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Indian automotive industry performance –FY19

Prepared for ACMA

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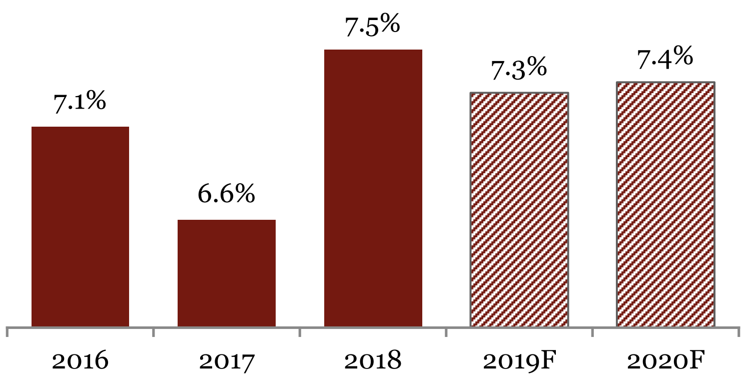
The Indian automotive industry grew at a CAGR of 8.6% over last 4 years; increasing cost and financing challenges result in a subdued FY19

Macro-Economic View

Projected GDP % Change

2014 – 2020F

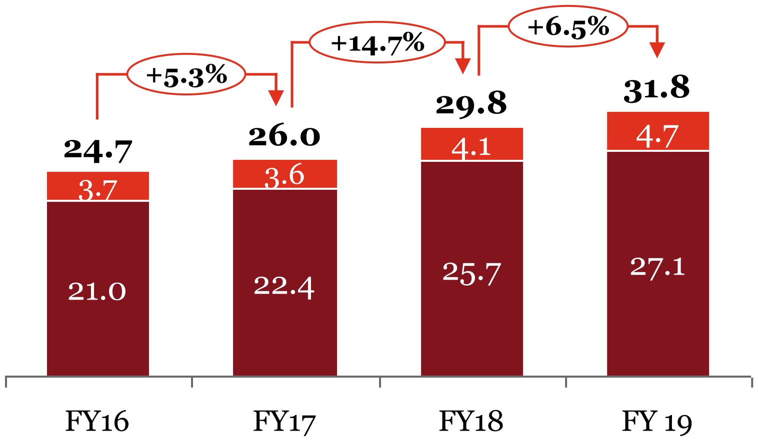


Key insights

- **Indian economy** is expected to grow at **>7% till 2020**[1]
- Key drivers favouring the growth of Indian automotive market are rapid **urbanization** in India (31% as per Census 2011), increasing **disposable income** (7th pay commission), large **millennial** population, **increasing highway & infrastructure investments,** increase in mining activity and so on

Indian Automotive Industry

OEM - Domestic sales and exports[3] | million units



Subdued FY19

Rising fuel prices	Muted festive season
Long term Insurance, cost increase	Liquidity crisis with NBFCs
Axle load norms, fleet utilization	Traffic congestion in cities
Uneven Monsoon	Unfavourable exchange rate

Vehicle segment	Dom. Sales CAGR FY 16-19	Exports CAGR FY 16-19
	▲ 8.7%	▲ 9.6%
	▲ 6.5%	▲ 1.2%
	▲ 13.5%	▼ 1.0%
	▲ 16.6%	▲ 5.8%
	▲ 9.1%	▲ 11.8%
TOTAL	▲ 8.8%	▲ 8.1%

Source[1]: World Economic Forum(WEF)

Source[3]: SIAM

Segment-wise growth

FY19 vis a vis FY18

INDIAN AUTOMOTIVE INDUSTRY
SEGMENT-WISE SUMMARY

Unit Sales

Domestic sales YoY FY18 vs 19

Market Shares

Passenger Vehicles

3.38 *mn*

▲ 2.7%

Maruti Suzuki	▲ 1.2%	Hyundai	▼ 0.2%
Tata	▲ 0.5%	Mahindra	▼ 0.04%
Honda	▲ 0.3%		
Toyota	▲ 0.2%		

Commercial Vehicles

1.01 *mn*

▲ 17.6%

Tata	▲ 0.5%	Mahindra	▼ 0.6%
Maruti Suzuki	▲ 1.2%	Ashok Leyland	▼ 0.1%
		VECV	▼ 0.4%
		Force	▼ 0.5%

Two Wheelers

21.18 *mn*

▲ 4.9%

TVS	▲ 0.6%	Hero	▼ 0.6%
Bajaj	▲ 2.2%	Honda	▼ 2.5%
		RE	▼ 0.2%
		Yamaha	▼ 0.1%

Tractors

0.78 *mn*

▲ 10.4%

ITL	▲ 0.1%	M&M	▼ 3%
Escorts	▲ 1%	TAFE	▼ 1%
John Deere	▲ 0.1%		

Three Wheelers

0.70 *mn*

▲ 10.3%

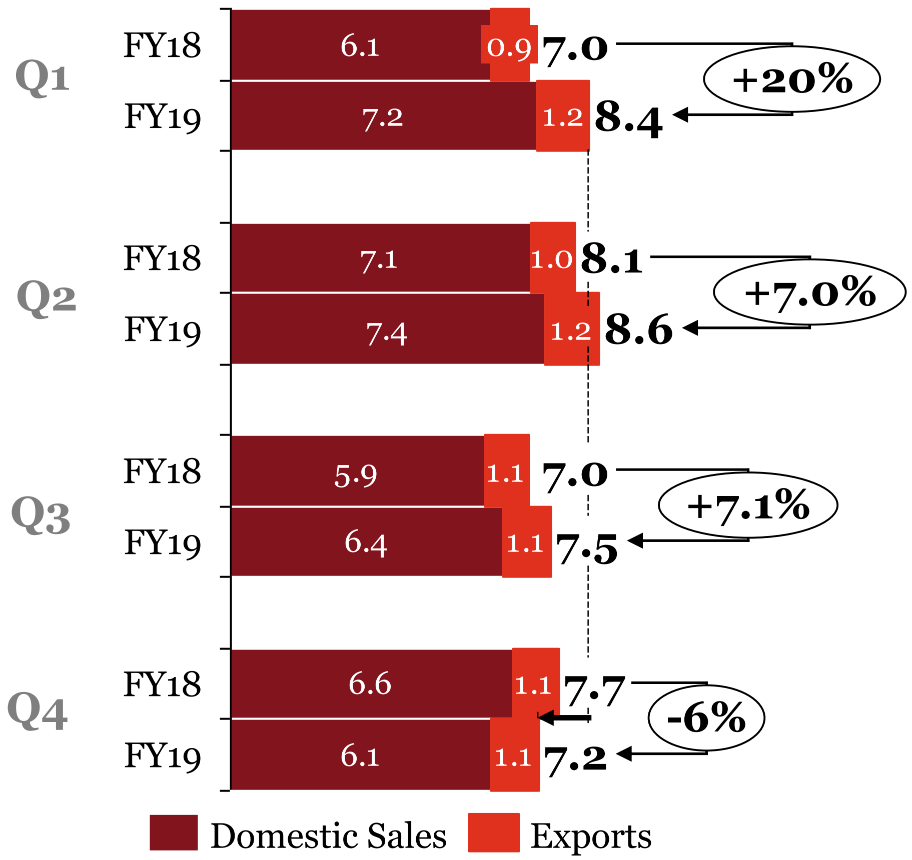
Piaggio	▲ 0.2%	Bajaj	▼ 1.3%
M&M	▲ 0.8%		
Atul	▲ 0.2%		

Source: SIAM, PwC analysis

Growth momentum from FY18 saw a sturdy Q1 ; moderated from Q2 onwards

FY 19 – Quarterly view

OEM – DOMESTIC SALES & EXPORTS (MN UNITS)



INDIAN AUTOMOTIVE INDUSTRY KEY HIGHLIGHTS

Q1 FY19 witnessed high growth over Q1 FY18 due to low base effect
- Low Q1 FY18 sales: Customers had postponed purchases to post-GST rollout

Growth momentum of Q1FY19 moderated in **Q2 FY19** due to
- High base effect from last year following GST implementation
- Higher TCO, due to falling rupee against dollar, high crude and interest rates

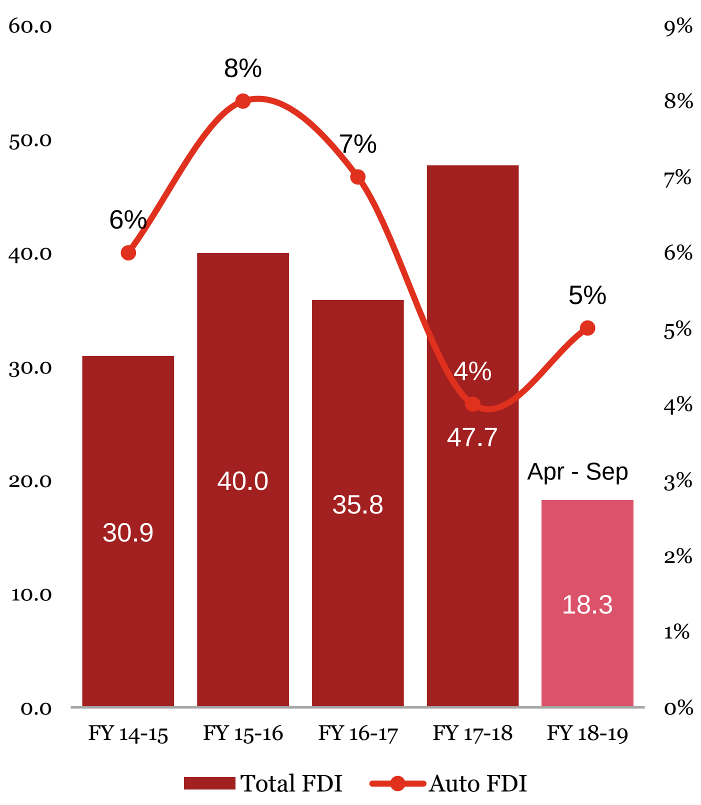
Continued slump in auto sales in **Q3 FY19** due to
- Dampened rural demand due to uneven rainfall, farm incomes not improving despite higher MSP and farm output
- Weak festival period, affecting 20-30% yearly sales
- Non-availability of credit after NBFC crisis, high interest rates
- Regulatory changes - axle load norms for CV, insurance for 2W, PV
- Price increase by OEMs due to high input costs, adverse forex rate

Q4 FY19 sales decreased in comparison with previous quarter and Q4 FY18 due to
- Hike in prices by OEMs due to increased raw material costs, new safety norms for four-wheelers and two-wheelers along with continued effect of adverse trend
- Uncertainty due to upcoming general election

Source: SIAM

Growing FDI in automotive industry; future investments expected to be driven by new entrants

FDI* trend over the past four years (USD billion)



* FDI: Foreign Direct Investment

New investment announcements (local manufacturing)

- Highest OEM FDI investment were made by Kia Motors and Daimler India; the two deals accounted for about 66% of total automobile deals in H1FY19
- Hinduja Group flagship Ashok Leyland committed USD 19 mn in line with announced plans to scale up capacity and launch 20 new vehicles
- SAIC Motors invested USD 83 mn in MG Motors India in addition to a investment made so far to acquire General Motors' plant in Halol and to develop a C-segment sports utility vehicle (SUV) for its debut in the country. SAIC Motors may make additional investment of $350 million in setting up a second manufacturing unit

New investment announcements (product development)

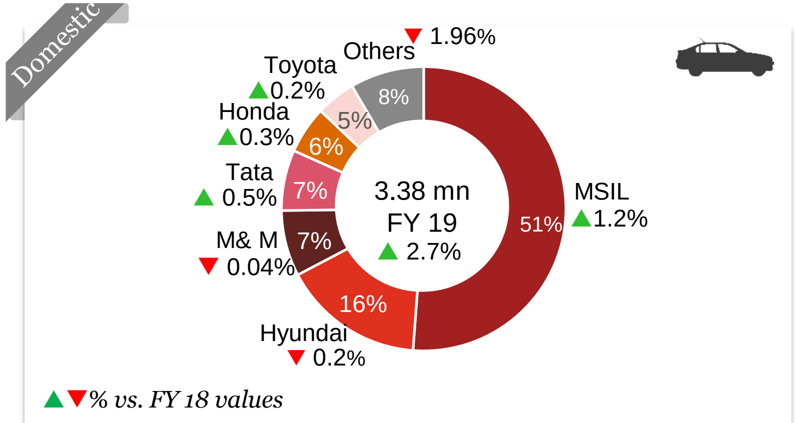
- South Korean automakers Hyundai Motor and Kia Motors will together invest $300 million in Indian ride-hailing platform Ola to develop fleet and mobility solutions, electric vehicles and infrastructure specific to the Indian market
- PSA has committed USD 33 mn for its India debut in late 2020 and has also committed to launch one new model every year which will be made and launched in India before being introduced in other parts of the world

Source: Department of Industrial Policy & Promotion (India), TechSci Research, Shakun Services, PwC analysis

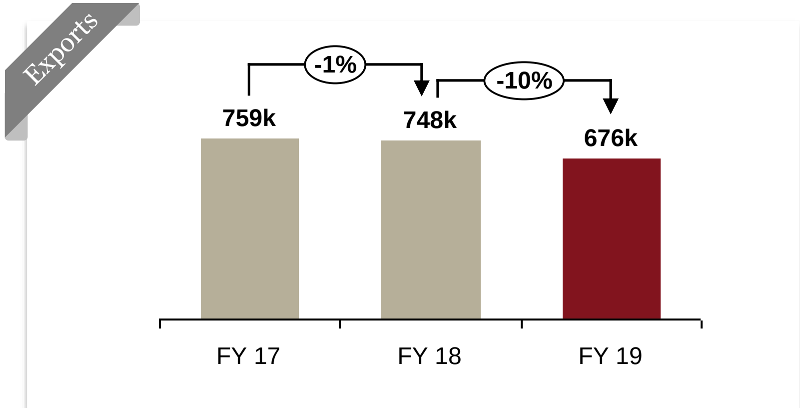
Segmental performance

PV segment was in consonance with last year with an overall growth of 0.4% (sales & exports) ; vans posted the biggest growth

Domestic market share trend



Trend in exports



Key insights – Domestic sales

- Cars account for 66%, UVs for 28% and vans for 6% of total PV sales
- Domestic sales growth slowed down to 3% from 8% in FY18; Major reason is increase in TCO (EMI and fuel cost) increased due to liquidity crunch and rise in crude prices
- Vans registered the highest sub-segment growth at 13%, whereas cars and UVs grew by only 2%
- Number of major model launches that accounted for at least 1% share of total PV sales in that fiscal has witnessed declining trend since FY15

Key insights – Exports

- Ford and Hyundai cumulatively account for 48% of all PV exports from India
- Ford, GM and Volkswagen have been focussing on export market and India as their export hub on account of better cost competitiveness; share of exports in overall vehicle sales has been on the rise since FY16
- Cars and UVs recorded de-growth of 11% and 4% respectively, while vans recorded >2x increase at 4029 units
- Exports have declined on account of slowdown in key markets such as Mexico, South Africa and Sri Lanka

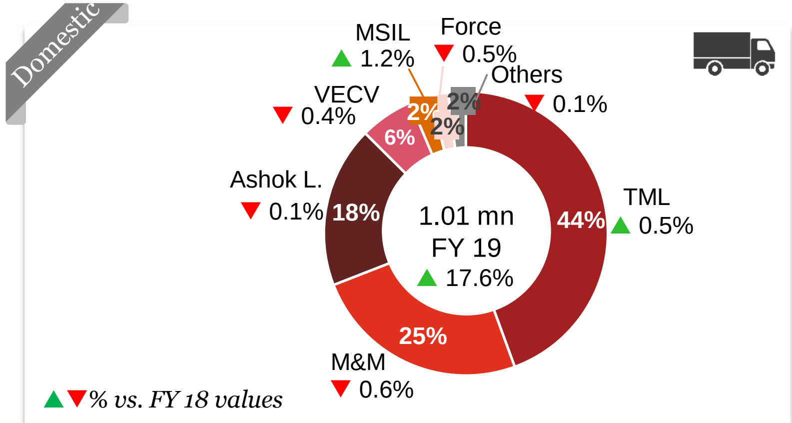
Key Developments

- Kia Motors, MG Motors and PSA are expected to launch new models for the Indian market in 2019
- Series of government-mandated safety, crash-test and emission norms such as speed limit reminders, manual override to CLS, BS VI emission norms, etc. expected to bring India at par with developed countries
- IRDAI mandated long term third-party insurance policy from Sept 2018 increasing costs up to Rs 24,000
- Companies are gearing up for the xEV market ; Government announced the phase-2 of FAME scheme

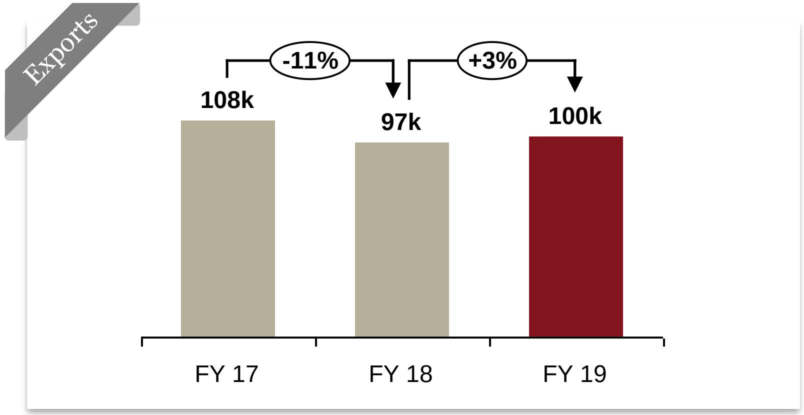
 Source: SIAM, PwC analysis

Surge in CV growth – higher infrastructure spend and increase in mining activity; SCV,LCV drive volumes, preference for higher tonnage in MHCVs

Domestic market share trend



Trend in exports



Key insights – Domestic sales

- CV segment posted the highest segment growth led by the growth in M&HCV & LCV goods carriers
- Preference for Multi-axle vehicles (MAVs), longer loading span trucks
- Buses grew by 7.8% in FY19 after registering de-growth in FY18; led by recovery in demand from STUs and stronger order flow in the school bus and other passenger transportation segments
- SCVs, LCVs account for 61% of overall CV sales, up from 56% in FY16
- LCV goods carriers recorded the strongest sub-segment growth at 21% over FY18 with goods LCVs under 3.5T accounting for >50% of CV sales, indicating heavy demand for last mile transportation vehicles
- SCV and I&LCV sales boosted OEM market performance: Tata Motors and Maruti Suzuki were the only major CV OEM to record an increase in market share over last year on back of Tata Ace and Super Carry

Key insights – Exports

- Exports growth was highest within the M&HCV goods carriers sub-segment
- Decline in exports witnessed by all other segments, with maximum decline in M&HCV buses
- Among large exporters, only Ashok Leyland witnessed decline in export volumes of 24%

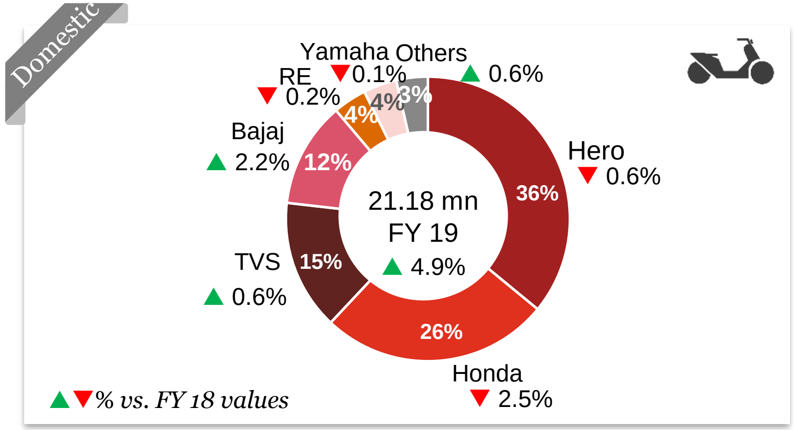
Key Developments

- Government introduced new axle load norms for that increased the official maximum load carrying capacity of heavy vehicles, by 20-25 %, impacting sales of freight carriers
- Liquidity crunch after the NBFC crisis led to hike in interest rates, impacting sales negatively - nearly 60% of commercial vehicles sales are financed by NBFCs
- Renault-Nissan-Mitsubishi announced plans to re-enter India's LCVs market

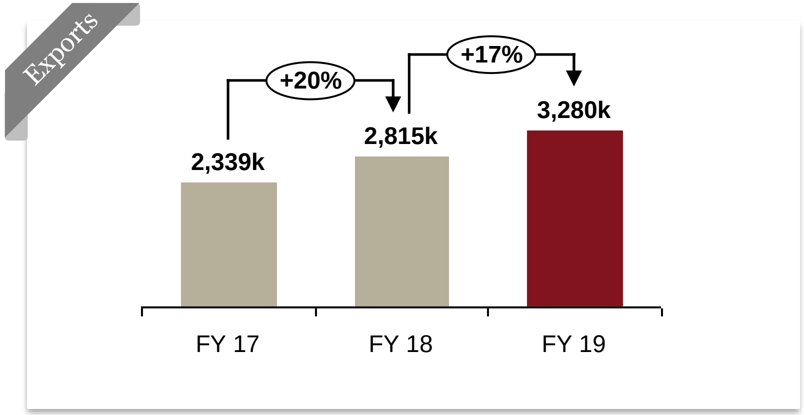
 Source: SIAM, PwC analysis

2-wheeler experienced decelerated growth in FY19; continued growth in motorcycles, especially in premium bikes, pause in "scooterization"

Domestic market share trend



Trend in exports



Key insights – Domestic sales

- Domestic two-wheeler sales grew by 4.9% in FY19 after recording high growth of 14.8% in FY18
- Motorcycles recorded the highest sub-segment growth at 8%, followed by mopeds at 2.4% and a de-growth in scooters of 0.27%
- Major factor for lower sales growth is slowdown in sales during H2 FY19 during crucial festival season and after due to increase in cost of ownership, caused by higher insurance costs, fuel prices and interest rates coupled with stagnation of salary and investment growth
- Government support schemes, forecast of normal monsoon, elections and rural road investments expected to provide fillip to rural sales

Key insights – Exports

- Overall exports grew by 16.5%, with scooters registering a 26.7% growth, followed by 15.4% for motorcycles and de-growth in moped exports of4%
- TVS was the biggest gainer of increase in scooter exports growth; gained exports share from 17% to 19%
- Players are trying to penetrate key exporting destinations like Nigeria and other African countries

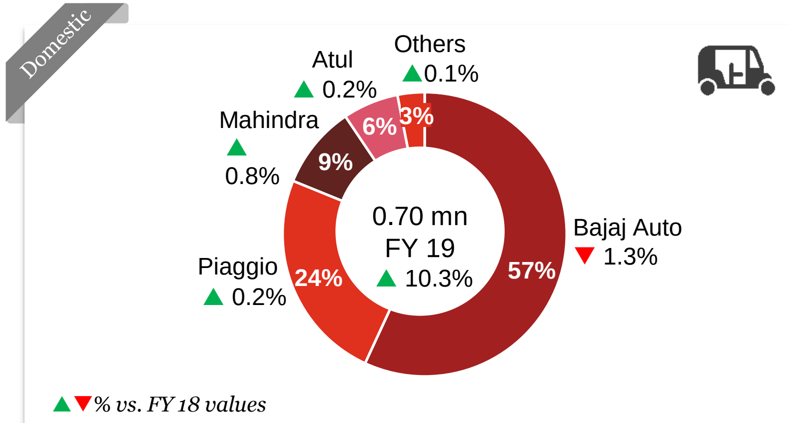
Key Developments

- CBS, ABS mandatory from April 2019, likely to result in price increases
- Long-term 3rd party insurance policy has been made mandatory from Sept 2018. The five year-third party insurance costs Rs 1,000 upto Rs 13,000
- With FAME II scheme launched by government for increasing EV adoption, e-two wheelers are expected to see increased OEM focus and market penetration

Source: SIAM, PwC analysis

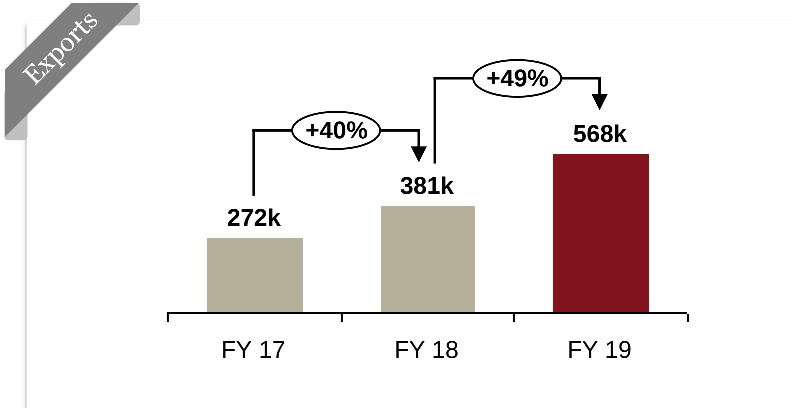
3-wheeler domestic sales increased (+10%) due to demand surge in last-mile connectivity; segment registered highest export growth across segments

Domestic market share trend



▲▼% *vs. FY 18 values*

Trend in exports



Key insights – Domestic sales

- Domestic sales slowed down to 10% in FY19 after witnessing 24% growth in FY18 post abolition of the permit system last year
- Growth led by the passenger three-wheelers sub-segment at 10.6% over FY18 which accounts for 82% of all three-wheelers sold in the country
- Market leader Bajaj Auto saw marginally lower market share while Piaggio, Atul and Mahindra saw increase in share

Key insights – Exports

- Three-wheeler exports continue to be the highest growing segment, with export growth increasing to 49% in FY19 from 40% in FY18;
- Three-wheeler export growth was led by passenger carriers
- Bajaj and TVS are the largest exporters, cumulatively accounting for > 90% of all exports
- Exports grew on back of increased demand from Asian and African regions

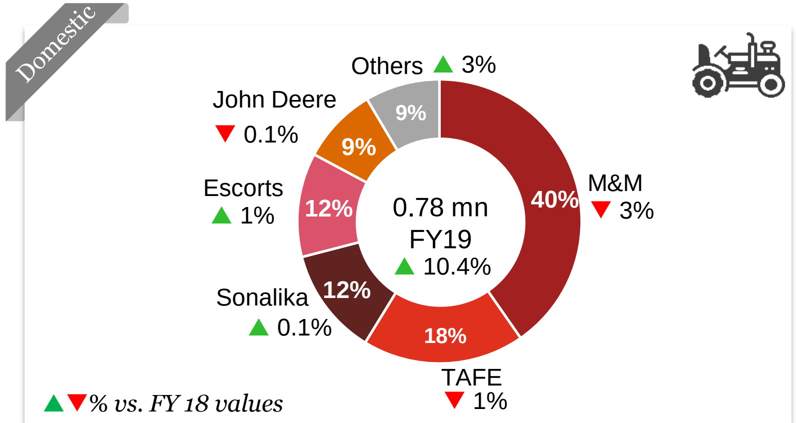
Key Developments

- Expansion of three-wheeler transportation by ride-hailing mobility providers such as Uber opened up new opportunities for autos
- Mahindra Electric launched a range of electric three-wheelers in FY19, becoming the second major OEM to roll out a e-three wheelers after Kinetic Green

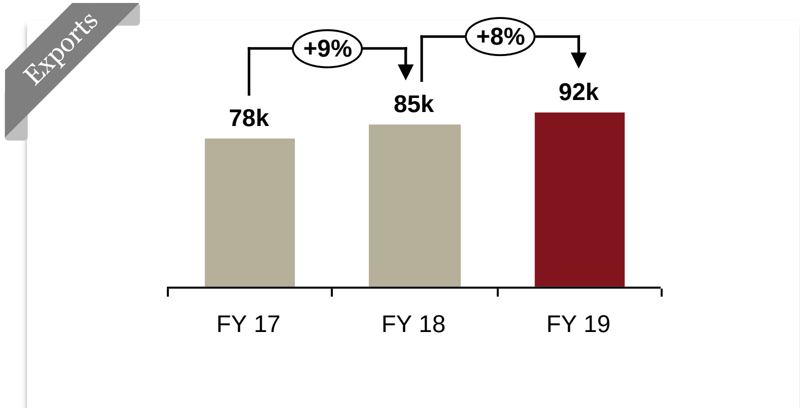
 Source: SIAM, PwC analysis

Although tractors segment saw muted growth in FY19 in comparison with FY18, future sales are expected to be higher due to positive industry factors

Domestic market share trend



Trend in exports



Key insights – Domestic sales

- Domestic sales grew by 10% in FY19 due to challenging H2 FY19 owing to lack of financing, unseasonal rains and lower-than-expected rabi crop sowing, leading to poor market sentiment
- North India accounts for majority of tractor sales, followed by West region; North and South India to be main growth drivers in the long term due to expected improvement in farm income in North and low penetration levels at present in South

Key insights – Exports

- Key export destinations for tractors are Asia (Bangladesh, Myanmar) and Africa (Kenya, Tanzania, Mozambique)
- Players such as New Holland (11%) and John Deere (21%) are using India as a base to export to North America and Europe

Key Developments

- Tractor OEMs have been diversifying across product-lines and geographies to counter demand cyclicity in the Indian market
  - Mahindra increased stake in Sampo Rosenlaw and acquired Turkish market leader Hisarlal to expand footprint in Asia, Africa, Europe and Latin America; Mahindra entered Indian sprayers market
  - Escorts entered into JVs with Tadano and Kubota to manufacture high-capacity mobile cranes and high-end tractors
- Government initiatives for increasing farm income such as farm loan waivers, PM KISAN, PM-AASHA, e-NAM (National Agricultural Market), expanding crop insurance coverage and improving land productivity through Soil Health Cards to positively impact sales

 Source: SIAM, PwC analysis

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