

Overall +ve step but no -ve impact on OEMs

India EU FTA: Reduction in import duty; EVs not part of the deal for 5 years

According to news reports (not official yet though), India and EU will likely sign a Free Trade Agreement (FTA) to reduce duties across segments – key points to note from automobile industry perspective are:

- **Reduction of maximum duty** on imports of vehicles (priced above EUR 15k) from Europe to 40% (this will be further reduced to 10-15% after 5 years) from 100-110% currently. Do note that currently, duty on CKD imports is around 30%, which can also come down under FTA – details not known yet. There will also be an annual cap on number of vehicles that can be imported at lower duties (news reports indicated this limit will be 200,000 vehicles annually).
- **Import of electric vehicles will not be part** of the FTA for the next 5 years – this was also the case in India-UK FTA deal signed last year. This is important for Indian OEM's as unlike developed markets, currently India does not have the required scale and supply chain ecosystem in EVs (despite this though, M&M has been able to successfully launch born EVs at reasonable price point, which are meaningful positive at EBITDA level) and lower duty EV imports could have impacted OEMs manufacturing locally.

Our thoughts: +ve development for the industry but no impact on listed OEMs

Overall, we believe that FTA will likely be incrementally positive for auto industry from the perspective of luxury OEMs (JLR, Mercedes, BMW, etc.) and possibly auto ancillaries (depends on fine print of taxes on components to be exported to Europe). Having said that, unlike investor perception, we don't see any impact on any of the listed PV OEMs including M&M (concerns are misplaced, on our view), which has reasonable presence in vehicles priced above >Rs 2.5 mn (Exhibit 1).

- We note that for luxury OEMs such as Mercedes, almost 80-85% of sales in India are CKD imports, which attract import duty of up to 30% and only ultra-luxury vehicles such as Maybach, AMG, etc. are fully imported at around 100% duty. Thus, benefit will largely accrue to small number of models that are shipped CBU (completely built units) to India.
- According to our calculation, ~95% of domestic PV volumes sold in India are priced below Rs 2.5 mn (exhibit 1). The models manufactured in India are more cost competitive as compared to EU – do note that due to cost advantages, OEMs such as Suzuki, Hyundai, etc. are looking to create India as export hub and several global OEMs are also looking to increase component sourcing from India for ICE vehicles. **Therefore, in our view, a Europe manufactured ICE vehicle at any duty rate won't be competitive in India (at a scale) atleast till Rs 3-4 mn price point.**
- We note that price points in ICE segment are still much higher in Europe compared to Indian markets – models such as VW Golf are sold at >EUR 30k (including VAT of around 20%) in Germany (there are several such models). Thus, in our view, it will only be beneficial for foreign OEMs to import few niche specific models (in very small qty), manufacturing of which is less feasible in India.

Correction in M&M overdone; reiterate BUY; Landmark can be a beneficiary

We are surprised by correction in M&M's stock price on this new development – stock has corrected several times in the past also post India-UK deal, any news flow around entry of tesla/BYD in India, etc. Do note that M&M's stock is hardly up after news of GST cuts despite tangible benefit in the business (especially tractors/LCVs). Valuations are extremely attractive at ~21x FY27E EPS. We reiterate our BUY call on M&M – this is our top pick in large cap autos.

Reduction of import duty on luxury cars, especially if duty on CKD imports also come down will be positive for luxury OEMs such as Mercedes, BMW, JLR, etc. Landmark could a play on this – valuations are attractive after recent correction in stock price.

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Exhibit 1: About 5% of domestic volumes are priced above Rs 2.5 mn; Toyota and M&M have significant presence

ICE models	Model	FY22	FY23	FY24	FY25	FY26TD
Citroen	C5 aircross	775	301	56	8	5
Hyundai	Tucson	1,222	2,985	2,883	1,319	456
Isuzu	MU-X	53	80	35	24	35
Kia	Carnival	4,302	4,257	0	1,361	674
M&M	XUV700	26,261	66,473	79,398	93,082	58,957
Maruti Suzuki	Invicto			4,598	4,036	2,716
MG	Gloster	2,841	2,021	2,450	1,735	119
Skoda	Octavia	1,915	1,374	0	2	94
Skoda	Superb	1,599	1,539	146	52	4
Skoda	Kodiaq/Karoq	382	1,705	1,887	4,127	1,444
Toyota	Fortuner	19,230	30,688	35,063	32,785	25,299
Toyota	Innova	54,218	55,572	98,180	1,07,213	83,874
Toyota	Prado/Vellfire	416	967	400	1,042	902
Toyota	Land Cruiser/Urban Cruiser	26,630	22,158	3	134	513
Toyota	Hilux	43	770	2,593	2,663	2,434
Volkswagen	Polo GTI/ Golf GTI	0	0	0	0	239
Volkswagen	Tiguan	0	1,228	1,618	888	422
Total ICE		1,39,887	1,92,118	2,29,310	2,50,471	1,78,187
EV models						
Hyundai	Ioniq 5	0	21	1,400	352	183
Tata Motors	Harrier					10,000
Kia	EV6/EV9	0	430	660	828	2
M&M	BE 6				2,625	12,686
M&M	XEV 9				5,422	22,234
Total EV		0	451	2,060	9,227	45,105
Total volumes > Rs 2.5 mn		1,39,887	1,92,569	2,31,370	2,59,698	2,23,292
Total PV volumes		30,69,545	38,90,359	42,26,860	43,22,685	33,63,212
Share of premium SUVs > Rs 2.5 mn		4.6	4.9	5.5	6.0	6.6
M&M volumes > Rs 2.5 mn		26,261	66,473	79,398	1,01,129	93,877
M&M total volume		2,23,741	3,57,175	4,59,864	5,51,487	4,76,476
M&M's mix including EVs (%)		12	19	17	18	20

Source: SIAM, Axis Capital

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