



Indian Automobile Industry Outlook

2 September 2019

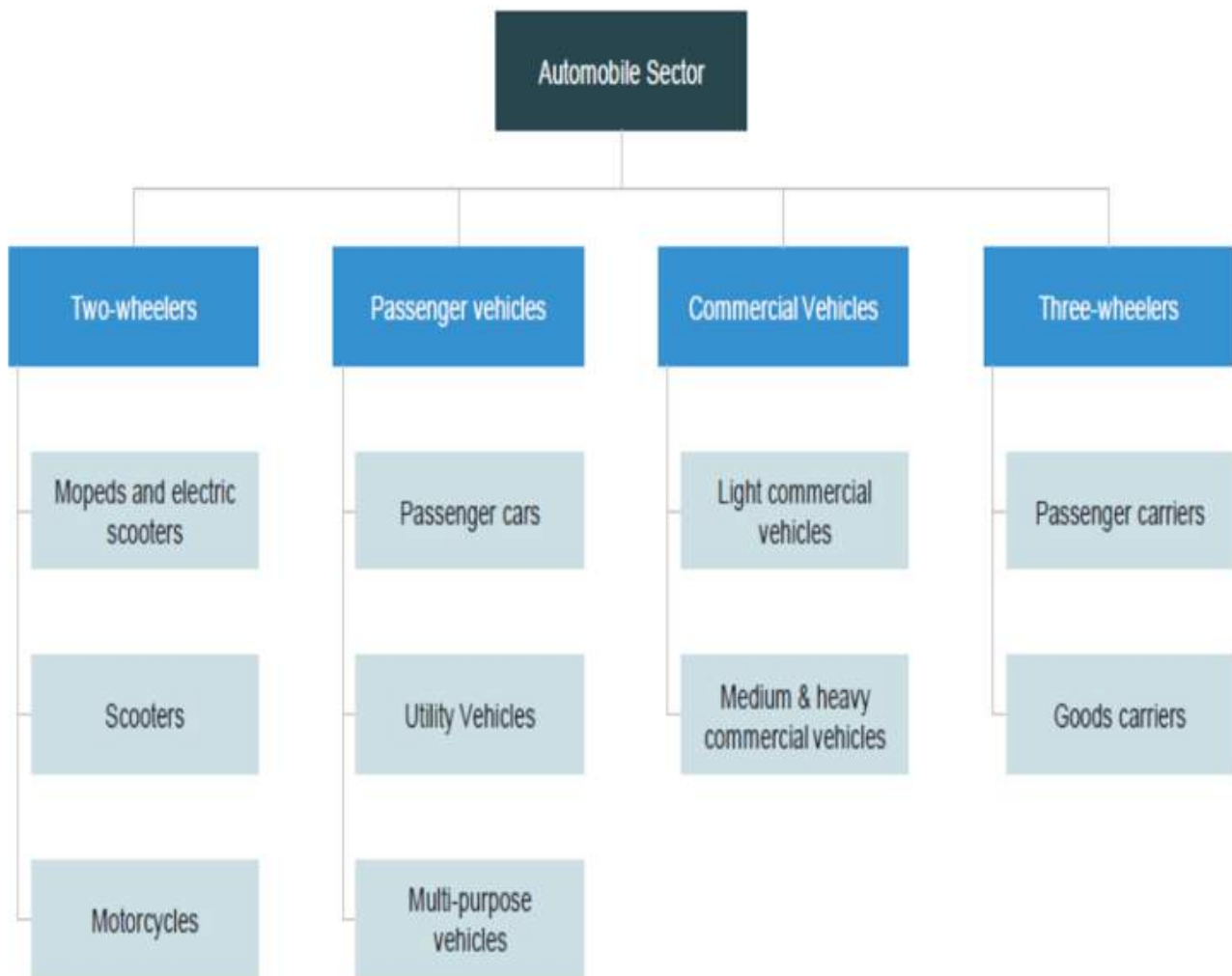
INDUSTRY OUTLOOK

The Indian auto industry became the 4th largest in the world with sales increasing 9.5 per cent year-on-year to 4.02 million units (excluding two wheelers) in 2017¹. It was the seventh largest manufacturer of commercial vehicles in 2018². The Two Wheelers segment dominates the market in terms of volume owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector.

Table 1: Evolution of the Industry

Time Period	Developments
Before 1982	Closed market; outdated models; seller's market.
1983-1992	Indian government and Suzuki formed Maruti Udyog and commenced production in 1983. Component manufacturers entered the market via JV. Buyer's market.
1992-2007	Sector de-licensed in 1993; Major Original Equipment Manufacturers (OEMs) started assembly operations in India. Imports permitted from April 2001. Introduction of Value Added Tax (VAT) in 2005.
2015 onwards	Automotive Mission Plan 2016-26 launched in 2015. Bharat Stage IV emission norms since April 2017. 29.1 million Vehicles produced in 2017-18. More than 40 companies operating in the country in 2018.

Source: 'Automobiles' India Brand Equity Foundation (IBEF).

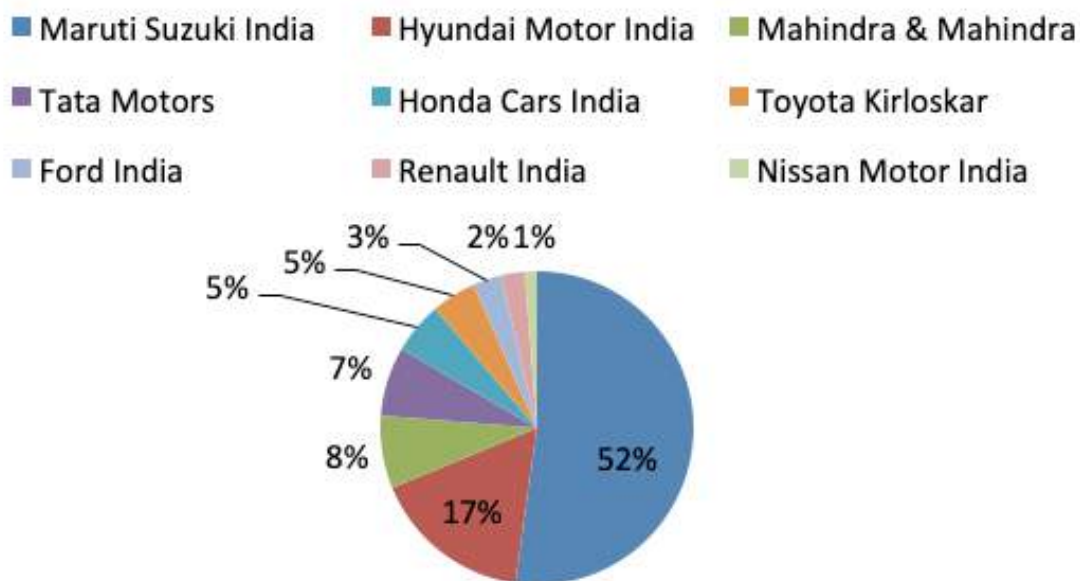


Source: 'Automobiles' India Brand Equity Foundation (IBEF).



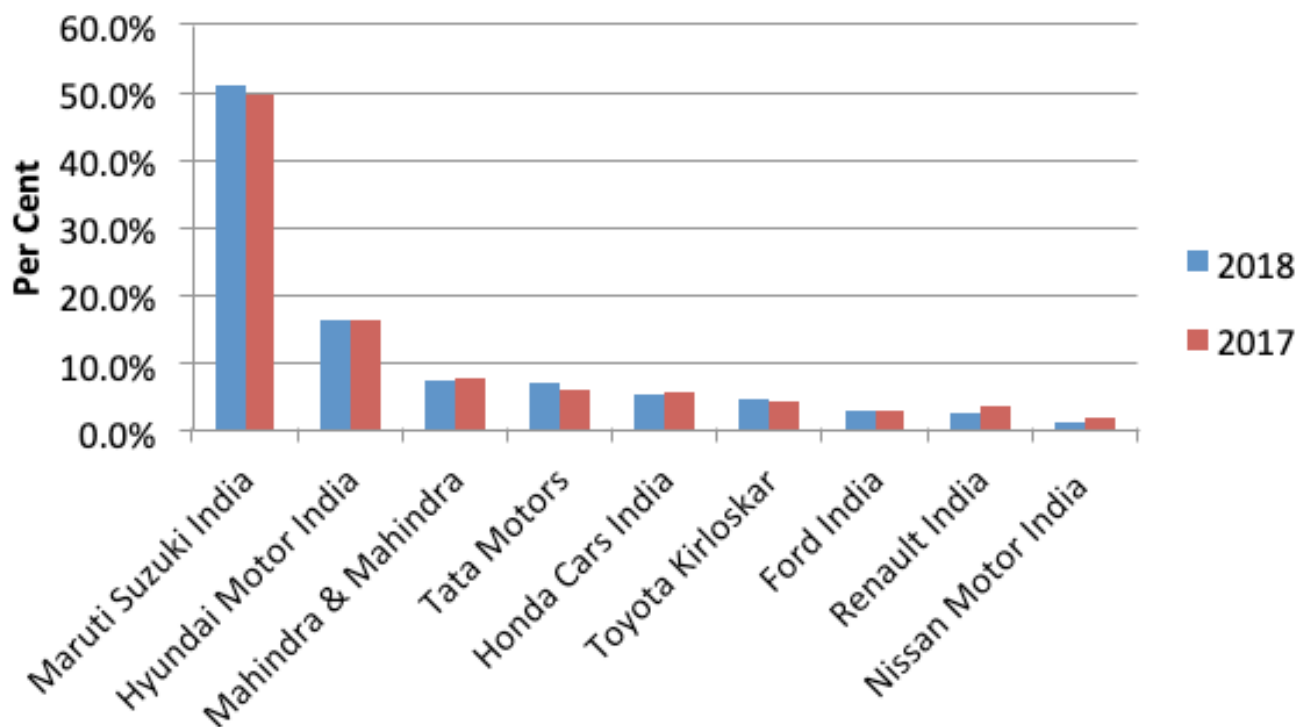
MARKET SIZE

Chart1: Passenger Vehicle Market Share in 2018 of Major Companies (in Per Cent)

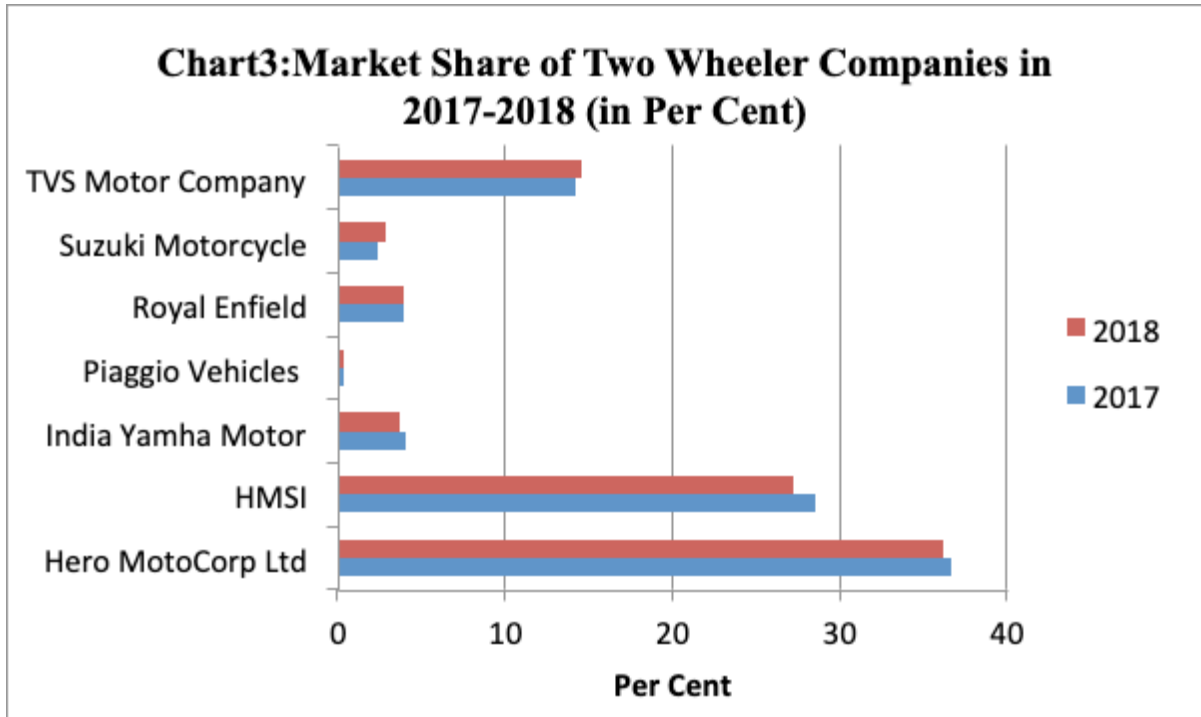


Source: 'Indian Auto Sales Analysis (12 February 2019) Economic Times; <https://auto.economictimes.indiatimes.com/news/industry/complete-india-auto-sales-analysis-2018-cv-sales-crosses-a-million-mark/67549073>

Chart2: Passenger Vehicle Market Share of Major Companies in 2017-2018 (in Per Cent)

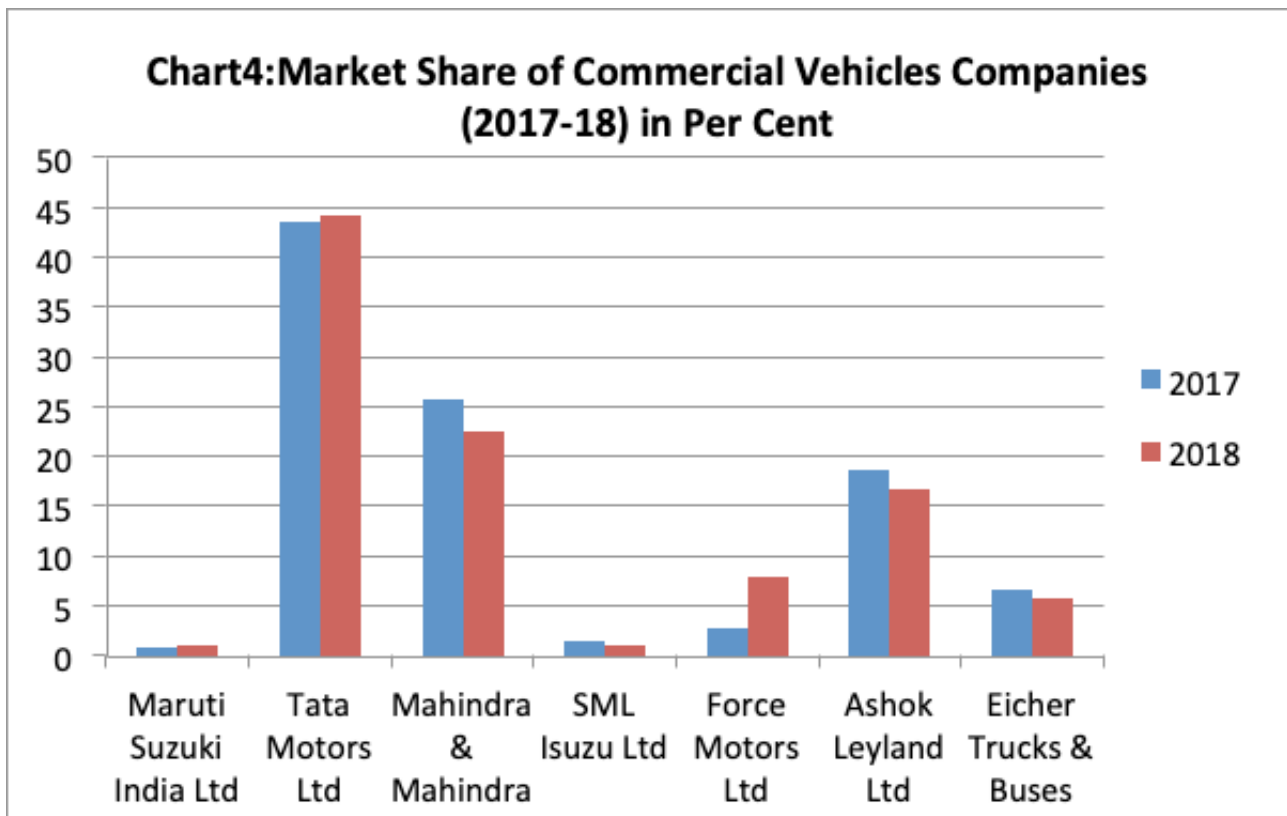


Two Wheelers

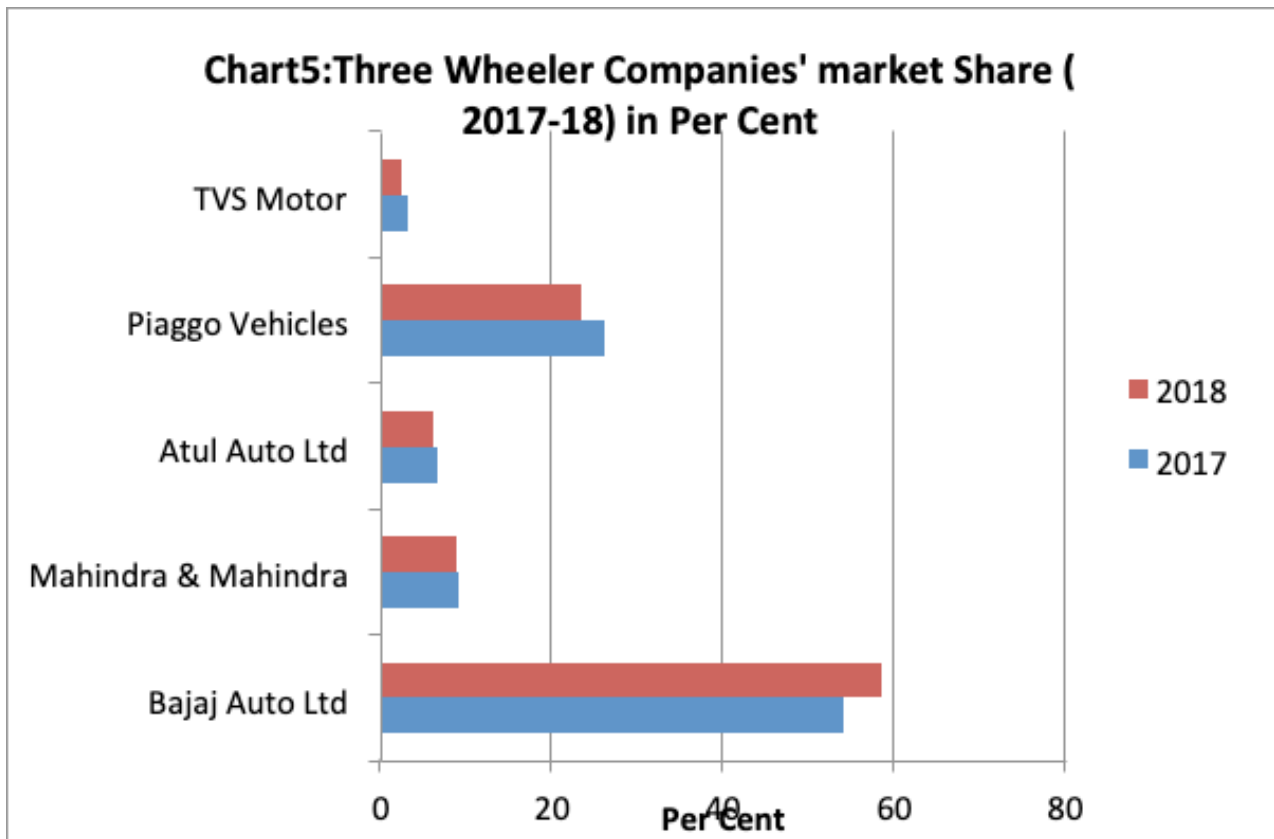


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Commercial Vehicles



Three Wheelers



Source: 'Indian Auto Sales Analysis (12 February 2019) Economic Times; <https://auto.economictimes.indiatimes.com/news/industry/complete-india-auto-sales-analysis-2018-cv-sales-crosses-a-million-mark/67549073>

EXPORTS

In April-July 2019, overall automobile exports grew by 1.17 percent where Passenger Vehicles and Two Wheelers exports grew by 1.34 percent and 4.83 percent respectively. However Commercial Vehicles and Three Wheelers registered a de-growth of (-) 47.30 percent, and (-) 12.80 percent respectively in April-July 2019 over the same period last year³.

INVESTMENTS

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Some of the recent/planned investments and developments in the automobile sector in India are as follows:

- Ashok Leyland has planned a capital expenditure of Rs 1,000 crore (US\$ 155.20 million) to launch 20-25 new models across various commercial vehicle categories in 2018-19, including setting up a factory in Andhra Pradesh⁵.
- Hyundai is planning to invest US\$ 1 billion in India by 2020. The company, which operates here through its wholly-owned arm Hyundai Motor India Ltd (HMIL), plans to launch an electric vehicle next year and is also gearing up for the possible comeback of its popular model Santro. HMIL has lined up nine products to be introduced between 2018 and 2020⁶. China's automaker SAIC Motor has also announced to invest US\$ 500 million in India by 2020⁷.
- Mercedes Benz has increased the manufacturing capacity of its Chakan Plant to 20,000 units per year, highest for any luxury car manufacturing in India⁸.
- As of October 2018, Japanese car major Honda Motors Company is planning to set up its third factory in India for launching hybrid and electric vehicles with the cost of Rs 9,200 crore, its largest investment in India so far⁹.
- In November 2018, Mahindra Electric Mobility opened its electric technology manufacturing hub in Bangalore with an investment of Rs 100 crore (US\$ 14.25 million) which will increase its annual manufacturing capacity to 25,000 units¹⁰.

GOVERNMENT INITIATIVES

The Government of India encourages foreign investment in the automobile sector and allows 100 per cent FDI under the automatic route.

Some of the recent initiatives taken by the Government of India are as follows:

- The government aims to develop India as a global manufacturing centre and an R&D hub.
- Under National Automotive Testing and R&D Infrastructure Project (NATRiP), the Government of India is planning to set up R&D centres at a total cost of US\$ 388.5 million to enable the industry to be on par with global standards¹¹.
- The Ministry of Heavy Industries, Government of India has shortlisted 11 cities in the country for introduction of electric vehicles (EVs) in their public transport systems under the FAME (Faster Adoption and Manufacturing of (Hybrid) and Electric Vehicles in India) scheme. The government will also set up incubation centre for start-ups working in electric vehicles space.



- In February 2019, the Government of India approved the FAME-II scheme with a fund requirement of Rs 10,000 crore (US\$ 1.39 billion) for FY20-22. Total fund requirement for this scheme is Rs. 10,000 crores over three years from 2019-20 to 2021-22. The main objective of the scheme is to encourage Faster adoption of Electric and hybrid vehicle by way of offering upfront Incentive on purchase of Electric vehicles and also by way of establishing a necessary charging Infrastructure for electric vehicles. The scheme will help in addressing the issue of environmental pollution and fuel security¹².

Table 2:Major Players and Challenges1

Name of the Company	Details
Maruti Suzuki	Market leader in the passenger vehicles segment and held around 50 percent market share in the segment in FY18. The Company sold a total of 490,479 units in the April-June (FY2018-19) quarter, growing 24.3% over the same period previous fiscal. This includes 463,840 units in the domestic market, a growth of 25.9 % over same period previous fiscal. Export during the quarter stood at 26,639 units. ²
Challenges faced by Maruti Suzuki	This was a difficult year because of adverse foreign exchange rates and increase in commodity prices. The second SMG plant in Gujarat was commissioned leading to a higher depreciation expense. The overall market was slow and had to be supported by higher sales promotion expenses. This was partially offset by cost reduction efforts. ³
Tata Motors	Market Leader In The commercial vehicles segment held 44 percent market share in FY18. Company's commercial vehicles sales increased 26 percent year-on-year to 39,859 units in August 2018. Tata Motors Commercial and Passenger Vehicles Business sales in the domestic market for FY19 (April 2018 – March 2019), grew by 16% with 678,486 units as compared to 586,507 units over the same period last year.
Challenges faced by Tata Motors	In March 2019, the Company witnessed its sales drop by 1% to 68,709 units as against 69,409 units sold in March 2018, as weak consumer sentiments continued. ⁴
Bajaj Auto	Up to July 2019, total units sold was 16,28,704. Up to July 2018, total units sold was 16,26,984.⁵
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Challenges faced by Bajaj Auto	Its domestic commercial vehicles (CV) sales decline by 37 per cent in 2018 compared to 2017. Exports of CVs also decline by 11 per cent in 2018 vis-à-vis 2017.1
Mahindra & Mahindra	<p>In the Passenger Vehicles segment (which includes UVs, Cars and Vans), Mahindra sold 16,831 vehicles in July 2019, compared to 19,781 vehicles in July 2018.</p> <p>In the Commercial Vehicles segment, the company sold 15,969 vehicles in July 2019, as against 19,284 vehicles in July 2018.</p> <p>In the Medium and Heavy Commercial Vehicles segment, Mahindra sold 417 vehicles for the month. Exports for July 2019 stood at 2,668 vehicles.</p> <p>The company's Auto Sector overall sales (Domestic + Exports) stood at 40,142 vehicles in July 2019, compared to 47,199 vehicles during July 2018.</p>
Challenges faced by Mahindra & Mahindra	Veejay Ram Nakra, Chief of Sales and Marketing, Automotive Division, M&M Ltd. said, "The headwinds faced by the automotive industry continue as a result of subdued consumer sentiment, triggered by various factors. The industry needs stimuli to help revive consumer demand and conversions. We hope that the overall buying sentiment will improve in the run-up to the festive season and with the monsoon turning out to be better than initially anticipated."2
Ashok Leyland Ltd.	In the first-quarter FY20, The company launched a slew of products in this quarter; Boss 1916, 4623 Tractor, 4223 MAV, High Horse Power Tractor 5532 and the 24 & 32 feet fully built containers in premium and economy segment were the star introductions. Under the Customer Solutions Business, the Company also launched "Sadak ka Saathi" a breakdown assistance program with Hindustan Petroleum Corporation Ltd. This introduction makes Ashok Leyland, one of the largest roadside assistance providers in the country for Commercial Vehicles.3
Challenges faced by Ashok	In Medium & Commercial Vehivle Trucks (M&H CV) the samperiod is -0.89 per cent. The aggregate decline of domestic sales of M&HCV segment during the same period is (-)15.26. Including Light Commercial vehicles (LCV) the total decline is (-)8.12 per cent during the same period. The decline in total sales (including exports) during the same period is (-)78.92 per cent. ²¹

Source: Company Websites and Press Releases.

INDUSTRY RISK

The Indian automobile industry, the world's fourth-largest, has embraced a slowdown after a near-decade of high growth. The Society of Indian Automobile Manufacturers (SIAM) announced a 17 percent decline in passenger vehicle sales for April 2019, the lowest in nearly eight years²².

Car sales are down for the tenth consecutive month since July 2018. Overall, the auto industry sold 2,001,096 units during April. In the same period last year, it had sold 2,380,294 units. The industry produced a total 9,724,373 vehicles including Passenger Vehicles, Commercial Vehicles, Three Wheelers, Two Wheelers and Quadricycle in April-July 2019 as against 10,883,730 in April-July 2018, registering a de-growth (-) 10.65 percent over the same period last year²³.

Table 3: Domestic Sales

SL No.	Vehicle Type	Domestics Sales Growth in April-July 2019 vis-à-vis April-July 2018 (in Per Cent)
1	Passenger Vehicles	(-) 21.56
2	Passenger Cars	(-)26.45
3	Utility Vehicles	(-)7.22
4	Vans	(-)30.97
5	Commercial Vehicles	(-) 13.57
6	Medium & Heavy Commercial Vehicles (M&HCVs)	(-)21.63
7	Light Commercial Vehicles	(-)8.56
8	Three Wheeler	(-) 7.43
9	Passenger Carrier Sales	(-)8.02
10	Goods Carrier	(-)4.82
11	Two Wheelers Sales	(-) 12.93
12	Scooter Sales	(-)15.58
13	Motorcycles	(-) 11.18
14	Mopeds	(-)20.17

Note: Passenger Cars, Utility Vehicles and Vans are within the Passenger Vehicles.

Note: Passenger Carrier and Goods Carrier are within the Three Wheeler.

Source: 'Auto Industry Downturn Further Deepens De-Growth of All Segments Continues' (13 August 2019) Society of Indian Automobile Manufacturers (SIAM)

Passenger vehicle sales in April fell to 247,541 units from 2,98,504 units in the year-ago period. Domestic car sales meanwhile fell to 1,60,279 units compared to 2,00,183 in April 2018, while two-wheeler sales in April declined 16.36 percent to 16,38,388 units compared to 19,58,761 units in the year-ago month. Even in the commercial vehicle segment, sales saw a 6 percent decline in April as against the same period a year ago. This was primarily due to a 13.5 percent decline in medium and heavy commercial vehicles while light commercial vehicles declined by 1.10 percent²⁴.

Major automobile manufactures have announced declines of up to 50 per cent in their domestic sales in July 2019. Liquidity stress is eminent and consumer sentiment declines. Capacity utilization also remains low due to sub-optimal use of factories. Overhang of inventory build-up is affecting dealers. High cost and inventory build-up with poor sales imply many dealers are struggling to stay afloat. The sales started to weaken after the devastating floods in Kerala, which is the largest market for passenger vehicles followed by Maharashtra. This is further dampened by high insurance cost, liquidity crunch etc. Increased insurance premium had put a lot of burden on buyers which led to about 10-15 per cent drop in the retail of two-wheeler sales.

Government Dictum to move into Euro VI (Fuel Emission) norm from 2020, has resulted in consumer postponing their purchase of current vehicles²⁵. Recently as a part of the measures to boost economy, the Finance Minister stated that BS-IV vehicles purchased till 31 March 2020 would remain operational for entire period of registration. However, among other challenges, being posed by the Indian railways to Commercial vehicles by developing dedicated freight corridors across the western and the eastern belt of the country. The agri-stress and the liquidity crisis in NBFC segment has started reflecting on tractor sales as on one side income is reduced and on the other the lending is also impacted.

The recent NBFC crisis had a twin effect on demand. It curtailed financing to new vehicles, and NBFC were financing customers who were not preferred for financing by banks. Hence, revival of lending by NBFC is critical for demand revival. It can also be noted that in January-March 2019, Loan sanctions by NBFCs have fallen 31 per cent in almost all sectors barring gold, consumer and personal loans. In the home loan segment, the loan sanction had fallen by over Rs. 16,000 crore in January-March 2019.



Table 4: Loan Sanctions by NBFCs

Sl No.	Segment	Year-on-Year Change in Loans Sanctioned in FY19(%)
1	Gold	(+)110%
2	Consumer	(+)27%
3	Personal	(+)19%
4	Auto	(-)9%
5	Unsecured Business	(-)15%
6	Housing	(-)23%
7	Commercial Vehicle	(-)24%
8	Property	(-)47%
9	Long-Term (above 3 years)	(-)77%

Source: 'NBFC Loan drop by 31% in January-March 2019'(26 June 2019) Times of India

Over the past five years, the size of pre-owned market has expanded significantly, with higher share of organised players. For instance, in passenger vehicle (PV), a significantly higher growth in pre-owned cars over the past two years is a reflection of rising consumer interest in this segment. This may impact new vehicle demand, especially in case of sharp price hikes.

The prolonged slowdown in auto sales has impact on employment in this sector. Automobile sector is one of the largest employment generating sector in the economy. This slowdown will have huge impact in the form of low demand of drivers, helpers, etc. Further, Automobile component manufacturing sector has already witnessed 10-15% loss in employment and since around 70% of employment is contractual basis in this sector a 15-20% production can cut lead to job loss of the same magnitude. A least 10,000 people have been rendered jobless across small units, mostly auto ancillaries in Jamshedpur. Tata Motors in Jamshedpur manufactures heavy vehicles and employs about 10,000 workers, about half of them are on contract. The company has sharply cut monthly production to about 2,500-3,000 units from the earlier 10,000-12,000 units.

FOOTNOTES

1. Source: 'Automobiles' India Brand Equity Foundation (IBEF).
2. Ibid.
3. Ibid.
4. SIAM <http://www.siamindia.com/pressrelease-details.aspx?mpgid=48&pgidtrail=50&pid=438>
5. SIAM <http://www.siamindia.com/pressrelease-details.aspx?mpgid=48&pgidtrail=50&pid=438>
6. <https://www.moneycontrol.com/news/business/ashok-leyland-draws-up-rs-1000-crore-plan-for-2018-19-2551583.html>
7. 'Hyundai to invest 1 billion USD in India by 2020: New electric car on the cards'(31 January 2018) Financial Express <https://www.financialexpress.com/auto/-car-news/hyundai-to-invest-1-billion-usd-in-india-by-2020-new-electric-car-on-the-cards/1037473/>

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