

Impact of Macro-economic Environment on the Automotive Industry

ACMA

June 2020

Content



Macro-economic Analysis



Forecast



Cars and UVs



Two-wheeler



Commercial Vehicles



Three-wheelers



Tractors



Inventory scenario

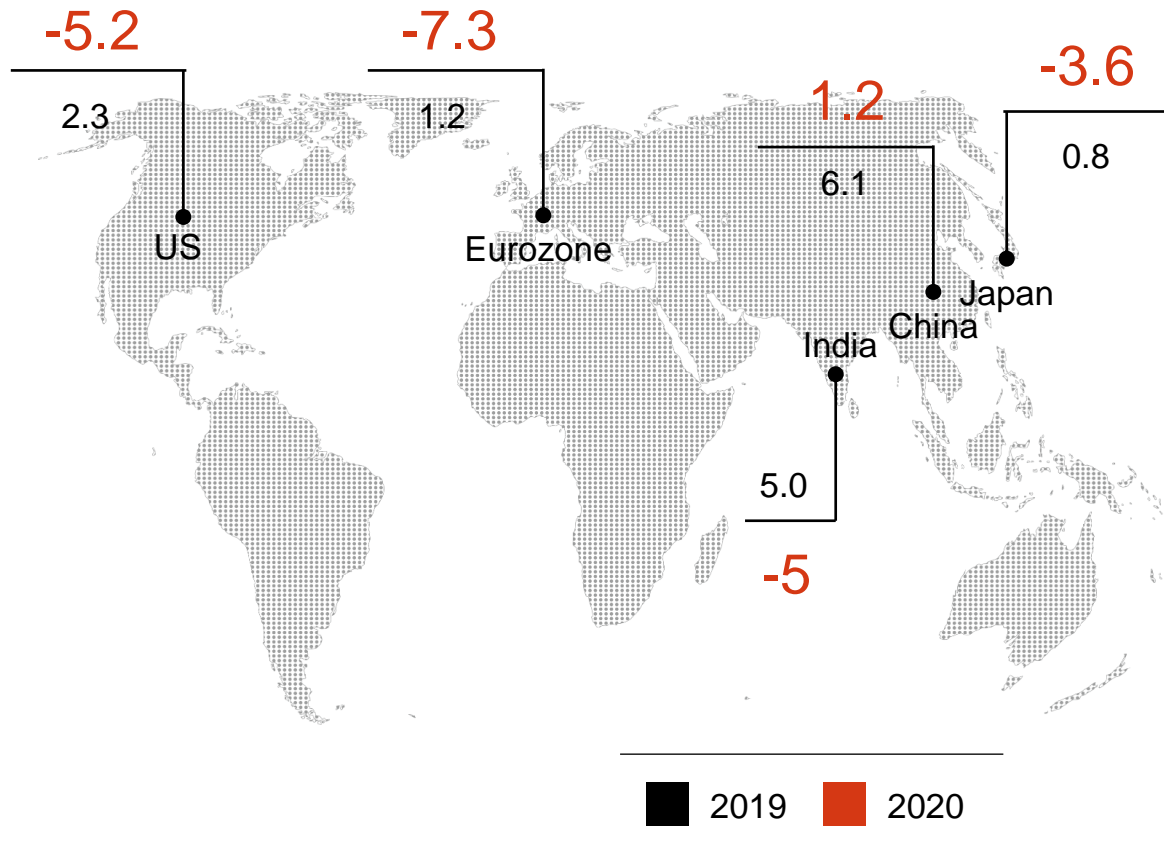


Macro-economic Analysis

Global Economy

Global recession certain, but its depth and length a tough call

GDP growth (%)



At the end of the first quarter of calendar 2020



Huge economic costs of pandemic apparent in downward revision of growth forecasts



Unprecedented levels of monetary and fiscal stimulus unable to prevent global recession



Non-linearity of the event and risk of second wave create downside risks to outlook

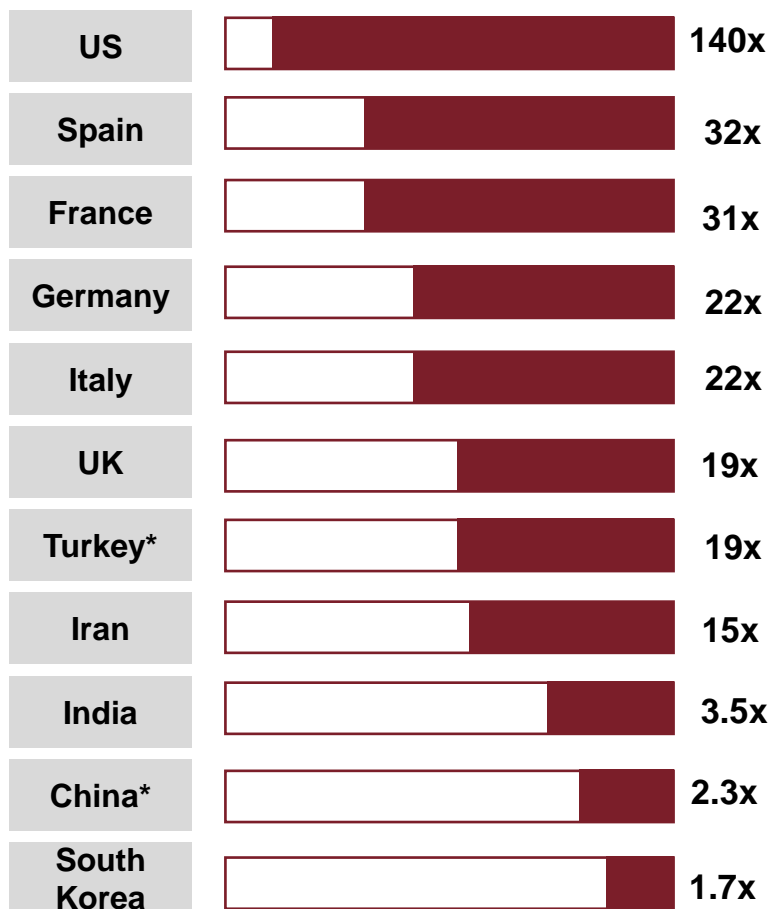


Advanced economies to face the deepest recession in decades

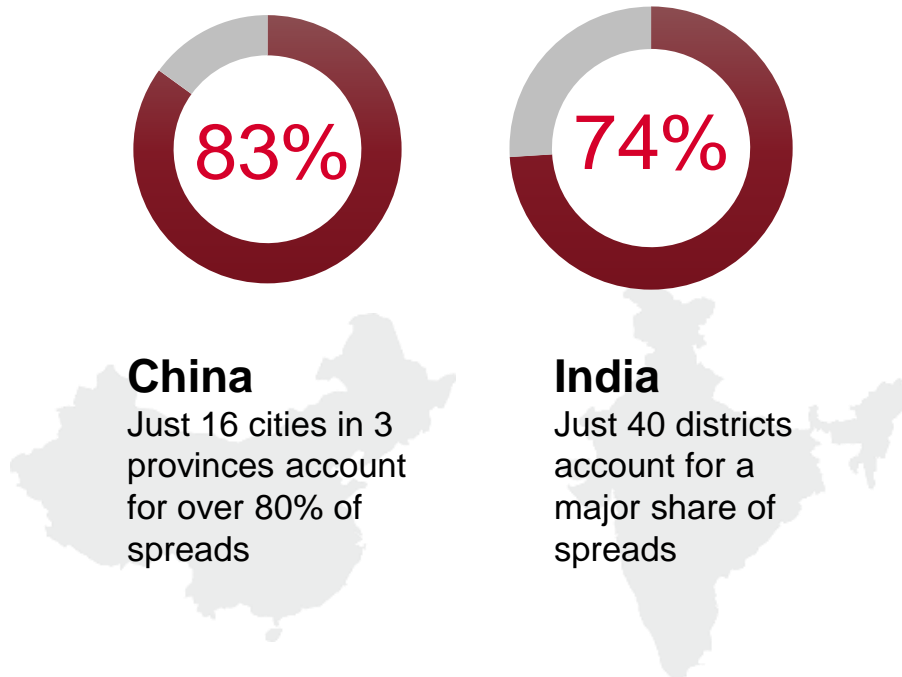
Source: S&P Global, April 2020

Early lockdown has helped, but poor healthcare infra a big worry

Daily spread multiplier from first 100 cases until Day 60*



Dispersion so far has been limited, like in China, which is a positive



But fragile health infrastructure remains a key concern

US	83.5
Spain	65.9
France	68.2
Germany	66.0
Italy	56.2
UK	77.9
Turkey	52.4
Iran	37.7
India	46.5
China	48.2
South Korea	70.2

GHS (Global Health Security) Index

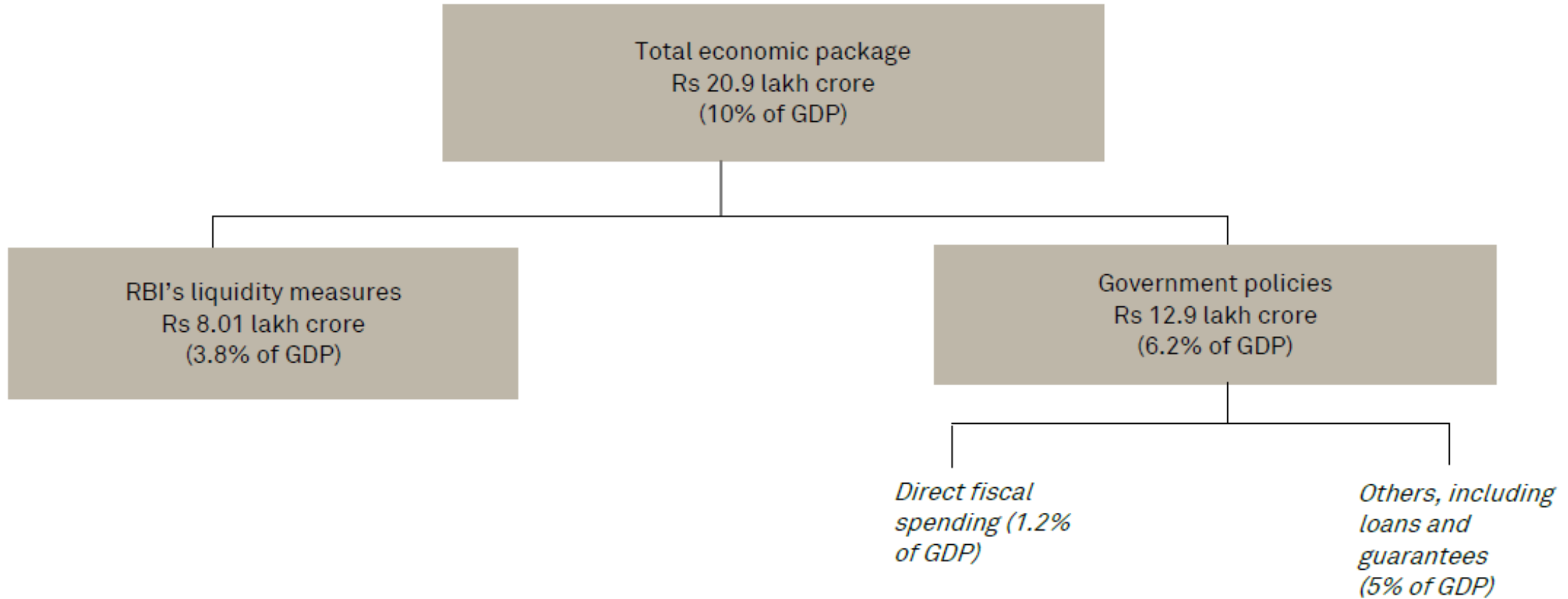
*Need to consider different levels of testing that may also impact the identification of positive cases and slope of the curve

Note: All other countries other than those specified report numbers from February 15 as Day 0;

GHS is an assessment across 6 parameters for countries including prevention, detection, reporting, responding, health infrastructure, norms and structural risk.

Indian Economy

Only ~1.2% of the 20.9 lakh crore package translates to direct fiscal stimulus



Source: Ministry of Finance, CRISIL calculations

Aatmanirbhar Bharat: Aiming for the right corners, but not a consumption trigger

- Measures worth Rs 11 lakh crore in five tranches. Add to this, Rs 9.9 lakh crore (RBI liquidity support and others)
 - Actual committed fiscal outgo of Rs 1 lakh crore, ~9% of measures
- Borrowing limit for state governments from 3% of their GDP to 5% of GDP. However, of this additional 2%, 1.5% is conditional

Sector	Govt spend	Impact assessment
NBFC	Nil (guarantee will be paid)	Rs 75,000 crore liquidity boost for NBFCs
MSME	Rs 18,300 crore	MSMEs' short-term liquidity crunch addressed, but risk looms beyond fiscal 2021
Power - discoms	Nil	Power discoms get much-needed shot in the arm; benefit to end-consumers remains a grey area for now
Real estate	Rs 6,700 crore	Real estate developers and contractors get delivery relief, demand risk continues
Construction	Rs 8,100 crore	Stuck projects will benefit and players can avoid penalties arising due to delays, especially in roads
Agriculture finance	Nil	The refinancing support provided through NABARD only accounts for 2% of the overall agriculture credit. Therefore, it will have limited impact on the overall increase in liquidity in the market
Agriculture procurement and sales	Rs 4,000 crore	Amendment of the Essential Commodities Act was long due and bodes well for the sector structurally, though it will not be able to provide a quick relief to farmers and will also need compliance from states for implementation.
Agri allied	Rs 72,500 crore	42% increase in the MGNREGA allocation over the actual expenditure of FY20 will increase the share to ~4% and provide much needed earning opportunity to workforce that has migrated back to the hinterland.
Aviation	Nil	Effect of efficient air space management will be visible, once restricted air space is demarcated and air traffic returns to pre-Covid levels.
Mining	Nil	Commercial mining may potentially substitute 50-100 MTPA of imported coal demand, where India imports roughly 200 MTPA on an average.

Source: Finance Ministry, CRISIL Research

Recent announcement's made by RBI on 22nd May 2020

- Extension of moratorium by another three months will be beneficial from a borrower's perspective, particularly for those whose cash flows have been impacted on account of the extended lockdown and expectation of only a phased resumption of economic activity. However, from a lender's perspective, what needs to be monitored is borrower behaviour pertaining to payment discipline once the moratorium is lifted as 6 months of continuous non-payment of debt obligations can result in some element of credit indiscipline creeping in for certain borrowers.
- Liquidity challenges for NBFCs / HFCs / MFIs may get accentuated if banks don't extend moratorium to them. With extension in the moratorium to be offered to borrowers, their asset side cash flows would continue to be impacted. Further, it is not expected that they will get any moratorium on their capital market debt repayments. The recent announcements made on the guarantee and partial guarantee schemes will alleviate the concerns somewhat but what will be key is the extent to which banks will extend moratorium to NBFCs / HFCs / MFIs.
- Continuation of standstill provision for NPA recognition till August 2020 will provide an interim relief on reported NPAs for lenders. Nevertheless, the macro challenges that the economy is facing this fiscal and its impact on fundamental credit quality of borrowers will manifest in an increase in NPA levels across asset classes for both banks and NBFCs once the moratorium is lifted.

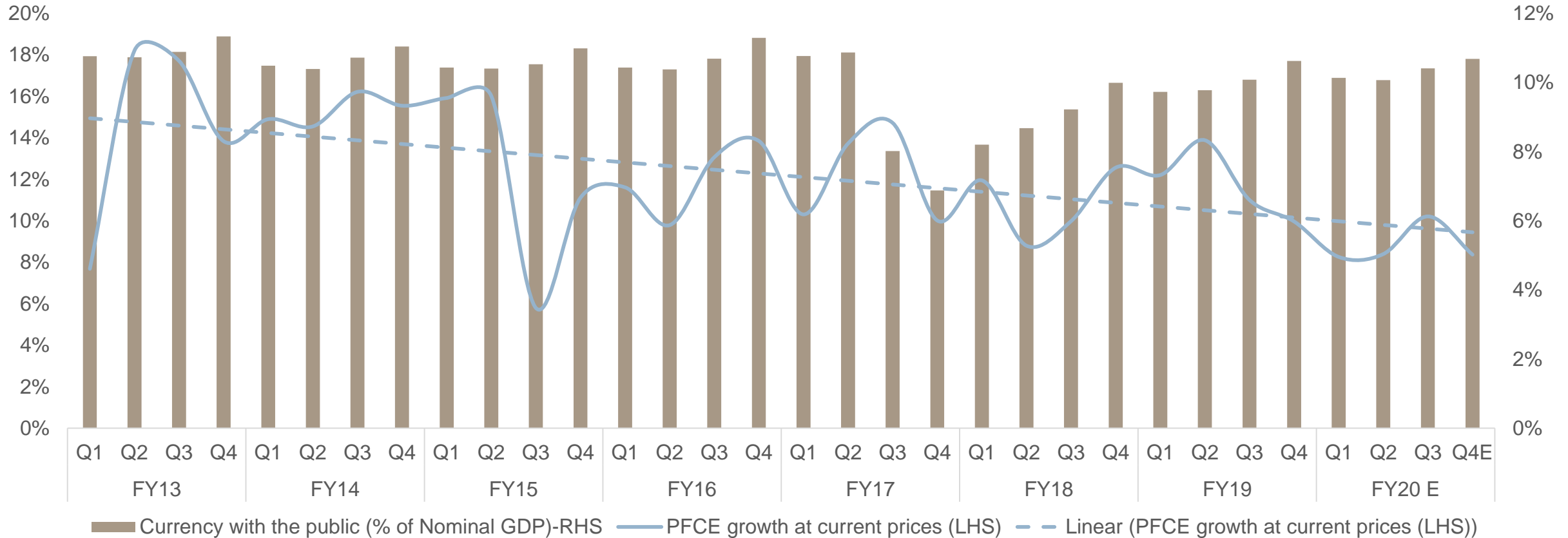
High frequency parameters indicate pain to continue over the next few months

Segments (% Growth Y-o-Y)	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20*
Core Sectors														
Coal	7%	9%	3%	2%	3%	-2%	-9%	-20%	-18%	-4%	6%	8%	11%	
Crude oil	0%	7%	4%	-3%	-7%	-3%	2%	-7%	0%	-6%	-7%	-5%	-6%	
Natural Gas (Consumption)	-1%	-7%	6%	-1%	4%	5%	4%	0%	1%	-6%	-9%	-9%	-10%	
Petroleum Refinery Products (Consumption)	4%	5%	3%	2%	-3%	3%	3%	0%	-1%	3%	3%	2%	7%	
Fertilizers	3%	4%	-4%	-1%	2%	2%	3%	5%	12%	14%	10%	0%	3%	
Steel	5%	11%	13%	13%	8%	9%	5%	0%	-2%	-4%	4%	-1%	0%	
Cement	8%	16%	2%	3%	-2%	8%	-5%	-2%	-8%	4%	6%	5%	9%	
Auto														
Two Wheelers	-4%	-17%	-16%	-7%	-12%	-17%	-22%	-22%	-14%	-14%	-17%	-16%	-20%	-40%
Cars	-4%	-7%	-20%	-26%	-24%	-36%	-41%	-33%	-6%	-11%	-8%	-8%	-9%	-52%
Uvs + Vans	5%	4%	-11%	-10%	-4%	-21%	-11%	-4%	13%	20%	12%	-3%	-6%	-49%
Commercial Vehicles	0%	0%	-6%	-10%	-12%	-26%	-39%	-39%	-23%	-15%	-12%	-14%	-33%	-88%
Three Wheelers	-4%	-9%	-7%	-6%	-9%	-8%	-7%	-4%	-4%	5%	22%	13%	-31%	-58%
Others														
Iron Ore	6%	-6%	21%	15%	15%	27%	25%	0%	16%	17%	33%	N.A	N.A	N.A
PMI Manufacturing	54.3	52.6	51.8	52.7	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3	54.5	51.8
IIP Overall	0%	3%	3%	5%	1%	5%	-1%	-4%	-4%	2%	0%	2%	4.5%	N.A.
Diesel consumption	3%	1%	2%	3%	1%	3%	-1%	-3%	-7%	9%	0%	-2%	6%	-26%

Note* - Core Sectors March estimates based on expected trend.

Adequate money supply in the system; however PFCE to be under significant pressure in FY21

PFCE vs Money Supply (Currency with Public as % of Nominal GDP)



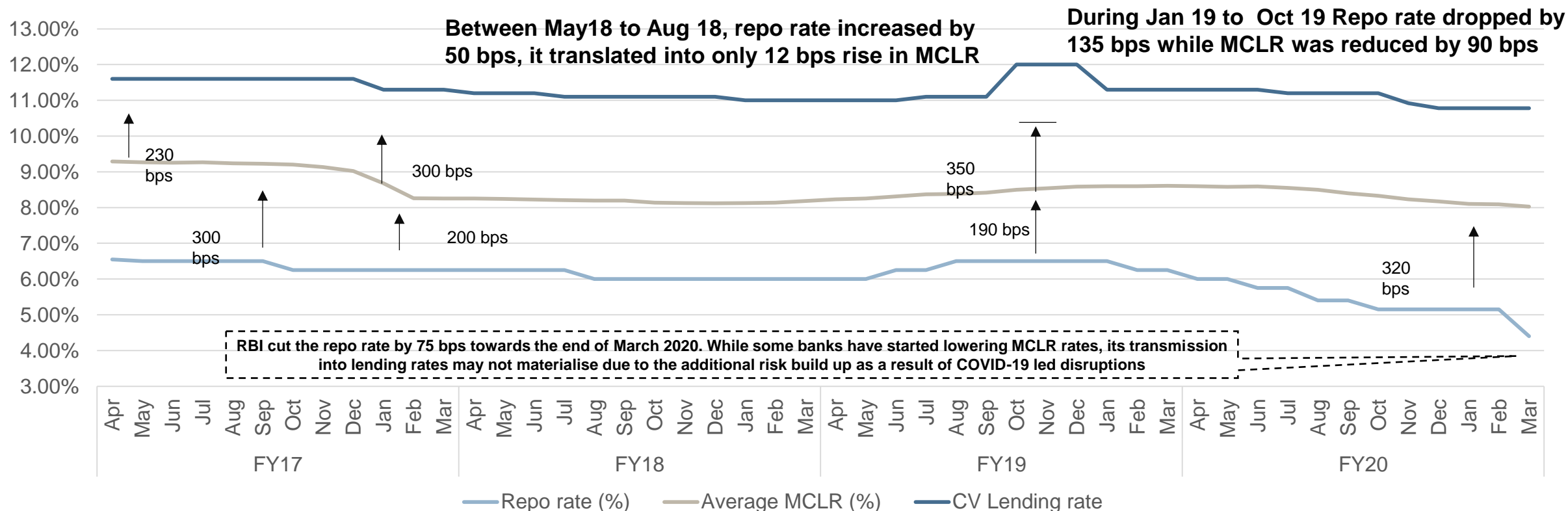
Source: MOSPI, RBI, CRISIL Research

Note* - PFCE – Private Final Consumption Expenditure.

For representation purposes, quarterly Nominal GDP value has been kept similar to the annual GDP of their respective financial year.

Despite repo rates cuts, transmission may be difficult/delayed due to moratoriums as well as increasing risk in the automotive portfolio







Trend of CV finance rates vs repo and MCLR rates



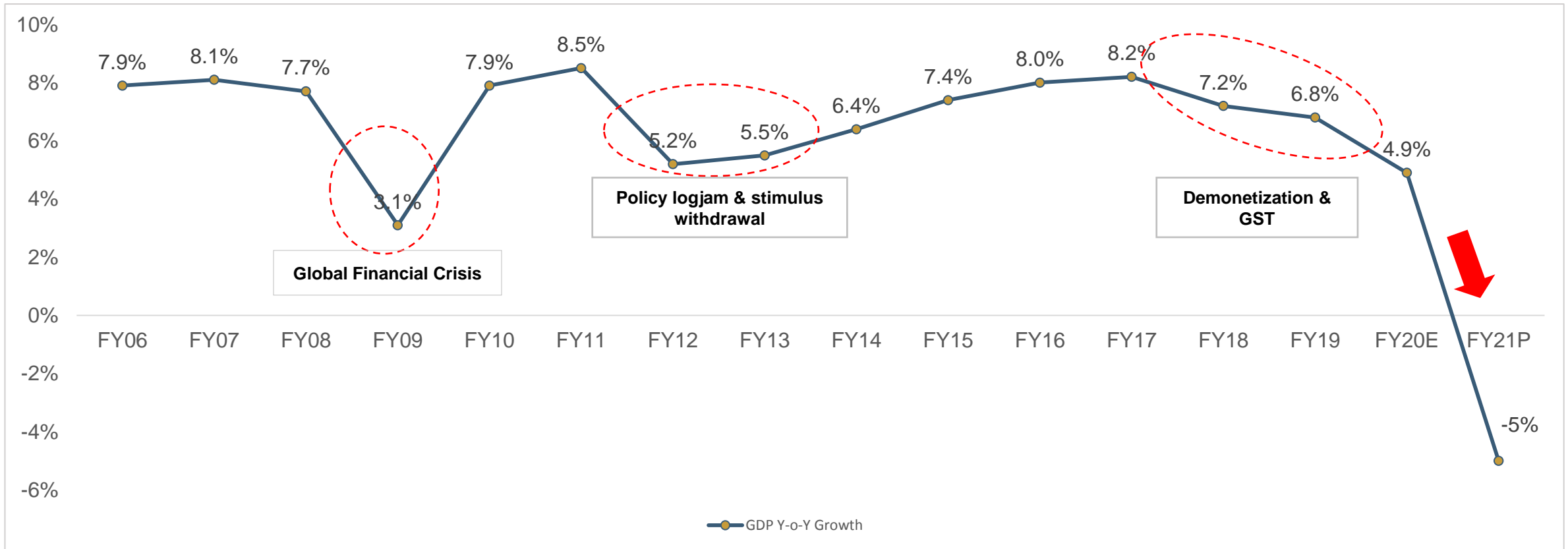
Source: RBI, CRISIL Research

- Moratoriums could pose problems in recovery if the situation deteriorates by end of May compared to current scenario and hence cash flows for financiers may get disrupted. GNPA levels expected to inch up by about 100bps by the end of first quarter of FY21
- Also, new loans disbursed in the month of March before the lockdown would also have the option to avail a 3 month moratorium possibly enhancing risk from these customers

Macroeconomic outlook looking grim for FY21

Segments (% Growth Y-o-Y)	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20 E	FY 21 P
GDP (% Growth Y-o-Y)	7.4	8.0	8.3	7.0	6.1	5.0	-5%
GVA Industry	7.0	9.6	7.7	6.3	4.9	1.8	
GVA Services	9.8	9.4	8.5	6.9	7.7	7.0	
GVA Agriculture	-0.2	0.6	6.8	5.9	2.4	3.7	
CAD (as a % of GDP)	1.3	1.1	0.7	1.8	2.1	1.0	0.2
10-year G-sec yield (end-March)	7.7	7.5	6.8	7.6	7.5	6.2	6.5
PFCE	6.4	7.9	8.1	7.0	7.2	5.3	0-1
Crude oil (\$/barrel, CY)			44	54.5	71	64	30-35 
Inflation (Consumer Price Index)	5.9	4.9	4.5	3.6	3.4	4.7	4.0
GFCF / GDP (%)	30.1	26.7	28.2	28.6	29.3	29.3	
GNPA / Advances (%)	4.3	7.5	9.5	11.6	9.3	~9.5	

Indian Economy to contract by 5%

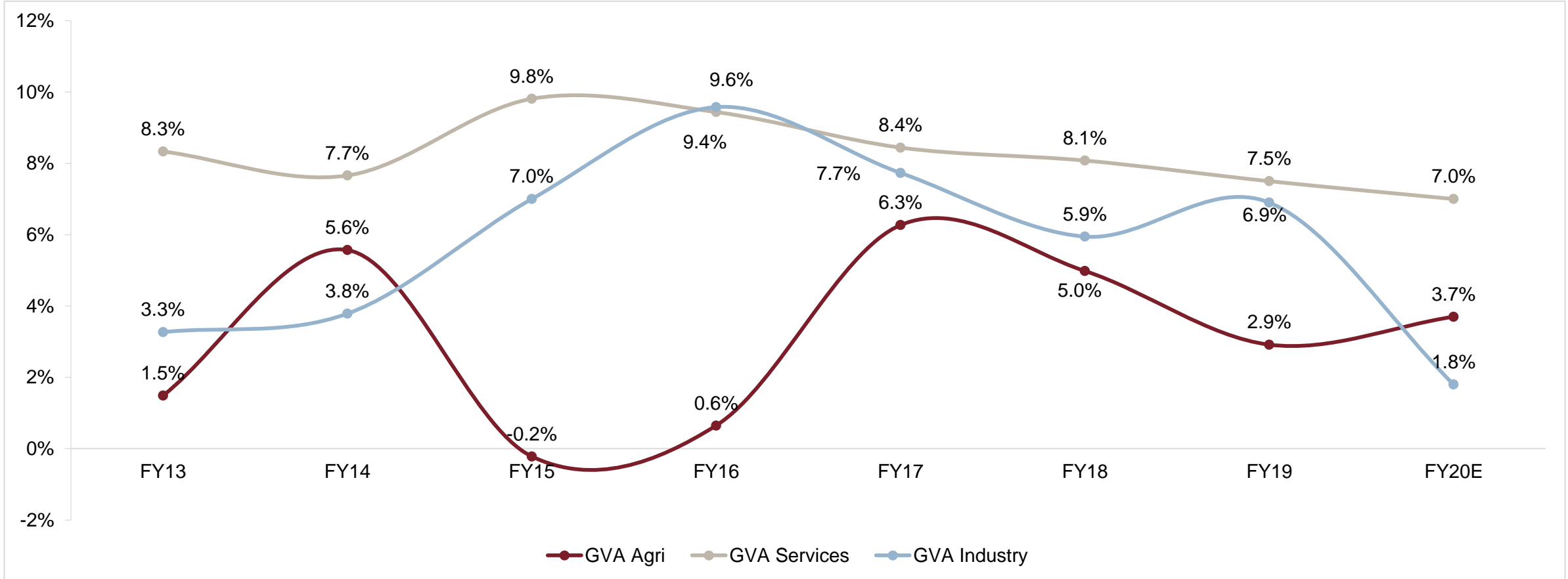


Note: GDP – Gross domestic product; Data on 2011-12 base, P=Projected

Source: Central Statistical Office, MOSPI, CRISIL Research

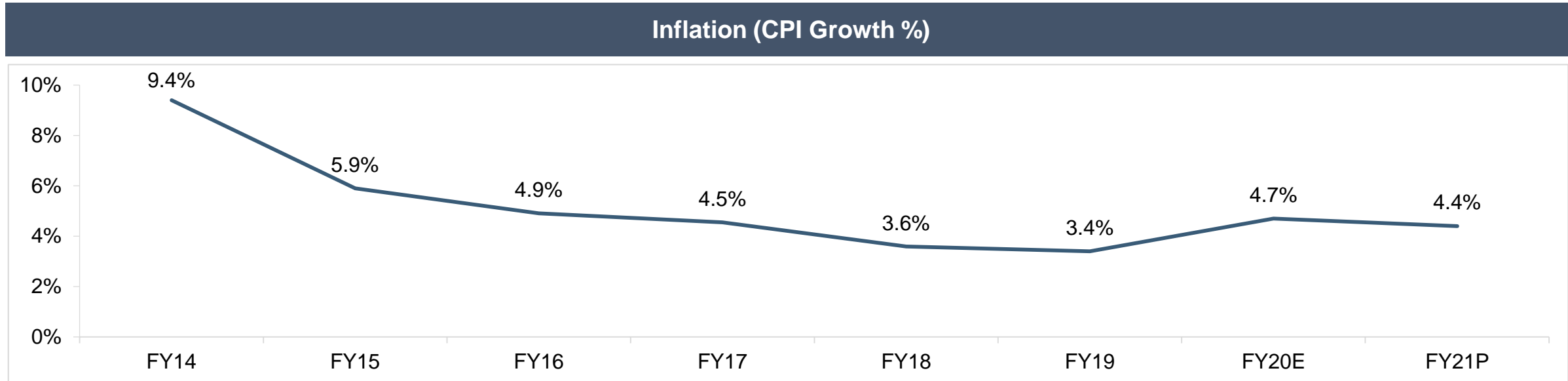
- On the demand side, fixed investment growth fell sharply. A sharp slowdown in government capex spending in addition to a weaker private capex appetite has likely caused this drop.
- Private consumption growth is at the lowest. A sharp slowdown in incomes has dented consumer sentiment and kept private consumption growth weak.
- On the supply side, GVA growth slowed. Much of this slowdown came from services, although the industry sector continued to post a contraction for the second quarter in a row.
- Agriculture growth outperformed in Q4 led by healthy progress in the rabi crop.

GVA Industry estimated to record slowest growth in FY20



- The ongoing hit to global demand – due to the Covid-19 pandemic – is expected to hurt India’s manufacturing sector in the coming months of FY21. India’s growth will be impacted through reduced demand for exports, given the slowdown in global growth and supply chain disruptions. During FY21, industry GVA to see sharpest drop amidst slowdown in economic activity.
- Social distancing measures and cut in discretionary spending are beginning to hit economic activity, particularly in transport and hospitality.

CPI inflation back in RBI target band

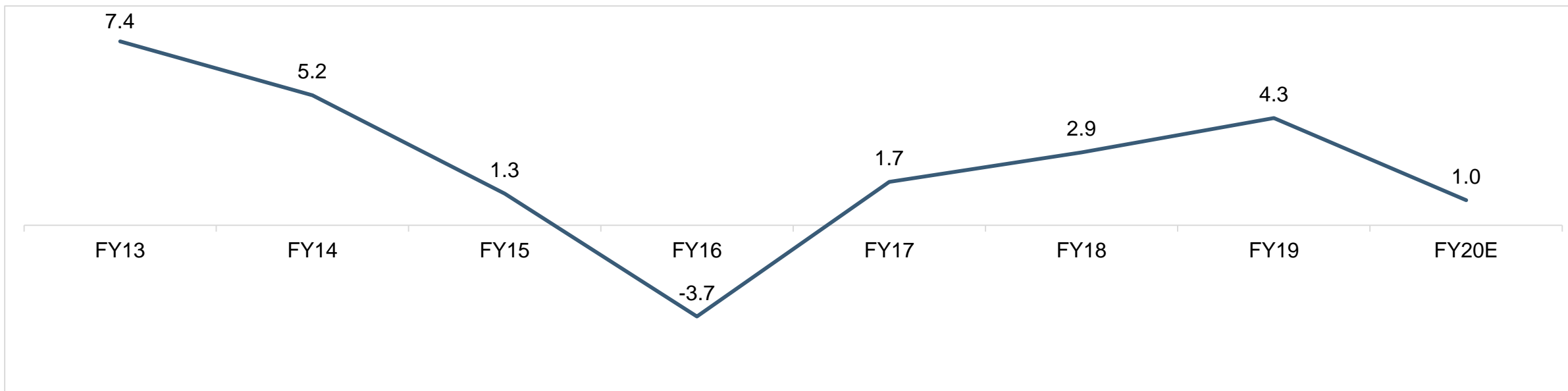


Year	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
FY 19	4.6	4.9	4.9	4.2	3.7	3.7	3.4	2.3	2.1	2.0	2.6	2.9
FY 20	2.9	3.0	3.2	3.1	3.2	4.0	4.6	5.5	7.4	7.6	6.6	5.9

- CPI inflation has come down for the second consecutive month in March. With this, CPI inflation is back in the Reserve Bank of India's (RBI) target band of 2-6%. The decline was largely due to softening food prices, while core and fuel inflation remained largely stable.
- March inflation data may not yet be fully indicative of the impact of the Covid-19 pandemic as the nationwide lockdown to contain its spread was implemented only towards the end of the month.
- Further, the National Statistical Office (NSO) also stated that it faced issues with its data collection exercise in the wake of the pandemic. It is plausible that food inflation sees an uptick while core inflation softens as a result of the lockdown, supply disruptions and loss in economic activity.
- CRISIL projects a decline in CPI inflation from 4.7% in fiscal 2020 to 4.4% in fiscal 2021, as (a) the unusual surge in food inflation has started to correct; (b) core inflation would soften amid the economic slowdown; (c) oil prices have sharply fallen; and (d) a high-base effect would kick in during the second half of the year and keep a check on inflation.

WPI inflation at a 4-year low in FY20

Inflation (WPI Growth %)

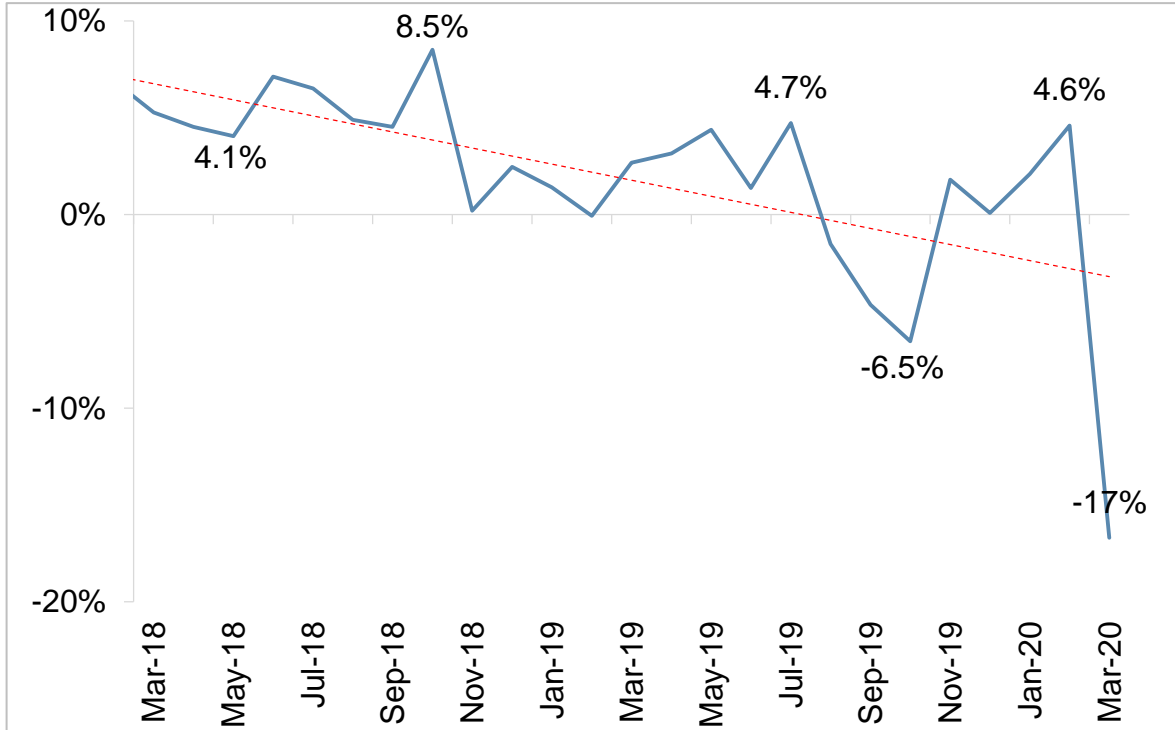


Year	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
FY 19	3.6	4.8	5.7	5.3	4.6	5.2	5.5	4.5	3.5	2.8	2.9	3.1
FY 20	3.2	2.8	2.0	1.2	1.1	0.3	0.2	0.6	2.6	3.1	2.3	1.0

- After reaching a nine-month high of 3.1% in January, WPI inflation softened to 2.3% in Feb and at 1% in March.
- The decline was on account of a fall in food inflation even as fuel and core inflation were marginally up.
- Inflation in vegetables fell sharply to 11.90 per cent in March from a high of 29.97 per cent in the previous month.
- The fuel and power basket witnessed deflation of 1.76 per cent, while manufactured products witnessed inflation of 0.34 per cent.

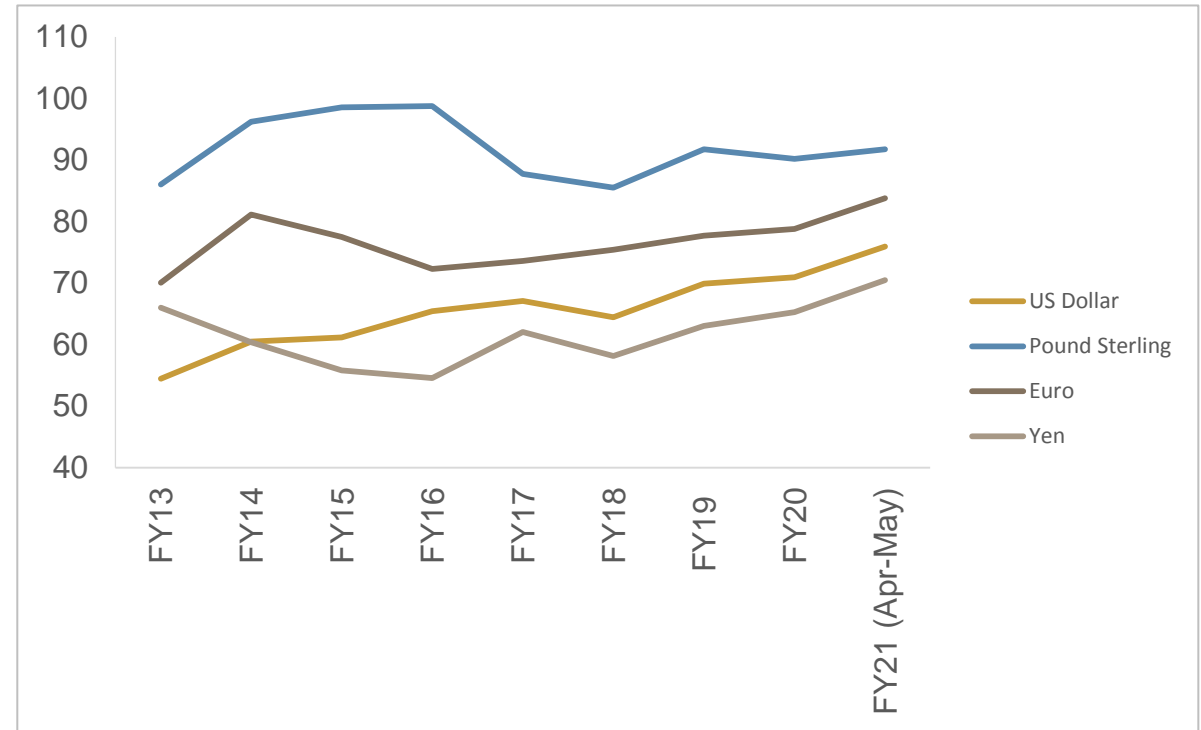
The nationwide lockdown saw Industrial Output shrink

IIP Growth (YoY %)



Source: MoSPI, CRISIL Research

Exchange Rates

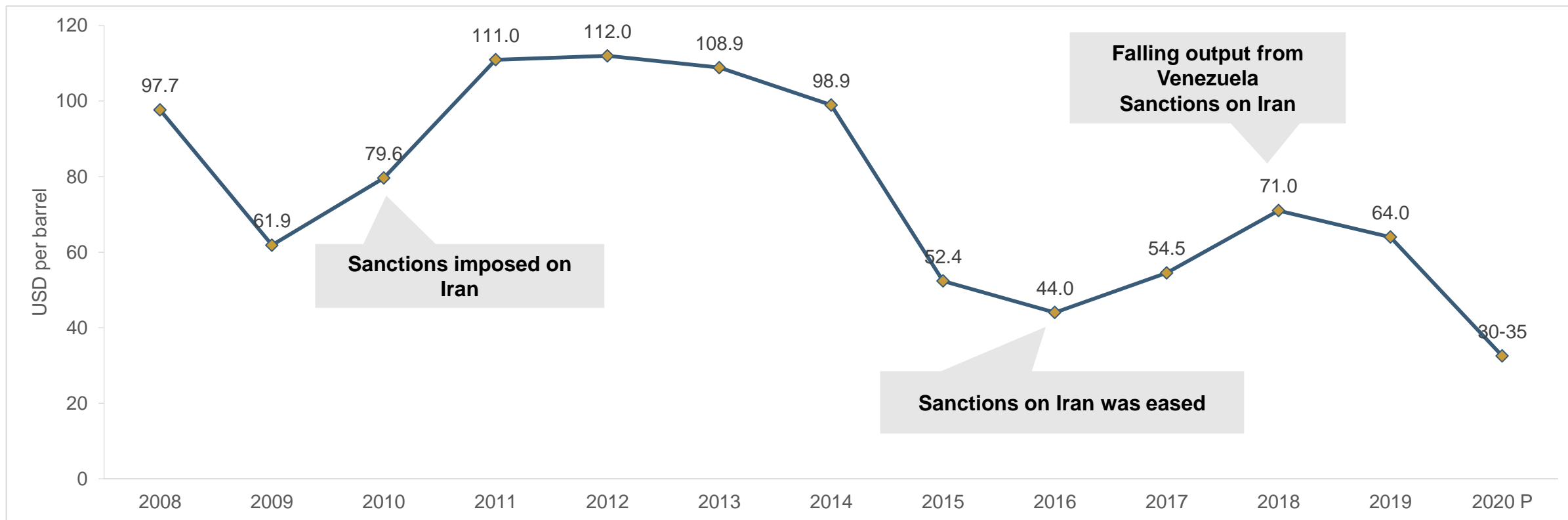


Source: RBI, FBIL, CRISIL Research

Note – For Yen rupees value are per 100 Yen; Nos. mentioned are average exchange rates

- IIP logs a record 16.7% contraction in March
- The manufacturing sector faced the biggest blow with output contracting ~20%
- The outlook for April, which saw a near complete lockdown, is gloomier, as per early indicators
- Due to uncertainty on account of CoViD-19, rupee depreciated compared to all major currencies.

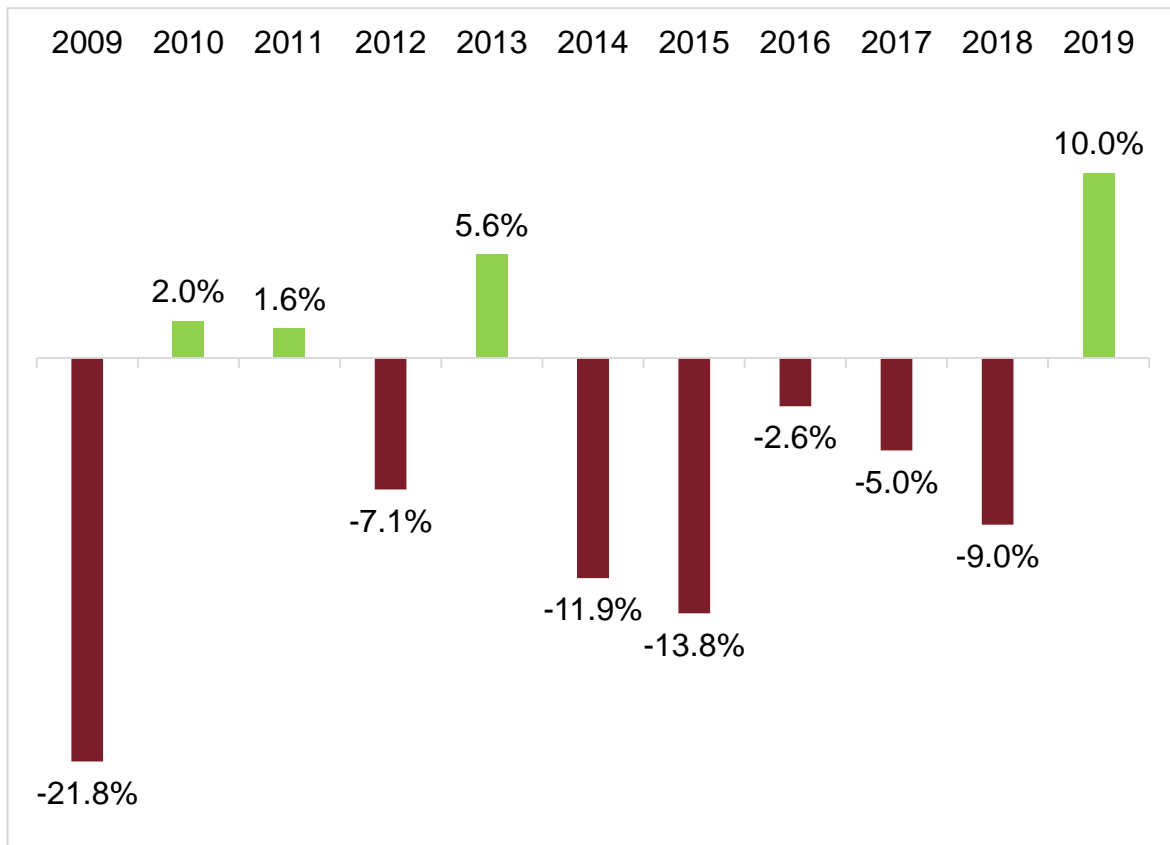
Crude prices to move south amid tepid demand further accentuated by the COVID-19 outbreak



- Crude oil prices are currently hovering below ~\$30 per barrel as a result of sluggish demand sentiments due to COVID-19 and an expected global economic recession.
- However, recently OPEC+ countries have decided to cut their oil production. It remains a key monitorable.
- Due to lockdown situation, consumption of oil has taken a hit. Consumption from road transport would also remain sensitive to electric vehicle expansion.

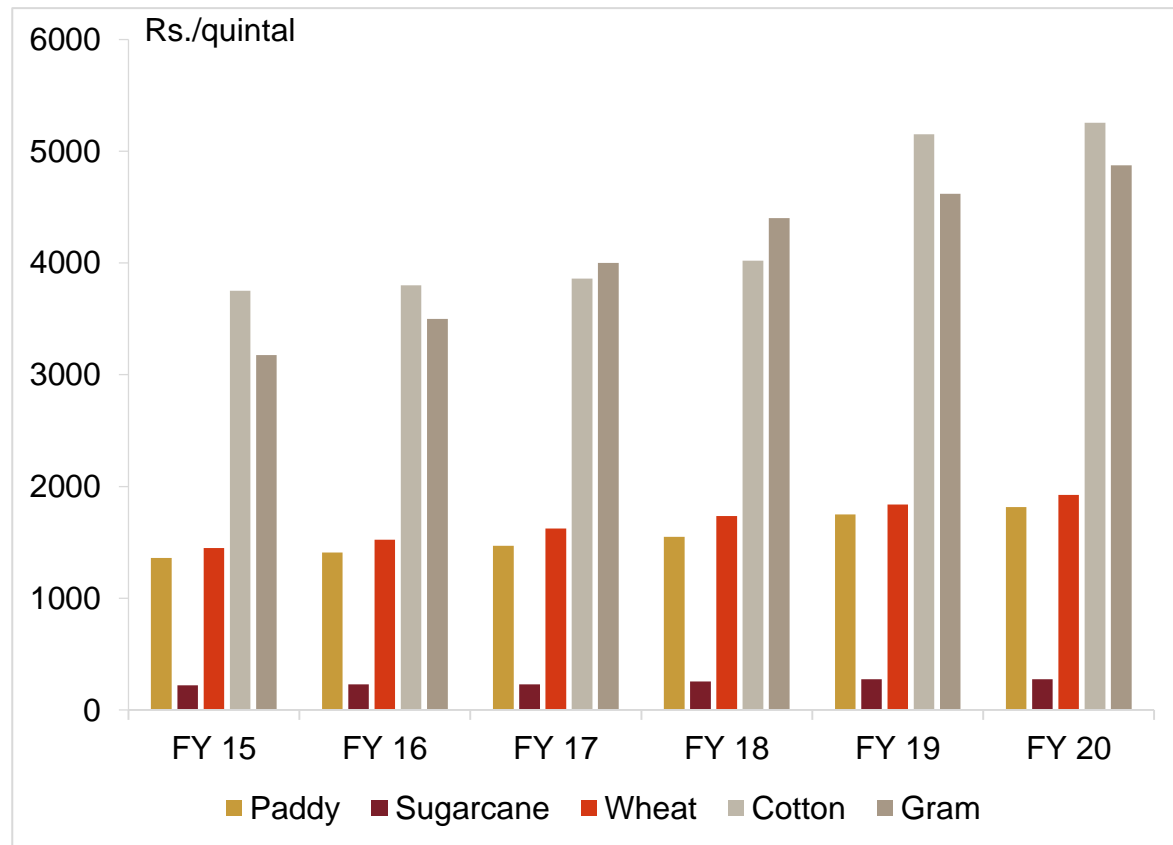
Positive rural sentiments on the back of better rabi crops and better prices

Monsoon deviation from long normal rainfall levels



Note: Years mentioned are calendar years
Source: Indian Meteorological Department

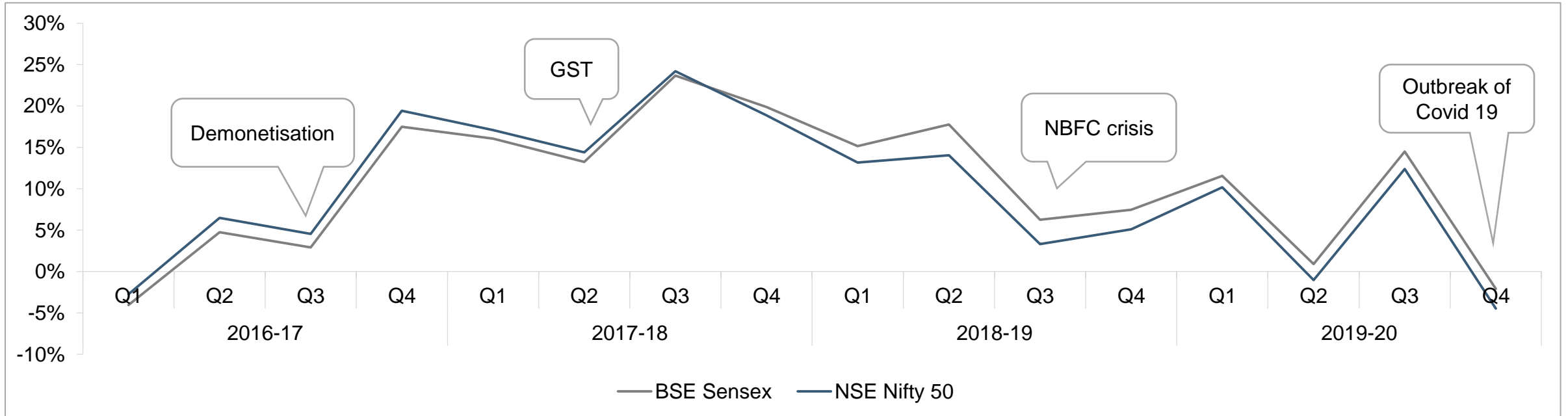
MSP of major crops in the last 5 years



Source: Ministry of Agriculture & Farmers Welfare

Rout in domestic equity markets followed global sell-off over coronavirus outbreak

BSE Sensex and NSE Nifty 50



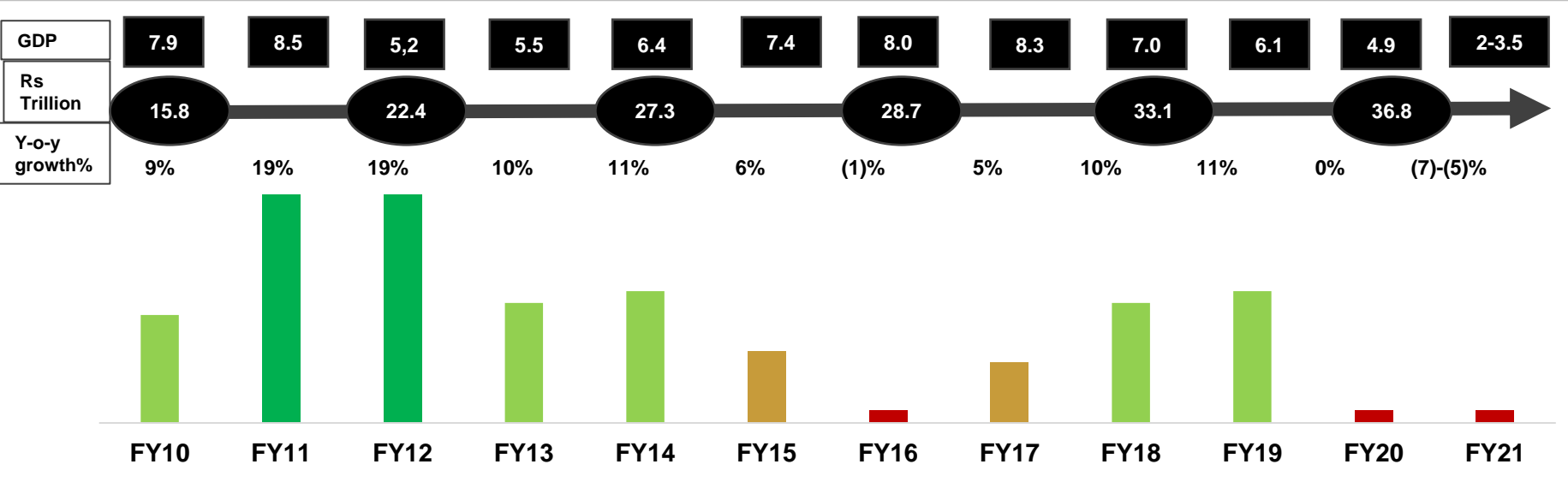
Index	Year	Q1	Q2	Q3	Q4
BSE Sensex	FY 20	39,380	37,827	40,725	36,163
NSE Nifty 50	FY 20	11,819	11,205	12,033	10,587

- Sensex and Nifty saw a decline of 2% and 4% respectively in Q4 FY20. Indices were dragged majorly in March by 24-26%.
- Metal stocks were affected by fall in metal prices as demand from China slowed.
- Auto stocks took a hit over continued muted domestic sales and reports of disruptions in production, given that China is an important link in the automotive components supply chain.

Health of India Inc.

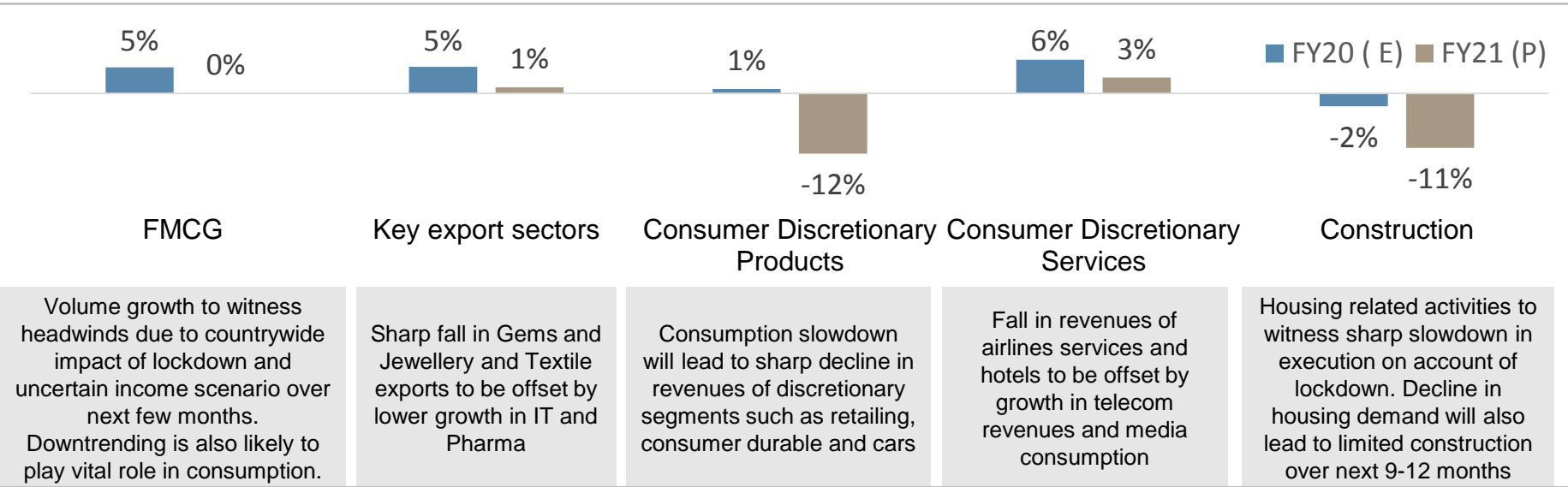
India Inc. revenue growth to skid to a decadal low in FY21

Decadal revenue growth with GDP growth



Lockdown to have serious impact on industry revenues in the first half; recovery unlikely in H2 as well

Discretionary segments and construction most hit



Volume growth to witness headwinds due to countrywide impact of lockdown and uncertain income scenario over next few months. Downtrending is also likely to play vital role in consumption.

Sharp fall in Gems and Jewellery and Textile exports to be offset by lower growth in IT and Pharma

Consumption slowdown will lead to sharp decline in revenues of discretionary segments such as retailing, consumer durable and cars

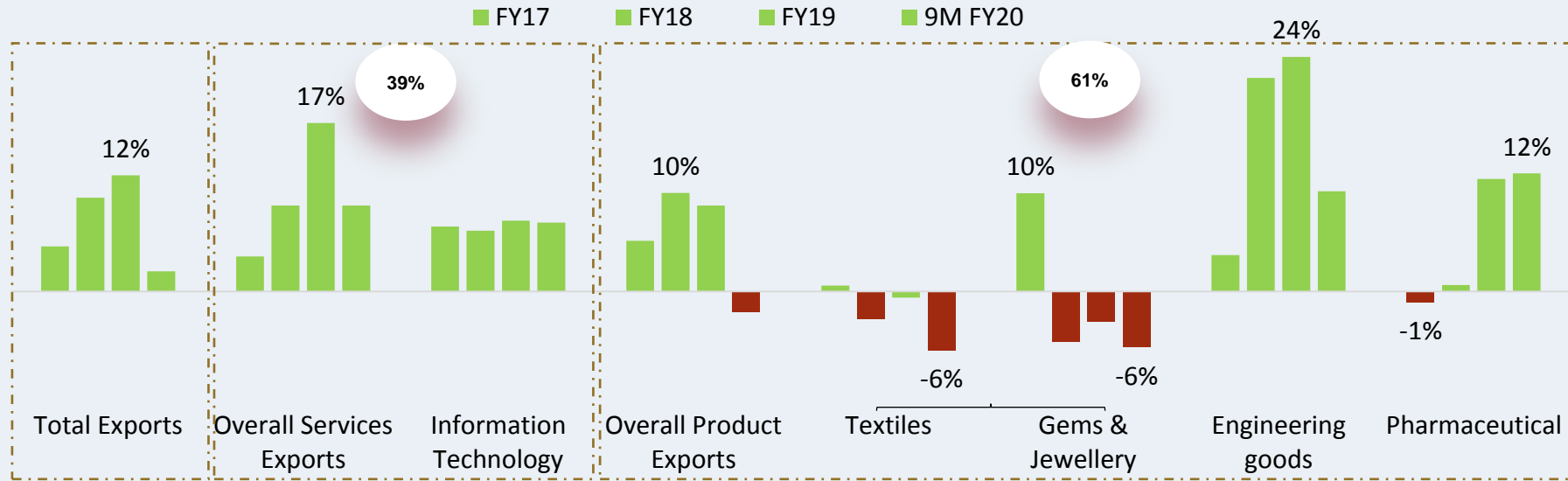
Fall in revenues of airlines services and hotels to be offset by growth in telecom revenues and media consumption

Housing related activities to witness sharp slowdown in execution on account of lockdown. Decline in housing demand will also lead to limited construction over next 9-12 months

Quarantines and lockdowns to impact airlines, hotels, construction and retail business heavily

Recession in destination countries to put significant pressure on exports

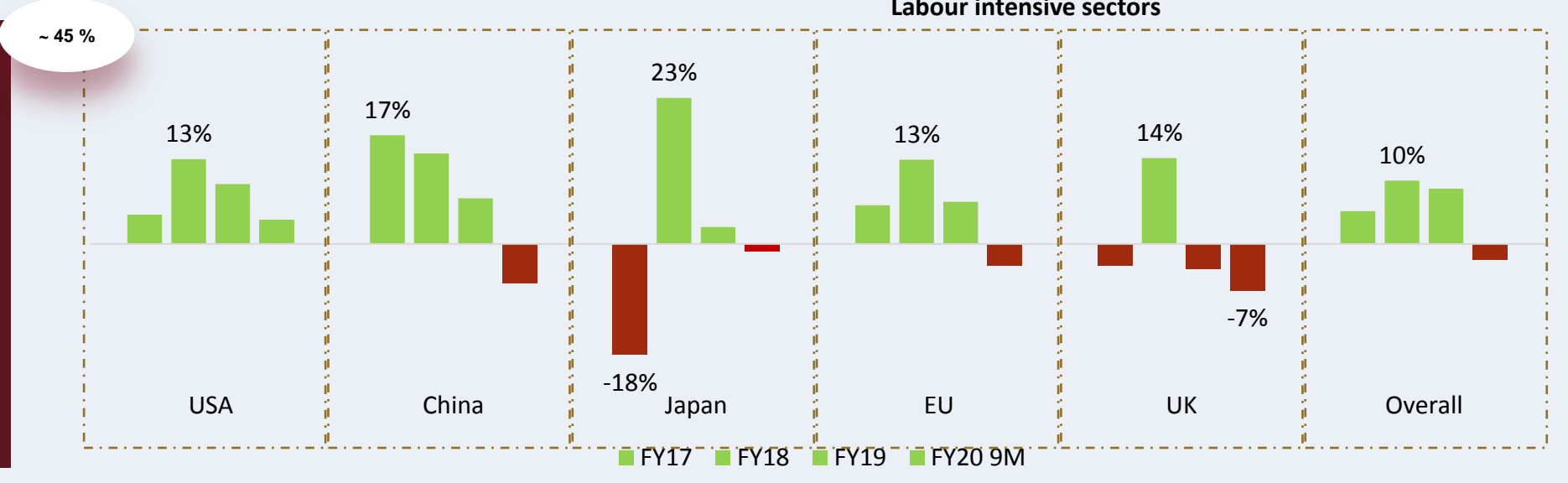
Growth in key export baskets



Overall exports remained muted in 9MFY20; Exports were supported by growth in services
 Manufacturing tumble may continue
 Except for pharma most segments to see sharp drops

Labour intensive sectors

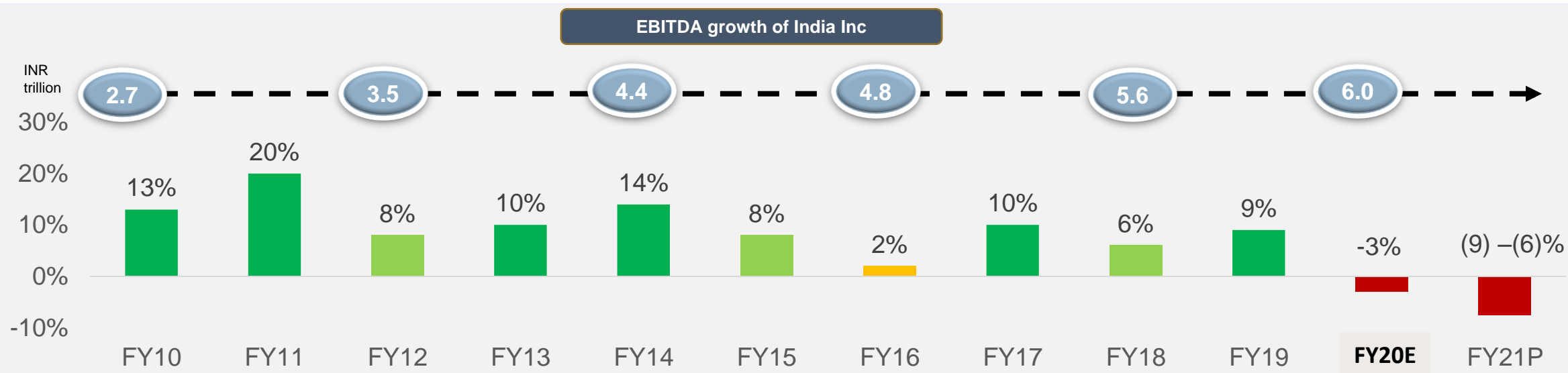
Key trading nations among most infected



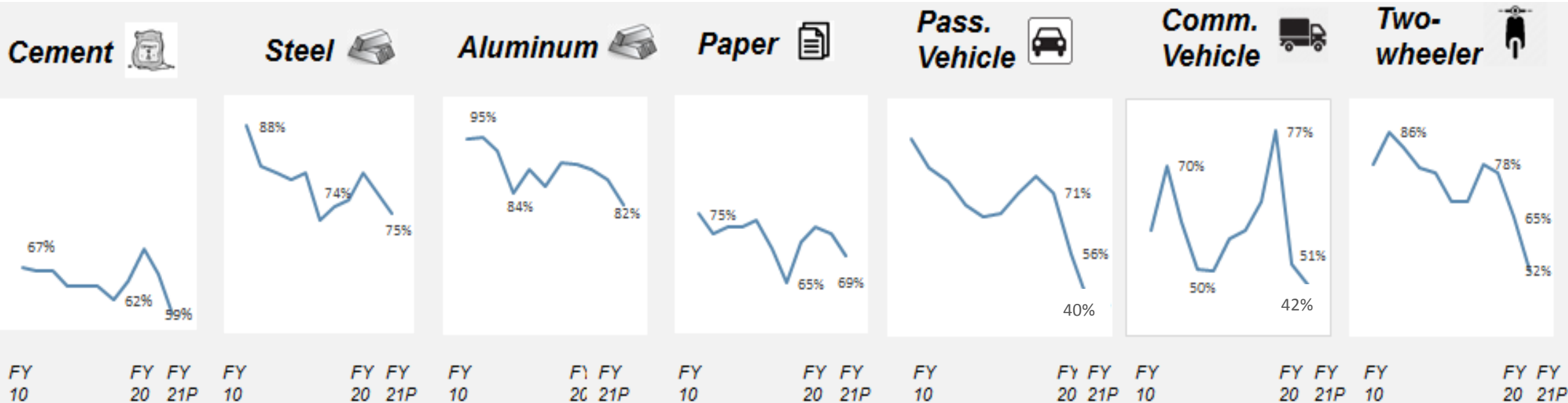
Our key exporters also have been the most impacted nations.
 Sectors like sea food, meat, RMG, Cotton Yarn, to name a few will see decline for a pretty long period.

EBIDTA margins to skid further; lower utilisation levels to delay recovery of industrial capex

EBIDTA trends to remain weak

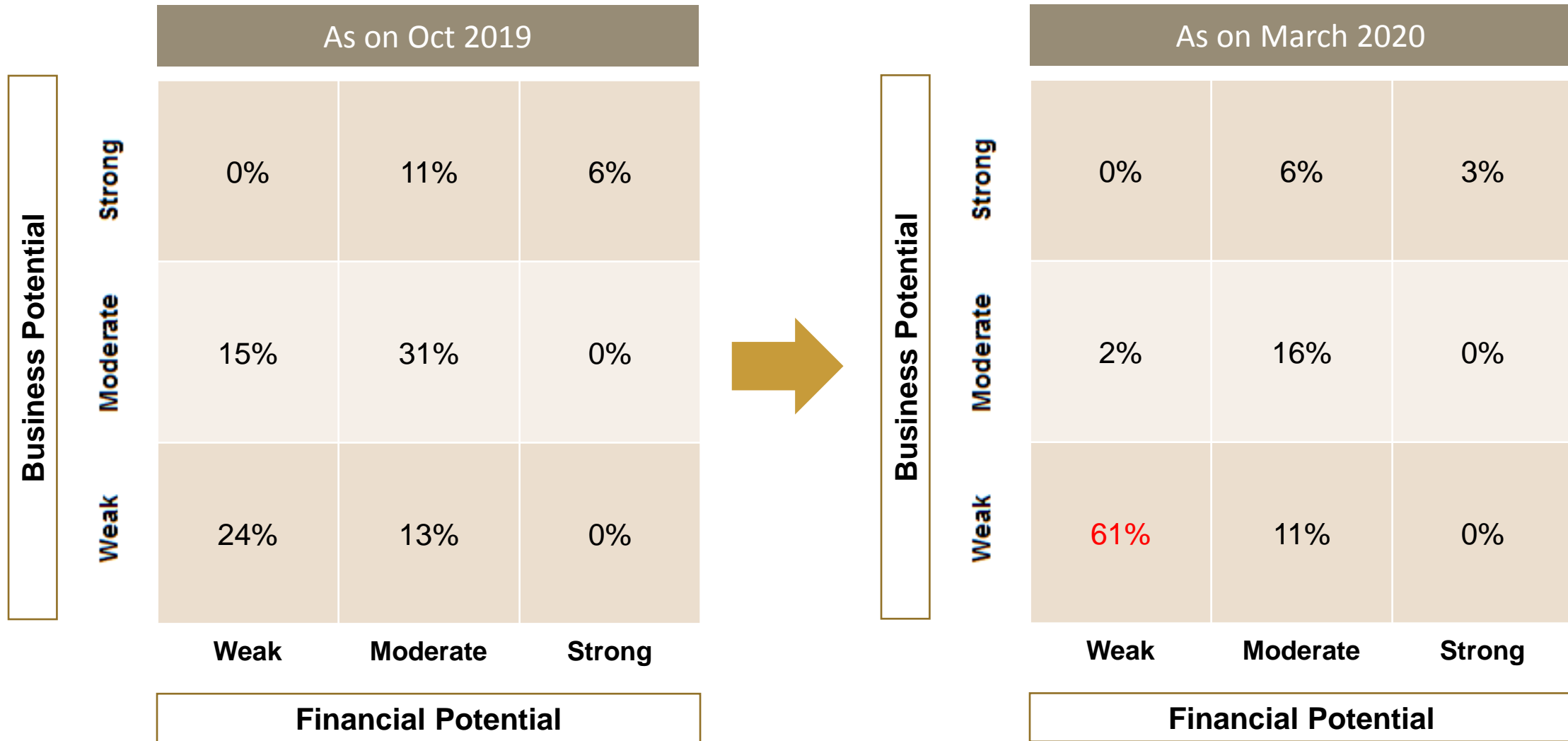


Key sectors utilisation



Health of SME Sector

SME sector to face significant sluggishness going forward; tier 2 and 3 automotive component manufacturers to be under pressure



Note: Percentages in the above grid represent the proportion of companies of the total universe of >15,000 companies across 62 sectors
 Base Case: Impact of global and domestic demand slowdown, supply disruption limited to H1 of FY21

SOURCE: CRISIL Research



Forecast

Key Forecast Assumptions

Current Base case:

- The measures taken by the government are relaxed after May 31, even though the restrictions continues in major CoViD impacted cities. Latest studies by the Public Health Foundation of India and the World Health Organization suggest the pandemic spread could peak by mid-July
- States with high and rising Covid-19 cases continue seeing restrictions even in June, which will be a drag on the economy.
- For forecast, we haven't considered lockdown to extend after June.
- **Restarting normal business activities and normalizing supply chains will take another 2-3 months after that**
- Strong protection protocols will continue to be in place for atleast 3-4 months after the nationwide lockdown is lifted
- **Normal and well distributed monsoons**
- **Oil prices are expected to average \$30 per barrel in fiscal 2021, cushioning the economy**
- **Availability of funding and requisite support to NBFCs, especially the larger auto financing NBFCs**

Risks to the Base case:

- A **further markdown in global growth**, if there is uneven health recovery and premature austerity in the face of a large rise in public debt in most countries
- A **second wave of Covid-19 cases** adding to the uncertainty
- A setback to agriculture because of **monsoon failure or supply disruptions**
- Restarting production activities and business to take another 2-3 months post June-end 2020
- Strong protection protocols will continue to be in place for about 5-6 months post June-end 2020
- Funding and requisite support to auto-financing NBFCs not being available

Source – Industry, CRISIL Research

Automobile industry to skid further in FY21

Segments	FY20 (units)	YoY Growth (%)	FY21 (units)	YoY Growth (%)	Pessimistic Growth (YoY)
Passenger Vehicles (mn)	2.76	(18)%	2.04 - 2.09	(25)-(27)%	(42)-(47)%
Two-wheelers (mn)	17.42	(18)%	13.2-13.5	(22)-(24)%	(30)-(35)%
Commercial Vehicles ('000)	718	(29)%	519-533	(26)-(28)%	(28)-(33)%
Three-wheeler ('000)	637	(9)%	499-512	(19)-(20)%	(23)-(28)%
Tractors ('000)	710	(10)%	725-745	2-5%	(3)-(5)%

Indicates base case scenario

Click on the segment to go to the section

Forecasts – Domestic & Exports




























		Domestic						Exports	
		Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	FY 20	FY 21P	FY 20	FY 21
Passenger vehicles	Cars	(75)-(77)	(18)-(20)	(20)-(22)	0-(2)	(23)	(29)-(31)	(5)	(14)-(18)
	UVs and vans	(69)-(71)	(10)-(12)	(12)-(14)	22-24	(7)	(17)-(19)	15	(16)-(20)
	PVs	(73)-(75)	(15)-(17)	(17)-(19)	7-9	(18)	(25)-(27)	0	(15)-(19)
Two-wheelers	Motorcycles	(77)-(79)	(21)-(23)	1-3	25-27	(18)	(22)-(24)	9	(18)-(22)
	Scooters	(80)-(82)	(30)-(32)	(1)-1	28-30	(17)	(24)-(26)	(7)	(15)-(19)
	Mopeds	(66)-(68)	(11)-(13)	6-8	24-26	(27)	(12)-(14)	(17)	(9)-(13)
	2W	(77)-(79)	(24)-(26)	1-3	26-28	(18)	(22)-(24)	7	(18)-(22)
Commercial vehicles	LCV (<3.5T)	(82)-(84)	(25)-(27)	(9)-(11)	34-36	(20)	(23)-(25)	(27)	(20)-(24)
	LCV (3.5-7.5T)	(86)-(88)	(22)-(24)	(5)-(7)	44-46	(26)	(21)-(23)	(32)	
	MHCV	(87)-(89)	(29)-(31)	0-(2)	22-24	(47)	(32)-(34)	(63)	(18)-(22)
	Buses	(81)-(83)	(14)-(16)	(17)-(19)	20-22	(7)	(26)-(28)	(3)	(13)-(17)
	CVs	(84)-(86)	(25)-(27)	(8)-(10)	29-31	(1)-(3)%	(26)-(28)	(39)	(18)-(22)
Tractors		(15)-(17)	7-9	3-5	17-19	(10)	2-5	(17)	(18)-(22)
Three-wheelers	Goods	(69)-(71)	(4)-(6)	(2)-(4)	25-27	(13)	(14)-(16)	2	(30)-(32)
	Passenger	(72)-(74)	(16)-(18)	(6)-(8)	14-16	(8)	(20)-(22)	(12)	(18)-(22)
	3W	(72)-(74)	(15)-(17)	(6)-(8)	16-18	(9)	(19)-(21)	(12)	(18)-(22)

Research NOTE: *For tractor exports of fiscal 2019, players such as Action-construction, Captain, IFEL, Kubota and Preet are not included because of unavailability of data
SOURCE: SIAM, CRISIL Research



Cars and UV

Consumption of discretionary product like PVs to take a hit in FY21

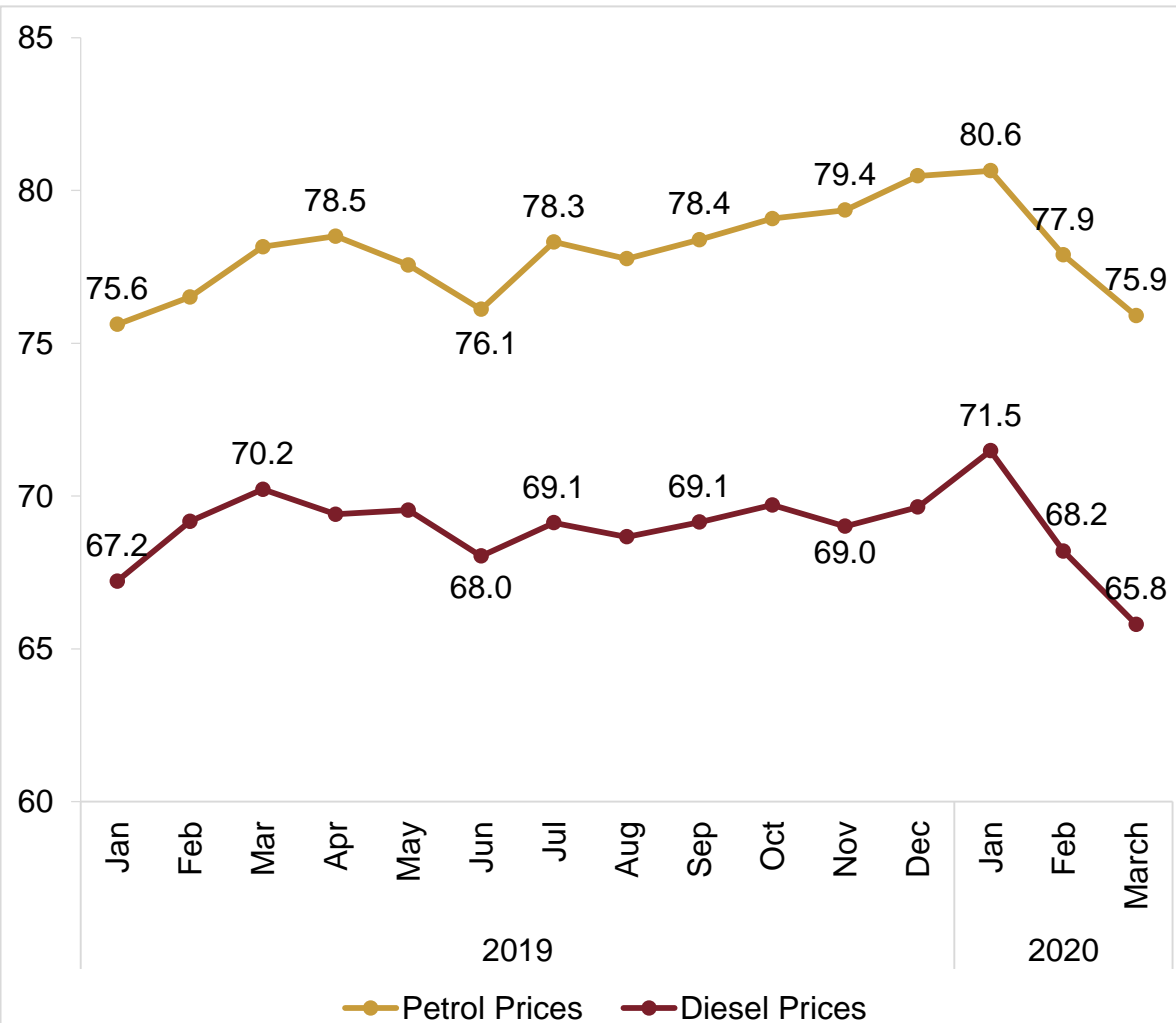
Parameters	Impact		
	FY 19	FY 20	FY 21P
Demand side variables			
-- Real GDP growth			
-- CPI Growth			
-- Crop Value index*			
Cost of ownership			
-- Petrol Prices			
-- Diesel rates			
-- Car finance rates			
Supply side variables & financing			
-- Finance Penetration			
-- Model launches			
-- Regulations/Taxes			

Expected postponement of model launches due to lower consumer sentiments



Fuel prices to provide some respite in FY21

Fuel prices



NOTE: Industry, Prices are ex-Mumbai

Research

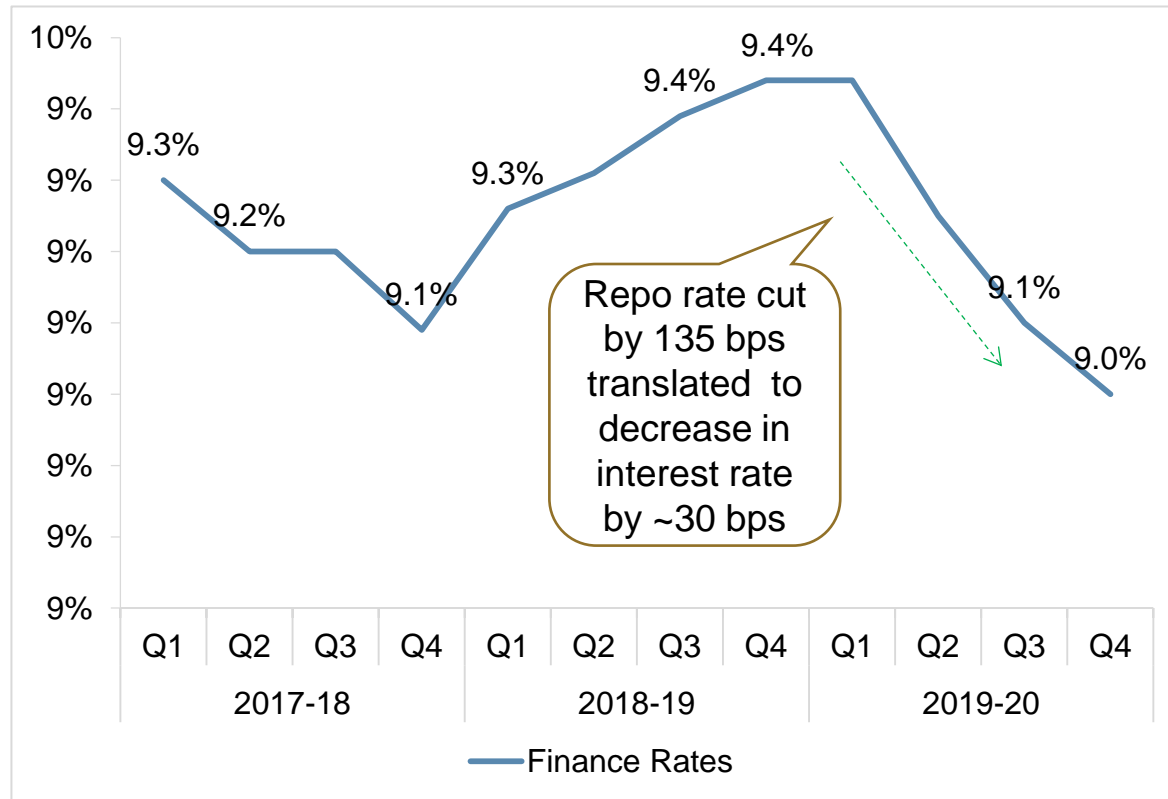
Major Upcoming Launches

Company	Model	Segment
Volkswagen	Tiguan	UV
	T-Roc	UV
Hyundai	Tucson facelift	UV
	Ioniq	Electric Car
Mahindra	XUV Areo	UV
	TUV 300 Plus Facelift	UV
Skoda	Karoq	UV
	Superb Facelift	Large Car
Renault	Arkana	UV
Maruti Suzuki	Jimny	UV
MG	Hector Plus	UV
Nissan	Note e Power	UV
Honda	New City	Large Car
	HR V	UV
Tata	Gravitas	UV
Kia	Sonet	UV

Source: Industry, CRISIL Research

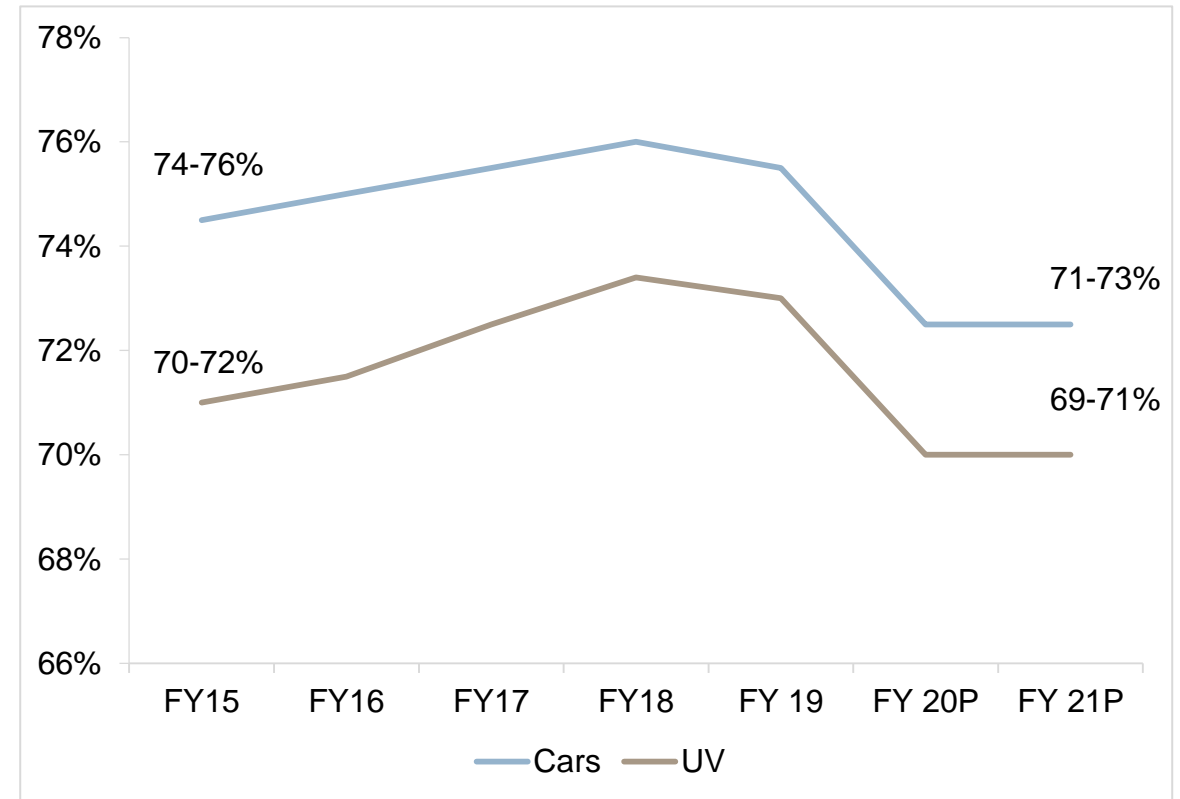
Slump in PV sales in FY21 to put pressure on PV disbursements

Interest Rates



NOTE - Interest rates are an average of interest rates charged by Banks
Source - CRISIL Research

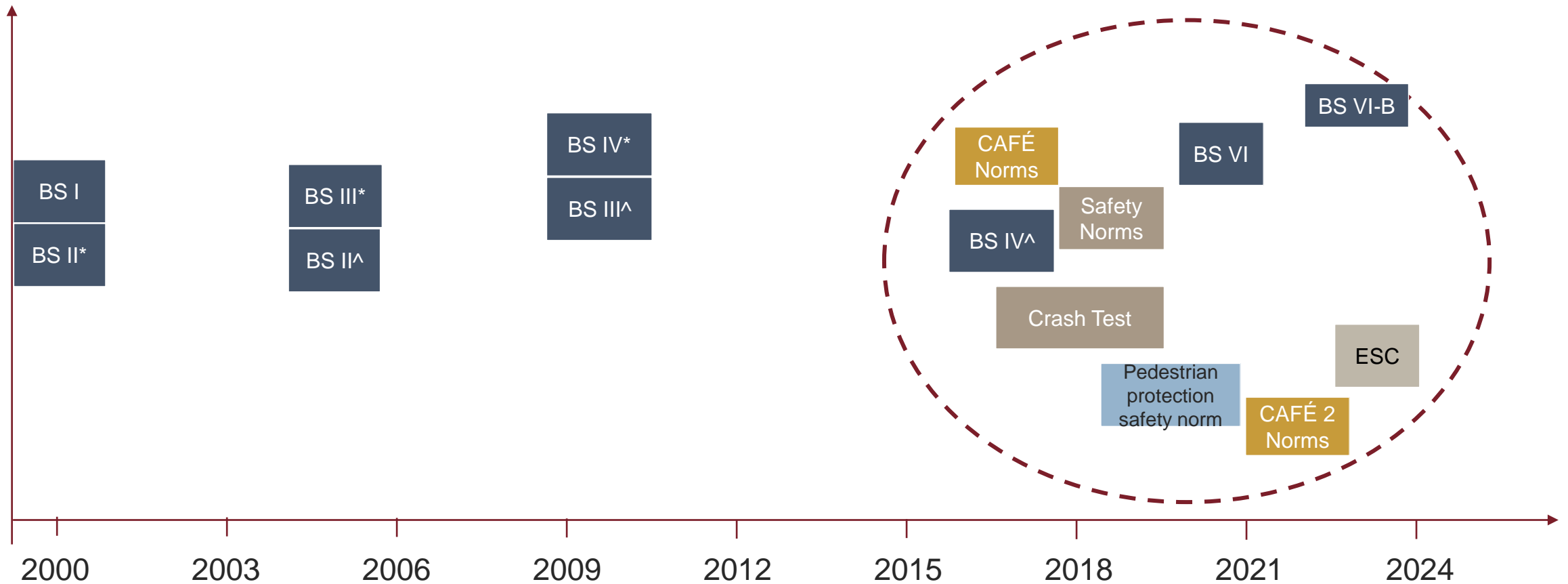
Loan-to-Value (LTV) for PV



Source: Industry, CRISIL Research

- Recent easing by RBI is expected to translate in further lowering of interest rates provided the portfolio of leading passenger vehicle financiers is healthy.
- LTVs offered came down in FY20 due to host of safety norms such as full-frontal, off-set frontal and lateral/side impact. Also LTV offered came down sharply while NBFCs tread carefully in disbursing new vehicle loans. It is expected to remain stable over FY21 as NBFCs focus will shift to asset quality and collections

Regulations on safety & emission norms to bring India at par with developed economies



NOTE: *- Introduction of norm in NCR and 13 cities

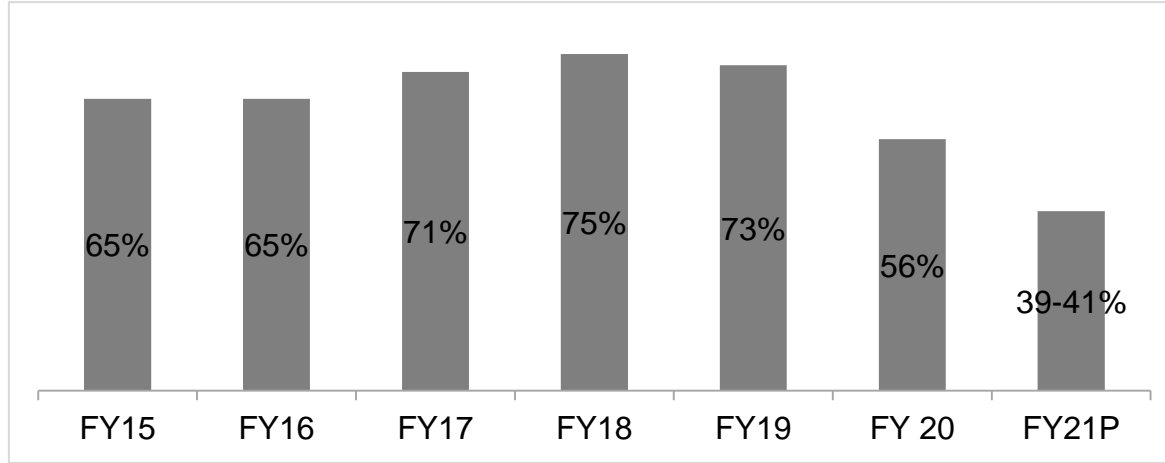
^ Nationwide implementation

BS – Bharat stage (Emission Regulations), CAFÉ- Corporate Average Fuel Efficiency, AEB - Autonomous Emergency Braking, ESC - Electronic Stability Control

Source: Industry, CRISIL Research

Industry to register lowest utilization in a decade in FY21 owing to CoViD19

Utilization level has fallen due to lower domestic sales



Source: CRISIL Research Estimated

Upcoming Projects

Player	Location	Capacity lacs units pa	Investment	Status
Maruti Suzuki	Mehsana, Gujarat	2.5	Rs 85 B	Under implementation
Maruti Suzuki	Mehsana, Gujarat	2.5	Rs 60 B	Planning
PSA	Chennai, TN	1	Rs 7 B	Planning

Source: Industry, CRISIL Research

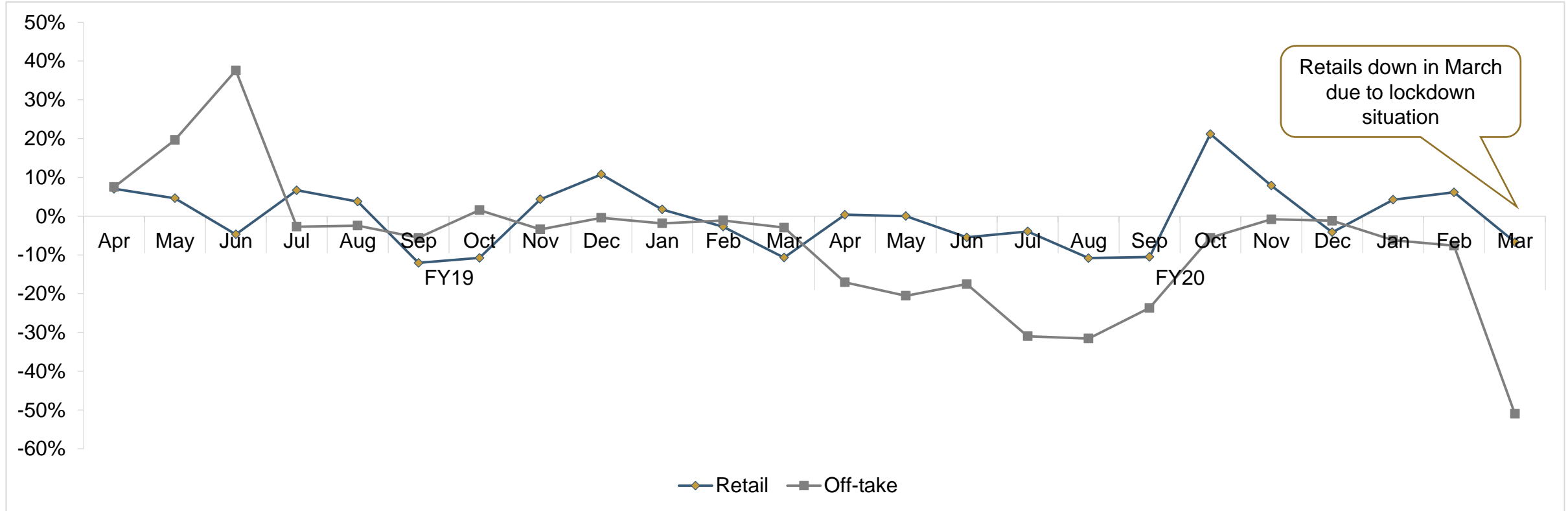
Player-wise capacity utilisation

Player	Effective Capacity estimate (in '000) (as on 31st Mar 2020)	Production (FY20) (in '000)	Capacity utilization in FY20E
Maruti	2050	1553	76%
Hyundai	763	648	85%
Tata Motors	564	149	26%
Ford India	440	193	44%
Renault-Nissan	480	112	23%
General Motors	165	70	43%
Toyota	310	100	32%
Honda	300	98	33%
Volkswagen	179	78	44%
Kia Motors	300	101	34%
Other Players	631	329	60%
Industry Total	6182	3434	56%

Source: SIAM, Industry, CRISIL Research

Wholesale declines sharply amid ongoing lockdown due to COVID-19

Retail vs off-take (Growth yoy)



Source – Vahan, SIAM, CRISIL Research

- OEMs have significantly cut production to clear BS IV stock. Wholesale have been on downward trajectory since FY19.
- Higher discounts helped in keeping up the pace of retails since start of festive season. Major players were in comfortable position with respect to BS IV stock before the COVID-19 pandemic struck. The situation is a key monitorable now.
- Dealer were in comfortable position in view with BS IV stock despite of no retails happening in second half of March.

Domestic – Annual Forecast

		Passenger vehicles	=	Cars	+	Uvs and vans
BASE CASE	FY 20 volumes	2.76		1.70		1.08
	YoY Growth in FY20	18%		23%		7%
	FY 21P volumes	2.04-2.09		1.17-1.20		0.87-0.89
	YoY Growth in FY21P	25-27%		29-31%		17-19%
PESSIMISTIC CASE	YoY Growth in FY21P	42-47%		50-55%		30-35%

NOTE: Volumes in million units; YoY Growth in red indicates a negative growth

Source – SIAM, CRISIL Research

Domestic – Quarterly Forecast

Period		Passenger vehicles		Cars		Uvs and vans	
		Volume (mn)	YoY Growth	Volume (mn)	YoY Growth	Volume ('000)	YoY Growth
FY20E	Q1	0.71	(18)%	0.45	(23)%	0.27	(9)%
	Q2	0.62	(29)%	0.37	(37)%	0.25	(12)%
	Q3	0.78	(1)%	0.48	(9)%	0.31	15%
	Q4	0.66	(22)%	0.41	(23)%	0.25	(21)%
FY21P	Q1	0.18-0.19	(73)-(75)%	0.10-0.11	(75)-(77)%	0.07-0.08	(69)-(71)%
	Q2	0.52-0.53	(15)-(17)%	0.29-0.30	(18)-(20)%	0.22-0.23	(10)-(12)%
	Q3	0.64-0.65	(17)-(19)%	0.37-0.38	(20)-(22)%	0.26-0.27	(12)-(14)%
	Q4	0.70-0.72	7-9%	0.40-0.41	(2)-0%	0.30-0.31	22-24%

- Due to slowdown in economy, pay cuts, expected increase in unemployment there would be slowdown in discretionary consumption impacting sales of passenger vehicles
- Top metro and Tier-I cities are the major PV consumers. Currently such cities are the Covid-19 hotspots. This is expected to lead to a major decrease in footfalls of the costumers at the dealership. Hence, Q1 and Q2 of FY21 will be severely hit.
- However, we expect UVs to perform relatively better than cars because of the better financial stability of such customers and ability to spend on discretionary items

Stakeholder interactions

Uncertainty prevail due to Covid-19

OEM



- Retail demand to pick up in Q3 only.
- Demand for newly launched cars in auto expo to provide some respite in H1.
- Additional **discounts** not expected post lockdown given strain on OEM financials.
- **Dealer support packages** has already been announced by most of the OEMs
- In talks with major financial institutions to provide some leeway to their dealers.
- Additionally, relatively **higher inventory levels & slower demand** revival to provide enough room to manufacturers to iron out any supply constraints

Dealer



- **Footfalls/ enquiries** to remain subdued for 15-20 days post lockdown
- Retail demand to slowly pick up from May end, to normalize by June end/ July
- Built up done from Feb end for festive season (Navaratri 25th March)
- Expects **OEMs to incentivize customers** amidst expected sharp drop in demand.
- Expect some **support from OEMs** to help **manage their working capital**
- Few BS IV vehicles left (slow moving models with uncommon colours).
- Do not expect any significant change in interest rates/ LTVs post lockdown

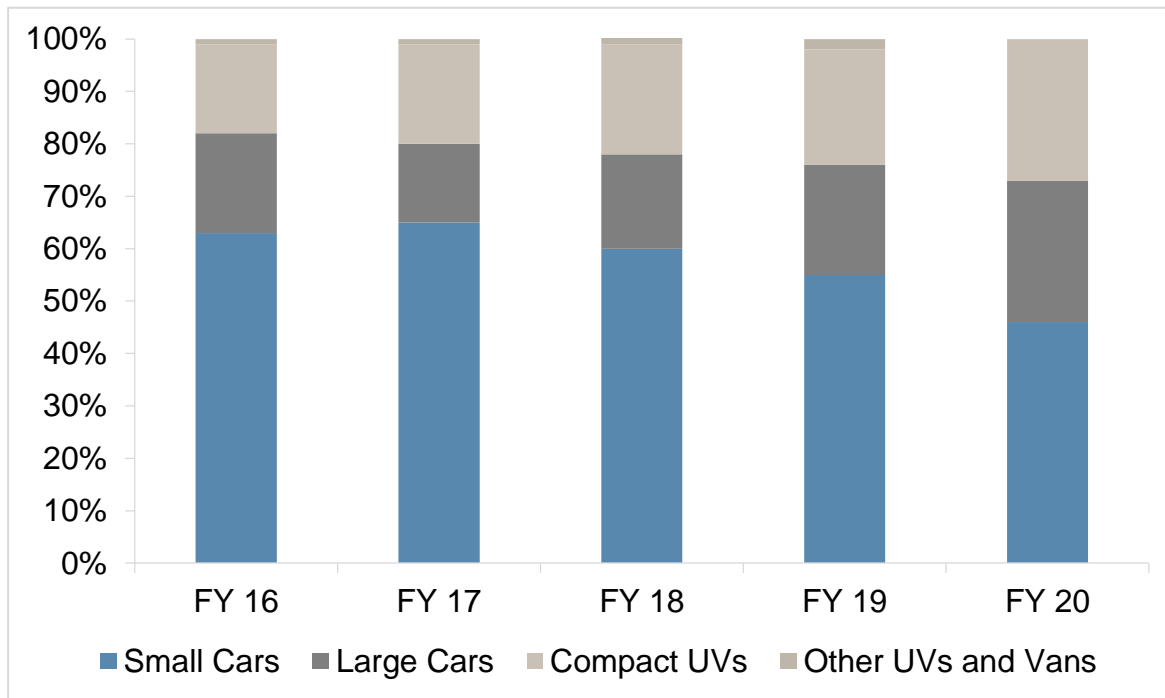
Financier



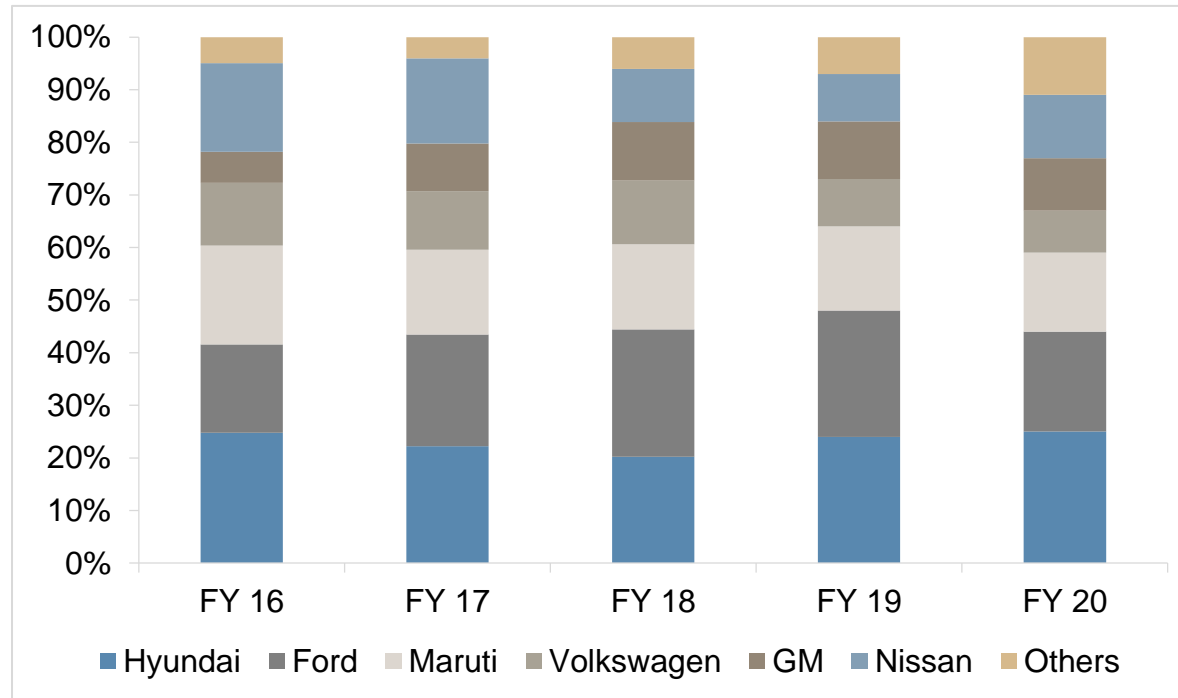
- **Market sentiments expected to be subdued** till H1 of fiscal 2021.
- Liquidity or interest rates are currently not a constraint. Government guidelines remain a key monitorable.
- **Year-end collection of dues** affected due to the lockdown and the moratorium announced by the RBI.
- Interest rate cuts are not expected to affect existing fixed rate loans.

Exports recorded a flat growth in FY20

Small cars exports shrinking

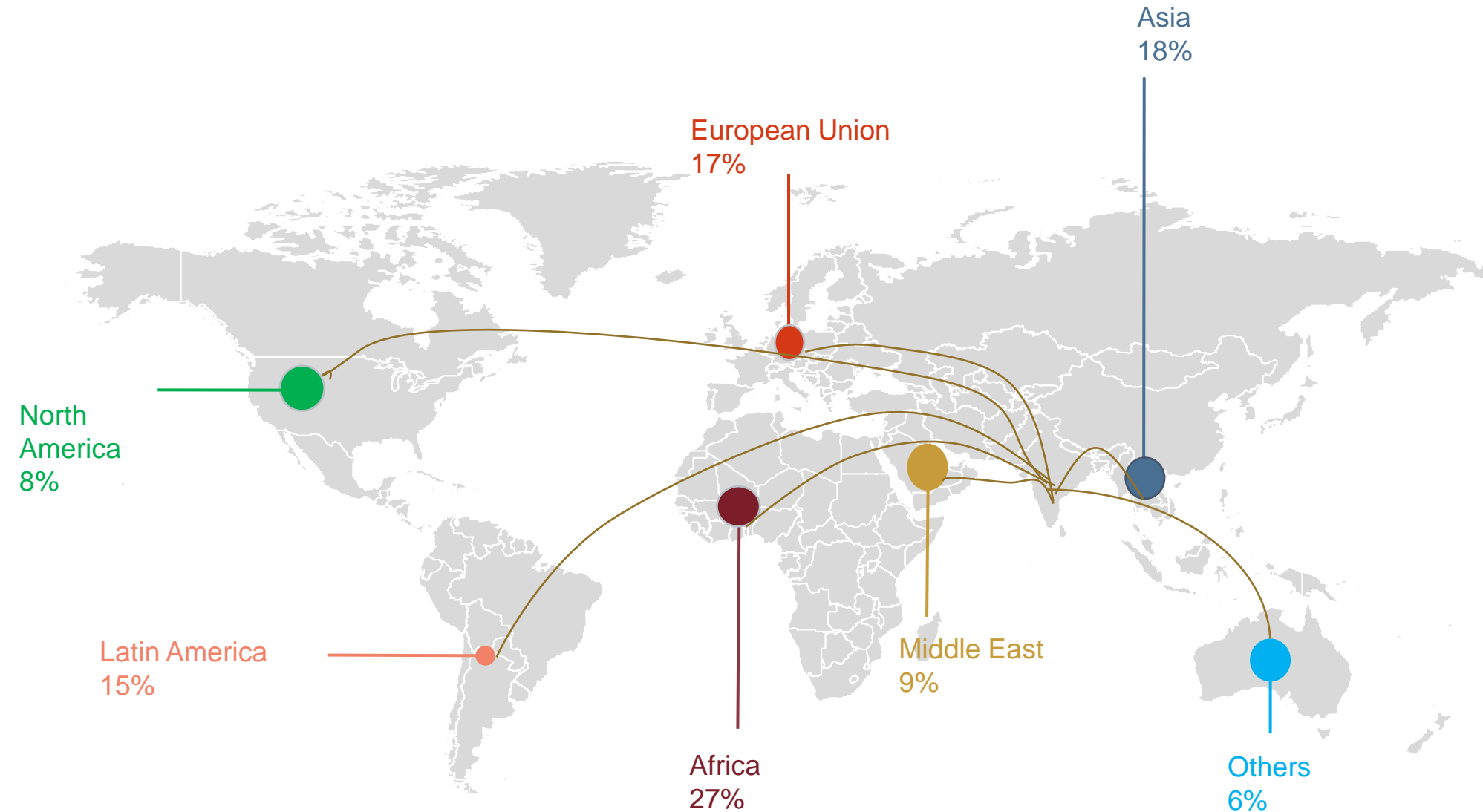


Nissan moves up from 6th (FY19) to 4th position (FY20)



- Exports of cars recorded a de-growth of 5% whereas that in utility segment recorded a positive growth of 15% in fiscal 2020.
- Growth was led mainly by Hyundai in UV space on the back of successful exports of Venue.
- Kia, the new entrant in the Indian market, managed to gain a market share of 3% in exports.
- Players like Renault recorded a growth in exports on the back of launch of Triber and exporting it to mainly South Africa.

Passenger Vehicle Exports
























- Exports to major countries such as Mexico and other European nations had declined in FY20 due to the **slowdown in their economy**.
- Due to Covid-19, most of the nations are expected to see a slowdown in their economy.
- **Major importer, Mexico** is heavily dependent on USA which will see a hit.
- **South Africa**, second largest importer, with GDP contracting even before Covid-19 and very high on debt is expected to see economy contracting further.

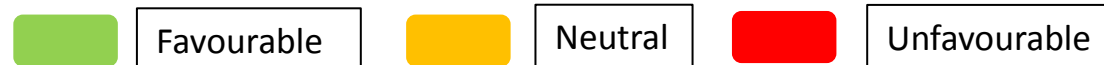


Two-Wheelers

Tough times ahead for two wheeler industry

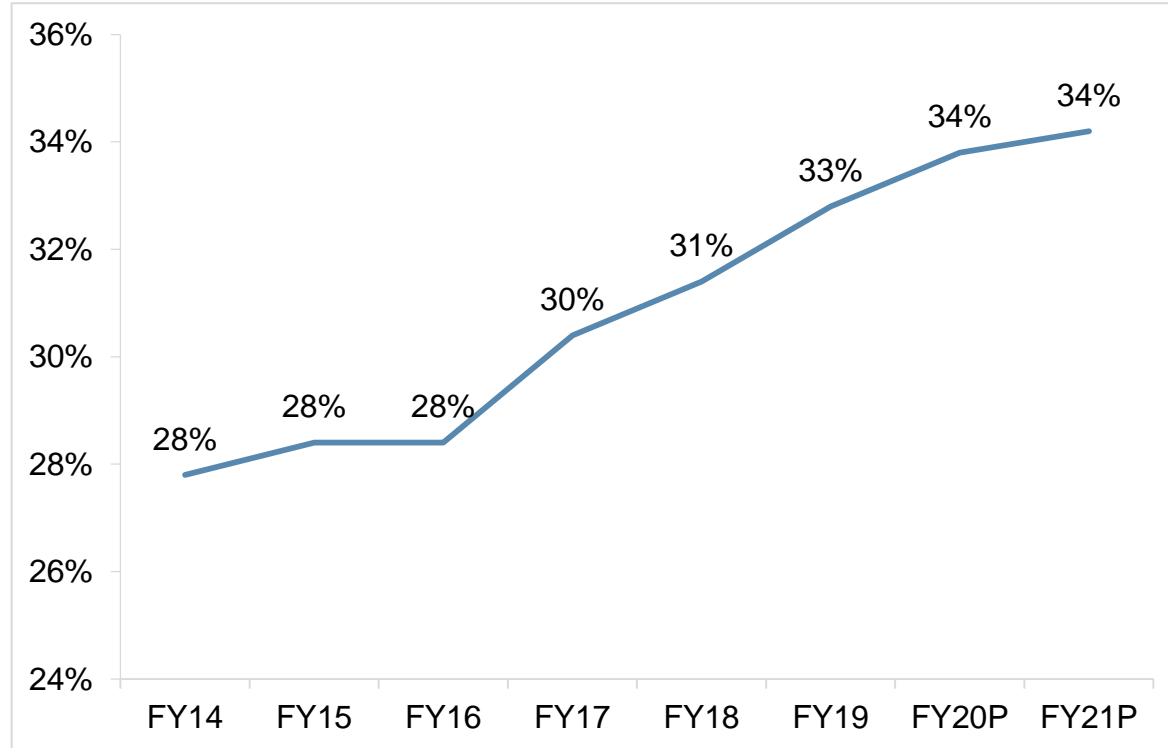
Parameters	Impact		
	FY 19	FY 20	FY 21P
Demand side variables			
-- Real GDP growth			
-- Rural Roadways Investments (INR bn)			
-- Crop Value index*			
Cost of ownership			
-- Petrol Prices			
-- Interest rates			
Supply side variables & financing			
-- Finance Penetration			
-- Regulations/Taxes			

*Fiscal 2021 crop value index assuming normal monsoon
Source: CRISIL Research

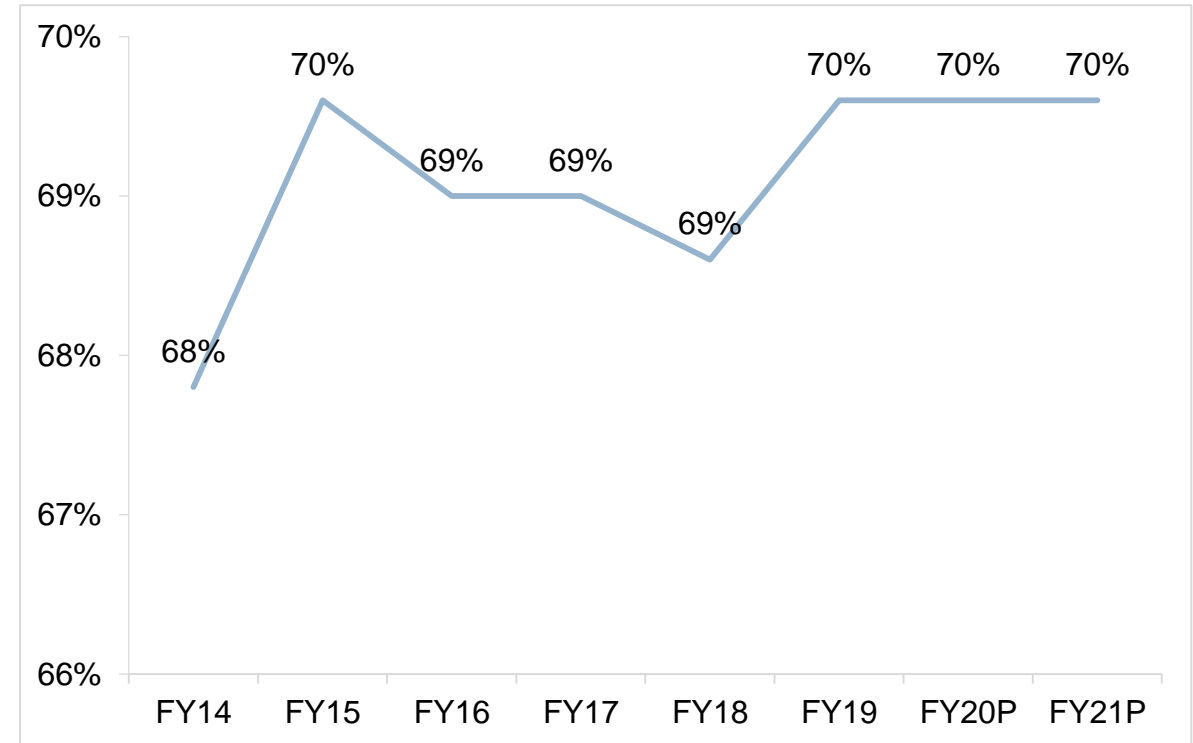


NBFC presence in rural sector will drive the finance penetration however LTV to remain stable

Auto Finance Penetration



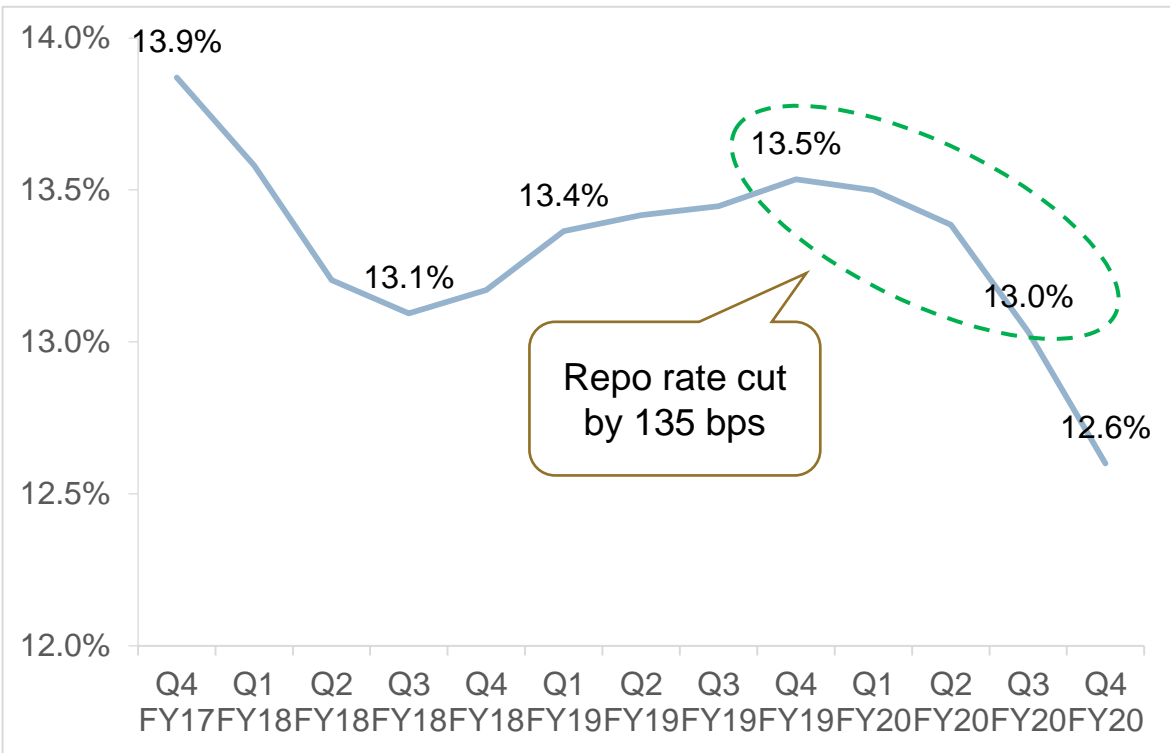
Loan-to-Value



- Already under pressure two wheeler sales due to price rise on account of BS VI along with slow economy is now experiencing further pressure in the wake of CoViD 19.
- LTV to remain stable whereas finance penetration to increase due to higher focus of NBFCs towards rural area.

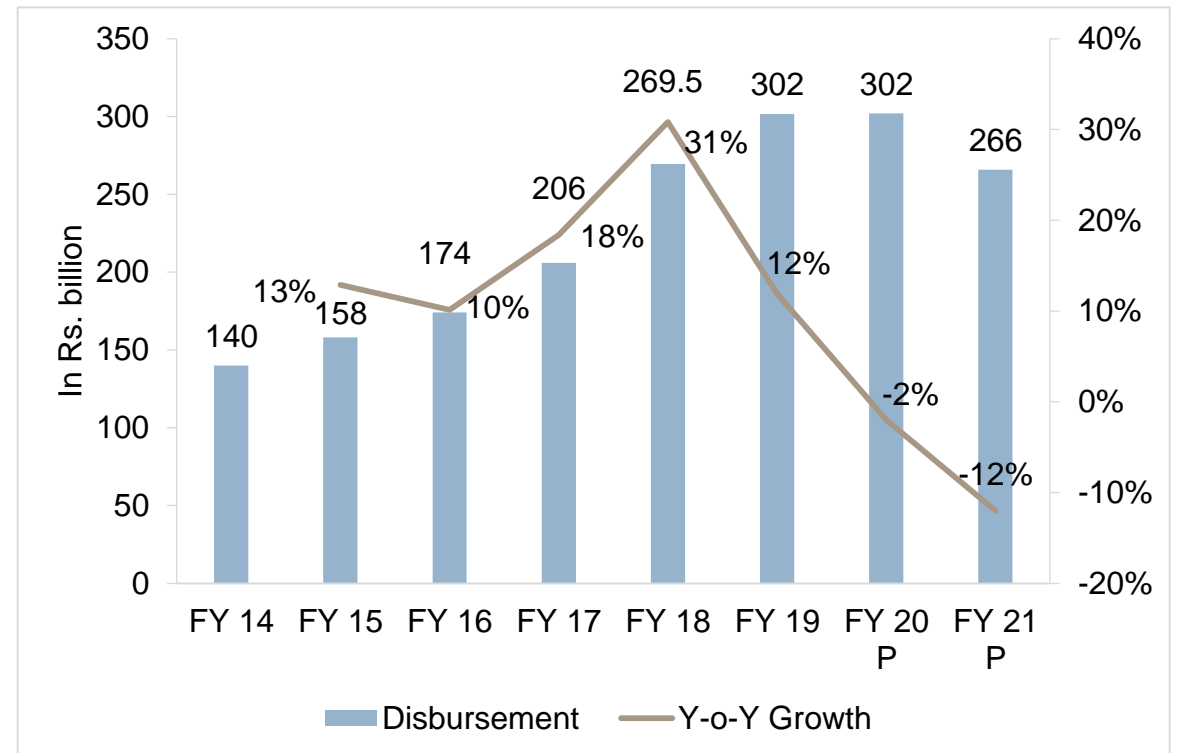
Increasing ownership cost will continue to affect the financing growth till FY21

Interest Rates



NOTE - Interest rates are an average of interest rates charged by Banks
Source – CRISIL Research

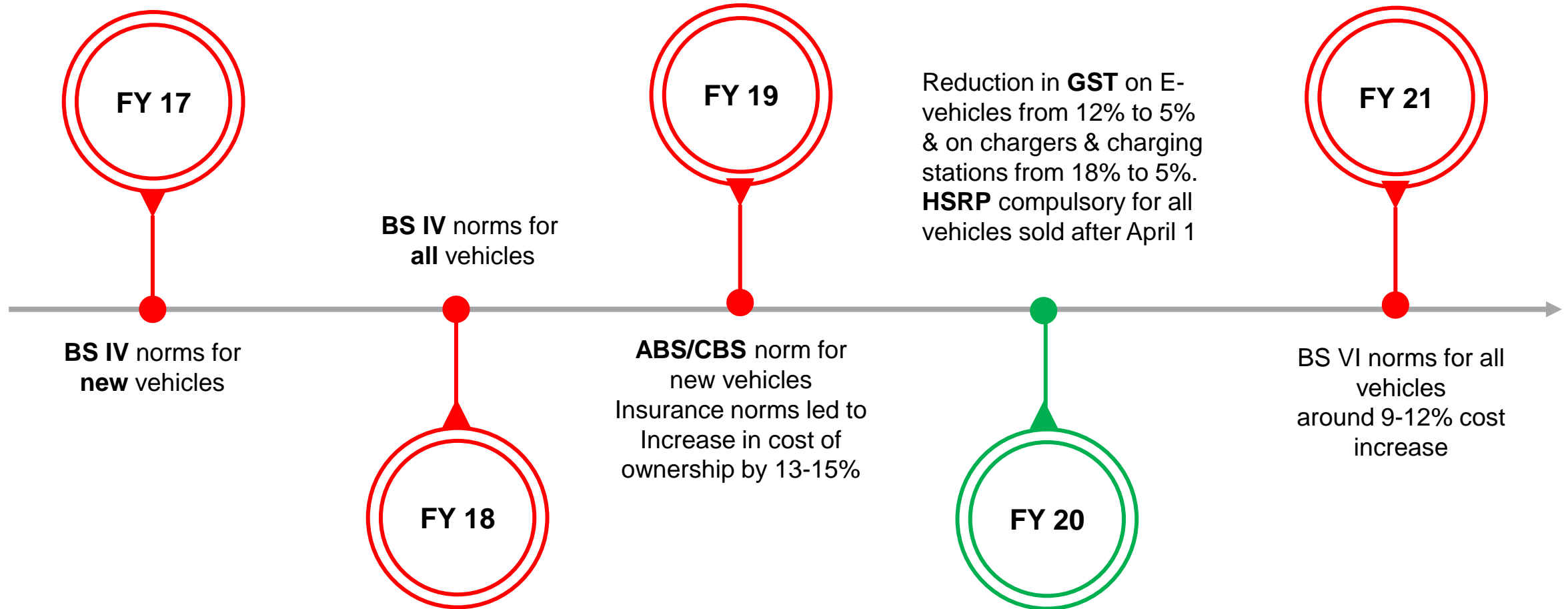
Two-Wheeler Disbursements



Source: Company Reports, CRISIL Research

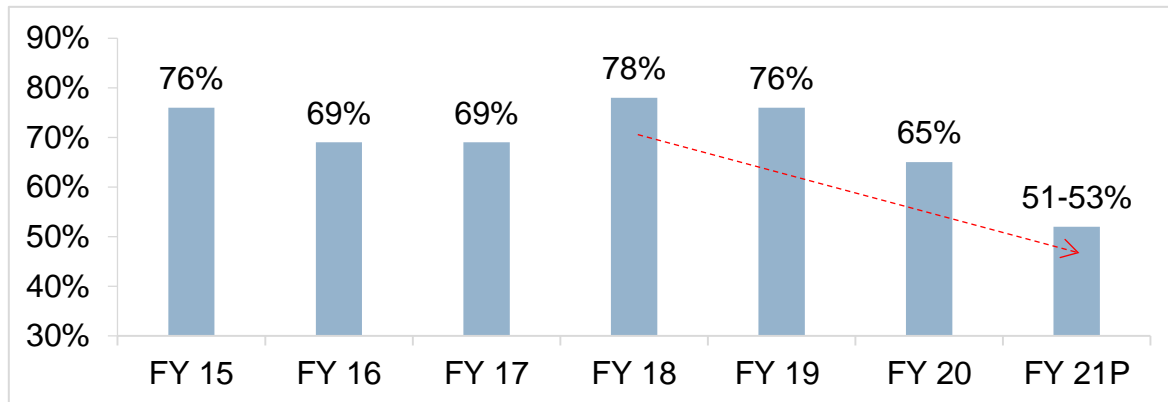
- Increase in ownership cost (rising prices after BSVI norms and addition of ABS/CBS) will hamper the disbursal growth rate
- Average interest rate by major banks decreased by 40-50 bps in FY20 amid economic slowdown and covid-19, which somewhat brought down the cost of vehicle maintenance

Regulations timeline and price impact



Capacity utilization to slump to a decadal low in FY21

Utilization rates on a downward trajectory



Expected capacity additions

Player	Location	Capacity million units	Investment	Commissioning
Hero Motocorp	Chittoor	1.3	Rs. 16 billion	Phase 2 – Dec 2020 Phase 3 – Dec 2023
Royal Enfield	Tamil nadu	1.25	Rs. 5 billion	2021

*RE signed a pact with Tamil Nadu Govt to invest and expand its production facilities

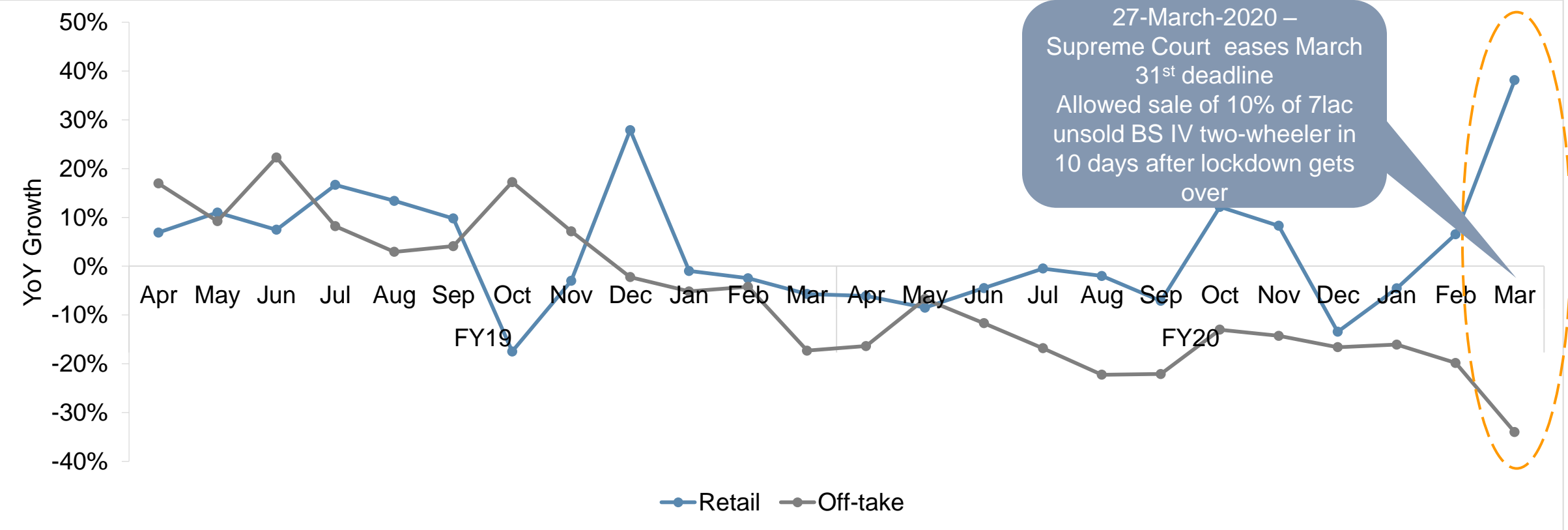
Improved demand to help boost utilization rates

Player	Effective Capacity estimate in mn (as on 31st Mar 2020)	Production (2020) (in mn)	Capacity utilization (%)
Hero Motocorp	11.0	6.4	59%
Bajaj Auto	5.4	3.9	73%
HMSI	6.4	5.1	80%
TVS Motor Company	3.9	3.1	79%
India Yamaha Motors	1.6	0.9	54%
Suzuki Motors	1.1	0.8	73%
Royal Enfield	0.95	0.7	72%
Piaggio Vehicles	0.3	0.1	29%
Other Players	1.55	0.0	1%
Industry Total	32.2	21.0	65%

Note : Capacity utilization estimates of Bajaj Auto and TVS Motor Co Ltd exclude three-wheelers

Retail sales shot up in March despite lockdown situation on account of inventory liquidation schemes in the form of higher discounts and offers

Retail vs off-take (Growth yoy)



Source – Vahan, SIAM, CRISIL Research

- Post 2019, the wholesale volume growth declined due to BSIV stock liquidation; BSIV vehicles were sent to dealers till January after which OEMs stopped pushing BSIV vehicles leading to further decline in wholesale volume.
- Huge unsold inventory was registered by dealers in their own name in March which is expected to be sold by them as pre-owned vehicle post lockdown.

Domestic – Annual Forecast

		Two-wheeler	=	Motor cycle	+	Scooter	+	Mopeds
BASE CASE	FY 20 volumes	17.4		11.2		5.6		0.64
	YoY Growth in FY20	18%		18%		17%		27%
	FY 21P volumes	13.2-13.5		8.5-8.7		4.1-4.2		0.55-0.56
	YoY Growth in FY21P	22-24%		22-24%		24-26%		12-14%
PESSIMISTIC CASE	YoY Growth in FY21P	30-35%		30-35%		32-37%		17-22%

NOTE: Volumes in million units;
YoY Growth in red indicates a negative growth

Domestic – Quarterly Forecast

Period		Two-wheeler		Motorcycles		Scooters		Mopeds	
		Volume (mn)	YoY Growth	Volume (mn)	YoY Growth	Volume (mn)	YoY Growth	Volume ('000)	YoY Growth
FY20	Q1	5.01	(12)%	3.33	(9)%	1.51	(17)%	168	(19)%
	Q2	4.68	(21)%	2.92	(22)%	1.60	(17)%	164	(31)%
	Q3	4.22	(15)%	2.71	(15)%	1.35	(14)%	163	(25)%
	Q4	3.51	(25)%	2.26	(26)%	1.10	(20)%	144	(34)%
FY21P	Q1	1.04-1.14	(77)-(79)%	0.71-0.77	(77)-(79)%	0.28-0.31	(80)-(82)%	53-57	(66)-(68)%
	Q2	3.48-3.57	(24)-(26)%	2.25-2.31	(21)-(23)%	1.08-1.11	(30)-(32)%	143-147	(11)-(13)%
	Q3	4.24-4.33	1-3%	2.74-2.80	1-3%	1.33-1.36	(1)-1%	173-177	6-8%
	Q4	4.42-4.49	26-28%	2.83-2.88	25-27%	1.41-1.43	28-30%	179-181	24-26%

- Lockdown to have impact on domestic consumption. Once the manufacturing resumes, it will take time for two-wheeler OEM to operate its plant as full utilisation level. Road blocks such as availability and transport of components and labour will lead to some level of supply disruption.
- Normalcy in domestic consumption is expected to largely resume from Q3 FY21 on account of festivals (Diwali and Dussera) and improvement in sentiments.
- Scooter being used mainly in urban region is expected to take a larger hit due to cities being Covid epicenters. Plus due to slowdown in economy, higher job losses and pay cuts are expected.
- Motorcycle is expected to do relatively better because of better cash flows from Rabi output and Government support is expected to lead to some cash flow for discretionary buying.
- Moped is expected to do relatively better despite of higher price increase due to BS VI, on account of low inventory built up and double digit negative growth in fiscal 2020.

Stakeholder interactions

Uncertainty prevail due to Covid-19

OEM



- Supply side disruption won't be huge in case of two-wheeler OEMs since localisation levels are very high and also they have reasonable closing plant inventory.
- There is enough inventory at dealer and OEM level. However, the main concern is **normalcy of demand**.
- **New model launches is expected to get postponed** since there is no traction in market.
- Mild **recovery** expected by Q3 FY21.
- Scooters is expected to take a higher hit because **Covid-19** red spots are largely on the urban side.

Dealer



- Dealers sentiment has taken a hit as the showrooms have closed down
- **Online sales** is not working well without physical presence.
- During the last week of March online sales didn't work out well as customers were skeptical about getting delivery of vehicles in the event that lockdown is extended or stocks of BSIV vehicles were not available.
- **Unsold BS IV** stock registered in dealer name will be sold as second hand vehicle. However, the **depreciation** in price wont be much because it is unused and price delta between BS IV and BS VI is huge. Losses if any will be compensated by OEMs

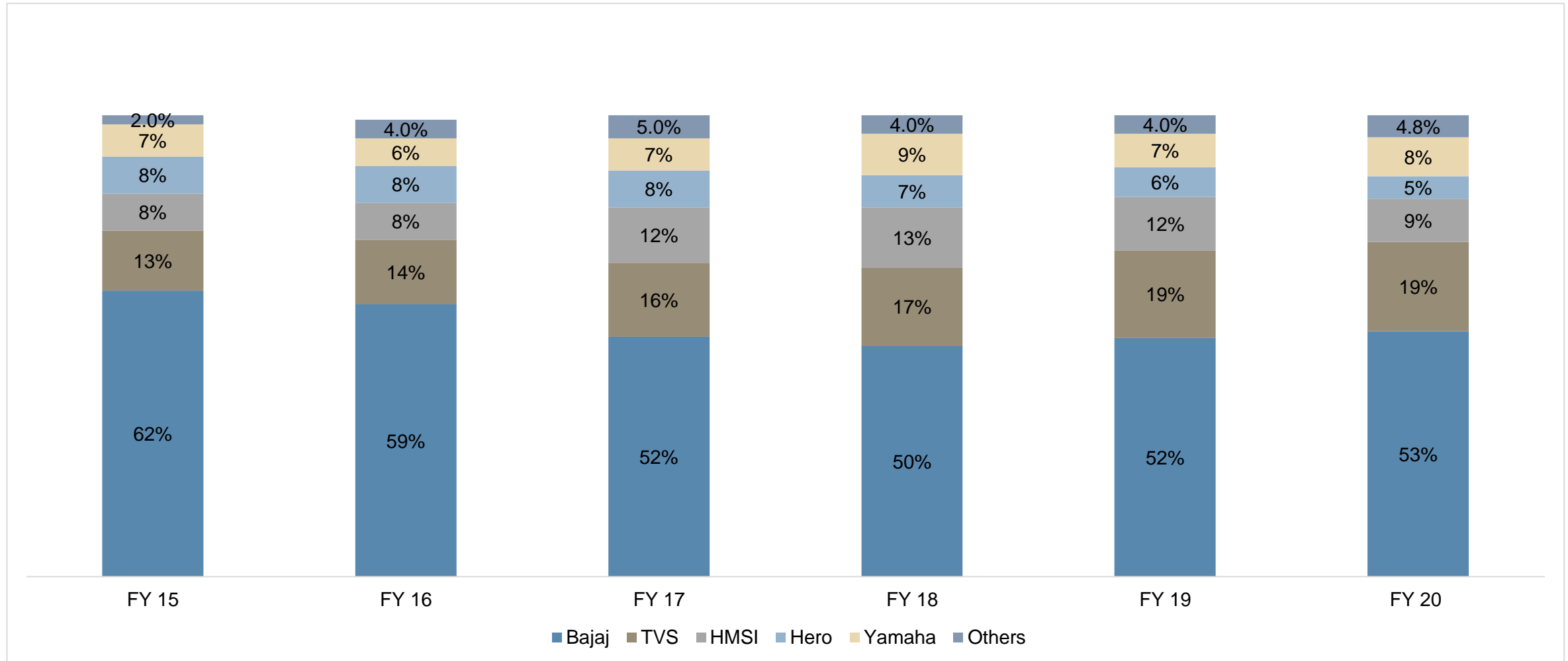
Financier



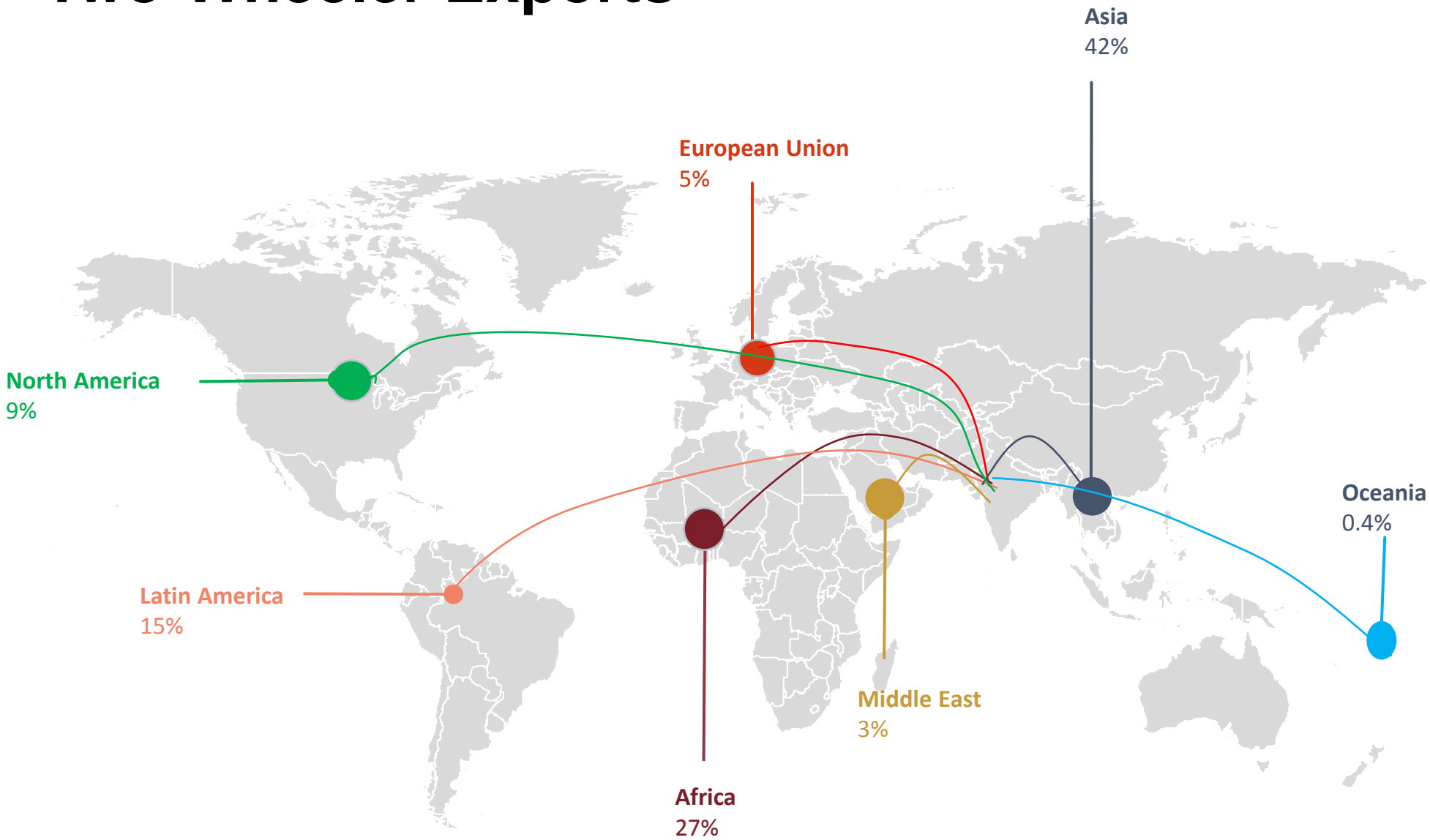
- Type of customer availing two-wheeler loan are generally wage earners (**lower income group**).
- Hence, more **defaults** will be seen if **lockdown extends** by another 2-3 months
- Easing of policies by RBI will not get immediately translated to **lowering of interest rates as portfolio quality will have to be closely monitored**.
- Auto loans are fixed in nature. Lowering of interest rates is helpful for new buyer. However, the overall sentiments are low and mere lower interest rate won't lead to new sales.

HMSI/TVS lost market share is scooter segment against Yamaha/Suzuki, Bajaj share improved on-year basis

Bajaj dominates the export segment



Two-Wheeler Exports



- Top importing nation, **Nigeria** is **oil dependent**. Fall in **crude prices** is expected to have its impact on the economy..
- Lagos (Financial hub of Nigeria) imposed the **ban on commercial motorcycles** from 1st February 2020 following a **rise in fatal accidents** on its city roads.
- Exports to Bangladesh and Sri Lanka, expected to record a de-growth, due to expected slowdown in economy due to **Covid-19** and already undertaken move towards local production.



Commercial Vehicles

Demand to remain muted across segments in FY21

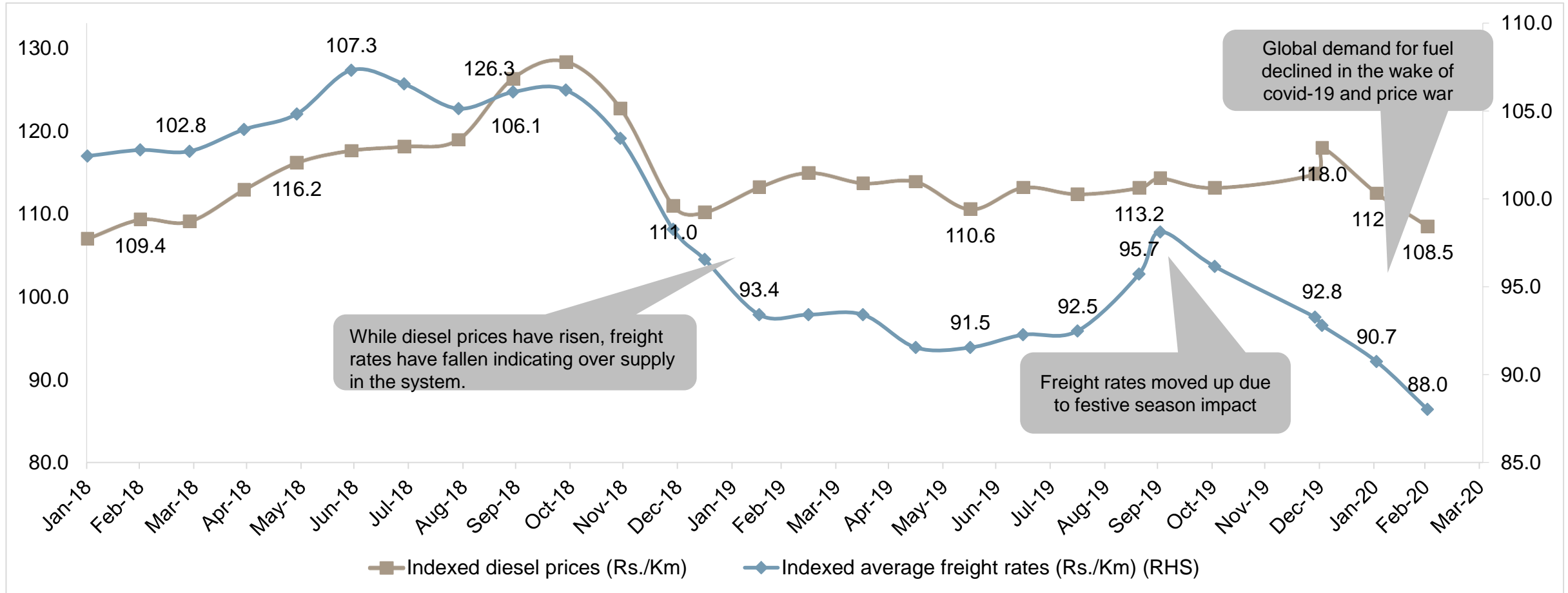
Variables (common factors across Commercial vehicles)	FY 19	FY 20	FY 21P
Diesel prices	Not Favourable	Neutral	Neutral
Regulatory (BSIV to BSVI)	-	Not Favourable	Not Favourable
Availability and cost of finance	Neutral	Not Favourable	Neutral
Variables LCV	FY 19	FY 20P	FY 21P
Freight demand (LCV) – PFCE	Favourable	Not Favourable	Not Favourable
Replacement demand (LCV)	Favourable	Favourable	Not Favourable
Overall demand (LCVs)	Favourable	Not Favourable	Not Favourable
Variables MHCV	FY 19	FY 20P	FY 21P
Freight demand	Favourable	Not Favourable	Not Favourable
Industrial GDP	Not Favourable	Not Favourable	Not Favourable
Replacement demand	Neutral	Neutral	Not Favourable
NHAI Road Execution	Favourable	Neutral	Not Favourable
Impact of Axle load norms	Neutral	Not Favourable	Neutral
Overall demand	Favourable	Not Favourable	Not Favourable

■ Favourable
■ Neutral
■ Not Favourable

Impact of axle load norm has weaned out to a great extent. However, it is still a key monitorable

Falling demand for transport amid Covid-19 and competitive pricing leading diesel prices to fall

Freight rates vs Diesel rates



Source: Business Standard, PTI, CRISIL Research, IFTRT, AITWA

Note: (i) The estimated freight rate data is a representative of average freight rates from Delhi to 24 locations across India for a 9T payload truck

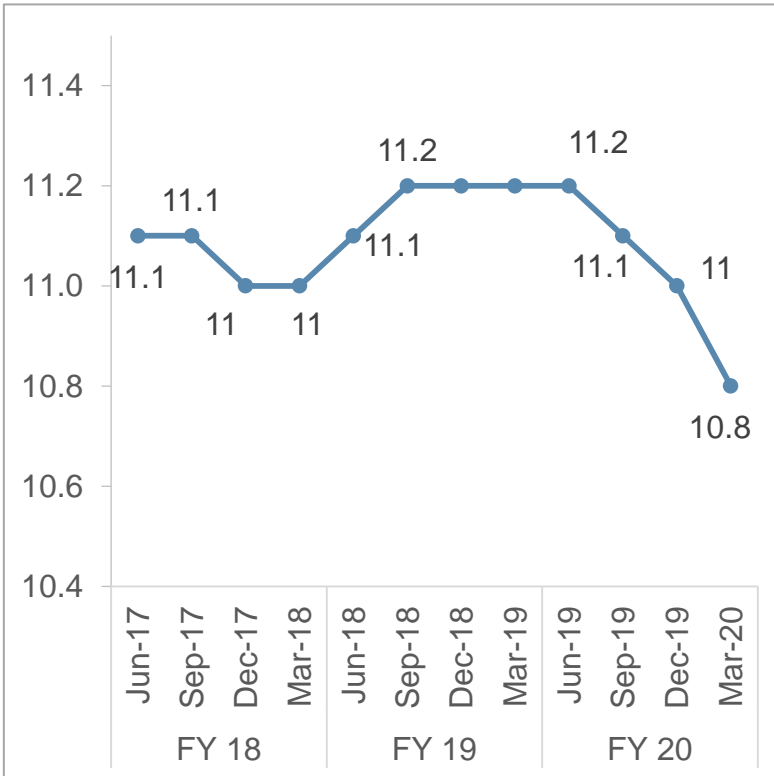
(iii) Indexed freight rates and diesel prices have been derived taking April 2014 values equalling 100

Overview of end-use segments - Cargo

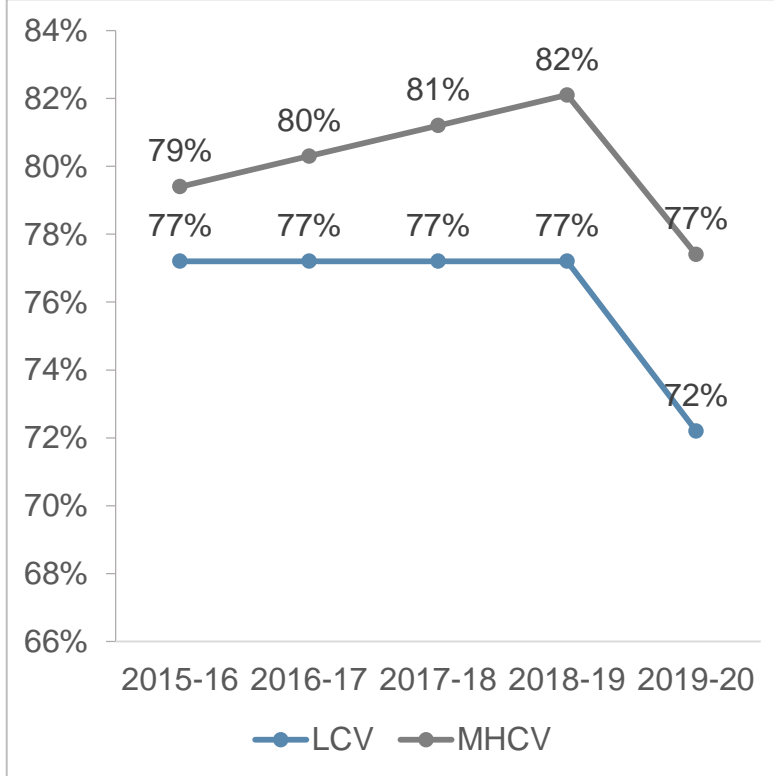
Segments (% Growth Y-o-Y)	FY 16	FY 17	FY 18	FY 19	FY 20 E	FY 21 P
Coal (Production)	5.0	3.0	3.0	7	(2)-0	(3)-(1)
Iron ore (Production)	21	25	3	3	15-20	(20)-(15)
Steel (Consumption)	5.8	3.1	8	9	1	(17)-(14)
Cement (Consumption)	4.7	1.9	9	12	0-2	(15)-(10)
Pharmaceuticals (Market Size)		5	1	15	11	7-9
Port (Traffic)	2.1	5.6	6.5	4.5	0-2	(7)-(5)
Two-wheelers (Domestic sales)	2.8	6.9	14.8	5	(18)-(16)	(24)-(22)
Passenger vehicles (Domestic sales)	7.2	9.2	8	3	(19)-(17)	(26)-(24)
Consumer durables (Consumption)	6.6	6.6	5.8	7	5-7	(18)-(16)
E-retail	68	22	35	35-37	23-25	2-4

Decline in LTVs expected due to decrease in transporter profitability

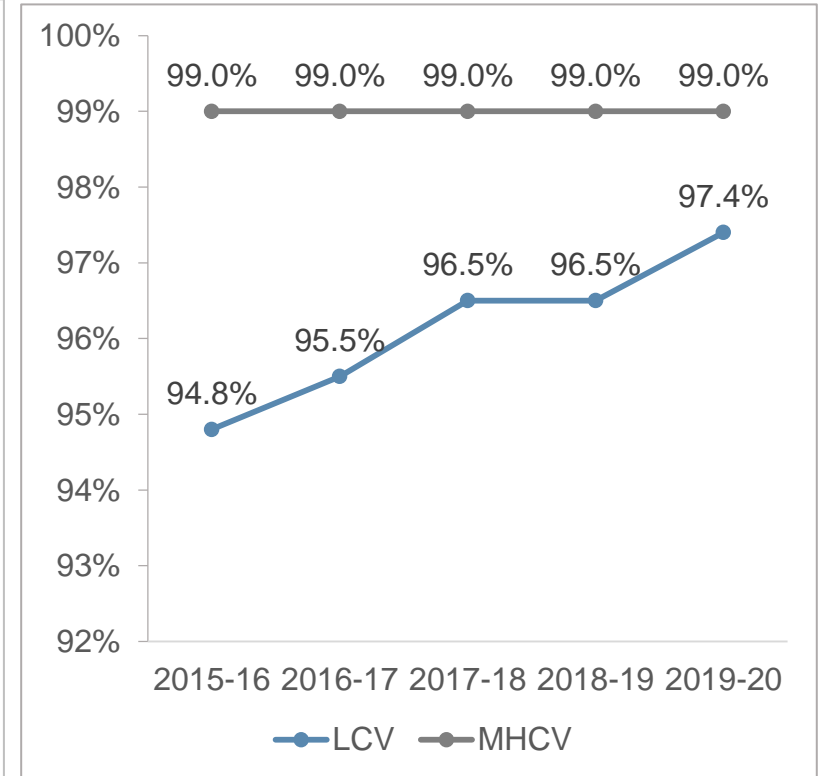
CV Finance Rates



Loan-to-Value for CV



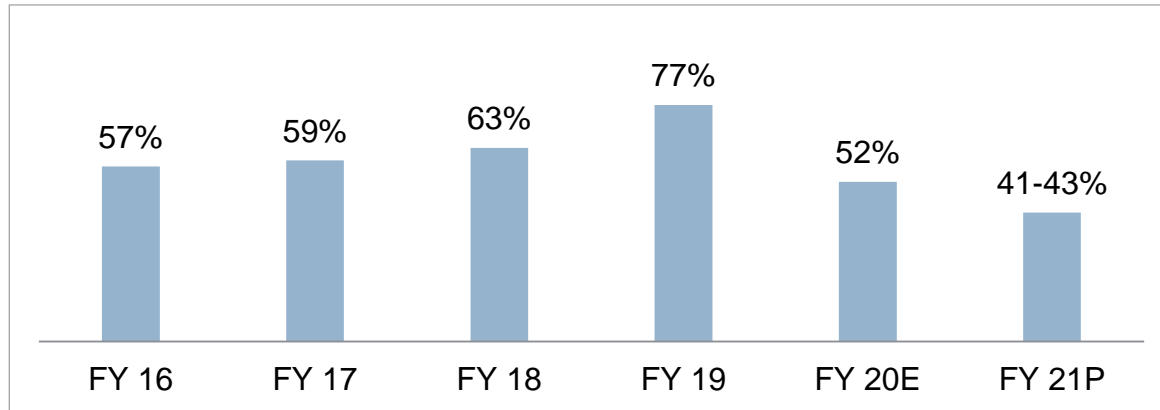
CV Finance Penetration



- Interest rates fallen by ~60 bps in last one year. Further easing will depend on financiers portfolio health
- LTVs reduced in fiscal 2020 because NBFCs are unwillingly to finance riskier profiles due to slowdown in end use segments and lowering of freight rates. This has led to reduction in overall transporter's profitability.
- Finance penetration has increased for LCV due to marginal inroads into rural markets by few large financiers, through their strong network at ground level.

Capacity utilization to fall below 50% further limiting capability of OEMs to extend discounts and schemes

Decline in capacity utilization level



Capacity additions

Player	Location	Capacity '000 units	Investment (Rs. Bn)	Status
Ashok Leyland Ltd.	Medak, Telangana	20	5	Under Implementation
Ashok Leyland Ltd.	Alwar, Rajasthan	1	2	Planning
VECV Ltd.	Bhopal, MP	40	4	Under Implmentation
Volvo Buses India Pvt. Ltd.	Bengaluru, Karnataka	1.5	3	Planning
Sino Truck	Medak, Telangana	1.45	1	Planning
Veera Vahana Udyog	Anantpur, AP	3	10	Planning

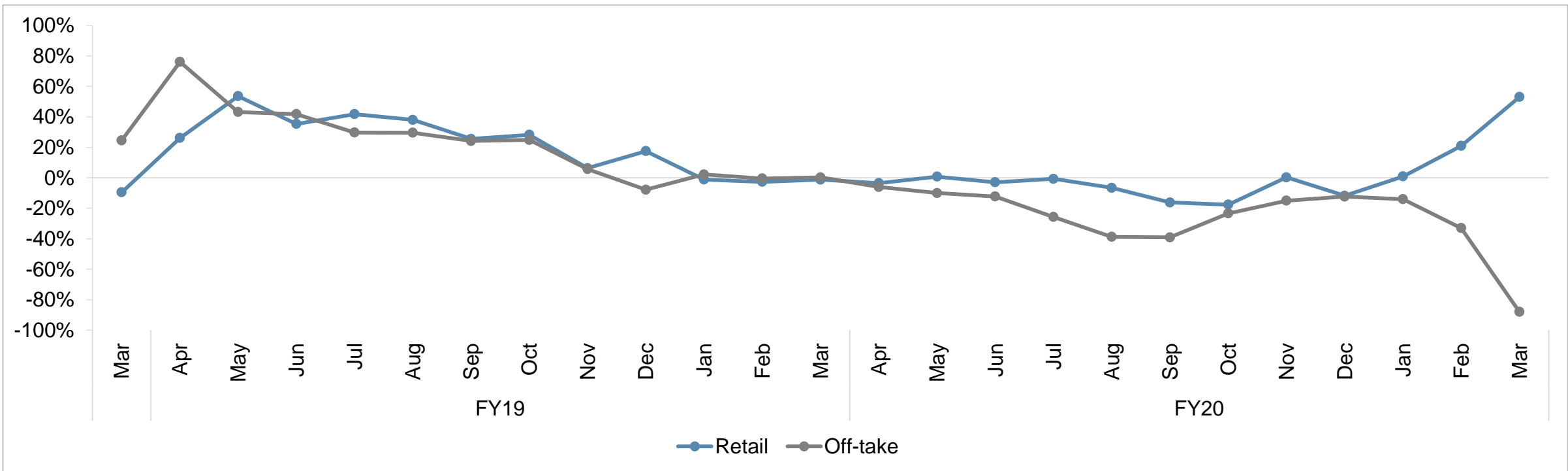
Player-wise capacity utilisation

Player	Effective Capacity estimate (as on 31st Mar 2019)	Capacity utilization
Ashok Leyland	2,17,500	54%
Eicher Motors	97,500	46%
Tata Motors	7,62,000	43%
Mahindra & Mahindra	2,92,000	72%

- The capacity utilisation of the top four players which was at ~77% in fiscal 2019, declined to ~52% in fiscal 2020 and further expected to decline in fiscal 2021
- Due to economic slowdown, falling demand, and additional capacity in transport sector, in fiscal 2020 some of the players halted ongoing capacity expansion such as Ashok Leyland halted Andhra Pradesh bus manufacturing plant construction in September 2019

BSIV stock clearing by dealers widen the gap between off-take and retail sales

Retail vs off-take (Growth yoy)



Source: SIAM, Vahan, CRISIL Research

- Liquidation of BS IV vehicles led to inventory levels of around 10-15 days in Feb 20
- March 2020 registered higher retail on the back of low base of last year and BSIV stock clearing by dealers led to high growth in retail sales in March 2020; Growth in retail sale was also driven by promotional schemes and discount offers

Domestic – Annual Forecast



	CV	<3.5T	3.5-7.5T	MHCV Cargo	Buses
BASE CASE					
FY 20 volumes	718	411	36.2	185	86
YoY Growth in FY20	29%	20%	26%	47%	7%
FY 21P volumes	519-533	307-315	28-29	122-126	61-63
YoY Growth in FY21P	26-28%	23-25%	21-23%	32-34%	26-28%
PESSIMISTIC CASE					
YoY Growth in FY21P	28-33%	25-30%	25-30%	33-38%	30-35%

NOTE: Volumes in thousand units;
YoY Growth in red indicates a negative growth

Domestic – Quarterly Forecast

Period		CV		< 3.5T		3.5-7.5T		MHCV Cargo		Buses	
		Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth
FY20	Q1	208	(9)%	108	(6)%	9.9	(3)%	64	(19)%	26	(2)%
	Q2	167	(22)%	100	(24)%	8.9	(32)%	40	(56)%	18	(13)%
	Q3	195	(15)%	122	(5)%	10.3	(13)%	43	(47)%	20	31%
	Q4	147	(48)%	81	(43)%	7.1	(49)%	38	(62)%	21	(27)%
FY21P	Q1	30-34	(84)-(86)%	18-20	(82)-(84)%	1.2-1.4	(86)-(88)%	7-8	(87)-(89)%	4-5	(81)-(83)%
	Q2	122-126	(25)-(27)%	73-75	(25)-(27)%	6.8-7.0	(22)-(24)%	27-28	(29)-(31)%	15-16	(14)-(16)%
	Q3	176-180	(8)-(10)%	108-111	(9)-(11)%	9.6-9.8	(5)-(7)%	42-43	0-(2)%	16-17	(17)-(19)%
	Q4	190-193	29-31%	109-110	34-36%	10.2-10.3	44-46%	46-47	22-24%	25-26	20-22%

- Slow growth in private consumption on account of covid-19 to significantly impact LCV sales in fiscal 2020-21.
- Increase in vehicle price, lower replacement and financiers concern over rising NPAs to also negatively impact LCV sales.
- Slowdown in manufacturing especially in Q1 FY21 to significantly impact demand. Negative growth across key end use segments including cement, steel and automobile sales to result in decline in demand for IMHCVs
- Slowdown in economic activities and lower awarding of construction projects to further impact demand in first half of fiscal 21.
- Slowdown in government orders to impact demand for MHCV buses in fiscal 2021. Enquiries for ambulances expected to go up as authorities shift focus towards healthcare.
- Significant fall in tourism and unavailability of products on account of lockdown during the school season to further impact demand

Stakeholder interactions - CV

Uncertainty prevails due to Covid-19

Dealer/OEM opinion



- The current inventory levels is at zero for most of the dealers due to liquidation of BSIV stock.
- To liquidate the BSIV stock, some dealers registered vehicles in own name to resale post lifting the lockdown.
- As per the dealers, BSIV stock build up will take some time, mostly till H1 FY21 end due to slow demand expectation in retail market along with restricted financing.
- Post lifting the lockdown, there will be some demand in retail market as transporters couldn't purchase new vehicles for a few tenders released. However post CoViD a lot of tenders may be relooked at

Financiers opinion



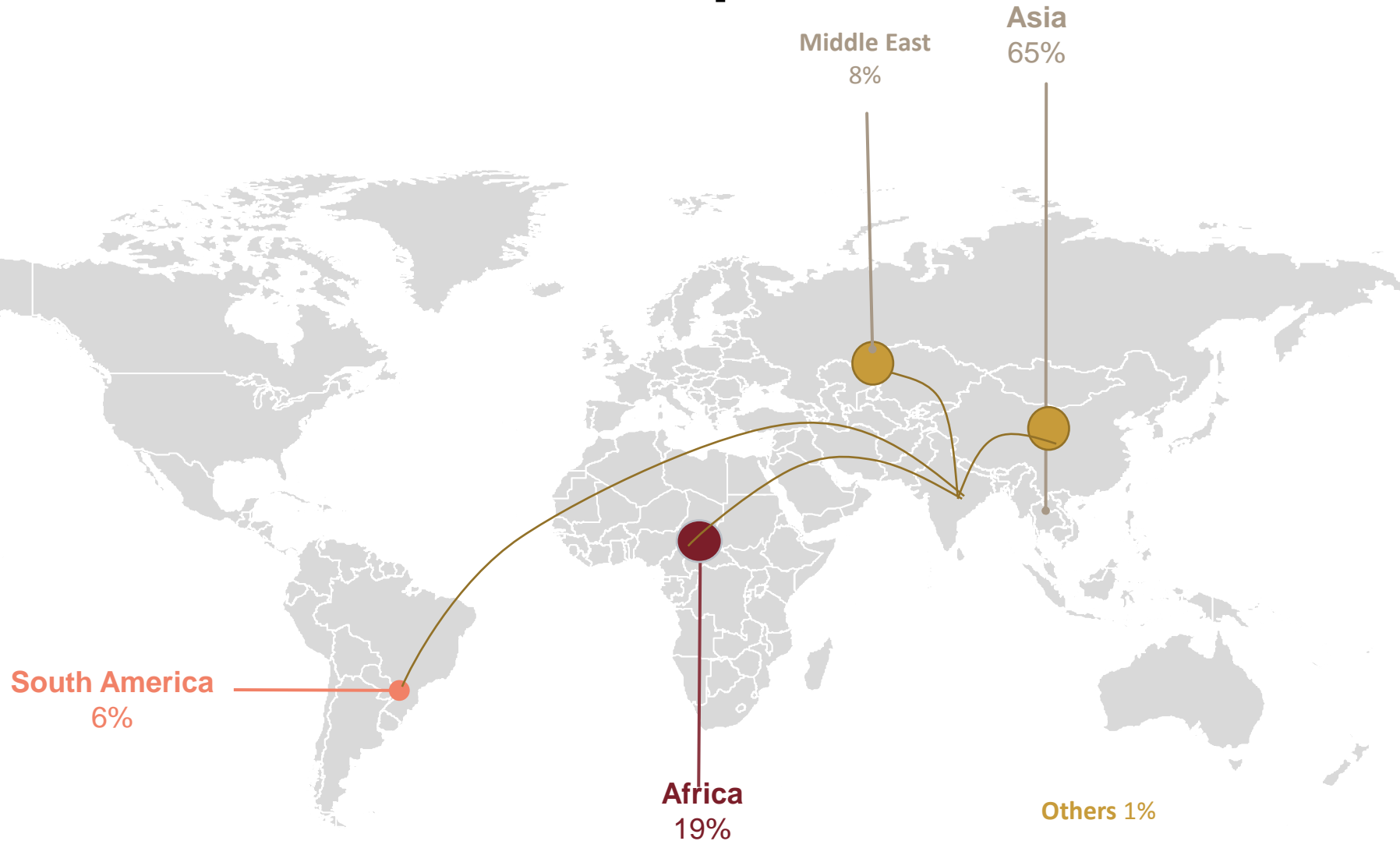
- Financiers will be more cautious going forward due to unchanged debt obligation and uncertain cash inflow in near future citing loan moratoriums.
- Discounts available last year are expected to come down from the next quarter.

Transporter interactions



- Weak demand for other vehicle segments due to lower demand for discretionary products such as two-wheeler, PVs to reduce demand for auto carriers.
- Utilisation levels have come down due to lower freight availability and higher capacity post axle load norms kicking in.
- Due to Covid-19, travel and tourism has taken a severe hit.

Commercial vehicles exports



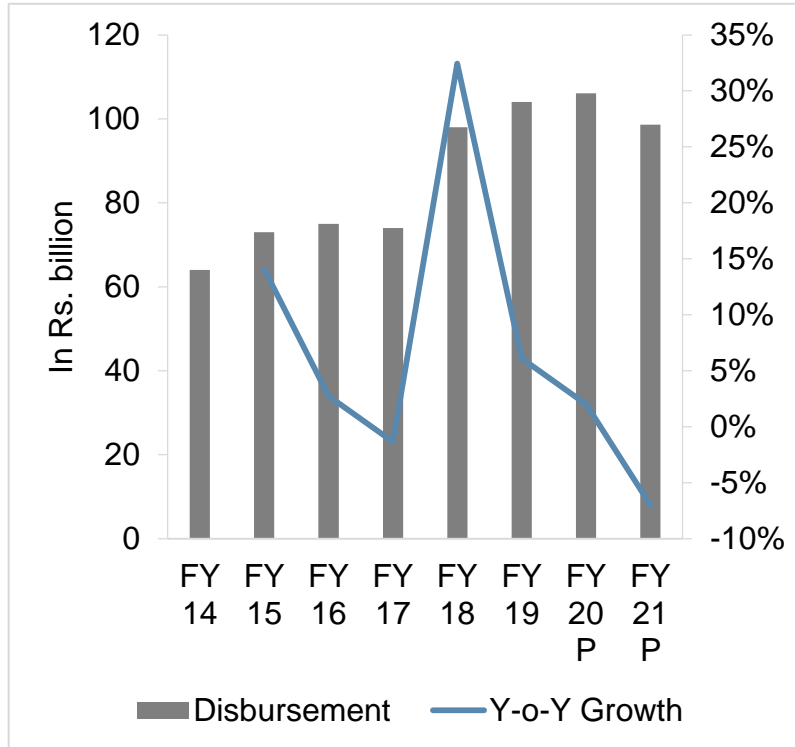
- **Bangladesh, Sri Lanka and Nepal** has major share in CV exports from India.
- Covid-19 situation is similar to that of India. **Partial or complete lockdown** across the regions.
- CV exports generally take road route. **International and State border sealed** in exporting nation is expected to act as a bottleneck.
- People's **preference to use public transport** is expected to reduce. However, **affordability** will also be a major concern. We expect exports of buses to see a hit.



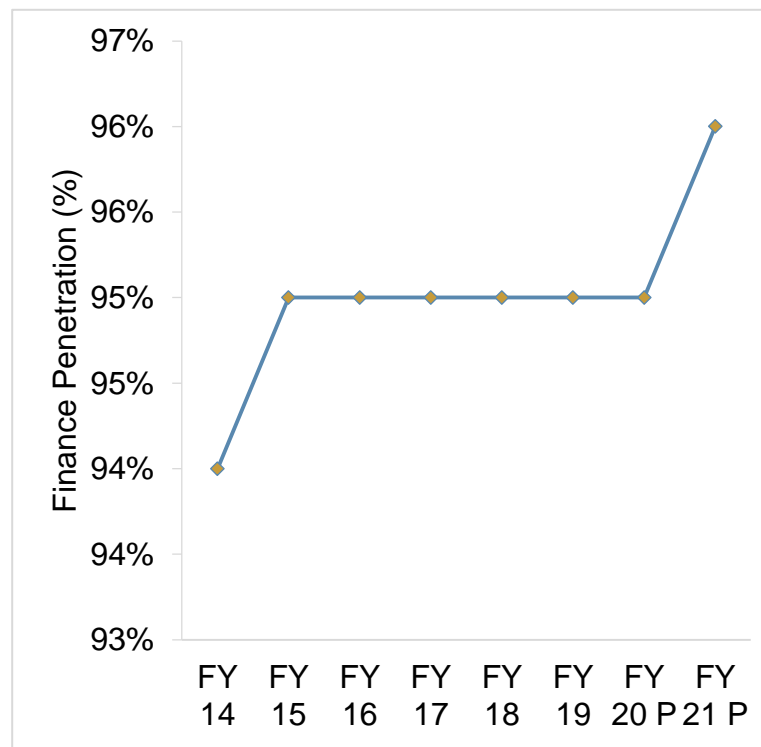
Three-wheeler

Three –wheeler disbursement to record a negative growth in FY21

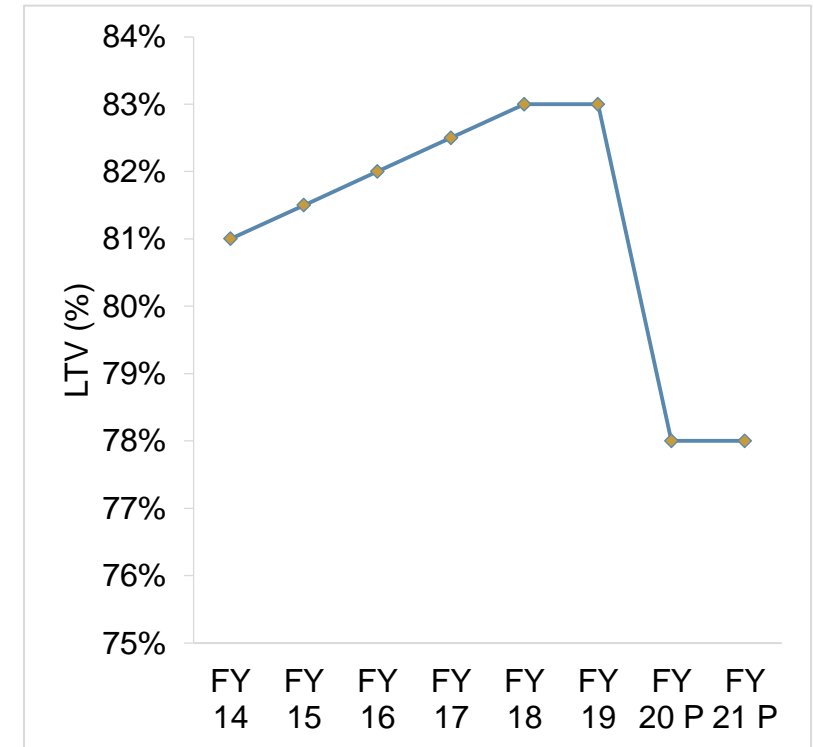
Disbursement



Finance Penetration



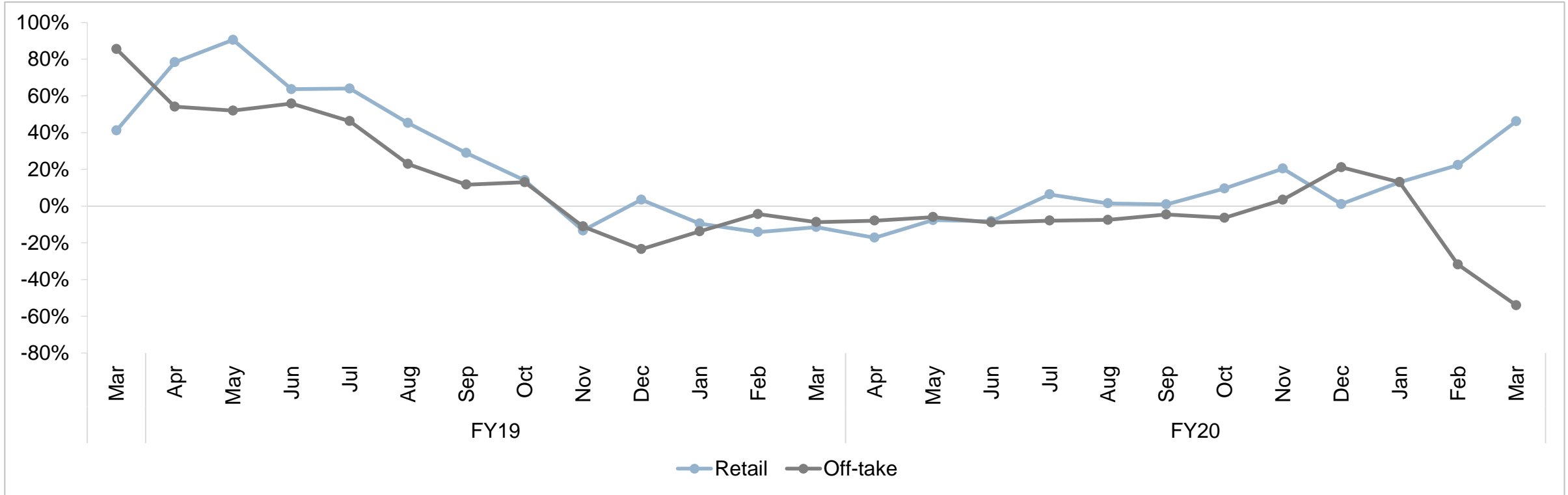
Loan-to-Value



- Disbursement recorded a positive growth in fiscal 20 despite a decrease in wholesale volumes due to higher retails in anticipation of price hike in fiscal 2021. However, heavy discounting led to a lower growth in disbursement.
- LTV declined in fiscal 20 due to perceived risk by the financier post freight rates declining thereby leading to drop in overall profitability.

Retails on up trend since start of CY2020; however CoViD19 will change the trajectory

Retail vs off-take (Growth yoy)



Source: SIAM, Vahan, CRISIL Research

- The retail demand for 3w was consistently higher than off-take since July 2019, except Dec 2019
- It led to a comfortable stock level at dealers
- In the anticipation of higher sale (prebuying of BSIV) led to increased wholesale and inventory levels in Jan and Feb 2020

Domestic – Annual Forecast

		Three-wheeler	=	Cargo	+	Passenger
BASE CASE	FY 20 volumes	637		112		525
	YoY Growth in FY20	9%		13%		8%
	FY 21P volumes	505-518		93-95		412-422
	YoY Growth in FY21P	19-21%		14-16%		20-22%
PESSIMISTIC CASE	YoY Growth in FY21P	23-28%		25-30%		23-28%

NOTE: Volumes in thousand units;
YoY Growth in red indicates a negative growth

Domestic – Quarterly Forecast

Period		Three-wheeler		Cargo		Passenger	
		Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth
FY20E	Q1	149.8	(7)%	30.5	(1)%	119.3	(9)%
	Q2	180.9	(6)%	26.9	(14)%	154.0	(4)%
	Q3	176.1	6%	29.7	(1)%	146.4	7%
	Q4	129.8	(28)%	24.6	(32)%	105.3	(27)%
FY21P	Q1	39.6-42.6	(72)-(74)%	8.9-9.5	(69)-(71)%	30.7-33.1	(72)-(74)%
	Q2	150.8-154.5	(15)-(17)%	25.1-25.7	(4)-(6)%	125.7-128.8	(16)-(18)%
	Q3	162.7-166.2	(6)-(8)%	28.5-29.1	(2)-(4)%	134.2-137.1	(6)-(8)%
	Q4	151.0-153.6	16-18%	30.7-31.2	25-27%	120.3-122.4	14-16%

- Three wheeler industry had grown at a double digit growth in fiscal 2018 and 2019 due to open permits declared by major states like Maharashtra, Gujarat, Karnataka.
- Due to slowdown in economy and no major permits being opened in fiscal 2020, industry recorded a de-growth of ~9%. The performance of three-wheeler industry compared to other automobile segments have fared well in fiscal 2020.
- BS IV stock was billed to the dealers only till mid of Feb 2020.
- We do not foresee major permits to be released in fiscal 2021 due to sluggishness in the economy and unavailability of cash with auto-rickshaw drivers due to lockdown situation.
- Freight availability will also be a key hurdle for cargo operators to earn profitability.
- Industry is expected to post a positive growth in Q4 of FY21 on a low base.

Stakeholder interactions

Uncertainty prevail due to Covid-19

OEM



- **Revival** is expected from Q3 FY21 onwards.
- 90% of the unsold inventory will be registered by dealer in his own name.
- **Support will be provided by most of the OEMs.** Remaining BS IV stock is expected to be taken back and can be **exported**.
- Government should incentivize low wage earners like auto-rickshaw drivers.
- **Stress on channel and retail funding is expected.**
- Three-wheeler industry is expected to take a **lower hit as compared to personal vehicle** segment.
- Cargo segment is expected to perform better than passenger segment.

Dealer



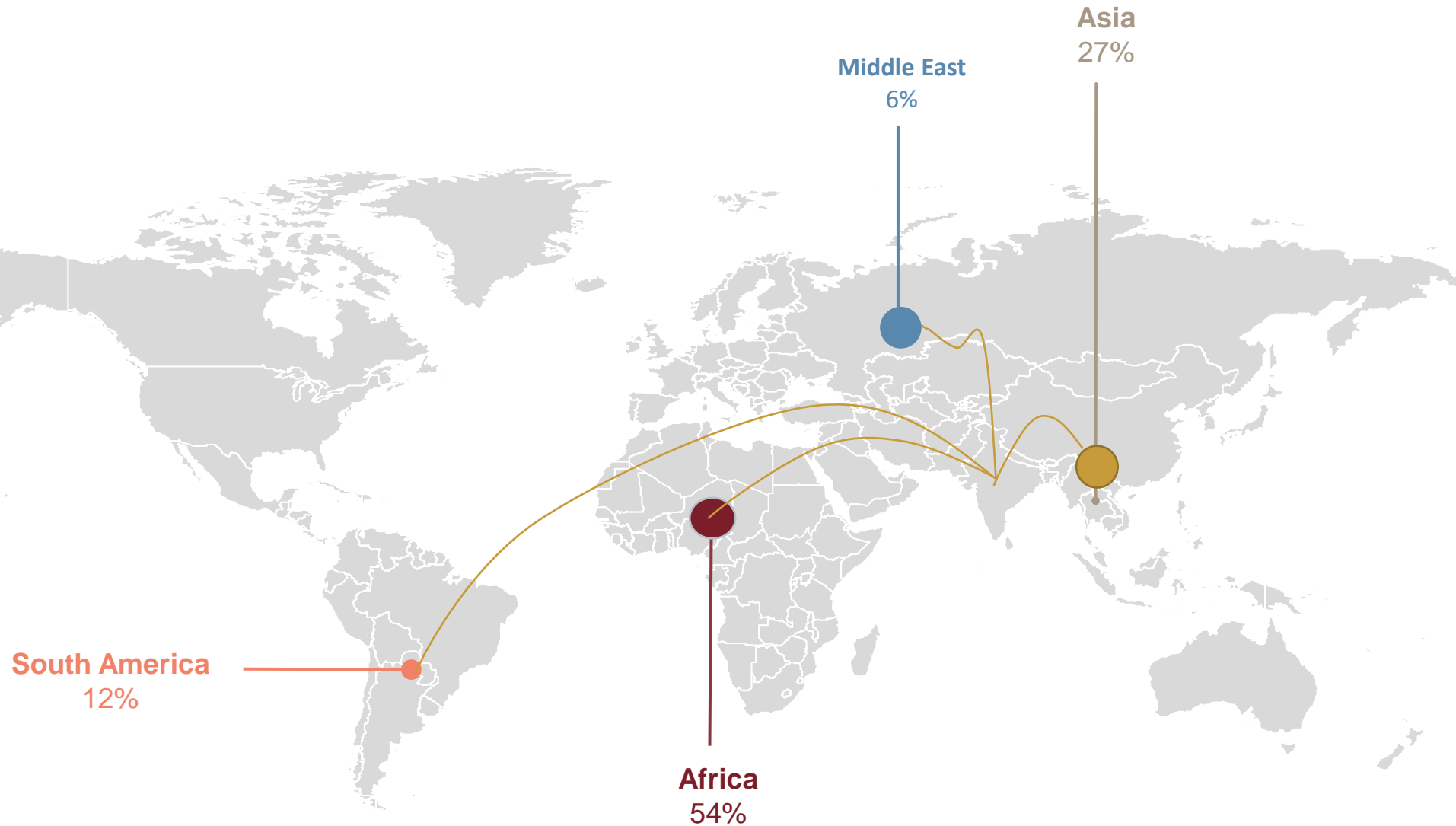
- BS IV Inventory gradually came down post Jan 2020.
- Leftover stock is registered by dealer in his name and will be sold as pre-owned vehicle.
Depreciation will be in the tune of 10-20k.

Financier



- Higher defaults expected in this vehicle segment category.
- Due to marginal movement of people in the country, auto rickshaw drivers are **not able to sustain their living**.
- 1 or 2 months post moratorium period gets over, **default rate is expected to peak**.
- Because of higher defaults, benefit of policy easing by RBI cannot be entirely translated to vehicle loan.

Three-wheeler exports







































- Top importing nation, **Nigeria** is **oil dependent**. Fall in **crude prices** is expected to have its impact on the economy..
- After Egypt banning free imports of auto-rickshaws, Lagos (Financial hub of Nigeria) imposed the **ban on auto-rickshaws** from 1st February 2020 following a **rise in fatal accidents** on its city roads.



Tractors

Positive sentiments for tractor industry for FY21

Parameters	Impact		
	FY 19	FY 20	FY21P
Farm Income**			
-- Crop Prices			
-- Crop Output			
-- Kharif Output			
-- Rabi Output			
Demand Indicators			
-- Infrastructure Development			
-- Sand Mining			
Supply side variables & financing			
-- Finance Availability			
-- Channel Inventory			
-- Player Action			

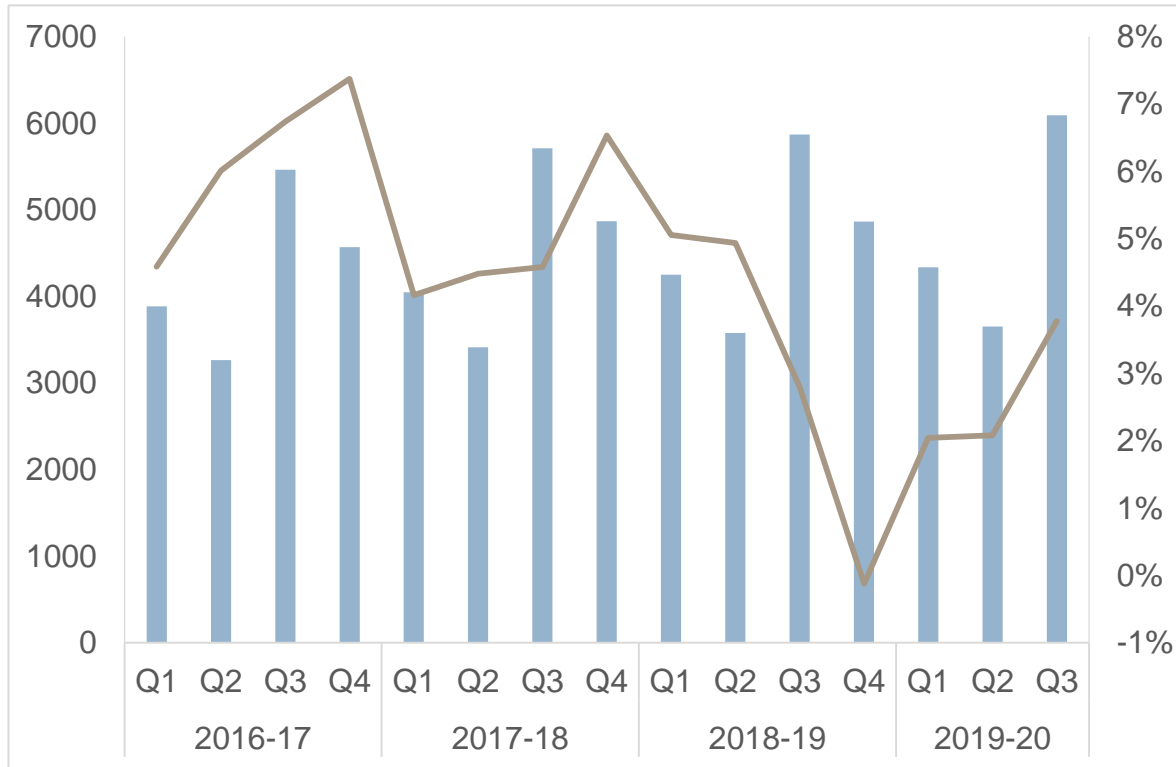


NOTE : ** Fiscal 2021 assumed neutral assuming normal monsoon, P: Projected

Source: CRISIL Research

Agri GVA growth to end up in positive zone in FY21 backed by bumper rabi crop and assumption of normal rains

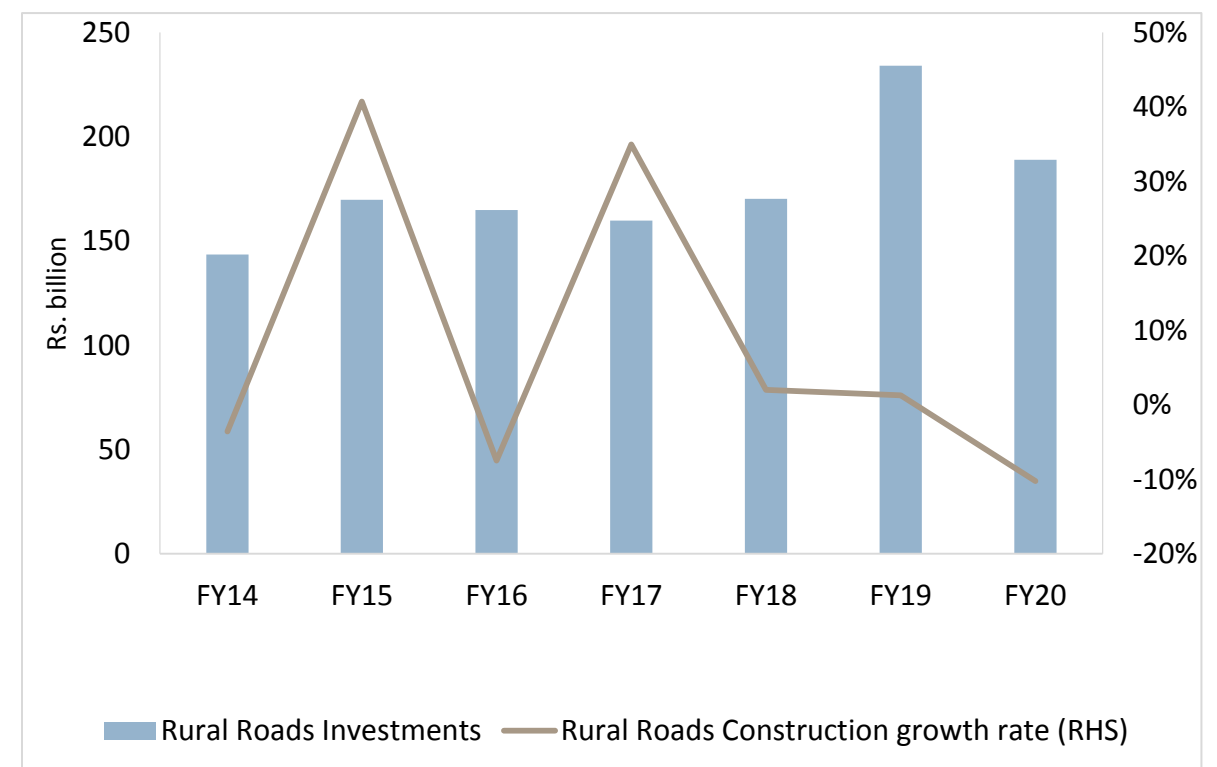
Agriculture GVA & Growth rate (y-o-y)



Source: Ministry of Statistics and Programme Implementation, CRISIL Research

Notes: GVA at basic prices (constant 2011-12)

PMGSY Status

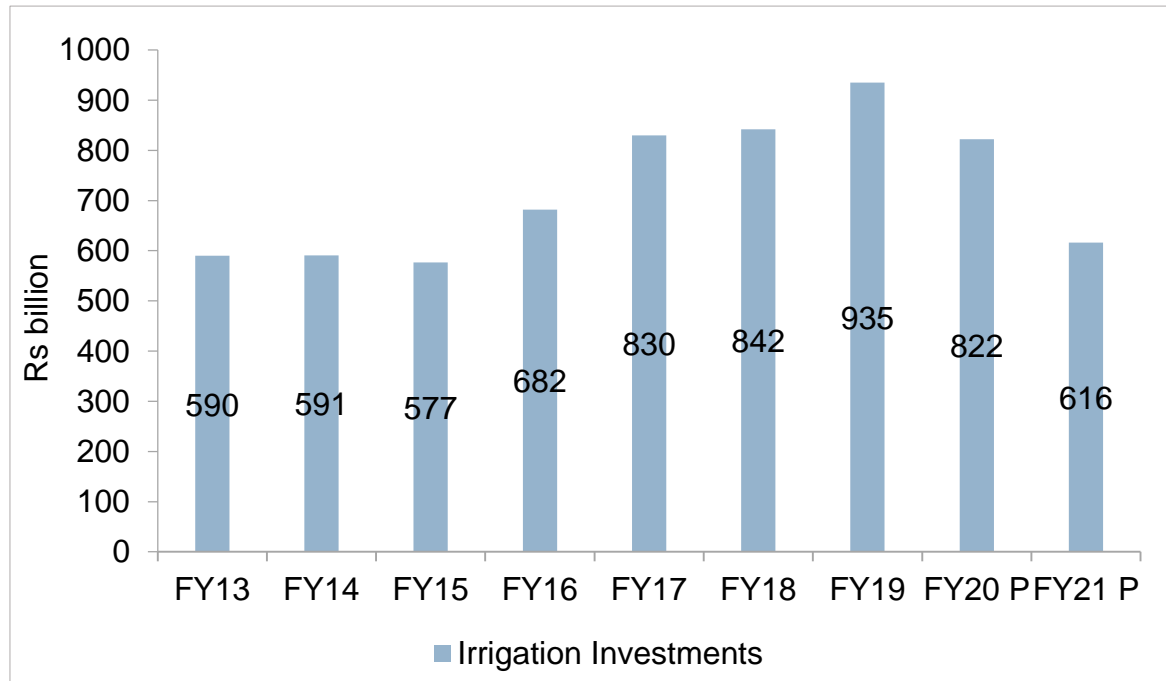


Source: OMMS (Online management, Monitoring and Accounting System), CRISIL Research

- The rate of execution of roads under PMGSY continues to be slow in rural areas which impacted the tractor sales in fiscal 2020.
- The Centre announced Pradhan Mantri Gram Sadak Yojana (PMGSY-III) in the Union Budget 2019-20 for construction of 125,000 km of rural roads at a cost of Rs 80,950 crore. This is lower compared with the length of rural roads in km constructed over the past five years .
- Agriculture growth was better in Q3 as compared to Q2 on account of increase in Kharif profitability and support from the government in the form of loan waivers and subsidies.

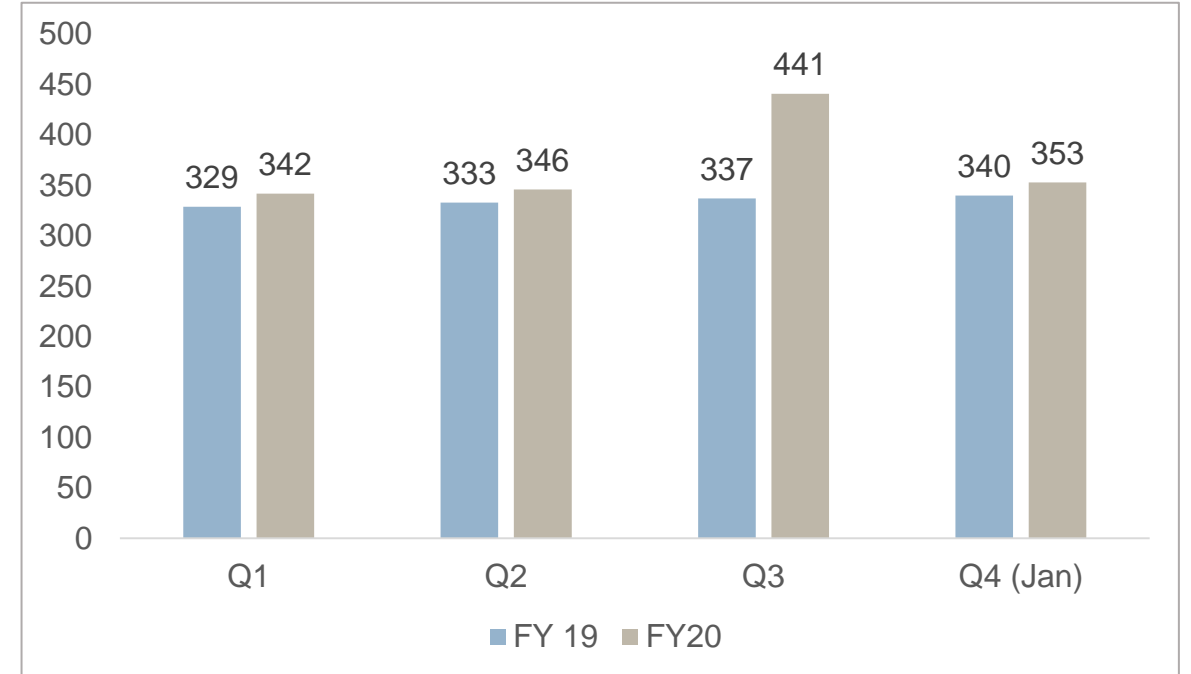
Irrigation investments to decline by a quarter in FY21

Irrigation spending increasing at a slower pace



Source: Department of Agriculture, Cooperation & Farmers Welfare, CRISIL Research
P: Projected

Daily Rural Wage

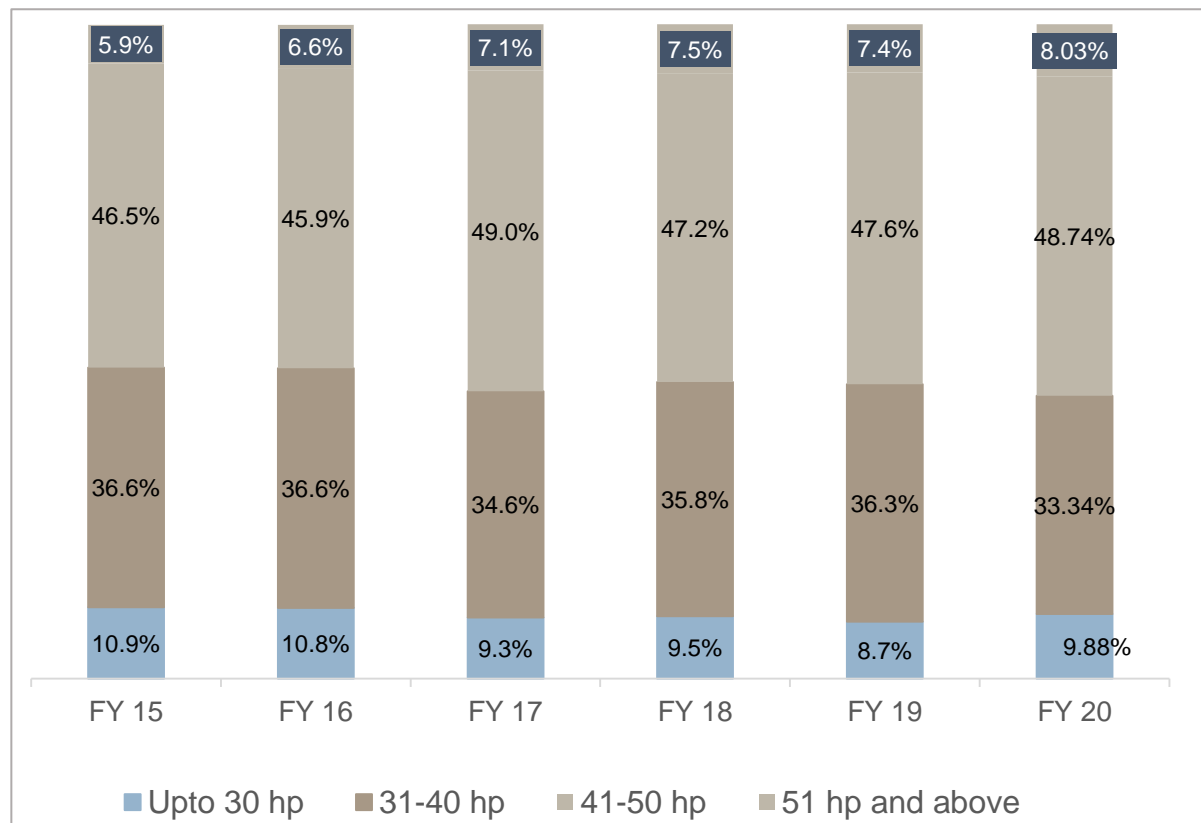


Rural wages includes general non-agricultural labour.
Source: RBI, CRISIL Research

- Irrigation intensity is highest in northern region, followed by the southern and eastern regions. And higher irrigation intensity will boost usage of higher HP tractors.
- The growth in rural wages and increasing mechanization on farm fields bode well for structural tractor demand growth

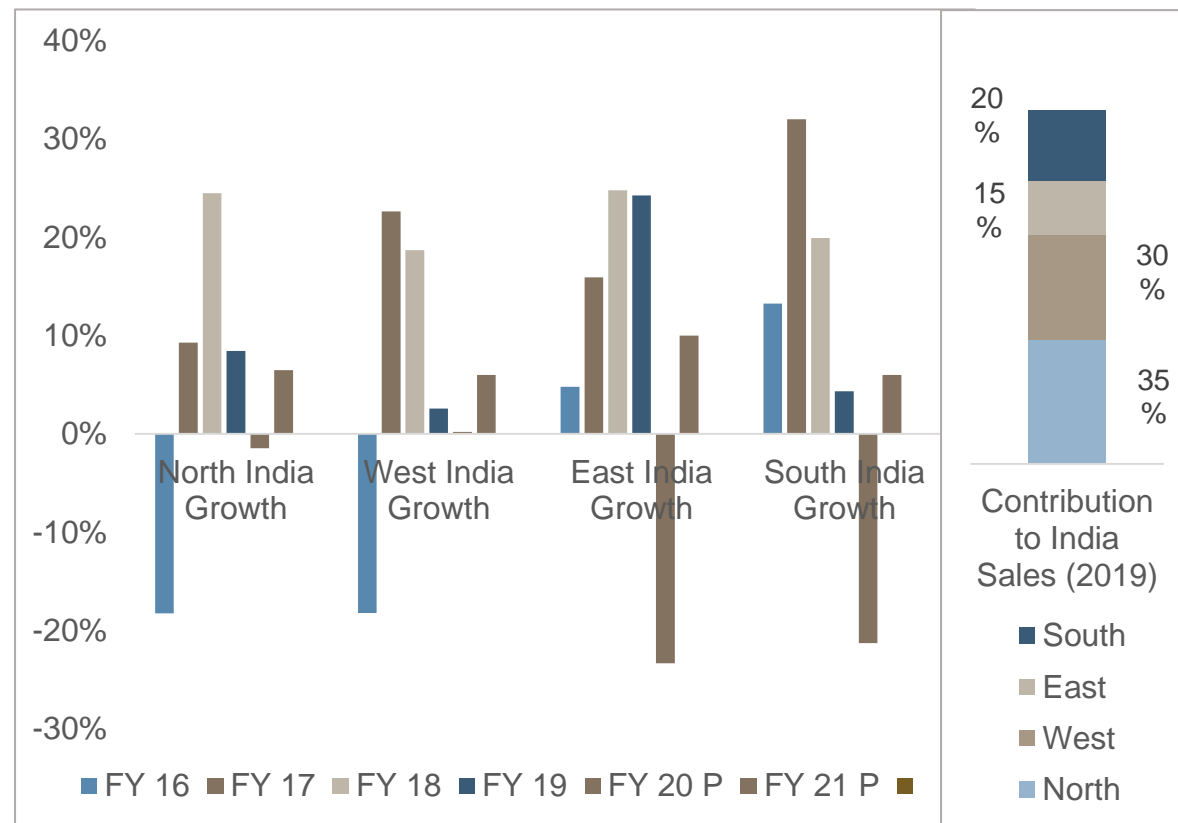
Segment-wise tractor sale shows a shift towards 41-50 HP

Segment-wise tractor sales

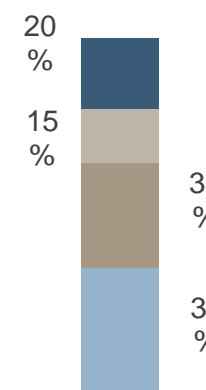


Source: CRISIL Research

Regional growth



Source: CRISIL Research

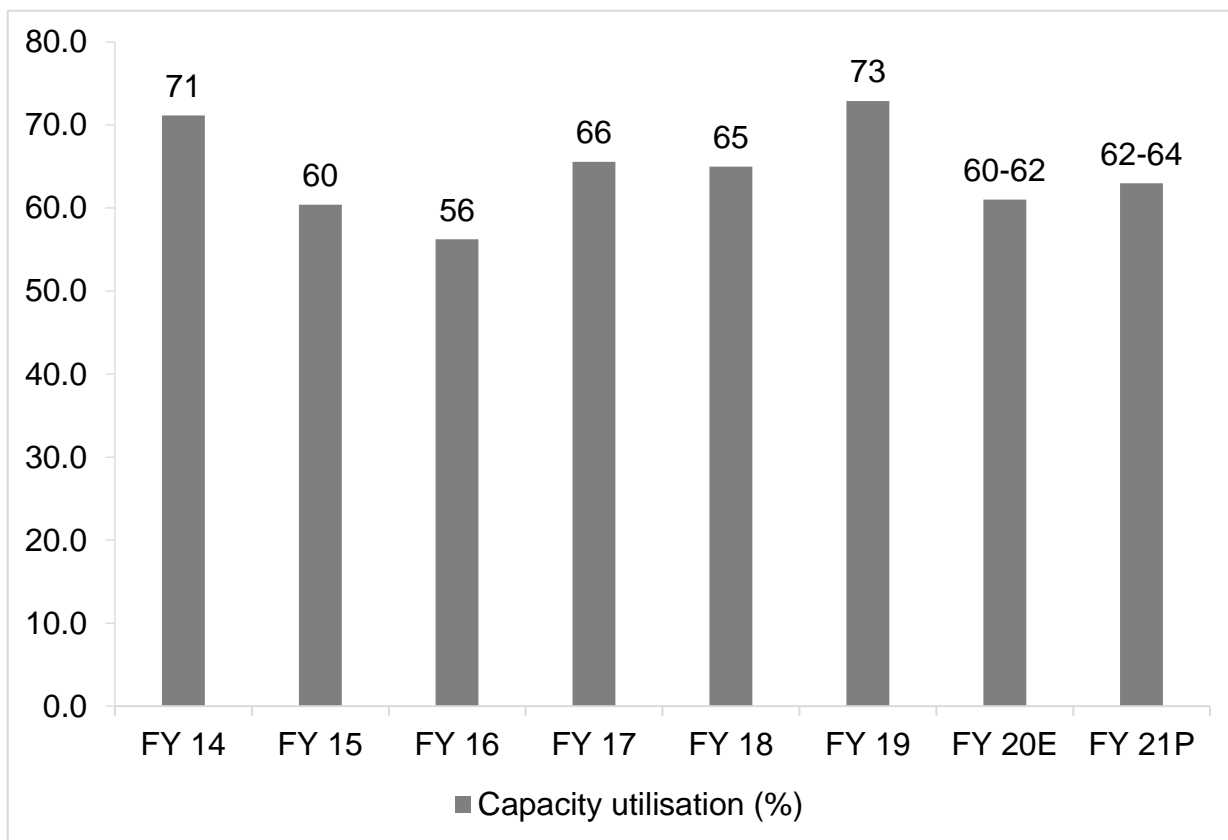


Contribution to India Sales (2019)

- South
- East
- West
- North

Utilisation levels to slightly improve

Capacity utilisation



P = Projected
Source: CRISIL Research

Player	Effective Capacity estimate (in '000) (as on 31st Mar 2019)	Production (FY19) (in '000)	Capacity utilization in FY19E
Escorts Ltd.	98,940	1,00,991	102.1
Force Motors Ltd.	24,000	3,856	16.1
International Tractors Ltd.	3,00,000	1,07,813	35.9
Johndeere	1,30,000	94,956	73.0
Mahindra & Mahindra Ltd.	3,76,000	3,38,236	90.0
New Holland India	60,000	42,889	71.5
SAME DEUTZ-FAHR	15,000	9,938	66.3
TAFE	1,58,000	1,59,915	101.2
VST	37,000	8,451	22.8
Industry Total	11,98,940	8,67,045	72.9

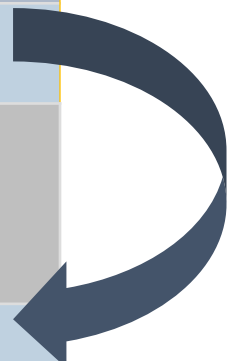
Source: CRISIL Research

- In fiscal 2021, capacity utilization levels expected to improve slightly on higher domestic sales due to bumper rabi harvest and expected normal monsoon to drive up the kharif output.

Trem IV norms applicable only on 50HP and above

Trem IV applicable from 1st October 2020 mandates significant reduction in PM for 50HP and above tractors

Emission standard stage	Engine Power	Market share	Date	CO	HC+Nox	PM
	HP			g/kWh		
Trem Stage III A	11 to 25HP	9%	1st April 2010	5.5	8.5	0.8
	25 to 50HP	84%	1st April 2010	5.5	7.5	0.6
	50 to 75 HP	7%	1st April 2010	5	4.7	0.4
Trem Stage IV	11 to 25HP	9%	No change			
	25 to 50HP	84%				
	50 to 75 HP	7%	1st October 2020	5	4.7	0.025



Source: Industry, CRISIL Research

- As tractor with more than 50HP contribute only 8% to overall tractor sales, we expect limited impact on tractor industry.
- Cost is expected to increase by a tune of 15%.
- However, within the segment we expect some 0-2% pre-buying in second quarter of fiscal 2021.

Domestic – Annual & Quarterly Forecast

			Tractors			
			Volume ('000)	YoY Growth		
BASE CASE	FY 20 volumes	710				
	YoY Growth in FY20	10%				
	FY 21P volumes	725-745				
	YoY Growth in FY21P	2-5%				
PESSIMISTIC CASE	YoY Growth in FY21P	3-5%				
			Period			
			FY20	Q1	191	(15)%
				Q2	168	(10)%
				Q3	204	(6)%
				Q4	146	(9)%
			FY21P	Q1	158-162	(15)-(17)%
				Q2	178-182	7-9%
				Q3	209-213	3-5%
				Q4	171-175	17-19%

- Tractor industry to see a grow by 2-5% in FY21.
- Rabi output has increased by 6% on year to 151.72 million tonnes (as per the 3rd advance estimates)
- Expectation of normal monsoon to drive kharif output.
- Cash flow has not been a constraint as the farmers are receiving payments from private agencies on-time and are sure to receive payments from government agencies within few days of selling the produce.
- Commercial Demand is also expected to continue as it has been

Stakeholder interactions

Uncertainty prevail due to Covid-19

OEM



- Unforeseen events of Covid-19 to significantly impacted the tractor industry in April, however the industry bounced back in May.
- Cash flow has not been a constraint as the farmers are receiving payments from private agencies on-time and are sure to receive payments from government agencies within few days of selling the produce.
- Commercial Demand is also expected to continue as it has been
- Pick up in demand is expected to be witnessed during the festive season.

Dealer



- Delivery momentum has picked up from May 2020, post the lockdown.
- All dealerships are operational and retail momentum is high.
- They are giving maximum discounts up to 60K per tractor in order to drive sales.
- Massive discounts and lucrative schemes were offered in order to push sales before the lockdown.
- Built up done from Feb end for festive season (Navaratri 25th March). Current inventory levels 30-35 days.

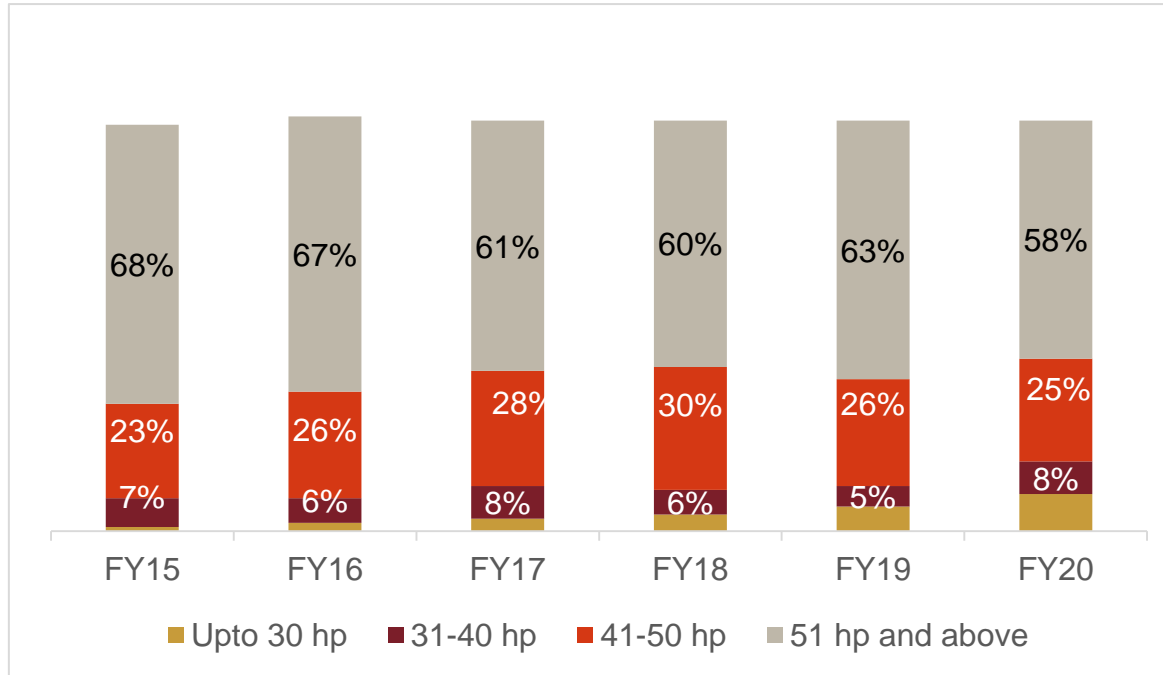
Financier



- Financing scenario continues to be the same, however the financiers are **focused on collections for the time being.**
- Financiers are **not able to go on field** due to the current lockdown

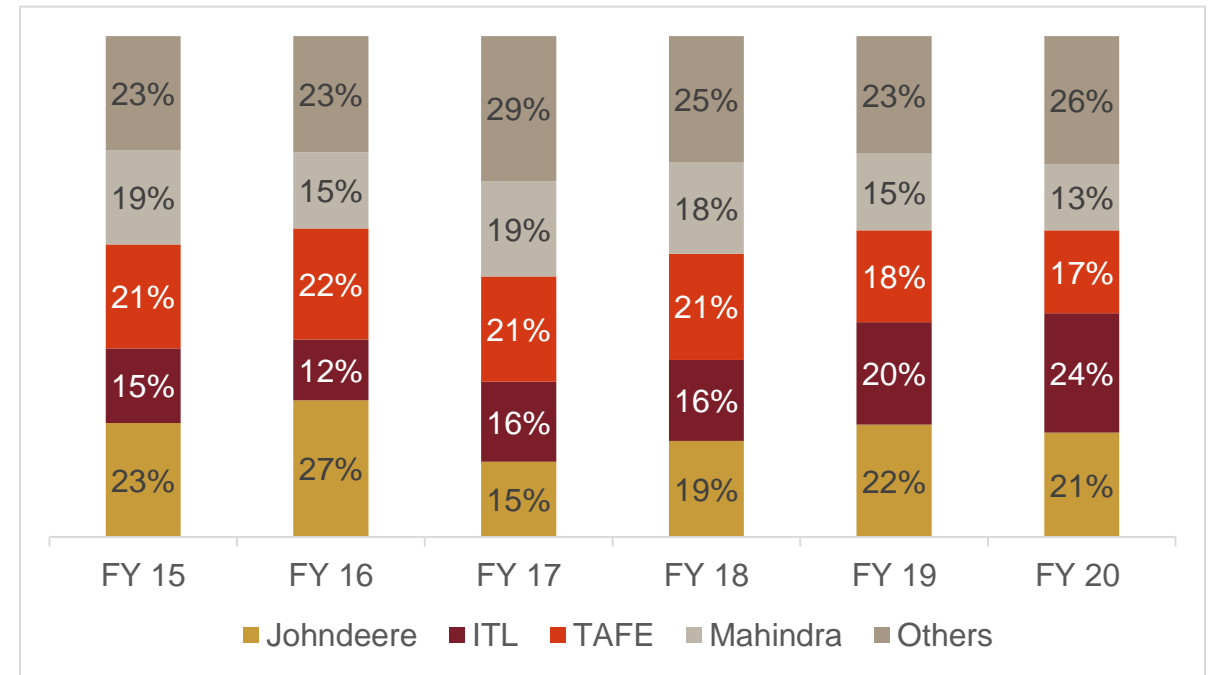
Tractors <30HP on an uptrend in exports

Segment wise market share of exports



Source: CRISIL Research

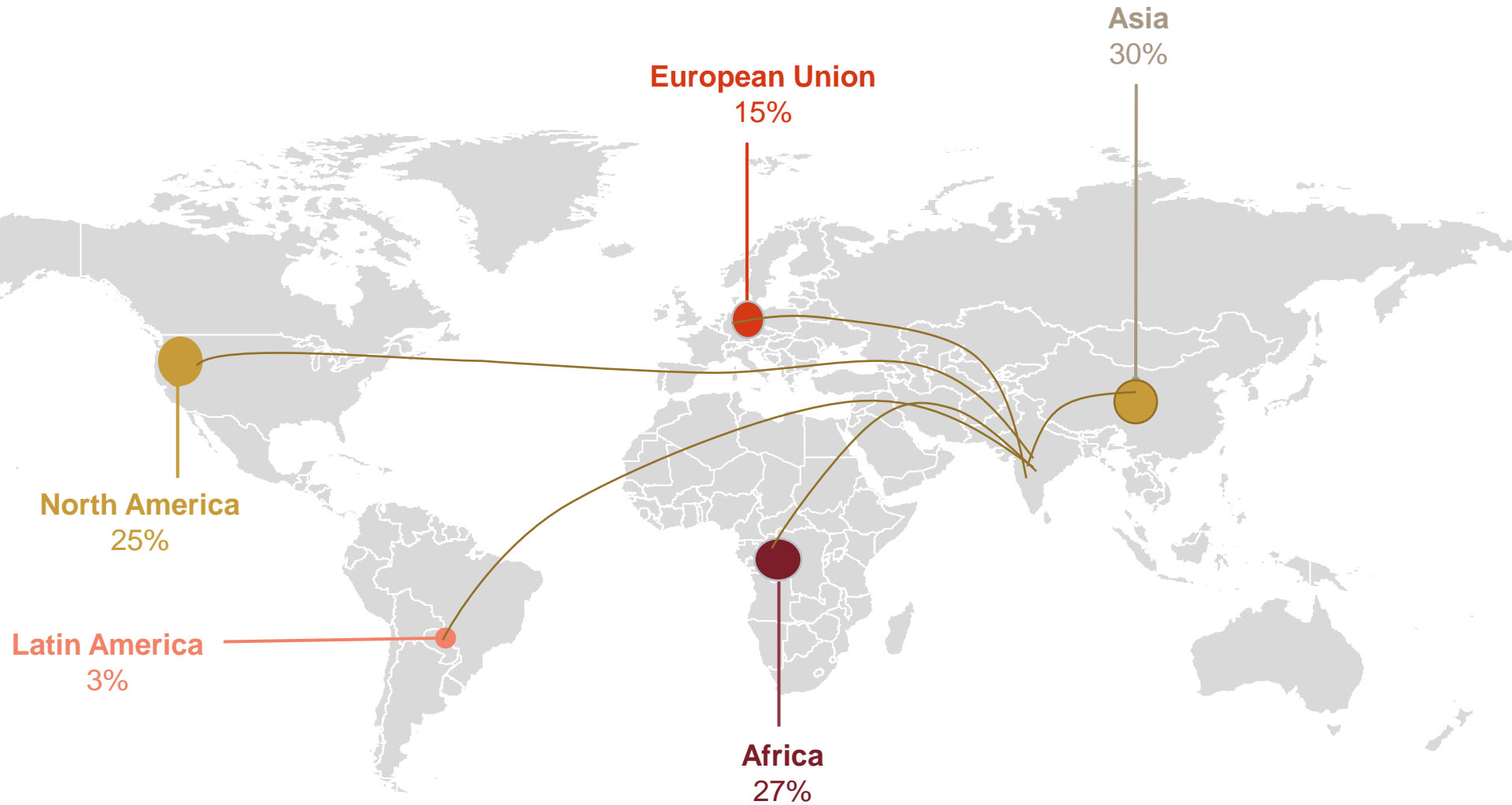
Player wise market share of exports



Source: CRISIL Research

- Tractor exports to decline by 17% in fiscal 2020 and further decline by 10-15% in fiscal 2021..
- Export of small tractors (upto 30HP) has increased from its miniscule share to 9% in fiscal 2020 due to players focusing on Asian and African regions
- ITL's growing exports have also contributed to a shift towards the higher horsepower segment. ITL, manufacturing higher and lower horsepower tractors, is continuing to expand its overseas footprint by launching tractors in the 90-120 hp range for developed markets.

Tractor Exports



- Exports expected to decline in FY21 in Europe and North America on the back of **global emission norms, economic slowdown and Covid-19**.
- Stricter regulatory requirements would lead to decline in demand in the United States.
- Competition from **Chinese and Korean** players poses threat to Indian exports.
- Current **economic slowdown** will impact the tractor exports.

Inventory scenario

Lockdown since last week of March, impacted dealer inventory levels

Vehicle segment	Normal inventory in days	Current inventory levels*	Reasons
Passenger Vehicles	25-30	25-30	Despite of lower billing in Q4, inventory level in Q4 is similar to Q3 because of a slight built up in few regions on account of Navratri/ Ugadi and no retails happening post lockdown.
Two Wheelers	30-35	17-22	Dealers focused to liquidate BS IV stock in March by giving huge discounts. Online sales were also undertaken. Few dealers have registered the inventory in their names which will be sold as second hand vehicle.
Commercial Vehicles	25-35	< 3	Most of the BS IV inventory got liquidated and current inventory level is almost nil
Tractors	30-35	38-43	OEMs had pushed stocks to dealership on account of festives like Ugadi, Gudi Padwa. This which will help dealers liquidate these stocks during lockdown provided dealerships open up before tractor production is resumed.
Three-wheeler	20-25	20-25	Few players still have higher BS IV stock. OEM support will be extended to liquidate the inventory post lockdown is over. Few dealers have registered the inventory in their names which will be sold as second hand vehicle.

Research NOTE: Normal inventory days for passenger three-wheeler is 15-20 days and for goods three-wheeler is 25-30 days
* Inventory level as on end of March 2020.

Source: Industry, CRISIL Research

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists

CRISIL Privacy

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com

Disclaimer

CRISIL Research, a division of CRISIL Limited (CRISIL) has taken due care and caution in preparing this Report based on the information obtained by CRISIL from sources which it considers reliable (Data). However, CRISIL does not guarantee the accuracy, adequacy or completeness of the Data / Report and is not responsible for any errors or omissions or for the results obtained from the use of Data / Report. This Report is not a recommendation to invest / disinvest in any company covered in the Report. CRISIL especially states that it has no financial liability whatsoever to the subscribers/ users/ transmitters/ distributors of this Report. CRISIL Research operates independently of, and does not have access to information obtained by CRISIL's Ratings Division / CRISIL Risk and Infrastructure Solutions Limited (CRIS), which may, in their regular operations, obtain information of a confidential nature. The views expressed in this Report are that of CRISIL Research and not of CRISIL's Ratings Division / CRIS. No part of this Report may be published / reproduced in any form without CRISIL's prior written approval.