

# Impact of Macro-economic Environment on the Automotive Industry

ACMA

Oct 2019

# Content



Macro-economic Analysis



Forecast



Cars and UVs



Two-wheeler



Commercial Vehicles



Tractors



Three-wheelers

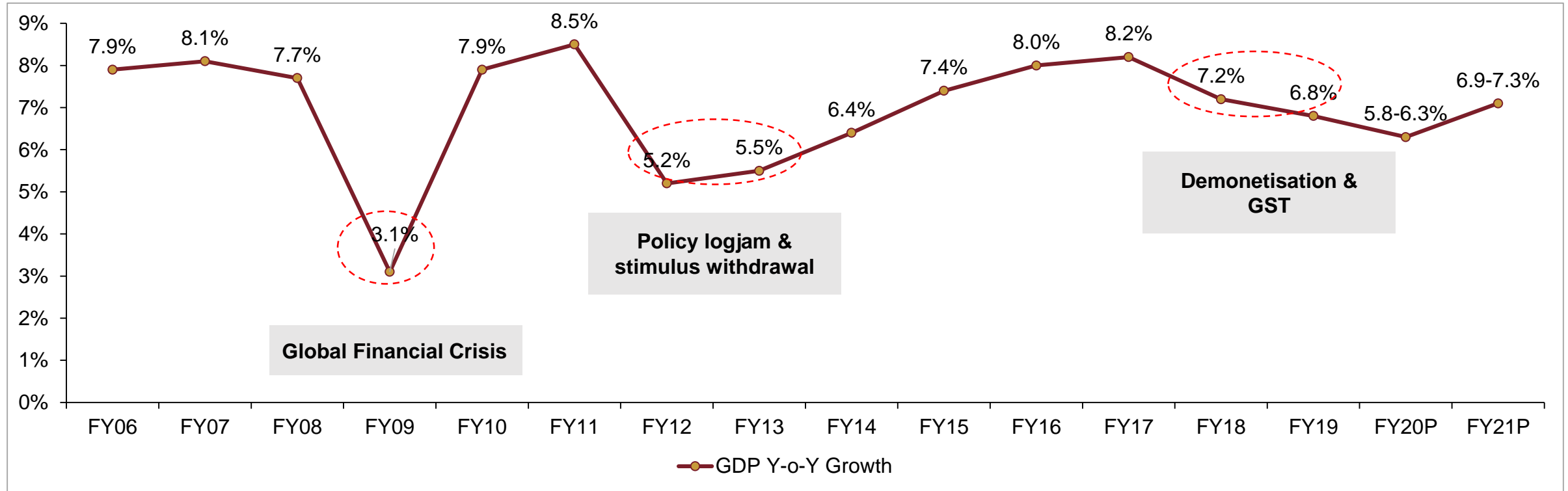


Inventory scenario



# Macro-economic Analysis

# Feeble first quarter stunts full-year GDP growth forecast

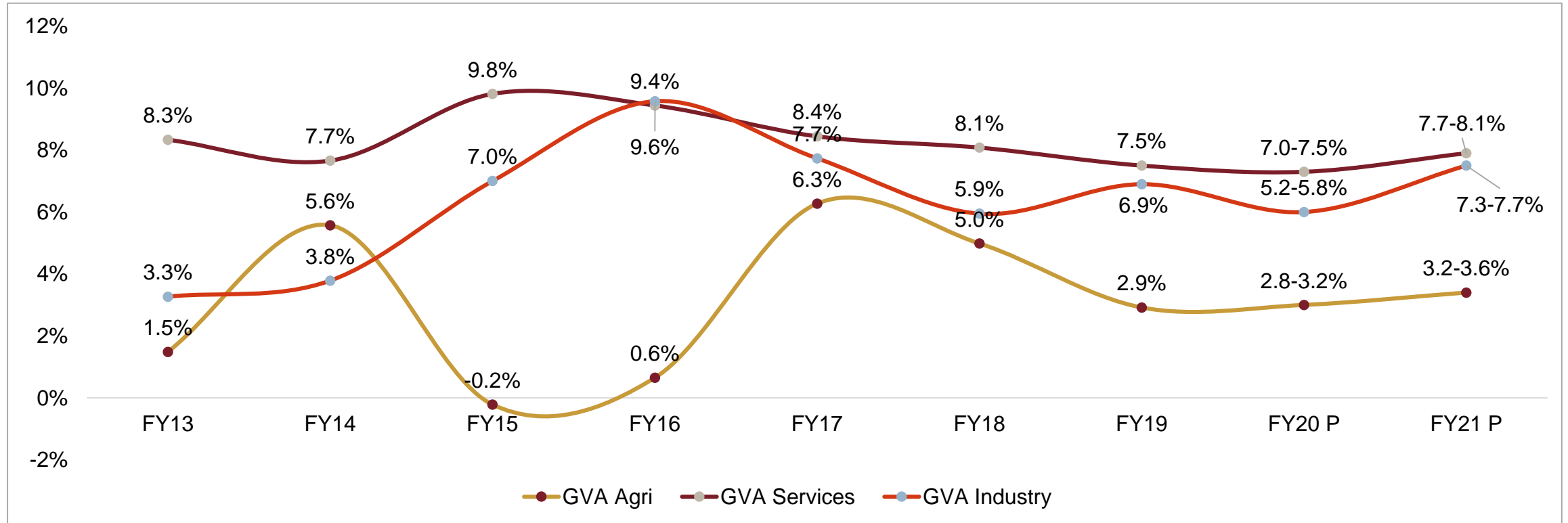


Note: GDP – Gross domestic product; Data on 2011-12 base, P=Projected

Source: Central Statistical Office, MOSPI, CRISIL Research

- Gross domestic product (GDP) growth estimate for the first quarter of fiscal 2020 at 5% is the slowest in 25 quarters, confirming that the slowdown is deeper and more broad-based than anticipated
- Growth is expected to get some lift from the low base effect that will now set in (second half fiscal 2019 GDP growth was at 6.2%)
- Also, an easing monetary policy, improved transmission of rate cuts, and the government's minimum income support scheme to farmers would feed into consumption

# Growth in GVA slowed to 4.9% in Q1 fiscal 2020, from 5.7% in the previous quarter



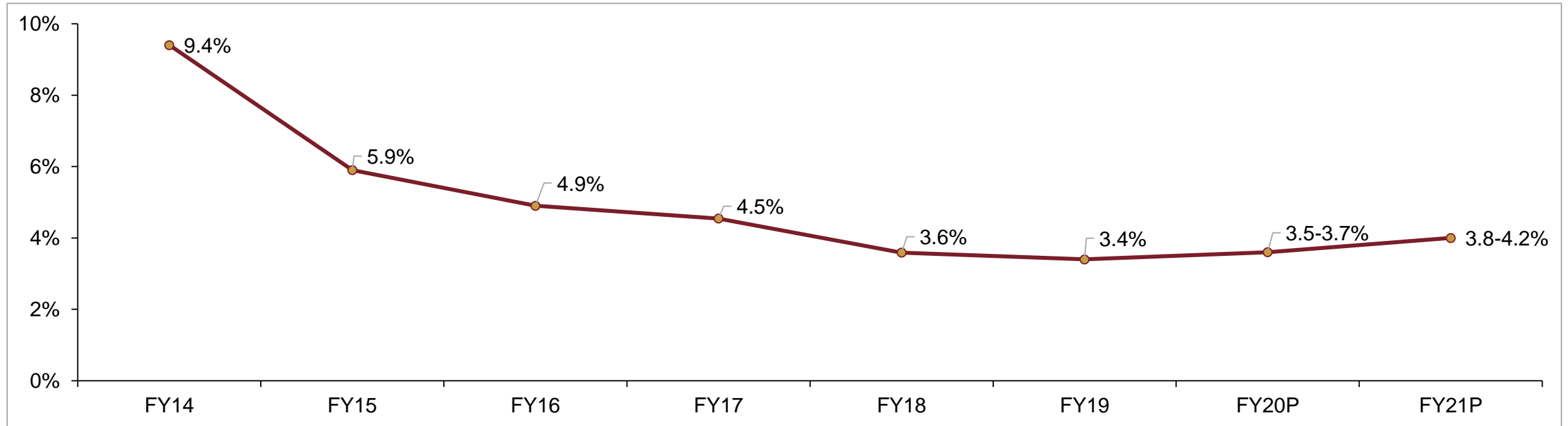
P=Projected

Source: Central Statistical Office, MOSPI, CRISIL Research

- The slowdown was fairly broad-based with the sharpest slowdown was in the real estate, financial and professional services segment
- Agricultural growth, however, picked up to 2% in the first quarter, from -0.1% in the previous.
- So, while overall GVA growth fell by 80 basis points (bps) between the two quarters, excluding agriculture, it was 140 bps lower.
- Growth was also higher in the trade, hotels, transport and communication segment (7.1% vs 6%)

# CPI to remain in comfortable zone

## Inflation (CPI Avg. %)



Note: CPI – Consumer price index, P=Projected

Source: Ministry of Statistics and Programme Implementation (MoSPI), CRISIL Research

- CPI inflation rose in August on higher food inflation even as fuel and core slowed
- After remaining unusually low last fiscal, food prices have been rising gradually this fiscal
- The trend is expected to continue in the second half of the fiscal, helped by the low base effect

# Proportion of revenue receipts higher in H1 of fiscal 2020 as compared to last year

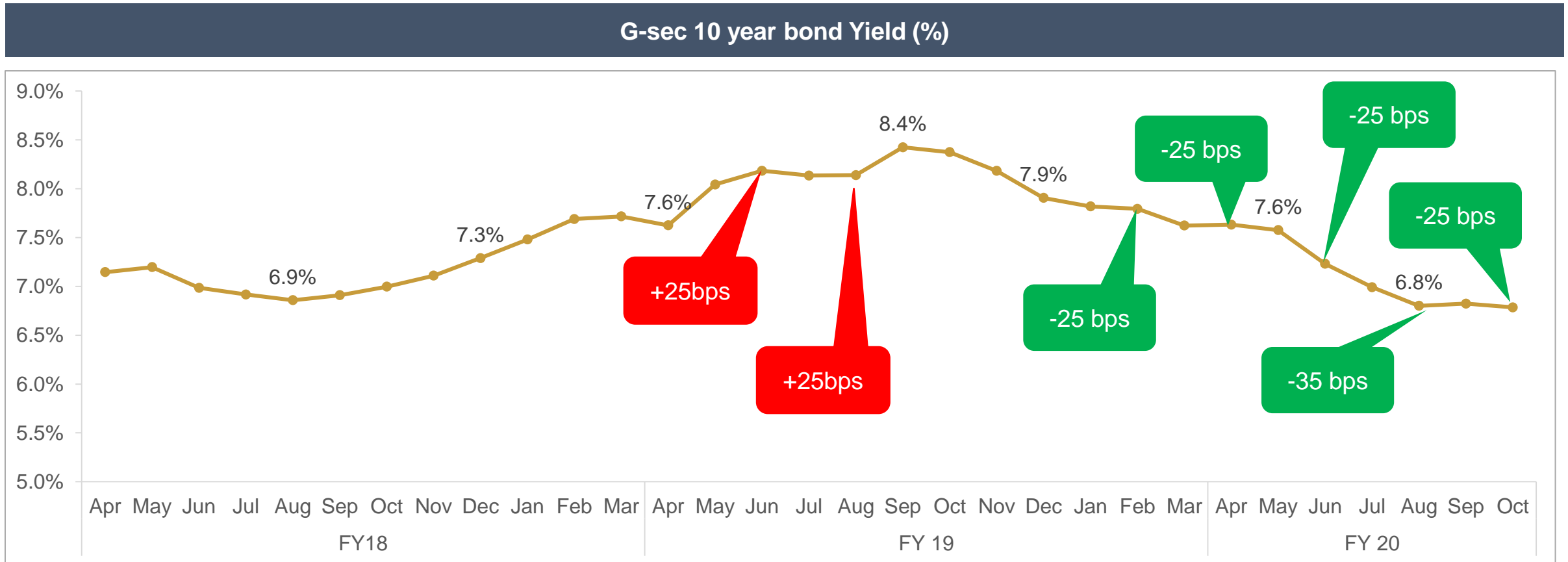
## Union Government Account

Receipts and Expenditure	Budget Estimates (FY 20)	Actuals (Apr – Sept 2019)	% of actuals to budget estimates (FY20)	% of actuals to budget estimates (FY19)
Revenue Receipts	1,962,761	816,467	41.60%	40.10%
Non-debt Capital Receipts	119,828	20,598	17.20%	19.20%
<b>Total Receipts</b>	<b>2,082,589</b>	<b>837,065</b>	<b>40.20%</b>	<b>39.00%</b>
Revenue Expenditure	2,448,264	1,301,082	53.10%	53.30%
Capital Expenditure	338,085	187,537	55.50%	54.20%
<b>Total Expenditure</b>	<b>2,786,349</b>	<b>1,488,619</b>	<b>53.40%</b>	<b>53.40%</b>
<b>Fiscal Deficit</b>	<b>703,760</b>	<b>651,554</b>	<b>92.60%</b>	<b>95.30%</b>

NOTE: Figures in Rs. Crore.

Source: Ministry of Finance, Government of India

# Repo rate cut led to the rally in bond market



NOTE: Nos. in boxes signifies increase (in red) and decrease (in green) in domestic repo rates

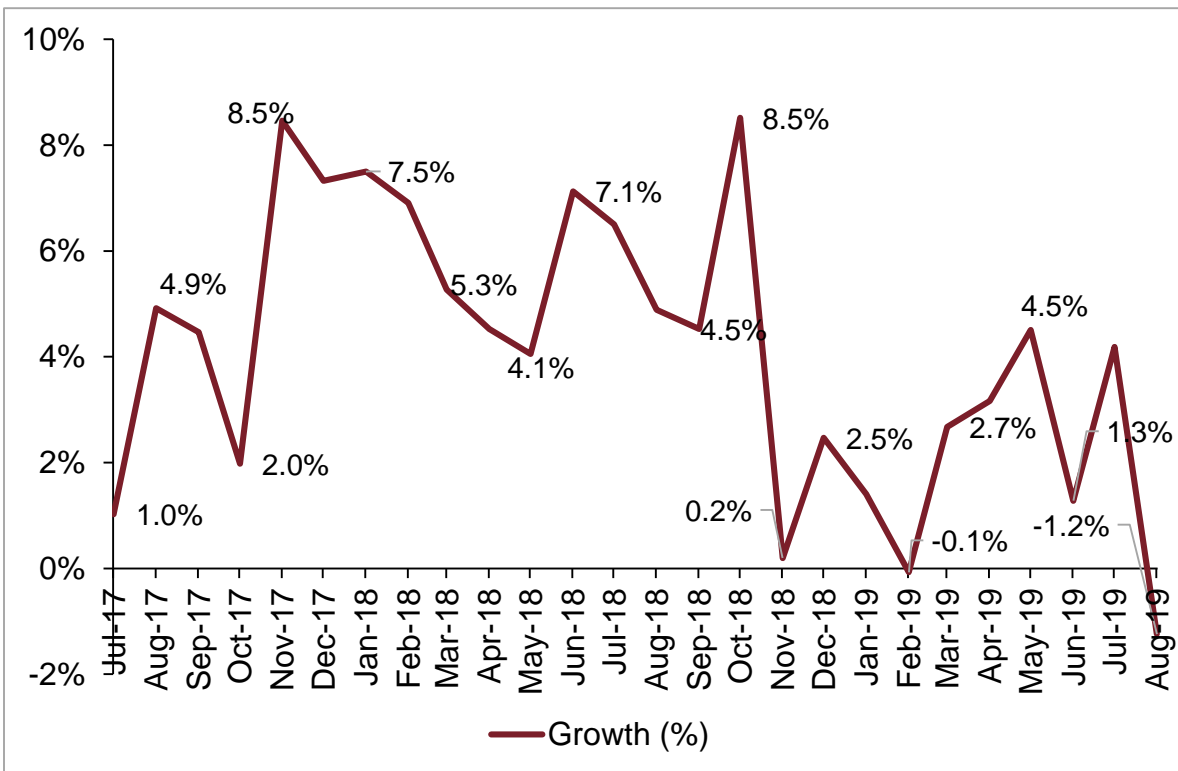
Source: RBI, CRISIL Research

- Falling yield signifies rise in underlying bond price. This denotes overall positive sentiments.
- However, the fall in G-sec yields has been made possible due to aggressive bond purchases by the central bank.



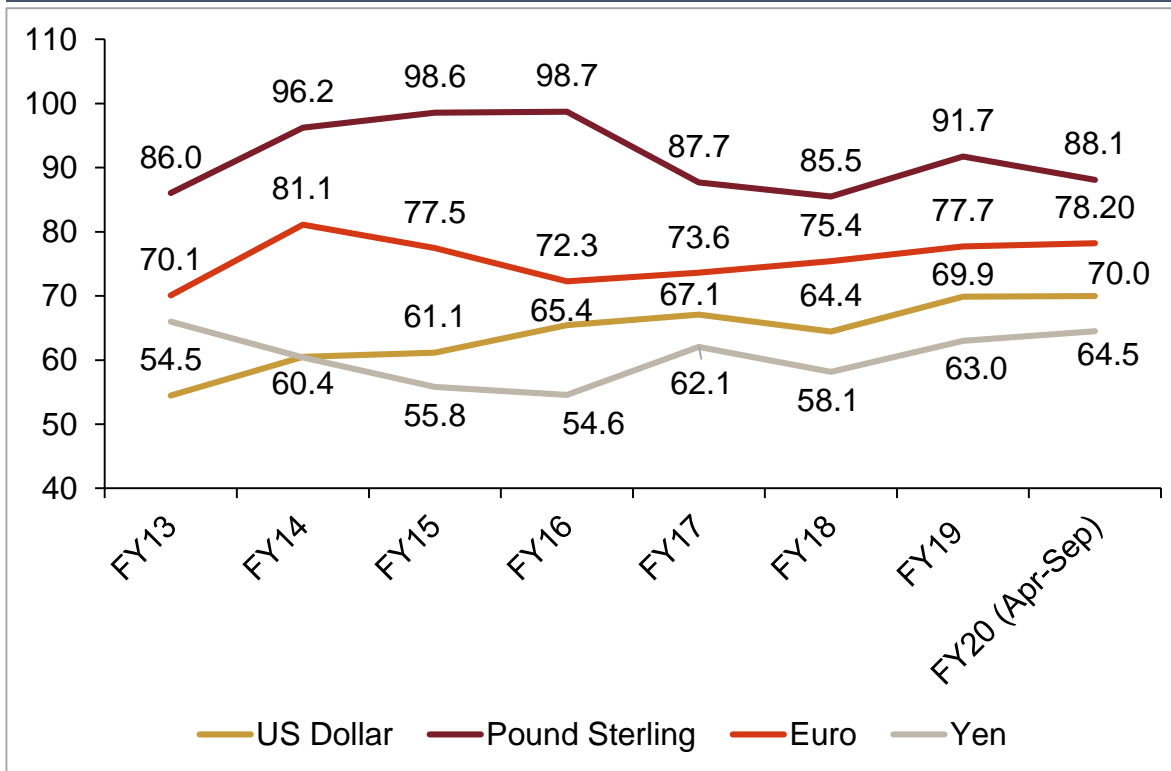
# IIP growth for the year from April to August stands at 2.4%, fifteen out of twenty three industry groups show degrowth

IIP



Source: MoSPI, CRISIL Research

Exchange Rates

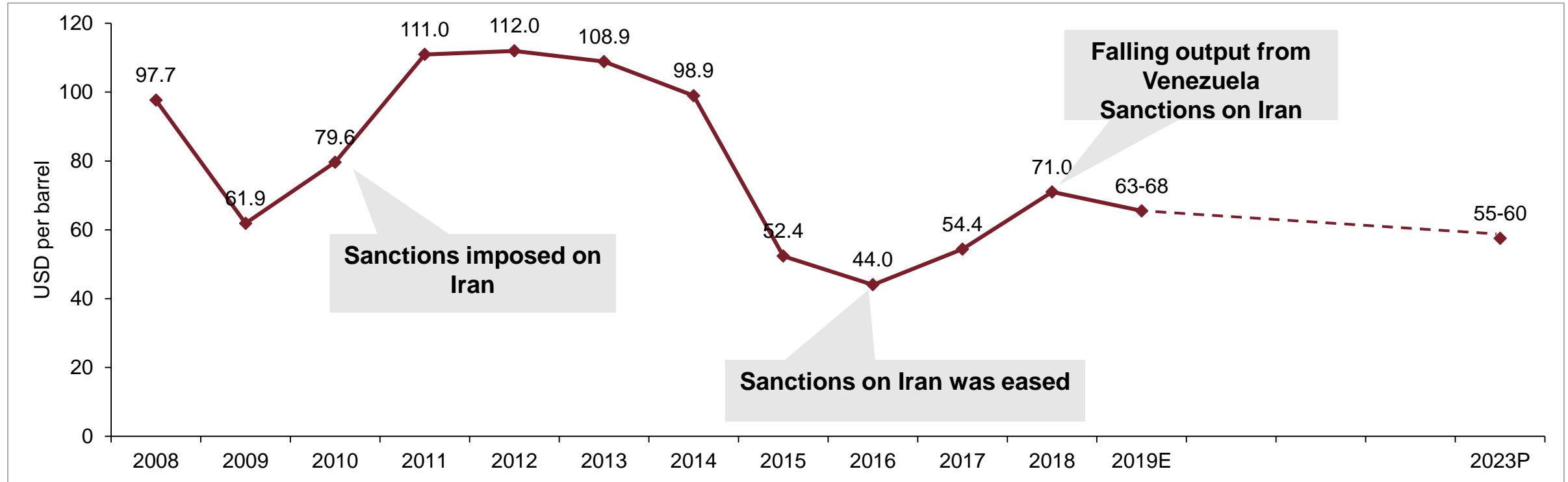


Source: RBI, FBIL, CRISIL Research

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

- In Q1 fiscal 2020, the industrial sector (as measured by gross value added (GVA) excluding construction) fell to 1.7% compared with an already low 3.4% in Q4 of fiscal 2019. So far, developments in Q2 also bring about some concerns over the performance of industry
- A triangulation of reasons - spurt in cost of compliance because of changes in regulation, tightening liquidity, and moderating income growth - is impacting sales volume in the automobiles sector

# Crude oil prices to move south over next five years as supply exceeds demand

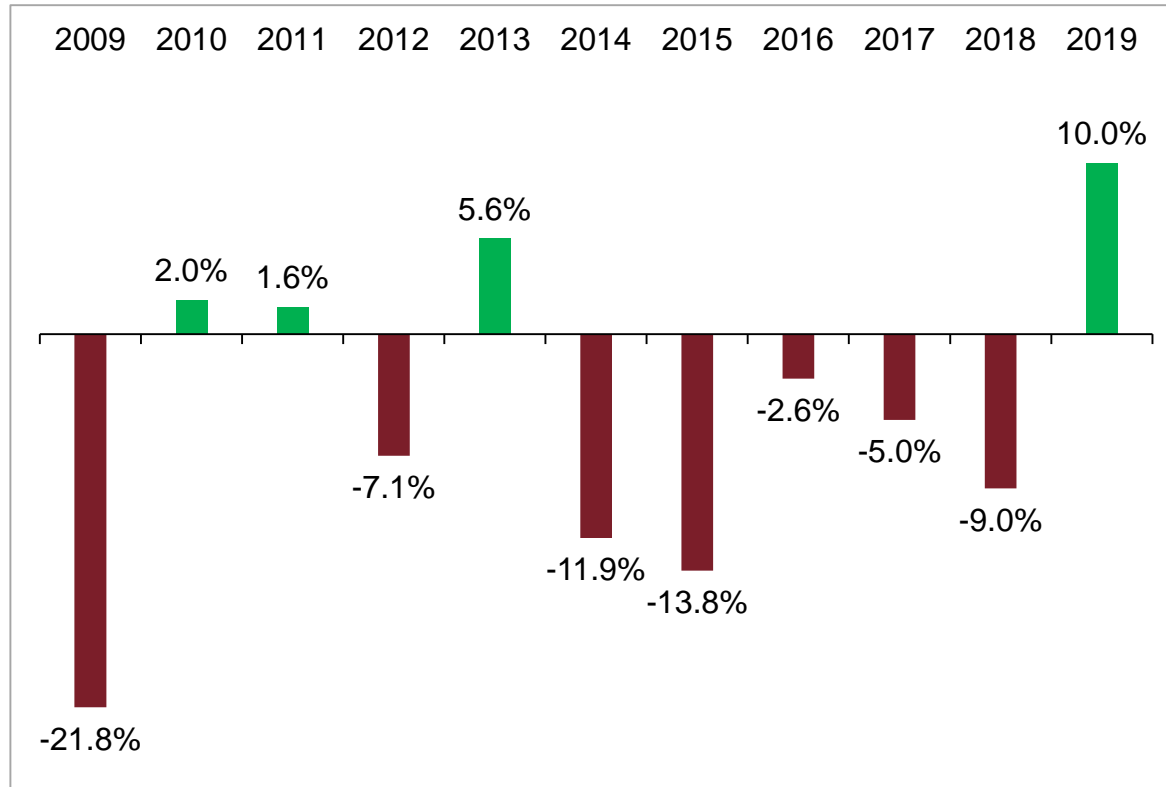


E=Estimate, P=Projected  
Source: CRISIL Research

- Prices are expected to remain firm and highly volatile due to supply disruptions, OPEC production cut, and slowing demand, and the US trade war
- Economic meltdown is expected to negatively impact oil demand, which in turn would put downward pressure on crude oil prices
- However, prices are expected to recover in the last quarter of 2019 as a result of International Maritime Organization Regulation, 2020, taking the year average to close to \$63-68 per barrel.

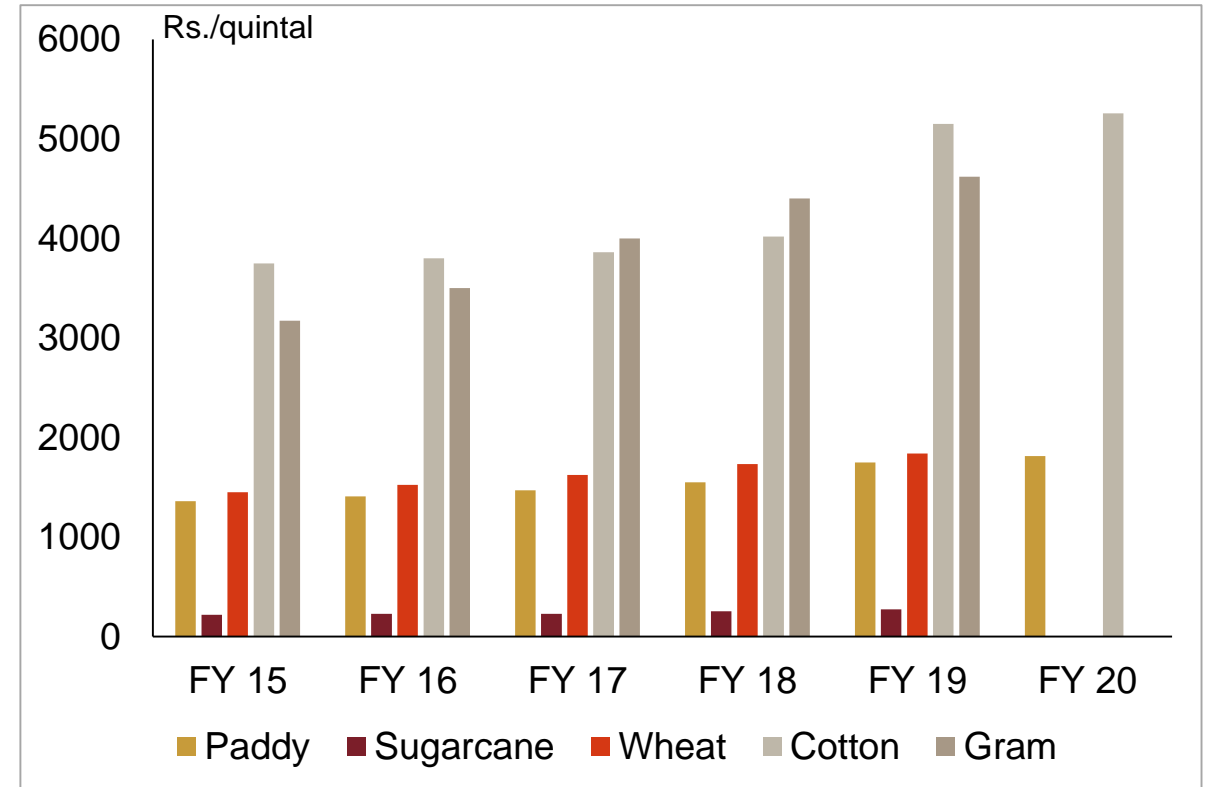
# Uneven rainfall spread led to negative sentiments in fiscal 2020

## 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

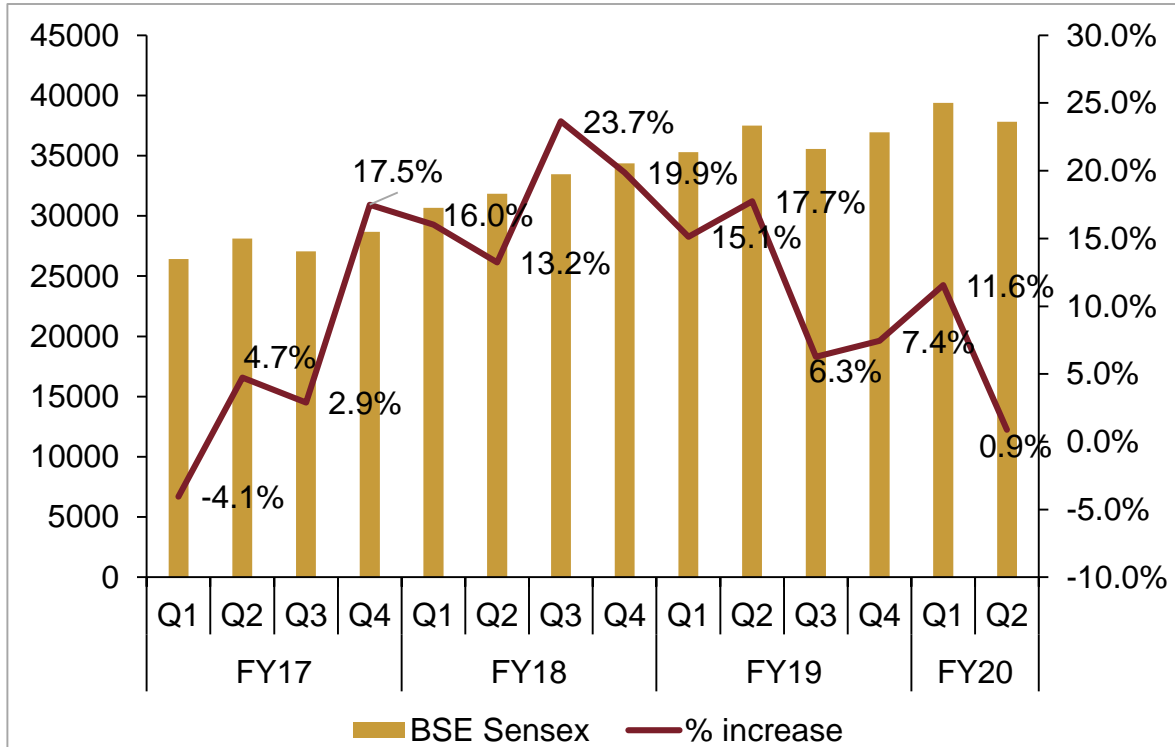


Source: Ministry of Agriculture & Farmers Welfare

- Late monsoon along with heavy showers in few pockets led to kharif crop losses

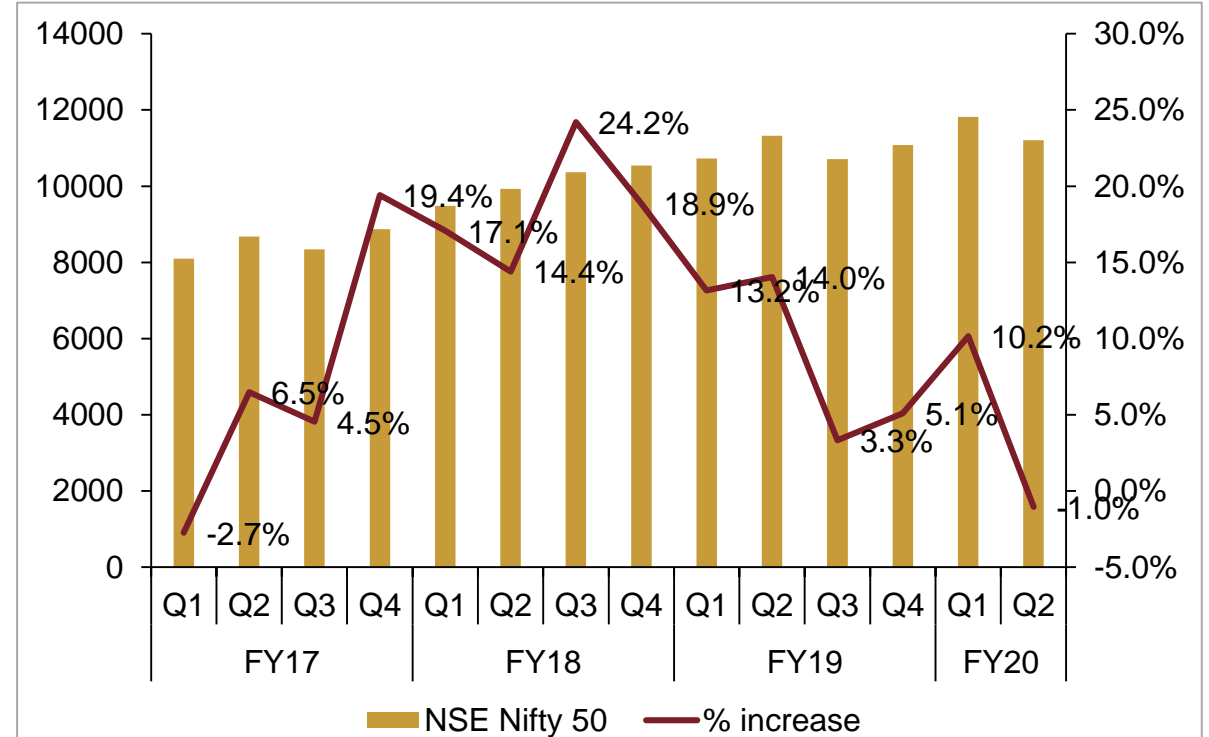
# S&P BSE Metal and auto indexes the top sectoral laggards

## BSE Sensex



Source: BSE

## NSE Nifty



Source: NSE

- Metal stocks witnessed heavy sell-off owing to the mounting US-China trade tensions and worries about cloudy domestic economic outlook
- A sell-off was seen in the public sector units, banking and power stocks
- Meanwhile, defensive buying was seen in information technology (IT) and consumer durables counters



# Forecast

# Projected versus actuals (Domestic)

		Q2 FY20	
		Projected	Actuals
Passenger vehicles	Cars	(7)-(9)%	(37)%
	UVs and vans	5-7%	(12)%
Two-wheelers	Motorcycles	(3)-(5)%	(22)%
	Scooters	(7)-(9)%	(17)%
	Mopeds	(4)-(6)%	(31)%
Commercial vehicles	LCV (<3.5T)	(6)-(8)%	(24)%
	LCV (3.5-7.5T)	(9)-(11)%	(32)%
	MHCV	(18)-(20)%	(56)%
	Buses	11-13%	(13)%
Tractors		(9)-(11)%	(10)%
Three-wheelers	Passenger	(13)-(15)%	(4)%
	Goods	4-6%	(14)%

Inventory correction in Q2 of FY20 was way higher than expected

# Forecasts – Domestic & Exports

		Domestic						Exports	
		Q3 FY 20	Q4 FY 20	Q1 FY 21	Q2 FY 21	FY 20	FY19-24 CAGR	FY 20	FY19-24 CAGR
Passenger vehicles	Cars	(21)-(23)%	(22)-(24)%	(3)-(5)%	23-25%	(25)-(27)%	1-3%	5-7%	4-6%
	UVs and vans	1-3%	(7)-(9)%	(1)-(3)%	12-14%	(6)-(8)%	5-7%	0-2%	6-8%
Two-wheelers	Motorcycles	(9)-(11)%	(25)-(27)%	(5)-(7)%	14-16%	(15)-(17)%	2-4%	6-9%	5-7%
	Scooters	5-7%	(18)-(20)%	0-(2)%	6-8%	(10)-(12)%	2-4%	(8)-(10)%	3-5%
	Mopeds	(28)-(30)%	(25)-(27)%	0-2%	12-14%	(25)-(27)%	(1)-1%	(25)-(30)%	1-3%
Commercial vehicles	LCV (<3.5T)	(18)-(20)%	(26)-(28)%	(4)-(6)%	1-3%	(19)-(21)%	1-3%	(14)-(20)%	(2)-(4)%
	LCV (3.5-7.5T)	(14)-(16)%	(28)-(30)%	(5)-(7)%	7-9%	(20)-(22)%	3-5%	(12)-(18)%	3-5%
	MHCV	(22)-(24)%	(34)-(36)%	(7)-(9)%	24-26%	(32)-(34)%	1-3%	(45)-(55)%	14-16%
	Buses	0-2%	(21)-(23)%	(9)-(11)%	2-4%	(9)-(11)%	3-5%	1-3%	5-6%
Tractors		(12)-(14)%	(1)-(3)%	4-6%	0-(2)%	(9)-(11)%	2-4%	(7)-(9)%	3-5%
Three-wheelers	Passenger	6-8%	(19)-(21)%	14-16%	1-3%	(5)-(7)%	3-5%	(10)-(15)%	2-4%
	Goods	(1)-1%	(21)-(23)%	6-8%	2-4%	(9)-(11)%	4-6%	9-11%	6-8%

**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



# Demand side variables have turned adverse as compared to previous fiscal

Parameters	Impact		
	FY 19	FY 20P	FY 21P
<b>Demand side variables</b>			
-- Real GDP growth	7.0%	5.8-6.3%	6.9-7.3%
-- CPI growth (%)	3.4%	3.5-3.7%	3.8-4.2%
-- Crop Value index	N	N	F*
-- Car Price growth	6%	3-5%	6-8%
<b>Cost of ownership</b>			
-- Petrol Prices**	NF	NF	NF
-- Diesel Prices**	NF	NF	NF
-- Car finance rates	N	N	N
<b>Supply side variables &amp; financing</b>			
-- Finance Penetration	77.5%	77-79%	78-80%
-- Model launches	NF	N	N
-- Regulations/taxes	N	N	N
-- Capacity expansion/constraints	N	N	N

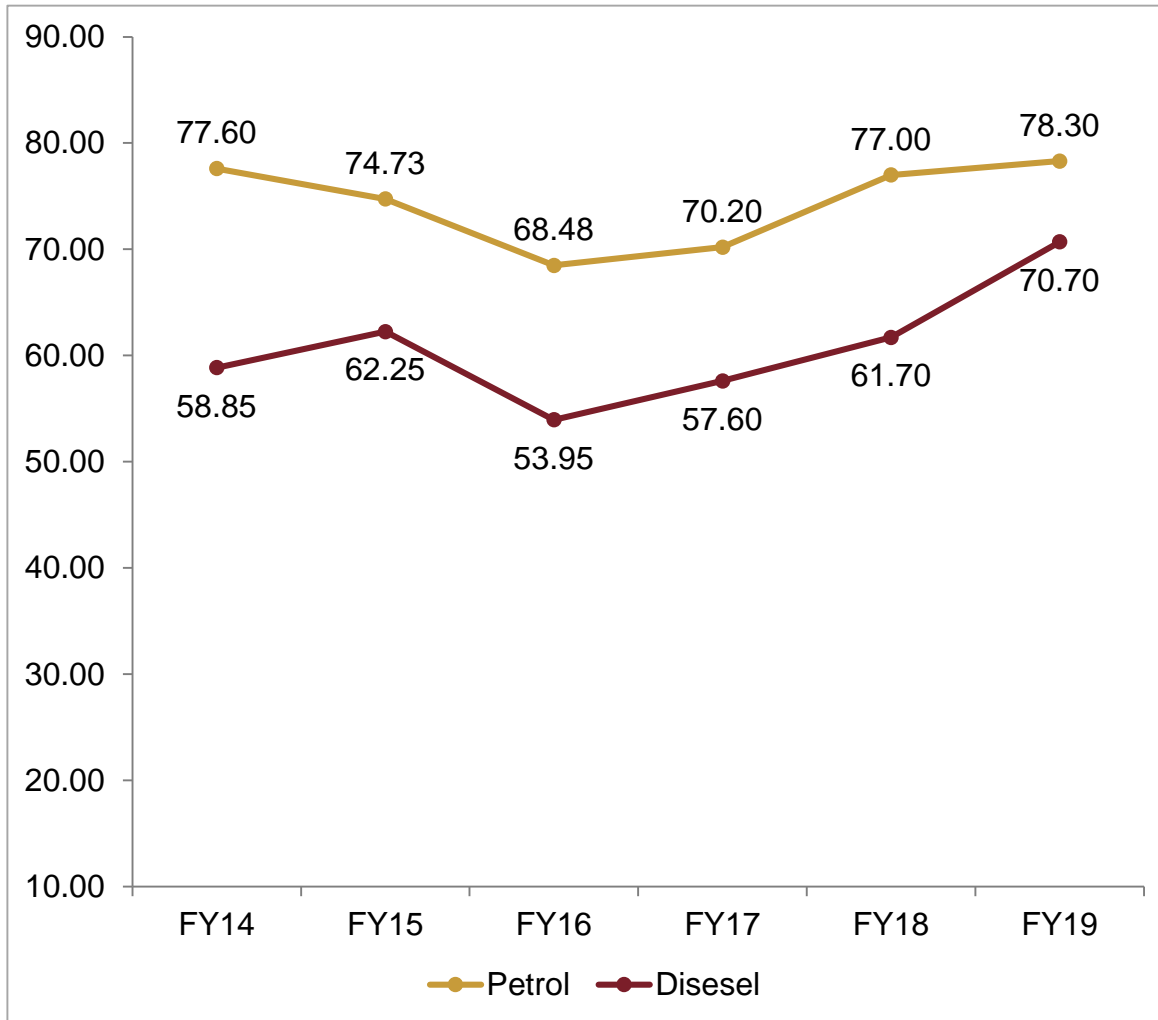
NOTE : CPI index base 2000-01 ; \*Assuming normal monsoon

F: Favorable, N:Neutral, NF: Non-Favorable

Source: CRISIL Research

# Higher fuel prices to have negative impact

## Fuel prices significantly higher than past 5 year average



## Major Upcoming Launches and their contribution






Month	Company	Model	Segment	Impact
October	Toyota	Vellfire	UV	Low
	Audi	A6	Large Cars	Low
November	Volkswagen	T-Roc	UV	Low
	Honda	HR-V	UV	Low
	Renault	Kwid EV	Small Cars	Low
December	Honda	Brio 2019	Small Cars	Low
	Maruti	Vitara Brezza Facelift	UV	Medium
	MG	RX5	UV	Medium
	Mahindra	eKUV100	UV	Low

Source: Industry, CRISIL Research

- Korean Kia Motors (part of Hyundai Group), Chinese MG Motors (part of SAIC) and the French PSA group are the new entrants in FY20. Kia and MG Motors launched their models in August 2019.
- Hyundai Creta 2020, Mahindra XUV500 2020 & Kia Soul to be some of the upcoming UV launches in FY21.

# Higher increase in TCO in fiscal 2021 on account of BS-VI implementation

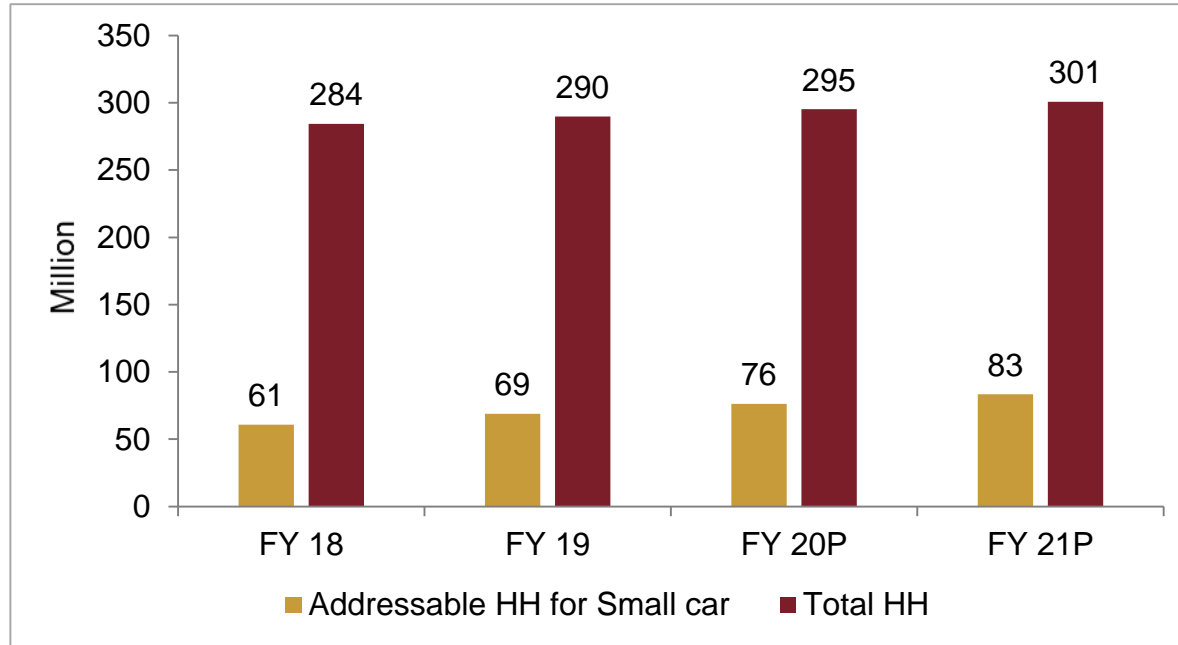
4-6% increase in cost of ownership in fiscal 2021 for small car owing to BS-VI

Total Cost in '000		(1)%	0%	2%	2%	5%	
		239	236	236	241	247	259
Maintenance cost 		3	3	3	4	4	4
Insurance cost 		13	13	13	17	18	19
Fuel cost 		36	37	41	44	42	39
Loan repayment 		91	89	86	88	92	99
Down Payment 		95	94	93	87	91	98
		FY 16	FY 17	FY 18	FY 19	FY 20P	FY 21P

Note: Above numbers represent annual expenditure (cost of ownership) for an entry level small petrol car (Maruti Alto 800). Annual Running : 10,000 km. Mileage : 16 km per litre  
Source: CRISIL Research

# Better income prospects going forward along with paced road development expected to aid demand

## Expansion in Addressable market at faster pace

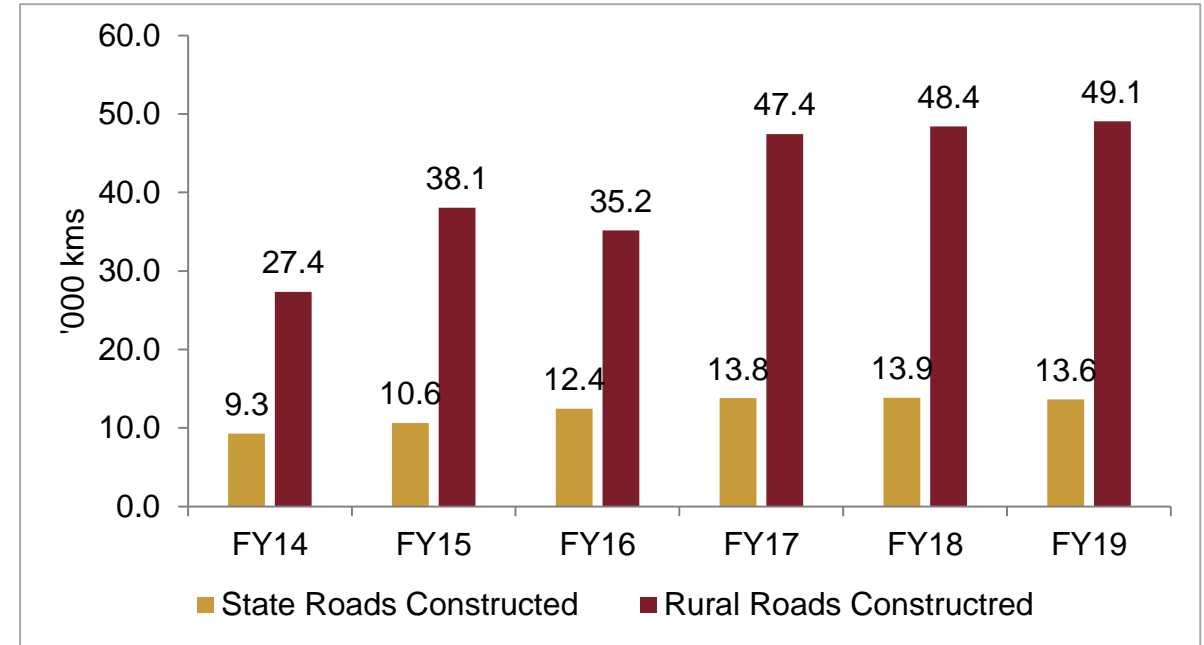


Source: CRISIL Research

Note – (1) In order to calculate addressable households, we have considered ability to purchase entry-level petrol car.

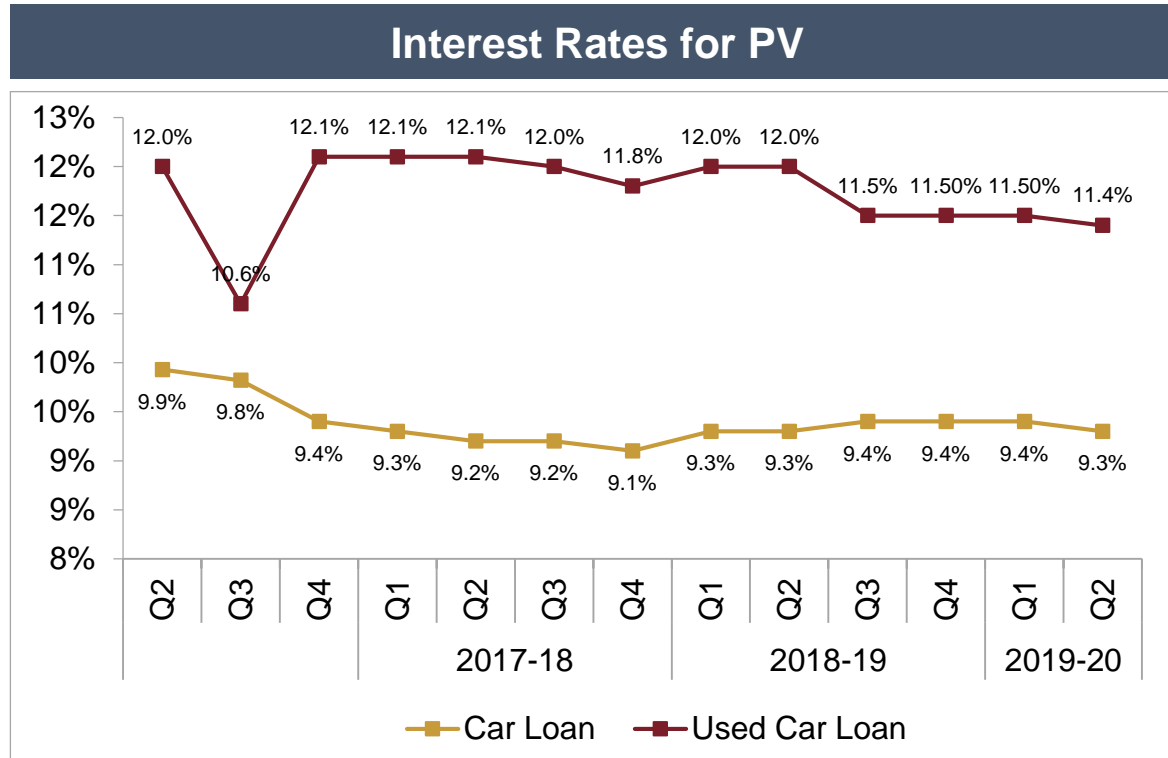
(2) The addressable market is estimated on the basis of cost of owning a vehicle at 30% of household income.

## Construction of rural roads to stay strong over short-term

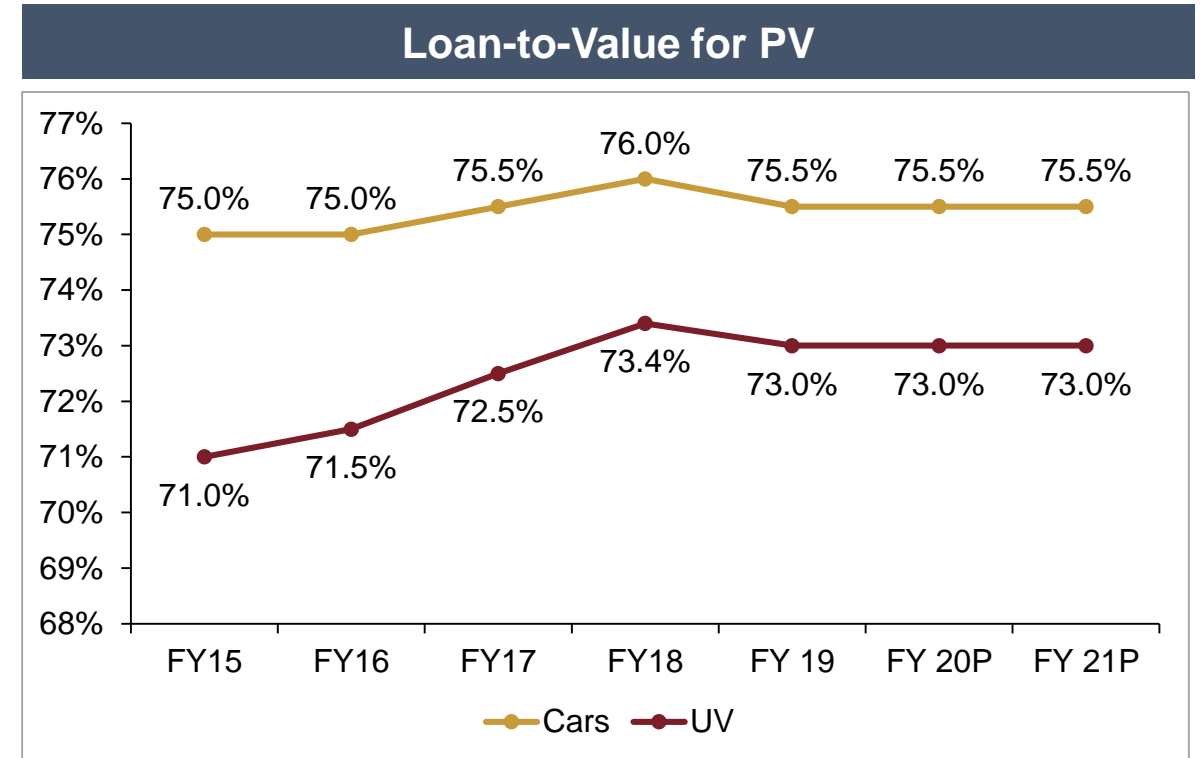


Source: OMMS (Online Management, Monitoring and Accounting System), CRISIL Research

# Interest rates decrease by 10-12 bps in Q2, Loan-to-Value to remain stable in fiscal 2020

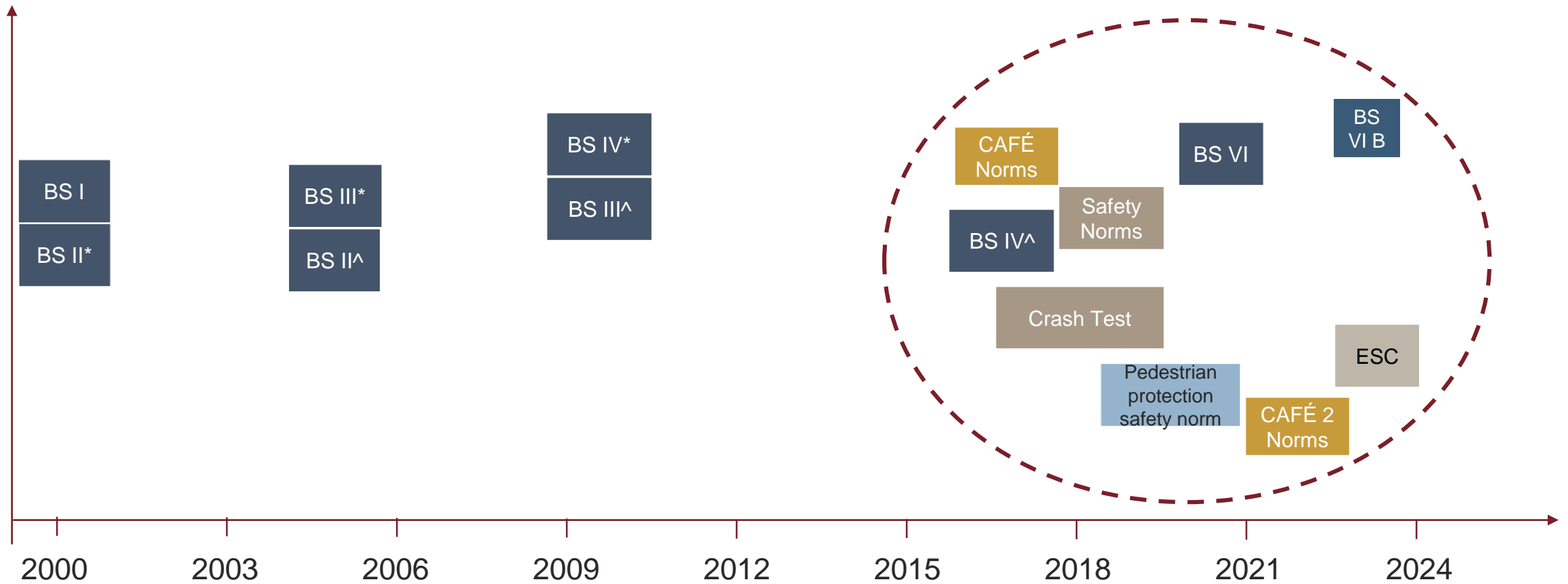


Source: CRISIL Research



Source: CRISIL Research

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



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

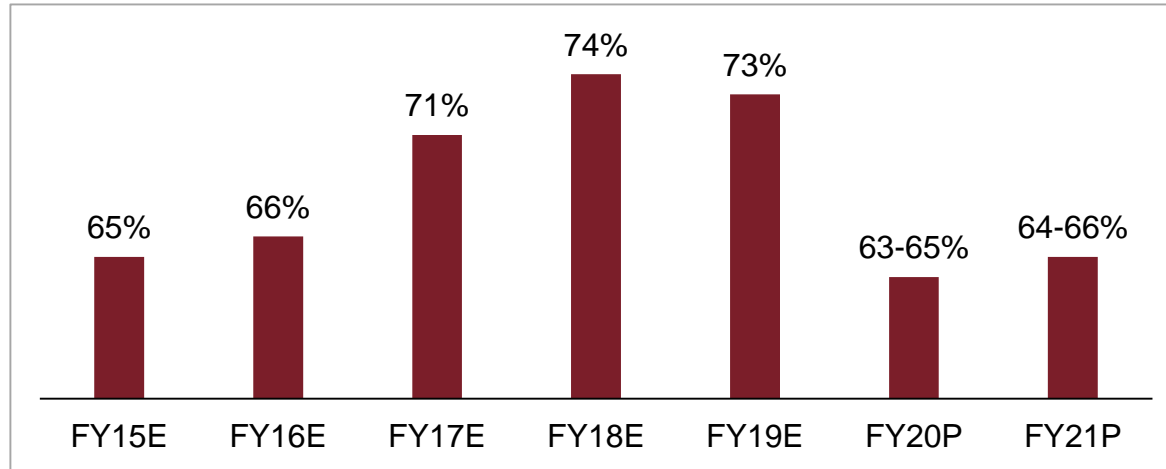
^ Nationwide implementation

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

Source: CRISIL Research

# Subdued demand and production cuts to impact utilisation levels in fiscal 2020

## Utilization level has fallen due to lower domestic sales



Source: CRISIL Research Estimated

## Planned Capacity Additions

Player	Location	Capacity lacs units pa	Investment	Commissioning
Kia Motors	Anantpur AP	3*	Rs 70 B	In progress
MG**	Halol, Gujarat	8	Rs 20 B	FY 20
Maruti Suzuki	Mehsana, Gujarat	2.5	Rs 100 B	FY20
PSA	Tiruvallur, TN	1	Rs 7 billion	FY20

\* - Kia Motors' capacity will increase by 0.1 mn each year, \*\* - MG has taken over GM's Halol plant

## Player-wise capacity utilisation

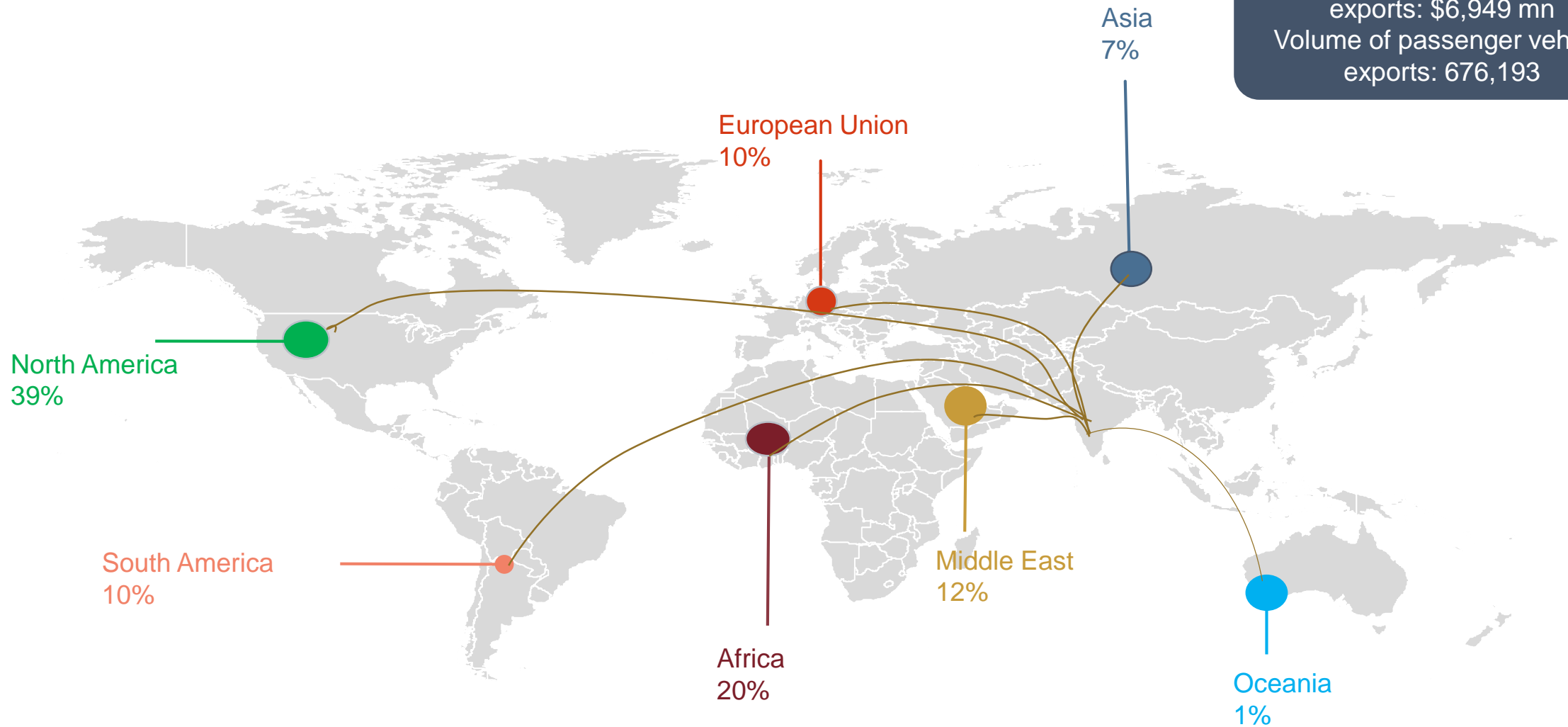
Player	Effective Capacity estimate (in '000) (as on 31st Mar 2019)	Production (FY19) (in '000)	Capacity utilization in FY19E
Maruti	1800	1870	101%
Hyundai	763	736	93%
Tata Motors	564	227	40%
Ford India	440	260	58%
Renault-Nissan	480	191	20%
General Motors	165	77	46%
Toyota	310	169	52%
Honda	300	178	60%
Volkswagen	179	95	51%
Other Players	551	300	78%
<b>Industry Total</b>	<b>5552</b>	<b>4103</b>	<b>73%</b>

Note : Maruti Suzuki plants are working in double shifts resulting in more than 100% utilization rates;

Source: SIAM, CRISIL Research

# Passenger Vehicle Exports

Value of passenger vehicle exports: \$6,949 mn  
Volume of passenger vehicle exports: 676,193

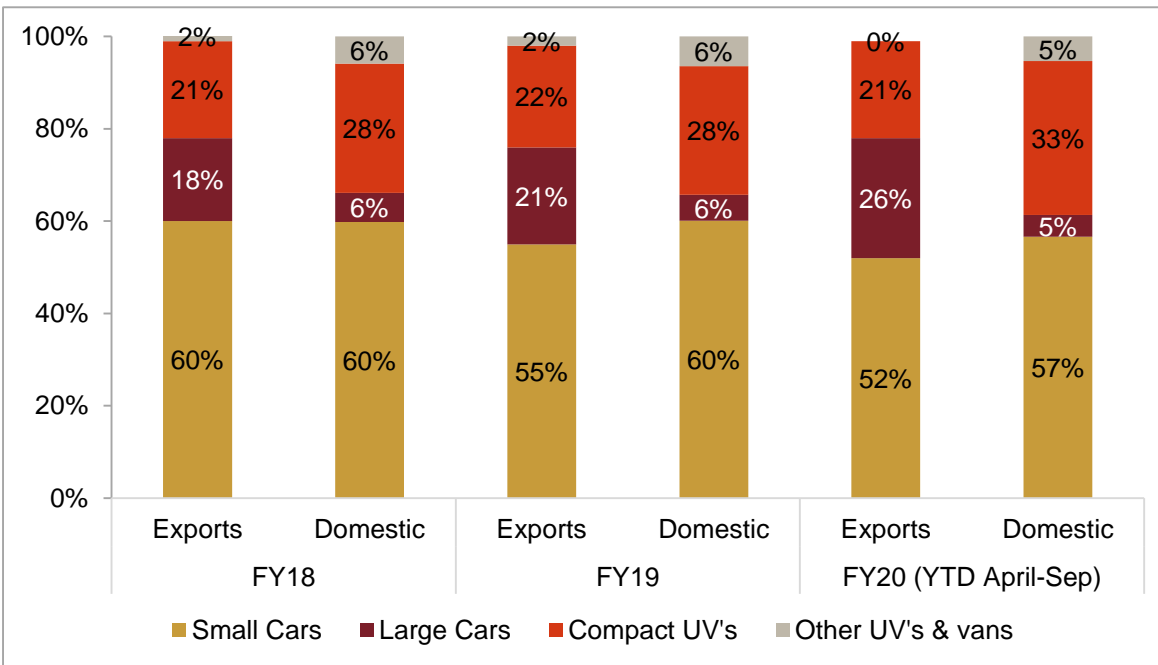


Note: : Represents FY19 exports  
Source: DGFT, CRISIL Research



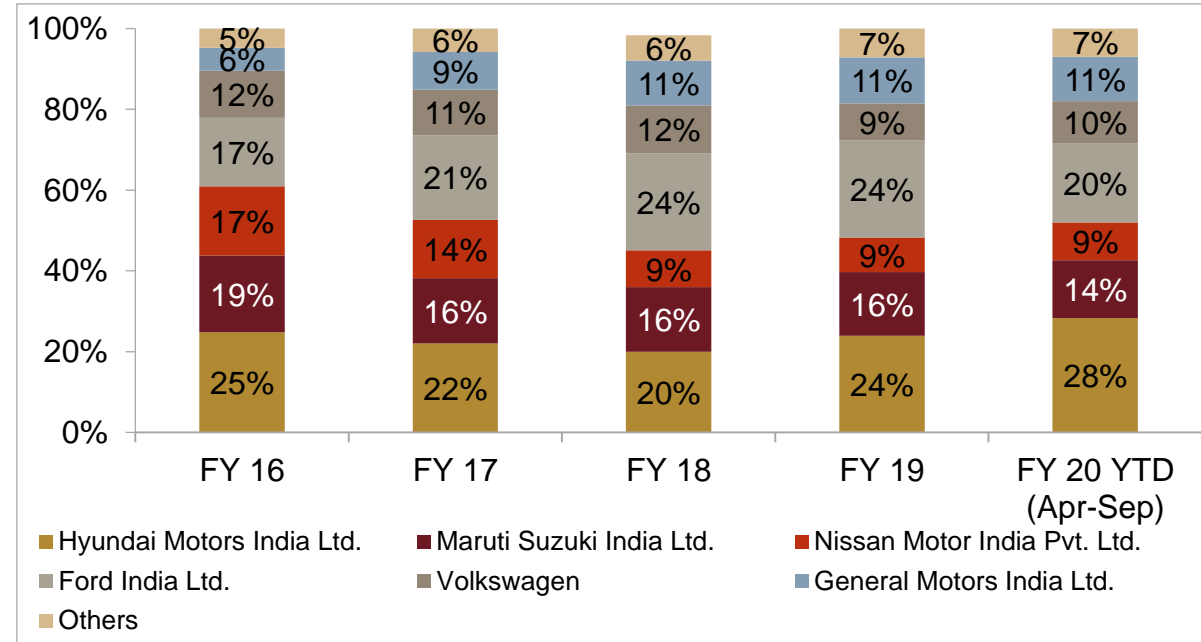
# Amid domestic slowdown, OEMs are increasingly focus on exports

## Share Of Compact UV's in exports on the rise



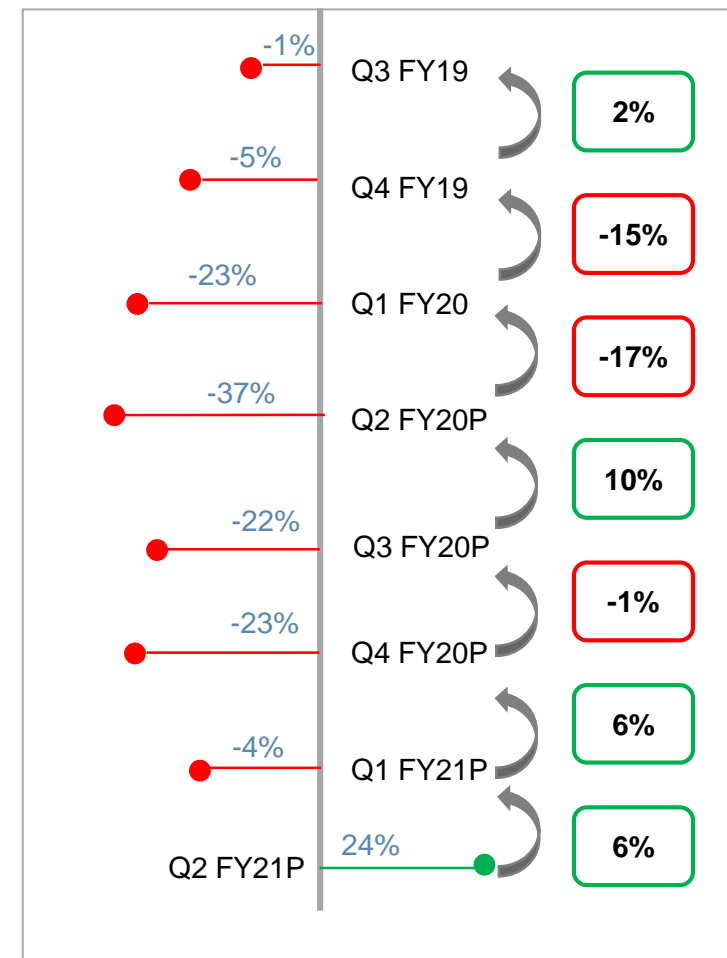
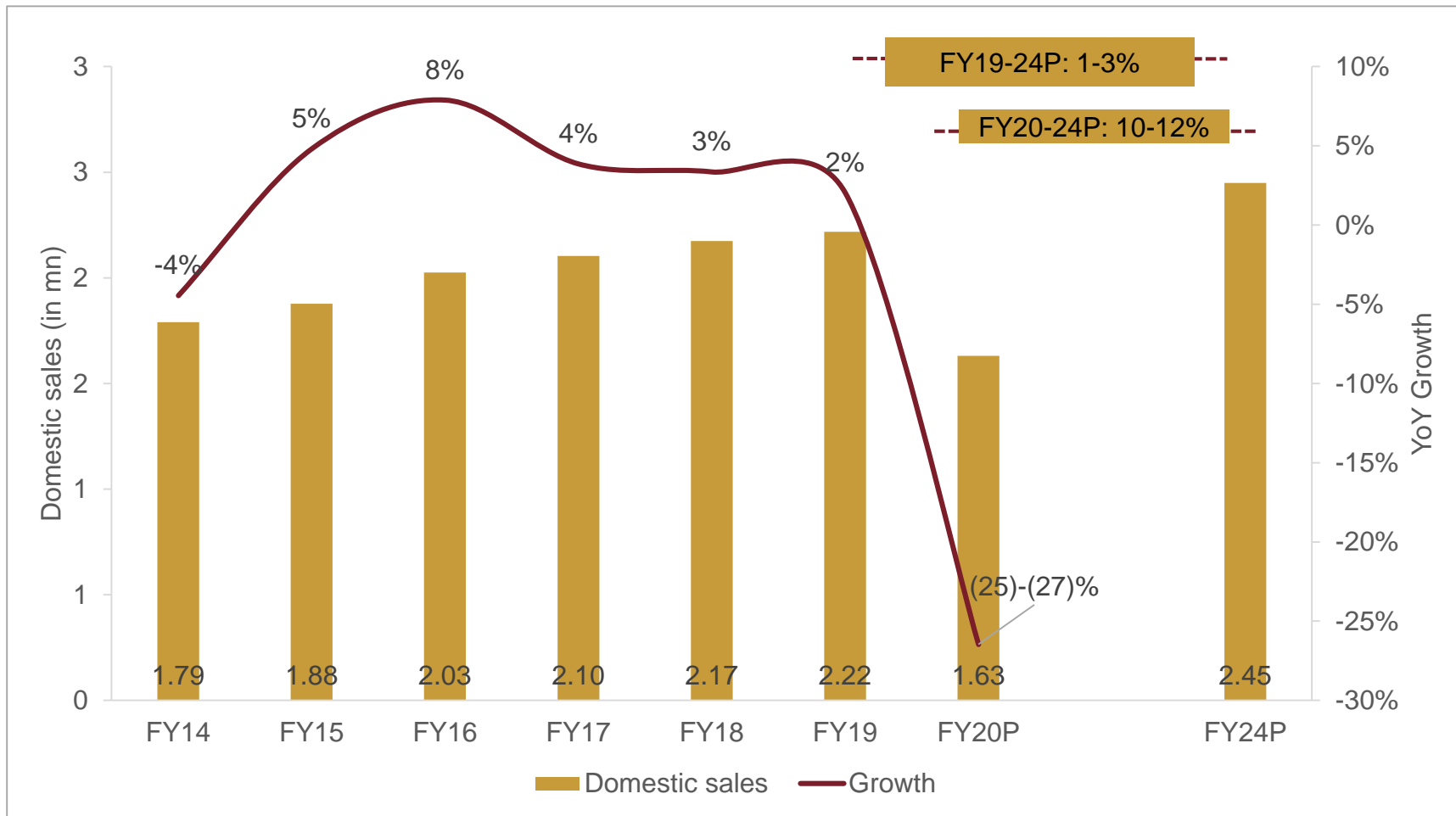
Source: SIAM, CRISIL Research

## Hyundai market leader in fiscal 19, Volkswagen close second



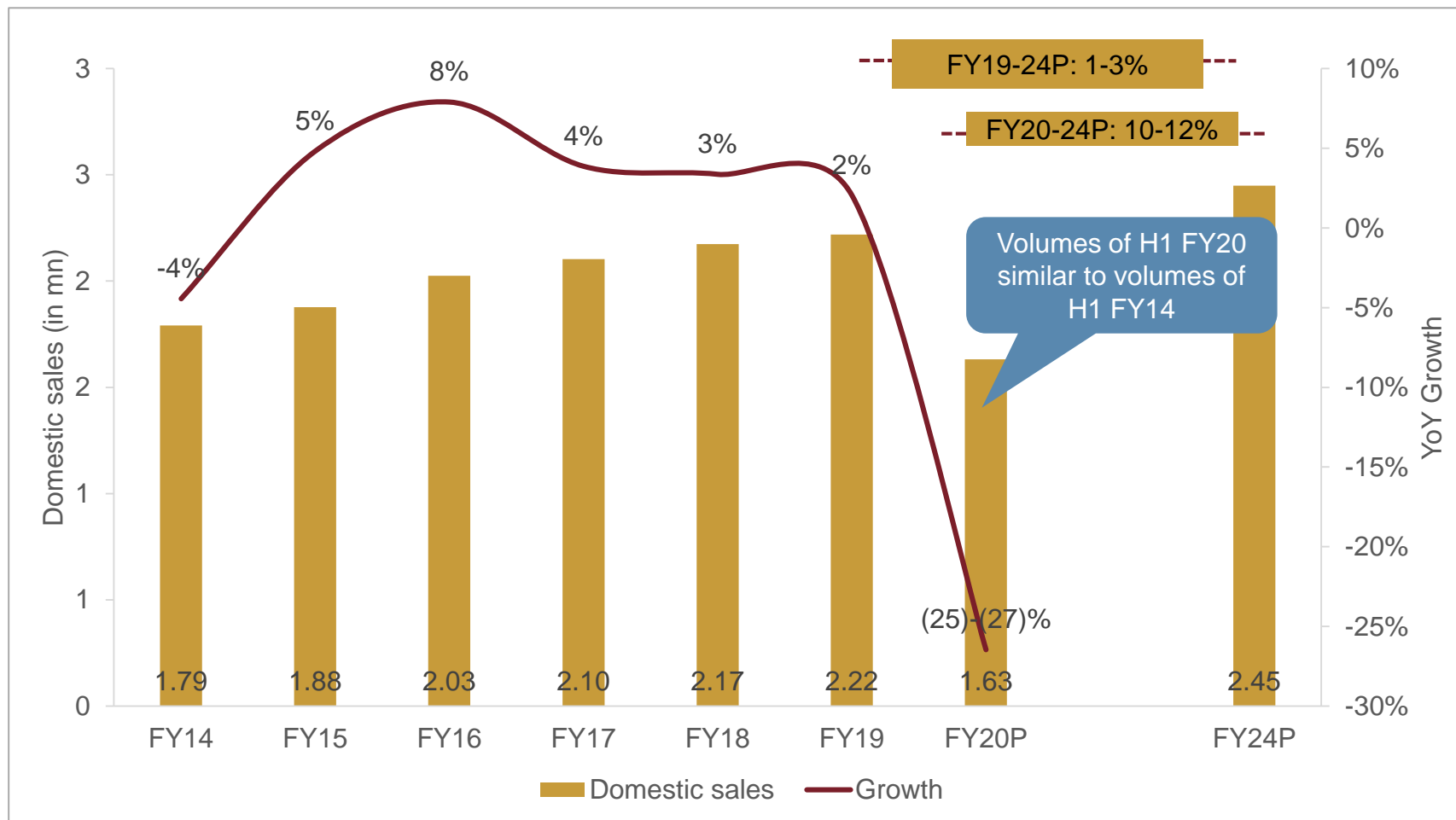
Source: SIAM, CRISIL Research

# Domestic sales - Cars



- Car segment is expected to witness a de-growth of 25-27% in fiscal 2020 owing to slowdown in private consumption and lower consumer sentiments.
- Passenger car industry is expected to shrink due to correction of higher current inventory level and de-stocking of BS IV stocks before Apr 1<sup>st</sup>, 2020.

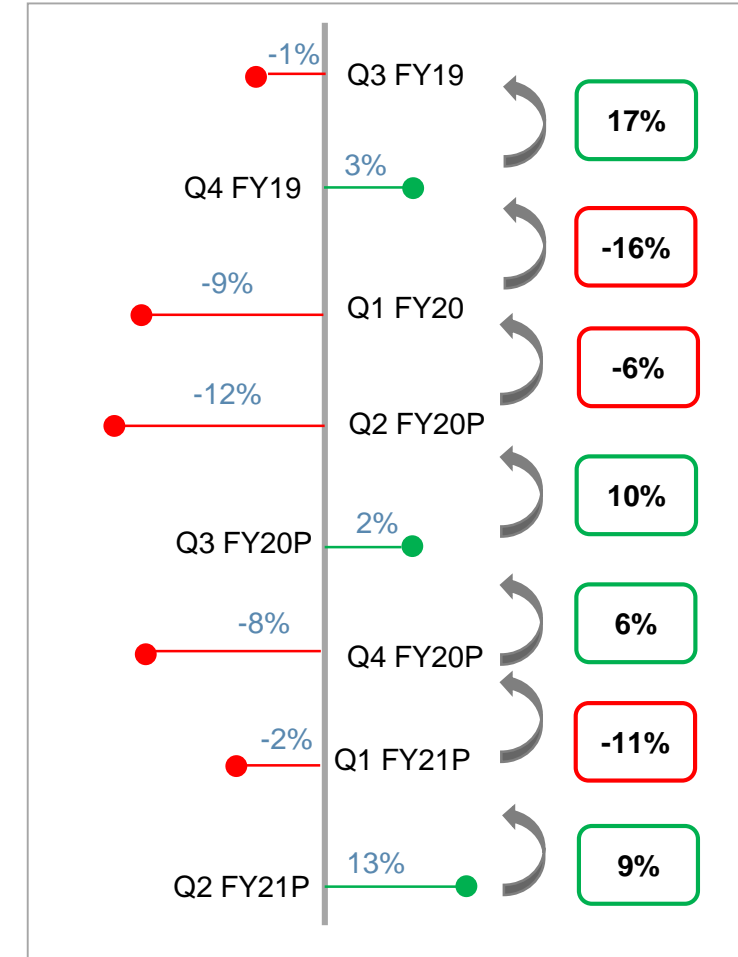
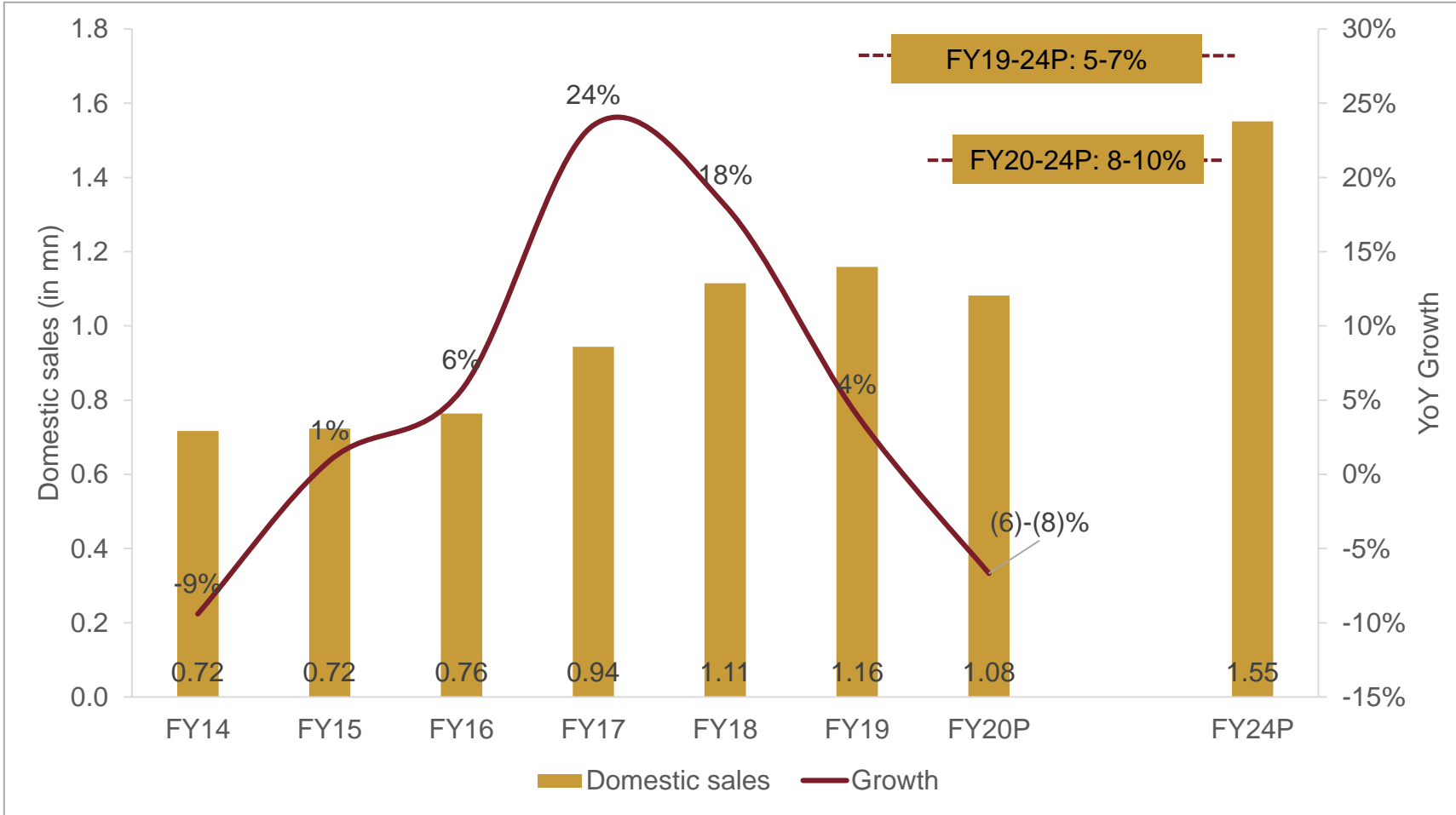
# Top three players Domestic sales - Cars



Top 3 players YTD (FY 20/FY 19):  
(29)%

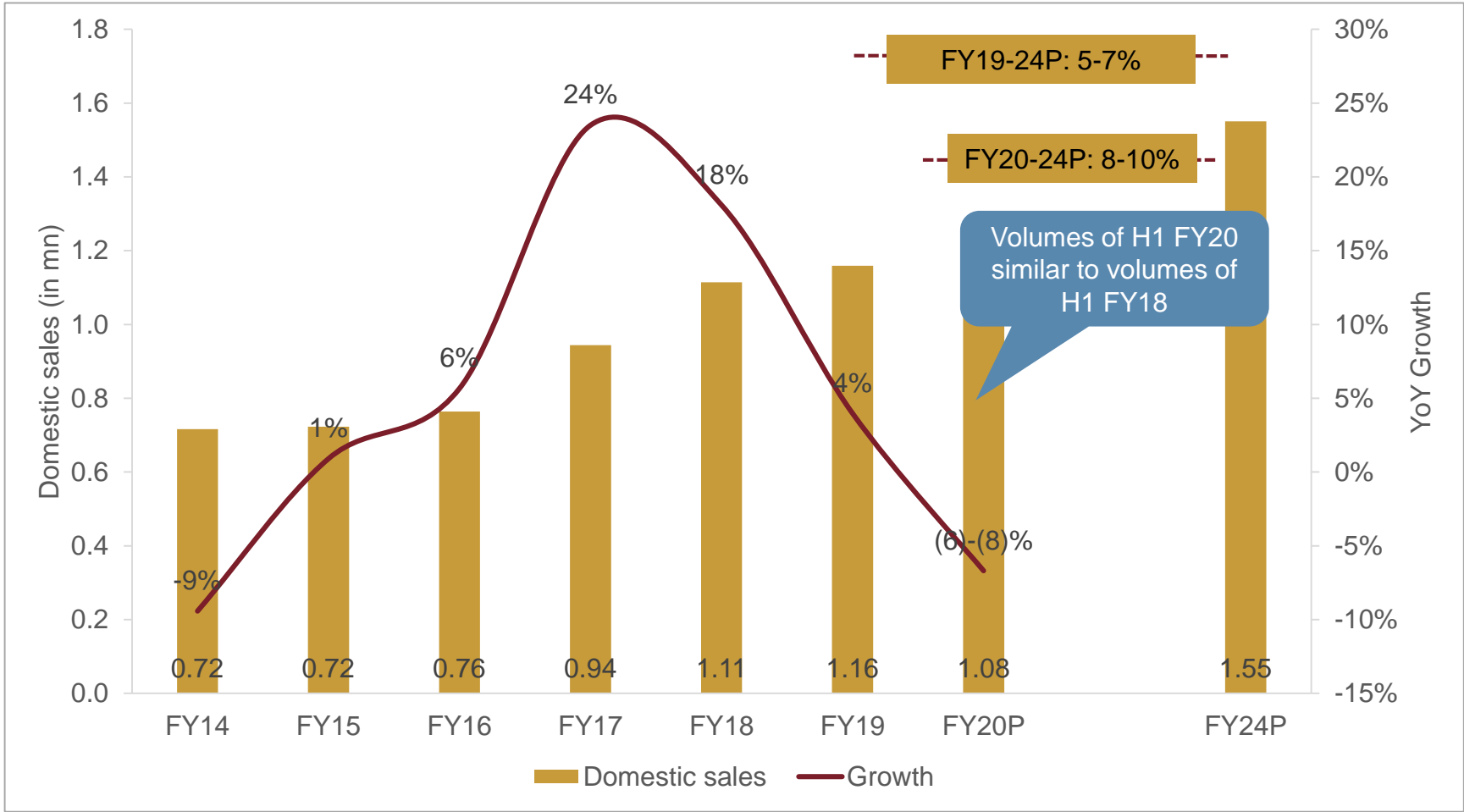
Company	H1 FY14	H1 FY20
Maruti	413,537	488,232
Hyundai	179,793	154,046
Honda	58,977	50,727
<b>Industry</b>	<b>855,757</b>	<b>817,647</b>

# Domestic sales – UVs and vans



• We expect Uvs and vans market to fall by 6-8%, lower than the expected decline in car segment. Since, vans being used for commercial segment is expected to see a relatively higher pre-buying compared to car segment.

# Top three players Domestic sales – UVs and vans



Top 3 players YTD (FY 20/FY 19): (10)%

Company	H1 FY18	H1 FY20
Maruti	203,367	175,290
Mahindra	121,198	103,717
Hyundai	54,974	90,388
<b>Industry</b>	<b>536,929</b>	<b>515,604</b>



# Two-Wheelers

# Near term drivers not in favour of a robust growth in FY20

Parameters	Impact		
	FY 19	FY 20P	FY 21P
<b>Demand side variables</b>			
-- Real GDP growth	6.8%	5.8-6.3%	6.9-7.3%
-- Rural Roadways Investments (INR bn)	179	188	F
-- Crop Value index	N	N	F*
<b>Cost of ownership</b>			
-- Petrol Prices	Rs 78.3/ liter	NF	NF
-- Interest rates	NF	N	N
<b>Supply side variables &amp; financing</b>			
-- Finance Penetration	32.8%	33.8%	F
-- Regulations/Taxes	N	N	NF

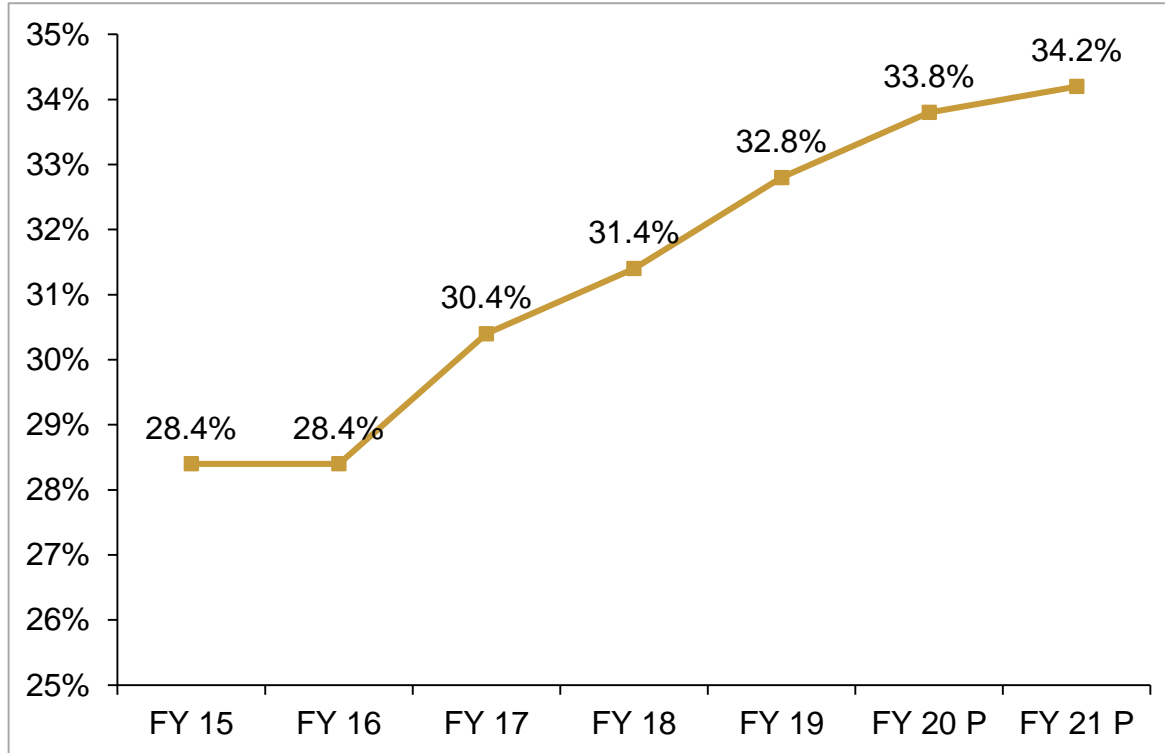
\*Fiscal 2021 crop value index assuming normal monsoon

NOTE : F: Favorable, N:Neutral, NF: Non-Favorable

Source: CRISIL Research

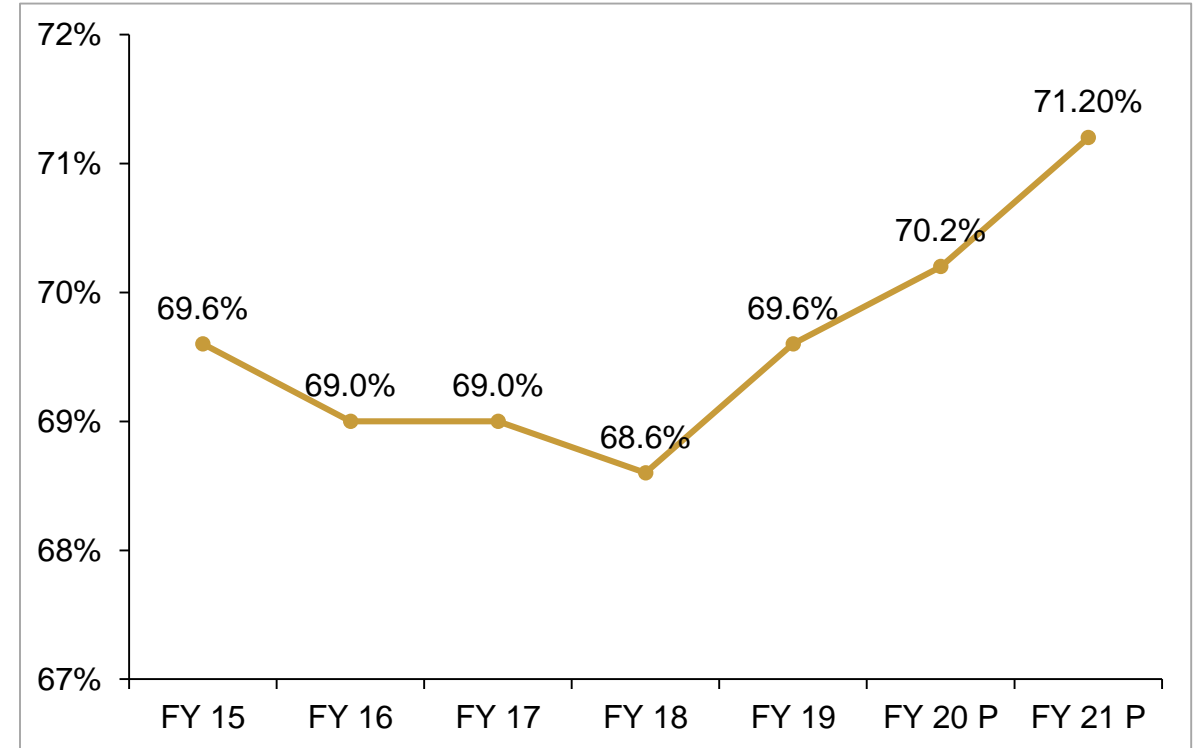
# LTV to improve amidst heavy competition for market share; NBFCs to drive financing penetration

## Auto Finance Penetration



Source: Experian Credit Bureau, Company Reports, CRISIL Research

## Loan-to-Value

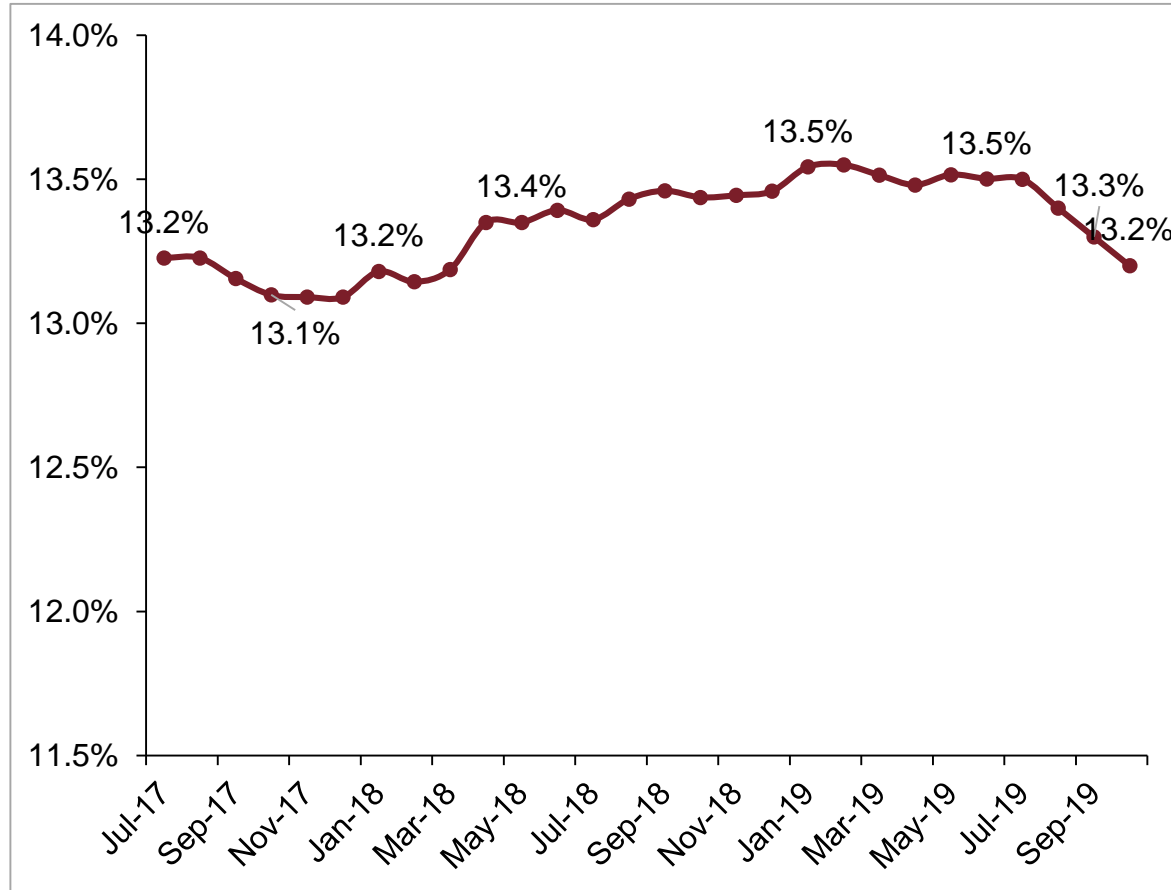


Source: CRISIL Research



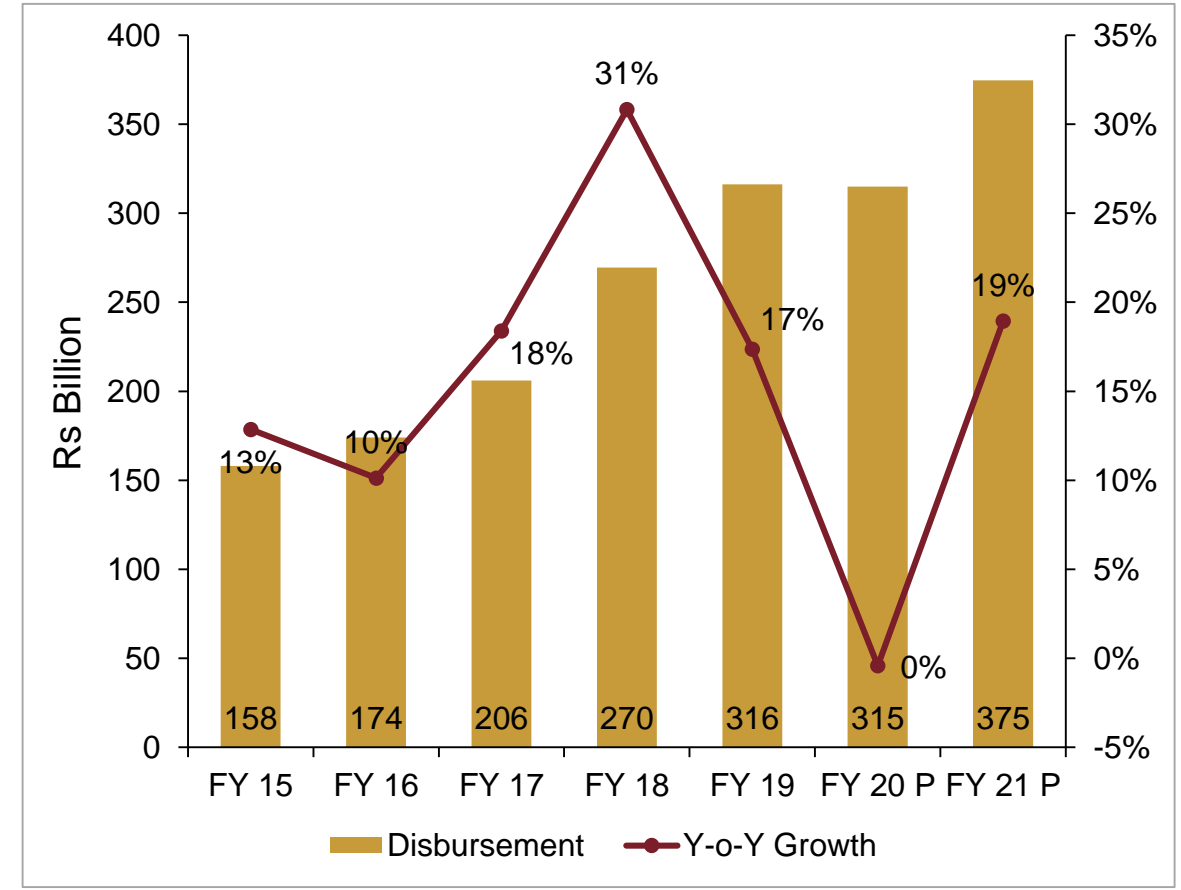
# Rising insurance costs, fuel prices, along with liquidity crunch affected financing growth in fiscal 2019

## Interest Rates



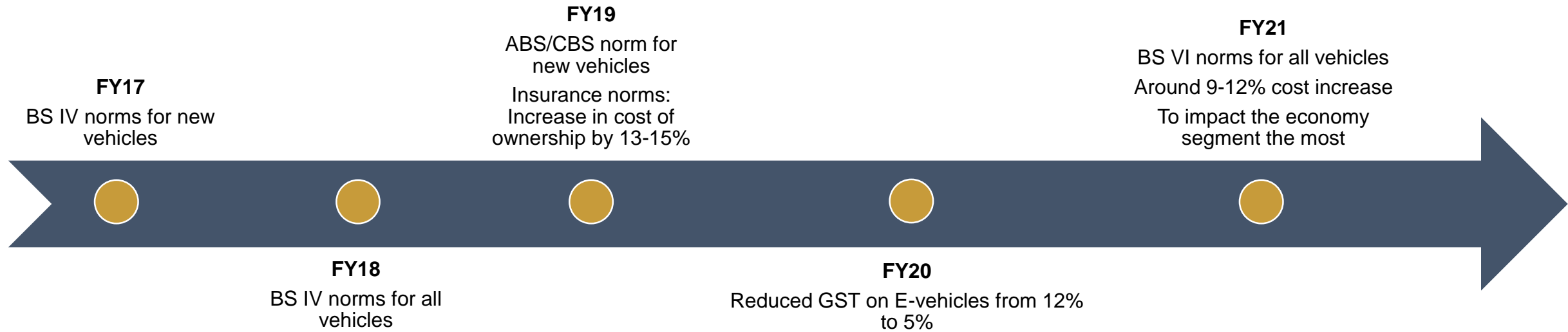
Source: CRISIL Research

## Two-Wheeler Disbursements



Source: Company Reports, CRISIL Research

# Regulations timeline and price impact

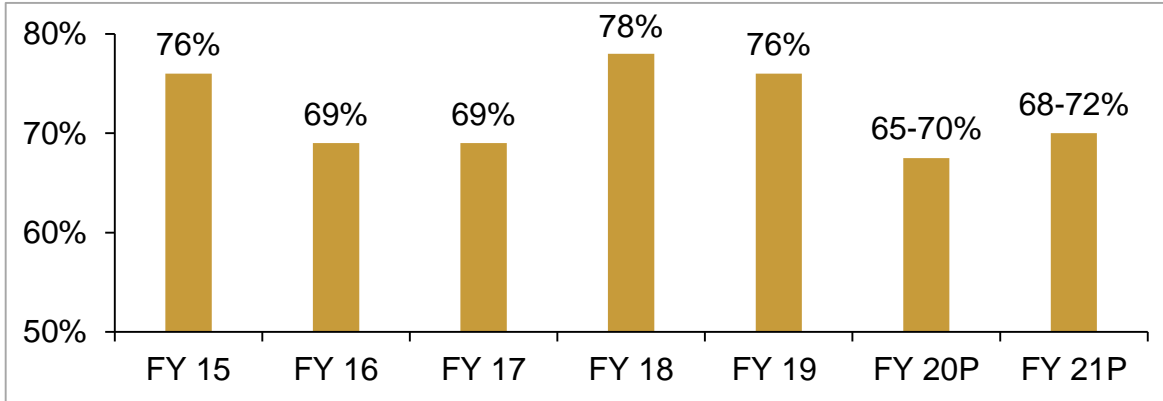


Segments	Price increase due to BS VI (as a % of on-road price)	Pre-buying expected
<b>Motorcycle</b>		
Economy	11-12%	Medium
Executive	9-10%	Low
Premium	9-10%	Low
<b>Scooter</b>	7-9%	Medium
<b>Mopeds</b>	7-9%	Low

Source: CRISIL Research

# Utilisation rates to decline in next two fiscals in comparison to FY19

## Utilization rates decreased in fiscal 19



Source: CRISIL Research

## Expected capacity additions

Player	Location	Capacity Mns units	Investment	Commissioning
Hero Motocorp	Chittor	0.5	Rs 6.5 billion	Oct 19
Royal Enfield	Vallam Vadagal	0.125	Rs 8 billion	H2 FY 20
Royal Enfield	Vallam Vadagal	0.3	Rs 7 billion*	-
TVS	Mysore	0.6	Rs. 3.5 billion	2019-20
HMSI	Gujarat	0.6	Rs. 16 billion	2020-21

\* Phase-II hence overall cost is low as compare to Phase I

Source: Industry, CRISIL Research

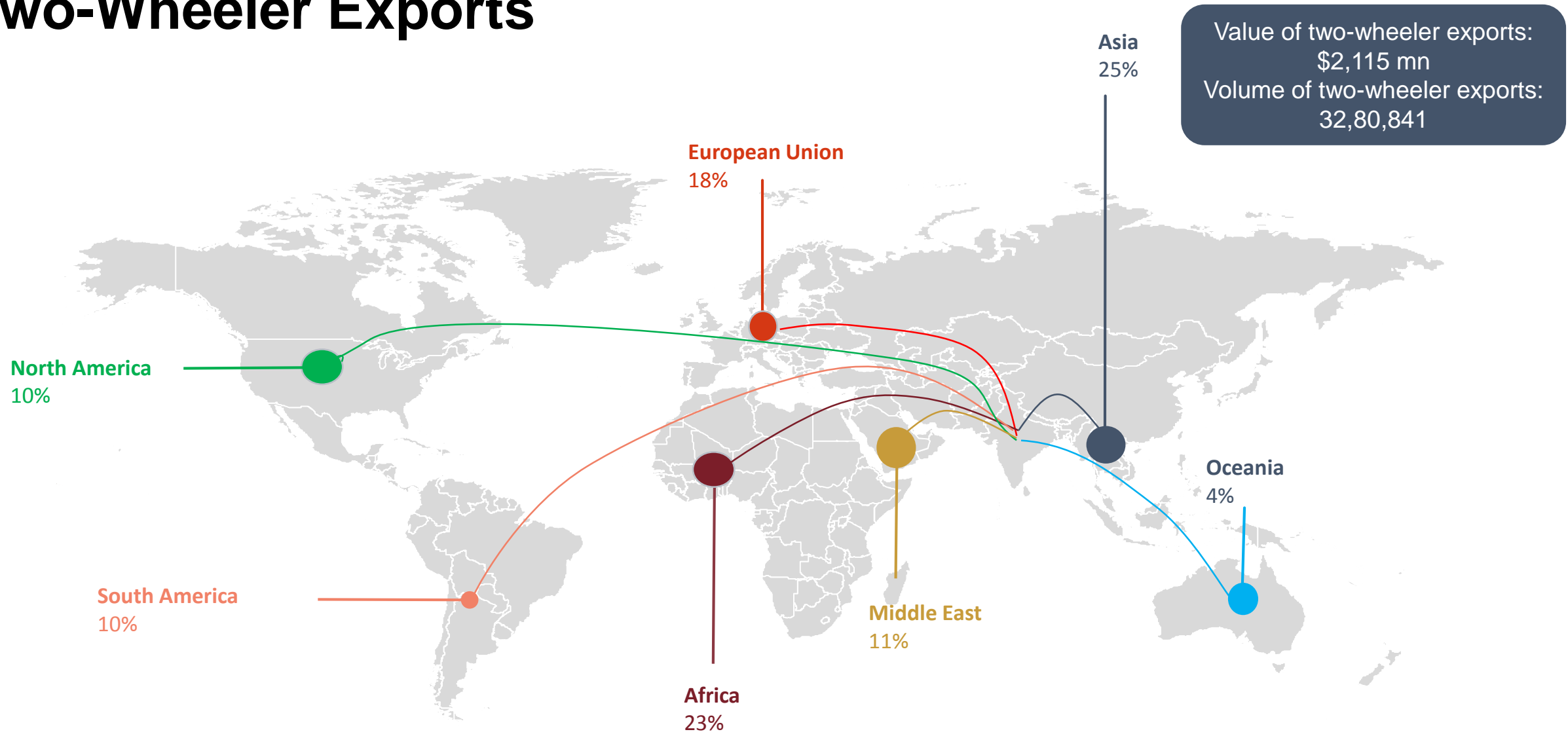
## Improved demand to help boost utilization rates

Player	Effective Capacity estimate in mn (as on 31st Mar 2019)	Production (2018-19) (in mn)	Capacity utilization (%)
Hero Motocorp	11.0	7.83	71%
Bajaj Auto	5.4	4.23	78%
HMSI	6.4	5.9	92%
TVS Motor Company	3.9	3.7	95%
India Yamaha Motors	1.6	1.07	67%
Suzuki Motors	1.1	0.7	64%
Royal Enfield	0.95	0.84	88%
Piaggio Vehicles	0.3	0.09	30%
Other Players	1.55	0.01	0.6%
<b>Industry Total</b>	<b>32.2</b>	<b>24.4</b>	<b>76%</b>

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

Source: CRISIL Research

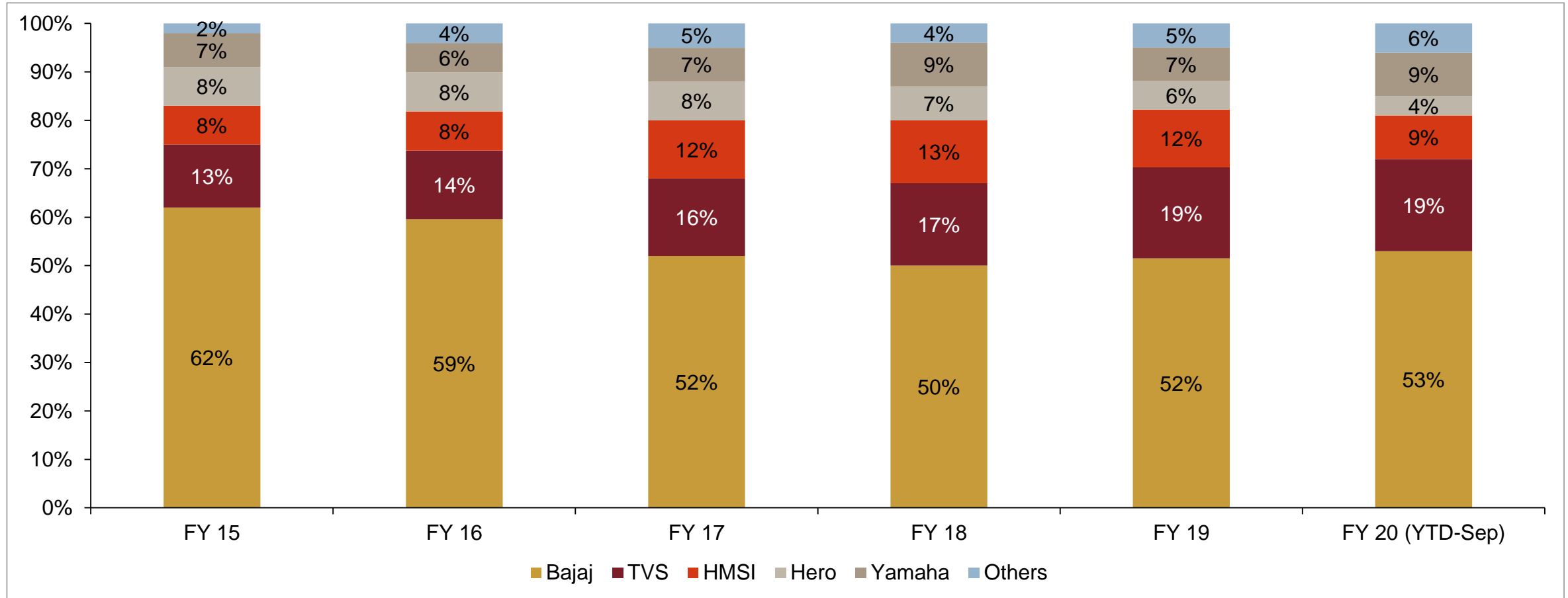
# Two-Wheeler Exports



Note: : Represents FY19 exports  
Source: DGFT, CRISIL Research

# Scooter sales help HMSI / TVS gain market share

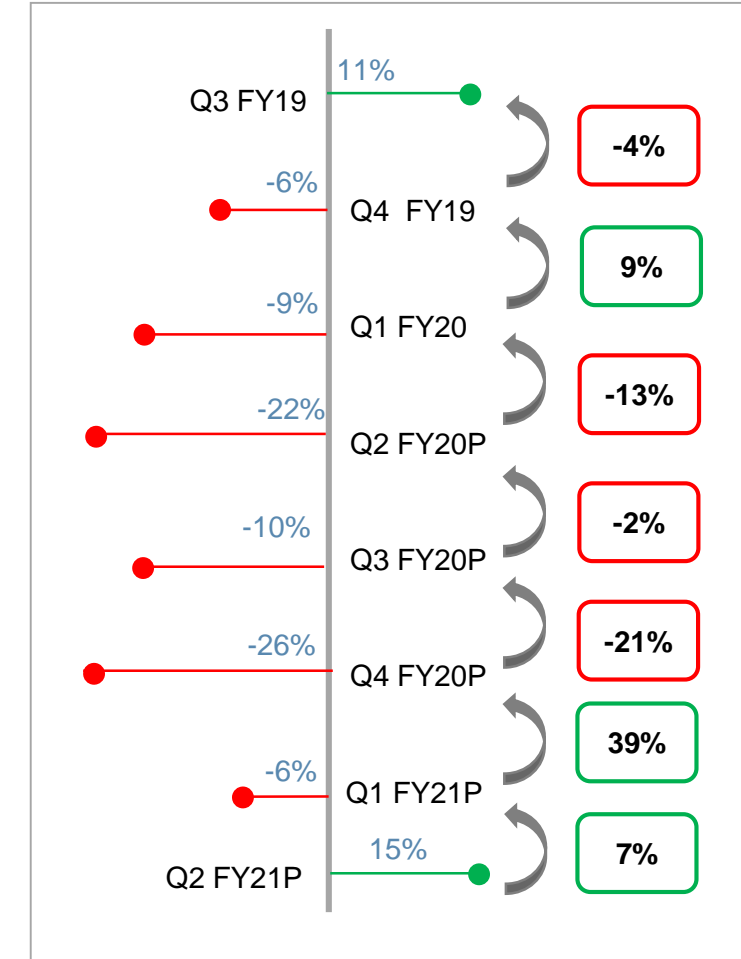
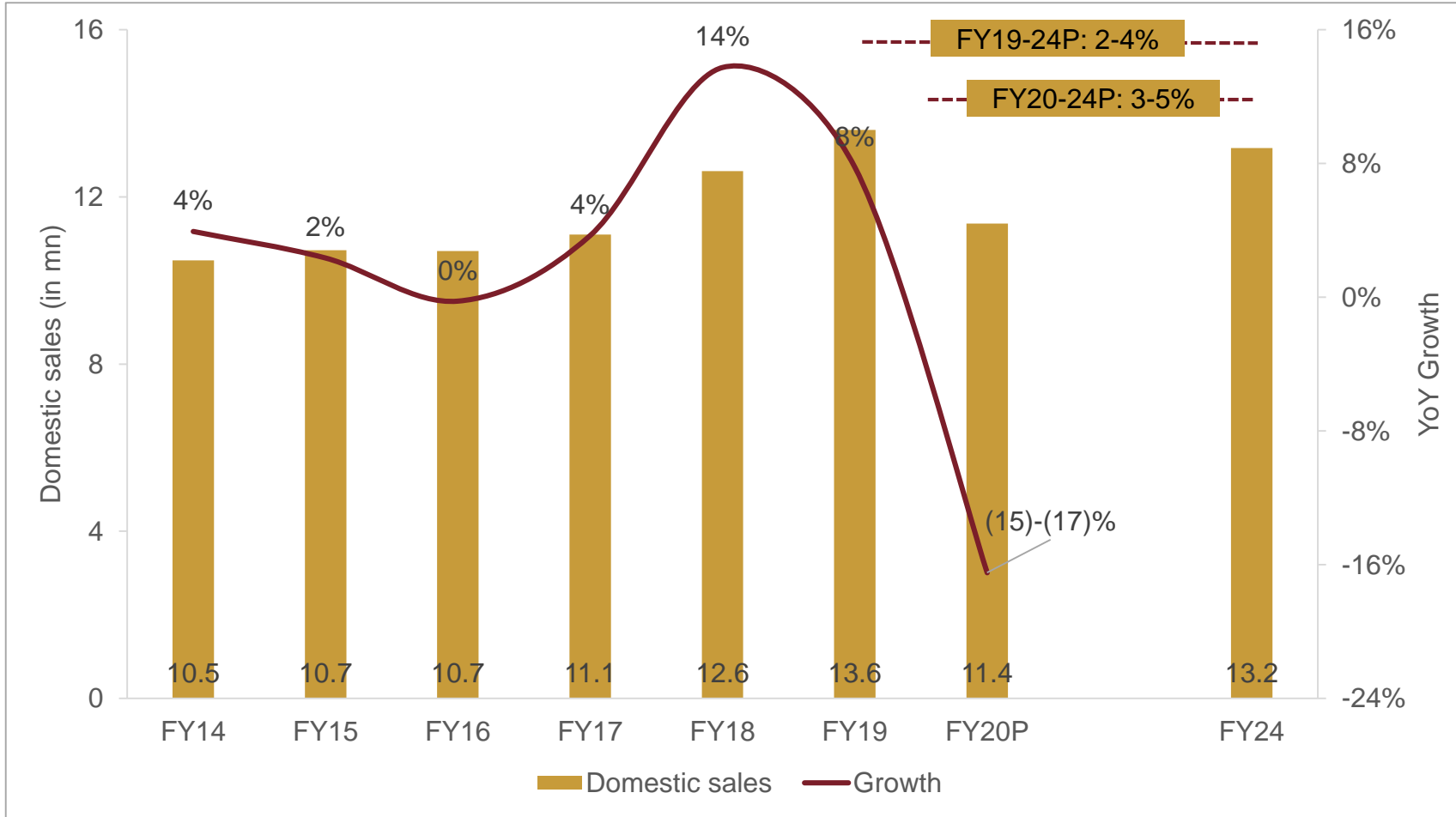
## Bajaj dominates the export segment



Note: Others include Suzuki, Royal Enfield, Mahindra, Piaggio, Harley Davidson etc

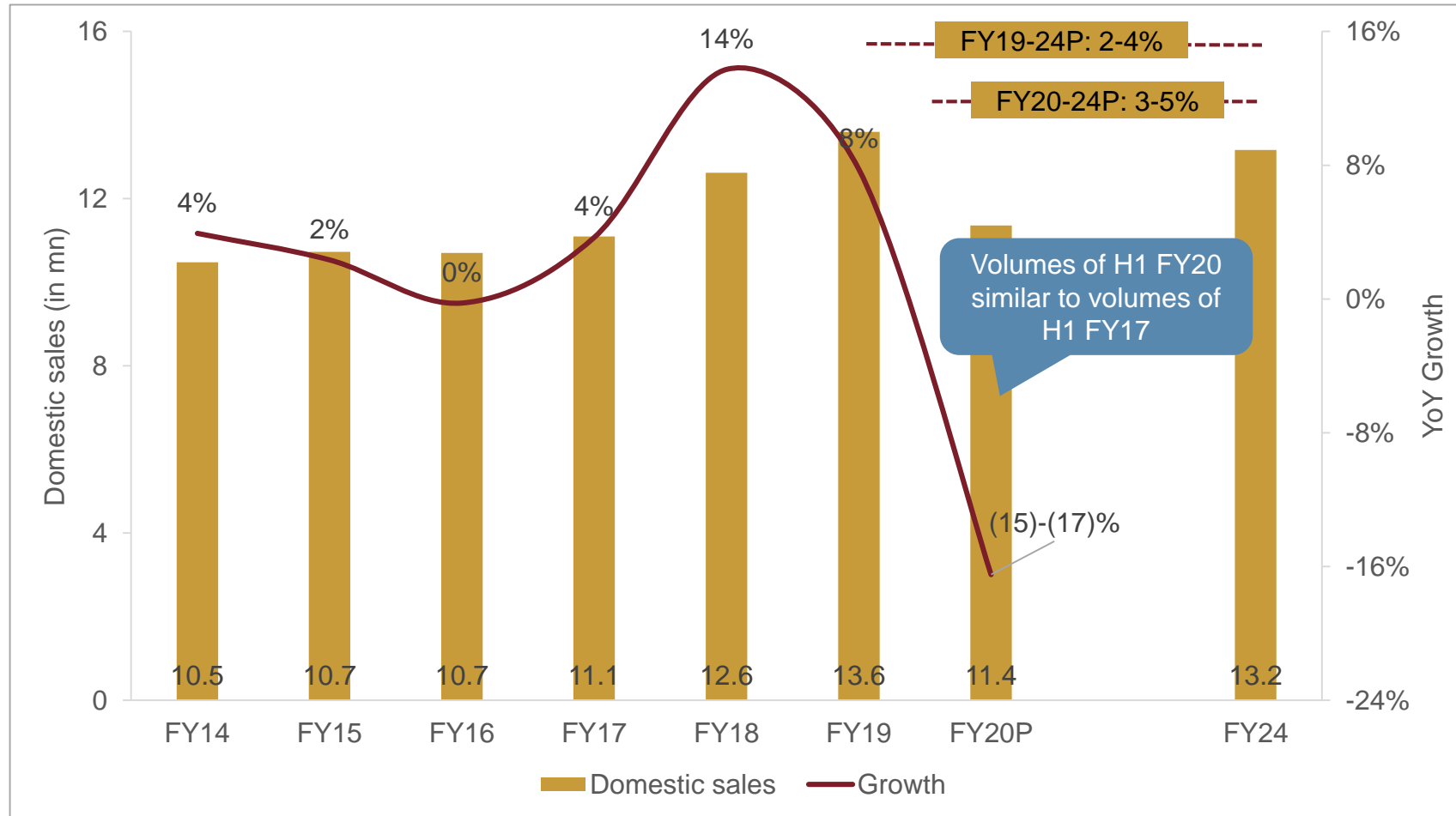
Source: SIAM, CRISIL Research

# Domestic sales - Motorcycles



- Fiscal 2019 recorded a growth of 8% despite higher insurance cost, liquidity constraints and fuel price hike.
- In fiscal 2020, we expect motorcycles to degrow by 15-17% due to year starting with the higher inventory levels and lower quantum of pre-buying expected.

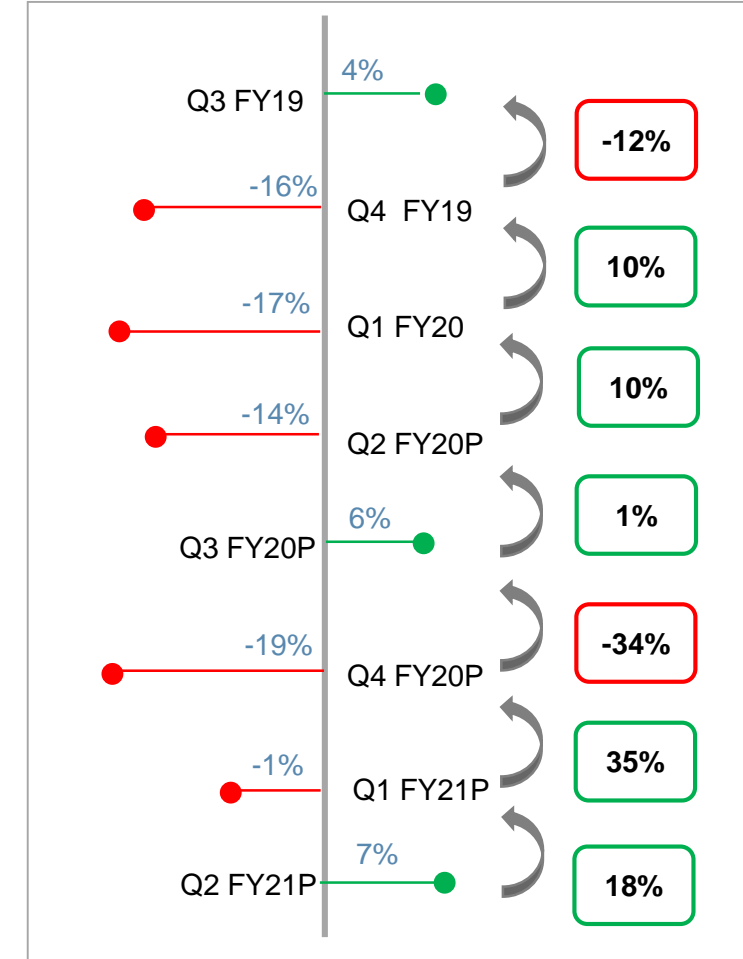
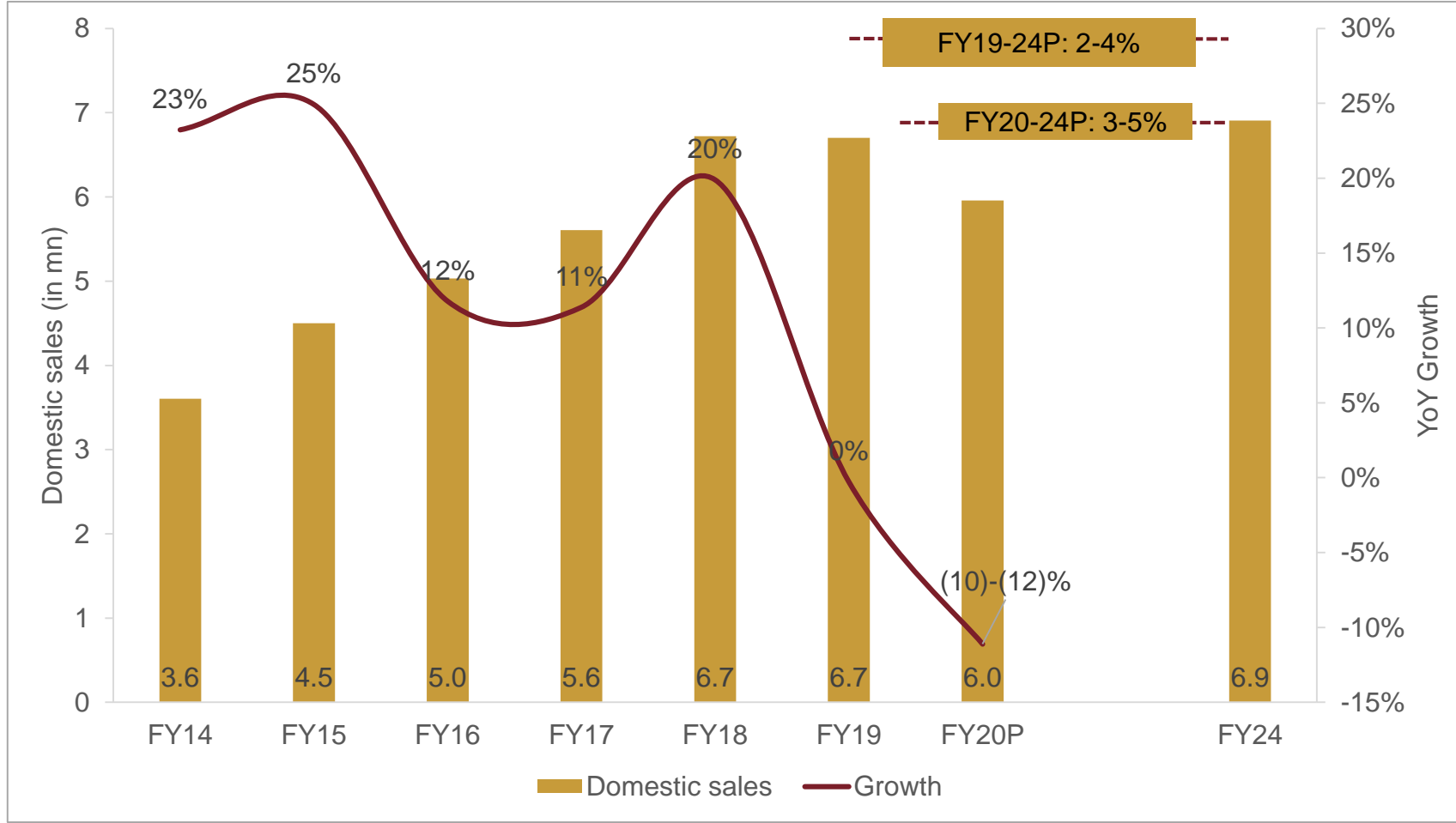
# Top three players Domestic sales - Motorcycles



Top 3 players YTD (FY 20/FY 19): (14)%

Company	H1 FY17	H1 FY20
Hero	3,034,504	3,192,152
Bajaj	1,128,425	1,132,286
Honda	874,852	947,596
<b>Industry</b>	<b>6,042,813</b>	<b>6,246,888</b>

# Domestic sales - Scooters



- Scooters registered a degrowth in fiscal 2019 by 0.27% mainly due to lower consumer sentiments in urban areas.
- H1 of fiscal 2020 saw a degrowth of 27% mainly due to production cuts by OEMs.
- We expect scooter segment to degrow by 10-12% in fiscal 2020 due to inventory correction and BS IV stock liquidation and not much pre-buying sale expected.

## Research

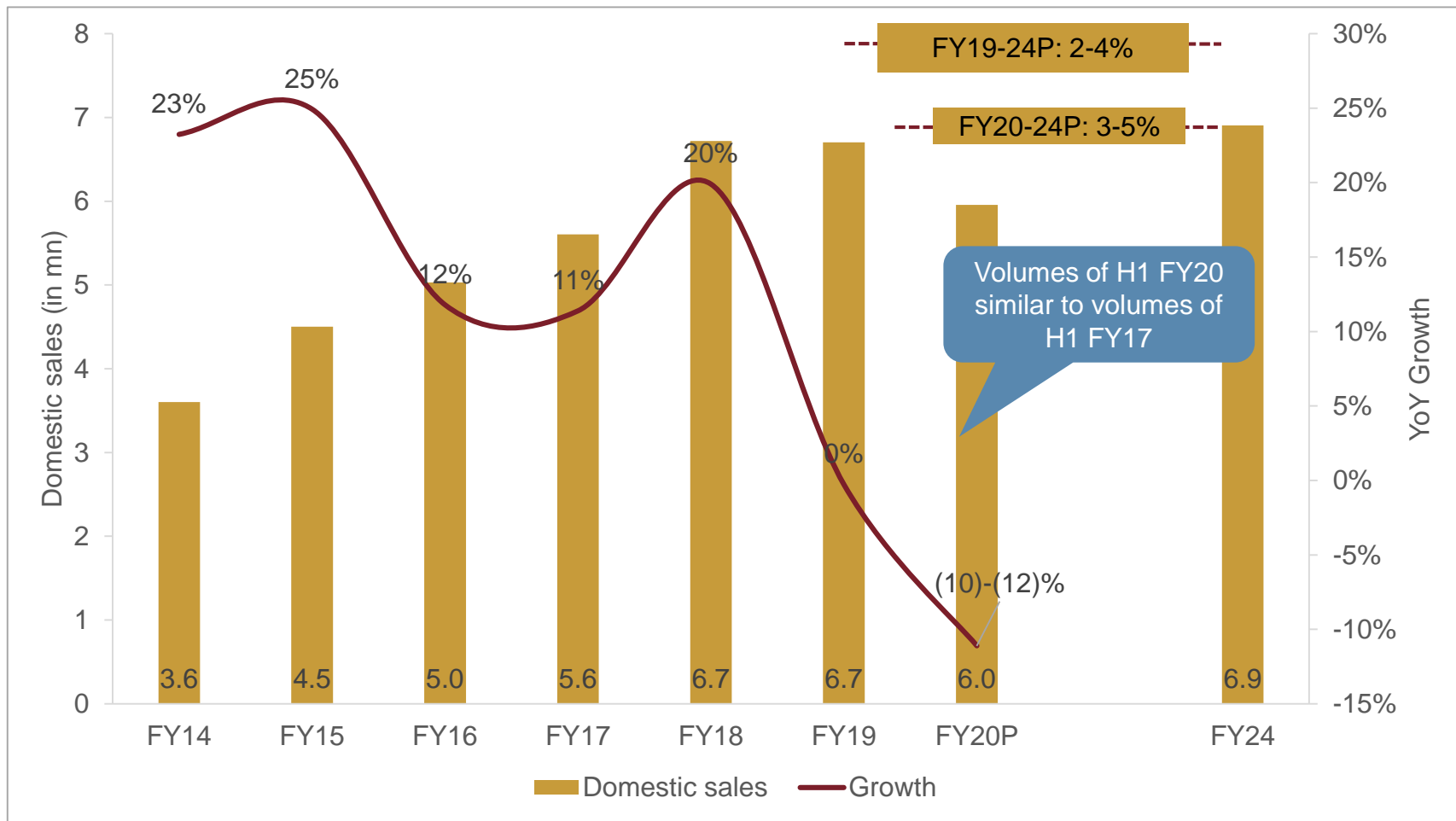
Source: SIAM, CRISIL Research

Represents y-o-y growth ● ●

Represents q-o-q growth ↻



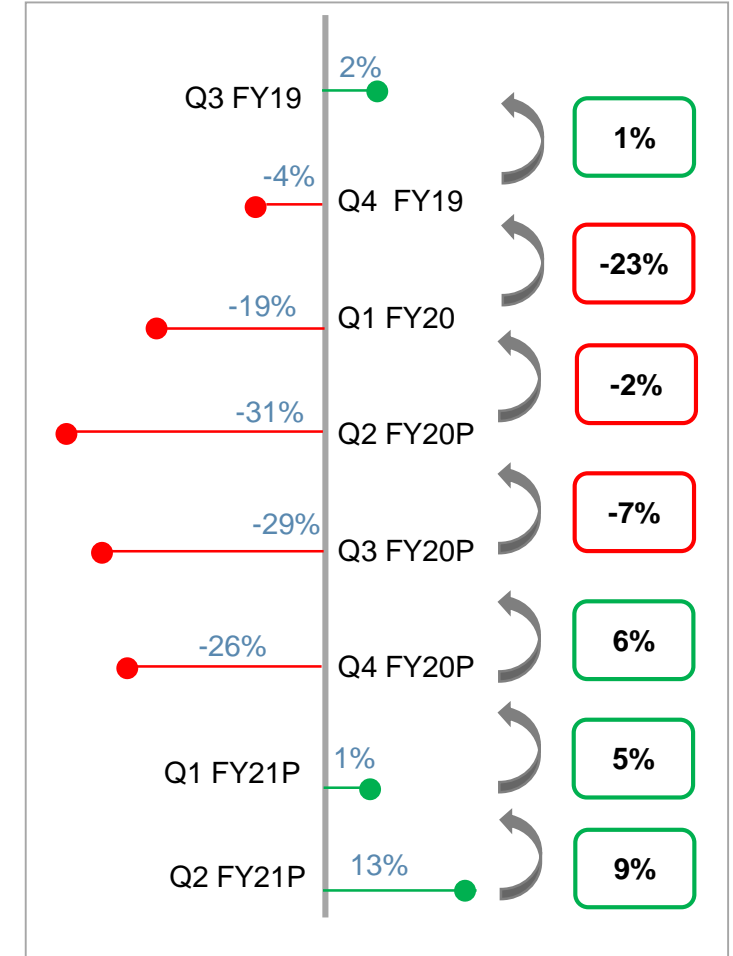
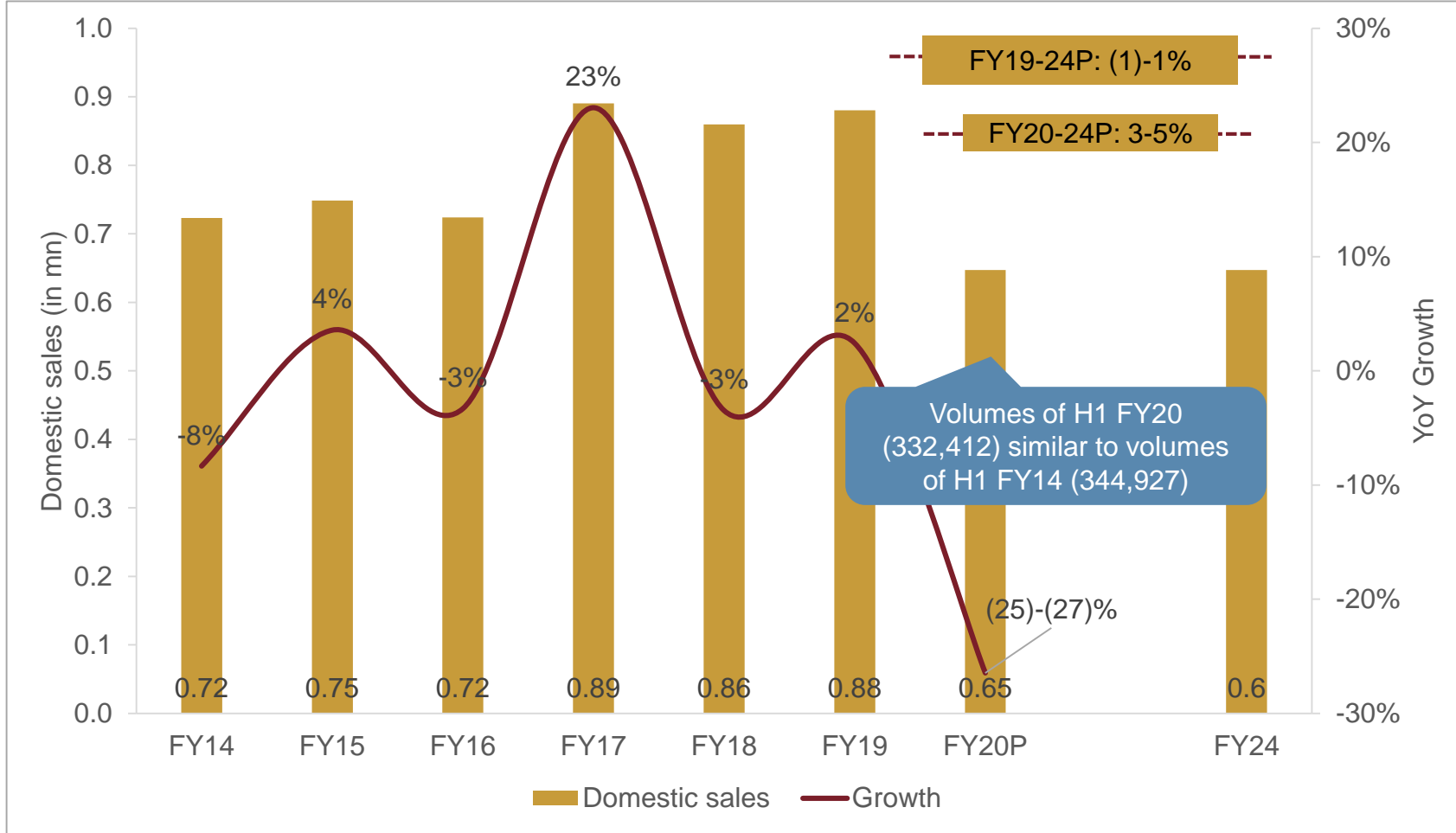
# Top three players Domestic sales - Scooters



Top 3 players YTD (FY 20/FY 19):  
(14)%

Company	H1 FY17	H1 FY20
Honda	1,798,335	1,732,579
TVS	400,804	598,617
Suzuki	125,318	341,928
<b>Industry</b>	<b>3,050,885</b>	<b>3,117,440</b>

# Domestic sales - Mopeds



- Mopeds expected to de-grow in the range of 25-27% on account of lower rural sentiments.



# Commercial Vehicles

# Demand to remain muted across CV segments in FY20

Variables (common factors across Commercial vehicles)	FY 19	FY 20P	FY 21P
Diesel prices	NF	NF	NF
Regulatory (BSIV to BSVI)	-	N	NF
Availability and cost of finance	NF	NF	N

Variables LCV	FY 19	FY 20P	FY 21P
Freight demand (LCV) – PFCE	F	NF	F
Replacement demand (LCV)	F	F	NF
Overall demand (LCVs)	F	N	N

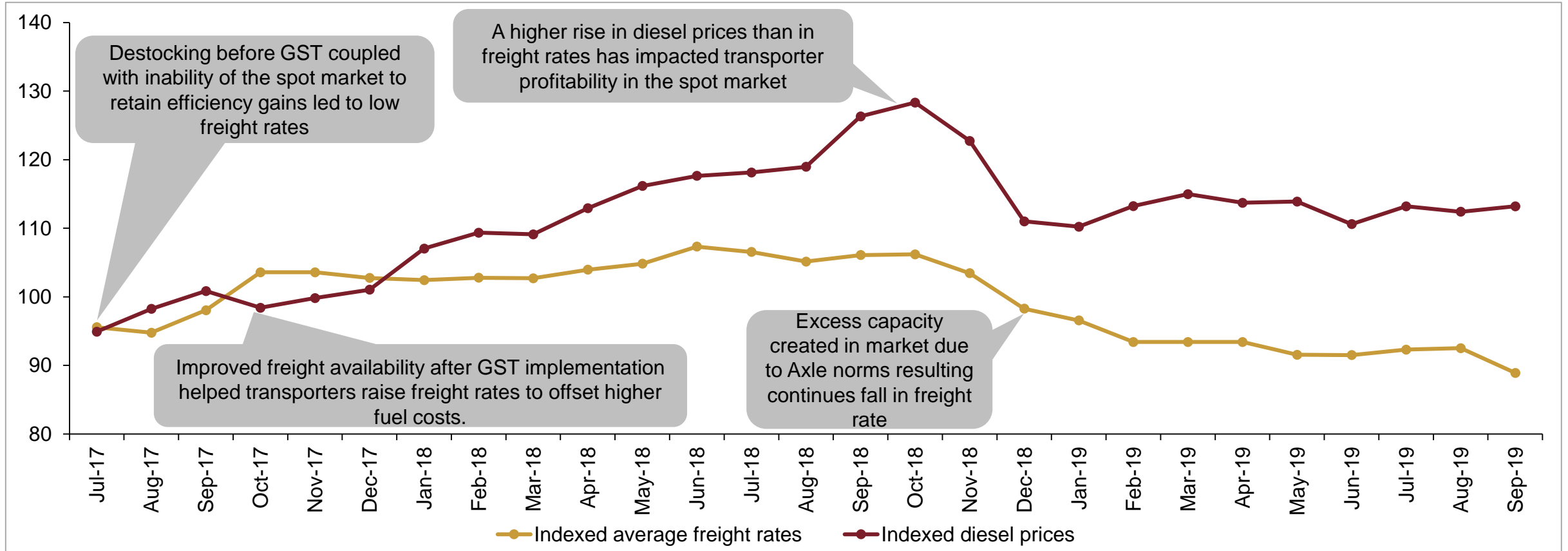
Variables MHCV	FY 19	FY 20P	FY 21P
Freight demand	F	NF	F
Industrial GDP	NF	NF	F
Replacement demand	N	N	NF
NHAI Road Execution	F	N	N
Impact of Axle load norms	----		
Overall demand	F	NF	NF

NF: Not favorable, F: Favorable; N: Neutral

Source: CRISIL Research

# Freight rates decreases in September, Diesel price rise marginally

## Freight rates Vs Diesel rates



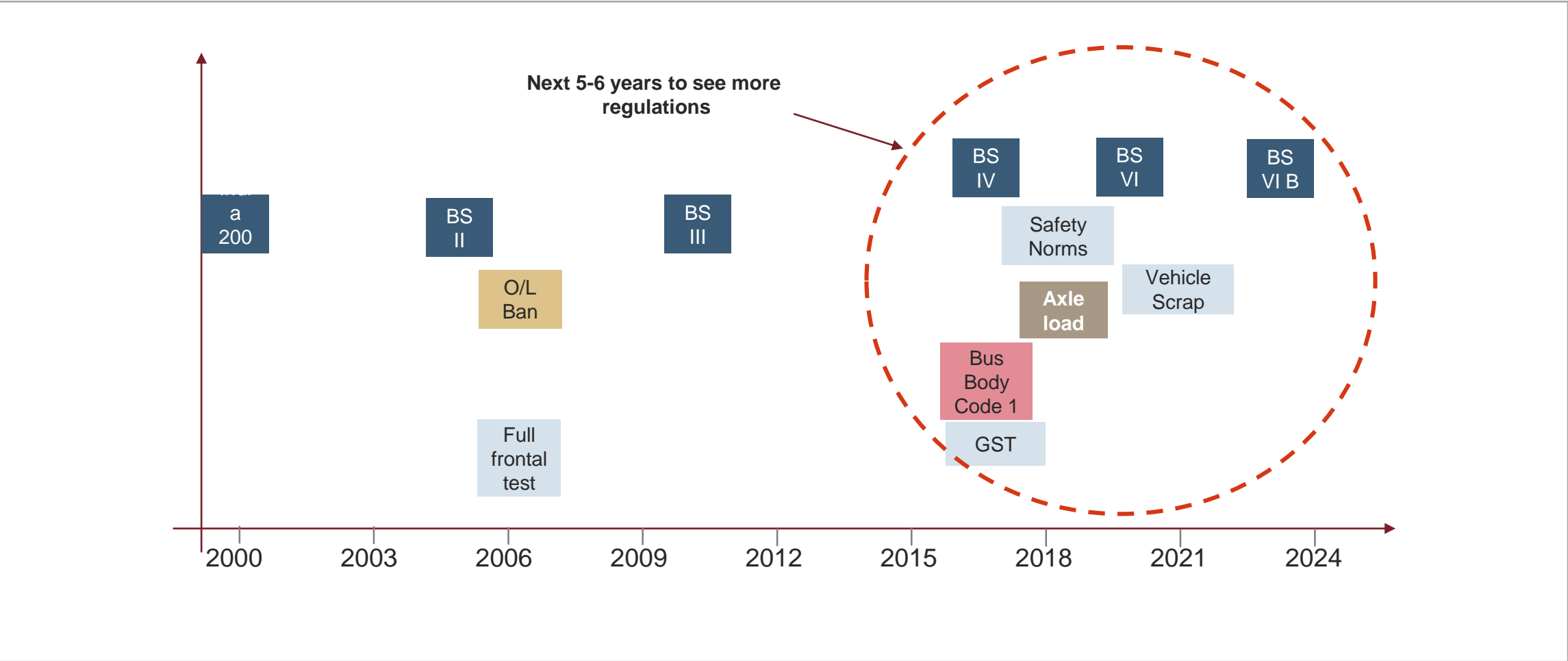
Note: Freight rate indexed by considering base 100 as on April-14  
 The estimated freight rate data is a representative of average freight rates from Delhi to 24 locations across India for a 9T payload truck  
 Source: CRISIL Research

# Overview of end-use segments - Cargo

Segments (% Growth Y-o-Y)	FY 16	FY 17	FY 18	FY 19	FY 20P	FY 21P
Coal (Production)	5	3	3	7.5	1-2	6-7
Iron ore (Production)	20.9	23.1	9.4	2.9	5-7	5-6
Steel (Consumption)	5.9	3.1	7.9	7.5	4.5 - 5.5	5-6
Cement (Consumption)	4.7	1.9	9.1	12	4.5 – 5.5	7-8
Roads (NHAH Construction, '000 km)	1.99	2.63	3.07	3.38	3.5-4.0	3.5-3.9
Consumer durables (Consumption)	6.6	6.6	5.8	6.3	6-8	7-9
E-commerce	68	22	35	35-37	34-36	30-35

Source: CRISIL Research

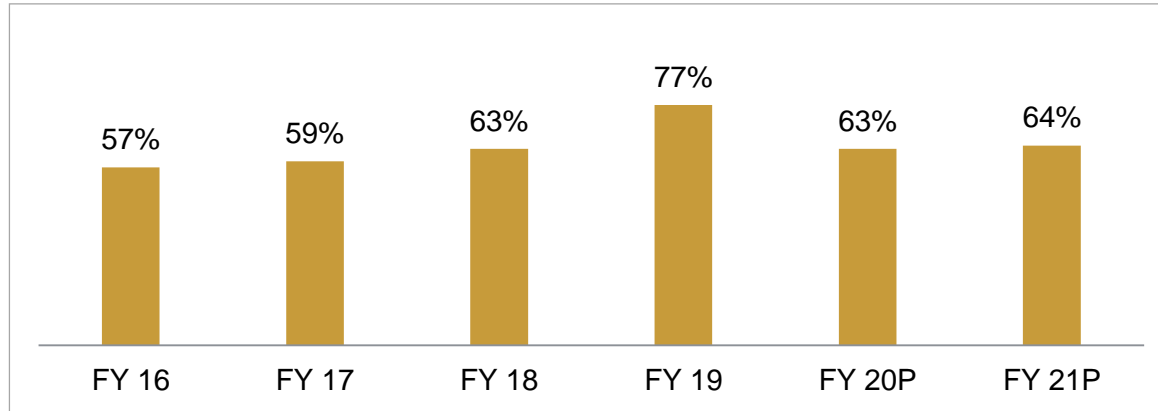
# Regulations shaping commercial vehicle industry in India



Source: CRISIL Research

# Capacity utilization on a downward trend

## Decline in capacity utilization level



Note : Capacity utilization is that of Tata Motors, Ashok Leyland, Eicher Motors and Mahindra & Mahindra representing ~ 90% of domestic sales

Source: CRISIL Research

## Capacity additions

Player	Location	Capacity '000 units	Investment	Status
Ashok Leyland Ltd.	Medak, Telangana	20	Rs 5 billion	Planning
Ashok Leyland Ltd.	Krishna, AP	4.8	Rs 1.7 billion	Under implementation
VECV Ltd.	Bhopal, MP	40	Rs 4 billion	Planning
Volvo Buses India Pvt. Ltd.	Bengaluru, Karnataka	1.5	Rs 3 billion	Planning
Sino Truck	Medak, Telangana	1.45	Rs 1 billion	Planning

Source: Industry, CRISIL Research

## Player-wise capacity utilisation

Player	Effective Capacity estimate (as on 31st Mar 2019)	Capacity utilization
Ashok Leyland	186500	89%
Eicher Motors	93000	94%
Tata Motors	762000	49%
Mahindra & Mahindra	292000	80%

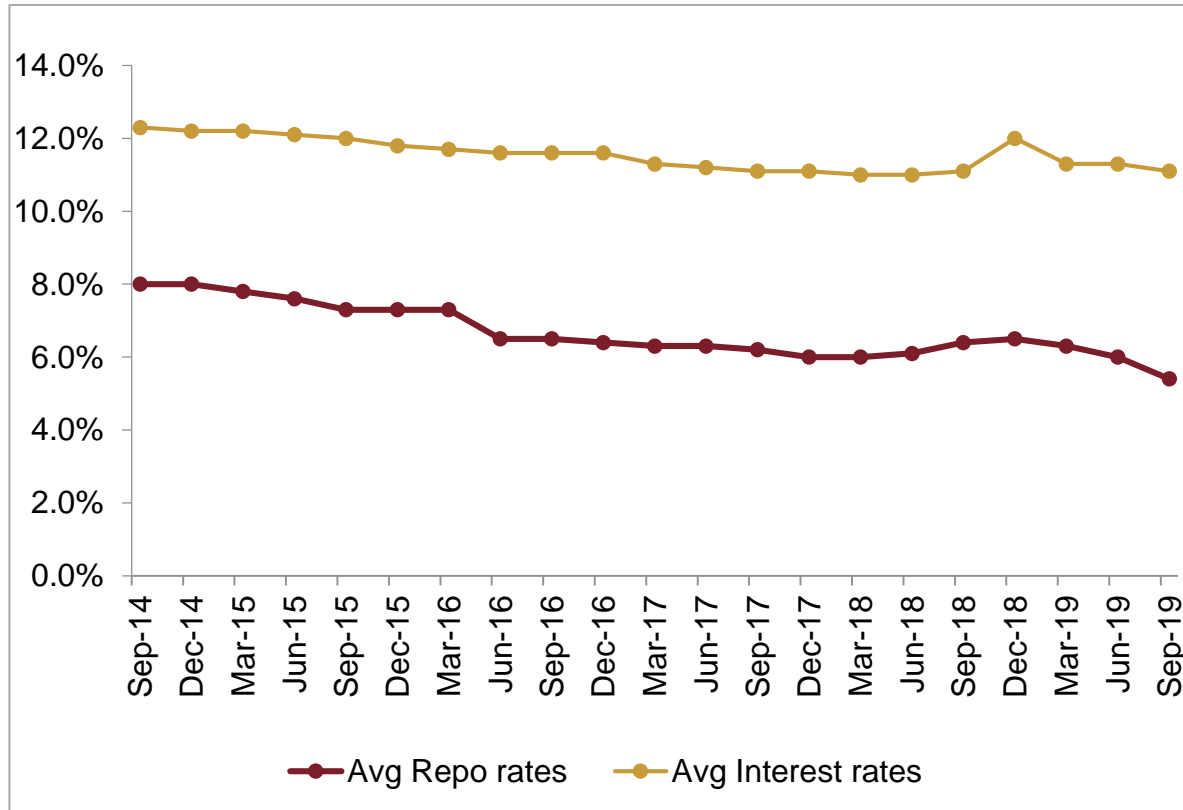
Source: Crisil Research

- The capacity utilisation of the top four players which was at ~77% in fiscal 2019, is projected to fall to ~64% in fiscal 2020
- Due to industry growing in red in fiscal 2020 and 2021, players have delayed their capacity expansion post incurring capex for BS VI.
- Capital expenditure is expected to continue for electric mobility even in this downturn considering the sanctioned STU orders for FAME-II



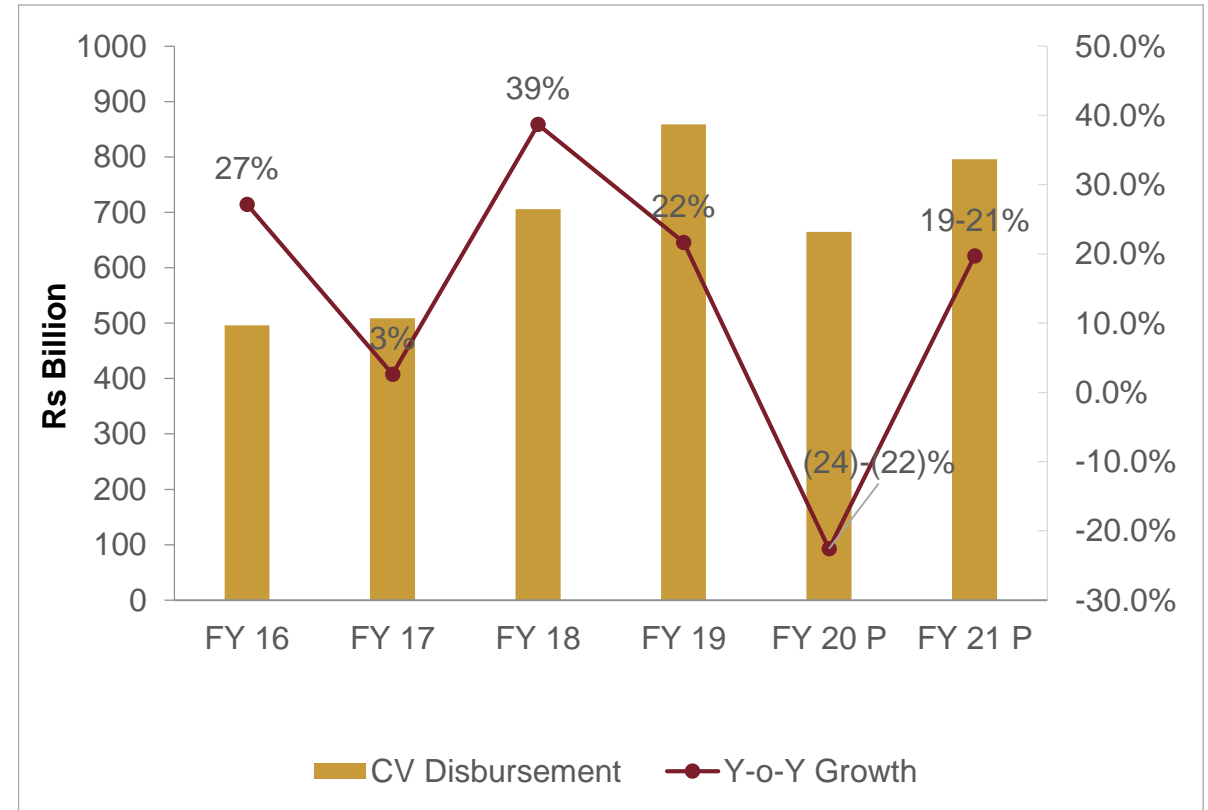
# CV financing to remain key monitorable as repo rate decreases

## CV interest rates and repo rates



Source: CRISIL Research

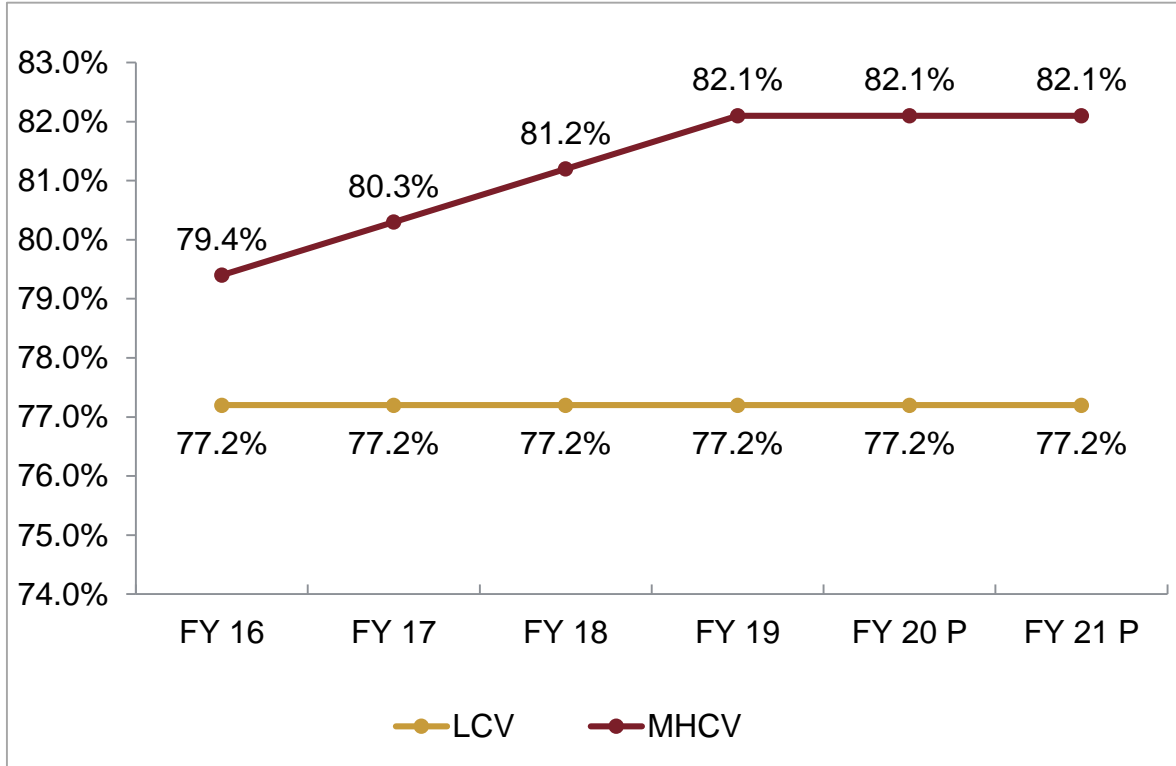
## CV Disbursements



Source: SIAM, Crisil Research

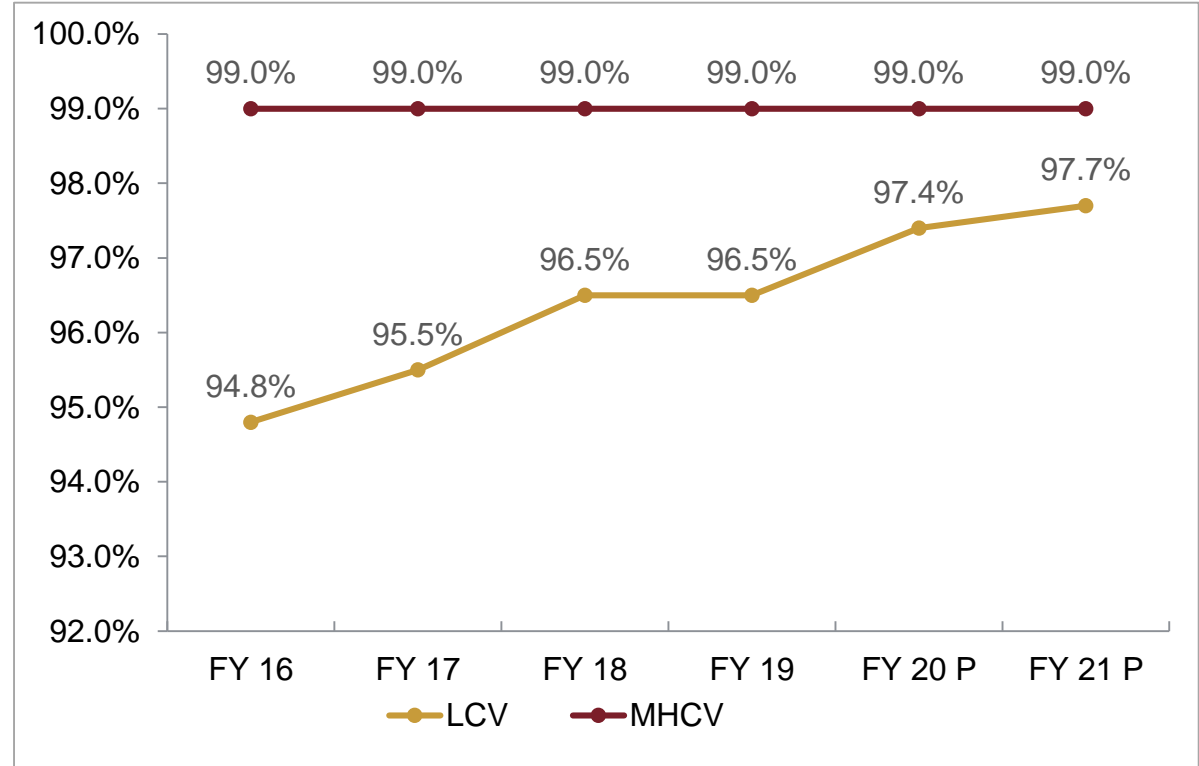
# Improving credit bureau penetration is expected to keep LTVs high; penetration to improve marginally for LCVs

## Loan-to-Value for CV



Source: Crisil Research

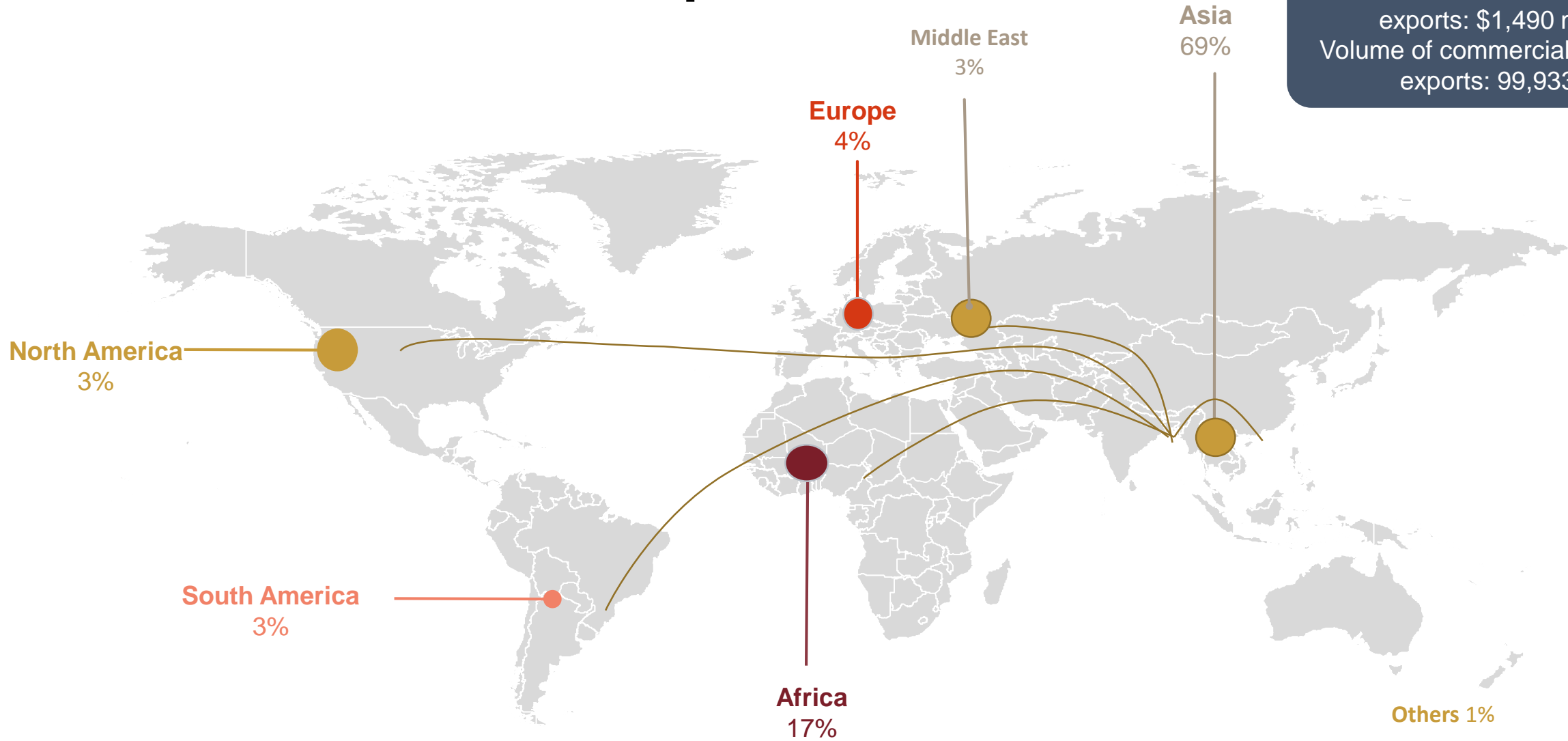
## CV Finance Penetration



Source: Crisil Research

# Commercial vehicles exports

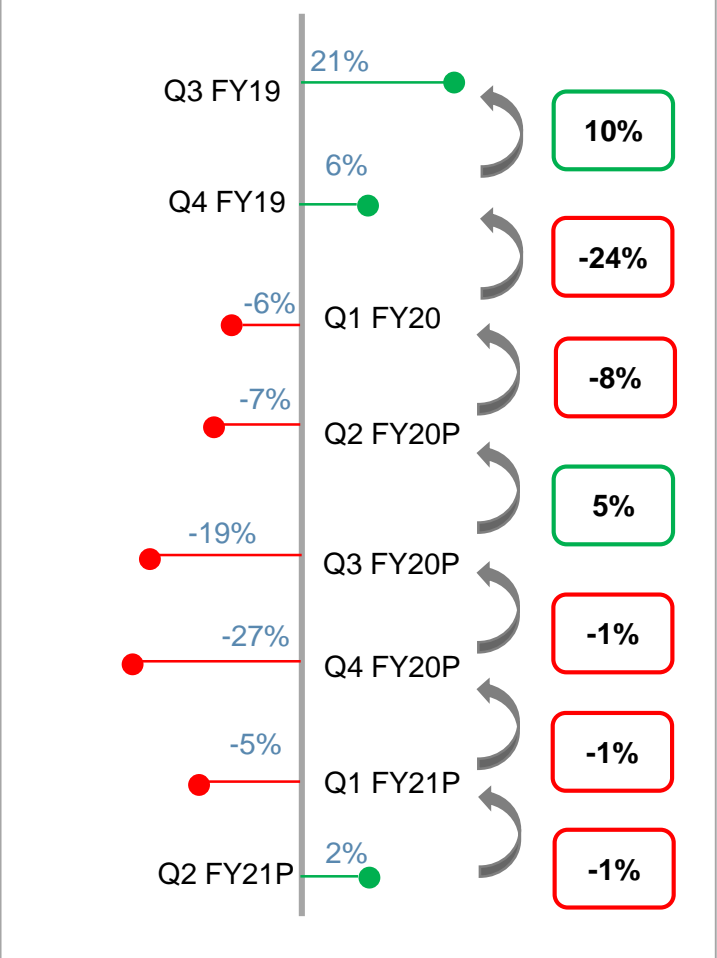
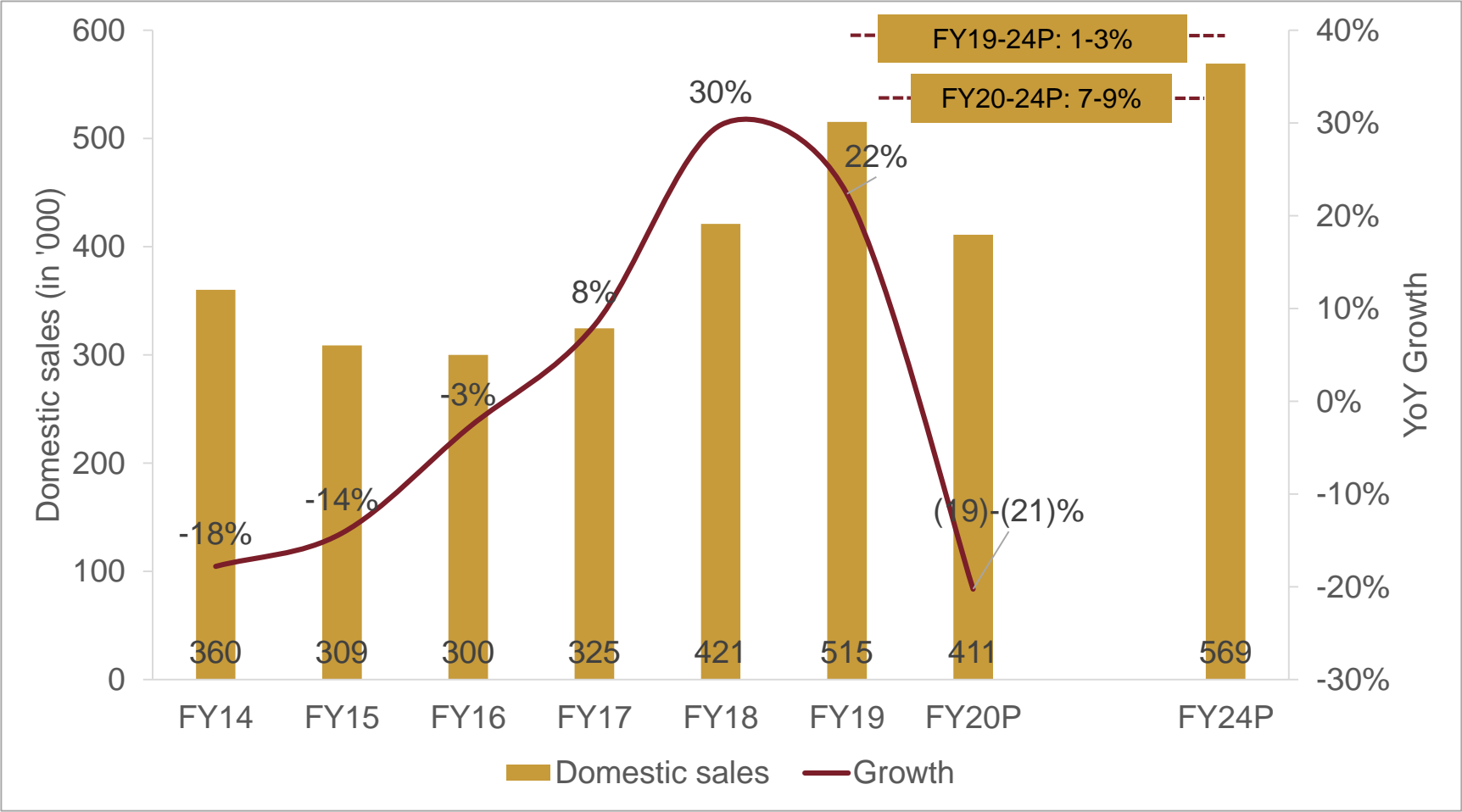
Value of commercial vehicle exports: \$1,490 mn  
Volume of commercial vehicle exports: 99,933



NOTE: Represents FY19 exports

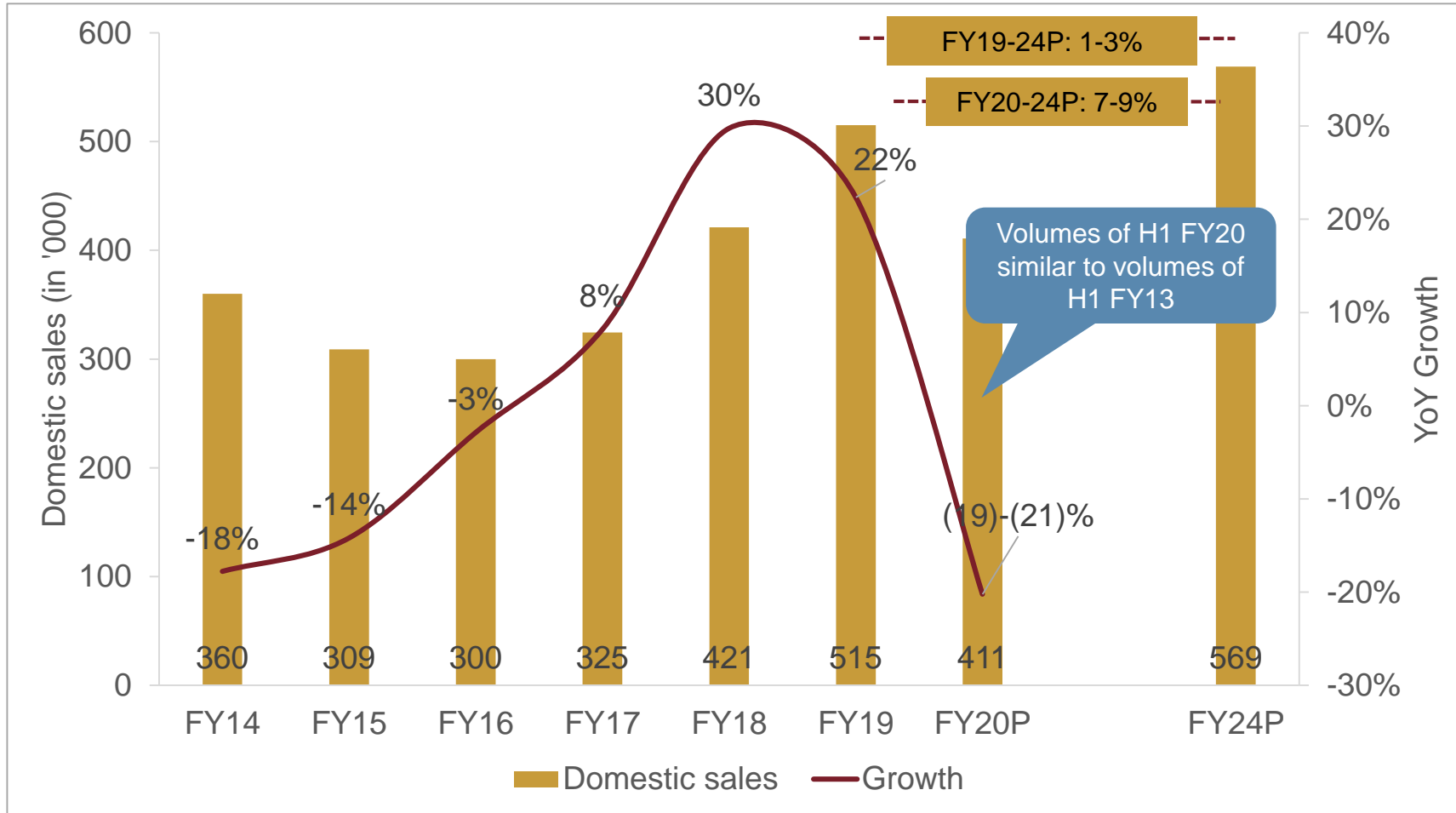
Source: Directorate General of Foreign Trade (DGFT), CRISIL Research

# Domestic sales – LCV (<3.5T)



- LCV <3.5T is expected to degrow on a high base of last 3 years.
- Crop output was neutral in fiscal 2020 after more than average monsoon with floods recorded in few regions.

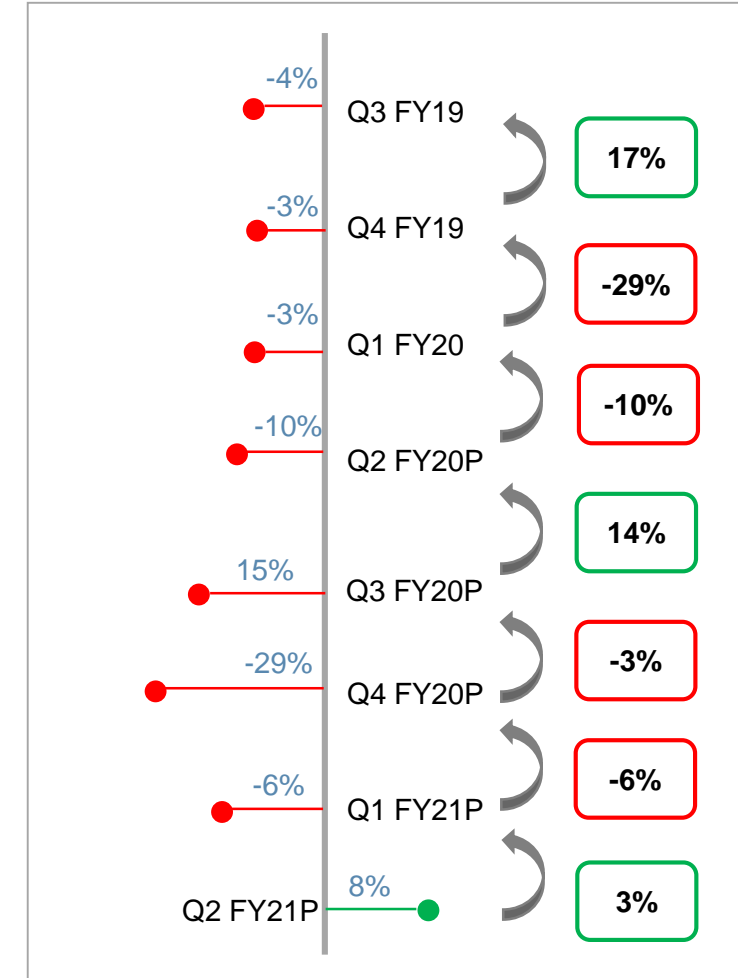
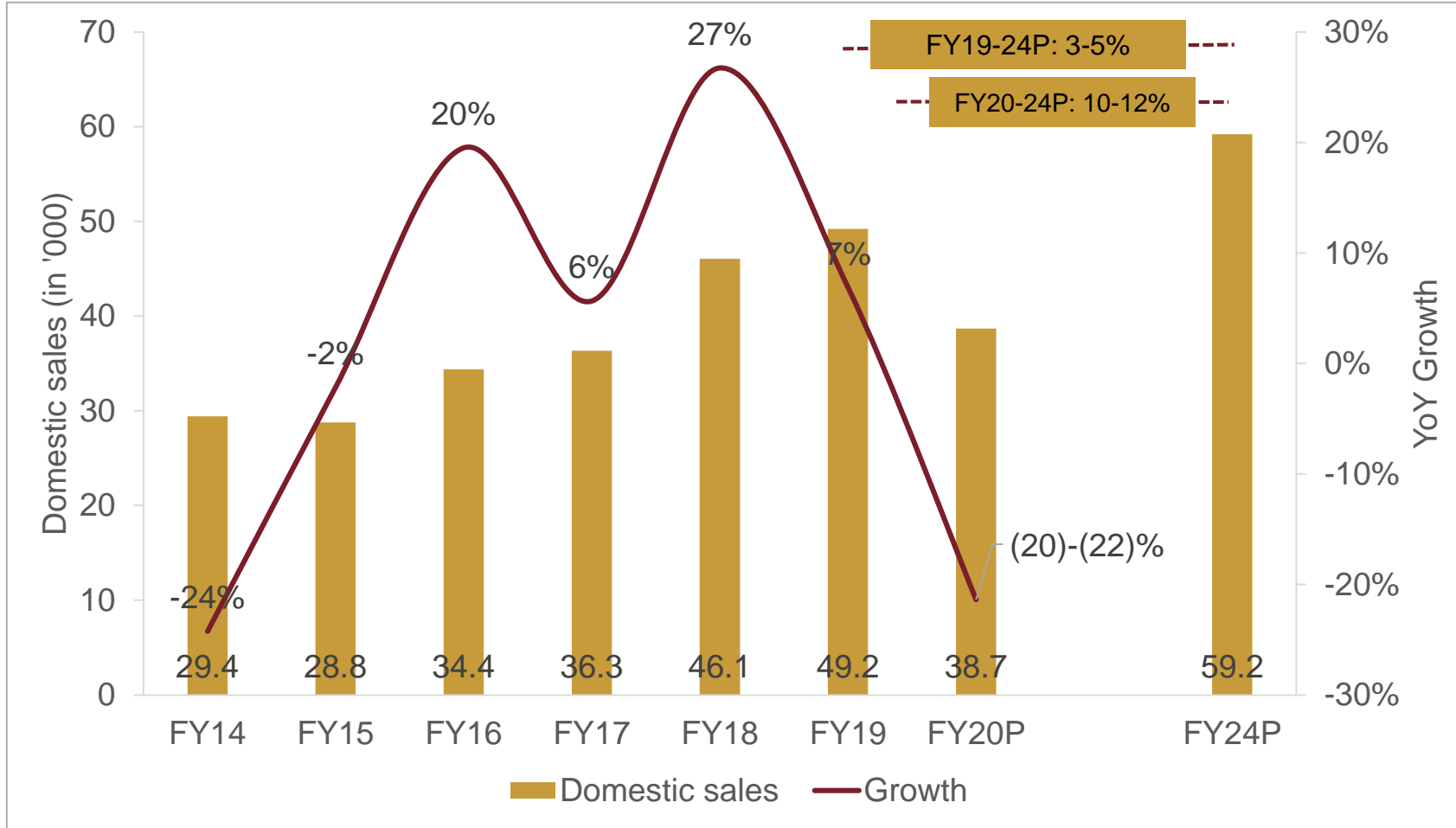
# Top three players Domestic sales – LCV (<3.5T)



Top 3 players YTD (FY 20/FY 19):  
(16)%

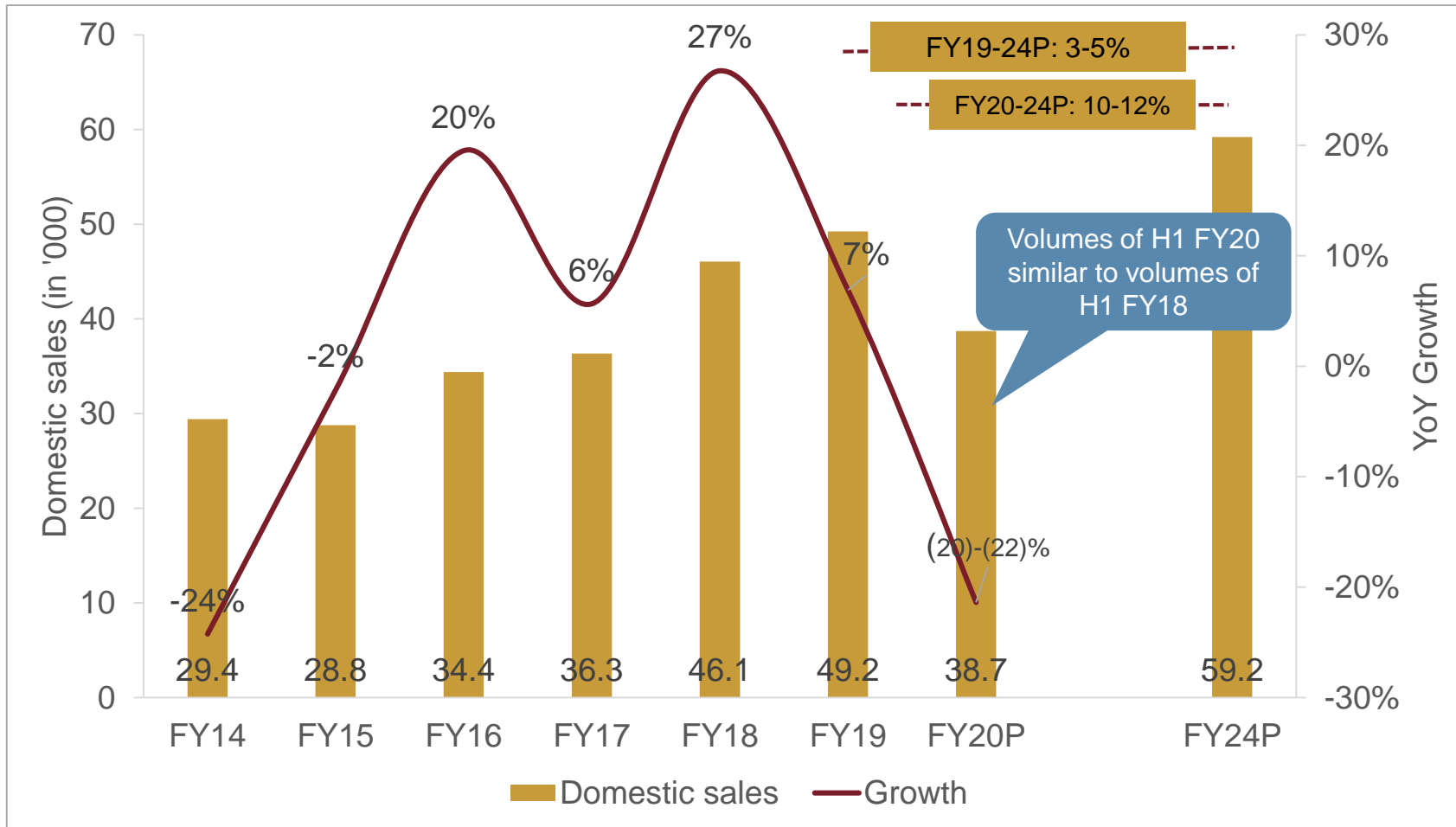
Company	H1 FY13	H1 FY20
Mahindra	67,364	94,195
Tata Motors	112,265	77,314
Ashok Leyland	15,910	22,497
<b>Industry</b>	<b>199,263</b>	<b>207,836</b>

# Domestic sales – LCV (3.5-7.5 T)



- Growth to decline in fiscal 2020 by 20-22% on account of lower cash available with the transporter due to lower freight availability, leading to postponement in vehicle purchase.

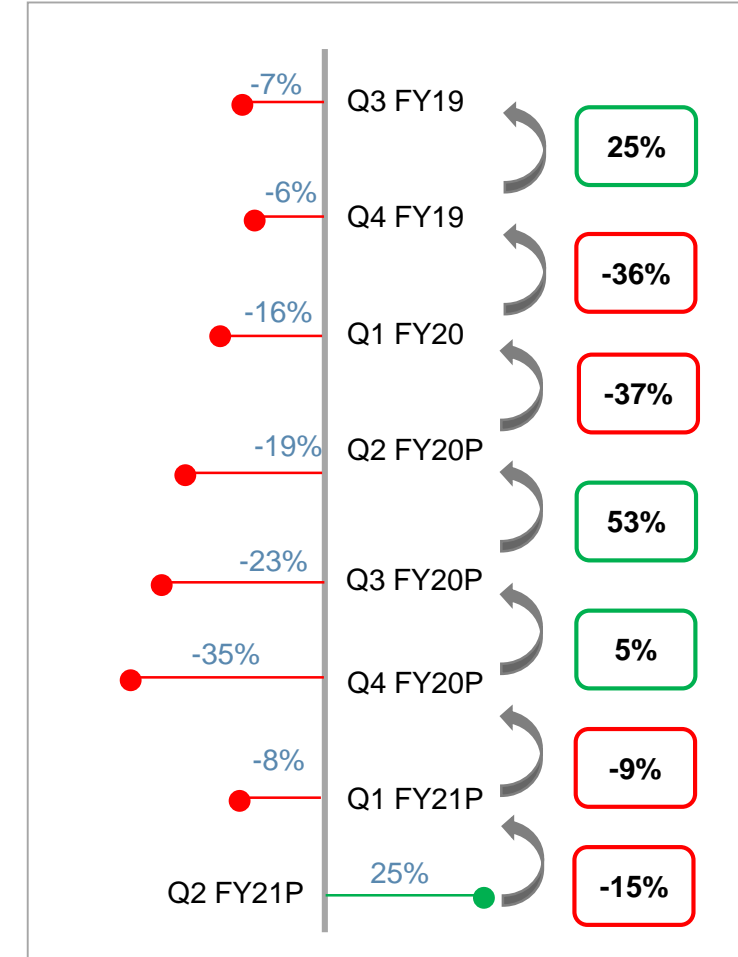
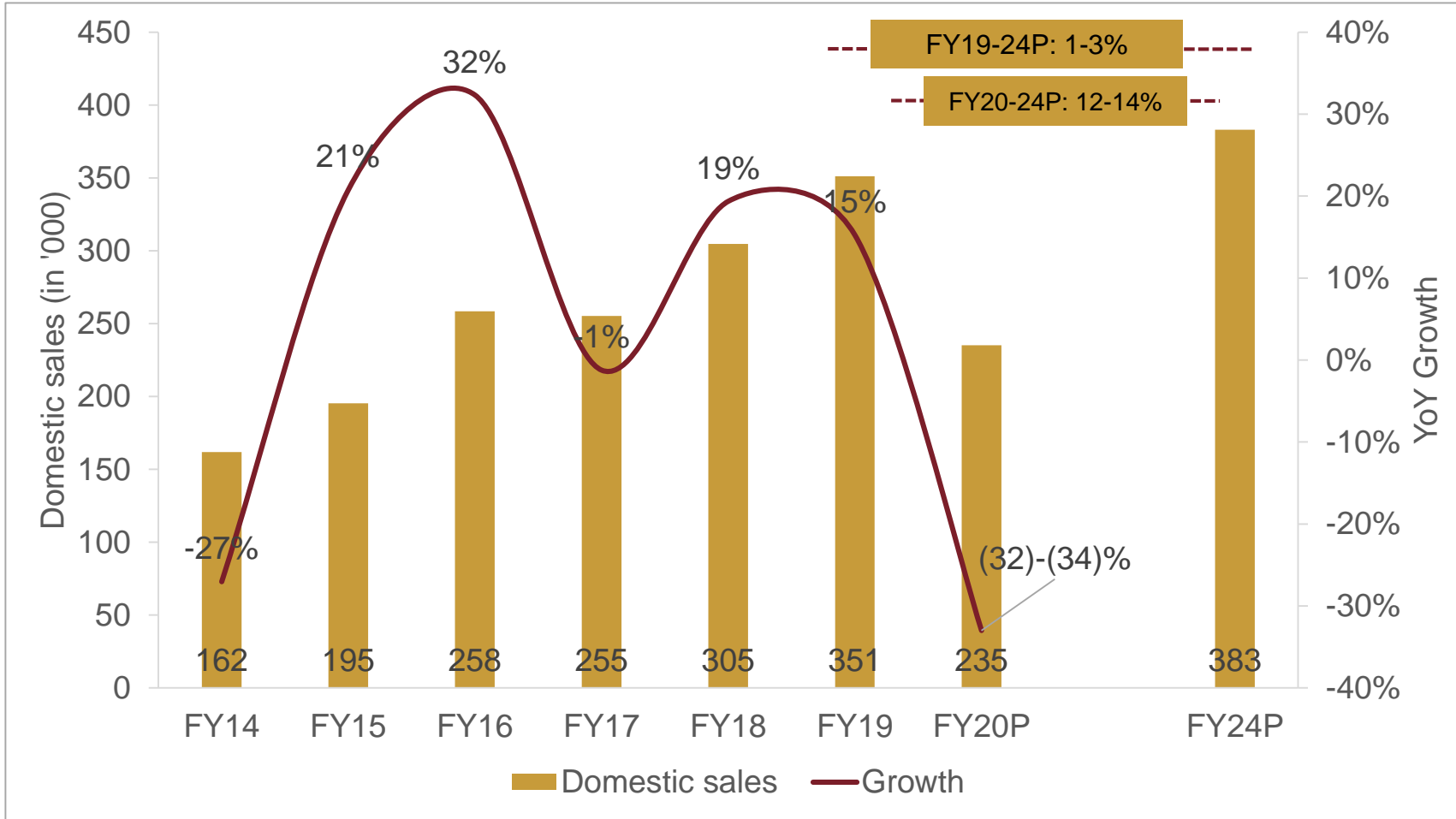
# Top three players Domestic sales – LCV (3.5-7.5 T)



Top 3 players YTD (FY 20/FY 19):  
(21)%

Company	H1 FY18	H1 FY20
Tata Motors	11,013	10,361
Eicher	4,445	4,287
Mahindra	1,563	1,814
<b>Industry</b>	<b>19,267</b>	<b>18,820</b>

# Domestic sales – MHCV (>7.5T)



- Lower road and infrastructure activities in H1 of fiscal 2020.
- Demand to improve in H2 from bulk commodity - steel, cement, etc.
- New axle load norms led to lower demand of new trucks.

## Research

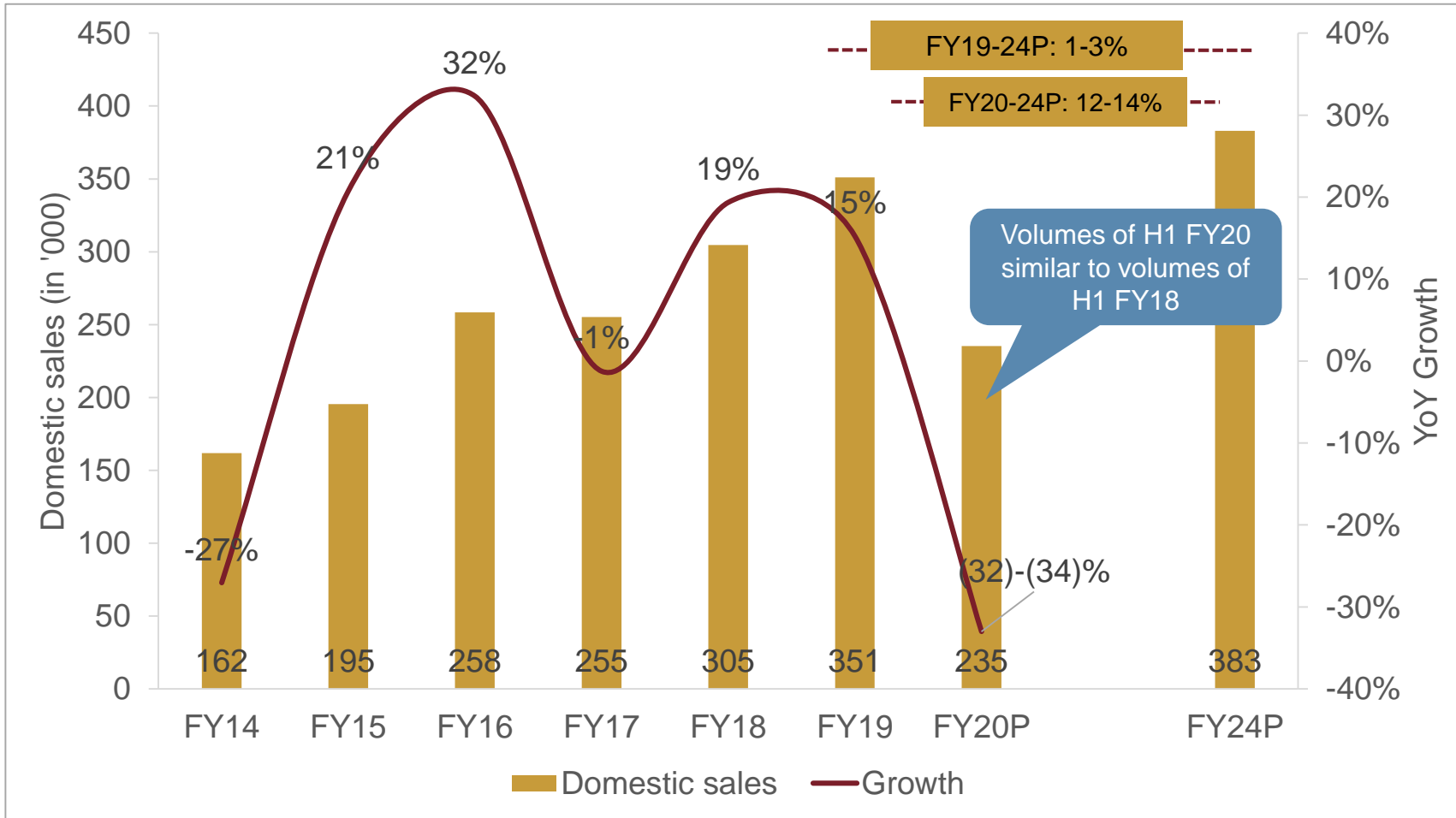
Source: SIAM, CRISIL Research

Represents y-o-y growth ● — ●

Represents q-o-q growth ↻



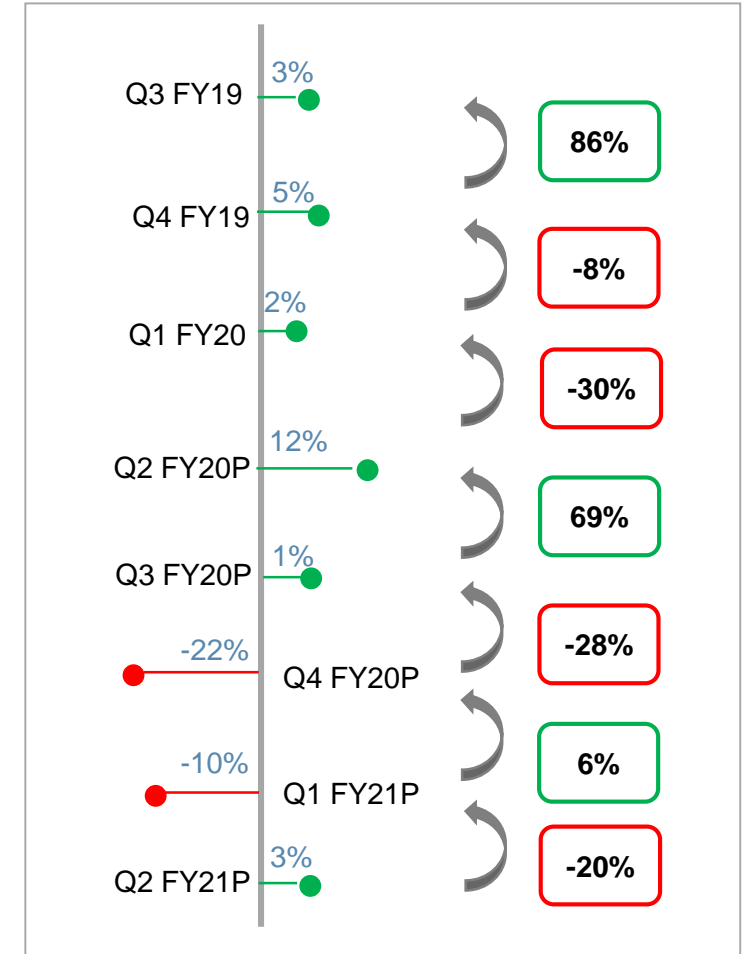
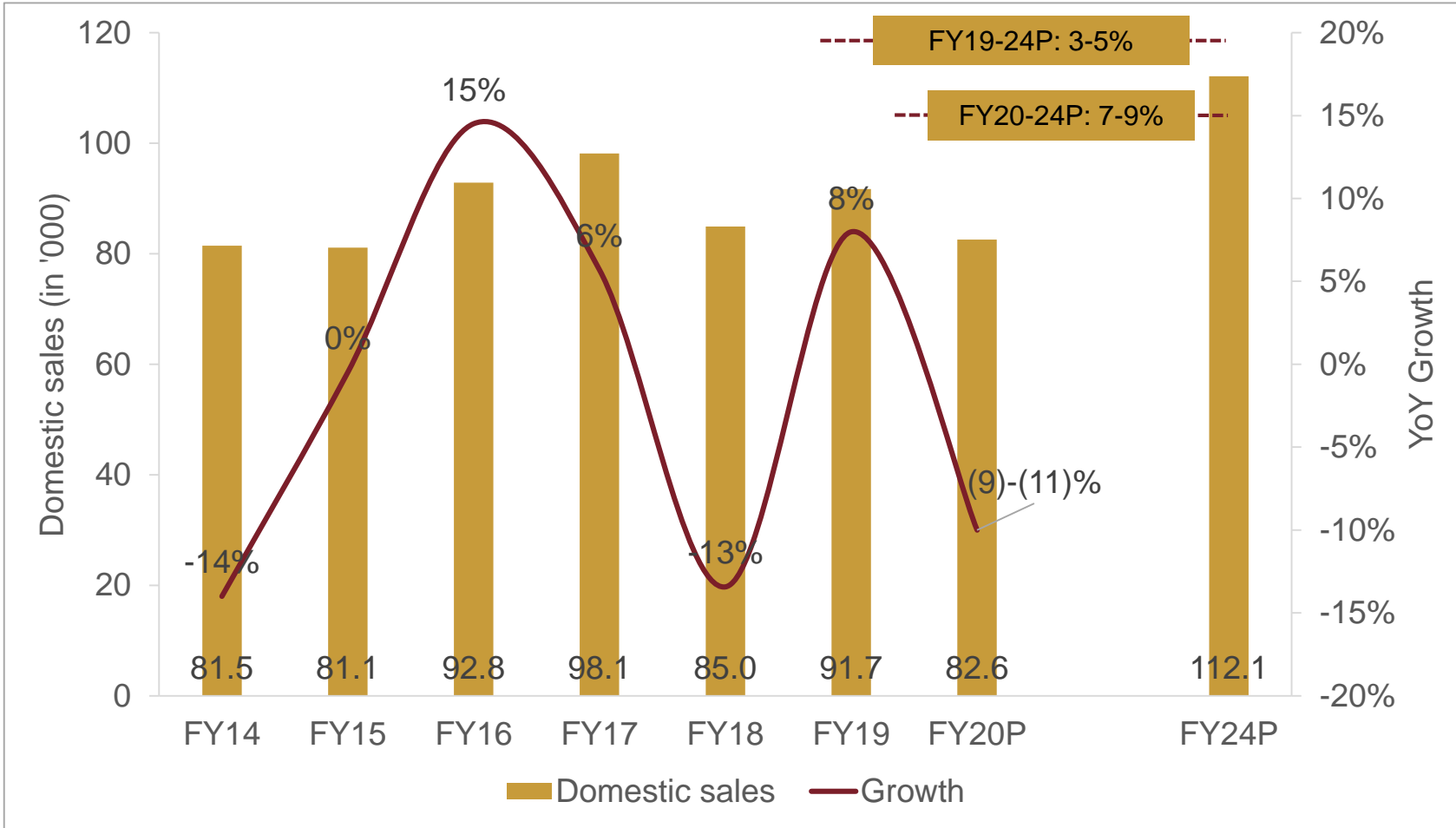
# Top three players Domestic sales – MHCV (>7.5T)



Top 3 players YTD (FY 20/FY 19):  
(39)%

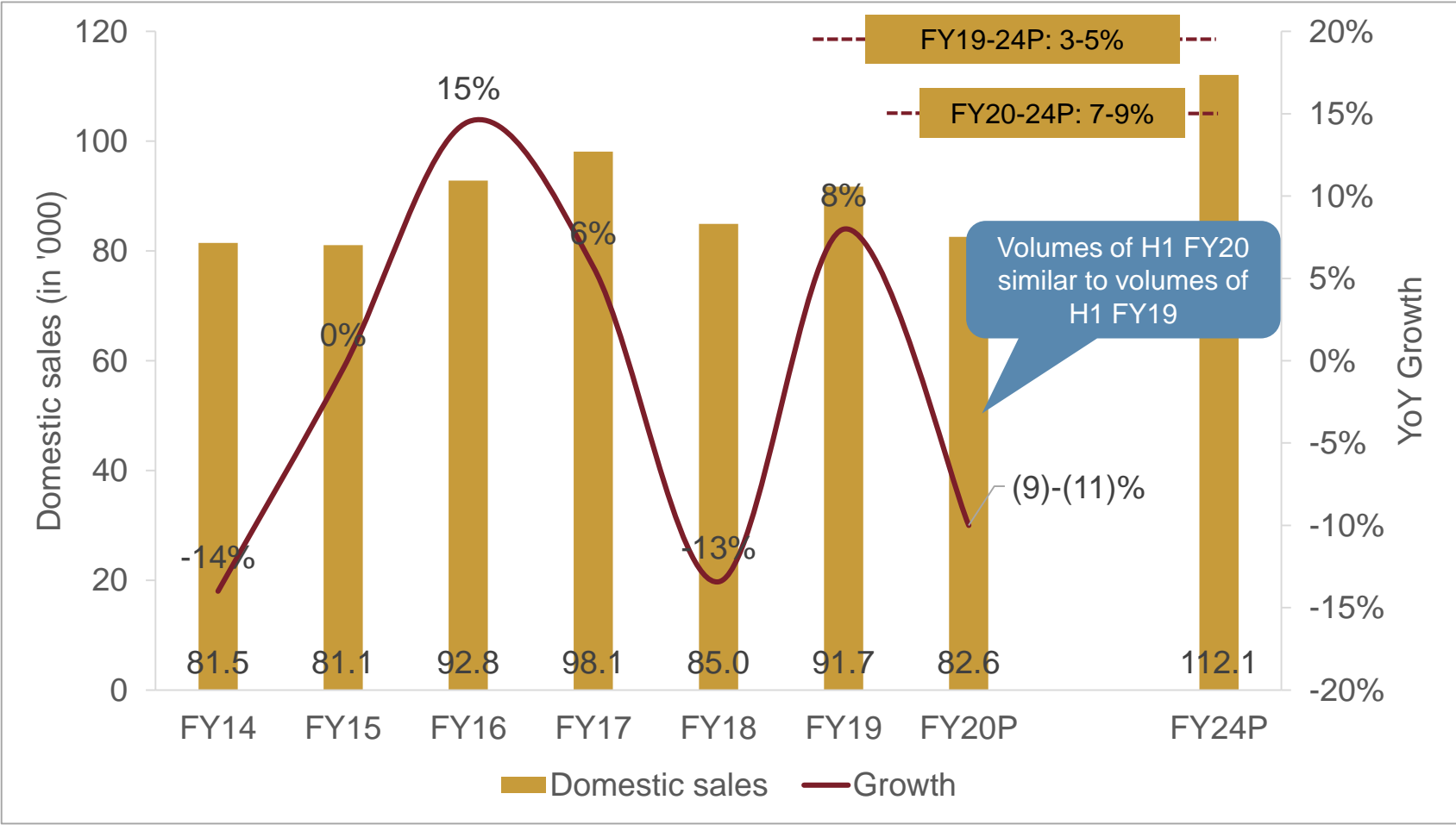
Company	H1 FY18	H1 FY20
Tata Motors	56,776	53,970
Ashok Leyland	37,276	32,229
Eicher	12,438	13,207
<b>Industry</b>	<b>111,225</b>	<b>104,267</b>

# Domestic sales – Buses



- H1 of fiscal 2020 was flat.
- STU demand to see a marginal growth. Tourism to support growth in fiscal 2020.

# Top three players Domestic sales – Buses



Top 3 players YTD (FY 20/FY 19):  
(3)%

Company	H1 FY19	H1 FY20
Tata Motors	16,549	16,402
Force	9,244	8,674
Ashok Leyland	8,932	8,581
<b>Industry</b>	<b>47,787</b>	<b>44,557</b>



# Tractors

# Uneven rainfall, high base and slowdown in commercial demand to decelerate tractor sales growth in fiscal 2020

Parameters	Impact		
	FY 19	FY 20P	FY21P
<b>Farm Income**</b>	F	N	F
-- Crop Prices	F	F	N
-- Crop Output	F	N	F
-- Kharif Output	F	NF	F
-- Rabi Output	F	F	F
<b>Demand Indicators</b>	F	NF	F
-- Infrastructure Development	F	NF	F
-- Sand Mining	F	NF	F
<b>Supply side variables &amp; financing</b>	N	N	N
-- Finance Availability	N	N	N
-- Channel Inventory	N	N	N
-- Player Action	F	N	N

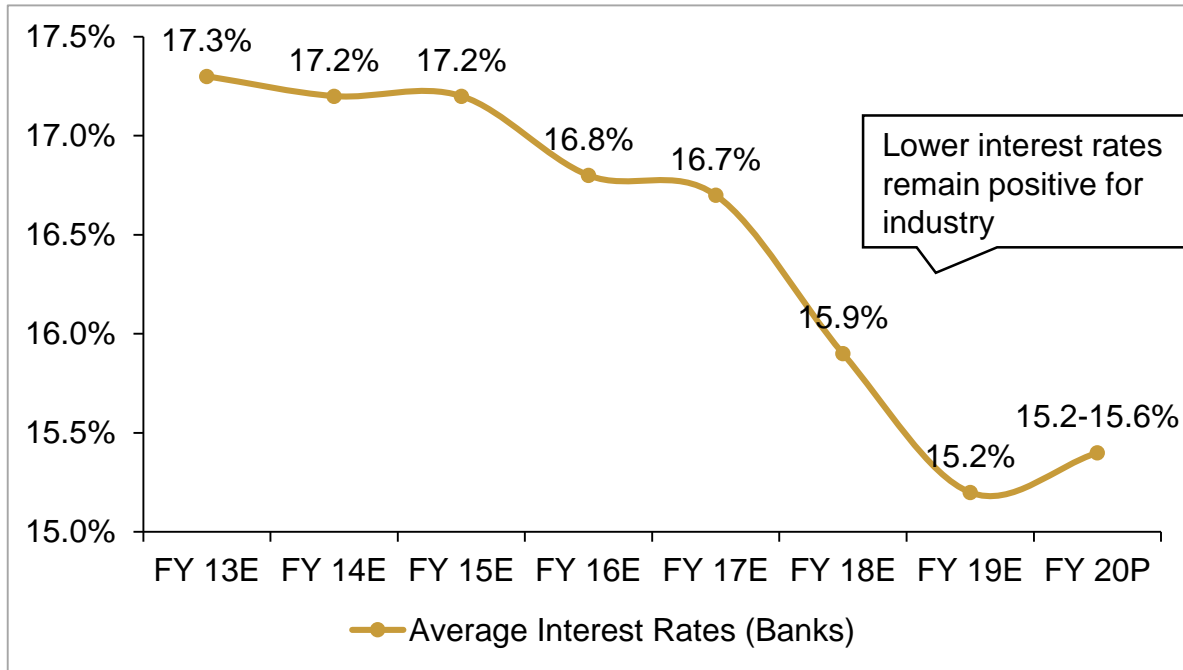
NOTE : \*\* Fiscal 2021 assumed neutral assuming normal monsoon

Source: CRISIL Research

NF: Not favorable, F: Favorable; N: Neutral

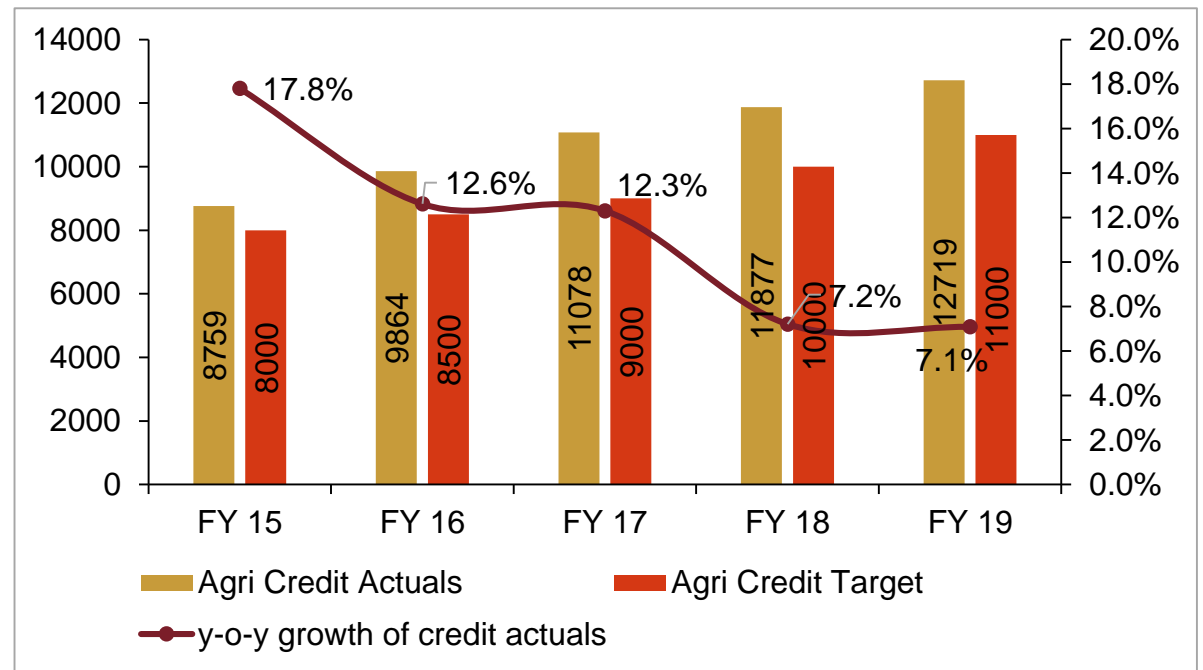
# Banks reduced interest rates for purchasing tractors in fiscal 2019

Lower interest rates to aid farm profitability



Source: CRISIL Research

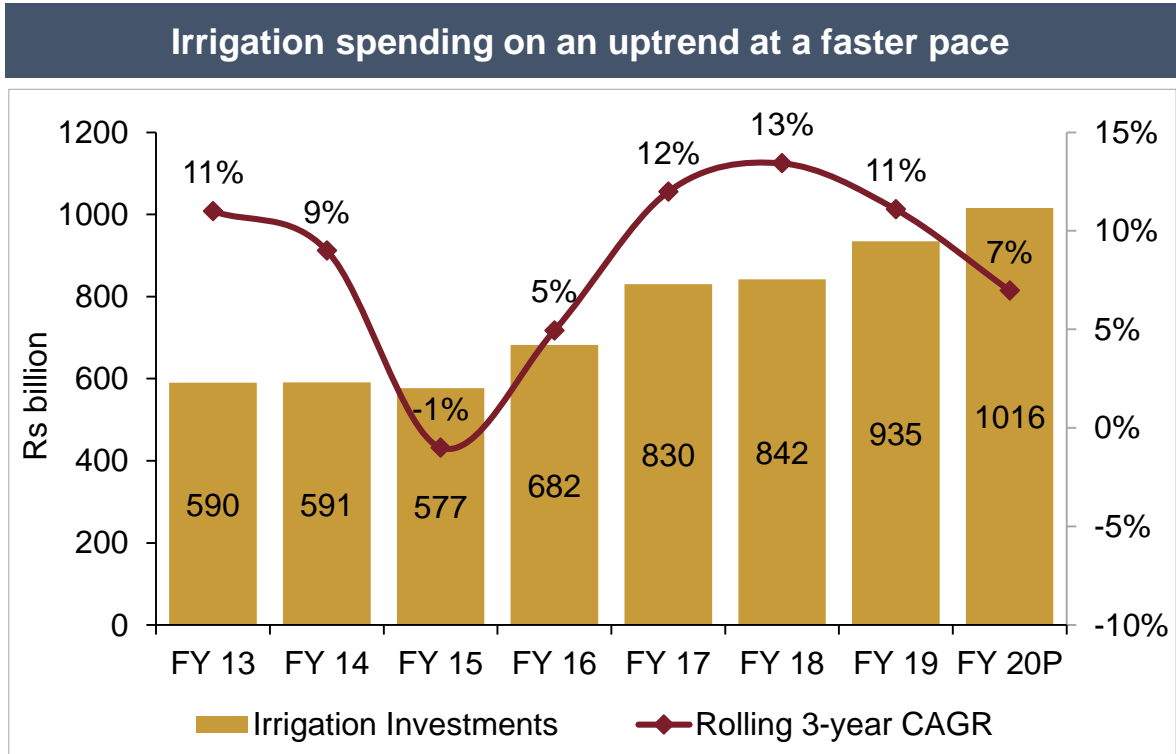
Actual agri credit disbursal higher than target in last five years



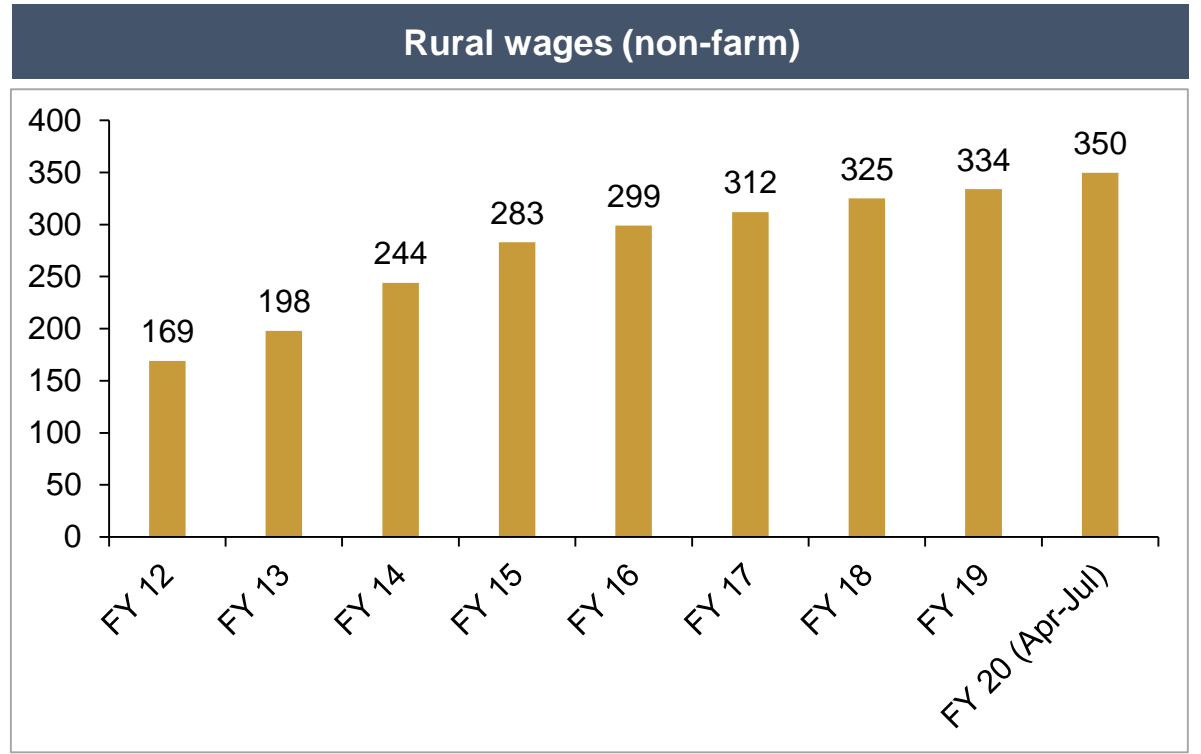
Source: Government of India, CRISIL Research

- Rate cuts from RBI will positively impact tractor finance gradually
- Also, captive financing is picking up in the industry, with increasing penetration of Mahindra Finance and Escorts Finance

# Irrigation investments to increase two times in next 5-years as compared to last 5-years



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



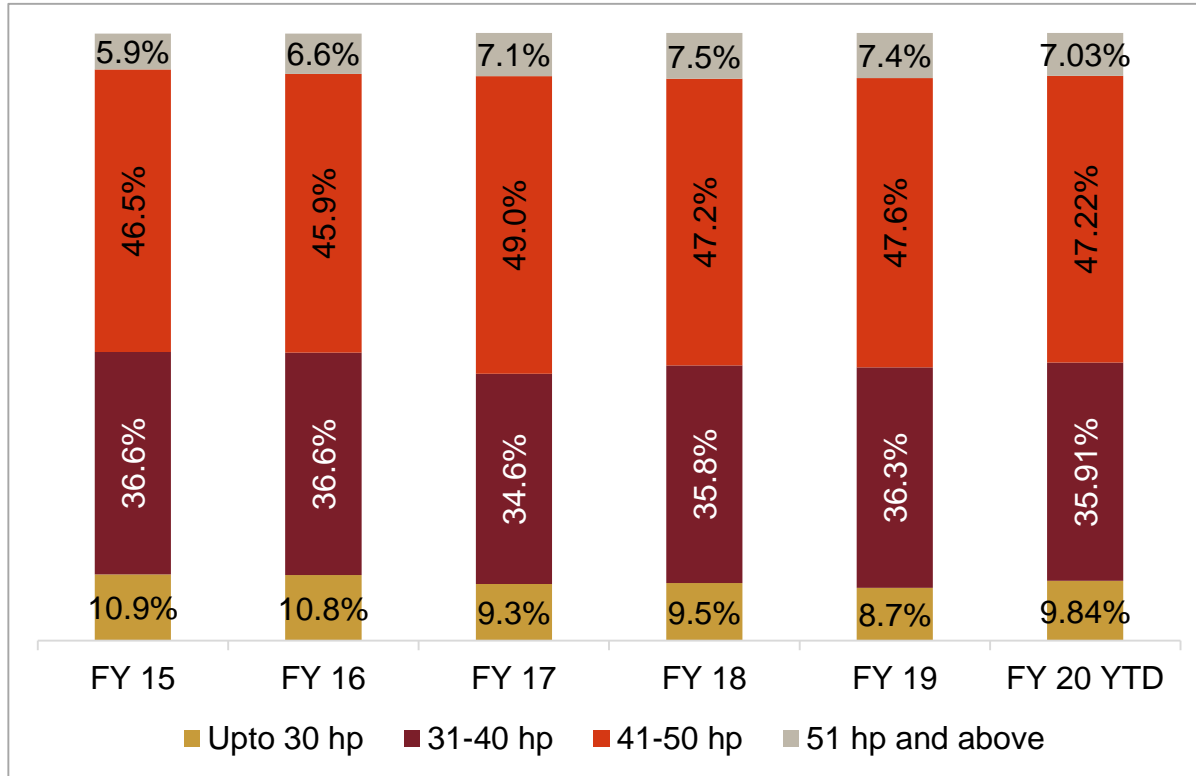
Rural wages includes general non-agricultural labour.

Source: Ministry of Labour and Employment, CRISIL Research

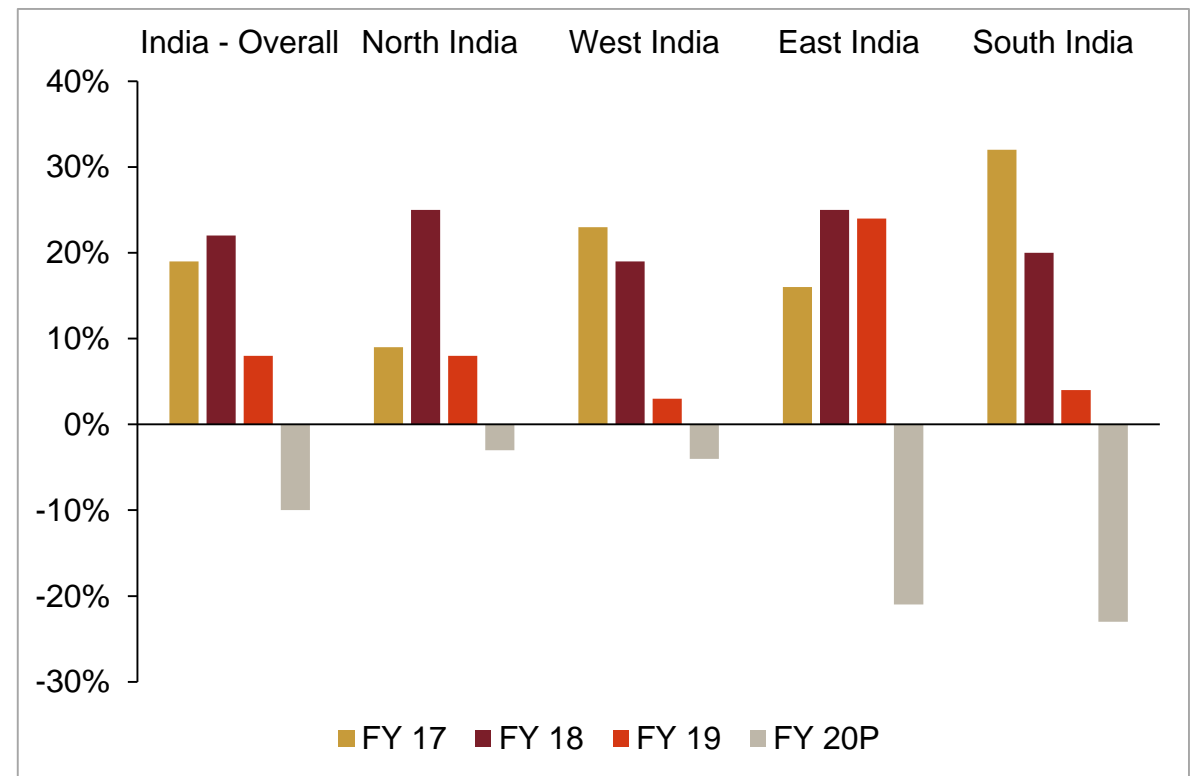
- The government's renewed thrust on enhancing irrigation intensity and making the nation more drought-proof is expected to support agriculture growth and increase mechanisation
- The growth in rural wages and increasing mechanization on farm fields bode well for structural tractor demand growth

# South and East region to be laggards in driving growth for fiscal 2020

Segment-wise tractor sales



Regional growth



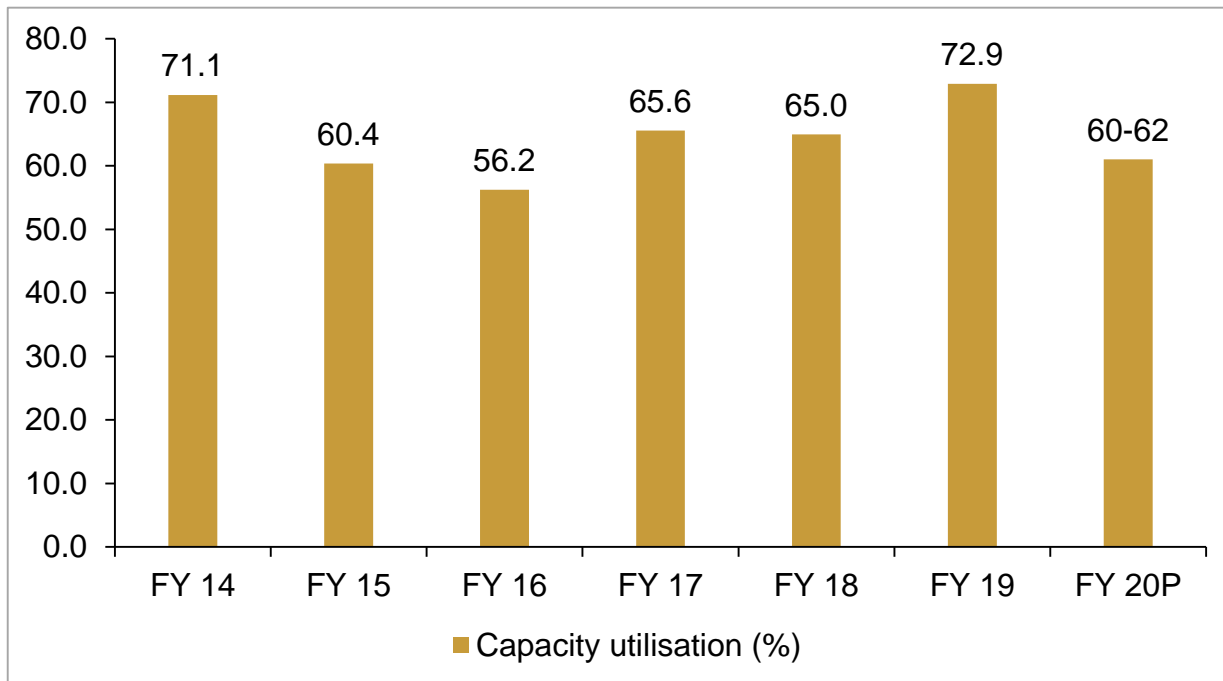
Source: CRISIL Research

- The growing trend of collaborative farming, increasing commercial usage, and higher irrigation intensity will boost usage of higher hp tractors
- A more gradual movement is expected towards 51 hp and above tractors, as they are less amenable to multipurpose applications (like the 41-50 hp) and the price gap is big (at least 10-15% between a 50 hp and a 55-60 hp tractor since emission norms change at 50 hp)



# Utilisation expected to decline in fiscal 2020

## Capacity utilisation



P = Projected  
Source: CRISIL Research

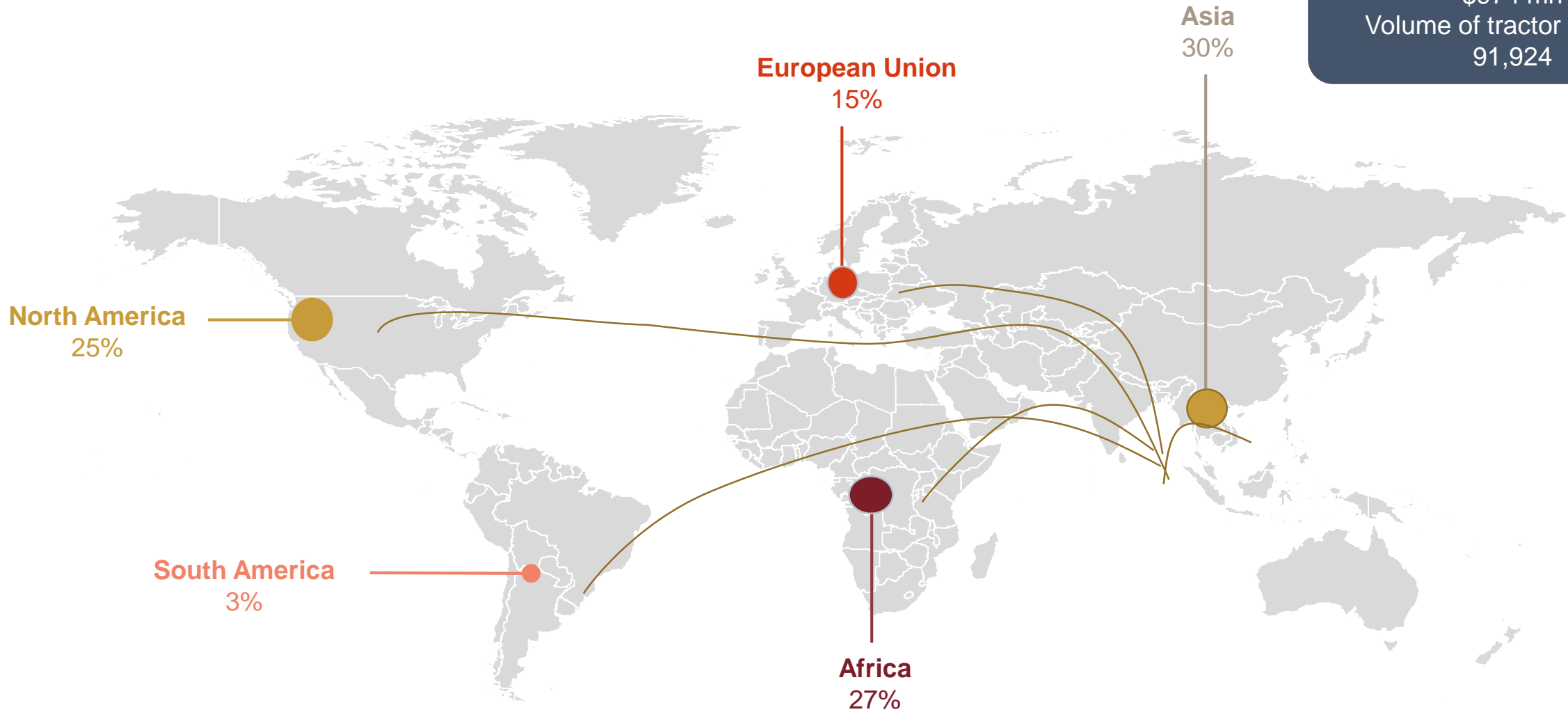
Player	Production (FY 2019) (in units)	Capacity (FY 2019) (in units per annum)	Capacity utilisation (%)
Escorts Ltd.	100991	98940	102.1
Force Motors Ltd.	3856	24000	16.1
International Tractors Ltd.	107813	300000	35.9
Johndeere	94956	130000	73.0
Mahindra & Mahindra Ltd.	338236	376000	90.0
New Holland India	42889	60000	71.5
SAME DEUTZ-FAHR	9938	15000	66.3
TAFE	159915	158000	101.2
VST	8451	37000	22.8
Industry Total	867045	1198940	72.9

Source: CRISIL Research

- Fiscal 2020 will witness capacity addition of ~76,000 units
- Production is expected to decline due to decline in domestic as well as in exports for fiscal 2020.
- Thus, capacity additions by players and moderate growth in tractor production will lead to a decline in capacity utilisation to 60-62% levels in fiscal 2020

# Tractor Exports

Value of tractor exports:  
\$974 mn  
Volume of tractor exports:  
91,924



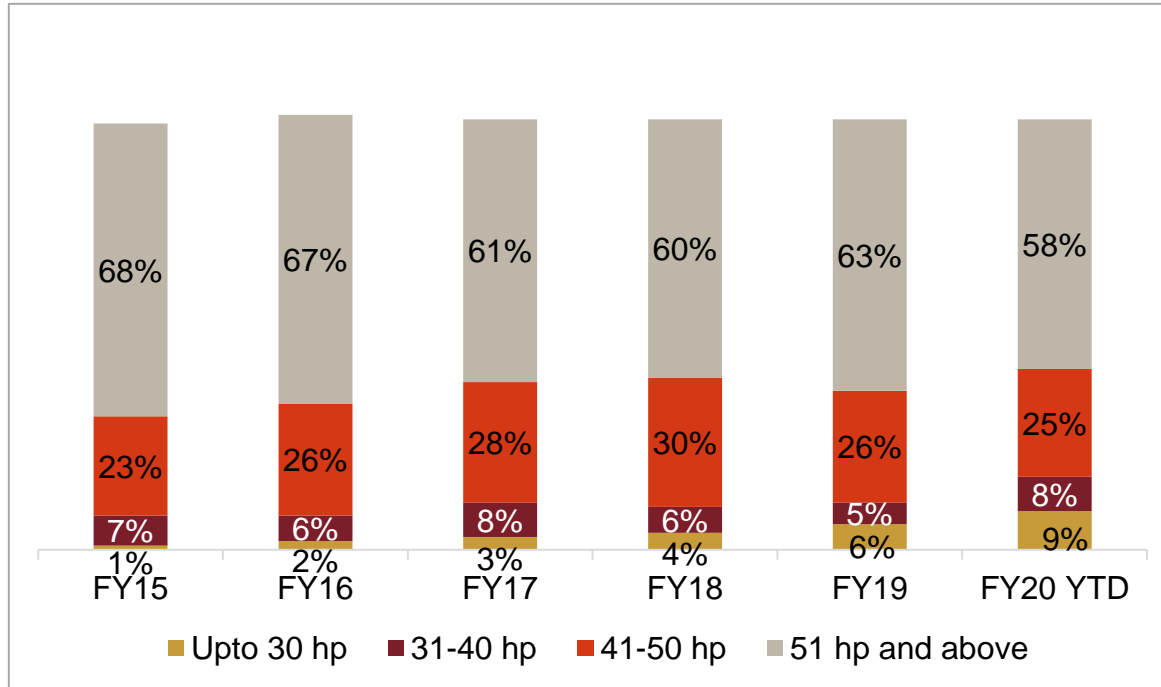
NOTE: Represents FY19 exports

Source: Directorate General of Foreign Trade (DGFT), CRISIL Research

Research

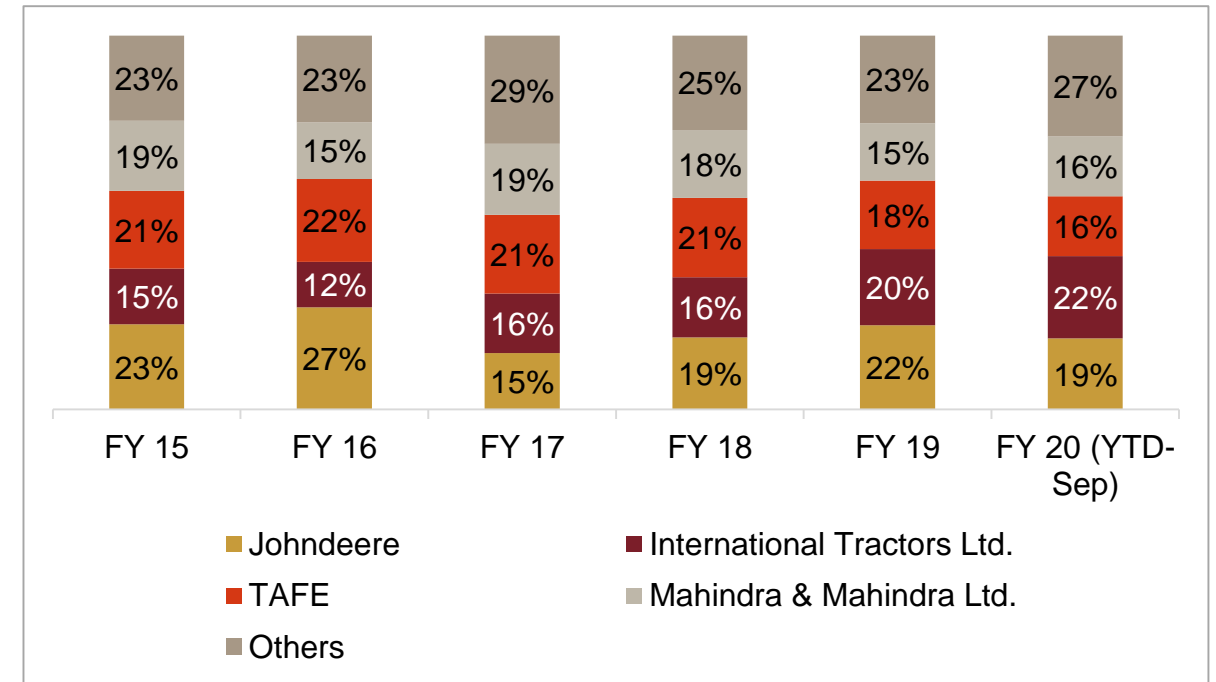
# Regulatory norms in Europe and slowdown in demand sentiments in Asian countries to cause decline in exports in 2020

## Segment wise market share of exports



Source: CRISIL Research

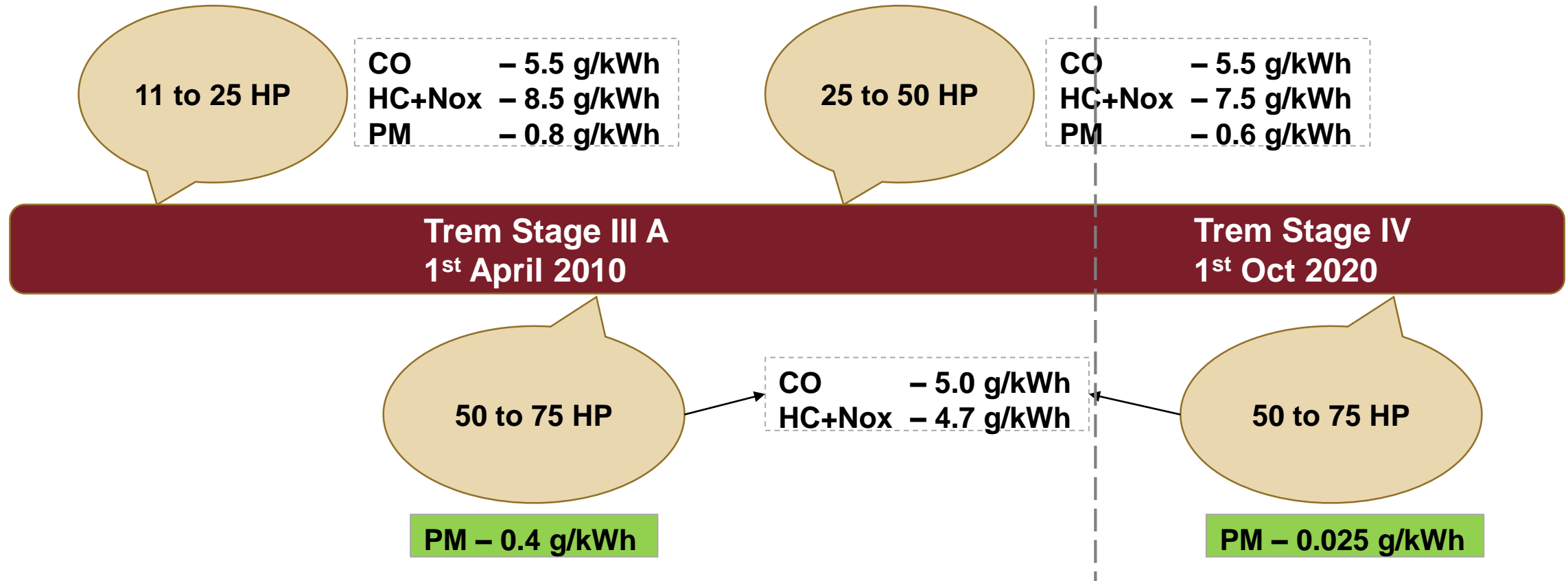
## Player wise market share of exports



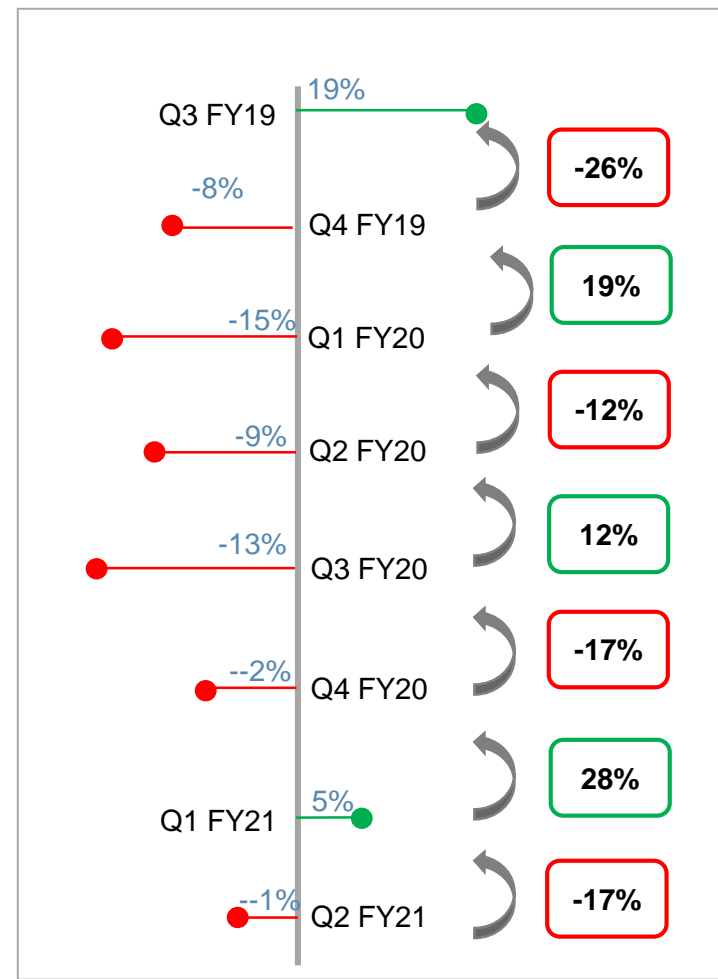
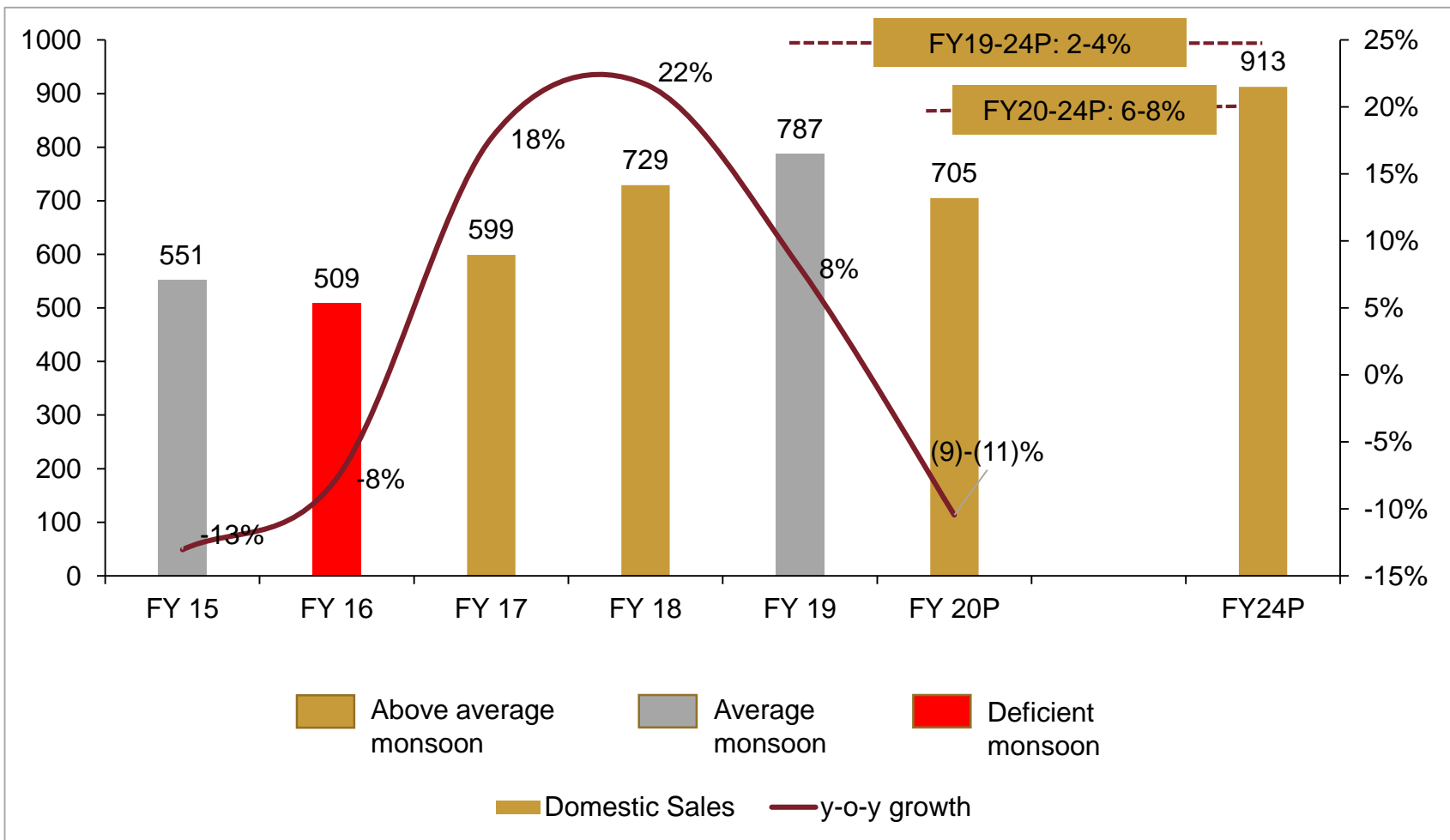
Source: CRISIL Research

- Tractor exports witnessed a healthy growth in fiscal 2019
- The growth is expected to decline by (7)-(9)% in fiscal 2020 due to decline in sales in Europe and Asia on the back of global emission norms and economic slowdown.
- >51 hp segment dominates and John Deere tops tractor exports from India

# Trem IV norms applicable only on 50HP and above Tractor segment forming 10% of domestic sales

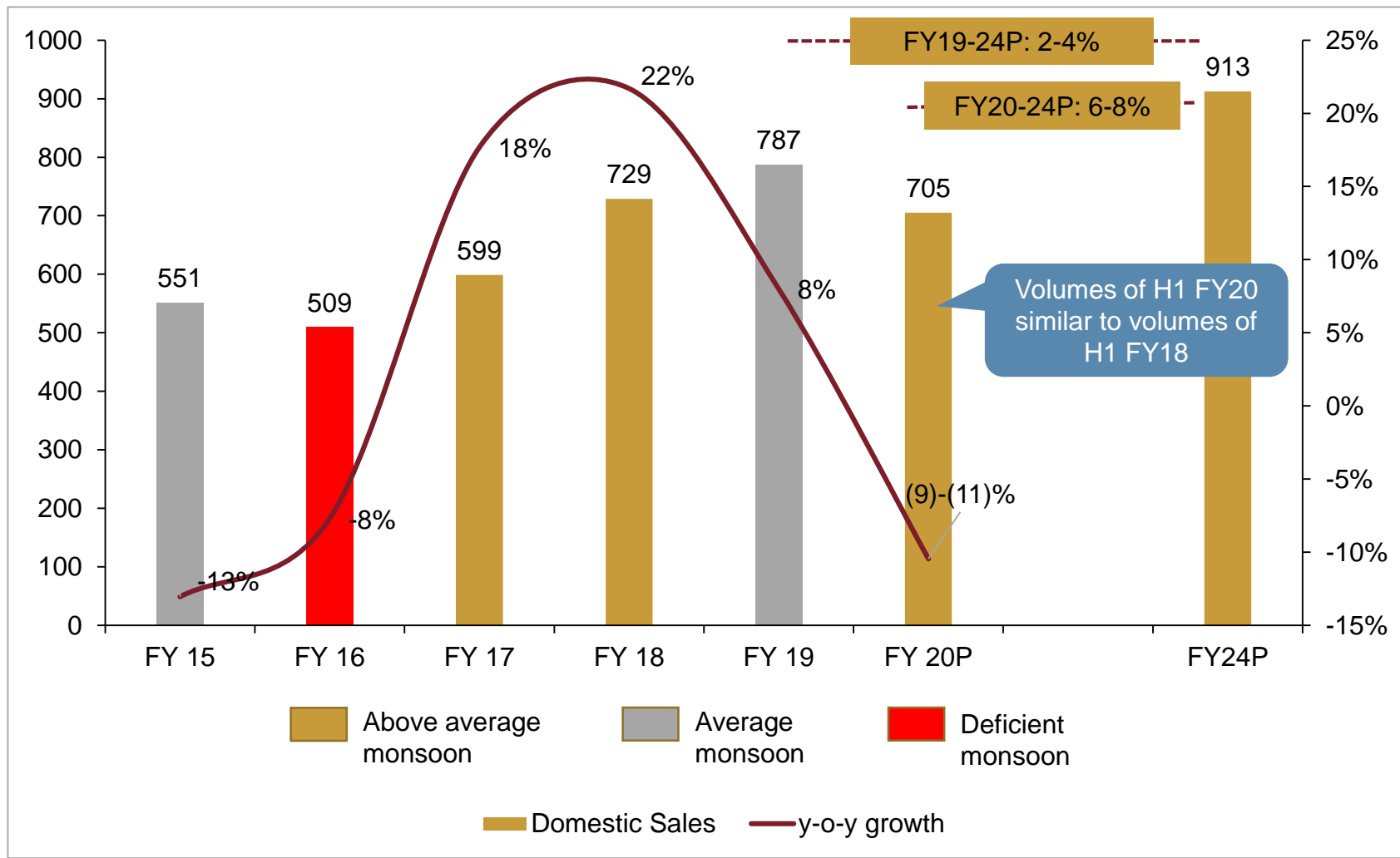


# Domestic sales – Tractors



- Domestic tractor sales are expected to de-grow by (9)-(11)% on-year in fiscal 2020 after three years of robust growth
- Farm loan waivers to benefit industry if implementation does not slip up
- Farmer direct income support schemes unlikely to benefit tractor sales as incremental cash is expected to be higher in the hands of Jharkhand and Telangana beneficiary farmers if the schemes are successfully implemented which is not enough to significantly expand the overall tractor industry

# Top three players Domestic sales – Tractors



Top 3 players YTD (FY 20/FY 19): (13)%

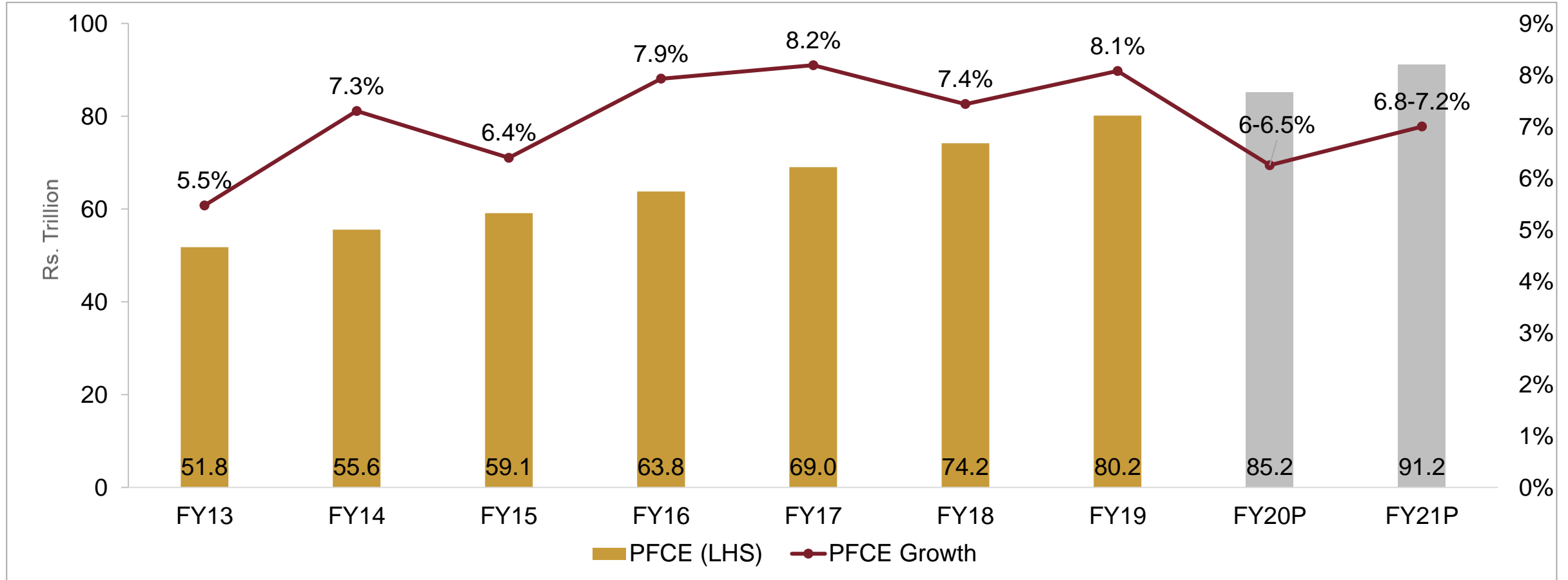
Company	H1 FY18	H1 FY20
Mahindra	158,958	152,004
TAFE	74,701	64,450
ITL	43,435	40,873
<b>Industry</b>	<b>371,018</b>	<b>358,562</b>



# Three-wheeler

# Private consumption on an uptrend

## Slowdown in private consumption

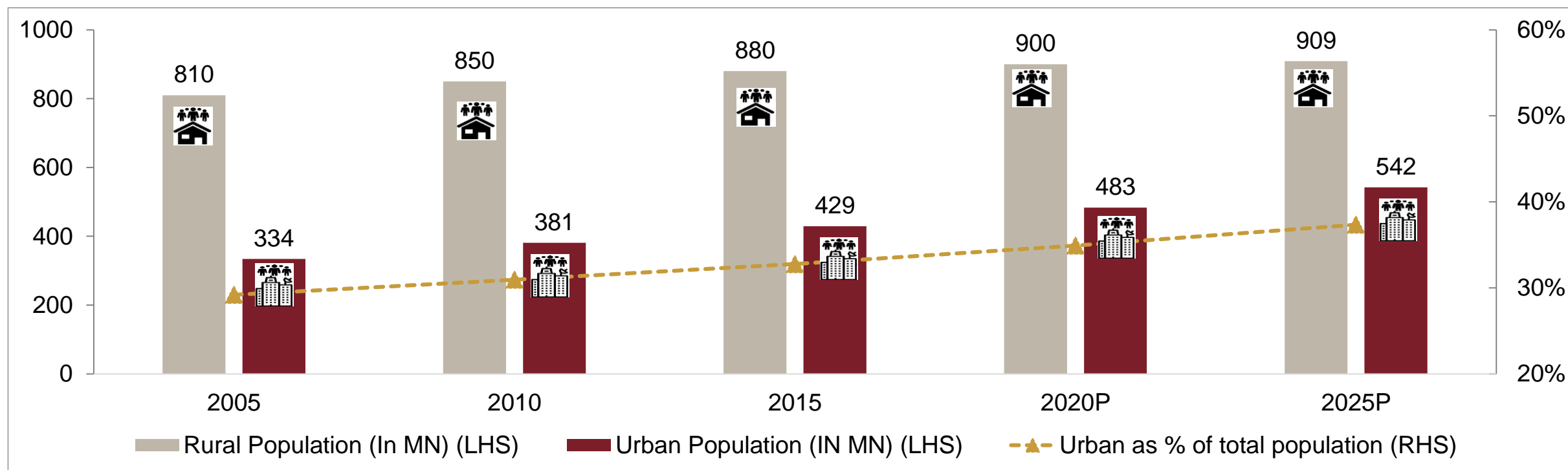


Source: Ministry of Statistics and Programme Implementation (MoSPI), CRISIL Research



# Rural population to rise 2.3% until fiscal 2020

Urban areas to house 37% of total population by 2025



Source: United Nations, Department of Economic and Social Affairs, Population Division (2018)

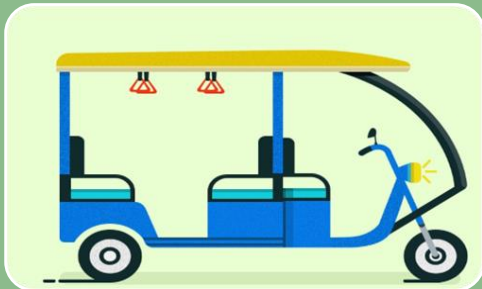
- Between fiscals 2015 and 2025, the urban population growth is estimated to slow down marginally to 4.8% from 5.1% seen during fiscals 2005-2015
- Urbanization makes cities larger, pushing up motorization and economic growth that lead to better travel infrastructure boosting urban mobility which is expected to drive the sales of three-wheeler passenger vehicles.

# Future Demand Drivers – Electric Three-wheeler



## Current launches and initiatives

- Exide launches an electric rickshaw
- First instantly-charging electric 3-wheeler unveiled
- Hero Electric ties up with CSC to promote EVs in rural areas
- Kinetic Safar Star Electric Three-Wheeler Launched For Last Mile Deliveries, Priced At ₹ 2.2 Lakh



## Future

- Three-wheelers may have to go electric from FY24
- TVS Motor gets approval for patent on its hybrid three-wheeler

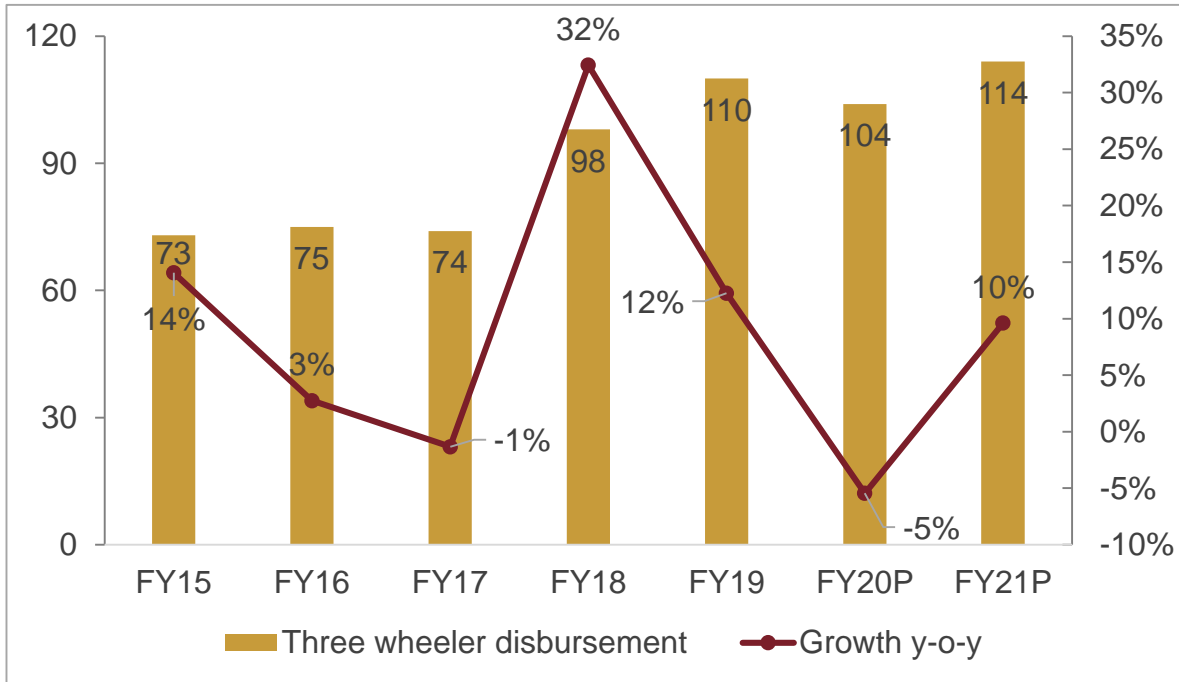


## Government Regulations

- Kerala to phase out 3-wheelers by 2021 to introduce e-autos
- Kinetic Green signs MoU with MahaMetro for last mile connectivity using e-rickshaw.

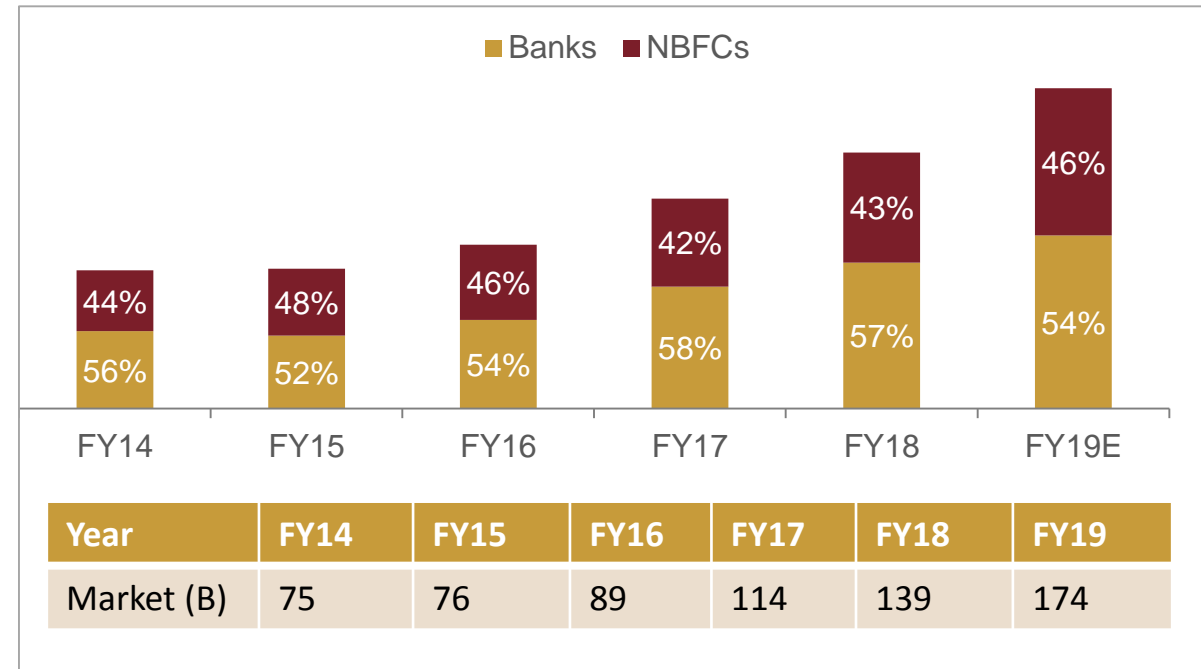
# Deepening NBFC penetration into rural markets to drive three-wheeler financing growth

Three wheeler disbursements (In Billion Rupees)



Source: CRISIL Research

Comparison of different financiers

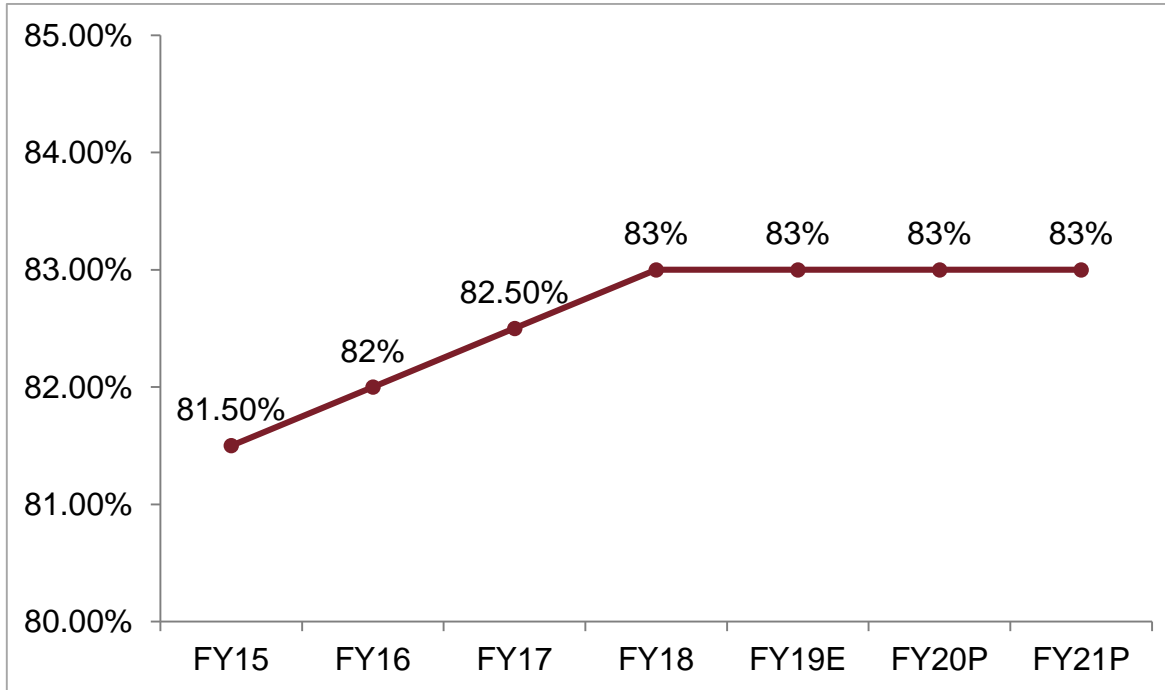


Note – Values include data for NBFCs, banks and small finance banks  
Source: SIAM, Company reports, CRISIL Research

- Share of NBFCs in overall financing to improve by 4-5% over next two fiscals. Lower rural reach of the banking sector, though, is expected to constraint the sector's ability to increase its overall financing share.
- Major captive NBFCs in the domain include Mahindra Finance, Bajaj Finance and Hinduja Leyland Finance, and non-captives include Cholamandalam Finance and Muthoot Capital, among other smaller auto financing NBFCs.

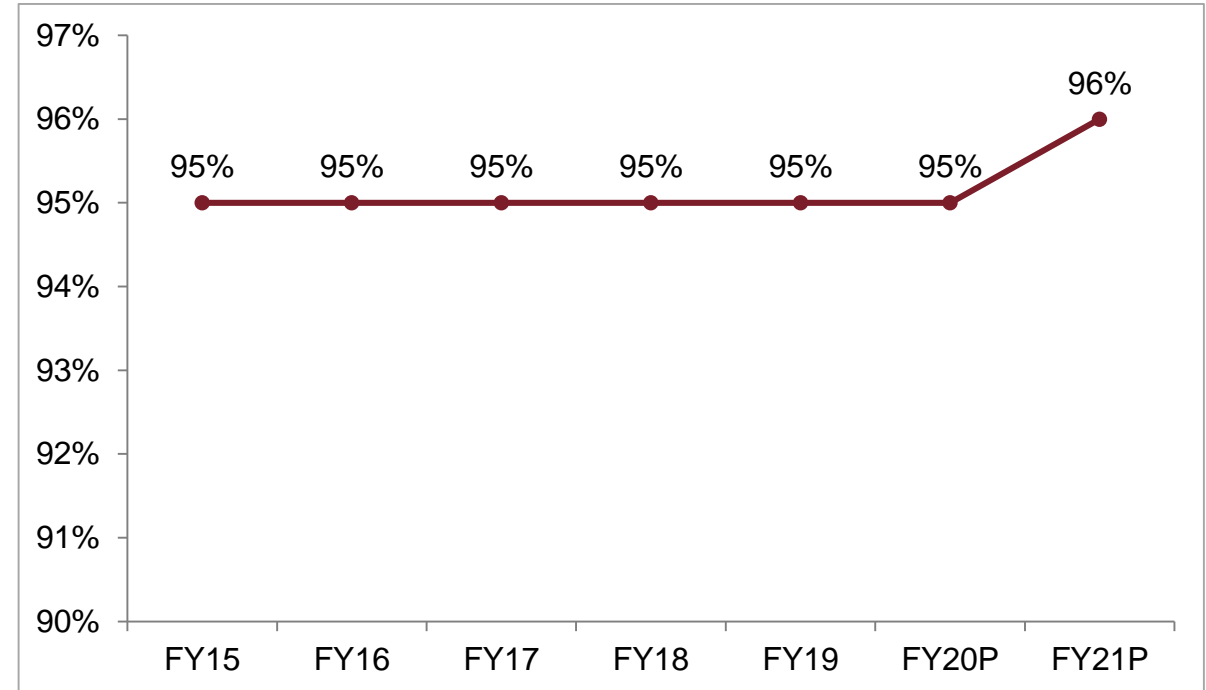
# Financing penetration to increase marginally on increasing rural penetration of NBFCs

## Loan-to-Value for 3W



Source: Crisil Research

## 3W Finance Penetration

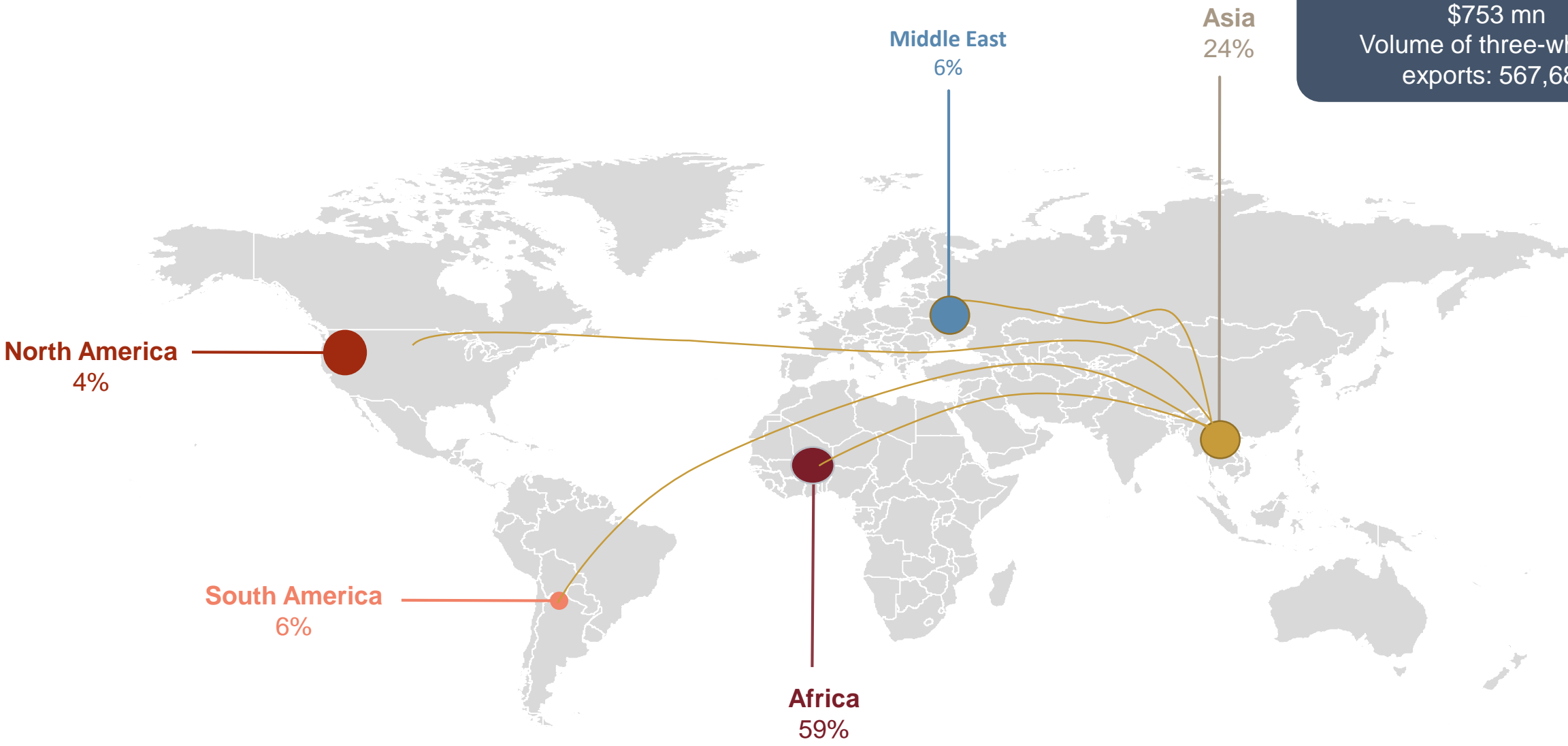


Source: Crisil Research

- Financing penetration is expected to remain high, as incumbents take a share from unorganised players by offering relatively lower interest rates.
- During the next two fiscals, deepening rural penetration is expected to see overall financing penetration inch up.

# Three-wheeler exports

Value of three-wheeler exports:  
\$753 mn  
Volume of three-wheeler exports:  
567,689



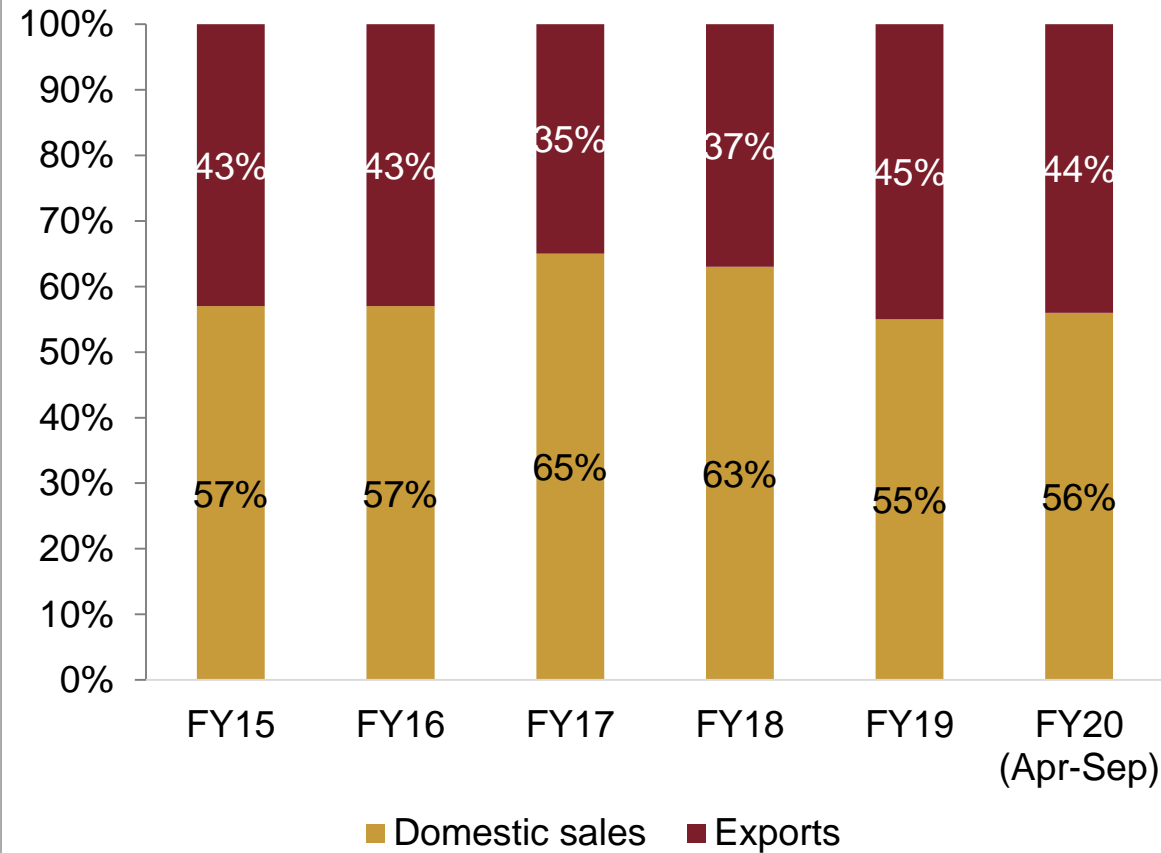
NOTE: Represents FY19 exports

Source: Directorate General of Foreign Trade (DGFT), CRISIL Research

Research

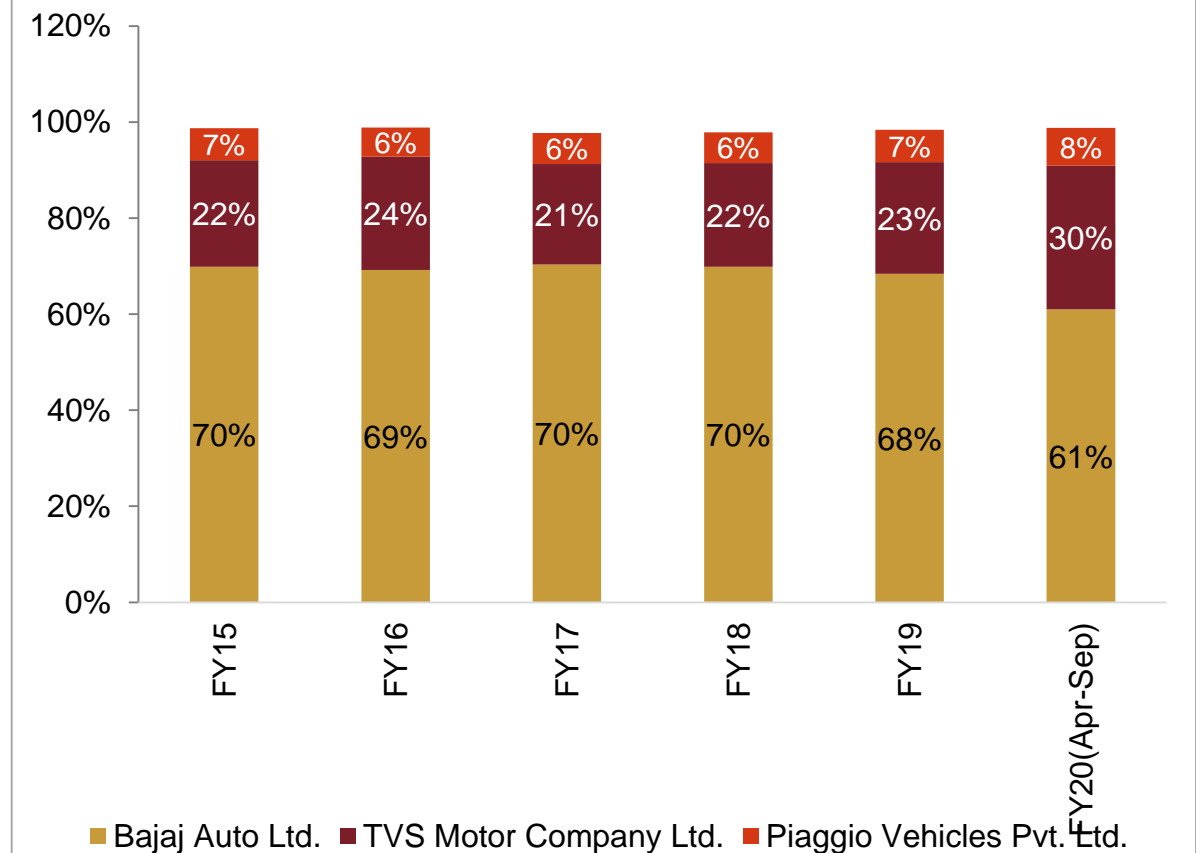
# Bajaj's share in overall exports decreases, TVS Motor's share increases

Share of exports in total sales



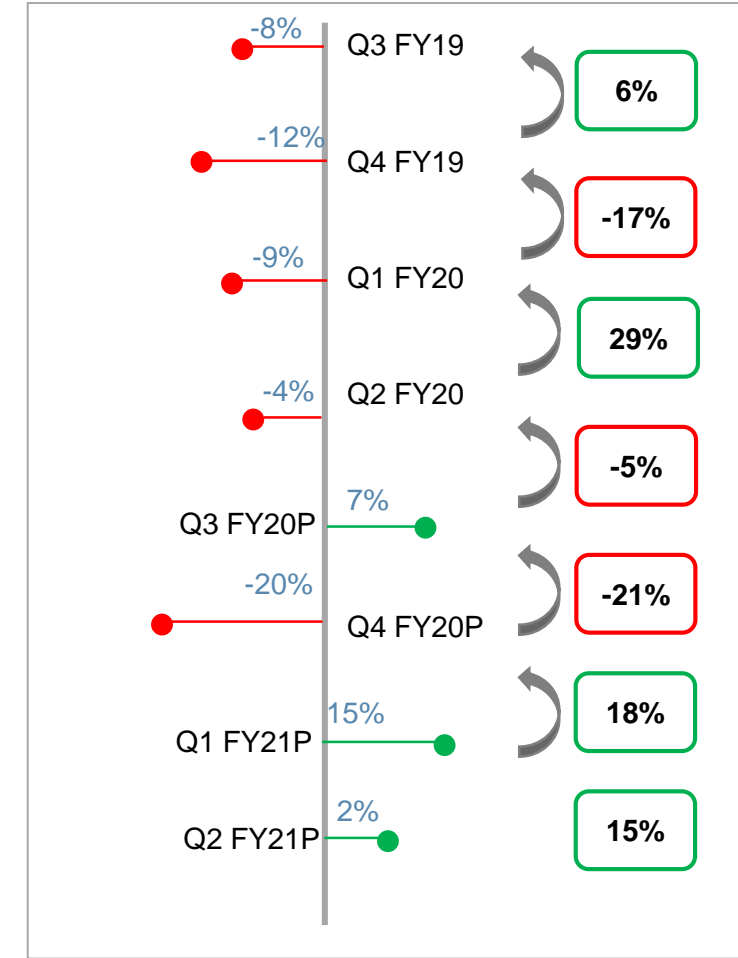
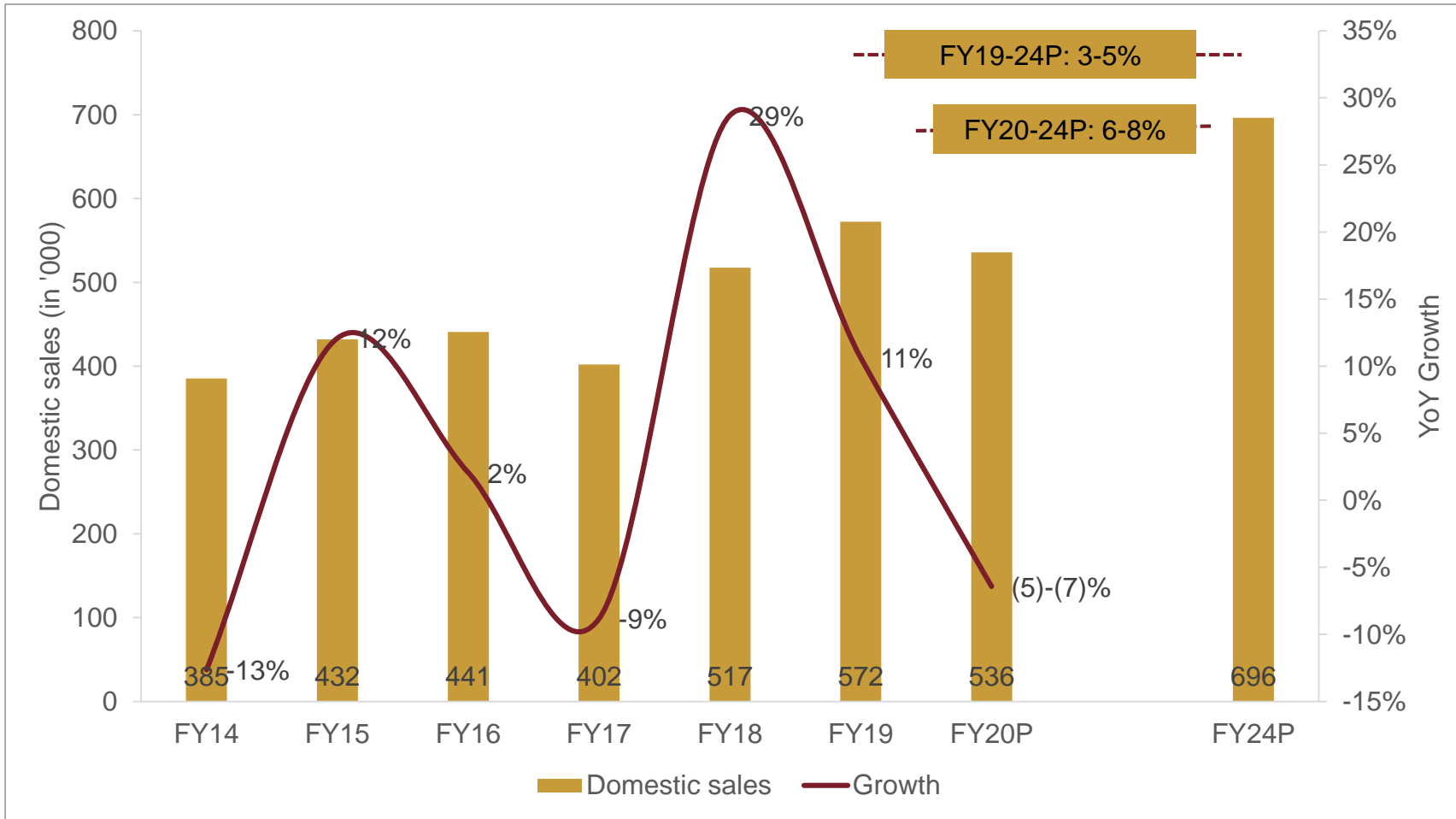
Source: SIAM, CRISIL Research

Bajaj & TVS dominates the share in exports



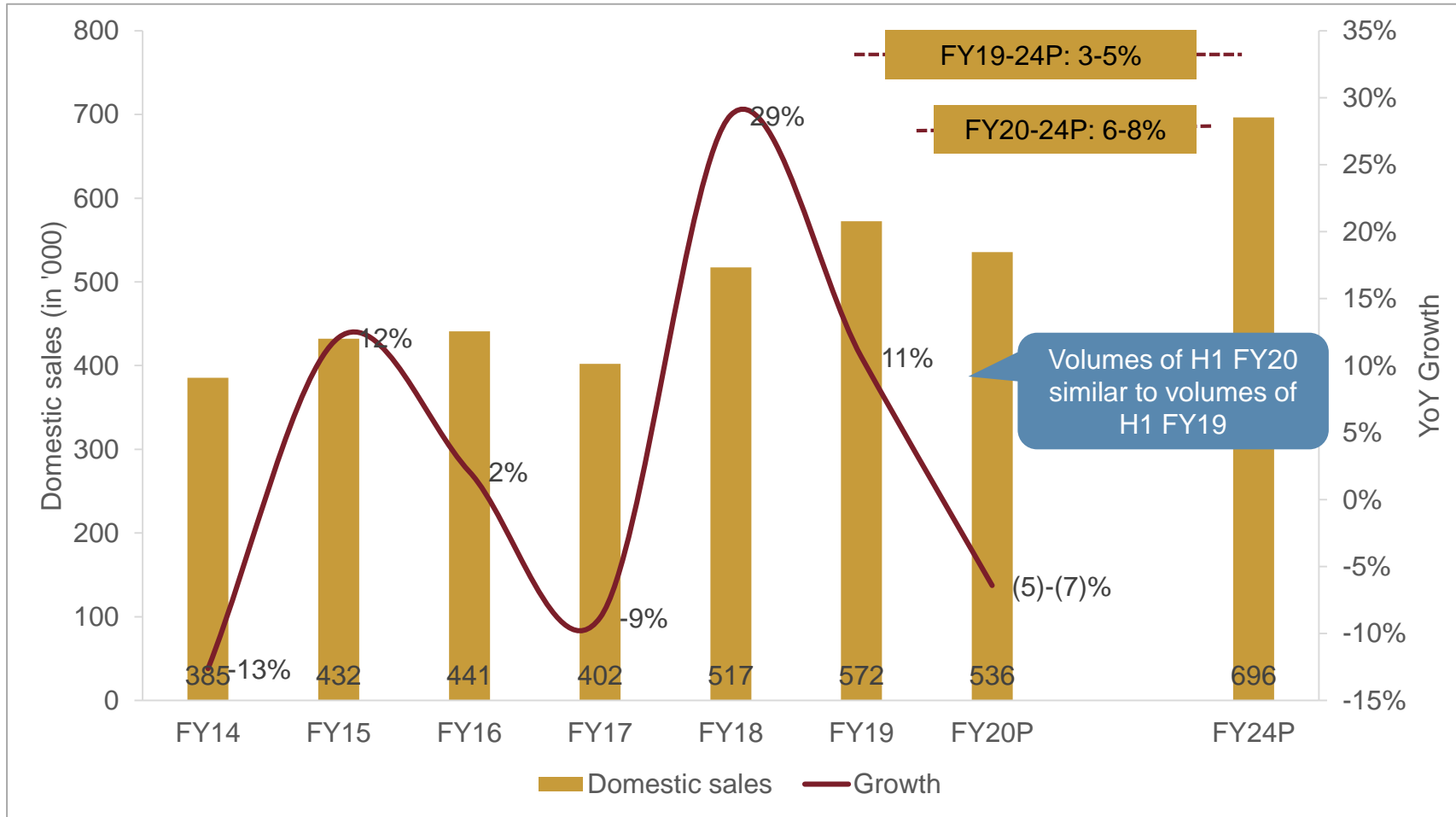
Note : Exports of Bajaj Auto, TVS and Piaggio represents 98% of exports as of FY19  
Source: SIAM, CRISIL Research

# Domestic sales – Three-wheeler Passenger



- Fiscal 2020 is expected to degrow by 5-7%. Since no new permits expected and lower impact of prebuying. Moreover, high base effect of last two fiscals will lead to degrowth.
- Fiscal 2018 and 2019 saw a growth due to opening of permits in states like Maharashtra, Karnataka, Andhra Pradesh and Delhi

# Top three players domestic sales - Three-wheeler Passenger

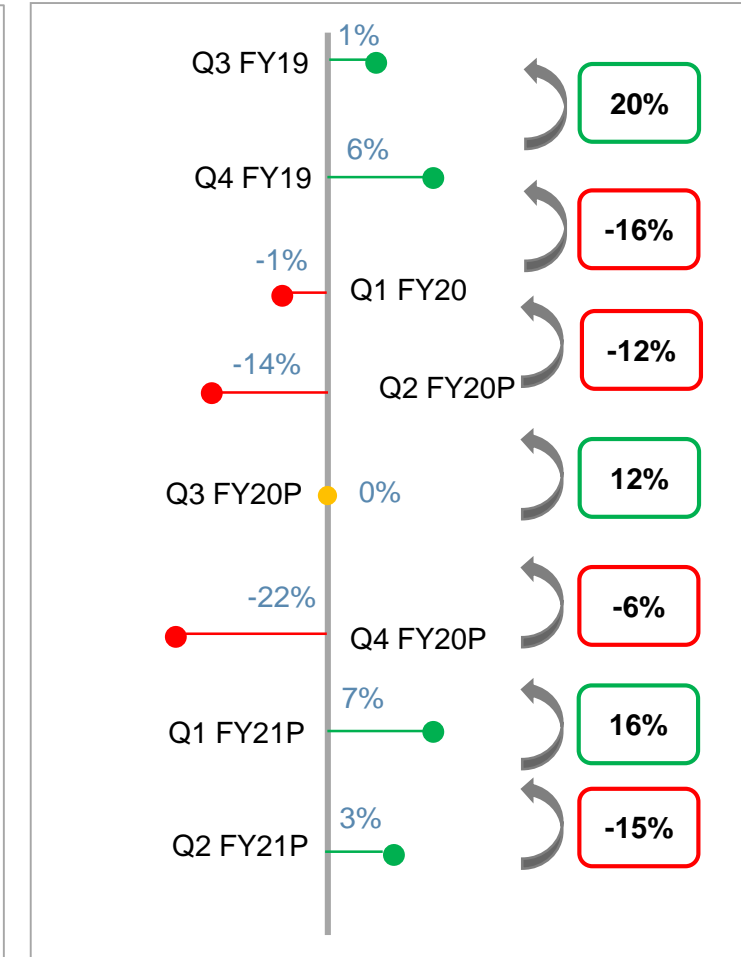
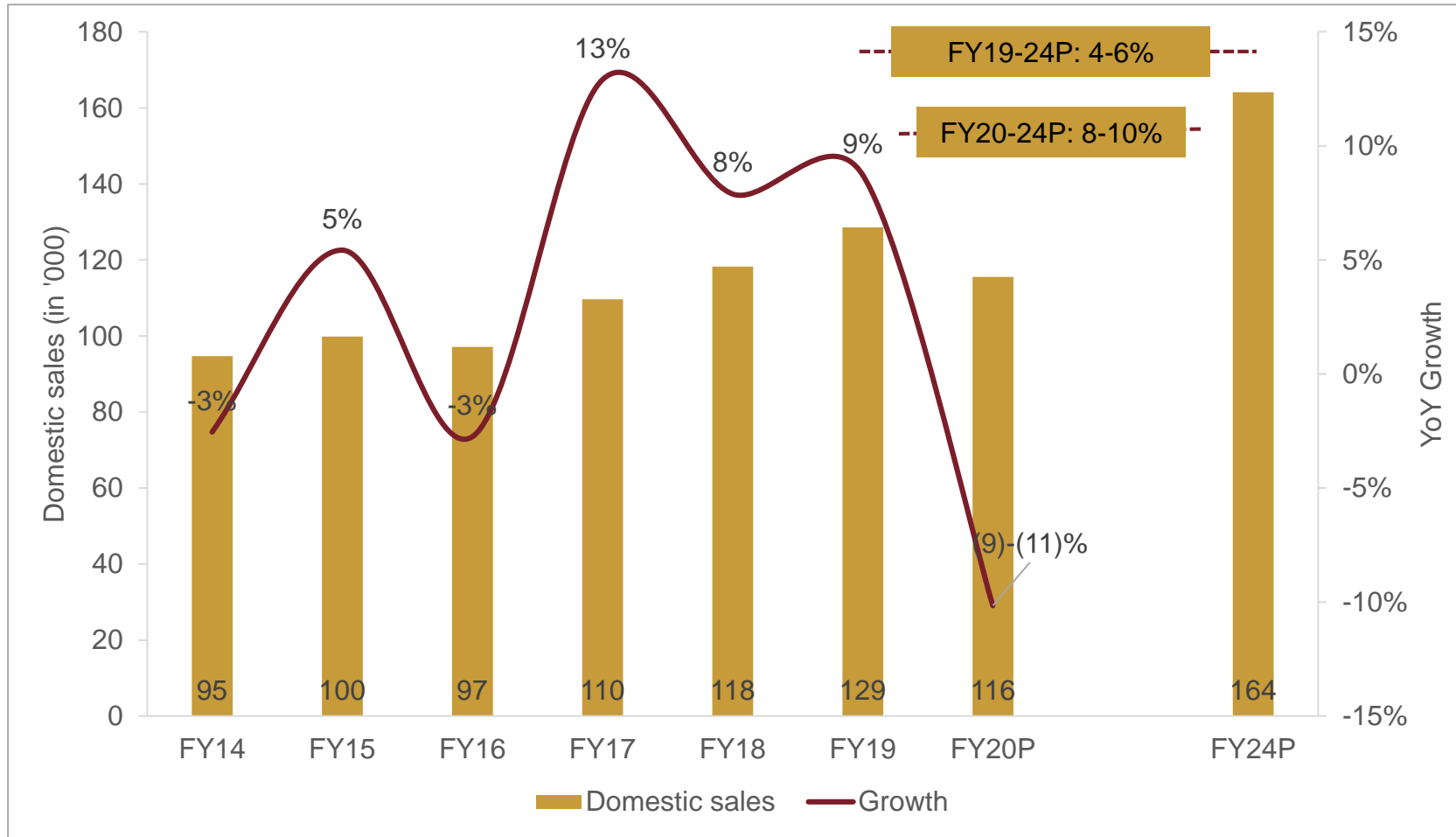


Top 3 players YTD (FY 20/FY 19):  
(7)%

Company	H1 FY19	H1 FY20
Bajaj	191,436	176,473
Piaggio	56,954	54,015
Mahindra	22,118	21,640
<b>Industry</b>	<b>291,982</b>	<b>273,372</b>

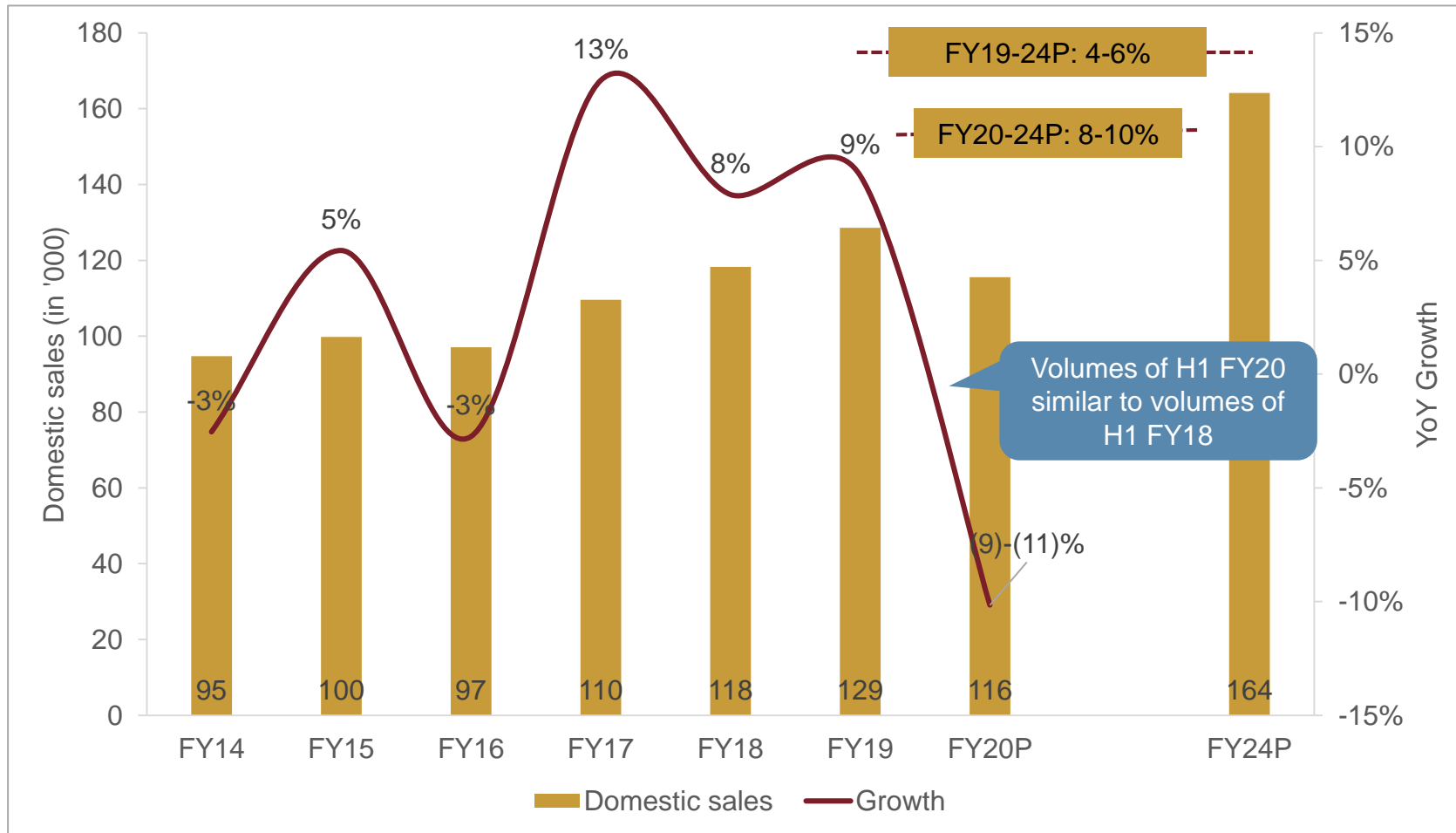


# Domestic sales – Three-wheeler Goods



- Lack of infrastructure in rural areas leads to higher preference for three-wheeler cargo over SCV. Industry is expected to degrow by 9-11% in fiscal 2020.
- However, shift from three-wheeler goods to SCV is expected to slowdown since much of the shift has already taken place.

# Top three players domestic sales - Three-wheeler Goods



Top 3 players YTD (FY 20/FY 19):  
(8)%

Company	H1 FY18	H1 FY20
Piaggio	27,227	23,879
Bajaj	9,250	16,658
Atul	9,412	7,951
<b>Industry</b>	<b>54,304</b>	<b>57,324</b>

# Inventory scenario

# Inventory levels a concern across segments

Vehicle segment	Normal inventory in days	Current inventory levels	Actions being taken
Passenger Vehicles	25-30	30-35	OEMs had bought down the inventory level. However, due to festive, inventory was built to cater to the consumer demand.
Two Wheelers	30-35	55-60	Higher discounts in the form of cashback and exchange offers are announced by the dealers.
Commercial Vehicles	25-35	45-50	Discounts have been very high in the MHCV goods segment, also the freight demand has slipped leading to lower correction in MHCV goods; however LCV goods the inventory levels are relatively lower
Tractors	30-35	40-45	Inventory was built up but corrected in Q2 of fiscal 2020.
Three-wheeler	18-22	15-20	Inventory was slightly higher due to festive built up.

NOTE: Inventory days for passenger three-wheeler is 15-20 days and for goods three-wheeler is 25-30 days

Source: Industry, CRISIL Research

# Thank you

**For any further queries please contact:**

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