.7	463.3	540.8	651.9	785.0	941.5	1,150.1
DPS	0.0	0.0	0.0	3.8	11.3	11.3	18.0	22.0
Payout (Incl. Div. Tax) %	0.0	0.0	0.0	4.9	9.6	7.8	10.3	9.5
FCF per share	-11.4	83.0	123.1	53.1	126.9	-40.4	191.9	175.5
<b>Valuation (x)</b>								
P/E	92.6	214.7	94.6	57.0	36.8	30.1	24.8	18.8
Cash P/E	34.5	37.4	31.6	25.0	19.4	14.9	12.6	10.3
EV/EBITDA	22.9	24.1	22.5	18.5	15.0	12.1	10.2	8.5
EV/Sales	5.2	6.4	6.3	4.4	3.2	2.4	2.1	1.7
Price to Book Value	12.4	11.9	9.4	8.0	6.6	5.5	4.6	3.8
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.3	0.3	0.4	0.5
<b>Profitability Ratios (%)</b>								
RoE	14.3	5.7	11.3	15.1	19.7	20.1	20.2	22.1
RoCE (post tax)	12.6	8.8	9.7	11.5	14.3	15.2	15.0	16.7
RoIC	13.1	9.3	10.1	11.9	14.7	15.9	16.1	18.5
<b>Turnover Ratios</b>								
Debtors (Days)	43	48	56	49	61	47	48	48
Inventory (Days)	63	77	94	103	96	85	73	73
Creditors (Days)	67	70	83	77	82	66	70	70
Working Capital (Days)	-5	6	43	60	58	56	40	38
Asset Turnover (x)	1.2	0.9	0.9	1.1	1.2	1.3	1.4	1.4
Fixed Asset Turnover	1.0	0.7	0.7	0.9	1.1	1.3	1.2	1.3
<b>Leverage Ratio</b>								
Net Debt/Equity (x)	1.1	1.1	0.6	0.6	0.8	0.9	0.6	0.4

### Cash Flow Statement

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E
(INR Million)								
<b>Profit before Tax</b>	<b>1,380</b>	<b>536</b>	<b>1,476</b>	<b>2,484</b>	<b>3,548</b>	<b>4,438</b>	<b>5,425</b>	<b>7,130</b>
Depreciation & Amort.	1,583	1,962	1,924	2,060	2,216	2,777	3,189	3,502
Direct Taxes Paid	-249	-215	-226	-368	-726	-1,074	-1,339	-1,765
(Inc)/Dec in Working Capital	2	-433	-352	-1,519	105	-1,363	931	-843
Interest/Div. Received	-15	-27	-52	-39	-73	-172	-161	-178
Other Items	1,278	1,238	792	606	1,007	1,745	1,676	1,573
<b>CF from Oper. Activity</b>	<b>3,979</b>	<b>3,061</b>	<b>3,561</b>	<b>3,224</b>	<b>6,077</b>	<b>6,352</b>	<b>9,721</b>	<b>9,419</b>
Extra-ordinary Items	0	0	0	0	0	0	0	0
<b>CF after EO Items</b>	<b>3,979</b>	<b>3,061</b>	<b>3,561</b>	<b>3,224</b>	<b>6,077</b>	<b>6,352</b>	<b>9,721</b>	<b>9,419</b>
(Inc)/Dec in FA+CWIP	-4,209	-1,390	-961	-2,103	-3,396	-7,205	-5,669	-5,713
<b>Free Cash Flow</b>	<b>-230</b>	<b>1,671</b>	<b>2,600</b>	<b>1,121</b>	<b>2,681</b>	<b>-854</b>	<b>4,052</b>	<b>3,706</b>
Interest/dividend received	15	13	12	14	65	172	161	178
(Pur)/Sale of Invest.	37	1	27	28	2	10	1,785	1,500
Others					-3,746			
<b>CF from Inv. Activity</b>	<b>-4,157</b>	<b>-1,376</b>	<b>-922</b>	<b>-2,061</b>	<b>-7,075</b>	<b>-7,022</b>	<b>-3,723</b>	<b>-4,035</b>
Issue of Shares	0	0	1,456	-19	0	0	0	0
Inc/(Dec) in Debt	2,676	-771	-2,387	10	2,042	3,937	-840	-650
Interest Paid	-1,224	-1,377	-1,093	-769	-1,027	-1,745	-1,676	-1,573
Dividends Paid	-12	-61	0	0	-79	-238	-380	-465
Others	-1,412	929	-936	-423	0	0	0	0
<b>CF from Fin. Activity</b>	<b>28</b>	<b>-1,280</b>	<b>-2,960</b>	<b>-1,200</b>	<b>936</b>	<b>1,954</b>	<b>-2,896</b>	<b>-2,688</b>
<b>Inc/(Dec) in Cash</b>	<b>-150</b>	<b>405</b>	<b>-322</b>	<b>-37</b>	<b>-63</b>	<b>1,283</b>	<b>3,102</b>	<b>2,696</b>

E: MOFSL Estimates

# Samvardhana Motherson International

BSE SENSEX  
73,105S&P CNX  
22,218

CMP: INR128

TP: INR150 (+18%)

Buy



## Stock Info

Bloomberg	MOTHERSO IN
Equity Shares (m)	6776
M.Cap.(INRb)/(USD\$b)	864.3 / 10.3
52-Week Range (INR)	133 / 77
1, 6, 12 Rel. Per (%)	7/28/41
12M Avg Val (INR M)	1759
Free float (%)	39.7

## Financials Snapshot (INR b)

INR Billion	2024E	2025E	2026E
Sales	976	1,166	1,271
EBITDA	86.7	111.1	122.1
Adj. PAT	22.6	42.4	50.5
EPS (Rs)	3.3	6.3	7.4
EPS Growth (%)	44.2	88.1	18.9
BV/Share (INR)	35.6	40.0	45.2

## Ratios

Net D:E	0.5	0.4	0.2
RoE (%)	9.7	16.6	17.5
RoCE (%)	9.1	12.1	13.1
Payout (%)	30.0	30.0	30.0

## Valuations

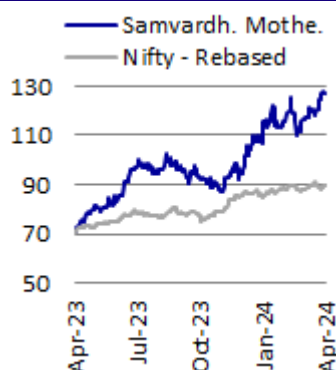
P/E (x)	38.3	20.4	17.1
P/BV (x)	3.6	3.2	2.8
Div. Yield (%)	0.7	1.5	1.8
FCF Yield (%)	0.1	7.3	8.0

## Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	60.4	64.8	64.8
DII	18.3	15.4	14.8
FII	12.4	10.8	10.9
Others	8.9	9.1	9.6

FII Includes depository receipts

## Stock Performance (1-year)



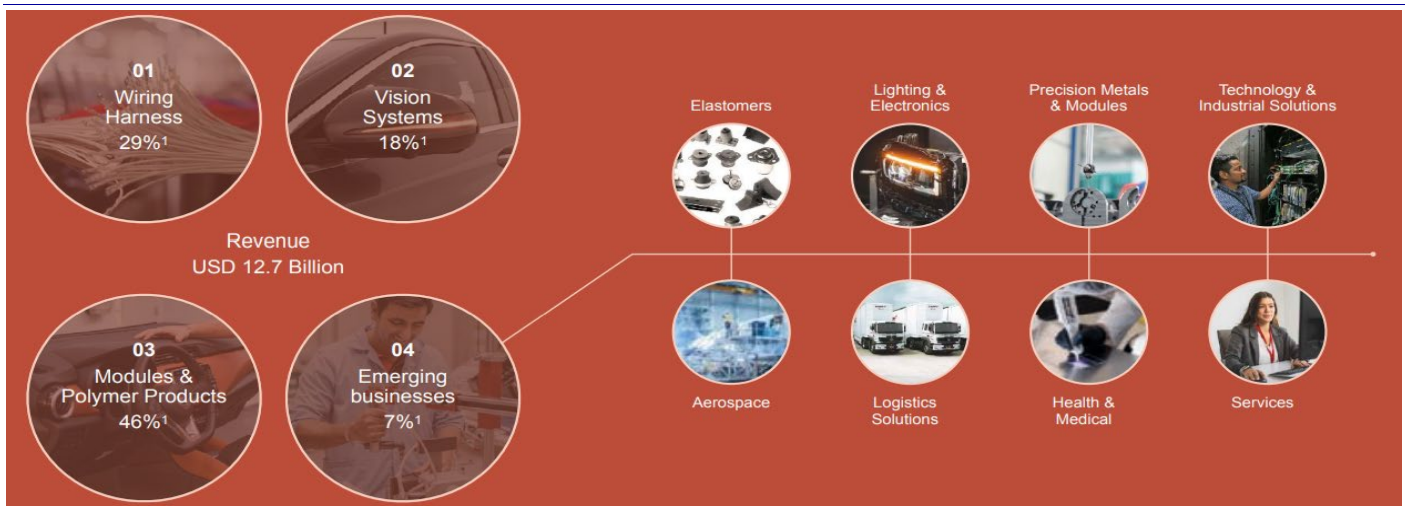
## Key beneficiary of global technology shifts

SAMIL is a market leader in wiring harnesses for PVs in India and CVs in the US and Europe. It is among the top players in the rear-view mirror business globally, a major supplier of plastic components (such as dashboards, bumpers, etc.) to premium OEMs worldwide, and a leading player in PV lighting systems in India. Given its well-diversified presence across components, geographies and customers, SAMIL is emerging as the key beneficiary of the growing popularity of EVs and the rising trend towards premiumization across segments. This is evident in a significant ramp-up in its order book, with its booked business scaling up to USD77.3b. Apart from this, SAMIL offers a huge scope for growth through inorganic opportunities – it has completed 15 acquisitions since Sep'22 and we expect these acquisitions to add INR 132bn in incremental net revenues to SAMIL in FY25E, apart from the synergy benefits on offer. Given its strong long-term growth opportunities and attractive valuations relative to peers, we reiterate our BUY rating on SAMIL with a TP of INR150, valued at 20x FY26E earnings.

- Continues to enjoy a well-diversified business model:** Over the years, SAMIL has developed a well-diversified business model that focuses on its principle of 3CX10 (vs. 3CX15 earlier) – this implies no country, customer, or client should account for more than 10% of its revenue. This has helped the company achieve a steady growth regardless of the end-market demand environment (achieved 6% revenue CAGR vs. 3% compounded volume decline in the global auto industry over the last five years). Further, the company continues to be a strong player in its key business segments. It is among the top 3 players globally for exterior rear-view mirrors, a market leader in PV wiring harness in India, and a major player in wiring harness for CVs in North America and Europe. Additionally, the company is a critical supplier of polymer parts to luxury OEMs worldwide, one of the leading lighting suppliers in India, and one of the largest shock absorber exporters from India.
- To be a key beneficiary of the evolving mega trends in Autos:** SAMIL is emerging as one of the major beneficiaries of the rising premiumization trend and EV transition, which in turn is expected to drive higher content going forward. A few indicators of increasing content per vehicle for SAMIL include the following: when transitioning to sedans and SUVs, the content surges 1.4-1.5x in the case of wiring harnesses, 1.4-1.7x for bumpers, 1.2-2.5x for door panels, and 1.7-3.0x for rear-view mirrors. Similarly, transitioning from ICE to EVs results in a 2.4x increase in the content for 4W wiring harnesses, an 8x increase for 2W wiring harnesses, a 1.5x increase for bumpers, a 3.3x increase for door panels, and a 1.4x increase for mirrors. These favorable trends have led to a notable ramp-up in its order book, with the booked business reaching USD77.3b (22% orders from EVs).

- Closure of recent acquisitions provides huge growth opportunities:** Taking advantage of the global macro headwinds and at the customer’s behest, SAMIL has acquired 15 entities since Sep’22, whose combined pro forma net revenue stood at USD2.8b. Apart from this, these entities offer multiple synergy benefits, which include entry into the Japanese supplier network (Yachio + Ichikoh), evolution as a cockpit assembler (SAS), complimentary new segment addition (Yachio + Dr. Schneider), and strong opportunities in aerospace and medical equipment (Cirma, AD Industries, Irillic, and SMAST). Beyond the synergy benefits that would accrue over a long term basis, we expect incremental net revenues of INR 132bn to accrue to SAMIL for FY25E due to these acquisitions. These acquisitions provide SAMIL with significant growth opportunities in the long run, in our view.
- Aggressive targets indicate ambitions; disciplined approach has been the key:** SAMIL has a track record of setting ambitious five-year targets since 2000. Its 2025 targets include revenue of USD36b, RoCE and dividend payout of 40%, and 3CX10. While most of its targets until 2015 have been achieved, it missed its target by a margin in 2020 and is likely to miss its target even in 2025. However, management has always refrained from acquiring entities solely to meet its targets, as was evident immediately post-Covid. Thus, while its aggressive targets highlight management’s growth aspirations, its disciplined approach would help generate long-term shareholder returns, in our view. The same can also be highlighted by the fact that they acquired 15 entities post Sep2022, after patiently waiting throughout the entire COVID period for the right opportunity.
- “Quality” company available at attractive valuations:** We expect SAMIL to continue outperforming the global automobile sales, fueled by rising premiumization and EV transition, a robust order backlog; and successful integration of recent acquisitions. Accordingly, we expect SAMIL’s margin to improve 70bp over our forecast period. This would in turn drive 50% earnings CAGR over FY24-26E. At CMP, the stock is attractively valued at 17.1x FY26E relative to its peers. We reiterate our BUY rating on SAMIL with a TP of INR150, valued at 20x FY26E earnings.

**Exhibit 59: SAMIL – Well diversified portfolio with 98% powertrain-agnostic products**



Source: SAMIL, MOFSL

Exhibit 60: SOPs for already announced Greenfield projects

Division	# of Greenfield Facilities (Country)	Expected SOP
Wiring Harness	02 (India)	Q1FY25 / Q2FY25
Modules & Polymer	02 (India, China)	Q1FY25
Lighting and Electronics	02 (India)	Q2FY25
Precision Metal and Modules	02 (India)	Q3FY25
Technology and Industrial Solutions	01 (India)	Q4FY26
Aerospace	02 (India)	Q2FY25 / Q4FY25
Health and Medical	01 (India)	Q1FY25

Source: SAMIL, MOFSL

Exhibit 61: Inorganic growth opportunities

### 06.2 Full growth potential to be unlocked in coming times.

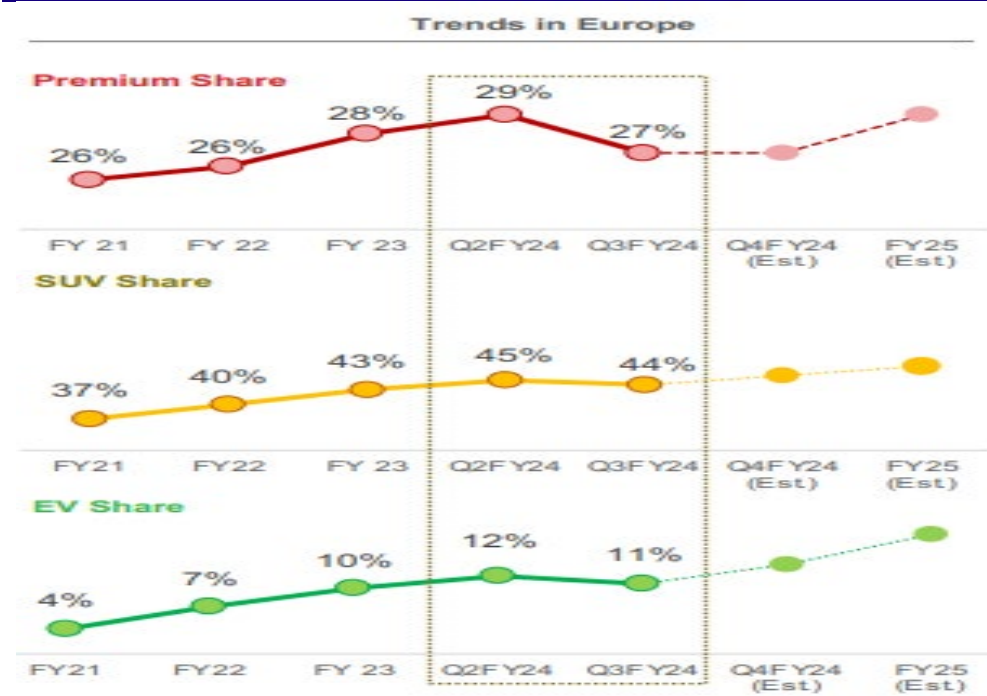
Cumulatively these transactions are expected to be cash EPS accretive.

- 07 acquisitions since April 2022.
- Combined Proforma Revenue:
  - USD ~1.1 Bn. (Net)
  - USD ~4.9 Bn. (Gross<sup>1</sup>)
- 40+ facilities added.
- 8,000+ employees joined the Motherson family.

No.	Acquisitions.	New Capability/ Rationale to support our customers.	Closing Status.
01	DICV Frame & Assembly	Becomes principal manufacturer of long-members for the Frame Assembly business for Daimler trucks	Closed (Feb 2023)
02	Ichikoh Industries	Entry for vision systems into highly lucrative Japanese automotive market	Q2FY24
03	Saddles	Foray into automotive upholstery business	Q1FY24
04	SAS Autosystemtechnik	Further strengthens position as Tier 0.5 supplier	Q2FY24
05	FMCEL	Full benefit of impending growth in off highway segment	Closed (Mar 2023)
06	Bolta	Chrome plated polymer parts, only approved chrome part supplier to a leading German OEM in the USA	Closed (April 2023)
07	YMAT	Full benefit of vertical integration	Closed (June 2023)

Source: SAMIL, MOFSL

Exhibit 62: One of the beneficiary of the premiumization trend globally



Source: SAMIL, MOFSL

**Exhibit 63: SAMIL- Details of acquisitions completed recently**

Acquisition	Net revenue INR	Valuation INR mn	Financials integrated	Under which entity	Comments
Bolta	4880.4	INR 1.3bn	wef Q1FY24	SMP	❖ engaged in the manufacturing and sale of chrome plated exterior and interior polymer components for automotive applications
Ichikoh	8681	JPY 5.2bn	Q2FY24	SMR	❖ strong presence with Japanese OEMs in rear view mirrors
Saddles	4500	INR 2070mn	Q2FY24	SMP	❖ premium upholstery for PVs, seat covers, gear knobs, wrapping of dor panels etc
SAS	80640	INR 48.8	Q2FY24	Integrated assembly	❖ The order book on hand is Euro 3bn in cumulative net orders over next 3 years
Dr Schneider	42480	EV of about Euro 118mn	Q3FY24	SMP	❖ Tehnology leader in air vents, decorative interior components with illumination like smart surfaces and lighting modules with strong presence in premium vehicles
Yachio	67338	Equity value of JPY 22.9bn	Q1FY25	SMP	❖ sunroof, fuel tanks and plastic products for Autos, entry into Japanese OEMs, part of Honda
Lumen Industries	5810	EV of Euro 56mn	Q1FY25	SMRPBV	❖ entry into the OEM branded genuine accessories segment
AD Industries	13500	INR 3.1bn	Q1FY25	SMRPBV	❖ engaged in design, development, manufacturing, and distribution of real time Fluorescence Imaging and Laparoscopy Imaging systems for the medical device ecosystem

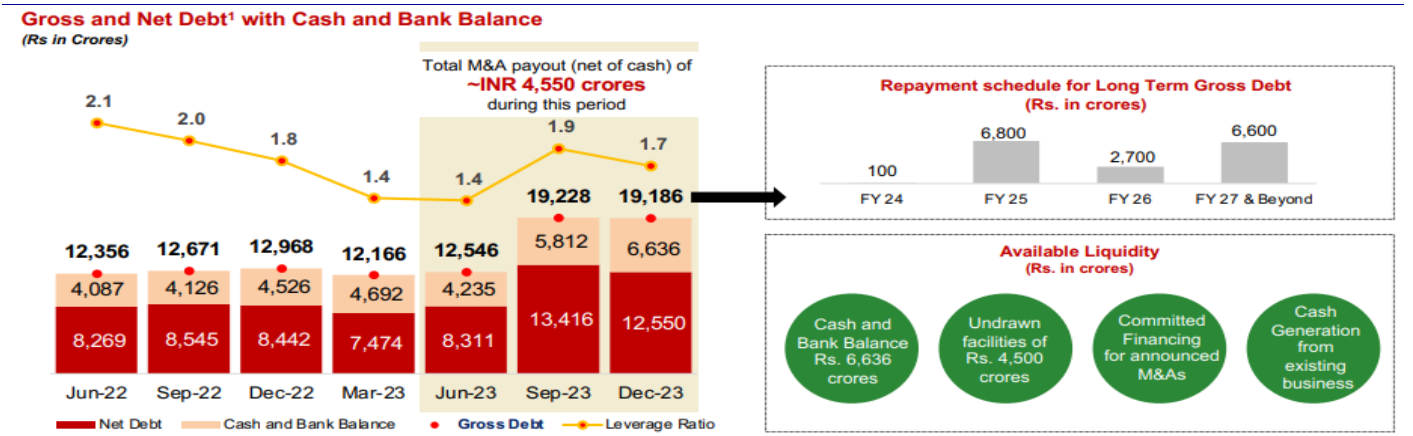
Source: SAMIL, MOFSL

**Exhibit 64: Continues focus on diversification: 3CX10**



Source: SAMIL, MOFSL

**Exhibit 65: Despite multiple acquisitions, leverage has been under control**



Source: SAMIL, MOFSL

**Exhibit 66: SAMIL- Consol revenue expected to witness ~14% CAGR over FY24-26E**

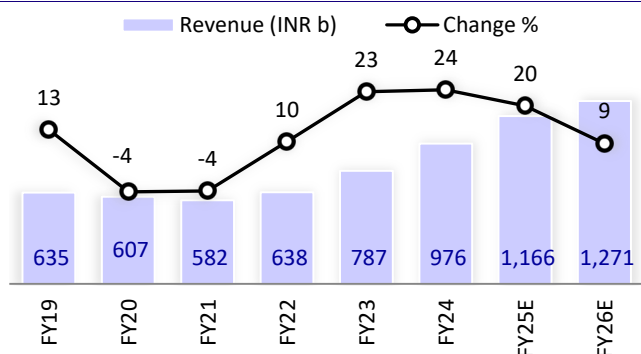
Vertical wise Revenues (INR m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Wiring harness</b>	<b>1,81,090</b>	<b>2,19,700</b>	<b>2,65,013</b>	<b>3,13,054</b>	<b>3,41,806</b>	<b>3,71,552</b>
Growth %		21	21	18	9	9
<b>Vision systems</b>	<b>1,30,140</b>	<b>1,34,480</b>	<b>1,65,688</b>	<b>1,86,101</b>	<b>2,05,893</b>	<b>2,19,430</b>
Growth %		3	23	12	11	7
- SMR	1,11,368	1,31,719	1,59,890	1,79,588	1,98,687	2,11,751
- Others	18,772	2,761	5,799	6,513	7,206	7,679
<b>Modules &amp; Polymer products</b>	<b>3,32,370</b>	<b>3,53,200</b>	<b>4,22,557</b>	<b>4,87,605</b>	<b>5,78,919</b>	<b>6,18,362</b>
Growth %		6	20	15	19	7
- SMP	3,04,832	3,19,034	3,73,846	4,27,979	5,10,419	5,43,979
- SAMIL S/A		22,113	30,729	35,953	40,267	44,294
- Others	27,538	12,052	17,982	23,673	28,233	30,089
<b>Integrated assemblies</b>				<b>69,246</b>	<b>1,10,375</b>	<b>1,20,993</b>
Growth %					59	10
<b>Emerging businesses</b>	<b>33,900</b>	<b>25,600</b>	<b>68,269</b>	<b>81,408</b>	<b>90,129</b>	<b>1,14,888</b>
Growth %		-24	167	19	16	9
Less: Eliminations/Intersegment sales	12,710	15,070	24,017	32,045	37,178	40,634
<b>Total</b>	<b>6,64,790</b>	<b>7,17,910</b>	<b>8,97,510</b>	<b>11,05,368</b>	<b>12,90,620</b>	<b>14,05,499</b>
Less: JVs consolidated as per equity method	82,540	55,597	1,10,503	1,29,867	1,46,496	1,63,392
Less: Discontinued Ops						
<b>Reported revenues</b>	<b>5,82,250</b>	<b>6,62,313</b>	<b>7,87,007</b>	<b>9,75,502</b>	<b>11,65,981</b>	<b>12,71,433</b>
Growth %		14	19	24	19	9

Source: Company, MOFSL

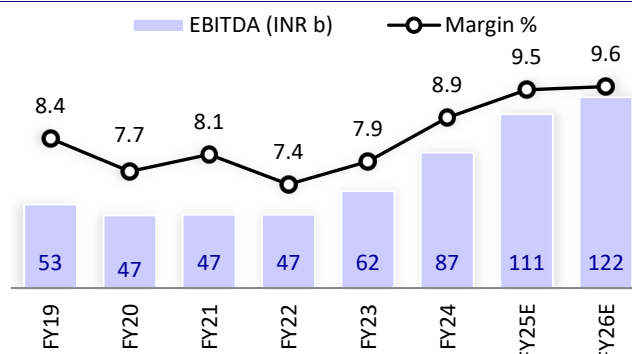
**Exhibit 67: SAMIL- Consol EBITDA margin to expand 70bp over FY24-26E**

Vertical wise EBITDA Margins (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Wiring harness</b>	<b>10.1</b>	<b>8.7</b>	<b>8.6</b>	<b>9.6</b>	<b>11.1</b>	<b>11.3</b>
<b>Vision systems</b>	<b>11.0</b>	<b>9.6</b>	<b>10.3</b>	<b>9.4</b>	<b>10.1</b>	<b>10.1</b>
<b>Modules &amp; Polymer products</b>	<b>6.6</b>	<b>6.9</b>	<b>6.4</b>	<b>7.9</b>	<b>8.3</b>	<b>8.3</b>
Integrated assemblies				11.5	12.0	12.0
Others	9.3	9.0	11.3	12.0	12.0	12.0
Less: Eliminations/Intersegment sales	4.5	7.6	5.3	5.3	6.0	6.0
<b>Total EBITDA</b>	<b>8.6</b>	<b>8.0</b>	<b>8.2</b>	<b>9.2</b>	<b>10.0</b>	<b>10.1</b>
Less: JVs consolidated as per equity method	12.6	7.7	8.7	10.2	12.0	12.3
<b>Reported EBITDA</b>	<b>8.0</b>	<b>7.3</b>	<b>8.1</b>	<b>9.1</b>	<b>9.7</b>	<b>9.8</b>

Source: Company, MOFSL

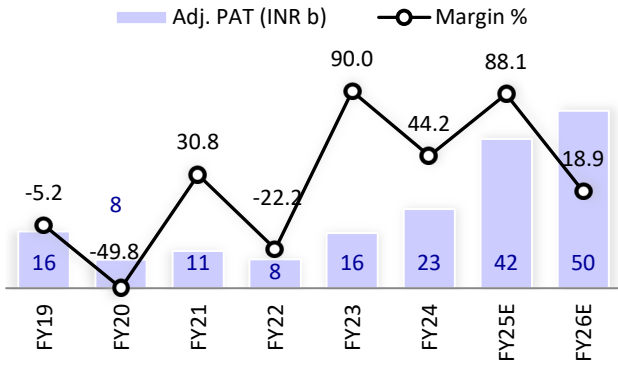
**Exhibit 68: Consol revenue and growth trend**

Source: Company, MOFSL

**Exhibit 69: EBITDA margin to expand 70bp over next 2 years**

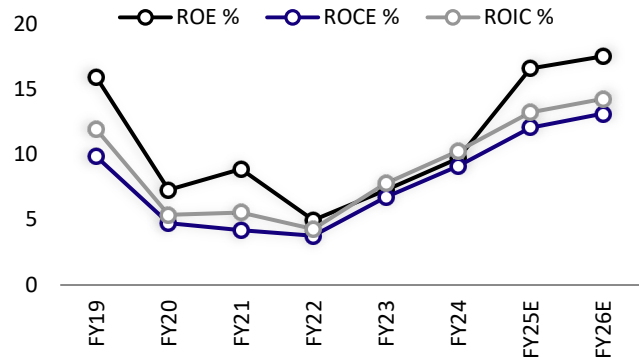
Source: Company, MOFSL

**Exhibit 70: Adj. PAT is expected to grow ~50% CAGR by FY26**



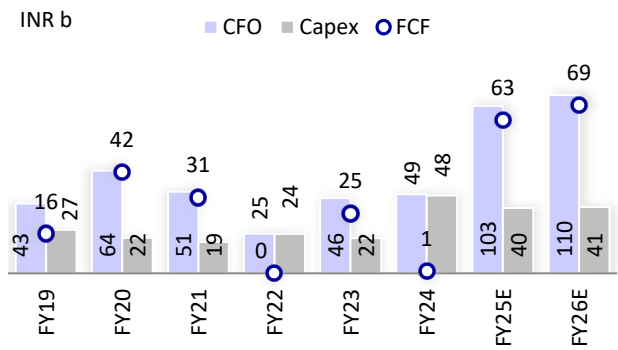
Source: Company, MOFSL

**Exhibit 71: ...driving expansion in return ratios**



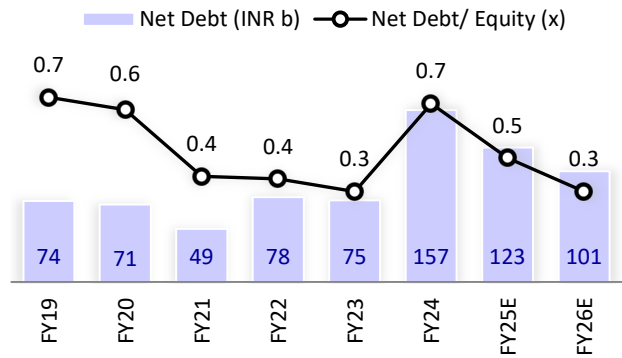
Source: Company, MOFSL

**Exhibit 72: CFO to jump ~2.3x over FY24-26E...**



Source: Company, MOFSL

**Exhibit 73: ...should aid net debt reduction**



Source: Company, MOFSL

## Financials and valuations

### Consolidated - Income Statement

(INR Million)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Total Income from Operations</b>	<b>6,35,229</b>	<b>6,07,290</b>	<b>5,82,250</b>	<b>6,37,740</b>	<b>7,87,007</b>	<b>9,75,502</b>	<b>11,65,981</b>	<b>12,71,433</b>
Change (%)	12.8	-4.4	-4.1	9.5	23.4	24.0	19.5	9.0
Raw Materials	3,67,383	3,49,687	3,25,979	3,67,363	4,53,174	5,56,854	6,84,774	7,47,036
Employees Cost	1,41,694	1,43,726	1,40,996	1,53,746	1,79,314	2,20,556	2,38,201	2,50,111
Other Expenses	72,668	67,335	63,135	69,637	92,442	1,11,362	1,31,898	1,52,194
<b>Total Expenditure</b>	<b>5,81,745</b>	<b>5,60,748</b>	<b>5,30,110</b>	<b>5,90,746</b>	<b>7,24,929</b>	<b>8,88,772</b>	<b>10,54,873</b>	<b>11,49,341</b>
% of Sales	91.6	92.3	91.0	92.6	92.1	91.1	90.5	90.4
<b>EBITDA</b>	<b>53,484</b>	<b>46,542</b>	<b>46,880</b>	<b>46,994</b>	<b>62,077</b>	<b>86,729</b>	<b>1,11,108</b>	<b>1,22,093</b>
Margin (%)	8.4	7.7	8.1	7.4	7.9	8.9	9.5	9.6
Depreciation	20,582	27,210	30,260	29,582	31,358	37,478	41,078	44,678
<b>EBIT</b>	<b>32,902</b>	<b>19,332</b>	<b>16,620</b>	<b>17,412</b>	<b>30,719</b>	<b>49,251</b>	<b>70,030</b>	<b>77,414</b>
Interest Charges	4,232	5,928		5,426	7,809	19,599	13,333	10,381
<b>PBT bef. EO Exp.</b>	<b>30,872</b>	<b>15,649</b>	<b>16,620</b>	<b>14,562</b>	<b>25,480</b>	<b>33,452</b>	<b>61,257</b>	<b>72,278</b>
Tax Rate (%)	35.7	44.0	33.6	43.1	30.0	32.0	30.0	30.0
Minority Interest	3,719	669	440	-290	2,178	972	435	111
<b>Reported PAT</b>	<b>16,132</b>	<b>8,099</b>	<b>10,590</b>	<b>8,304</b>	<b>14,956</b>	<b>20,073</b>	<b>42,445</b>	<b>50,484</b>
<b>Adjusted PAT</b>	<b>16,132</b>	<b>8,099</b>	<b>10,590</b>	<b>8,237</b>	<b>15,652</b>	<b>22,568</b>	<b>42,445</b>	<b>50,484</b>
Change (%)	-5.2	-49.8	30.8	-22.2	90.0	44.2	88.1	18.9

### Consolidated - Balance Sheet

(INR Million)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	3,158	3,158	4,518	4,518	6,776	6,776	6,776	6,776
Total Reserves	78,412	81,394	1,21,088	2,01,365	2,17,739	2,34,285	2,63,996	2,99,334
<b>Net Worth</b>	<b>1,09,627</b>	<b>1,12,609</b>	<b>1,25,606</b>	<b>2,05,882</b>	<b>2,24,515</b>	<b>2,41,061</b>	<b>2,70,772</b>	<b>3,06,111</b>
Minority Interest	34,797	35,650	40,233	17,763	19,254	22,504	25,884	29,399
Total Loans	1,09,428	1,19,651	1,07,580	1,27,609	1,21,657	1,91,657	1,41,657	1,35,157
Deferred Tax Liabilities	-6,123	-5,030	-10,224	-11,486	-13,645	-13,645	-13,645	-13,645
<b>Capital Employed</b>	<b>2,47,730</b>	<b>2,62,881</b>	<b>2,63,195</b>	<b>3,39,768</b>	<b>3,51,781</b>	<b>4,41,577</b>	<b>4,24,668</b>	<b>4,57,022</b>
<b>Net Fixed Assets</b>	<b>1,19,674</b>	<b>1,39,871</b>	<b>1,92,782</b>	<b>1,75,128</b>	<b>1,88,750</b>	<b>2,04,050</b>	<b>2,08,471</b>	<b>2,06,793</b>
Goodwill	22,118	24,060	24,718	33,743	37,726	58,036	58,036	58,036
Capital WIP	10,463	8,154	8,769	13,097	14,779	10,000	7,500	7,500
<b>Total Investments</b>	<b>2,389</b>	<b>1,614</b>	<b>2,581</b>	<b>7,212</b>	<b>6,834</b>	<b>26,834</b>	<b>26,834</b>	<b>26,834</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>1,57,377</b>	<b>1,63,943</b>	<b>1,78,716</b>	<b>1,94,908</b>	<b>2,27,640</b>	<b>2,56,730</b>	<b>2,82,922</b>	<b>3,21,880</b>
Inventory	46,635	51,566	49,956	64,417	78,228	93,541	1,11,806	1,21,918
Account Receivables	61,663	51,784	56,931	65,731	85,135	1,06,904	1,27,779	1,39,335
Cash and Bank Balance	35,520	48,789	59,062	49,994	46,987	34,467	18,841	33,914
Loans and Advances	13,610	11,804	12,768	14,766	17,291	21,818	24,497	26,712
<b>Curr. Liability &amp; Prov.</b>	<b>1,79,449</b>	<b>1,87,047</b>	<b>2,07,430</b>	<b>2,11,447</b>	<b>2,53,091</b>	<b>2,63,217</b>	<b>3,08,240</b>	<b>3,33,165</b>
Account Payables	1,06,613	1,03,091	1,11,407	1,24,775	1,41,363	1,58,326	1,77,326	1,98,605
Other Current Liabilities	70,371	81,151	89,575	81,567	1,06,258	96,144	1,20,459	1,23,160
Provisions	2,465	2,805	6,449	5,104	5,471	8,747	10,455	11,400
<b>Net Current Assets</b>	<b>-22,072</b>	<b>-23,104</b>	<b>-28,714</b>	<b>-16,538</b>	<b>-25,451</b>	<b>-6,487</b>	<b>-25,317</b>	<b>-11,285</b>
Other non-current asset	1,15,107	1,12,286	63,060	1,27,126	1,29,145	1,49,145	1,49,145	1,69,145
<b>Appl. of Funds</b>	<b>2,47,730</b>	<b>2,62,881</b>	<b>2,63,195</b>	<b>3,39,768</b>	<b>3,51,781</b>	<b>4,41,577</b>	<b>4,24,668</b>	<b>4,57,022</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>								
EPS	5.1	2.6	1.6	1.2	2.3	3.3	6.3	7.4
BV/Share	34.7	35.7	18.5	30.4	33.1	35.6	40.0	45.2
DPS	1.5	1.5	1.0	0.4	0.7	0.9	1.9	2.2
Payout (%)	34.2	68.1	64.0	35.4	29.5	30.0	30.0	30.0
<b>Valuation (x)</b>								
P/E	25.0	49.7	81.6	104.9	55.2	38.3	20.4	17.1
P/BV	3.7	3.6	6.9	4.2	3.8	3.6	3.2	2.8
EV/Sales	0.9	1.0	1.0	1.0	1.1	1.0	0.8	0.7
EV/EBITDA	9.9	11.9	12.4	13.5	14.3	11.2	8.4	7.5
Dividend Yield (%)	1.2	1.2	0.8	0.3	0.5	0.7	1.5	1.8
FCF per share (Eco. Int. basis)	5.2	13.2	4.6	0.0	3.6	0.1	9.3	10.2
<b>Return Ratios (%)</b>								
RoE	15.9	7.3	8.9	5.0	7.3	9.7	16.6	17.5
RoCE (post-tax)	9.8	4.7	4.2	3.8	6.7	9.1	12.1	13.1
RoIC	11.9	5.4	5.6	4.3	7.8	10.3	13.2	14.3
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	3.6	2.7	2.4	2.4	2.5	2.8	3.1	3.0
Asset Turnover (x)	2.6	2.3	2.2	1.9	2.2	2.2	2.7	2.8
Inventory (Days)	27	31	31	37	36	35	35	35
Debtor (Days)	35	31	36	38	39	40	40	40
Creditor (Days)	61	62	70	71	66	59	56	57
<b>Leverage Ratio (x)</b>								
Current Ratio	0.9	0.9	0.9	0.9	0.9	1.0	0.9	1.0
Interest Cover Ratio	7.8	3.3	NA	3.2	3.9	2.5	5.3	7.5
Net Debt/Equity	0.7	0.6	0.4	0.3	0.3	0.5	0.4	0.2

### Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	32,003	21,129	16,129	19,088	24,048	30,949	61,257	72,278
Depreciation	20,582	27,780	29,764	29,964	31,358	37,478	41,078	44,678
Interest & Finance Charges	3,878	5,626	4,544	4,346	7,809	19,599	13,333	10,381
Direct Taxes Paid	-10,498	-10,776	-5,600	-8,324	-8,535	-9,904	-18,377	-21,683
(Inc)/Dec in WC	-958	16,202	6,432	-20,797	-6,846	-31,484	3,204	1,041
Others	-1,883	3,561	-757	351	-1,405	2,278	2,945	3,405
<b>CF from Operating incl EO</b>	<b>43,124</b>	<b>63,521</b>	<b>50,512</b>	<b>24,627</b>	<b>46,431</b>	<b>48,917</b>	<b>1,03,440</b>	<b>1,10,099</b>
(Inc)/Dec in FA	-26,853	-21,943	-19,325	-24,363	-21,829	-48,000	-40,455	-40,890
<b>Free Cash Flow</b>	<b>16,271</b>	<b>41,578</b>	<b>31,187</b>	<b>264</b>	<b>24,602</b>	<b>917</b>	<b>62,984</b>	<b>69,209</b>
(Pur)/Sale of Investments	-7,230	-1,210	-45	-123	-279	-20,000	0	0
Others	978	753	436	1,367	-340	0	0	0
<b>CF from Investments</b>	<b>-33,105</b>	<b>-22,399</b>	<b>-18,934</b>	<b>-23,119</b>	<b>-22,448</b>	<b>-68,000</b>	<b>-40,455</b>	<b>-40,890</b>
Issue of Shares	0	0	0	0	-1,453	0	0	0
Inc/(Dec) in Debt	8,147	-6,214	-11,324	2,456	-10,562	70,000	-50,000	-6,500
Interest Paid	-4,159	-5,667	-4,141	-5,528	-8,083	-19,599	-13,333	-10,381
Dividend Paid	-6,395	-12,794	-1,576	-6,457	-3,308	-6,022	-12,733	-15,145
Others	81	-3,157	-3,859	-2,570	-3,936	0	0	0
CF from Fin. Activity	-2,326	-27,832	-20,900	-12,099	-27,342	44,379	-76,066	-32,026
<b>Inc/Dec of Cash</b>	<b>7,693</b>	<b>13,290</b>	<b>10,678</b>	<b>-10,591</b>	<b>-3,359</b>	<b>25,296</b>	<b>-13,082</b>	<b>37,184</b>
Opening Balance	27,816	35,469	48,688	59,367	48,775	45,416	70,712	57,630
<b>Closing Balance</b>	<b>35,509</b>	<b>48,758</b>	<b>59,367</b>	<b>48,775</b>	<b>45,416</b>	<b>70,712</b>	<b>57,630</b>	<b>94,814</b>

## Happy Forgings

BSE SENSEX  
73,105S&P CNX  
22,218

CMP: INR970 TP: INR1,115 (+15%)

Buy



HAPPY FORGINGS LIMITED

## Stock Info

Bloomberg	HAPPYFOR IN
Equity Shares (m)	94
M.Cap.(INRb)/(USDb)	91.3 / 1.1
52-Week Range (INR)	1088 / 813
1, 6, 12 Rel. Per (%)	6/-/-
12M Avg Val (INR M)	342
Free float (%)	21.4

## Financials Snapshot (INR b)

INR b	FY24E	FY25E	FY26E
Sales	13.7	16.5	20.0
EBITDA	3.9	4.8	6.0
Adj. PAT	2.4	3.2	4.0
EPS (INR)	25.3	33.6	42.9
EPS growth %	8.3	32.9	27.8
BV/Sh. (INR)	170	198	232

## Ratios

RoE (%)	18.4	18.3	19.9
RoCE (%)	16.8	17.3	19.1
RoIC	19.5	21.4	23.2

## Valuations

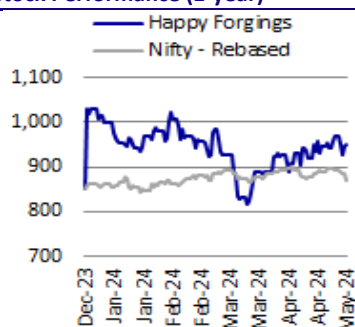
P/E (x)	38.4	28.9	22.6
P/BV (x)	5.7	4.9	4.2
EV/EBITDA (x)	23.8	18.3	14.6
EV/Sales (x)	6.8	5.3	4.4
Div. Yield (%)	0.3	0.5	0.9

## Shareholding pattern (%)

As On	Mar-24	Dec-23
Promoter	78.6	78.6
DII	16.9	5.8
FII	1.1	2.1
Others	3.4	13.5

FII Includes depository receipts

## Stock Performance (1-year)



## Opportunities galore

With over four decades of industry experience, Happy Forgings (HFL) is ranked as the fourth-largest engineering-led manufacturer in India for complex and safety-critical, heavy forged, and high-precision machined components. The company is well-established within the industries and customer segments it serves, including: a) supplier to each of the top 5 domestic CV OEMs (CVs contribute to 41% of revenue), b) supplier to 4 of the top 5 tractor OEMs in India (32% revenue contribution from tractors), c) off-highway vehicles (14%), and d) industrials (13%). HFL has a healthy order backlog of INR 12bn across key segments including CVs, PVs and Industrials which is likely to help it outperform the auto segment over our forecast period. We expect a 21%/24%/30% CAGR in standalone revenue/EBITDA/ PAT during FY24E-26. Given its strong growth opportunities going forward, we reiterate our BUY rating on the stock with a TP of INR1,115 (based on 26x FY26E EPS).

- Ability to deliver safety-critical, complex forged and machined products:** HFL embarked on its journey by manufacturing basic forged components and evolved to manufacture complex and safety-critical products with tight tolerances. This transformation involved expanding capabilities in both light and heavy forgings, as well as machining processes. It is the second company in India to have 14,000 ton forging press and one of the four companies to have 8,000 ton or higher press. It is a supplier to each of the top five Indian OEMs in the M&HCV industry. The addition of the 14,000 ton press line in 3QFY23 has enabled the company to forge heavier, safety-critical parts, weighing up to 250Kgs, while also expanding its capabilities across various industries. Transitioning from solely a forgings player, HFL has now evolved into a fully machined player, with its machining mix increasing to 84% in 9MFY24 from 53% in FY14.
- Well-diversified mix to help offset cyclical uncertainty:** Over the years, HFL has successfully diversified its user industry across segments and customers. Its exports have surged to 20% in 9MFY24 from just 13% in 9MFY23. Additionally, its Industrials segment contribution has increased to 13% for 9MFY24 from just 4% in 9MFY23. This diversified customer base has helped HFL reduce cyclicity to its core segments, such as CVs and tractors. A case in point is the fact that despite weak demand in CVs (flat YoY) and tractors (-5% YoY) for 9MFY24, HFL has been able to deliver 13.5% YoY revenue growth, due to a strong performance in the Industrials (non-tractor) segment.
- New orders to drive near-term weakness in core Autos:** The major share of revenue for HFL is attributed to CV and Farm Equipment, constituting 41% and 32%, respectively, in 9MFY24. While the near-term demand outlook for both the CV and tractor industry appears subdued, we believe structural drivers are in place for a recovery in H2FY25. Further, we understand that HFL has won new orders for new CV products from major CV OEMs and also in the tractor segment. HFL has already secured orders to supply crankshafts to a large domestic SUV player in India. Also, over the last few weeks, HFL has reported couple of new order wins such as- i) supply of E-Axle component for Electric

SUV in US market with cumulative order value estimated at INR3.2b-3.5b over the contract period, and ii) order worth INR5b from a leading tier-1 PV manufacturer for supply of brake flange. Given these orders, HFL expects the contribution of its PV segment to increase to 5-6% of revenues by FY25. These new order wins are expected to help drive its outperformance to its core auto segments. We expect HFL's CV/tractor segment revenue to register a CAGR of 10%/15% over FY24-26, well ahead of our industry forecasts.

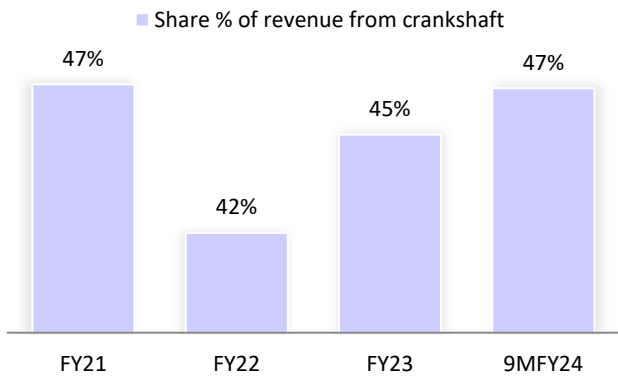
- **Industrials and exports to be the key growth drivers for HFL:** Following the successful installation of its 14k MT press, HFL experienced a major influx of new orders from the Industrials segment. This led to a spike in the segment's revenue contribution, which has risen to 13% for FY24YTD from just 4% in 9MFY23. HFL expects to ramp-up the utilization of this press to 80% in the coming years from the current utilization of 40%. Further, due to its relatively low manufacturing costs and favorable government policies promoting localization, India is now emerging as the key beneficiary of this trend. Several domestic vendors are witnessing renewed interests from global OEMs for sourcing from them. Like its peers, HFL is also emerging as one of the beneficiaries of this trend. This is evident from its 60% share of exports in the order book. Accordingly, management expects exports contribution to rise to 25% by FY25 from the current level of 20%.
- **Roadmap for strong growth in place:** We expect a 21% CAGR in standalone revenue for HFL over FY24-26, led by: i) stable growth in overall CV and farm equipment volumes, ii) addition of new products, iii) healthy order book, and iv) strategic initiatives to grow the businesses (Industrials and Exports). HFL's profitability is likely to improve, led by an increasing share of machining, improving utilization of heavy weight forgings press (14k tons), and better product mix as the company grows in the Industrials and Exports divisions. This should also result in an EBITDA CAGR of ~24% over FY24-26, leading to a gradual improvement in EBITDA margin to ~30% by FY26E (from 28.5% in FY24E). Moreover, PAT is likely to register a CAGR of ~30%. Healthy profitability, coupled with improving utilizations, should bode well for free cash flows and improvement in return ratios. The company has guided for an annualized capex of INR2b over the next few years. We expect aggregate operating cash flows and free cash flows of INR9.1b and INR3.1b over FY24-26E (vs. INR3.4b/-INR1.2b over FY21-23), respectively. RoE and RoCE are anticipated to expand to 19.9% and 19.1% by FY26 from 18.4% and 16.8% in FY24, respectively. HFL repaid almost INR1.5b worth of debt out of the total fresh issue of INR4b. Currently, its debt stands at INR1.39b (vs. INR2.18b in FY23).
- **Valuation & view:** Driven by new order wins in the Auto segment, we expect HFL to continue outperforming the core auto segments. Further, its healthy order wins in the Industrials and Exports segments would help drive an improved mix. We forecast a 21%/24%/30% CAGR in standalone revenue/ EBITDA/PAT during FY24E-26. HFL's superior financial track record relative to peers serves as a testament of its inherent operational efficiencies and is likely to be a key competitive advantage going forward. We reiterate our BUY rating on the stock with a TP of INR1,115 (based on 26x FY26E EPS).

**Exhibit 74: Multi-product company with a major focus on manufacturing complex, heavy forged, and high-precision products**



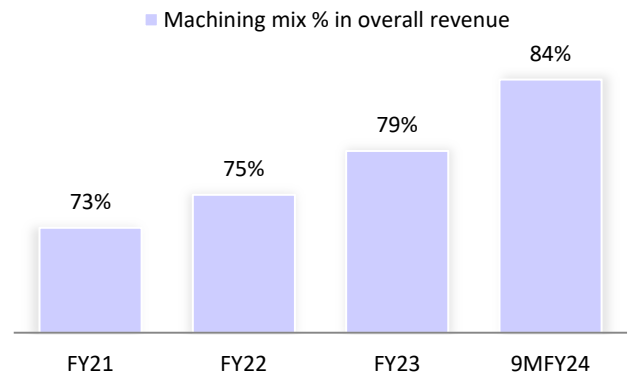
Source: Happy Forgings, MOFSL

**Exhibit 75: Crankshaft contribution at ~47% of revenues**



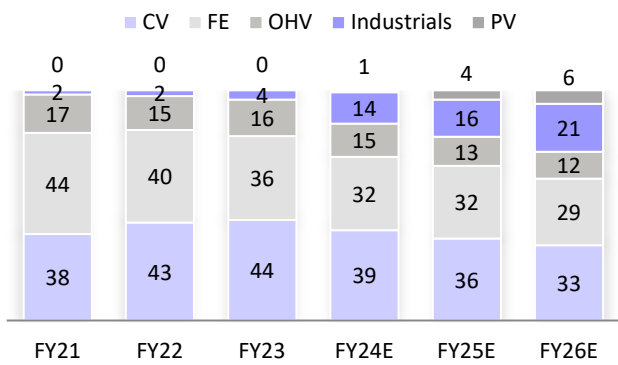
Source: Company, MOFSL

**Exhibit 76: Focusing on increasing the machining mix**



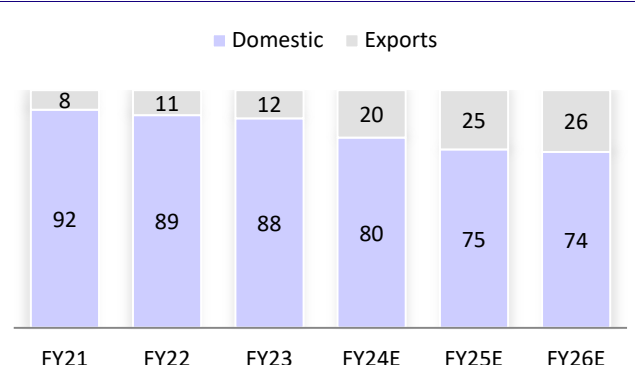
Source: Company, MOFSL

**Exhibit 77: Revenue mix % – Share of industrials to rise**



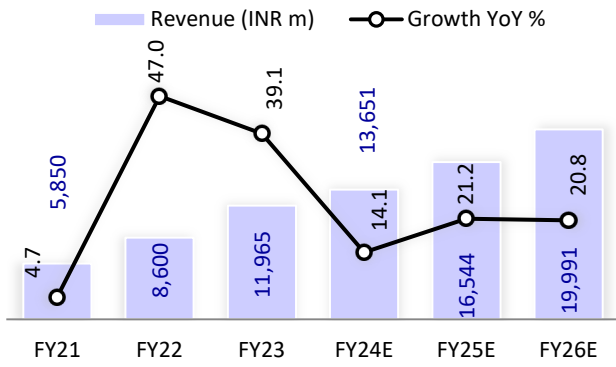
Source: Company, MOFSL

**Exhibit 78: Revenue share % of exports has been growing**



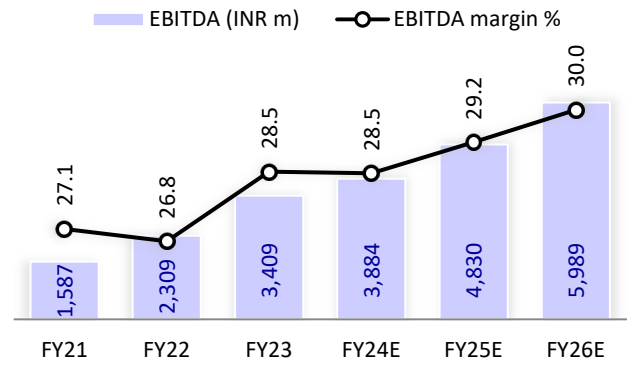
Source: Company, MOFSL

**Exhibit 79: Revenue to register ~21% CAGR over FY24-26E**



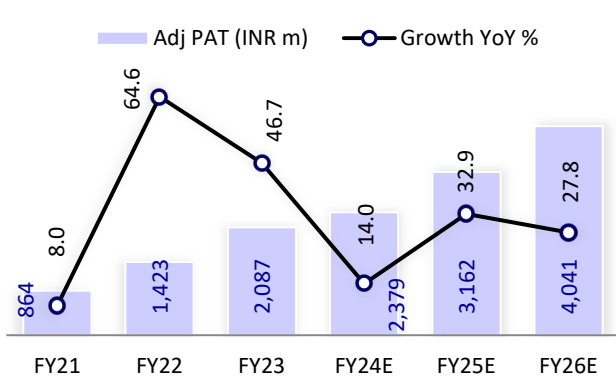
Source: Company, MOFSL

**Exhibit 80: EBITDA margin to expand ~150bp over FY24-26E**



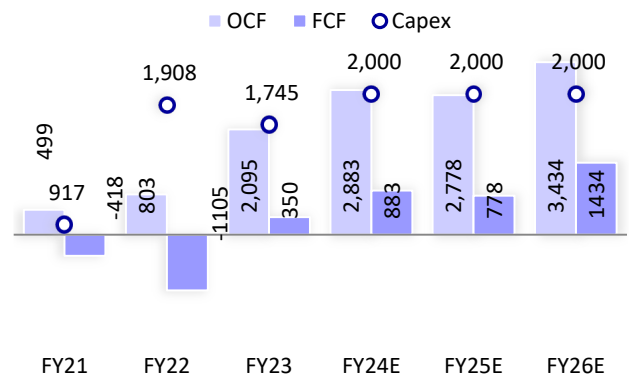
Source: Company, MOFSL

**Exhibit 81: PAT to register ~30% CAGR over FY24-26E**



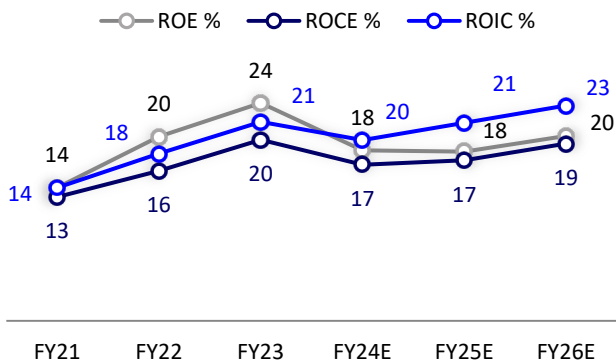
Source: Company, MOFSL

**Exhibit 82: FCF/OCF expected to increase over the years**



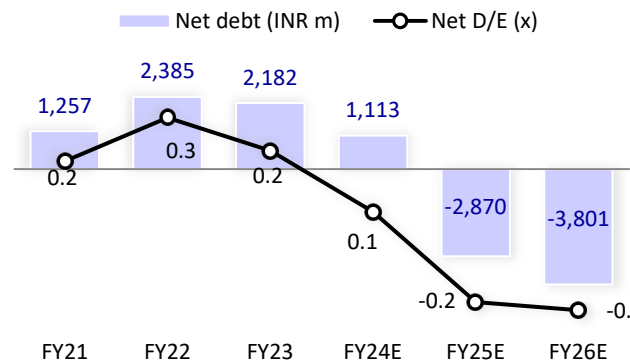
Source: Company, MOFSL

**Exhibit 83: Returns to improve steadily over next three years**



Source: Company, MOFSL

**Exhibit 84: Already became net cash after IPO proceeds**



Source: Company, MOFSL

## Financials and valuations

Income Statement							(INR Million)
Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E	
<b>Net Sales</b>	<b>5,850</b>	<b>8,600</b>	<b>11,965</b>	<b>13,651</b>	<b>16,544</b>	<b>19,991</b>	
Change (%)	4.7	47.0	39.1	14.1	21.2	20.8	
<b>EBITDA</b>	<b>1,587</b>	<b>2,309</b>	<b>3,409</b>	<b>3,884</b>	<b>4,830</b>	<b>5,989</b>	
Margin (%)	27.1	26.8	28.5	28.5	29.2	30.0	
Depreciation	358	377	542	662	765	870	
<b>EBIT</b>	<b>1,230</b>	<b>1,931</b>	<b>2,868</b>	<b>3,222</b>	<b>4,065</b>	<b>5,119</b>	
Int. and Finance Charges	118	72	125	134	77	54	
Other Income - Rec.	59	61	57	105	256	360	
EO Expense/(Income)		-0.1	-0.1	-	-	-	
<b>PBT after EO Exp.</b>	<b>1,171</b>	<b>1,920</b>	<b>2,800</b>	<b>3,194</b>	<b>4,244</b>	<b>5,425</b>	
Current Tax	316	471	685	814	1,082	1,383	
Deferred Tax	-10	27	29	-	-	-	
Tax Rate (%)	26.2	25.9	25.5	25.5	25.5	25.5	
<b>Reported PAT</b>	<b>864</b>	<b>1,423</b>	<b>2,087</b>	<b>2,379</b>	<b>3,162</b>	<b>4,041</b>	
<b>PAT Adj for EO items</b>	<b>864</b>	<b>1,423</b>	<b>2,087</b>	<b>2,379</b>	<b>3,162</b>	<b>4,041</b>	
Change (%)	8.0	64.6	46.7	14.0	32.9	27.8	
Margin (%)	14.8	16.5	17.4	17.4	19.1	20.2	
<b>Adj PAT</b>	<b>864</b>	<b>1,423</b>	<b>2,087</b>	<b>2,379</b>	<b>3,162</b>	<b>4,041</b>	
Change (%)	8	65	47	14	33	28	

Balance Sheet							(INR Million)
Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Equity Share Capital	90	179	179	188	188	188	
Total Reserves	6,362	7,697	9,704	15,788	18,476	21,709	
<b>Net Worth</b>	<b>6,452</b>	<b>7,876</b>	<b>9,883</b>	<b>15,977</b>	<b>18,664</b>	<b>21,897</b>	
Deferred Liabilities	202	229	230	230	230	230	
Total Loans	1,535	2,404	2,185	1,385	1,185	985	
<b>Capital Employed</b>	<b>8,188</b>	<b>10,509</b>	<b>12,299</b>	<b>17,592</b>	<b>20,080</b>	<b>23,113</b>	
Gross Block	5,066	5,858	8,591	10,591	12,591	14,591	
Less: Accum. Deprn.	919	1,296	1,807	2,468	3,234	4,103	
<b>Net Fixed Assets</b>	<b>4,147</b>	<b>4,562</b>	<b>6,784</b>	<b>8,123</b>	<b>9,358</b>	<b>10,488</b>	
Capital WIP	404	2,123	748	748	748	748	
<b>Total Investments</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>3,500</b>	<b>3,700</b>	<b>4,700</b>	
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>4,214</b>	<b>4,610</b>	<b>5,730</b>	<b>6,241</b>	<b>7,524</b>	<b>8,679</b>	
Inventory	1,216	1,840	1,696	2,037	2,493	3,012	
Account Receivables	1,658	2,220	3,081	3,008	3,626	4,381	
Cash and Bank Balance	278	15	3	272	355	86	
Loans and Advances	1,062	535	950	924	1,049	1,199	
<b>Curr. Liability &amp; Prov.</b>	<b>576</b>	<b>790</b>	<b>963</b>	<b>1,019</b>	<b>1,249</b>	<b>1,501</b>	
Creditors	379	442	477	543	680	822	
Other Current Liabilities	178	321	448	438	531	642	
Provisions	19	27	38	38	38	38	
<b>Net Current Assets</b>	<b>3,638</b>	<b>3,821</b>	<b>4,767</b>	<b>5,222</b>	<b>6,275</b>	<b>7,178</b>	
<b>Appl. of Funds</b>	<b>8,188</b>	<b>10,509</b>	<b>12,299</b>	<b>17,592</b>	<b>20,080</b>	<b>23,113</b>	

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>19.3</b>	<b>15.9</b>	<b>23.3</b>	<b>25.3</b>	<b>33.6</b>	<b>42.9</b>
Cash EPS	27.3	20.1	29.4	32.3	41.7	52.1
BV/Share	144.2	88.0	110.4	169.6	198.1	232.4
DPS	-	-	-	3.0	5.0	8.6
Payout (%)	-	-	-	12.0	15.0	20.0
Dividend Yield (%)	-	-	-	0.3	0.5	0.9
FCF per share	-9.3	-12.4	3.9	9.4	8.3	15.2
<b>Valuation (x)</b>						
P/E	50.2	61.0	41.6	38.4	28.9	22.6
Cash P/E	35.5	48.2	33.0	30.0	23.3	18.6
P/BV	6.7	11.0	8.8	5.7	4.9	4.2
EV/Sales	7.6	10.4	7.4	6.8	5.3	4.4
EV/EBITDA	28.1	38.6	26.1	23.8	18.3	14.6
<b>Return Ratios (%)</b>						
RoE	14.4	19.9	23.5	18.4	18.3	19.9
RoCE (Post-tax)	13.4	16.2	19.5	16.8	17.3	19.1
RoIC	14.4	18.0	21.5	19.5	21.4	23.2
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	1.2	1.5	1.4	1.3	1.3	1.4
Inventory (Days)	62	65	54	50	50	50
Debtor (Days)	95	82	81	81	73	73
Creditor (Days)	37	17	14	14	13	14
Working Capital (Days)	169	152	131	130	120	119
<b>Leverage Ratio (x)</b>						
Net Debt/Equity	0.2	0.3	0.2	0.1	-0.2	-0.2

### Cash Flow Statement

(INR Million)

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Operating PBT	1,171	1,921	2,800	3,194	4,244	5,425
Depreciation	358	377	542	662	765	870
Interest/Div paid	-118	-72	-125	134	77	54
Direct Taxes Paid	-399	-431	-638	-814	-1,082	-1,383
(Inc)/Dec in WC	-825	-1,088	-779	-187	-969	-1,172
Other items	312	96	295	-105	-256	-360
<b>CF from Operations</b>	<b>499</b>	<b>803</b>	<b>2,095</b>	<b>2,883</b>	<b>2,778</b>	<b>3,434</b>
EO Expense	-	0	0	-	-	-
<b>CF from Operating incl EO</b>	<b>499</b>	<b>803</b>	<b>2,095</b>	<b>2,883</b>	<b>2,778</b>	<b>3,434</b>
(inc)/dec in FA	-917	-1,908	-1,745	-2,000	-2,000	-2,000
<b>Free Cash Flow</b>	<b>-418</b>	<b>-1,105</b>	<b>350</b>	<b>883</b>	<b>778</b>	<b>1,434</b>
(Pur)/Sale of Investments	288	230	15	-3,500	-200	-1,000
Others	41	21	5	105	256	360
<b>CF from Investments</b>	<b>-587</b>	<b>-1,657</b>	<b>-1,725</b>	<b>-5,395</b>	<b>-1,944</b>	<b>-2,640</b>
Issue of Shares	-	-	-	4,003	-	-
Inc/(Dec) in Debt	351	895	-251	-800	-200	-200
Interest Paid	-254	-68	-119	-134	-77	-54
Dividend Paid	-	-	-	-286	-474	-808
Others	-	-2	-	-	-	-
<b>CF from Fin. Activity</b>	<b>97</b>	<b>825</b>	<b>-370</b>	<b>2,784</b>	<b>-751</b>	<b>-1,063</b>
<b>Inc/Dec of Cash</b>	<b>8</b>	<b>-29</b>	<b>-0</b>	<b>272</b>	<b>83</b>	<b>-269</b>
Add: Beginning Balance	20	29	0	0	272	355
<b>Closing Balance</b>	<b>29</b>	<b>0</b>	<b>0</b>	<b>272</b>	<b>355</b>	<b>86</b>

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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