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Quarterly vehicle industry performance – Q3 FY20

Prepared for ACMA

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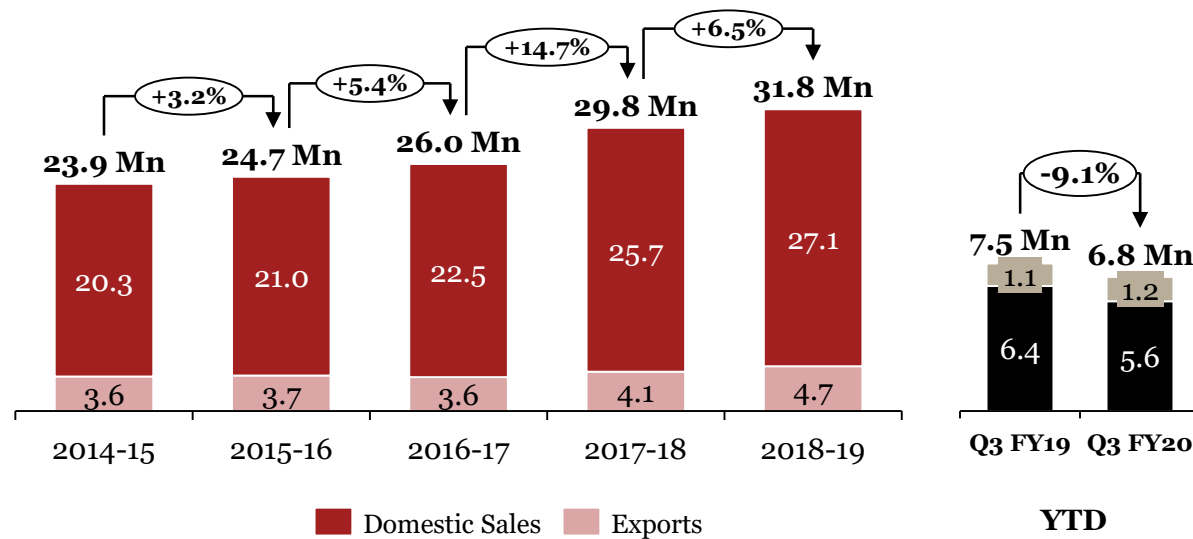
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Executive Summary

Automotive industry performance overview

Q3-FY20

OEM - Domestic sales and exports | million units



Indian automotive domestic sales and exports grew at an overall CAGR of 5.3% over last 5 years.

Slowdown in domestic demand due to various factors:

- GDP growth projections have been downgraded repeatedly by the IMF and other organisations, while unemployment has risen, suggesting a stagflation scenario in the Indian economy.
- The NBFC crisis has made access to liquidity harder for most consumers.

Vehicle segment	Dom. Sales Q-o-Q Q3 19-Q3 20	Exports Q-o-Q Q3 19-Q3 20
	▼ 14.93%	▲ 12.9%
	▼ 0.56%	▲ 9.2%
	▼ 17.62%	▼ 32.35%
	▼ 5.96%	▼ 2.96%
	▲ 5.72%	▼ 2.96%
TOTAL	▼ 12.38%	▲ 9.22%

Key Updates

Past Trends

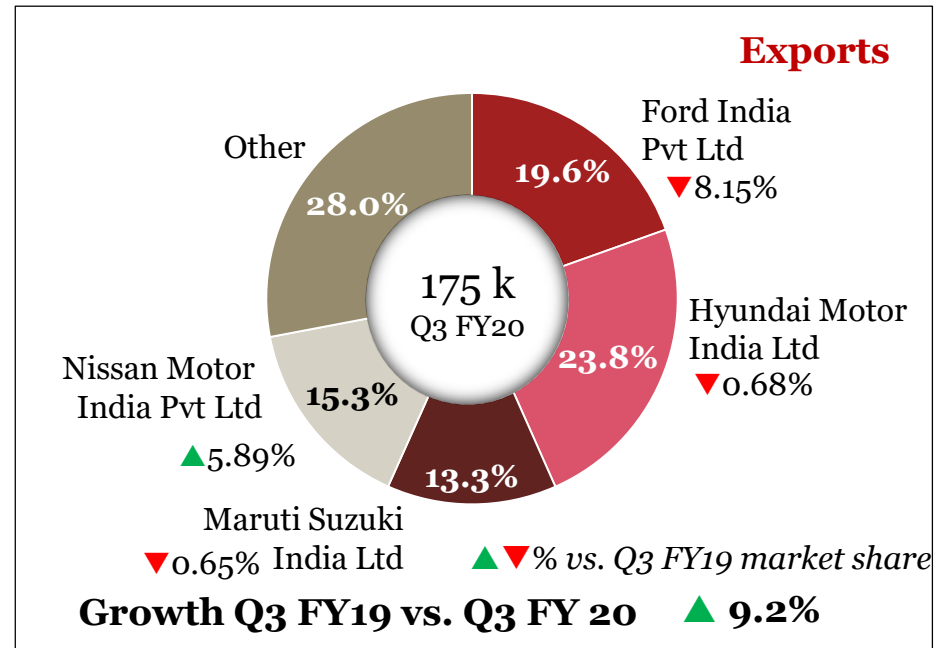
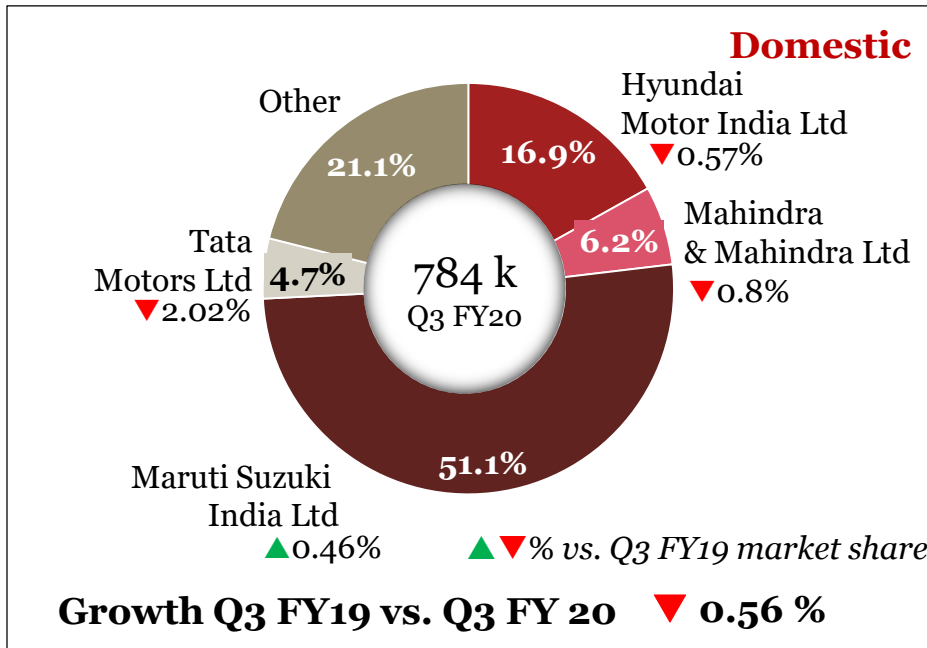
- India is, as of 2019, the world's fourth largest auto manufacturer, behind only China, US and Japan.
- Major factors that have contributed for the slack in growth are – cautious consumer sentiment, higher total cost of ownership, NBFC crisis leading to liquidity crunch, government mandates on increase in long term insurance costs & uncertainty due to introduction of new emission norms (BS VI)
- Costs of auto materials have remained stable over the year with prices of major materials such as steel Aluminum fluctuating between 1-3%. However, Nickel prices continue to soar due to adoption in EV batteries along with prices of precious metals (platinum, palladium, rhodium) used in catalytic converters due to increased focus on emission norms.
- On the auto retail front, the market witnessed consolidation in terms of “retail touch-points”, (~300 dealerships shutting operations) with challenges of waning margins (high rentals, discounts) and stricter lending policies (inventory funding) facing the dealership operations.
- At the same time, MG & Kia Motors successfully entered the growing UV space with successful product launches, demonstrating consumers acceptance of innovative technologies at competitive prices. Kia Motors has become the 6th largest player in the passenger vehicles space.

Going Forward

- While the year 2019 has been a difficult one for the auto sector, there are initial signs of a recovery:-
- On the regulatory front, the government's decision to slash corporate tax rates will have a positive impact in the longer run. This will encourage increased localization which may result in an inflow of FDI. In the current vehicle sales slowdown scenario, the government is expected to go in a calibrated manner with the push for Electric Vehicles
- On alliances - the country's dominant PV manufacturer Suzuki recently partnered with Denzo and Toshiba to build an EV battery manufacturing plant in Gujarat, whilst Mahindra acquired a controlling stake in Ford India, with the intention on collaboration in future electric vehicles and utility vehicles, showing a proactiveness amongst vehicle manufacturers in embracing new technologies and segments.
- As part of the 2020 Union Budget, the government is expected to lower the rate of GST on vehicles, hopefully allowing for lower prices for consumers and uplifting demand, along with a new scrappage policy aimed at phasing out older, more polluting vehicles from the streets.

Segment wise Q3 FY 20 industry performance

Passenger vehicles



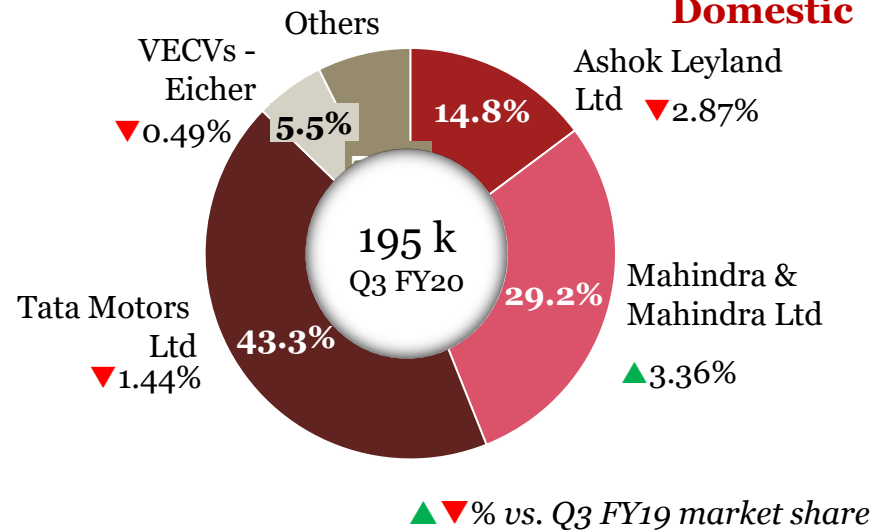
- While passenger car sales declined by 8.51% Y-o-Y, there was a 27.93% increase in the sales of utility vehicles, with the arrival of MG Motors and Kia in the country.
- The slowdown in PV demand this quarter is attributed to the weak credit supply due to the NBFC crisis, increasing urban congestion along with rising fuel costs (cost of ownership)

- PV exports for Q3 FY20 have recorded positive growth against weak domestic sales. Increase in exports is led by utility vehicles which have grown at 29.39% compared to Q3 FY 19
- The growth in exports is primarily due to stronger performance in the Gulf, Latin America and South Africa.

Source : SIAM, PwC Analysis

Commercial vehicles

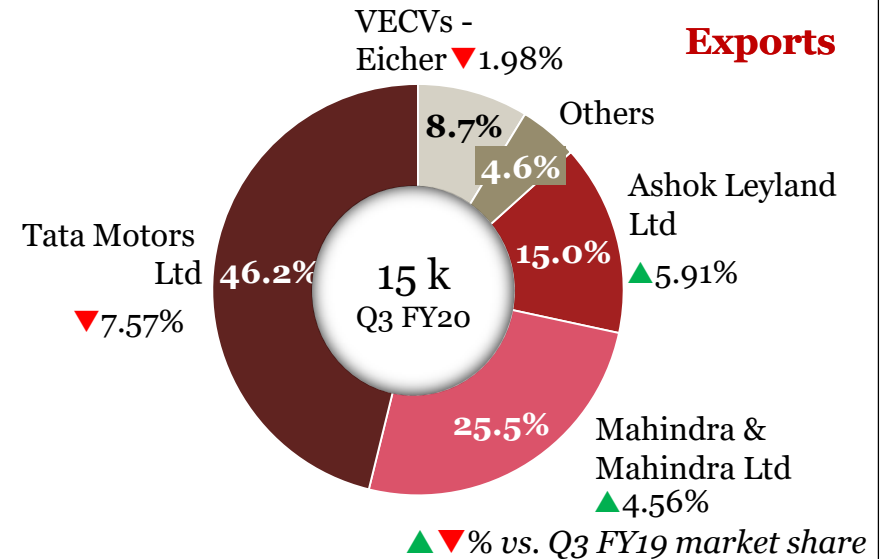
Domestic



Growth Q3 FY19 vs. Q3 FY 20 ▼ 17.62 %

- Sales of commercial vehicles declined partly due to slowdowns in infrastructure, real estate and mining.
- The new axle-load norms, increasing the maximum amount of load on a CV, have helped truck owners increase loads carried on existing trucks without having to purchase new ones.
- A new scrappage policy is expected to help phase out older polluting vehicles, potentially improving demand.

Exports

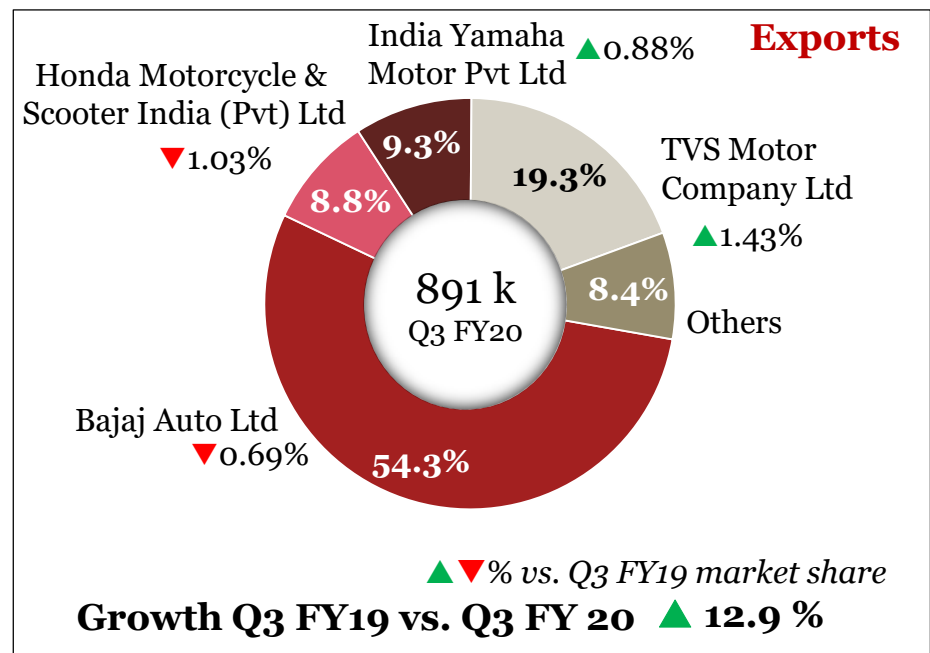
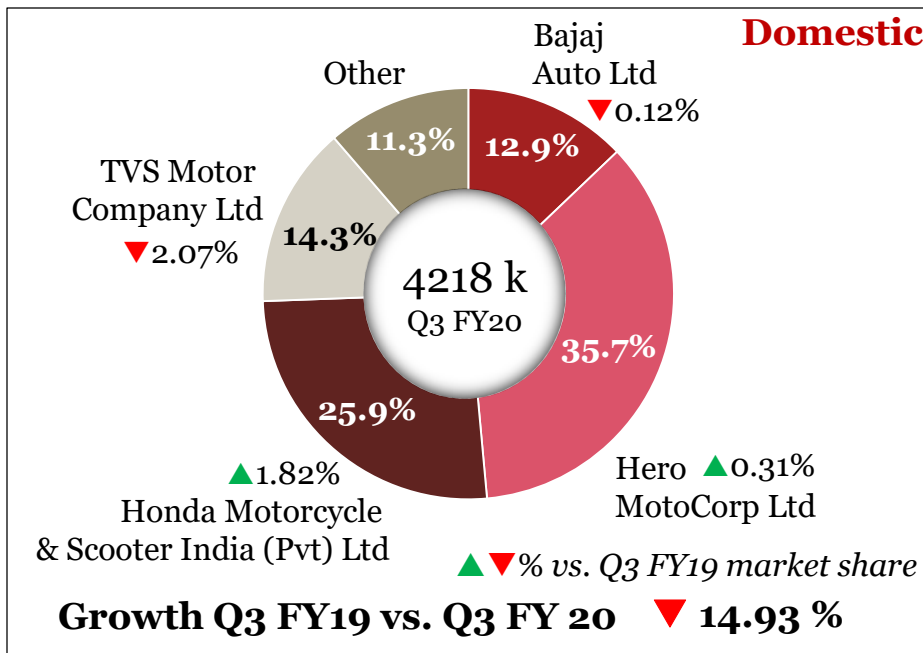


Growth Q3 FY19 vs. Q3 FY 20 ▼ 32.35%

- Medium & Heavy commercial vehicles witnessed a decline of 48.85% in export volumes while Light commercial vehicle exports declined by 14.5%.
- Traditional export markets include Bangladesh, Indonesia, South Africa, Nepal and Sri Lanka.
- Over 85% of this sector is controlled by Mahindra, Ashok Leyland and Tata Motors.

Source : SIAM, PwC Analysis

2 wheelers

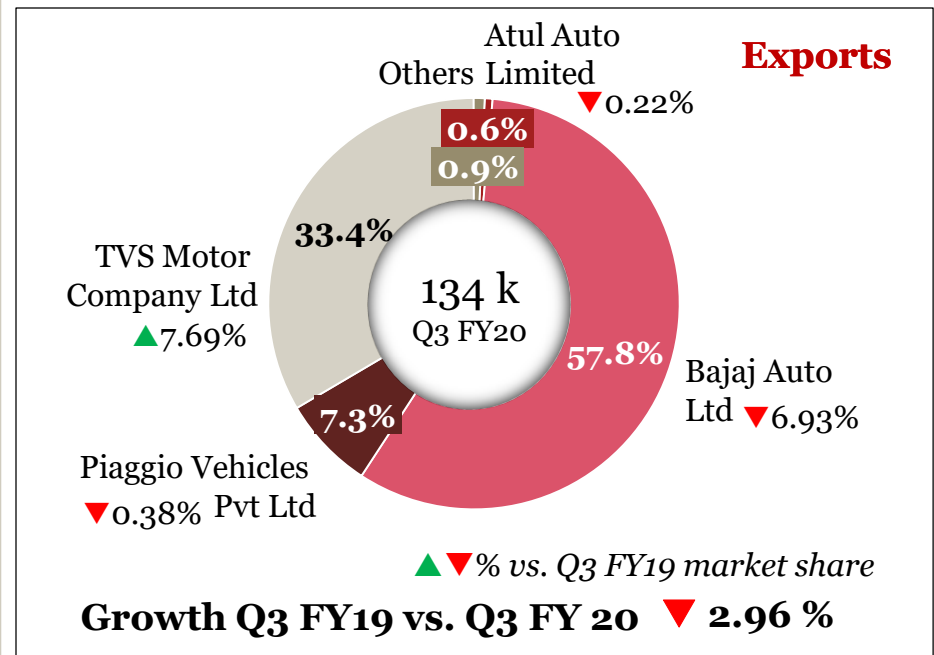
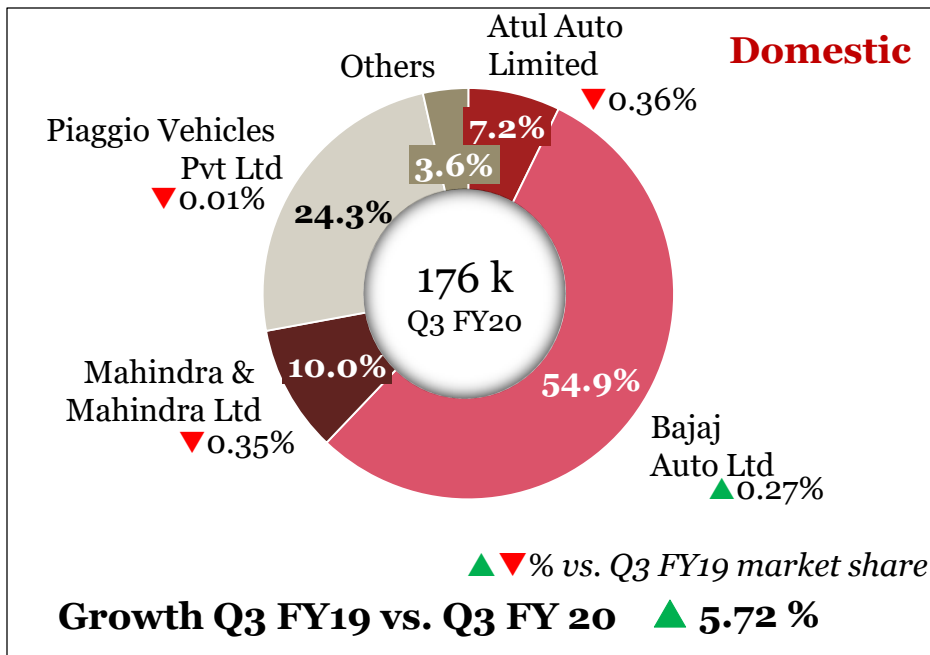


- The performance of scooters in India was affected by higher fuel prices, lack of liquidity and rising costs of insurance.
- The adoption of the new BS-VI emissions norms may cause short term instability in the industry, but new electric scooter start-ups should benefit from the FAME-II policies.
- With FAME-II likely to incentivize new players, Ather Energy, a startup focusing on electric-powered scooters, raised \$51 million from investors to expand production.

- Two wheelers are India's largest auto exports, and are mainly exported to Latin America, Africa and the Indian subcontinent.
- Exports have grown partly due to expansion into new markets in developing countries in Africa and South America, which are small but offer diversification from the domestic market and high growth opportunities.
- Bajaj Auto Ltd exports grew by 11.6% Y-o-Y

Source : SIAM, PwC Analysis

3 wheelers

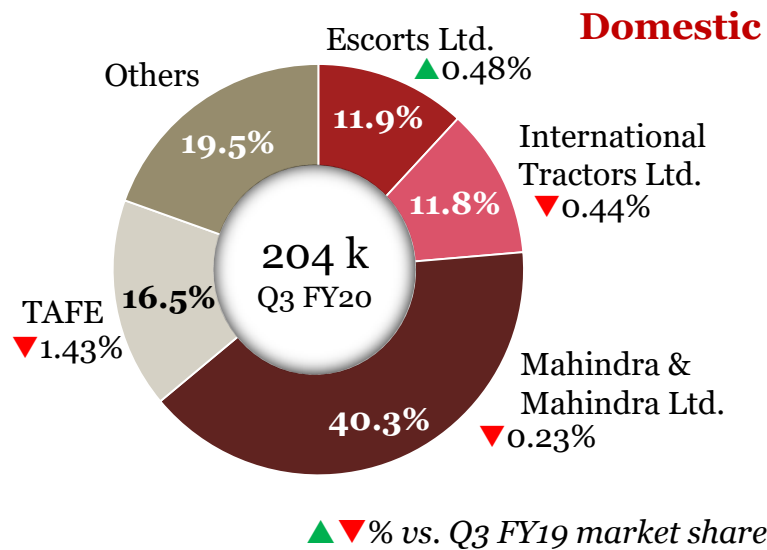


- Under FAME-II, there is a commitment by the government to invest heavily into the production of three-wheelers operating on lithium-ion batteries.
- Bajaj Auto announced it would expand its production three-wheelers after several states abolished road permits for electric vehicles.
- Sales have grown hugely due to the abolition of permits in states including Maharashtra and Gujarat.

- Passenger carriers recorded a decline of 3.31% in exports. Goods carriers recorded a 33.06% increase compared to this time last year,.
- Africa is the largest export market for three-wheelers, though it is subject to extreme volatility in terms of exchange rates, regulatory environment and economic downturns. The two biggest markets are Egypt and Nigeria.

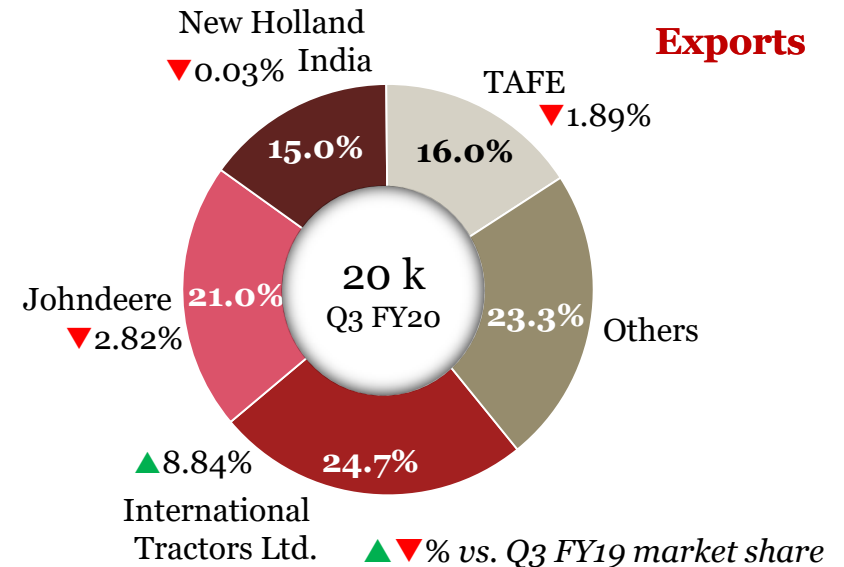
Source : SIAM, PwC Analysis

Tractors



Growth Q3 FY19 vs. Q3 FY 20 ▼ 5.96 %

- Domestic sales fell 5.96% over Q3 FY19 over stagnating rural income growth.
- Sales of tractors, heavily reliant on monsoon rainfall and agricultural yields, were hurt by uneven monsoons, lack of access to credit and flooding in a few states.
- While agricultural credit has grown, NPAs are affecting interest rates from public sector banks.



Growth Q3 FY19 vs. Q3 FY 20 ▼ 2.96 %

- Players like New Holland and Johndeere use India as an export base for Europe and the United States.
- The key export destinations in Asia such as Bangladesh, Sri Lanka and Thailand report steady demand, whereas the Latin American market is hurt by an economic slowdown.
- In October, International Tractors Ltd. announced a JV to enter the Chinese market.

Source : TMA, CRISIL, PwC Analysis



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** This map is not to scale. It is an indicative outline intended for general reference use only.

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