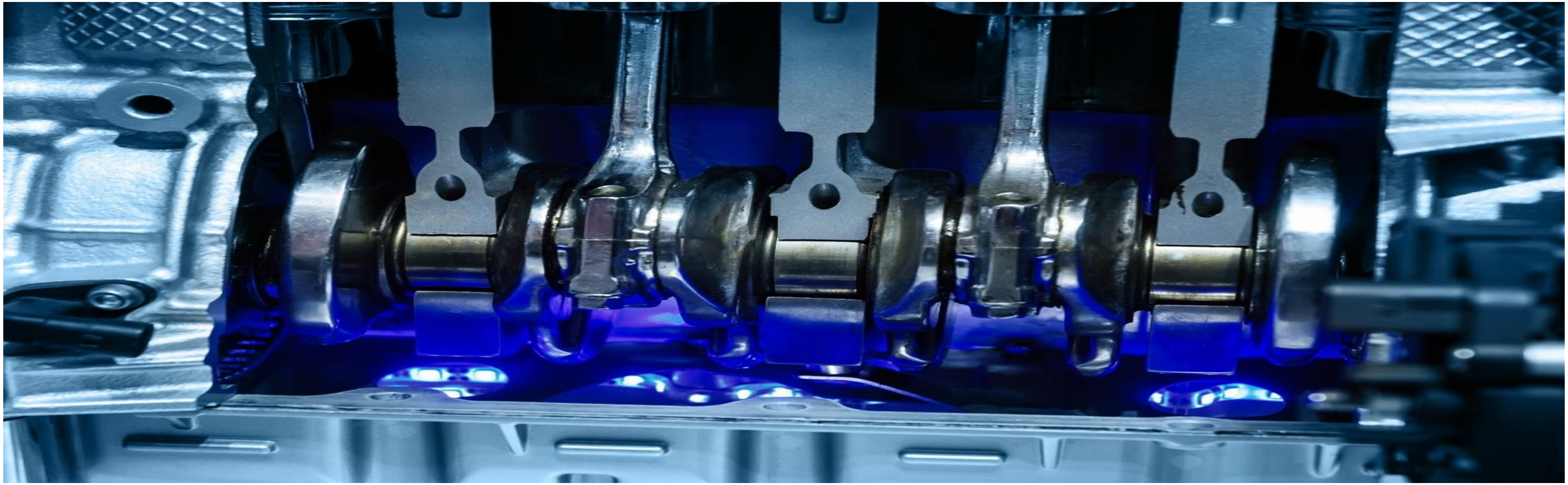
Impact of macro-economic environment on the automotive industry



May 2021

Research

ACMA CRISIL An S&P Global Company

Content

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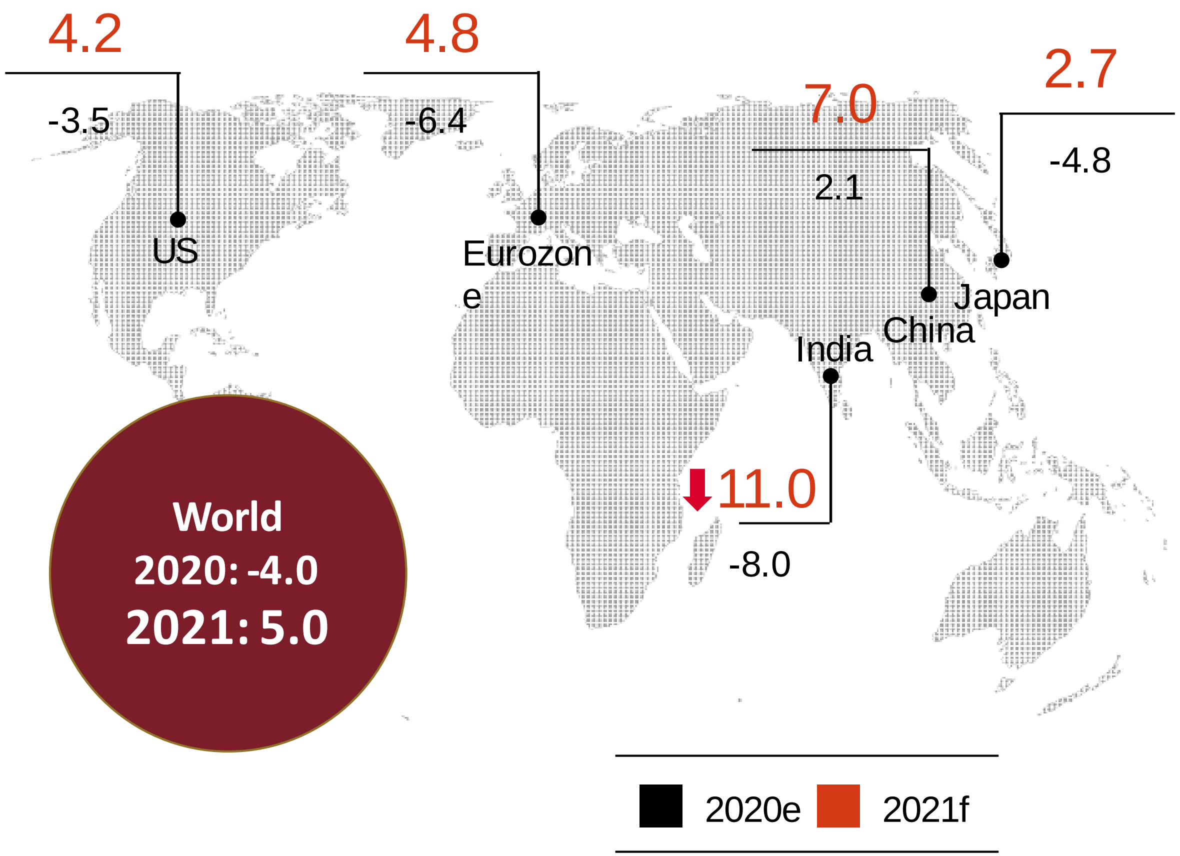
Economy overview

Moving towards a brighter 2021

GDP growth (%)



Weaker start to new year: infections, new virus variants and renewed restrictions softened momentum in early 2021

But, vaccine administration and additional fiscal stimulus from few large economies expected to power economic activity later in the year

Risks global: Second wave, premature stimulus withdrawal

Note: Some downside is expected in India's GDP forecast given the severity of the second Covid wave

***Moderate downside**: Second wave peaks by May end : GDP growth drops to 9.8%*

***Severe downside**: Second wave peaks by June end: GDP growth drops to 8.2%*

Source: Statistical bureau, respective countries, S&P Global, December 2020; India outlook is fiscal year

Macro economic outlook

Segments (% Growth Y-o-Y)	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY22 E
GDP (% Growth Y-o-Y)	7.4	8.0	8.3	7	6.1	4.2	(8)	11.0 ⬇
CAD (as a % of GDP)	-1.3	-1.1	-0.6	-1.8	-2.1	-0.9	0.8	1.4
10-year G-sec yield (end-March)	7.7	7.5	6.8	7.6	7.5	6.2	6.2	6.5
PFCE (% Growth Y-o-Y)	6.4	7.9	8.1	7	7.2	5.3	(9)	9-11
Crude oil ($/barrel/CY)			44	54.4	71.2	64	42.3	58-63
Inflation (Consumer Price Index)	5.9	4.9	4.5	3.6	3.4	4.8	6.4	5.0

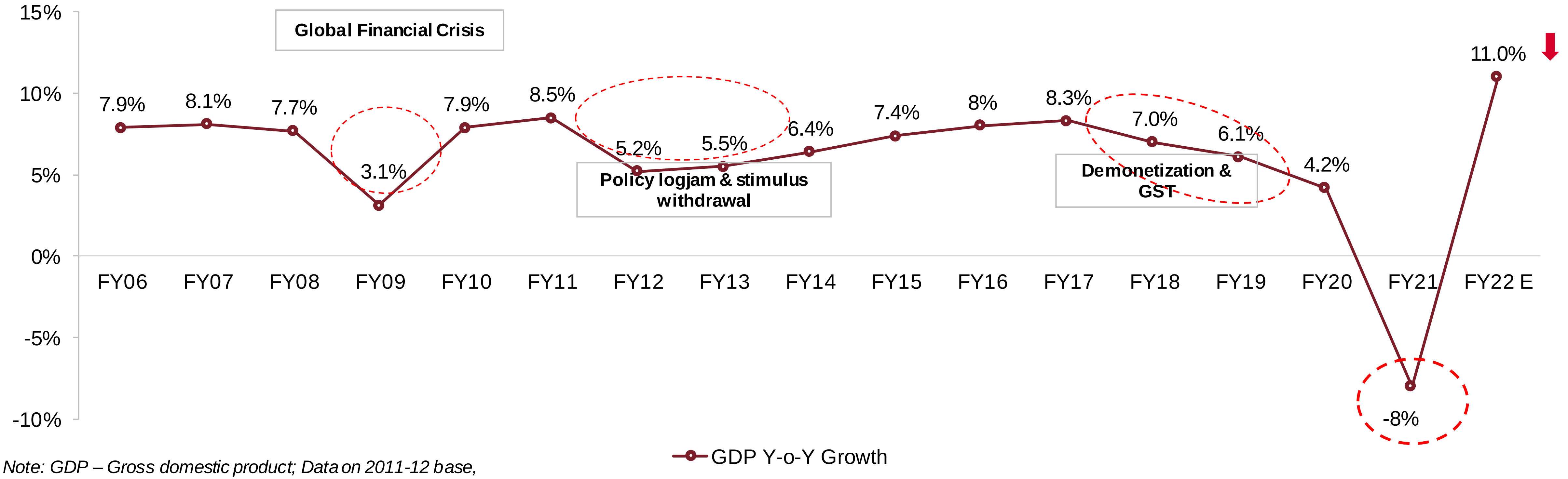
Note: Some downside is expected in GDP forecast given the severity of the second Covid wave

***Moderate downside**: Second wave peaks by May end : GDP growth drops to 9.8%*

***Severe downside**: Second wave peaks by June end: GDP growth drops to 8.2%*

Source: CSO, RBI and CRISIL estimates

Indian economy set for some recovery on a weak base, second pandemic wave still a real risk



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

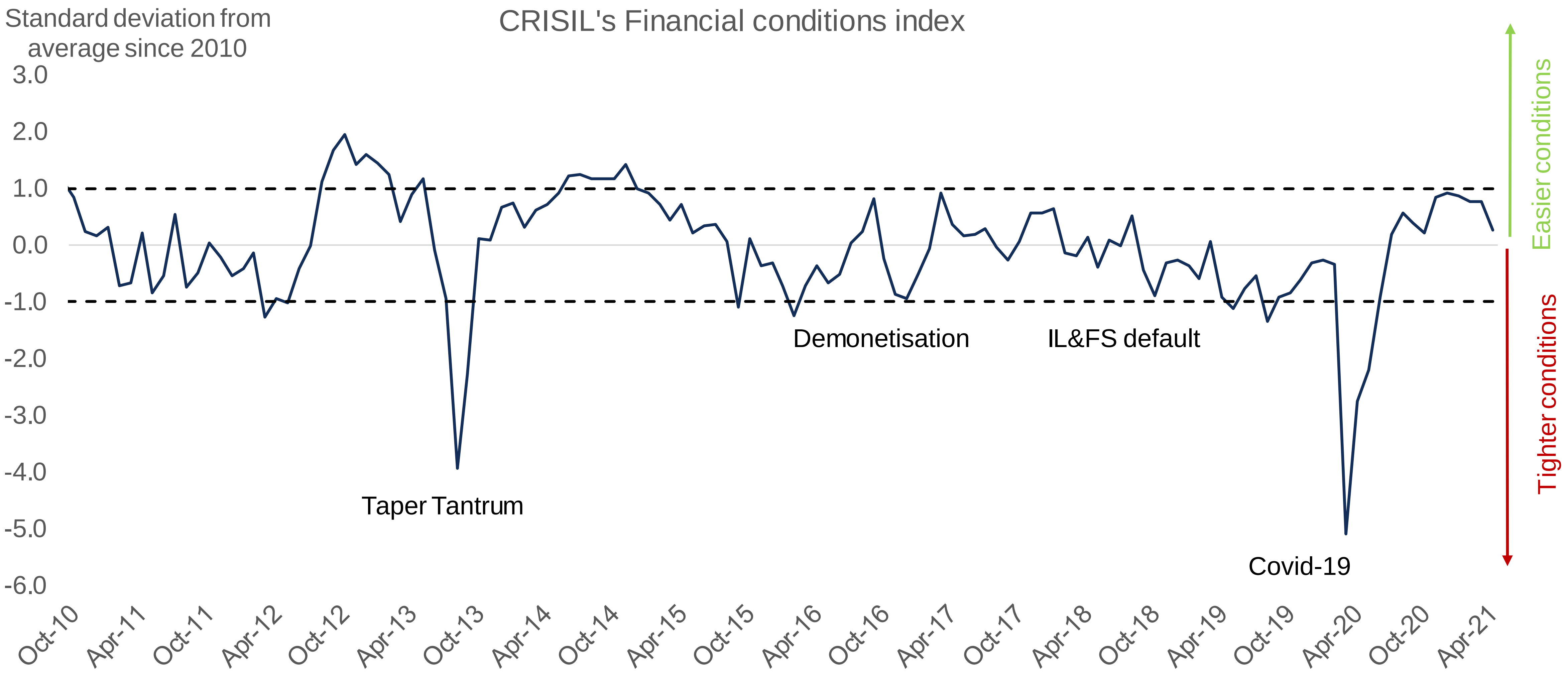
Some downside is expected in the GDP forecast given the severity of the second Covid wave

***Moderate downside**: Second wave peaks by May end : GDP growth drops to 9.8%*

***Severe downside**: Second wave peaks by June end: GDP growth drops to 8.2%*

- India's GDP contracted 8% in fiscal 2021 with manufacturing & services sector taking a comparable hit
- A much faster revival in the second half of the year restricted the overall fall
- On this lower base, GDP is expected to bounce back strong next fiscal
- Growth is expected to be unevenly spread between the halves and sectors
- Impact of second wave of Covid remains a key monitorable

Will financial conditions challenge monetary policy?



Note: CRISIL's FCI is a monthly tracker that combines 15 key parameters across equity, debt, money and forex markets along with policy and lending conditions. A positive index value implies easier conditions and a negative index, tighter conditions relative to long term average since 2010
Source: CRISIL

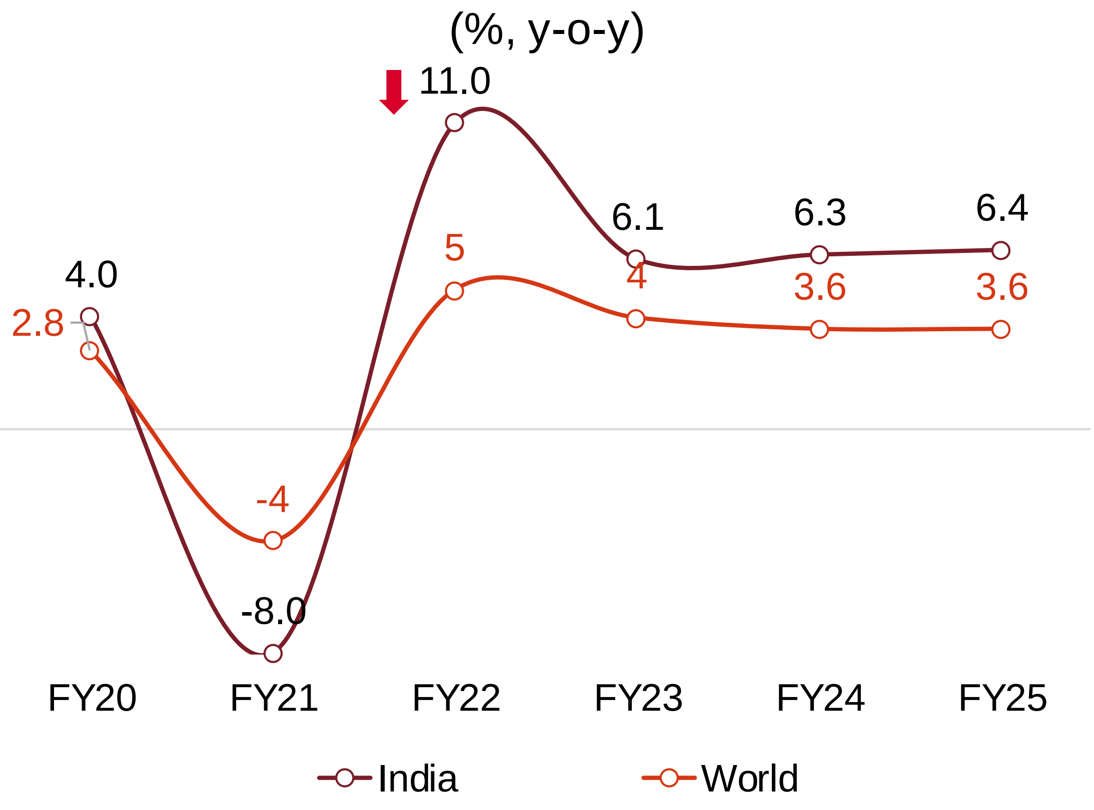
In medium term, GDP growth to average 6.3% annually

India is projected to grow at 6.3% annually between fiscals 2023 and 2025

Drivers of growth

- Stretching the fiscal deficit glide path and expectation that additional room will be used for capex. Additional fiscal space estimated at Rs 20-25 lakh crore over next five years
- Promising set of reforms have potential to create a platform for growth in the medium term
- Deleveraging by corporates over the past few years should improve appetite to invest
- Global GDP and trade growth to turn more supportive

Real GDP growth (% y-o-y)



Note: Some downside is expected in GDP forecast given the severity of the second Covid wave

__Moderate downside__: Second wave peaks by May end : GDP growth drops to 9.8%

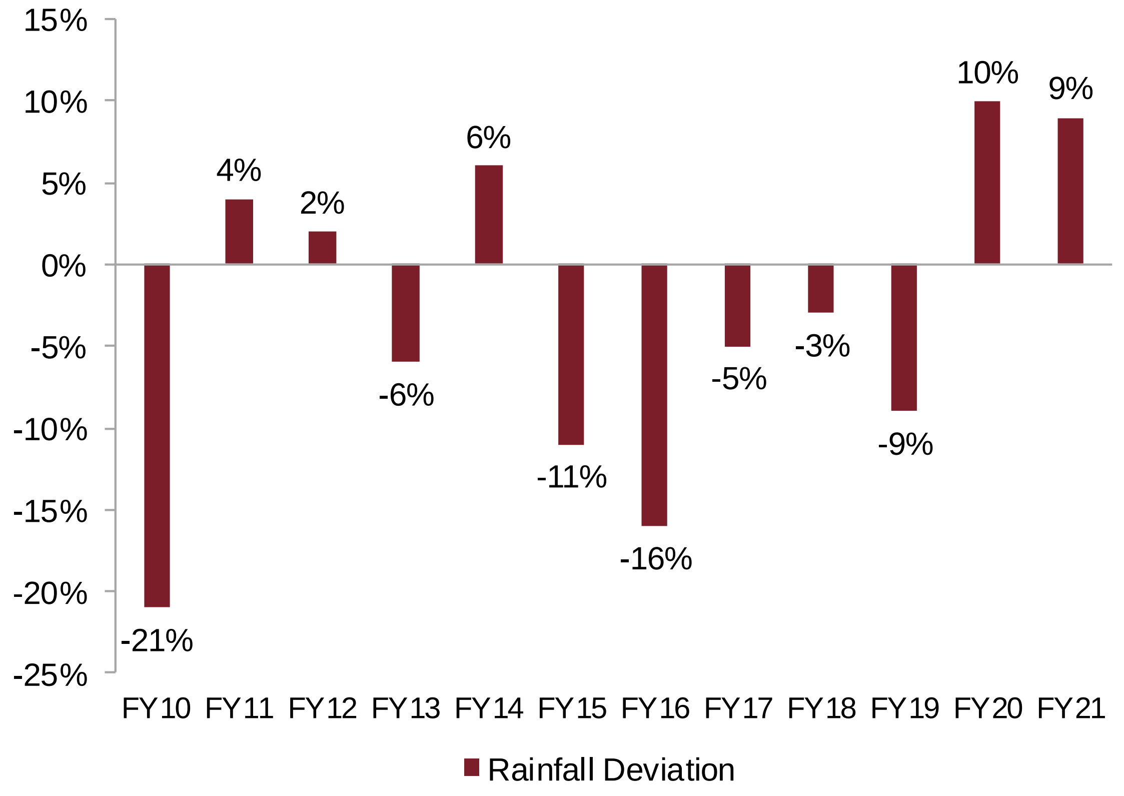
__Severe downside__: Second wave peaks by June end: GDP growth drops to 8.2%

Source: S&P Global, November 2020; global outlook is for calendar year (FY21 = 2020); CSO and CRISIL

8

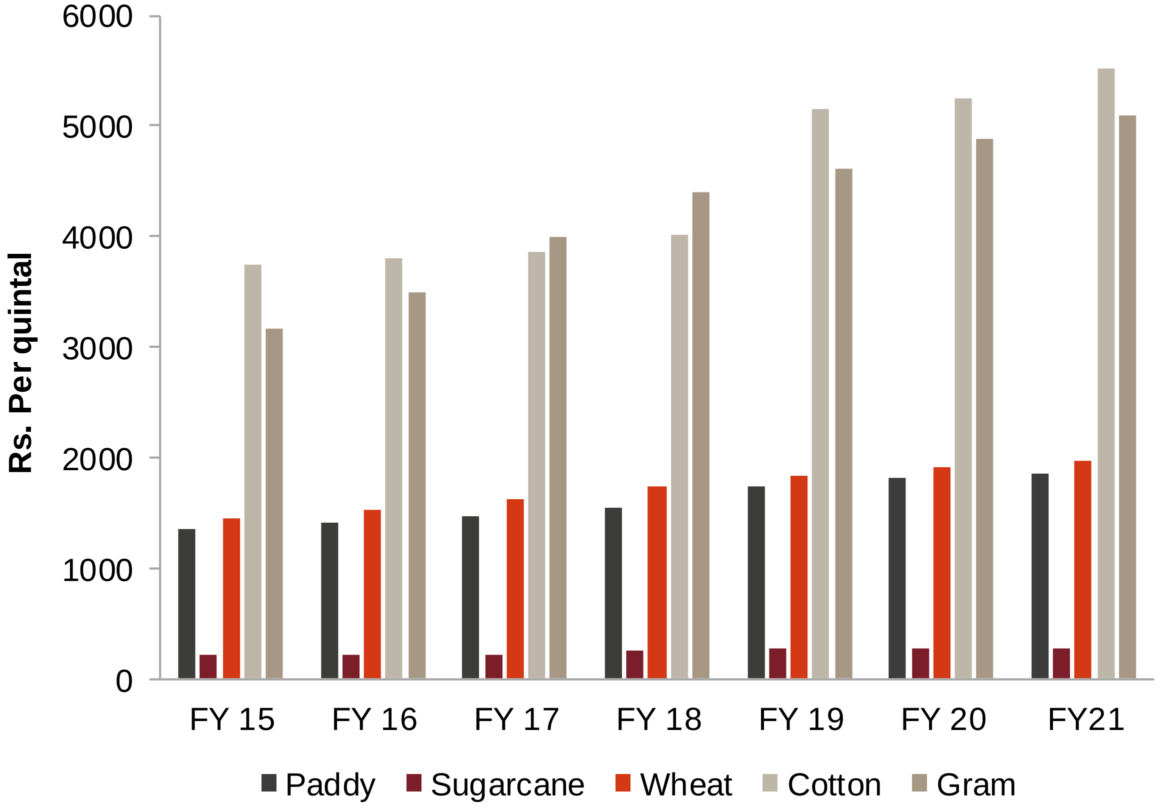
Agri sector continues its positive momentum

Monsoon deviation from long normal rainfall levels



Source: Indian Meteorological Department

MSP of major crops in the last 5 years



Source: Ministry of Agriculture & Farmers Welfare

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Government support kept rural demand resilient in FY21

Agri scenario lends support to a struggling economy

Crop scenario

- Kharif CVI expected to improve by **3-5% in FY21** on the back of well spread monsoon and bumper crop harvest.
- Good monsoon has led to higher reservoir levels and healthy rabi sowing progress. Hence, we expect the Rabi CVI for 2020-21 to be higher by **1-3%** compared to last year

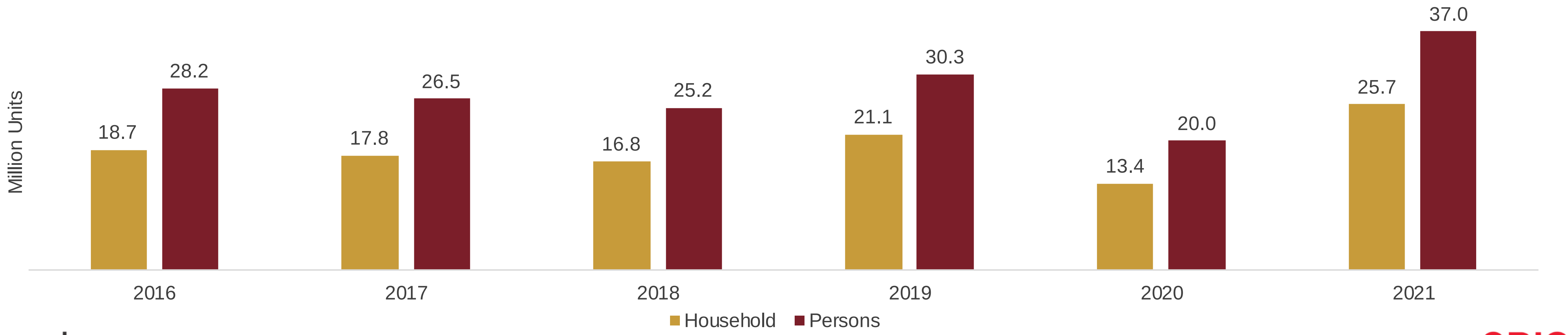
Government support

PM Kissan and PM Garib Kalyan Yojana

- PM Modi to release 8th installment of PM-KISAN benefits on May 14
- Over ₹19,000 crore to more than 9.5 crore beneficiary farmer families will be transferred

Source – Industry, CRISIL Research

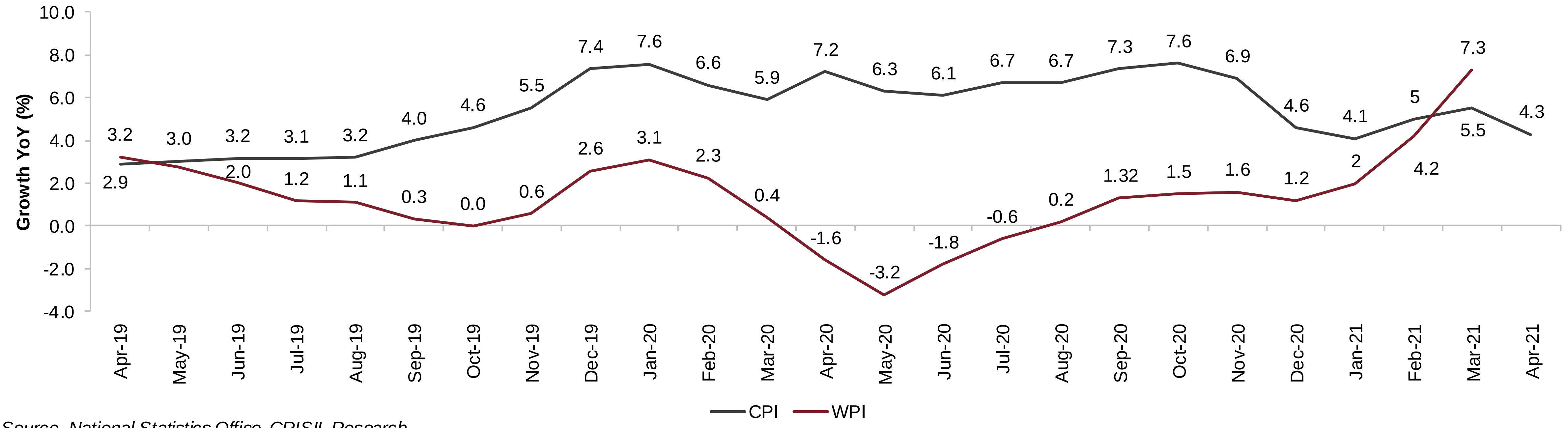
Progress under MGNREGA for the month of April across years



Source – Ministry of Rural Development

CPI inflation moderates in April, expected to touch 5% levels in FY22 vis a vis 6.2% in FY21

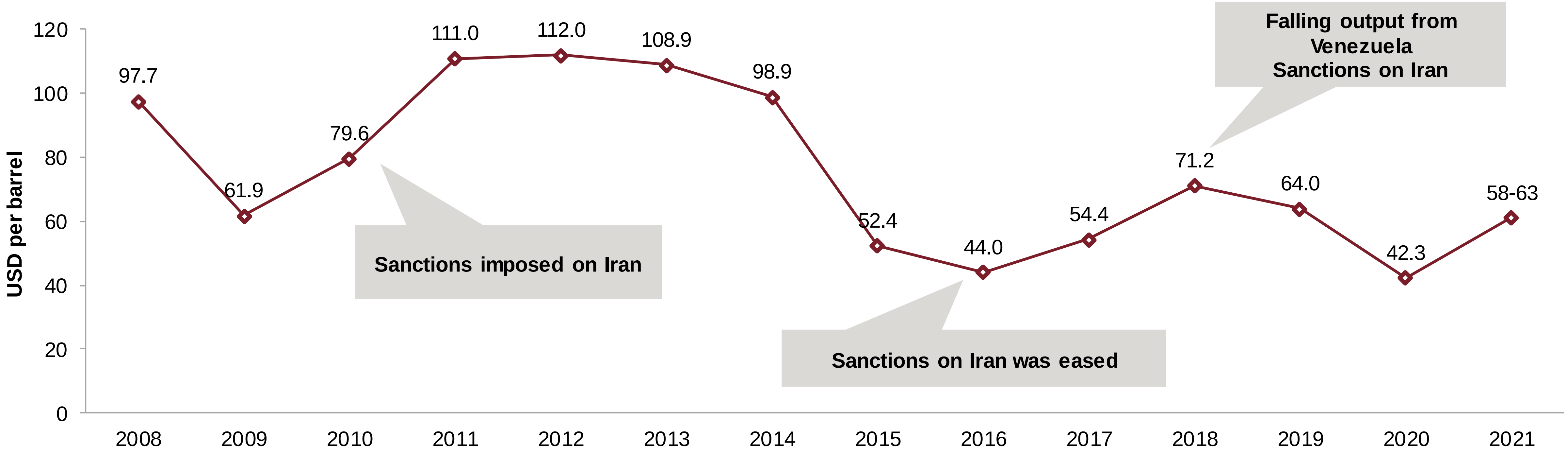
Inflation (YoY Growth %)



Source- National Statistics Office, CRISIL Research

- Consumer price index-linked (CPI) inflation moderated to 4.3% in April from 5.5% in March largely on account of a high base
- Food inflation fell to 2% in April from 4.9% in March largely due to the high base of 11.7% in April 2020. However, on a sequential basis, it rose 0.6%
- We foresee CPI inflation moderating to 5% fiscal 2022 compared with 6.2% last fiscal, driven by lower food inflation.
- However, unlike last year, restrictions imposed during the second wave so far have largely spared sales of essential items. How lockdowns are imposed will bear watching as Covid-19 spreads to rural areas. The normal monsoon forecast for this fiscal also bodes well for agriculture production.

From the all time low in 2020, oil prices to bounce back supported by demand improvement as well as production cuts

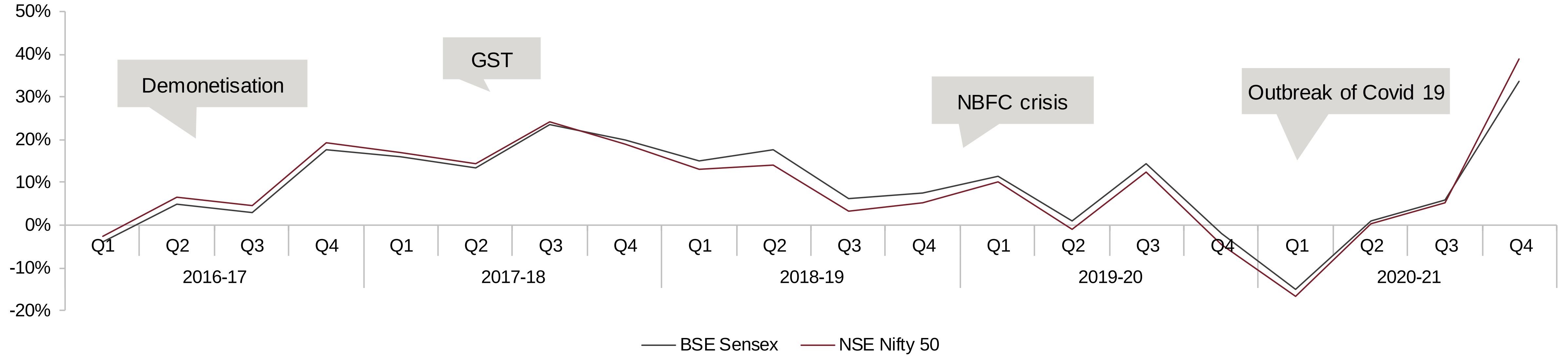


Note: Prices are as per calendar year
E=Estimate, P=Projected
Source: CRISIL Research

- Crude oil prices fell significantly in 2020 owing to the price wars initiated by oil-producing nations amid weak demand on account of Covid-19.
- Prices to increase ~35% on-year to $58-63 per barrel in 2021 from $42.3 per barrel in 2020 led by gradual recovery in oil demand and continued restriction on production from OPEC+

From a weak base, indices shot up in Q4

BSE Sensex and NSE Nifty 50



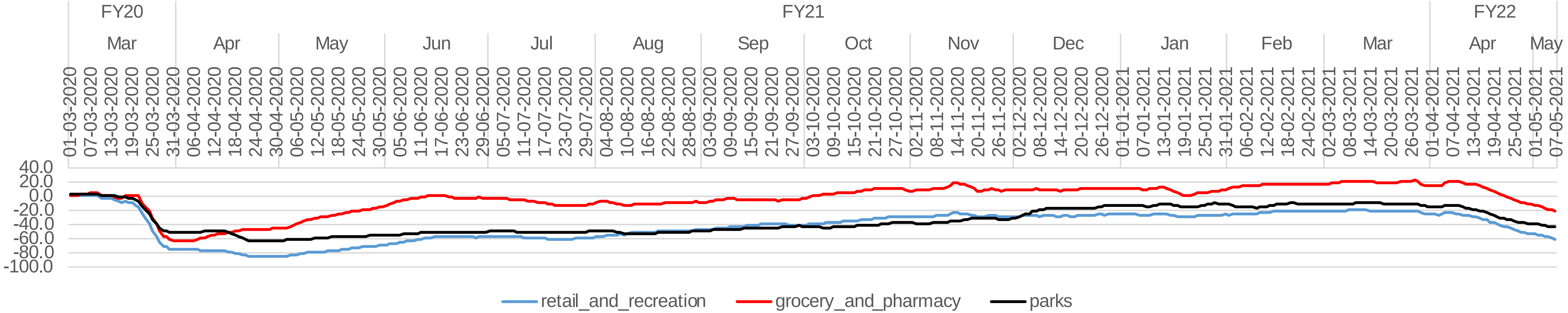
Source: BSE, NSE, CRISIL Research

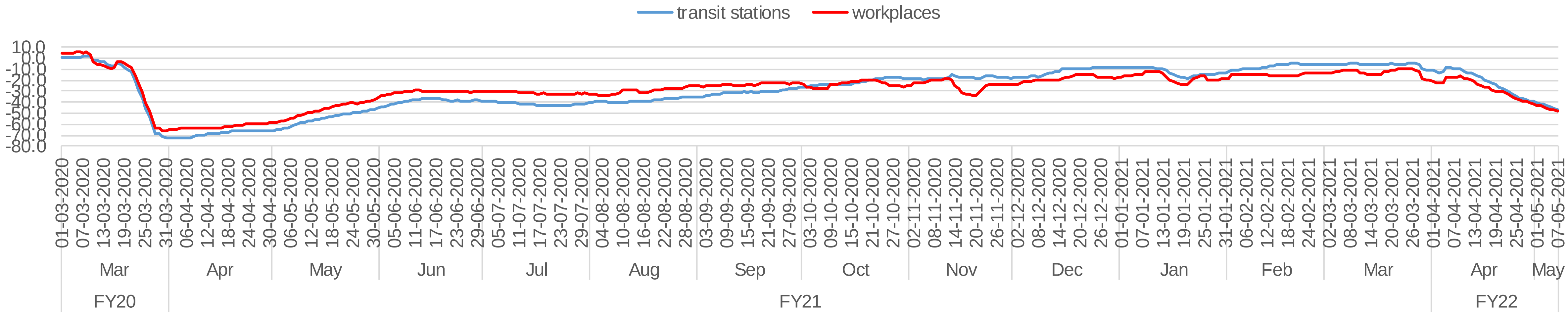
Index	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
BSE Sensex	39,380	37,827	40,725	36,163	33,476	38,255	43,101	48,298
NSE Nifty 50	11,819	11,205	12,033	10,587	9,861	11,236	12,644	14,692

- Indices continued their forward march in Q4 fiscal 2021 and reached historic high levels
- February witnessed high m-o-m growth, however, the economic uncertainty with increasing severity of second wave dampened March momentum

On ground sentiments

Mobility indicators-segmental



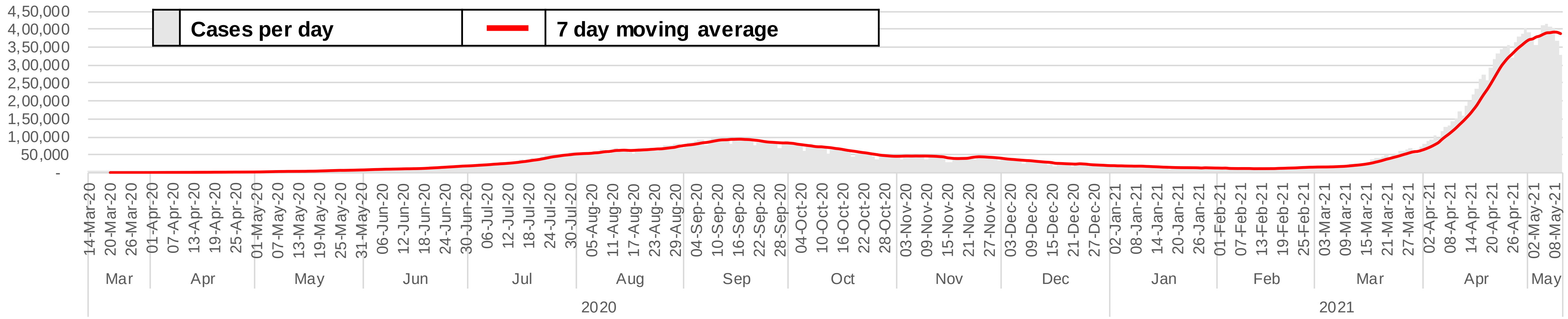


Source: CRISIL Research, Covid-19 Community Mobility Reports by Google,

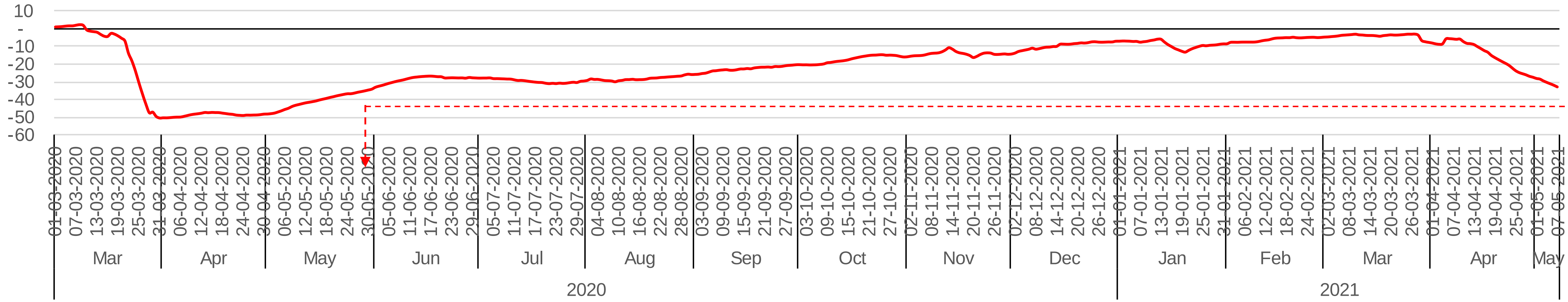
Note: Data is 7 day Moving Average data. Google's Community Mobility Reports use smartphone location data to publish reports about people's movement in an area. India's smartphone penetration is 25-30%

COVID-19 situation and overall mobility

Trend in new COVID-19 cases per day (7 day moving average)



Trend in average mobility trends (7 day moving average)



Source: Google mobility trends,Covid19India.org,CRISIL Research

High frequency parameters point towards start of improvement since Q3 FY21

Segments	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
Core Sectors																									
Coal	3%	2%	3%	-2%	-9%	-20%	-18%	-4%	6%	8%	11%	4%	-15%	-14%	-16%	-6%	4%	21%	12%	3%	2%	-2%	-4%	-22%	
Crude Oil	-7%	-7%	-7%	-4%	-5%	-5%	-5%	-6%	-7%	-5%	-6%	-5%	-6%	-7%	-6%	-5%	-6%	-6%	-6%	-5%	-4%	-5%	-3%	-3%	
Natural Gas	-1%	0%	-2%	0%	-4%	-5%	-6%	-6%	-9%	-9%	-10%	-15%	-20%	-17%	-12%	-10%	-9%	-11%	-9%	-9%	-7%	-2%	-1%	12%	
Petroleum Refinery Products	4%	-2%	-9%	-1%	3%	-7%	0%	3%	3%	2%	7%	0%	-24%	-21%	-9%	-14%	-19%	-9%	-17%	-5%	-3%	-3%	-11%	-1%	
Fertilizers	-4%	-1%	2%	2%	3%	5%	12%	14%	10%	0%	3%	-12%	-4%	7%	4%	7%	7%	0%	6%	2%	-3%	3%	-4%	-5%	
Steel	13%	13%	11%	8%	4%	-1%	0%	7%	9%	2%	3%	-22%	-83%	-40%	-23%	-6%	-2%	3%	-3%	-4%	3%	3%	-2%	23%	
Cement	2%	3%	-2%	8%	-5%	-2%	-8%	4%	5%	5%	8%	-25%	-85%	-21%	-7%	-13%	-15%	-4%	3%	-7%	-7%	-6%	-5%	33%	
Electricity	6%	7%	9%	5%	-1%	-3%	-12%	-5%	0%	3%	12%	-8%	-23%	-15%	-10%	-2%	-2%	5%	10%	2%	5%	5%	0%	22%	
Auto-offtake																									
Two Wheelers	-16%	-7%	-12%	-17%	-22%	-22%	-14%	-14%	-17%	-16%	-20%	-40%	-100%	-84%	-39%	-15%	3%	12%	17%	13%	7%	7%	10%	73%	
Cars	-20%	-26%	-24%	-36%	-42%	-33%	-6%	-11%	-8%	-8%	-9%	-53%	-100%	-88%	-59%	-18%	11%	55%	39%	-14%	13%	-7%	-1%	115%	
Uvs + Vans	-11%	-10%	-4%	-21%	-8%	-4%	13%	20%	12%	-3%	-6%	-49%	-100%	-76%	-43%	1%	26%	38%	39%	3%	23%	25%	33%		
Three Wheelers	-7%	-6%	-9%	-11%	-8%	0%	-4%	4%	22%	13%	-31%	-58%	-100%	-95%	-80%	-77%	-75%	-72%	-61%	-58%	-59%	-57%	-34%	16%	
Auto-Vaahan																									
2W	-6%	-8%	-4%	0%	-2%	-7%	12%	8%	-13%	-4%	8%	36%	-76%	-89%	-40%	-36%	-27%	-13%	-25%	-19%	12%	-7%	-16%	-35%	158%
Cars+Uvs	1%	0%	-5%	-4%	-10%	-10%	23%	10%	-3%	6%	8%	-5%	-91%	-86%	-37%	-23%	-4%	10%	-6%	7%	24%	-2%	13%	34%	909%
Others																									
PMI Manufacturing	51.8	52.7	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46	52	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5
IIP Overall	3%	5%	1%	5%	-1%	-4%	-4%	2%	0%	2%	5%	-19%	-57%	-33%	-17%	-11%	-7%	1%	5%	-2%	2%	-2%	-4%	22%	
Diesel consumption	2%	3%	1%	3%	-1%	-3%	-7%	9%	0%	-2%	6%	-24%	-56%	-29%	-15%	-19%	-21%	-6%	8%	-7%	-2%	-2%	-9%	28%	106%
Rail freight (NTKM)	2%	1%	0%	-1%	-9%	-11%	-11%	-3%	0%	-3%	4%	-19%	-40%	-28%	-12%	-8%	1%	18%	11%	8%	14%	11%	8%	33%	87%
Total credit	13%	13%	12%	12%	10%	9%	9%	8%	7%	8%	7%	6%	7%	6%	6%	6%	6%	5%	5%	6%	6%	6%	7%	10%	
Industry credit	7%	6%	6%	6%	4%	3%	3%	2%	2%	2%	1%	1%	2%	2%	2%	1%	0%	0%	-2%	-1%	-1%				
-Micro and Small	1%	1%	1%	1%	-2%	-1%	-1%	0%	0%	1%	0%	2%	-2%	-3%	-4%	-2%	-1%	0%	1%	0%	1%				
-Medium	3%	3%	2%	2%	-1%	0%	1%	-2%	2%	3%	4%	-1%	-6%	-5%	-9%	-3%	3%	14%	17%	21%	15%				
-Large	8%	7%	8%	7%	5%	3%	4%	3%	2%	3%	1%	1%	3%	3%	4%	1%	1%	-1%	-3%	-2%	-2%				

Note: Auto offtake for April 20 was 0, hence growth rates for April 21 have not been added.
Source: CSO, RBI and CRISIL estimates

Indian automobile industry

Assumptions

- **Covid cases to peak by May end & plateau in June and expected to move on a downward trajectory from Q2**
- **Localised lockdowns & restrictions to continue in May; National lockdown cannot be ruled out, however, it is currently not factored in**
- Pandemic situation to improve / **economic activities to revive** by **H2 FY22**; while some segments like passenger vehicles which have a higher waiting period can see a faster recovery
- Fear buying on account of Covid to provide an upside to segments like Passenger vehicles
- Pace of inoculation to be a key monitorable
- Schools, colleges and workplaces to take a long time to resume; earliest estimate seems to be beginning of H2 FY22
- **Normal monsoon in 2021**
- **Gradual improvement in supply situation**
- Financing scenario to improve gradually; however financers are slowly becoming more cautious
- **Consumption & infrastructure related activities (continued monetary flow from government a key monitorable)** to lead recovery, private investment scenario to remain subdued in the first half barring few instances of investment under PLI
- **Rising commodity prices to remain a key monitorable**

Annual Forecast - Domestic

	Volume				Growth y-o-y (%)			
	FY19	FY20	FY21	FY22E	FY19	FY20	FY21	FY22E
Passenger vehicles (mn)	3.38	2.77	2.71	2.9-3.2	3%	(18)%	(2)%	10-12%
Two-wheelers (mn)	21.18	17.42	15.12	15.5-16.0	5%	(18)%	(13)%	3-5%
Commercial vehicles ('000)	1,003	718	566	699-704	18%	(29)%	(21)%	23-25%
Three-wheelers ('000)	701	636	216	260-270	10%	(9)%	(66)%	22-24%
Tractors ('000)	787	709	898	840-880	8%	(10)%	27%	(7)-(2)%

SOURCE: SIAM, CRISIL Research

Annual Segmental Forecast - Domestic

Vehicle segment	Subsegment	Volume				YoY growth (%)			
		FY 19	FY 20	FY 21	FY22E	FY 19	FY 20	FY 21	FY22E
Passenger vehicles	Cars (mn)	2.22	1.69	1.54	1.65-1.75	2	(24)	(9)	8-10
	UVs & vans (mn)	1.16	1.08	1.17	1.3-1.4	4	(7)	9	13-15
	PVs (mn)	**3.38**	**2.77**	**2.71**	**2.9-3.2**	**3**	**(18)**	**(2)**	**10-12**
Two-wheelers	Motorcycles (mn)	13.6	11.2	10.02	10.3-10.5	8	(18)	(11)	2-4
	Scooters (mn)	6.7	5.6	4.48	4.7-4.9	0	(17)	(20)	6-8
	Mopeds (mn)	0.9	0.6	0.62	0.62-0.64	2	(28)	(3)	1-3
	2W (mn)	**21.2**	**17.4**	**15.12**	**15.7-16**	5	(18)	**(13)**	**3-5**
Commercial vehicles	SCV ('000)	515	411	365	421-423	(3)	(28)	(11)	15-17
	ULCV ('000)	49	36	30	35-37	(3)	(28)	(18)	21-23
	MHCV ('000)	351	187	154	222-224	27	(63)	(18)	44-46
	Buses ('000)	88	83	17	19-21	(24)	(3)	(79)	14-16
	CVs ('000)	**1,003**	**718**	**566**	**700-703**	**3**	**(39)**	**(21)**	**23-25**
Tractors ('000)		**787**	**709**	**898**	**840-880**	**8**	**(10)**	**27**	**(7)-(2)**
Three-wheelers	Goods ('000)	129	112	82	90-95	9	(13)	(26)	11-13
	Passenger ('000)	572	525	134	172-177	11	(8)	(74)	29-31
	3W ('000)	**701**	**637**	**216**	**260-265**	**10**	**(9)**	**(66)**	**22-24**

SOURCE: SIAM, CRISIL Research

Quarterly forecasts – Domestic

Vehicle segment	Subsegment	Volume E				YoY growth E (%)			
		Q1 FY 22	Q2 FY 22	Q3 FY 22	Q4 FY 22	Q1 FY 22	Q2 FY 22	Q3 FY 22	Q4 FY 22
Passenger vehicles	Cars (‘000)	270-275	365-370	485-490	545-550	239-241	(15)-(13)	(16)-(14)	6-8
	UVs & vans (‘000)	205-210	283-288	385-390	444-449	184-186	(6)-(4)	(6)-(4)	5-7
	PVs (‘000)	**480-485**	**650-655**	**875-880**	**990-995**	**213-215**	**(11)-(9)**	**(3)-(1)**	**5-7**
Two-wheelers	Motorcycles (mn)	1.9-2	2.4-2.5	2.85-2.95	3.05-3.15	114-116	(24)-(22)	(9)-(7)	9-11
	Scooters (mn)	0.7-0.8	1-1.1	1.35-1.45	1.5-1.6	119-121	(21)-(19)	(2)-0	11-13
	Mopeds (‘000)	90-95	140-145	182-187	210-215	69-71	(29)-(27)	(14)-(12)	35-37
	2W (mn)	**2.75-2.95**	**3.55-3.75**	**4.4-4.6**	**4.7-4.9**	**113-115**	**(23)-(21)**	**(7)-(5)**	**11-13**
Commercial vehicles	SCV (‘000)	64-66	87-89	129-131	139-141	157-159	(12)-(10)	0-2	22-24
	ULCV (‘000)	2-4	10-12	10-12	10-12	135-137	62-64	2-4	2-4
	MHCV (‘000)	24-26	60-62	63-65	73-75	510-512	153-155	27-29	(4)-(2)
	Buses (‘000)	2-4	2-4	4-6	8-10	140-142	(22)-(20)	26-28	10-12
	CVs (‘000)	**95-97**	**197-199**	**209-211**	**232-234**	**202-204**	**21-23**	**8-10**	**11-13**
Tractors (‘000)		**155-160**	**230-235**	**248-253**	**215-220**	**(5)-(2)**	**(2)-0**	**(4)-(2)**	**(10)-(8)**
Three-wheelers	Goods (‘000)	16-18	23-25	24-26	26-28	183-185	20-22	(13)-(11)	(7)-(5)
	Passenger (‘000)	20-22	41-43	52-54	58-60	202-204	59-61	19-21	3-5
	3W (‘000)	**37-39**	**65-66**	**77-79**	**85-87**	**193-195**	**42-44**	**6-8**	**0-2**

SOURCE: SIAM, CRISIL Research

Annual forecasts – Exports

Vehicle segment	Subsegment	Volume				YoY growth (%)			
		FY 19	FY 20	FY 21	FY22P	FY 19	FY 20	FY 21	FY22P
Passenger vehicles	Cars (‘000)	514	475	262	390-395	(11)	(7)	(45)	49-51
	UVs & vans (‘000)	162	186	138	160-165	(4)	15	(26)	17-19
	PVs (‘000)	**676**	**662**	**400**	**550-560**	**(10)**	**(2)**	**(40)**	**38-40**
Two-wheelers	Motorcycles (mn)	2.87	3.14	3.03	3.45-3.5	15	9	(3)	13-15
	Scooters (mn)	0.40	0.37	0.23	0.26-0.31	27	(7)	(37)	19-21
	Mopeds (‘000)	17	14	8.3	9.5-10.5	(4)	(17)	(40)	19-21
	2W (mn)	**3.28**	**3.52**	**3.28**	**3.7-3.9**	17	7	**(7)**	**13-15**
Commercial vehicles	LCV (‘000)	47.2	33.9	31.1	43-44	(3)	(28)	(8)	38-42
	MHCV (‘000)	40.4	14.9	13.5	21-22	27	(63)	(9)	58-62
	Buses (‘000)	12.4	11.9	5.7	7.5-8.5	(24)	(3)	(52)	43-47
	CVs (‘000)	**99.9**	**60.7**	**50.3**	**73-74**	**3**	**(39)**	**(17)**	**44-48**
Tractors (‘000)		**92**	**76**	**88.6**	**99-102**	**7**	**(17)**	**17**	**14-16**
Three-wheelers	Goods (‘000)	6.2	6.3	5.6	6.1-6.5	47	2	(12)	12-14
	Passenger (‘000)	561.5	495.9	387.4	435-440	49	(12)	(22)	14-16
	3W (‘000)	**567.7**	**502.2**	**392.9**	**440-445**	**49**	**(12)**	**(22)**	**14-16**

SOURCE: SIAM, CRISIL Research

Resurgence of Covid pushed inventory levels in April

Vehicle segment	Normal inventory in days	Current inventory levels*	Inventory Units	Reasons
Passenger Vehicles	25-30	15-20	120-130 thousand	Dealers were left with meagre 10-15 days inventory in March amidst continued traction and limited supply. In April, retails could not match offtake levels with various restrictions & lockdowns resulting in slightly higher inventory level of about 15-20 days
Two Wheelers	30-35	~50	2-2.5 million	Sluggish demand & OEM push have ballooned dealer stock levels in March. Sharp drop in retail traction amidst second wave of pandemic exacerbated the situation for dealers in April
Commercial Vehicles	25-35	~30	40-45 thousand	Inventory levels relatively under control, offtake higher than retail in FY21 due to inventory replenishment post liquidation in FY20 due to BS-VI norms
Tractors	30-35	~30	65-70 thousand	Inventory levels, have increased as OEMs have pushed stocks. However, specific model availability problem still continues. Considering sudden spike in covid cases and lockdown situation in few states, supply chain situation continues to remain volatile.
Three-wheeler	20-25	15-20	~10 thousand	Although the stock levels are lower than the typical pre Covid inventory, but given the contraction in 3W industry, these inventory levels are still high. The second pandemic wave is expected to impact retail demand further in Q1 FY22

NOTE: Inventory level as on end of April 2021*

Source: Industry, CRISIL Research

Passenger vehicles

Industry to revive in FY22 albeit at a restricted pace due to severity of second wave

Variables	FY18	FY19	FY20	FY21	FY22 E
Income for discretionary spending	F	F	NF	NF	F

Variables	FY18	FY19	FY20	FY21	FY22 E
Cost of ownership	F	NF	N	N	N
Petrol / CNG Vehicles	F	NF	N	N	N
Diesel vehicles	F	NF	N	NF	N
Interest rates	F	N	N	F	N

Variables	FY18	FY19	FY20	FY21	FY22 E
New model/ facelift launches	N	NF	F	N	F
Regulations – passenger vehicles	F	N	NF	N	N
Impact on Overall Sales Growth	**F**	**N**	**NF**	**NF**	**F**

E: Estimates P: Projected

SOURCE: Industry, CRISIL Research

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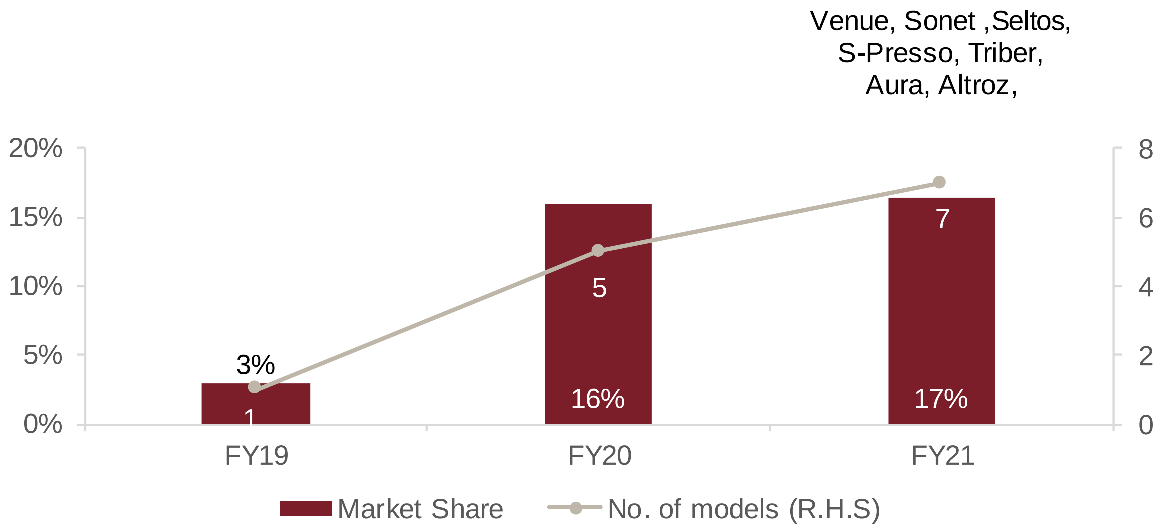
Higher launches in the UV segment to aid its faster growth

New launches provide the much needed kicker



Note: Vehicle is considered newly launched for 18 months,;Model wise data not available for March 2021
Source: Industry, CRISIL Research

- With shortening replacement cycles, new launches provide an additional booster to the demand
- Even a face lift can provide the necessary thrust
- In FY21, recent launches contributed ~17% to the industry sales
- With a strong pipeline, we expect UV segment to get benefited in FY22

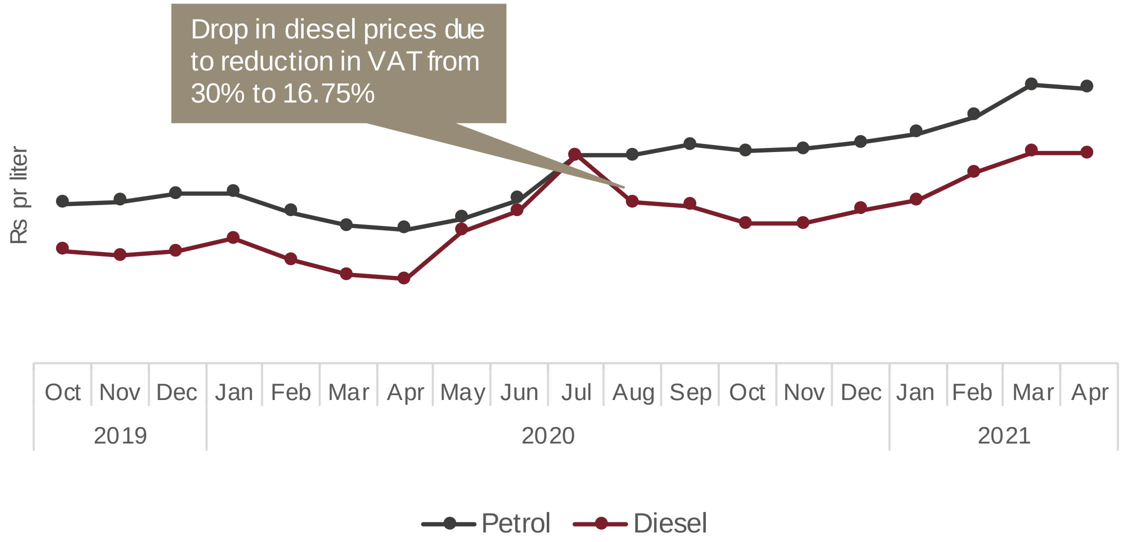
Major upcoming launches

Company	Model	Segment
Maruti Suzuki	Jimny	UV
	XL 5	Small Car
Citroen	C5	UV
Mahindra	XUV 300 facelift	UV
	XUV 300 Electric	UV
	TUV3OO facelift	UV
Tata	Altroz XM facelift	Small Car
	Hexa facelift	UV
Hyundai	Sonata facelift	Large Car
	Alcazar	UV
MG	Hector facelift	UV
Kia	Xceed	UV
Toyota	C-HR	UV

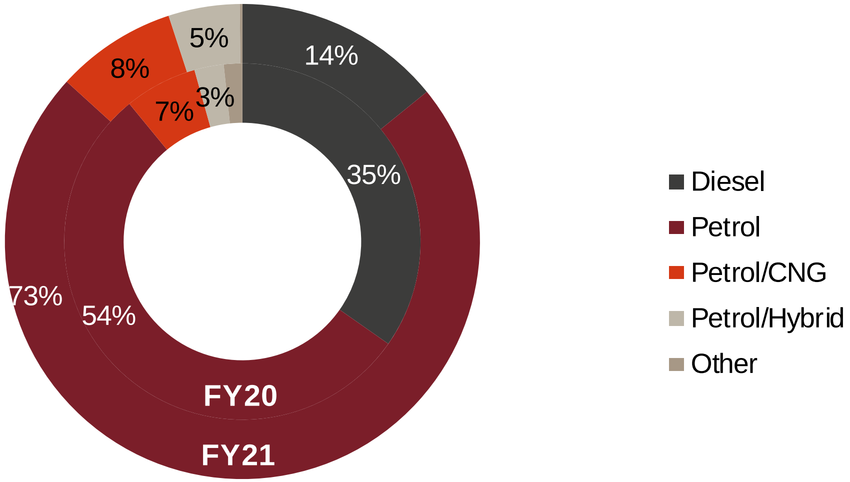
Source: Industry, CRISIL Research

Rising fuel prices have accelerated shift towards alternate fuel variants

Fuel Prices



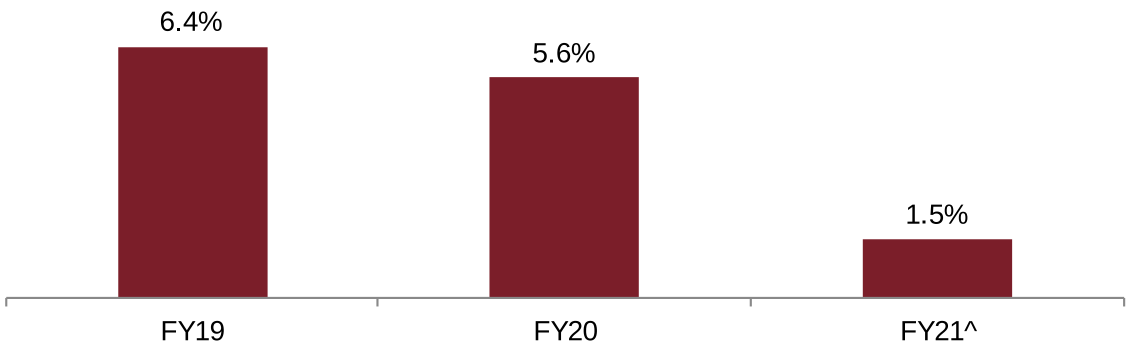
Rise in petrol & CNG variants post BS-VI



Source: Industry, MoRTH, CRISIL Research

Shared mobility faced the biggest blow due to Covid

Registration of commercial segment as a % of total registration



- Ever increasing fuel prices have shot up the operating cost of passenger vehicles
- With shortening price differential between diesel & petrol, increased diesel vehicle costs for BSVi, consumers are moving away from diesel vehicles
- From ~35% share in FY20, share of diesel vehicle sales has dropped to 15% in FY21
- Primary diesel vehicle consumers, the commercial segment sales contracted significantly in FY21 amidst the pandemic concerns
- We expect the shift to continue going forward, with petrol/CNG vehicle share to get a major boost

Research

Note: Fuel prices in Delhi region
Source: Industry, CRISIL Research

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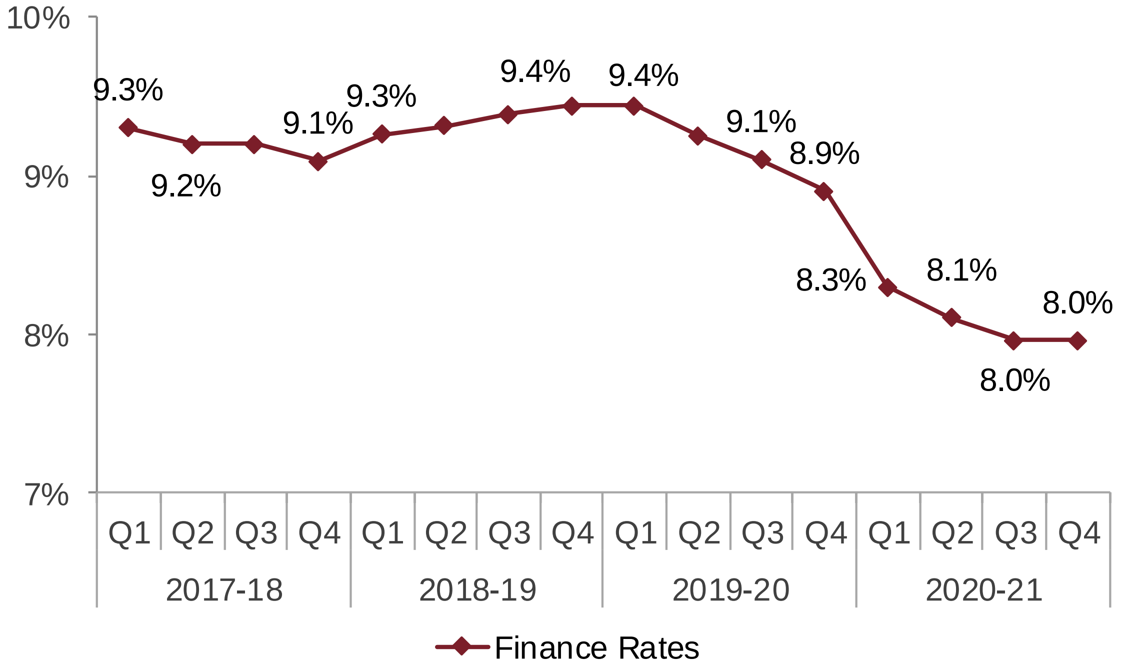
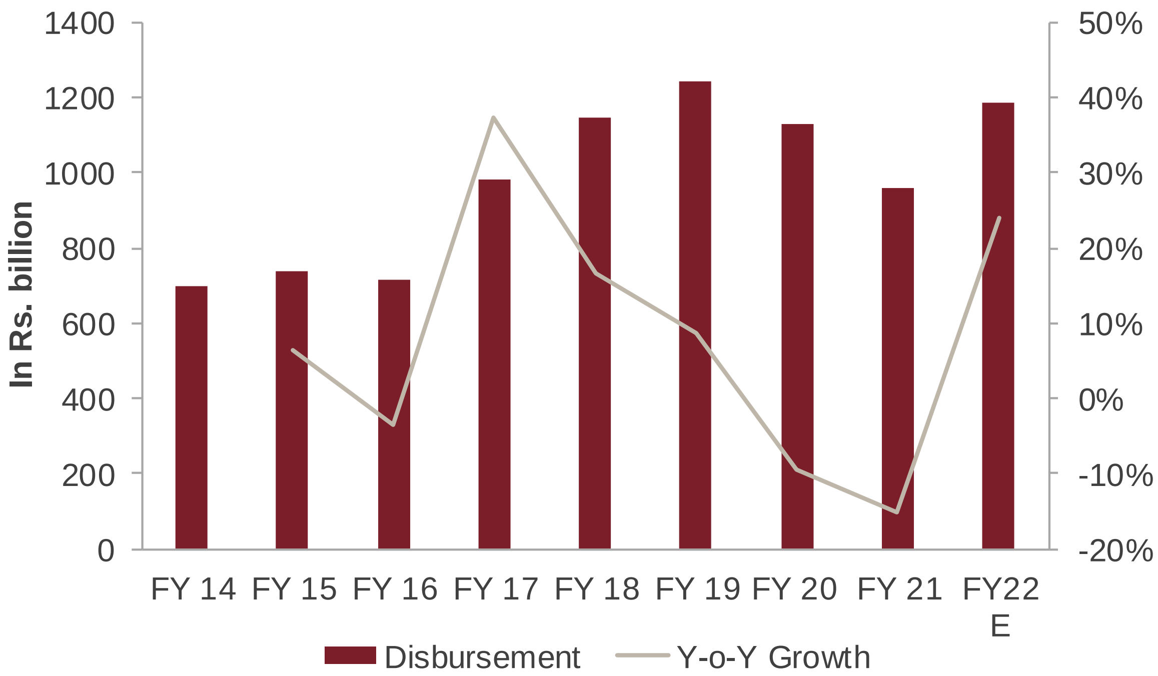
With estimated improvement in demand, disbursements are also expected to improve in FY22

Interest rates



NOTE - Interest rates are an indicative rates charged by Banks
Source – CRISIL Research

Disbursement

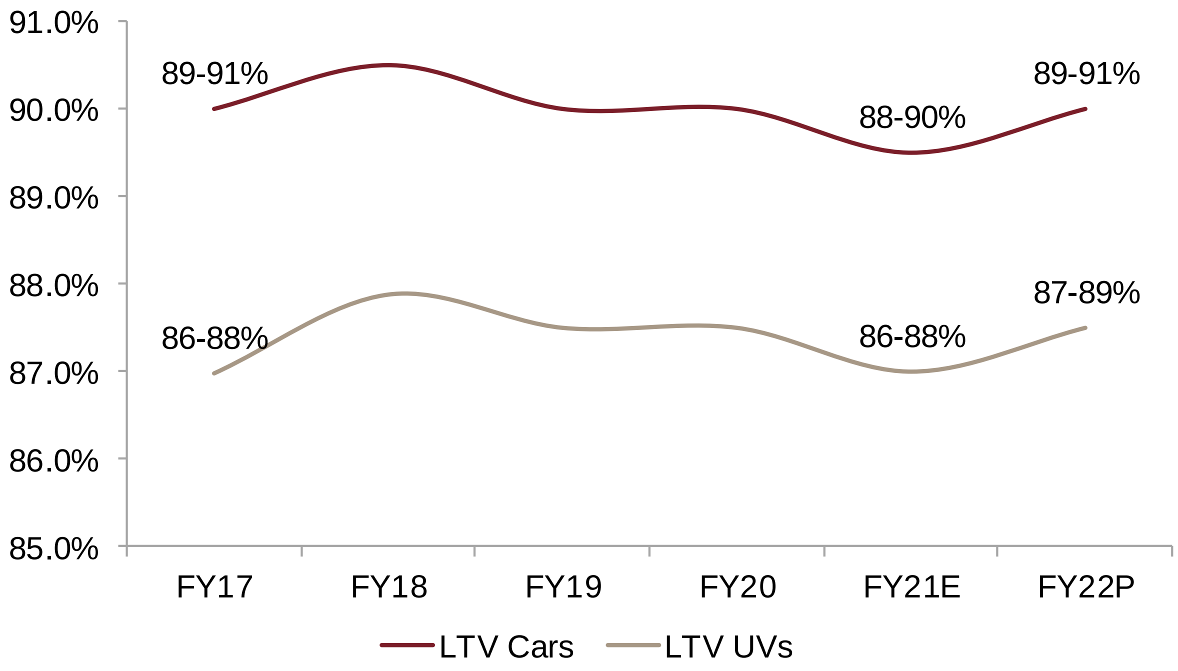


Source: Company Reports, CRISIL Research

- Higher reduction in interest rates (~70-90 bps) have been witnessed in PVs segment as income sentiments have not been as severely impacted for the buyer segment of these vehicles as compared to other vehicle segments, Interest rates have remained near steady in the second half of the year.
- Continued y-o-y drop in underlying vehicle demand exerted pressure on disbursement levels in fiscal 2021
- In fiscal 2022, supported by the estimated pick up (18-20%) in PV demand, disbursements are also expected to register growth on a lower base

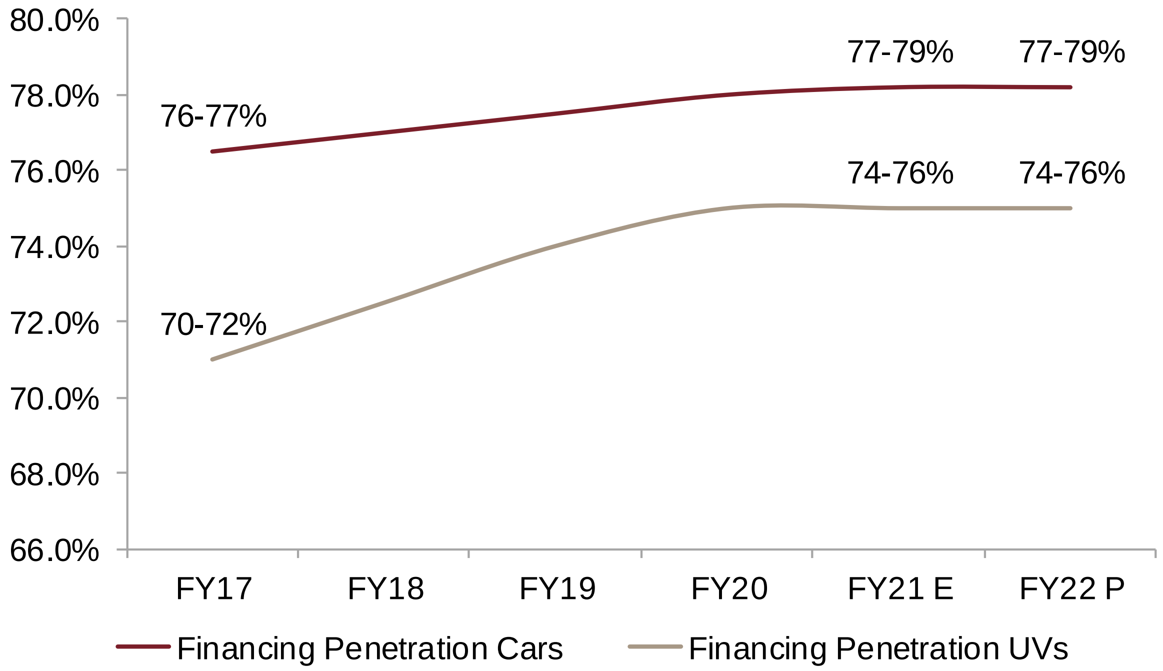
From a minor drop seen in FY21, LTV to reach pre pandemic levels in FY22

Loan-to-value (LTV) for PV



Source: Industry, CRISIL Research

Financing penetration

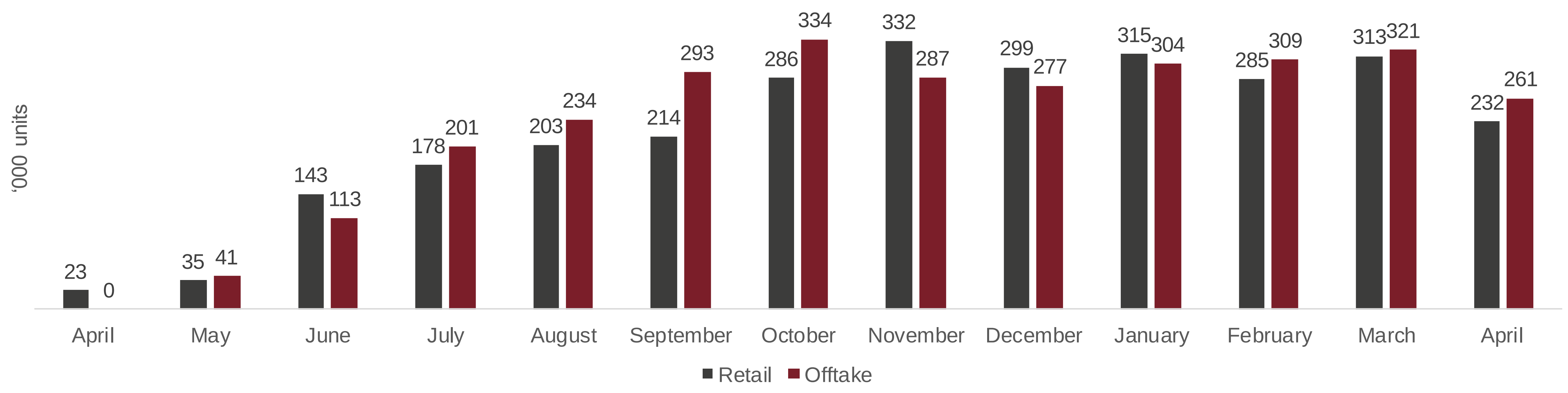


Source: Industry, CRISIL Research

- Given the strong financial backing of typical PV customers, financial parameters for PV segment saw only a marginal impact in terms of LTV
- Some improvement in expected in LTVs in fiscal 22 backed by estimated improvement in incomes, as well as pick up in disbursements
- Finance penetration is expected to remain range bound
- Impact of the second wave od Covid remains a key monitorable

Offtake continues to barely match retail traction, exerting pressure on inventory levels

Retail vs off-take FY21

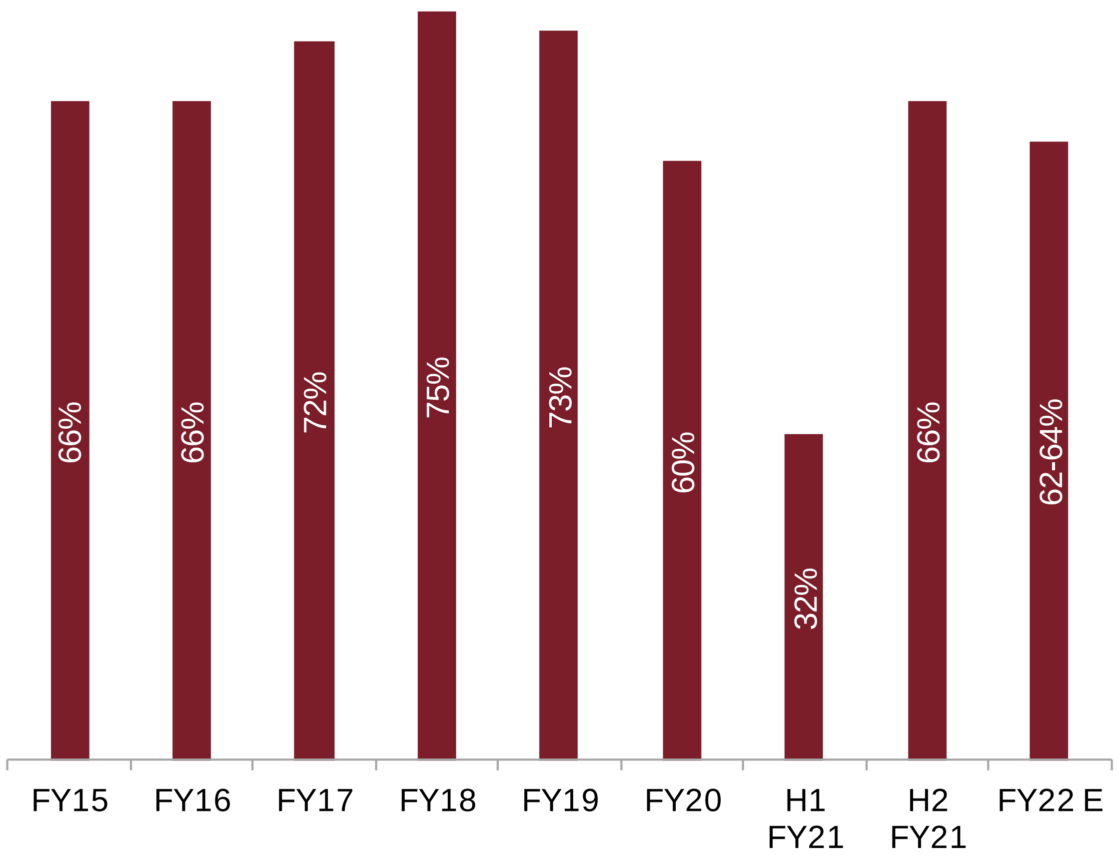


Note: Retail numbers are estimated
Source – MoRTH, SIAM, CRISIL Research

- Since the festive season, retail sales have been in line with the offtake numbers
- Supply constraints have restricted the offtake growth & off take sales are barely managing to reach retail levels
- This has significantly impacted the dealer inventory pushing the waiting periods of popular models
- Waiting periods in weeks : Creta 12-35 , Nexon 10-14, Seltos 10-12, Ertiga 6-28
- Sharp drop in April retails pushed inventory levels to ~15 day level

High traction in H2 levered annual utilization to above 50% levels

High utilization levels to continue in FY22



Source: CRISIL Research Estimated

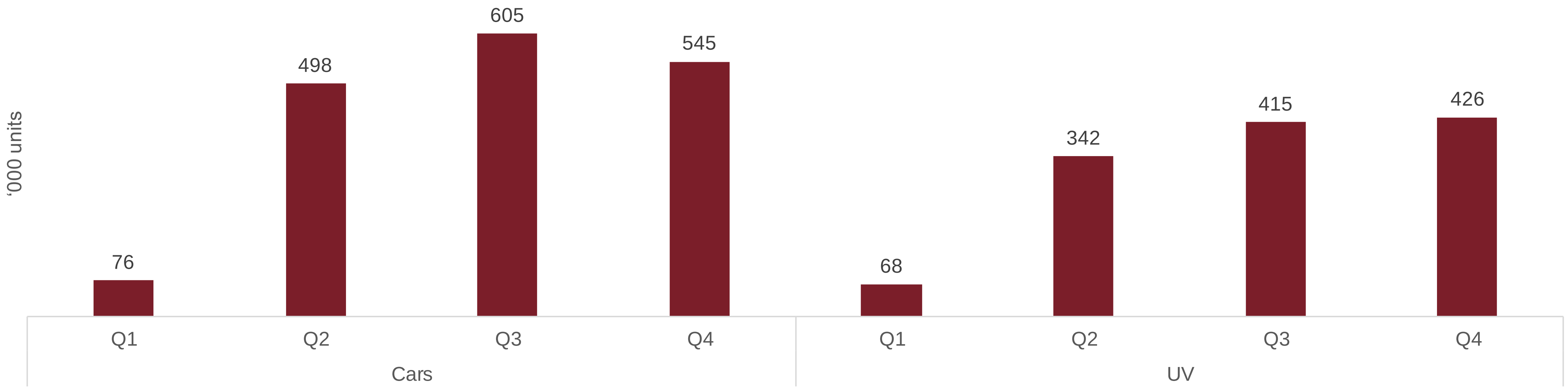
Player-wise capacity utilisation

Player	Effective Capacity (in '000) (on 31st Mar 2021)	Production (FY21) (in '000)	Capacity utilization FY21	Capacity utilization H2 FY21
Maruti	2,050	1410	69%	95%
Hyundai	763	568	74%	100%
Tata Motors	564	222	39%	54%
Ford India	440	89	20%	22%
Renault-Nissan	480	144	30%	43%
General Motors	165	28	17%	14%
Toyota	310	54	17%	23%
Honda	180	56	31%	56%
Volkswagen	179	51	28%	23%
Kia Motors	300	193	64%	79%
Industry Total	**6015**	**3062**	**51%**	**66%**

Source: SIAM, CRISIL Research

Production levels increased in the second half of the year

Quarterly production FY21



Source: SIAM, CRISIL Research

- Amidst the pandemic & the lockdown, production contracted significantly in Q1FY21
- Revival in production was seen from Q2 , reaching its peak during Q3, the festive season
- With higher traction for UVs, more preference was given to UVs in Q4 amidst the production constraints

Domestic – annual forecast

	Passenger vehicles	Cars	UVs and vans
FY 20 volumes	2,773	1,698	1,075
YoY Growth in FY20	18%	23%	7%
FY 21 volumes	2,712	1,542	1,170
YoY Growth in FY21	2%	9%	8%
FY 22E volumes	2900-3200	1650-1750	1300-1400
YoY Growth in FY22E	10-12%	8-10%	13-15%

NOTE: Volumes in thousand units, numbers in red boxes indicate y-o-y de-growth, numbers in green boxes represent y-o-y growth

Source – SIAM, CRISIL Research

Domestic – quarterly forecast

Period		Passenger vehicles		Cars		UVs and vans	
		Volume (000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth
FY21	Q1	154	(78)%	80	(82)%	74	(72)%
	Q2	692	12%	404	9%	288	15%
	Q3	897	14%	516	8%	381	24%
	Q4	934	43%	513	27%	420	67%
FY22 E	Q1	480-485	213-215 %	270-275	239-241 %	205-210	184-186 %
	Q2	650-655	(11)-(9)%	365-370	(15)-(13)%	283-288	(6)-(4)%
	Q3	875-880	(3)-(1)%	485-490	(16)-(14)%	385-390	(6)-(4)%
	Q4	990-995	5-7%	545-550	6-8%	444-449	5-7%

Source – SIAM, CRISIL Research

- Post festive demand has sustained in Q4 FY21 as well, retail demand was in line with the offtake, with offtake constrained by supply issues
- Dealer inventory levels remained at 10-15 days by the end of March 2021 with waiting period of most popular models touching 10-15 weeks with few models touching 30-40 weeks as well
- We expect these previous bookings to help PV industry to keep the wholesale demand afloat during first half of FY22 amidst the surge in Covid cases.
- Fresh demand is expected to be impacted in the wake of second pandemic outbreak & subsequent lockdowns
- However, demand for personal mobility with increased social distancing requirement to provide a kicker to PV segment
- On the back of recent launches, strong pipeline, we expect UVs to continue to outpace car segment
- We expect supply situation to gradually improve after initial plant closures amidst the second wave

Stakeholder interactions

OEM

- Second wave of Covid has hit the retail demand hard in April
- Previous backlog helped book offte anumbers in April
- Most dealers accepted previous orders during April
- However, fresh orders have dropped sharply
- Most OEMs have declared production break in May which is expected to some bearing on the supply going ahead
- However, given the expected lower traction , it will not have an impact for dealers in the short run
- Production issues are expected to continue in Q1 amidst the increased Covid cases
- Auto comp players are also getting impacted due to the second wave which might exacerbate supply issues going ahead
- Semiconductor crisis is expected to continue in the medium term
- Fear buying is expected to provide another push to PV sales once the situation normalises

Dealer

- Fresh demand dropped significantly in the second half of April, enquiries , footfalls took a major hit
- Only delivered pre booked vehicles in April second half, May is expected to be worse
- In states like Maharashtra, even registration of pre booked vehicles was not possible impacting retail demand for April
- Have received few orders from OEMs in April, have not put new orders
- Dealerships are closed or operating for a very limited time in most markets
- Workshops are operating in some areas, however, the inflow of vehicles has reduced significantly
- Inventory levels increased marginally due to subdued retail in April
- May is expected to be really bad, some improvement is expected in June with gradual unlock

Financier

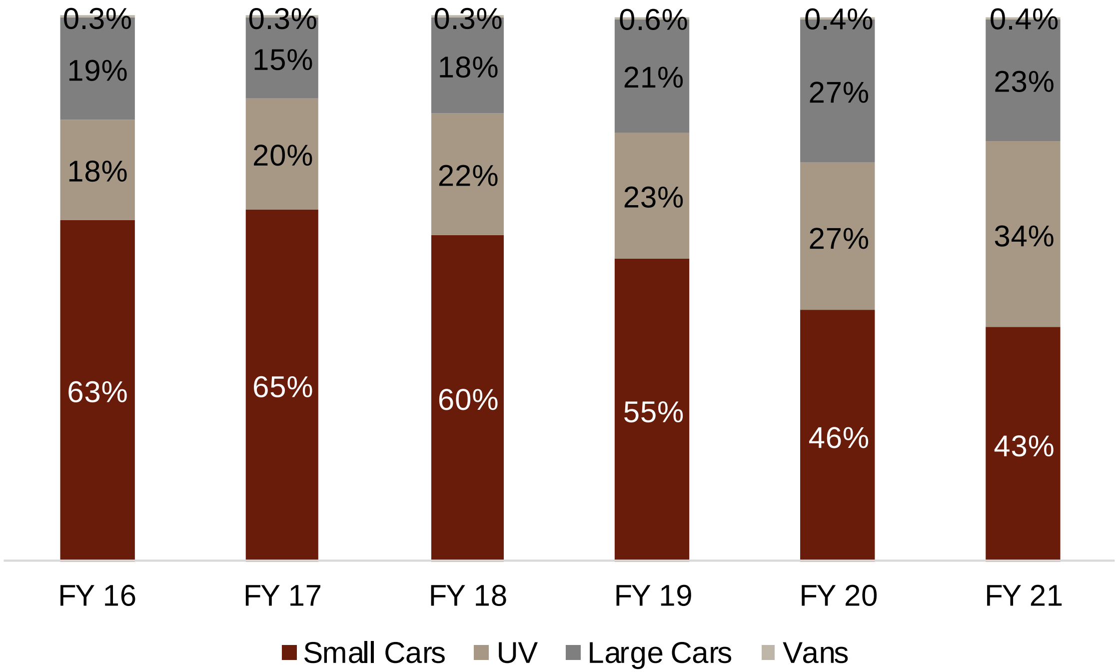
- Pandemic resurgence has created a quandary for financers
- In April there was no sizeable impact on disbursements given the previous orders with dealers
- However, May is expected to be bad
- LTV , interest rates have not been altered in April, however, impact of the second wave is being closely monitored
- More caution is expected from the financiers going ahead
- However, no significant change in the financing criteria is expected given the strong profile of typical PV customers
- Revival is disbursements is expected from the second quarter

Source – Industry, CRISIL Research

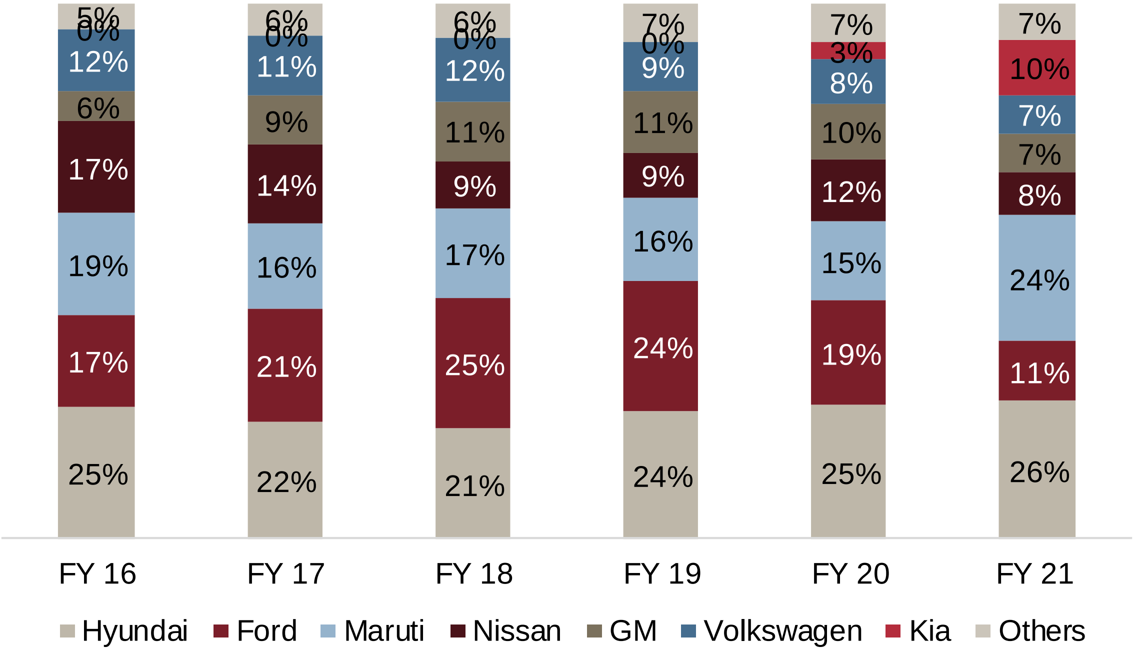
PV exports

Maruti expands its presence, UVs continue their stride

Share of Uvs on a rising trend



Hyundai tops the pole position, closely followed by MSIL



Source: SIAM, CRISIL Research

- Passenger vehicle exports registered a de-growth of 40% in FY21, after a significant drop in the first half, OEMs cut their losses in H2
- Among the top 10 major exporters, Maruti and Hyundai have recorded a positive growth on-year basis in H2 of FY21 enabling Maruti to grab a significant share in FY21 exports
- Few players faced serious supply constraints due to the unavailability of semiconductors, container and steel leading to glitch in the assembly line.
- Focus of the OEMs to serve domestic market first has also led to dent in exports. Exports to production ratio has moved from 19% in FY20 to 13% in FY21

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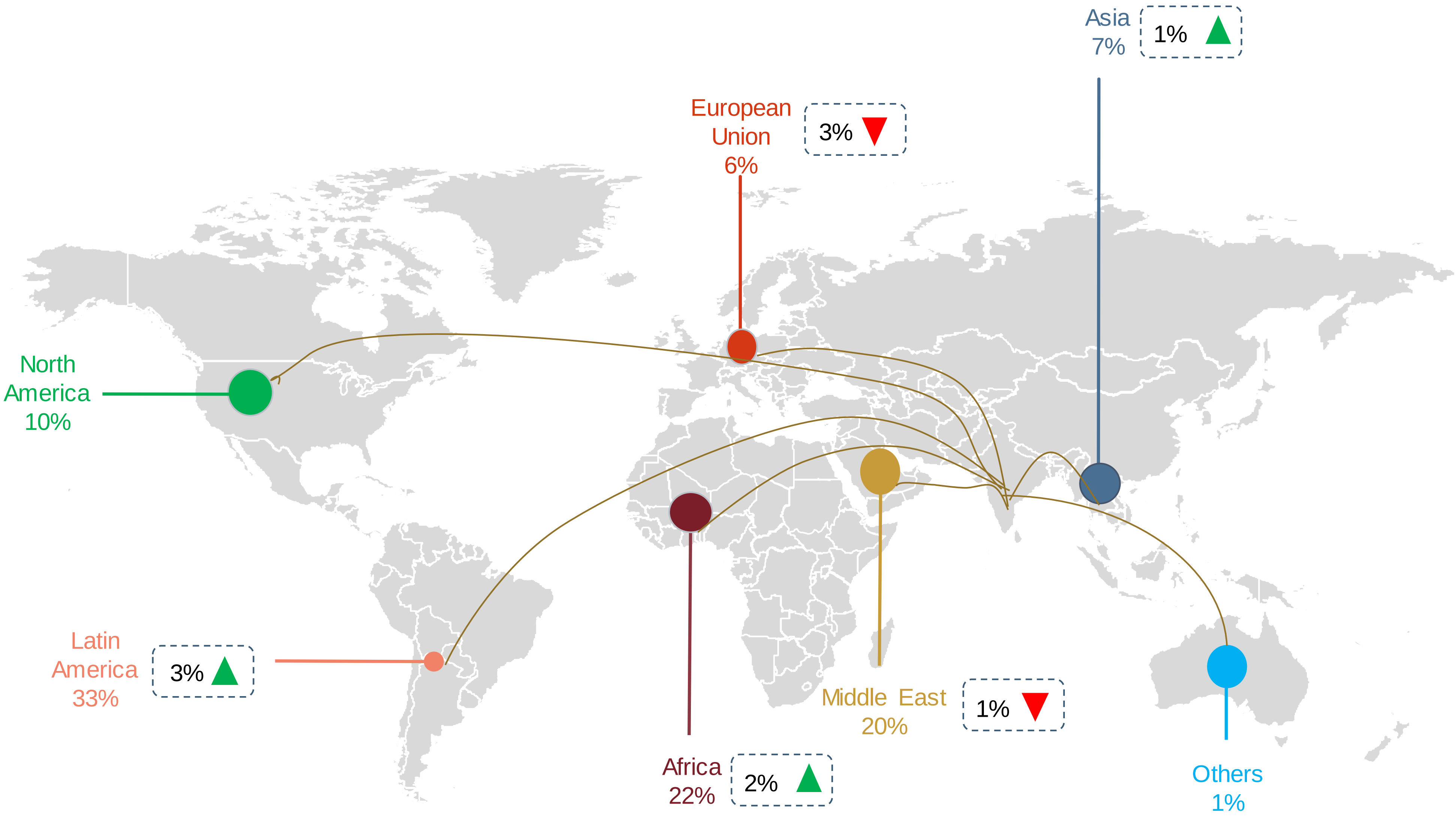
Passenger Vehicle Exports



- Exports to pandemic hit European nations has de-grown.
- LATAM and Africa has aided the exports.
- Exports to North America remains stable. However, supply constraints led to low exports.
- Africa & Middle east are faring relatively better in the recent resurgence (FY22)
- Second wave of covid and fresh lockdowns in the underlying importing nations will remain a key monitorable.
- Policies by the new US Government will be a key monitorable

Note: : Represents volume data for FY20 exports, % in dotted boxes indicates change in market share from FY20 to Apr-Jan 2021

Source: DGFT, CRISIL Research

Two-wheelers

Back to Summary Forecast Slide

On a low base of FY21, marginal improvement expected in FY22; revival seems a distant dream

Variables	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022 E
Income for discretionary spending	F	F	NF	NF	N

Variables	FY 2018	FY 2019	FY 2020 E	FY 2021 F	FY 2022 E
Cost of ownership	F	NF	N	NF	N
Interest rates	F	N	N	F	N

Variables	FY 2021 F	FY 2022 E
Fuel injector vehicle	NF	N
E- Carburetor vehicle	N	N

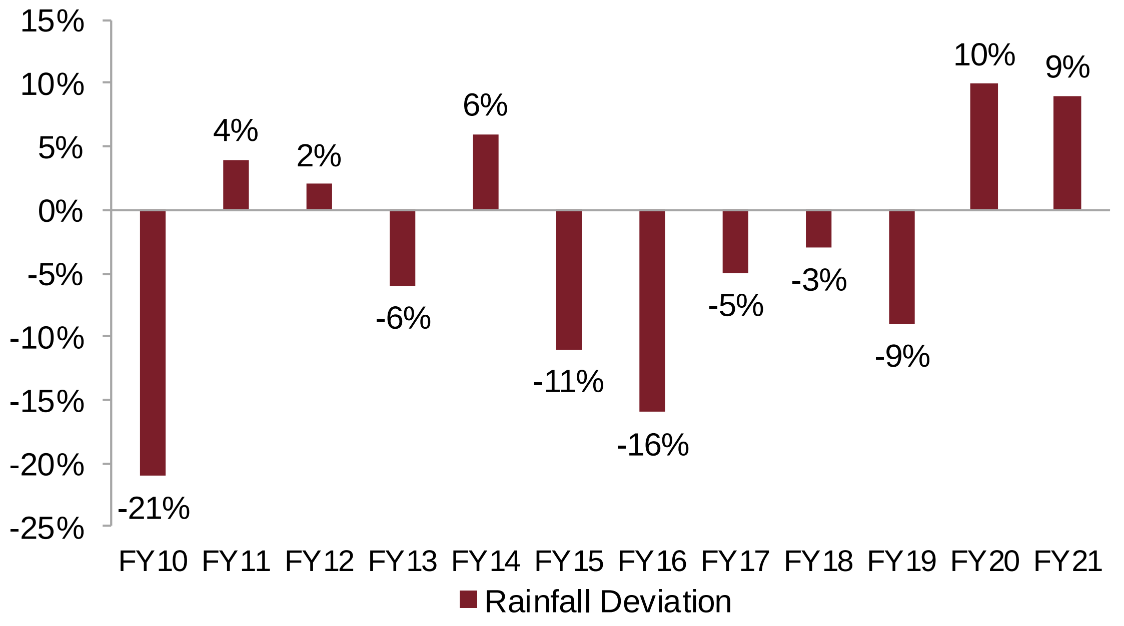
Variables	FY 2018	FY 2019	FY 2020 E	FY 2021 F	FY 2022 E
Regulations – 2 wheelers	F	NF	N	NF	N
Impact on Overall Sales Growth	**F**	**N**	**NF**	**NF**	**N**

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

E: Estimates P: Projected

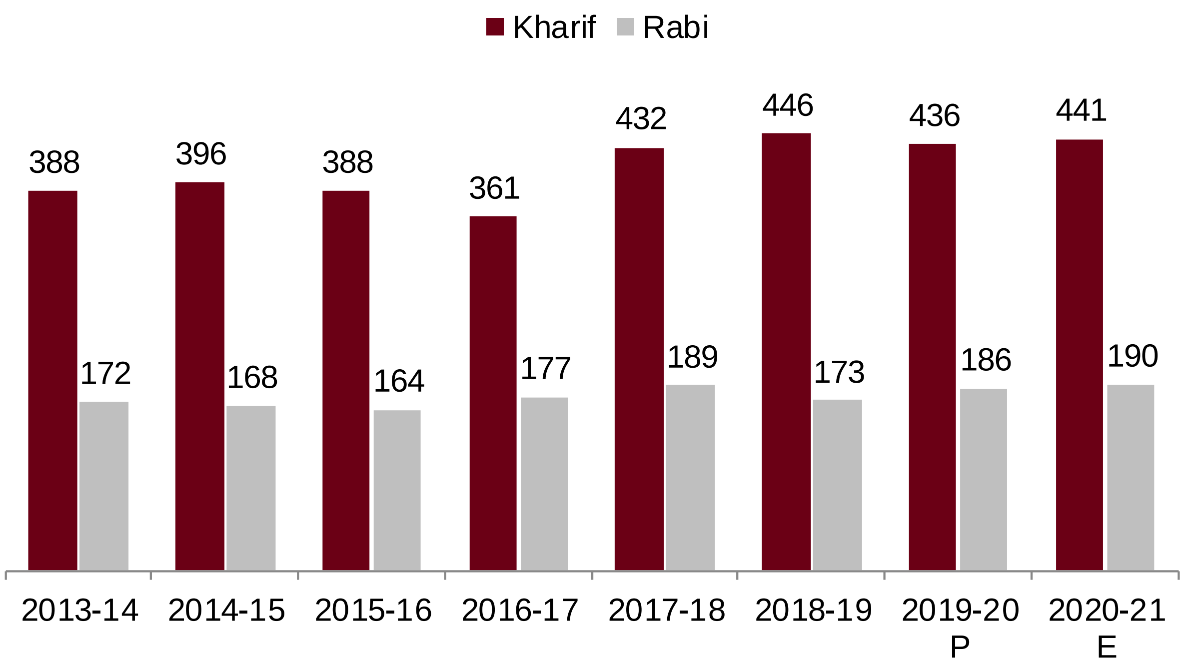
Positive rabi season and better cash flow in the market to aid agri sector

FY21 – a normal monsoon year



NOTE: Rainfall deficiency in the range of -10% to 10% of the long period average is considered as normal as per IMD
Source : IMD, CRISIL Research

Positive boost from high crop production

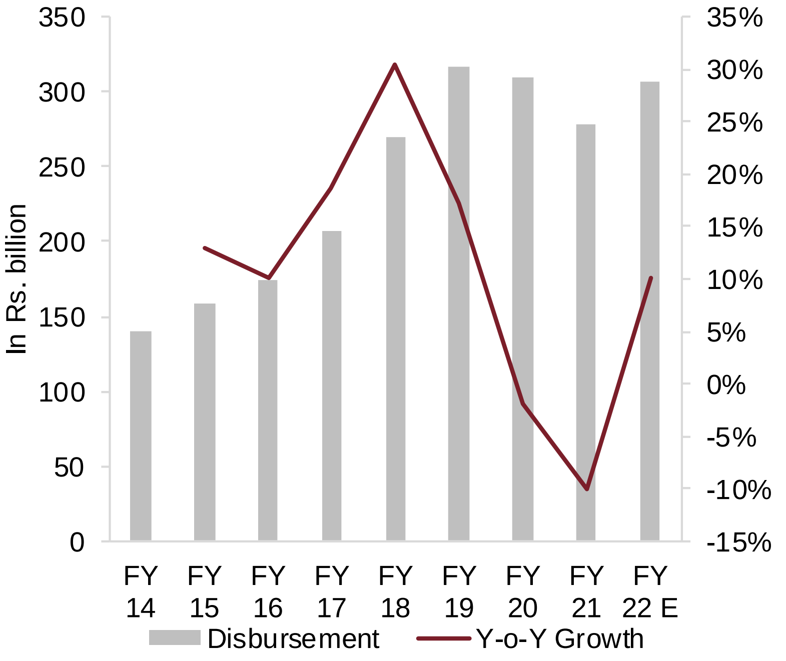


MY: Marketing year, P: Projected
Notes: 1) Base of 100 for Index (kharif and rabi) taken in MY Jan-Dec 2015
Source: Ministry of Agriculture, CRISIL Research

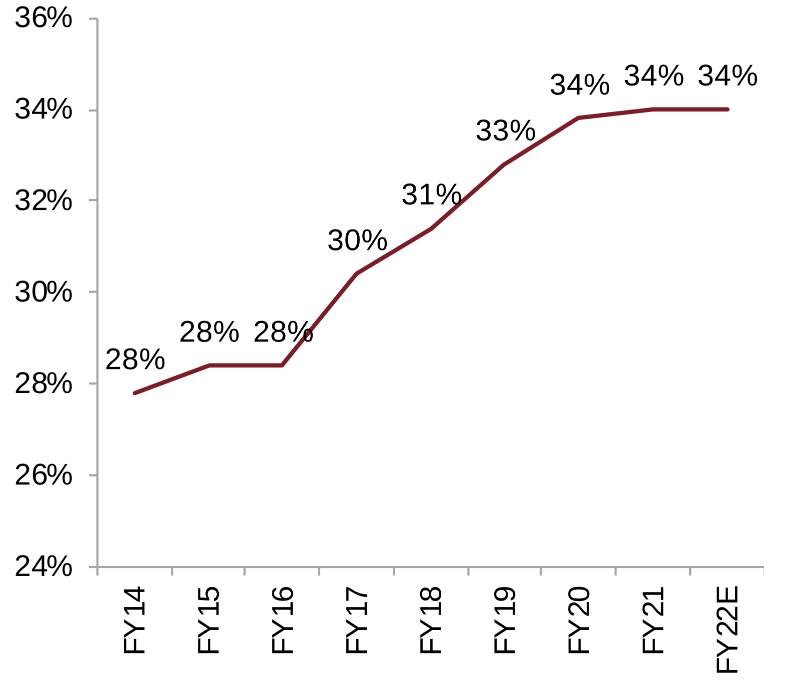
- Good monsoon spread and healthy reservoir levels has led to increased rabi sowing
- Timely payments from government and private agencies for kharif crop has further improved sentiments
- This is expected to provide an additional boost to rural demand

With some push to economy, financing situation expected to improve in fiscal 2022

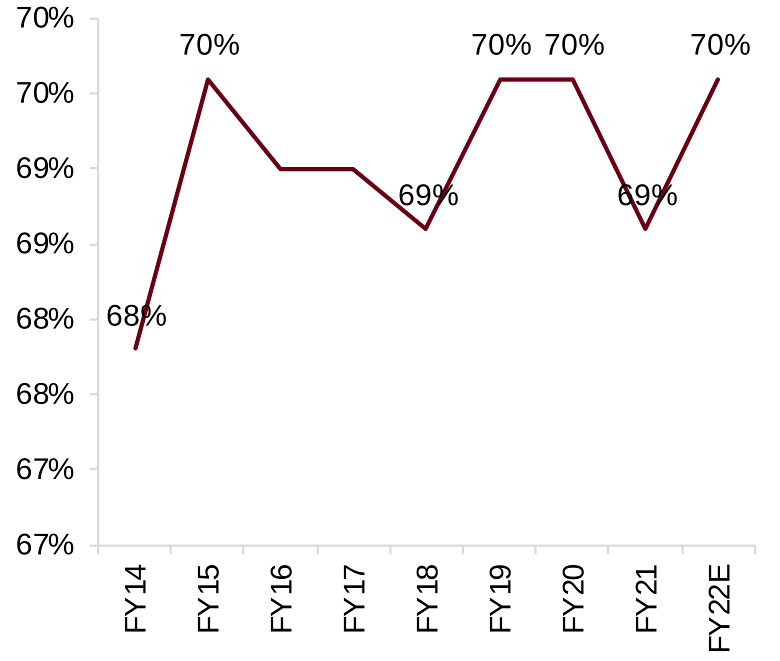
Disbursement



Auto finance penetration



Loan-to-value

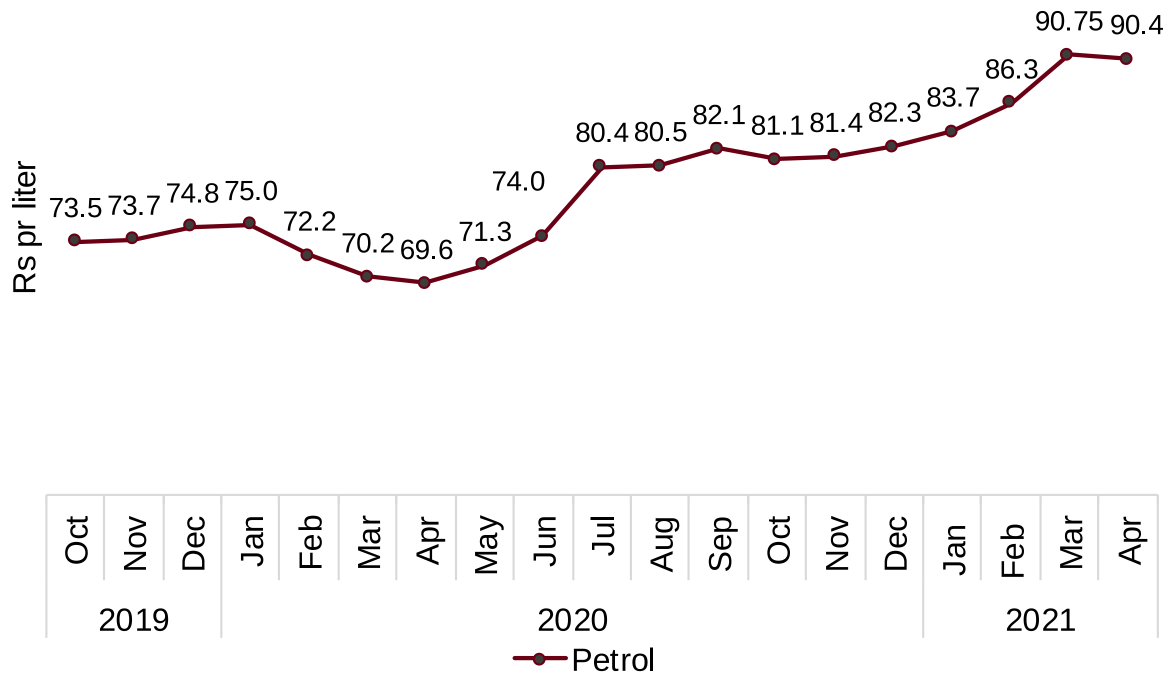


Source: Experian Credit Bureau, Company Reports, CRISIL Research

- Fiscal 2021 disbursements contracted 10% with sluggish economic environment, selective lending by financiers & increased financing costs. However, in FY22, financing scenario is expected improve
- Loan-to-value (LTV) ratio remained subdued in fiscal 2021 as purchasing power of borrowers took a hit in the weakening economic environment, specially income loss to blue collar jobs and a hit taken by MSMEs. Some improvement is expected during fiscal 2022 with improvement in economic environment.
- Financing penetration is expected to remain range-bound

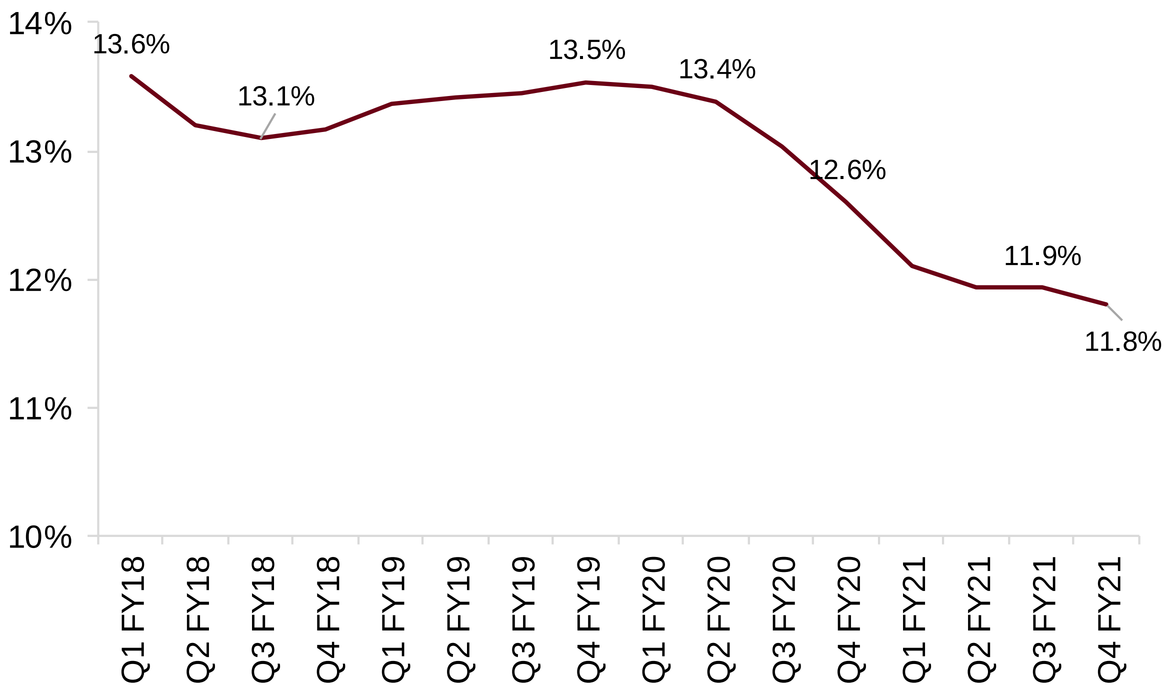
Fuel prices at historic high; interest rates stabilise

Petrol Prices



Note: Fuel prices in Delhi region
Source: Industry, CRISIL Research

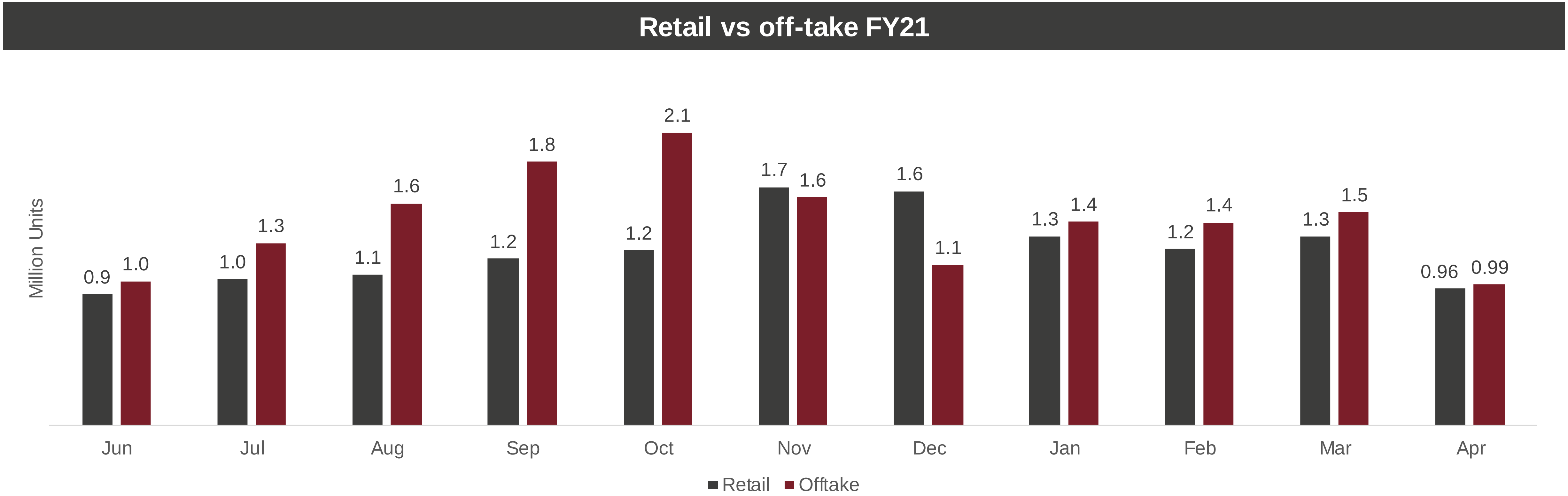
Interest Rates



NOTE - Interest rates are an indicative rates charged by Banks
Source – CRISIL Research

- Petrol prices continue to remain high due to production curb by OPEC countries as well as the hightened concerns about second wave of covid.
- Interest rates have been on a declining trend since June 2019, however, entire repo rate cut has not been passed to the consumer. Defaults in two-wheeler portfolio is high since majority of the customers are blue-collared workers who have lost jobs.

Offtake- retail gap narrowed in first four months of 2021

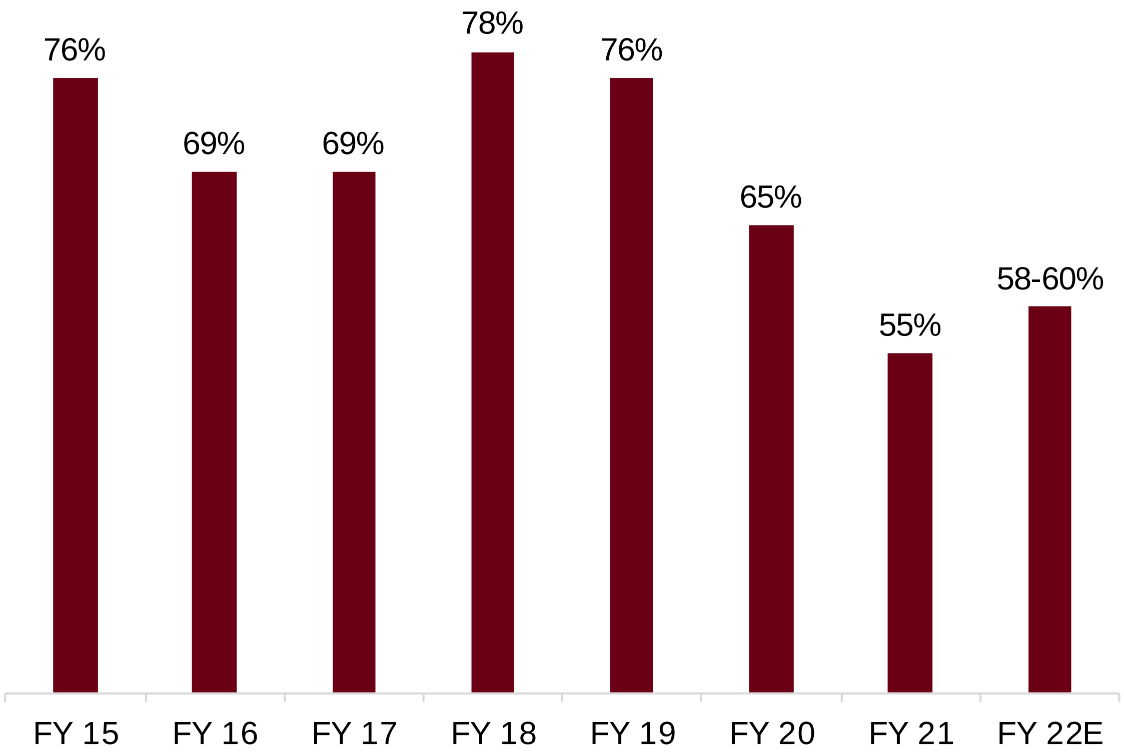


Note: Retail numbers are estimated
Source – MoRTH, SIAM, CRISIL Research

- For two wheeler industry, festive season was dismal
- Inventory build up was done in September & October, despite m-o-m improvement in November, retail sales did not match the expectations leaving dealers with above average stock
- With such high stock with dealers, some inventory correction was done in December & off take reported sluggish numbers in Dec
- During Q4, retail remained range bound, while there was some push from OEMs for year end numbers
- April saw a sharp drop in retail demand & as of end of April 21, dealers have ~50 day stock, which is much above their normal stock of 30-35 days

Utilisation to improve in FY22, to drop from H2 FY21 levels

Utilisation rates to not reach FY20 levels in FY22



SOURCE: Industry, SIAM, CRISIL Research

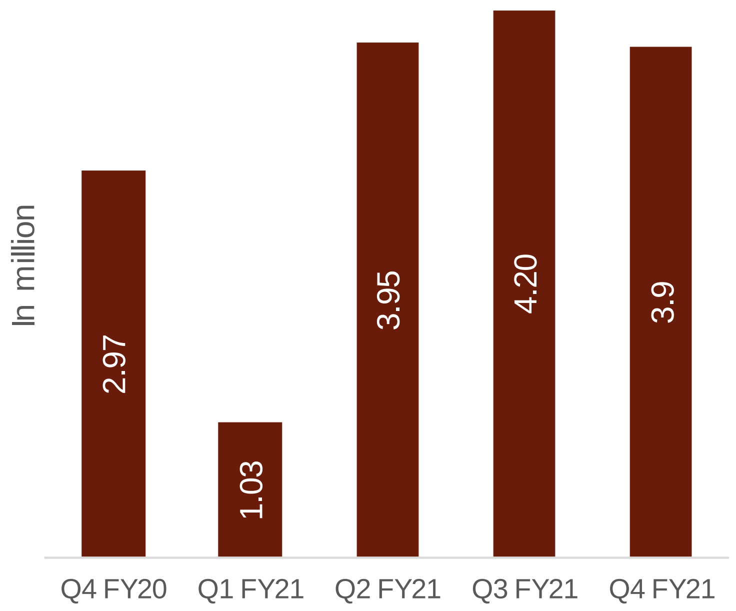
Utilisation levels improved sharply in H2 FY21

Player	Effective Capacity* in mn (as on 31st Mar 2021)	Production (in mn) FY21	Capacity utilization FY21	Capacity Utilization H2 FY21
Hero Motocorp	11.0	5.8	53%	62%
Bajaj Auto	5.4	3.6	67%	83%
HMSI	7	3.9	56%	72%
TVS Motor Company	4.5	2.9	65%	82%
India Yamaha Motors	1.6	0.7	46%	55%
Suzuki Motors	1.1	0.6	55%	73%
Royal Enfield	0.95	0.6	66%	85%
Industry Total	**33.2**	**18.3**	**55%**	**68%**

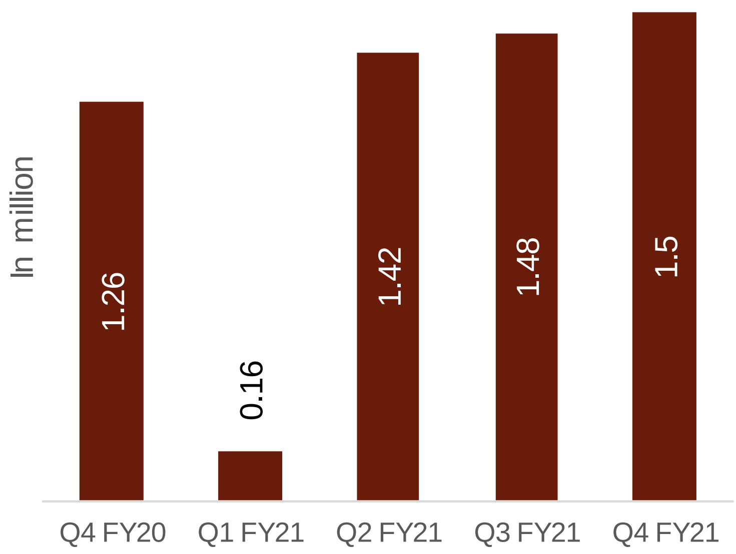
*Note : * Estimate*
Capacity utilization estimates of Bajaj Auto and TVS Motor Co Ltd exclude three-wheelers

Scooter production on a growing trend, y-o-y growth across segments in Q4

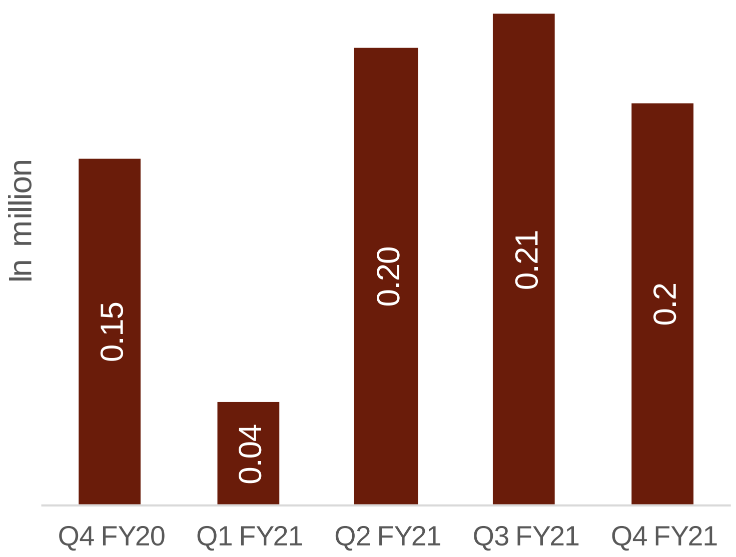
Motorcycles



Scooters



Mopeds



Source: SIAM, CRISIL Research

- On a lower base of last year, production in Q4 registered good growth across segments, with motorcycles clocking the highest growth of 32% y-o-y.
- However, on a Q-o-Q basis, production of motorcycles has dropped
- While in line with retail sales, production of scooters improved albeit marginally, production of mopeds was consistent in ~0.2 million range

Domestic – annual forecast

	Two-wheelers	Motorcycles	Scooters	Mopeds
FY 20 volumes	17.4	11.2	5.6	0.64
YoY Growth in FY20	18%	18%	17%	28%
FY 21 volumes	15.12	10.02	4.48	0.62
YoY Growth in FY21	13%	11%	20%	3%
FY 22E volumes	15.7-16	10.3-10.5	4.7-4.9	0.62-0.64
YoY Growth in FY22E	3-5%	2-4 %	6-8%	1-3%

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

Source – SIAM, CRISIL Research

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
FY21	Q1	1.29	(74)%	0.90	(73)%	0.34	(78)%	54	(68)%
	Q2	4.72	1%	3.15	8%	1.35	(16)%	197	20%
	Q3	4.78	13%	3.15	16%	1.42	5%	211	29%
	Q4	4.37	25%	2.82	25%	1.38	25%	162	15%
FY22 E	Q1	2.75-2.95	113-115%	1.9-2	114-116%	0.7-0.8	119-121%	90-95	69-71 %
	Q2	3.55-3.75	(23)-(21)%	2.4-2.5	(24)-(22)%	1-1.1	(21)-(19)%	140-145	(29)-(27)%
	Q3	4.4-4.6	(7)-(5)%	2.85-2.95	(9)-(7)%	1.35-1.45	(2)-0%	182-187	(14)-(12)%
	Q4	4.7-4.9	11-13%	3.05-3.15	9-11%	1.5-1.6	11-13%	210-215	35-37%

Source – SIAM, CRISIL Research

- After dismal performance in H1 FY21, scooters segment registered some growth in H2; improvement in economy, pent up demand, opening up of few offices backed this demand
- On the other hand, motorcycles demand dropped 11% (Q-o-Q) in Q4 from Q2/ Q3 levels amidst rise in vehicle prices, increase in fuel prices.
- Going ahead in FY22, uncertainty revolves around the extended lockdowns which are expected to impact urban demand hard and in turn the scooter segment.
- Opening of school/colleges & offices would have given the much needed push to the scooter segment in Q1FY22, however, amidst the Covid scenario, the revival will be pushed by at least another quarter
- Unlike in FY21, motorcycle segment is also expected to get impacted in the short term, given the impact of Covid on rural customers

Stakeholder interactions

OEM

- Volumes in scooter segment picked up in the second half of FY21
- With reopening of schools, colleges & offices, a significant boost to scooters was earlier estimated for Q1 FY22
- However, the sudden rise in cases & the impending lockdown is expected to push the scooter segment recovery by 3-6 months
- Continued stress on financials of blue collar workers will impact the economy segment more
- Inventory levels are above normal for most dealers, however, no particular inventory correction is expected in Q1FY22
- Retail sales are expected to normalize from Q2 assuming some improvement in Covid situation
- Severity of Covid second wave needs to be monitored closely

Dealer

- Despite the price rise, Q4 saw improvement in retail sales
- Scooter segment witnessed some growth after a sluggish year
- Sharp rise in fuel prices put a dampener on retail demand towards the year end
- Many customers showed interest towards electric vehicles
- Price have increased 3-5% from April, this is the second price rise in 2021 which will impact retail sales in Q1 FY22
- Economic uncertainty with second wave have significantly dampened customer sentiments in April
- Footfalls has gone down, enquiries have dried up
- Inventory levels are above normal at 50 days
- May month is expected to be much worse with most of the states declaring lockdowns

Financier

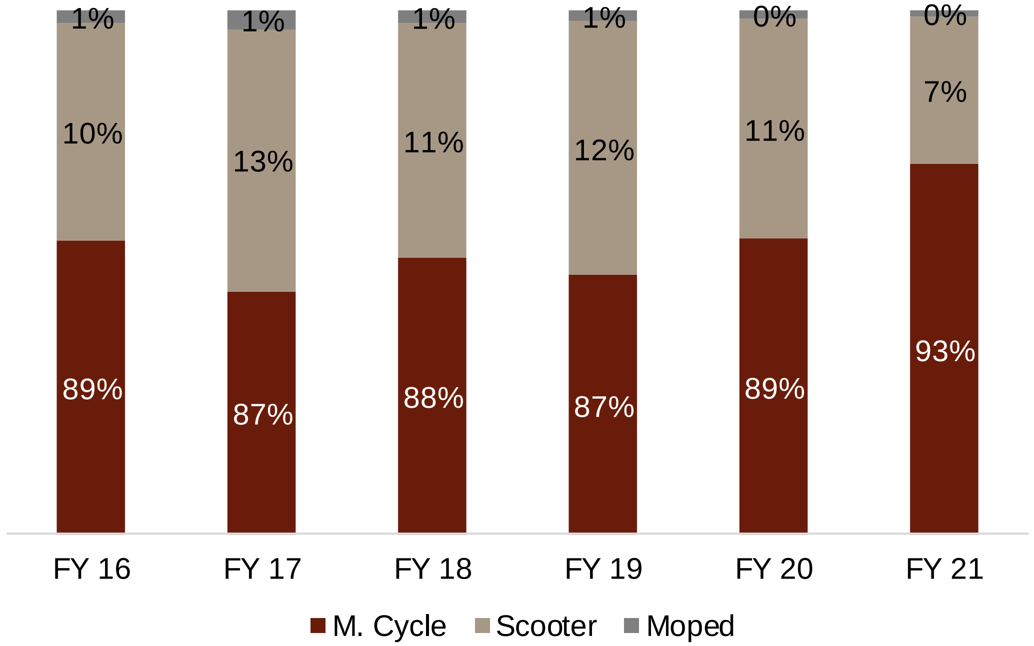
- Despite repo rate cuts, benefit was not completely passed on to the customers in FY21 as two wheeler portfolio is considered relatively riskier
- However, the interest rates have been coming down steadily.
- Post the unlock phase, financiers were more stringent in lending, LTV levels were cut by most financers
- Reduced LTVs rates are expected to continue for some time despite vehicle price rise
- The impact of second wave of Covid & the subsequent lockdown remains a key monitorable
- Cautious approach is expected from financers going ahead

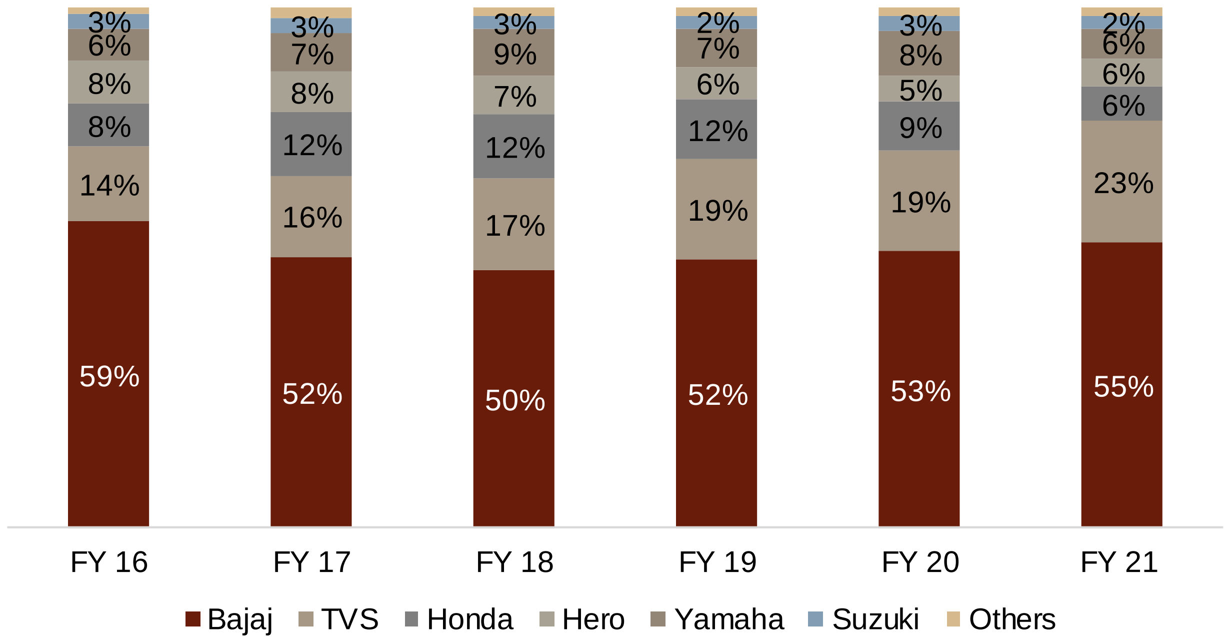
Source – Industry, CRISIL Research

Two wheeler exports

Motorcycle exports share at its record high

Bajaj Expands its dominance in FY21

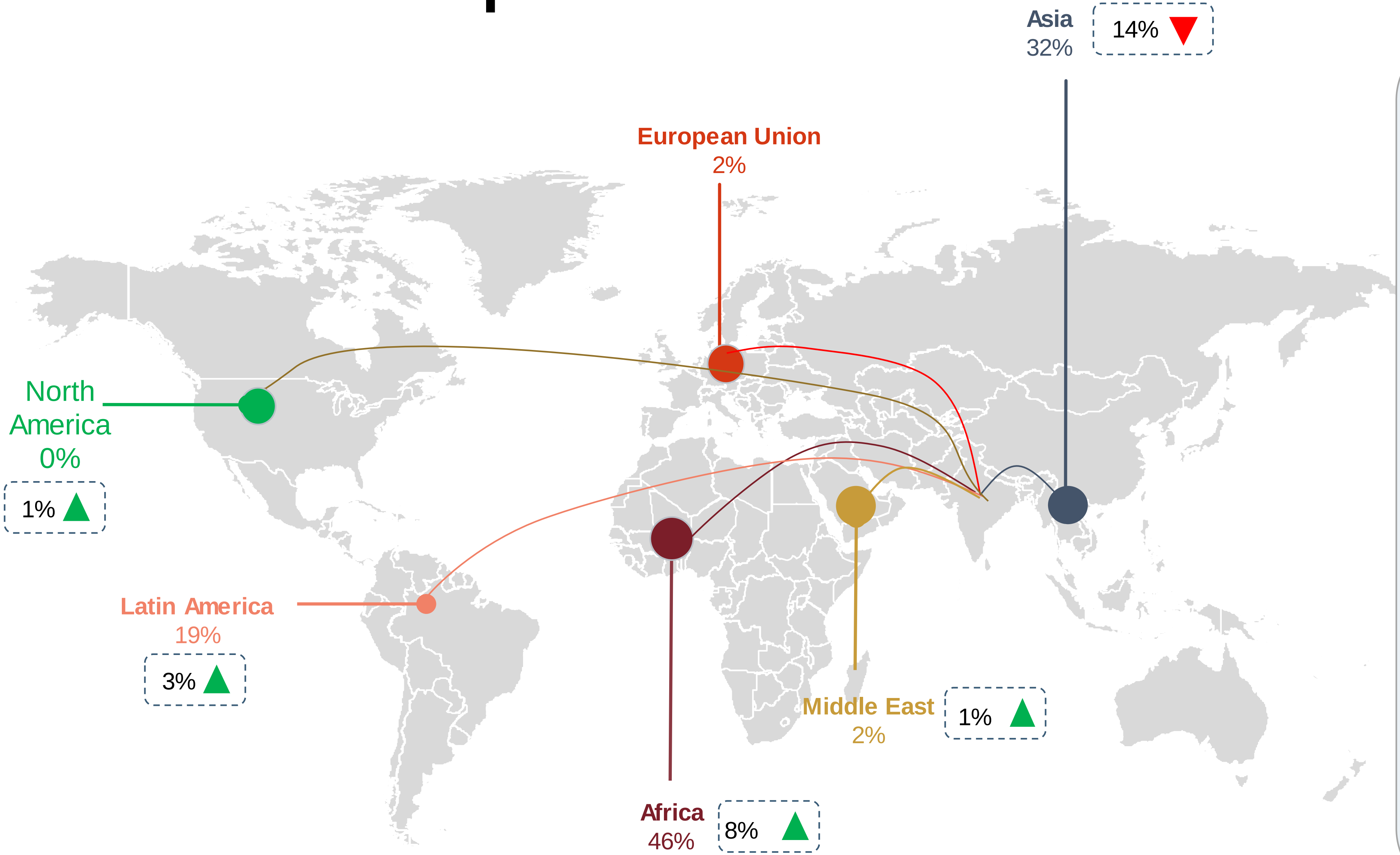




Source: SIAM, CRISIL Research

- In FY2021, exports dropped 7% y-o-y. However, in H2 FY21, exports rose 26% y-o-y
- Bajaj recorded its all time high export volume in H2, aided by strong demand from African continent.
- Scooters continue its de-growth, since demand from Asian market is still subdued.

Two-Wheeler Exports



- Lower spread of covid in African regions has proved beneficial for motorcycle exports.
- Africa has further solidified its position in FY21
- Two-wheeler in LATAM is now used for personal commute due to social distancing requirement which is aiding exports from India.
- Covid impacted demand from Asian countries & is expected to be under pressure
- Firming up of crude oil prices is expected to provide impetus to two-wheeler exports.
- Implementation oF RCEP can have sizeable impact on Indian 2W exports. It needs to be monitored closely

Note: : Represents volume data for FY20 exports, % in dotted boxes indicates change in market share from FY20 to Apr-Jan 2021

Source: DGFT, CRISIL Research

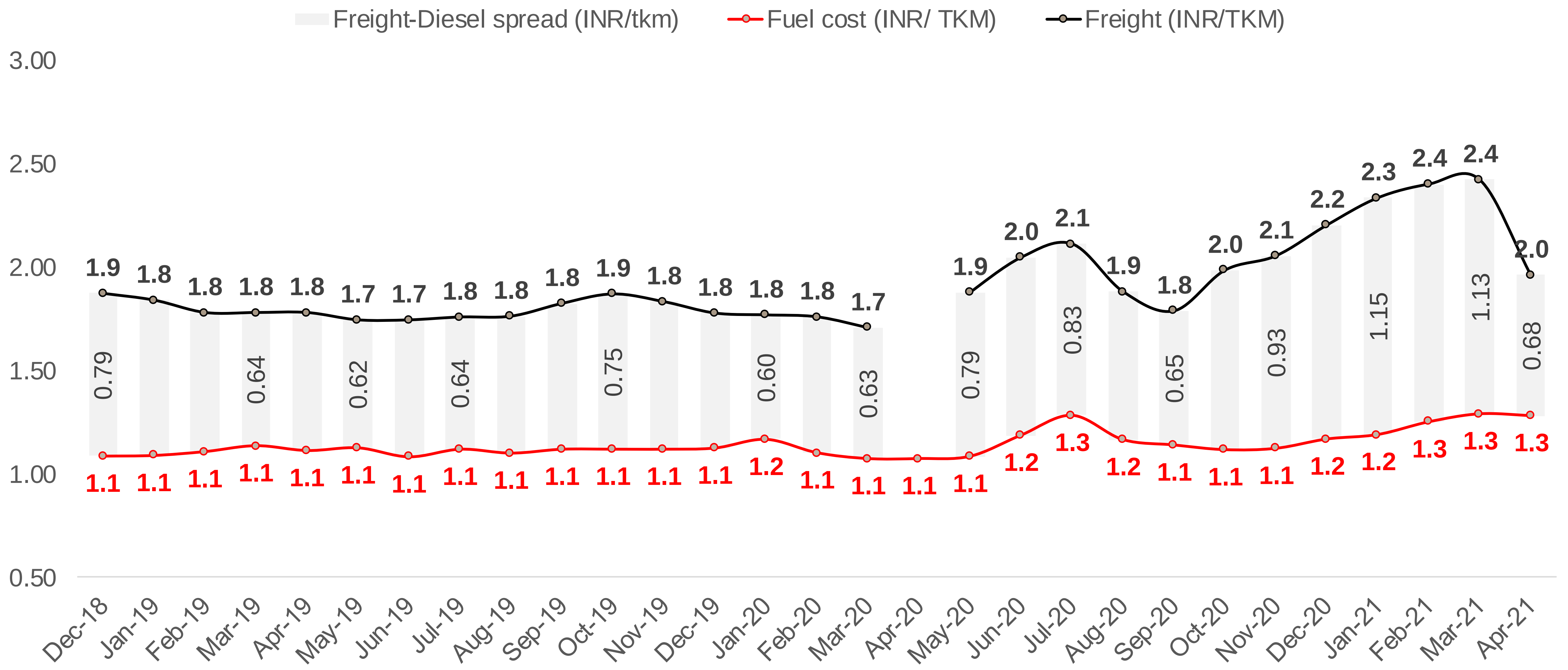
Commercial vehicles

Overview of end-use segments - Cargo

Segments (% Growth Y-o-Y)	FY 17	FY 18	FY 19	FY 20	FY 21 E	FY 22 P	
Coal (Production)	3.0	3.0	7	1	0	6-8	Core Sectors
Iron ore (Production)	25	3	3	19	(20)-(18)	18-20	
Steel (Consumption)	3.1	8	9	1	(6.5)-(6)	13-15	
Cement (Consumption)	1.9	9	12	(2)	(2)-0	12-14	
Roads (Km Constructed / Day)-NHAI	7	8	9	11	11	12-12.5	
Port (Traffic)	5.6	6.5	4.5	1-2	(8)-(6)	7-9	
Two-wheelers (Domestic sales)	6.9	14.8	5	(17)	(14)	3-5	Discretionary Products
Passenger vehicles (Domestic sales)	9.2	8	3	(18)	(2)	10-12	
Consumer durables (Consumption)	6.6	5.8	7	5	(25)-(20)	15-20	
E-retail	22	35	35-37	23	10-15	20-25	
RMG (Market Size)	17	5	8	(1)	(23)-(21)	33-36	
Dairy (Production)	5.8	6.7	6	(3)	7-9	6-8	Non - Discretionary Products
FMCG	5	8	12	5	3-4	10-12	
Pharmaceuticals (Market Size)	5	1	15	11	10-11	34-35	

Source: CSO, RBI, SIAM and CRISIL estimates E: Estimated; P: Projected

Second half of April sees sharp fall in Freight rates as most large states impose movement restrictions and lockdowns



Research Source: IFTRT,PPAC,CRISIL Research

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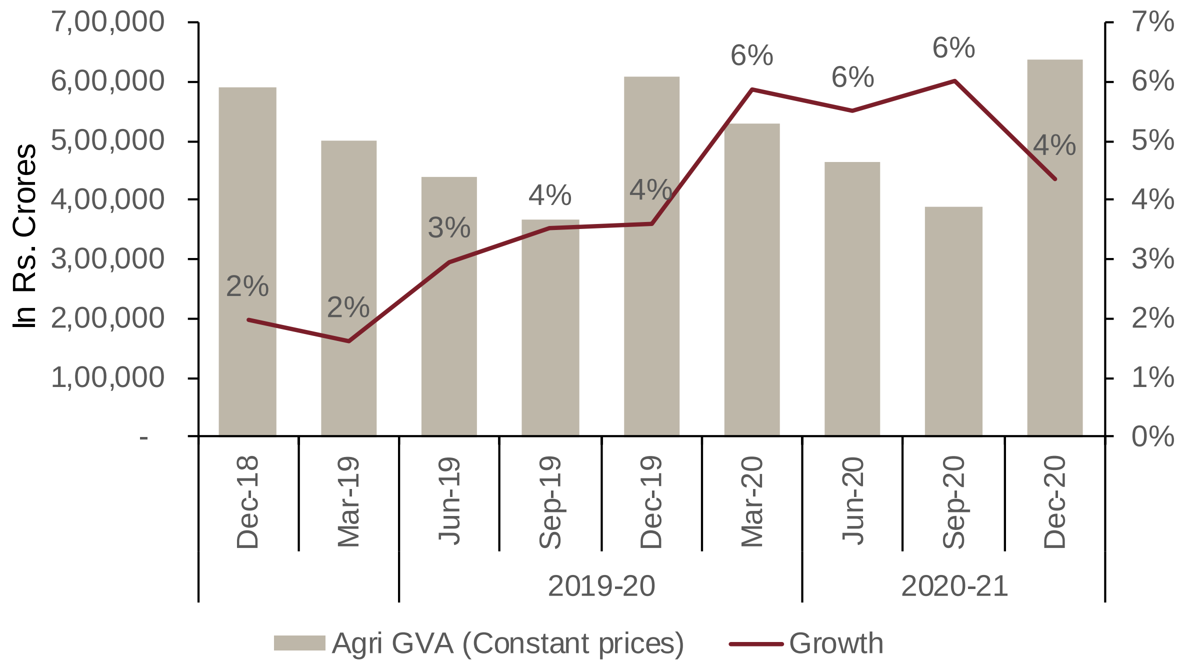
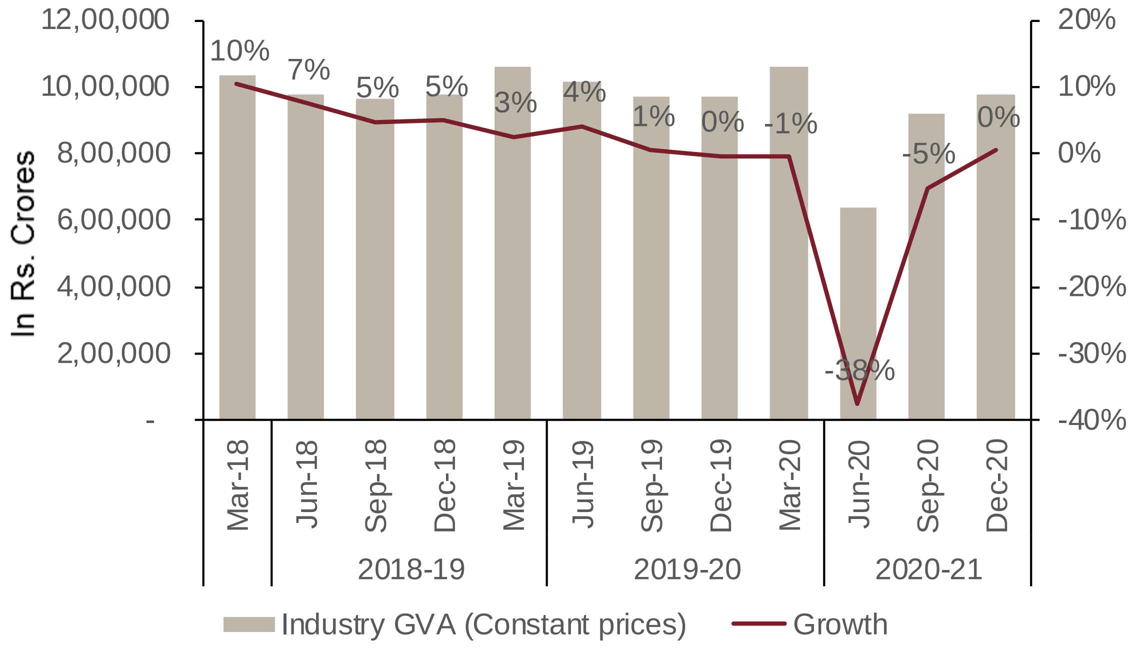
Normal monsoon support sustained Agri GVA growth momentum in fiscal 2021; Industrial GVA growth in Q3 was a positive surprise

Agriculture GVA growth



Source: MOSPI, CRISIL Research

Industry GVA growth

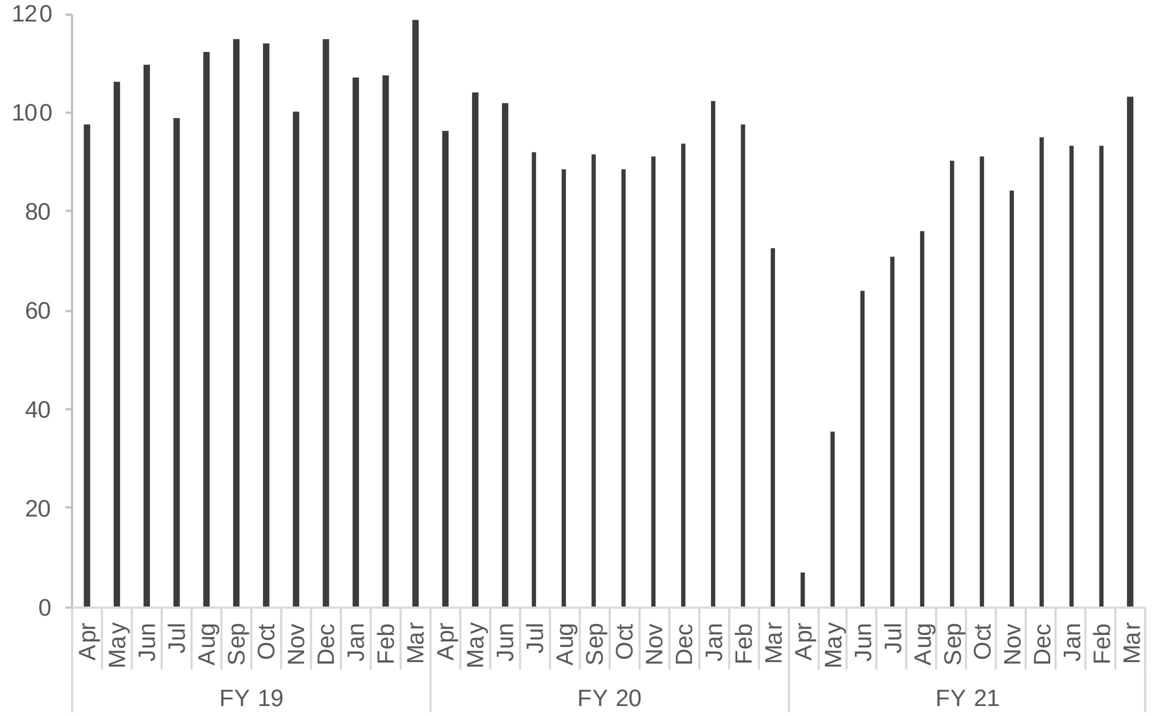


Source: MOSPI, CRISIL Research

- Agri GDP growth of Q3 FY2021 again grew at 4.4% on-year. It has been the best performing sector among the three broad categories.
- Consecutive good monsoons have helped the agri sector remain relatively unscathed thus far. With good sowing, the upcoming rabi season as well as expectations of normal rainfall in FY22 will help the sector maintain its momentum in the upcoming fiscal as well.
- Industry GVA witnessed flattish growth in Q3 FY21 which was significantly better than Q2 decline of -5%

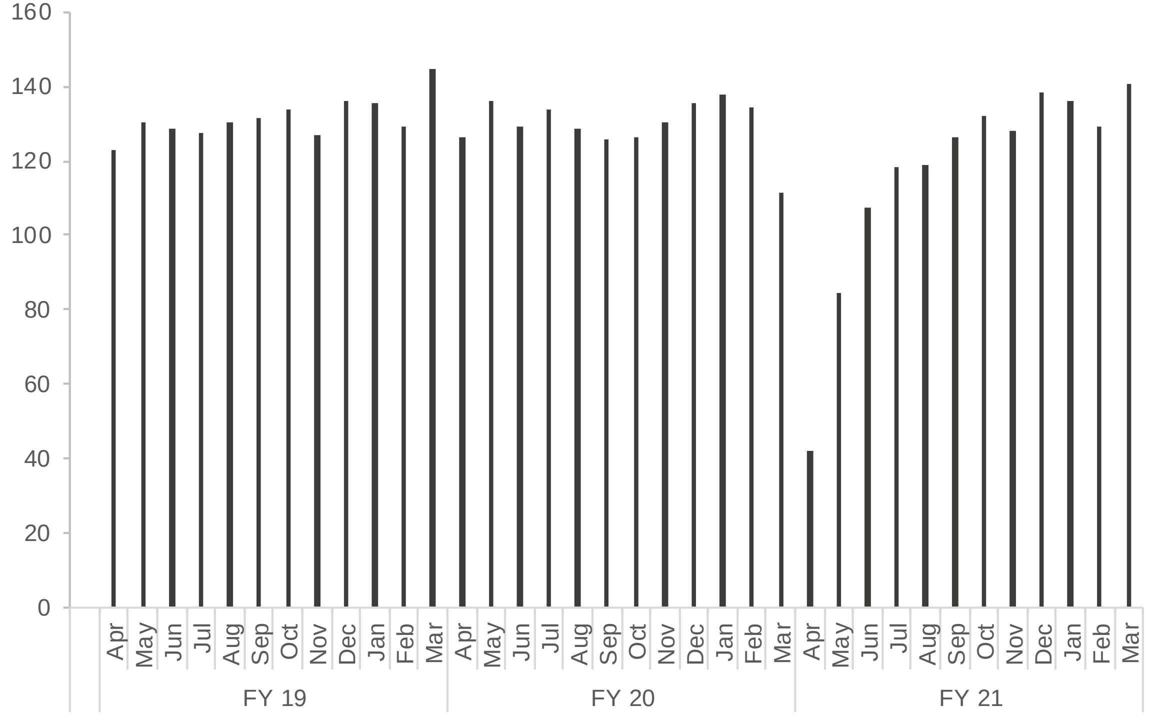
After a two month consecutive drop, IIP rose a sharp 22.4% on year in March

IIP Capital Goods posts yoy decline



Source: MOSPI, CRISIL Research

IIP Manufacturing posts yoy increase from a low base in March

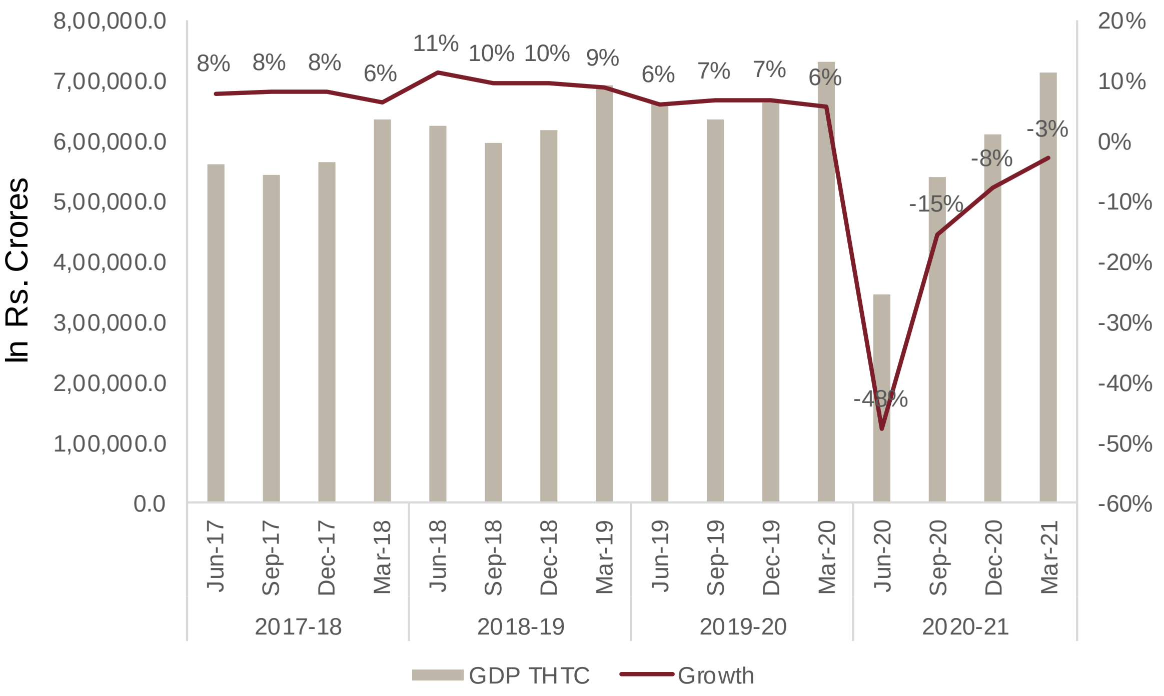


Source: MOSPI, CRISIL Research

- IIP grew 22.4% on-year in March, following a 3.4% contraction in February, driven by manufacturing (highest weight in IIP at 77.6%). The manufacturing sector grew 8.6% after declining for two consecutive months.
- All 23 manufacturing sub-sectors registered positive on-month growth in March, before the second wave hit.
- IIP contracted 8.7% in fiscal 2021, marking an 80 bps decline over fiscal 2020, which reflects the pandemic-induced slowdown in economic activity.

GDP THTC & IIP-Mining on a sequential recovery

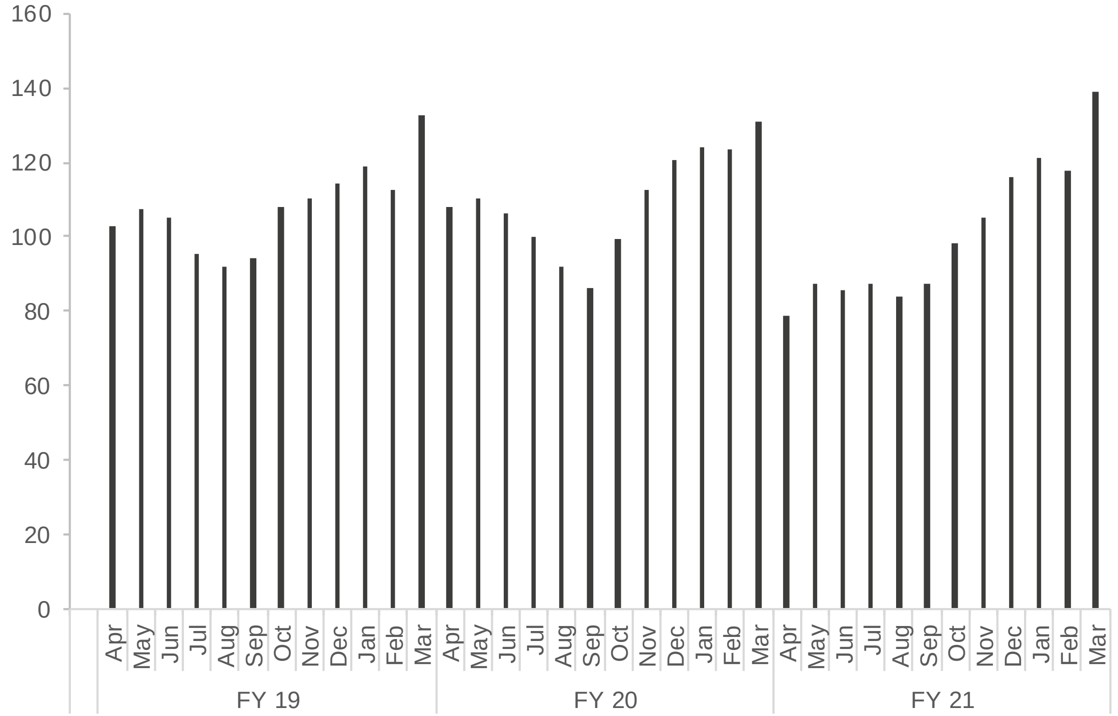
GDP THTC



NOTE: THTC: Transport Hotel Transport Communication Services

Source- MOSPI, CRISIL Research

IIP mining on a gradual uptick after August

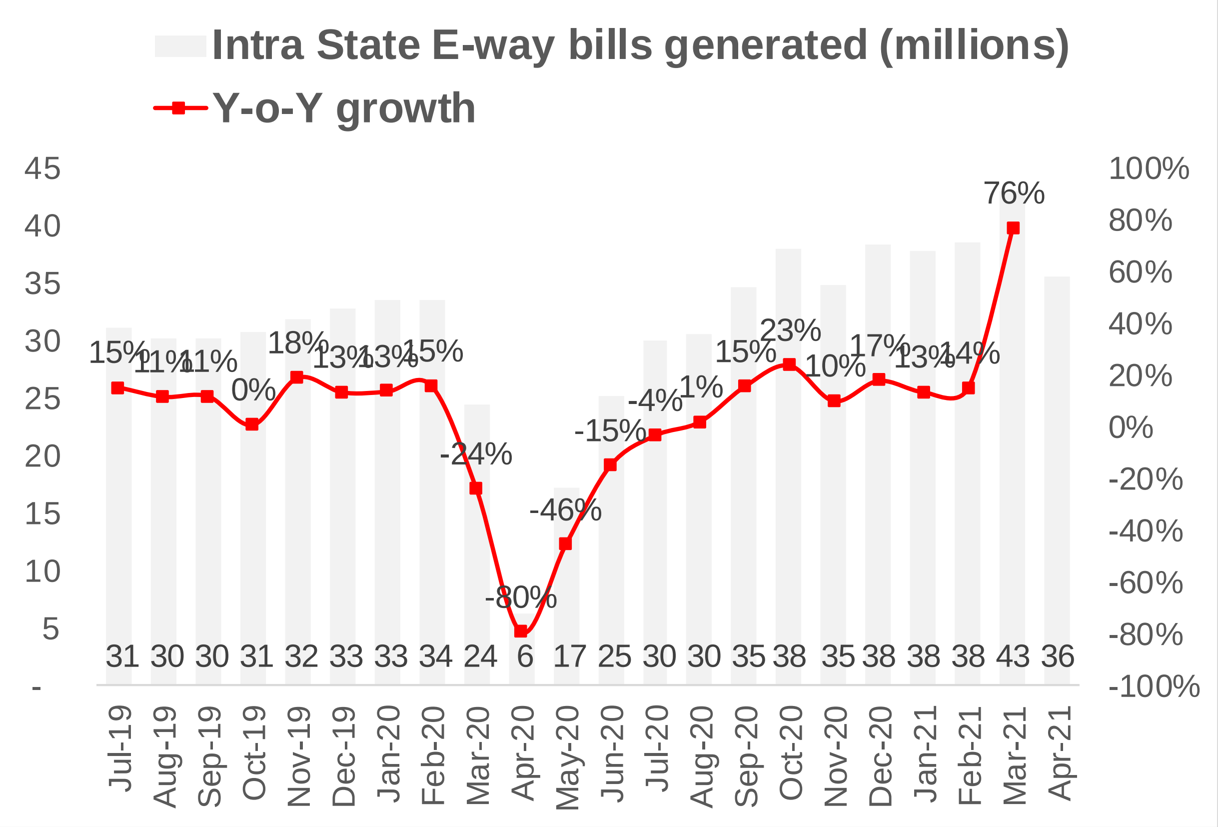


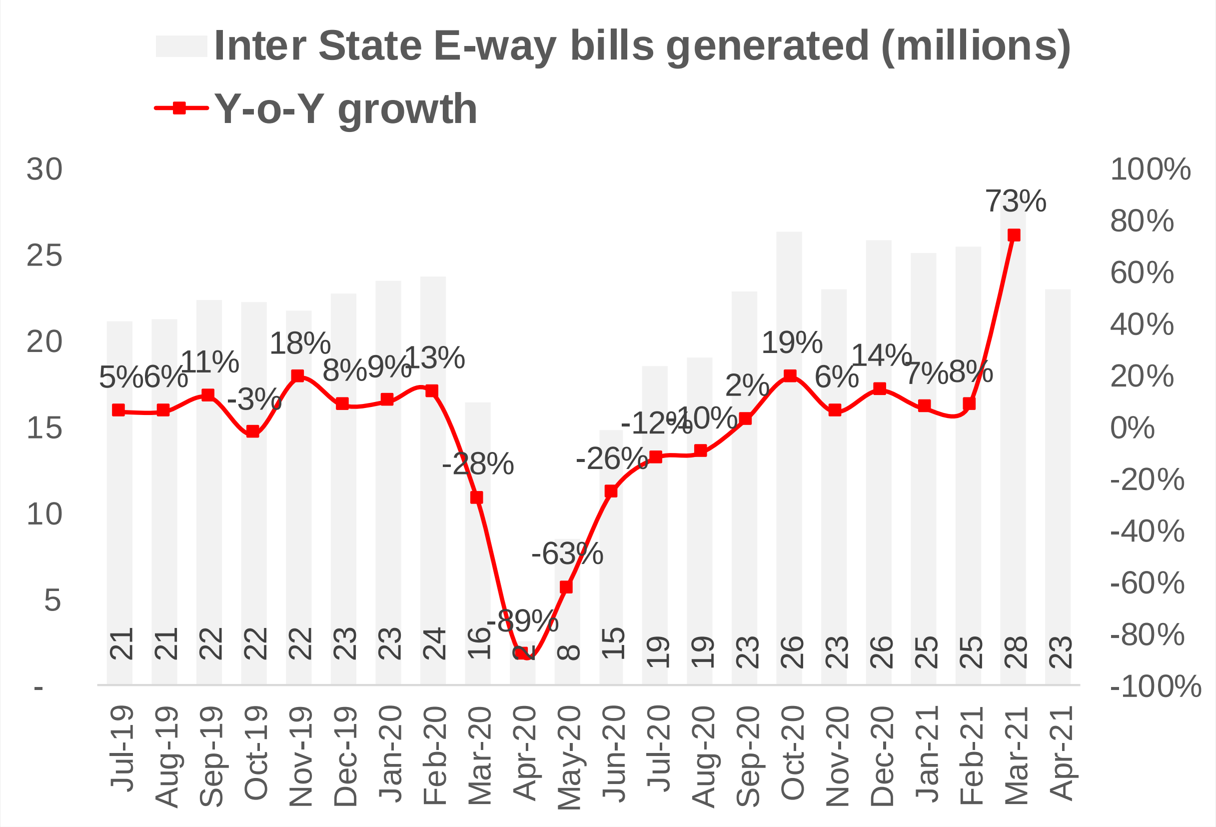
Source- MOSPI, CRISIL Research

- GDP THTC registered a lower single digit de-growth of 3% in last quarter of the fiscal. For entire fiscal, this segment has been affected due to fear of catching virus. Second wave of COVID-19 is expected to further restrict movement.
- The mining sector (14.4% weight in total IIP) grew a healthy 17.9% on-year in March after 2.7% contraction in February).

Intra state and Inter state E-waybill witness slump in April 2021 indicating impact on traffic movement

Number of E-way bills generated in India (millions)

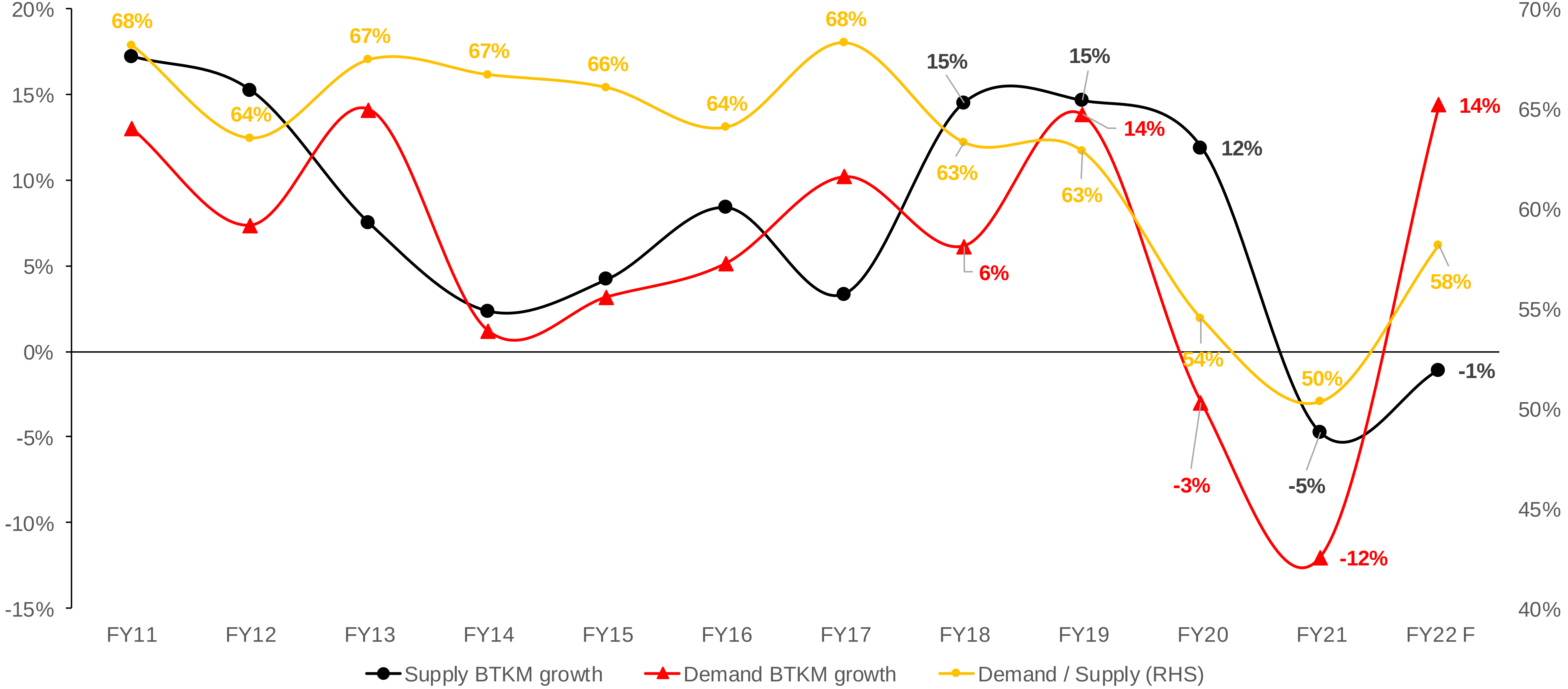




Agri, last mile distribution and market load operations do not come under ambit of E-way bill hence the E-way bills mentioned here may not represent the entire movement of goods in the country
Source: GST Network, CRISIL Research,

After 4 years of lower freight demand growth than supply growth, situation to reverse in FY22 as demand grows at double digits

Bounce back of manufacturing could lead to healthy growth in BTKM demand



Research

Note; Quarterly estimates may not add up exactly to annual growth due to use of proxies in absence of high frequency data
Source: CRISIL Research

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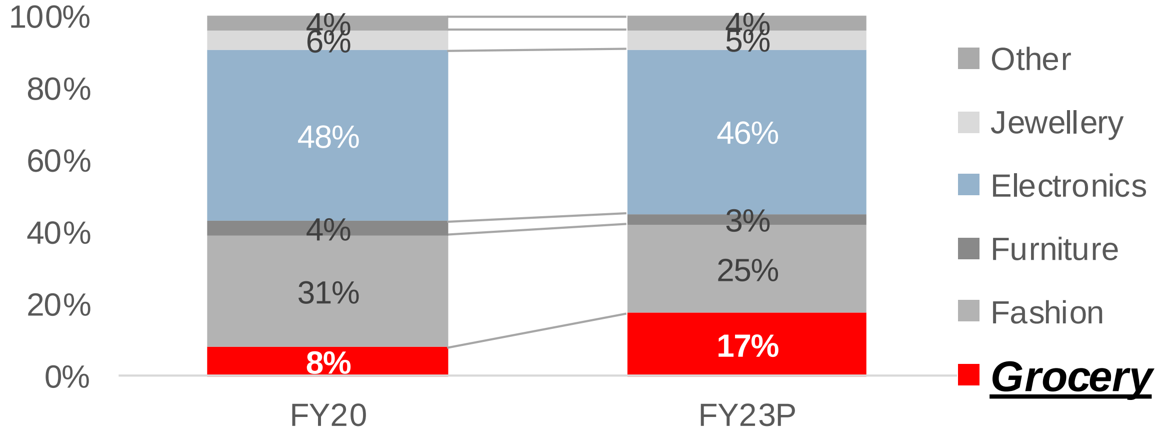
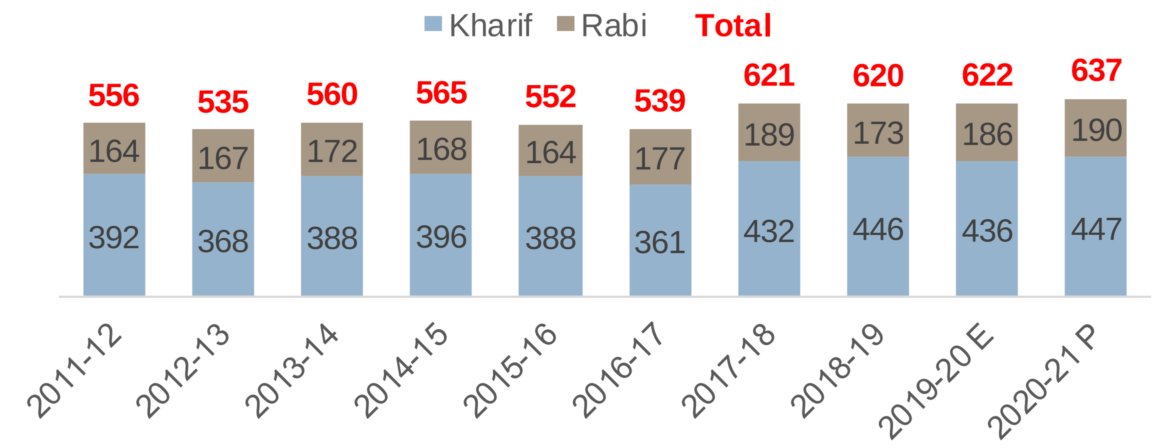
In addition to novel applications such as E-commerce, consumption and Agri fundamentals are also strong for LCVs in FY22

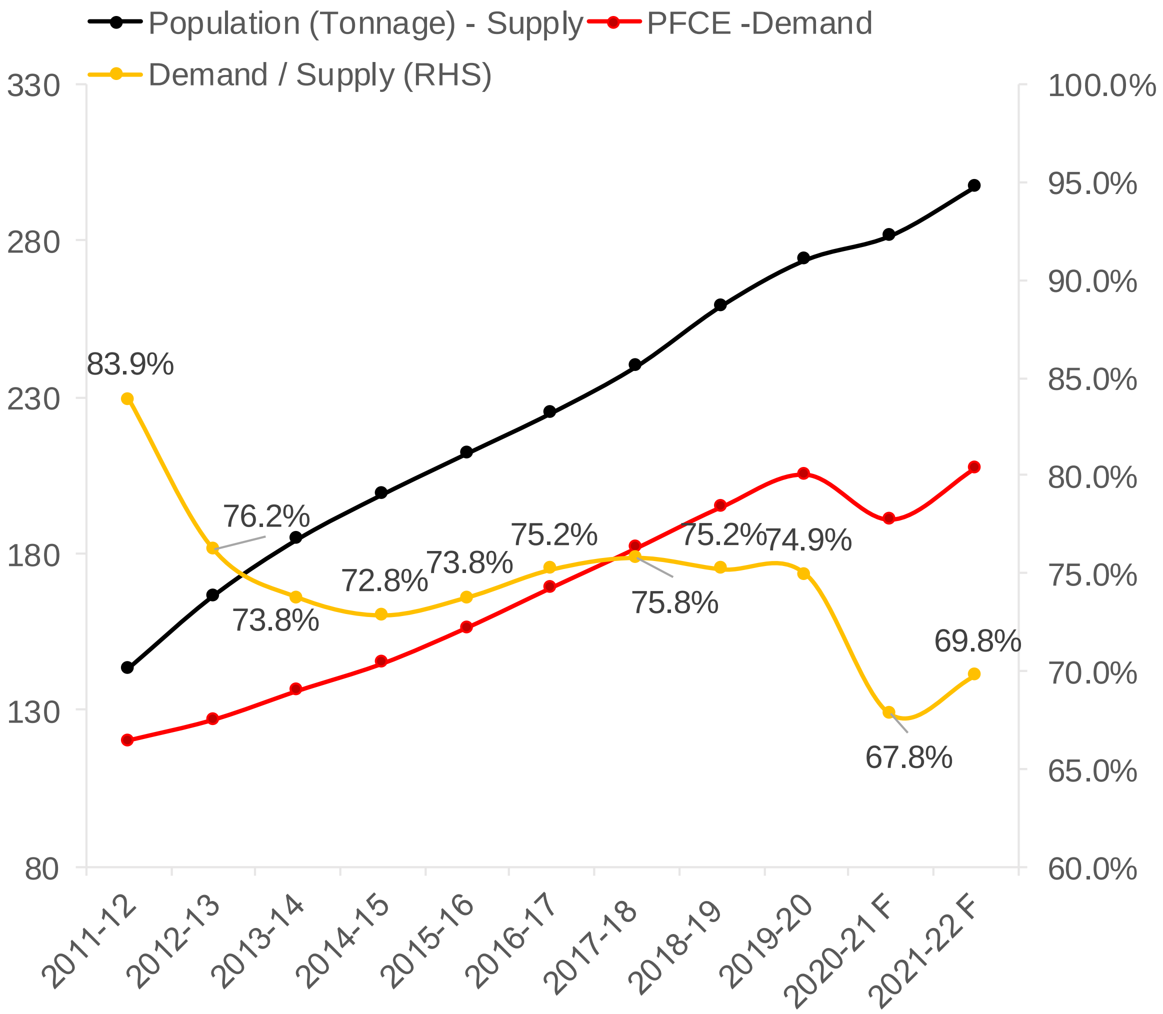
Grocery segment of E-commerce may skyrocket in next 1-3 years



Agri to see record high production in 2020-21 (mn tonnes)



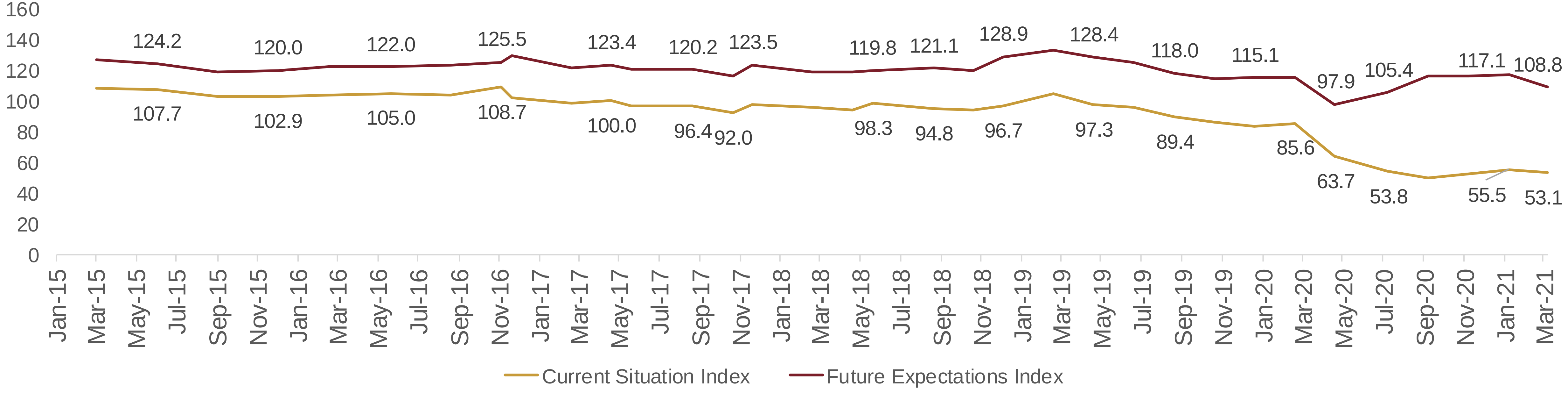
LCV utilisation to improve considerably in FY22



Note: PFCE and LCV pop indexed to FY09 level
Source: CRISIL Research

Current & future expectation weakens in March compared to January responses

Consumer Confidence Index

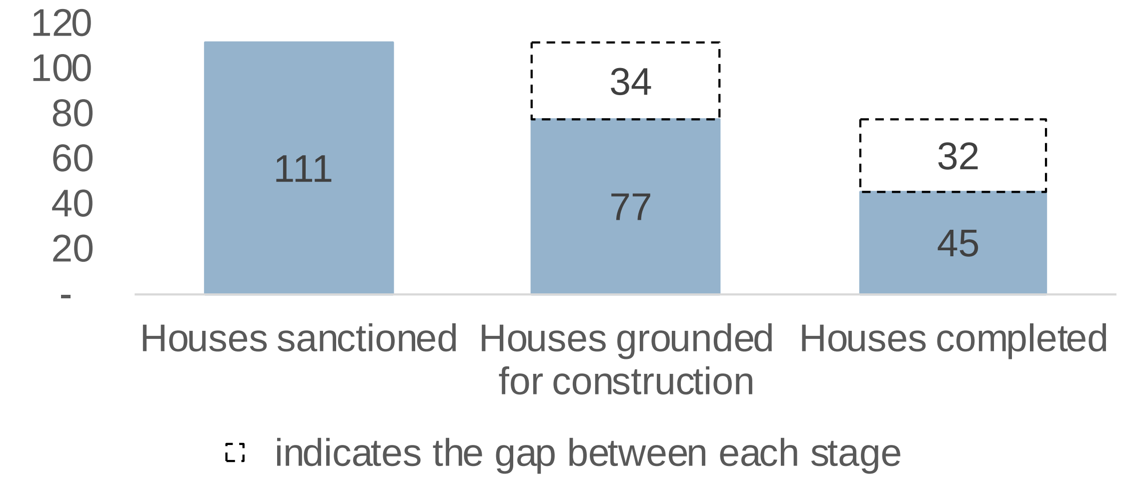


Source- RBI, CRISIL Research

- The survey undertaken in March 2021, was slightly negative as compared to last survey, indicating deteriorating sentiments on general economic situation, income and prices. Future expectations dipped to 108.8 from 117.1 during the period while Current Situation Index (CSI) dipped further in the negative territory.

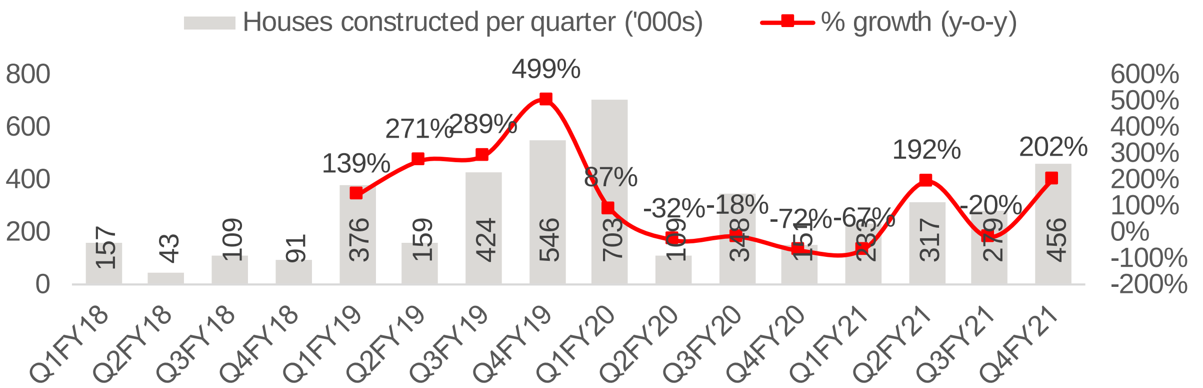
PMAY(Urban):After a sluggish FY20 and a slow start to FY21, PMAY(U) now gathering momentum as we head into FY22

Cumulative completion status as on 22nd March 2021 (lakh houses)

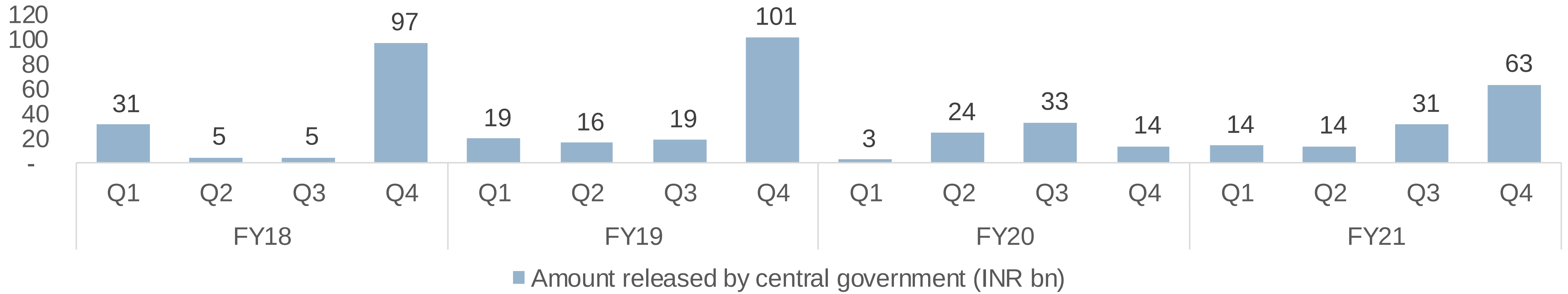


Pace of house construction

Houses constructed per year ('000 houses)	FY18	FY19	FY20	FY21 YTD
	400	1,505	1,311	1,285



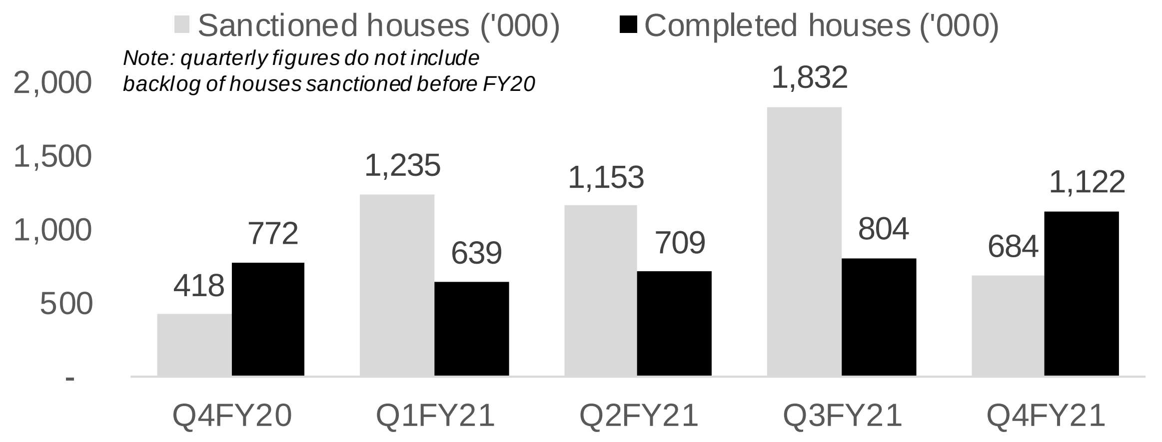
Funding scenario in FY21 has been relatively better that FY20



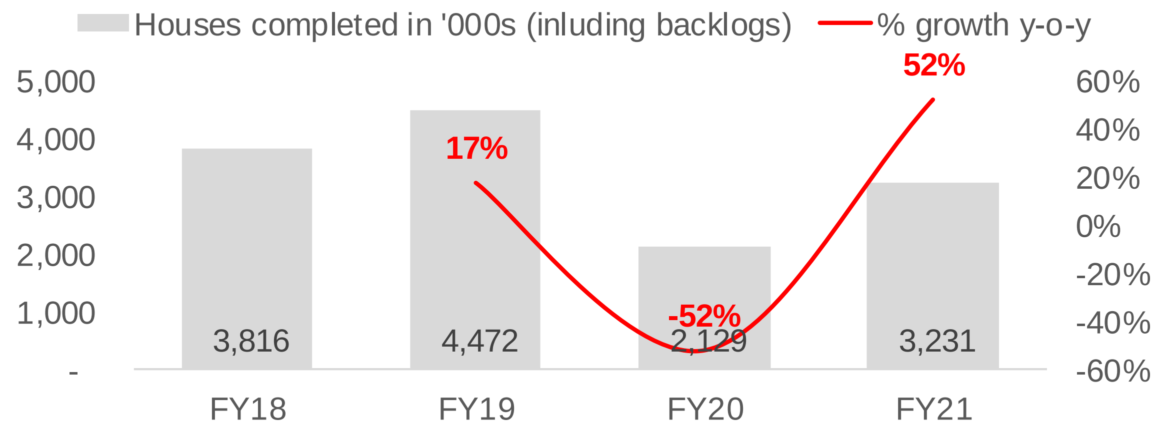
Source: Ministry of Housing and Urban Affairs, CRISIL Research

PMAY-G: Construction pace seeing improvement sequentially after seeing a lull in FY20 and H1FY21

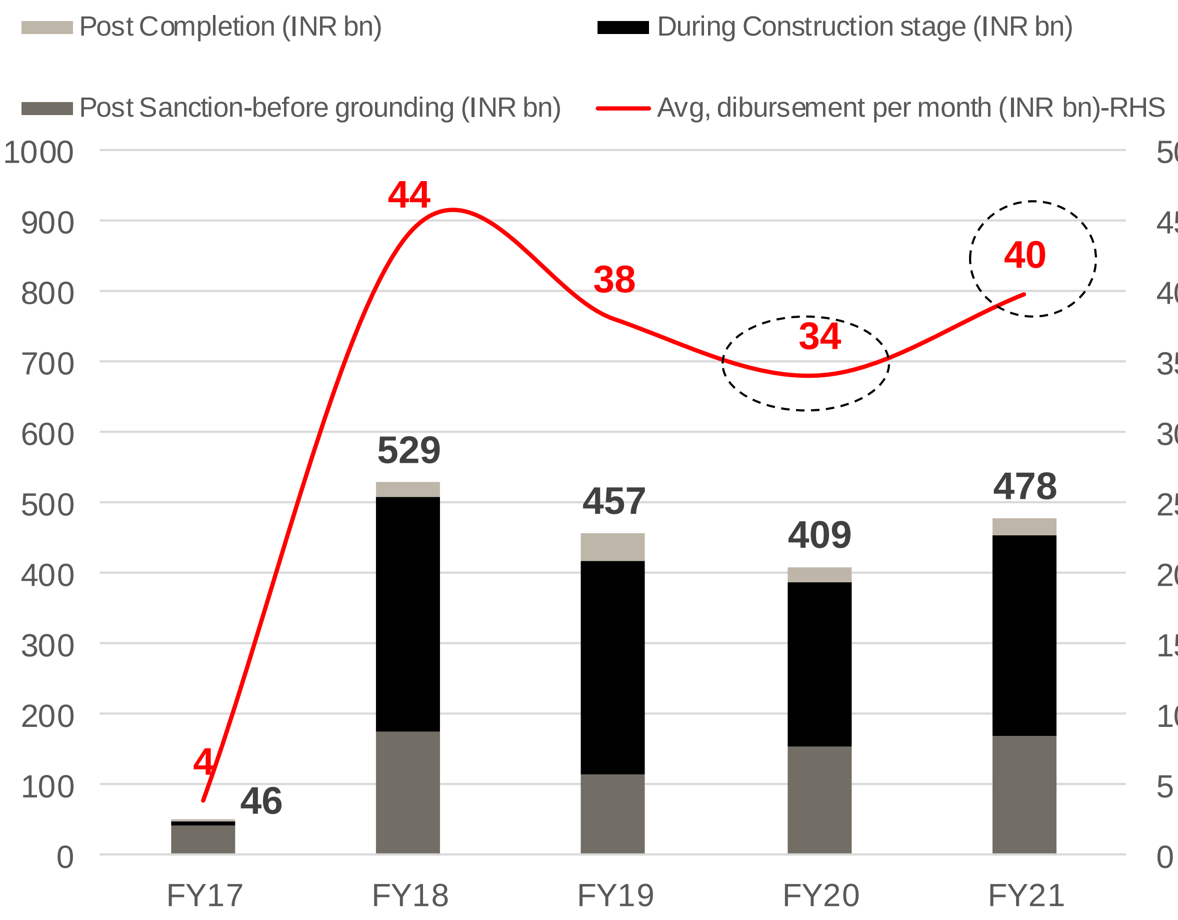
PMAY-G construction-quarterly



PMAY-G construction-annual



PMAY-G construction-quarterly



Research

Source: Ministry of rural development, CRISIL Research

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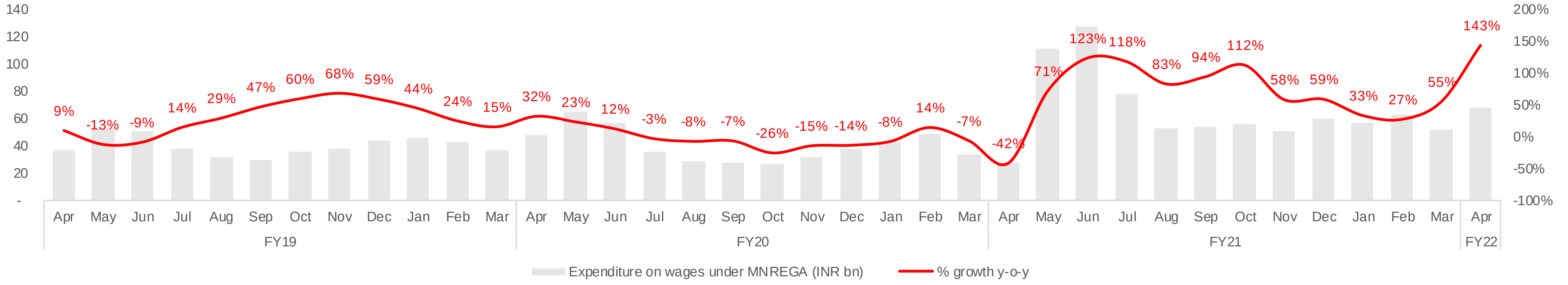
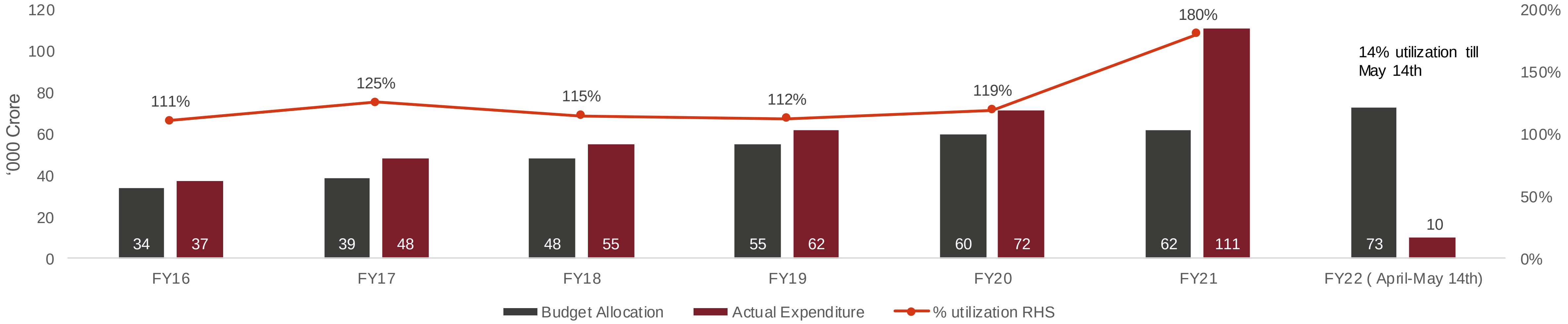
65

After a record spending in FY21, MNREGA scheme to revert to pre COVID expenditure trajectory in FY22

MNREGA wages growth robust in FY21



The MNREGA scheme has a history of overshooting budget



Research

Source: Budget documents, Ministry of Rural development, CRISIL Research

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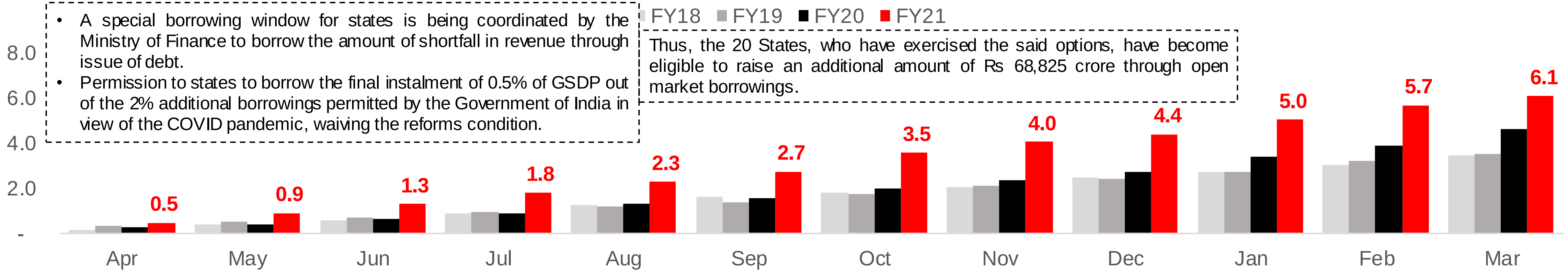
Along with centre, state governments too are borrowing higher than last year to aid capex and infra projects as the economy opens up

m-o-m build-up of state government G-sec borrowings (INR trillion/INR lakh crore)

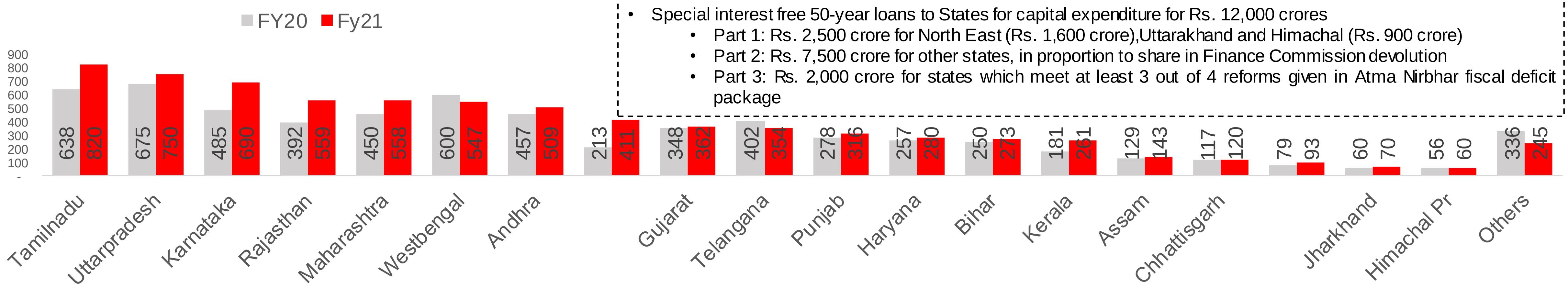
- A special borrowing window for states is being coordinated by the Ministry of Finance to borrow the amount of shortfall in revenue through issue of debt.
- Permission to states to borrow the final instalment of 0.5% of GSDP out of the 2% additional borrowings permitted by the Government of India in view of the COVID pandemic, waiving the reforms condition.

Thus, the 20 States, who have exercised the said options, have become eligible to raise an additional amount of Rs 68,825 crore through open market borrowings.



Year to date G-sec borrowings of various state governments and comparable levels for past year (INR billion)

- Special interest free 50-year loans to States for capital expenditure for Rs. 12,000 crores
  - Part 1: Rs. 2,500 crore for North East (Rs. 1,600 crore),Uttarakhand and Himachal (Rs. 900 crore)
  - Part 2: Rs. 7,500 crore for other states, in proportion to share in Finance Commission devolution
  - Part 3: Rs. 2,000 crore for states which meet at least 3 out of 4 reforms given in Atma Nirbhar fiscal deficit package



Research

Source: RBI, MINISTRY OF FINANCE , CRISIL Research

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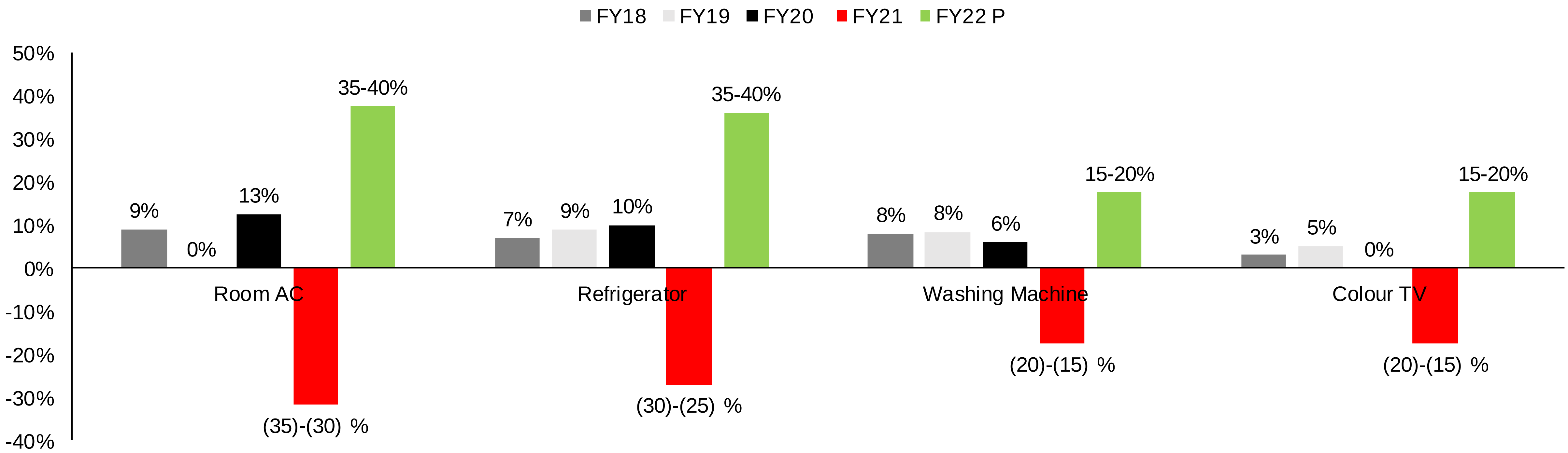
Overall consumer durable segment is expected to grow by ~25-30% in fiscal 2022, central government schemes may give a minor relief

Trend in annual volume growth across consumer durables and automobiles

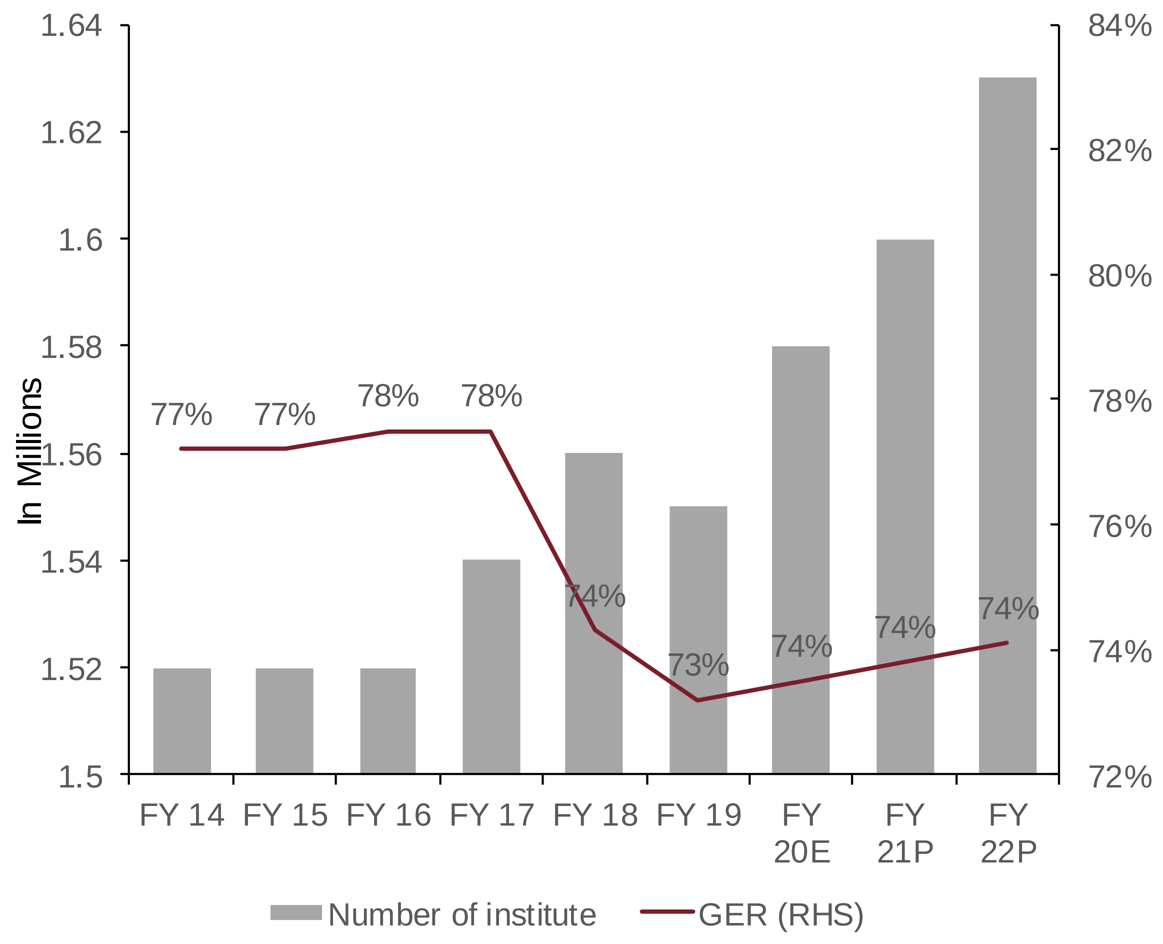


Source: CRISIL Research

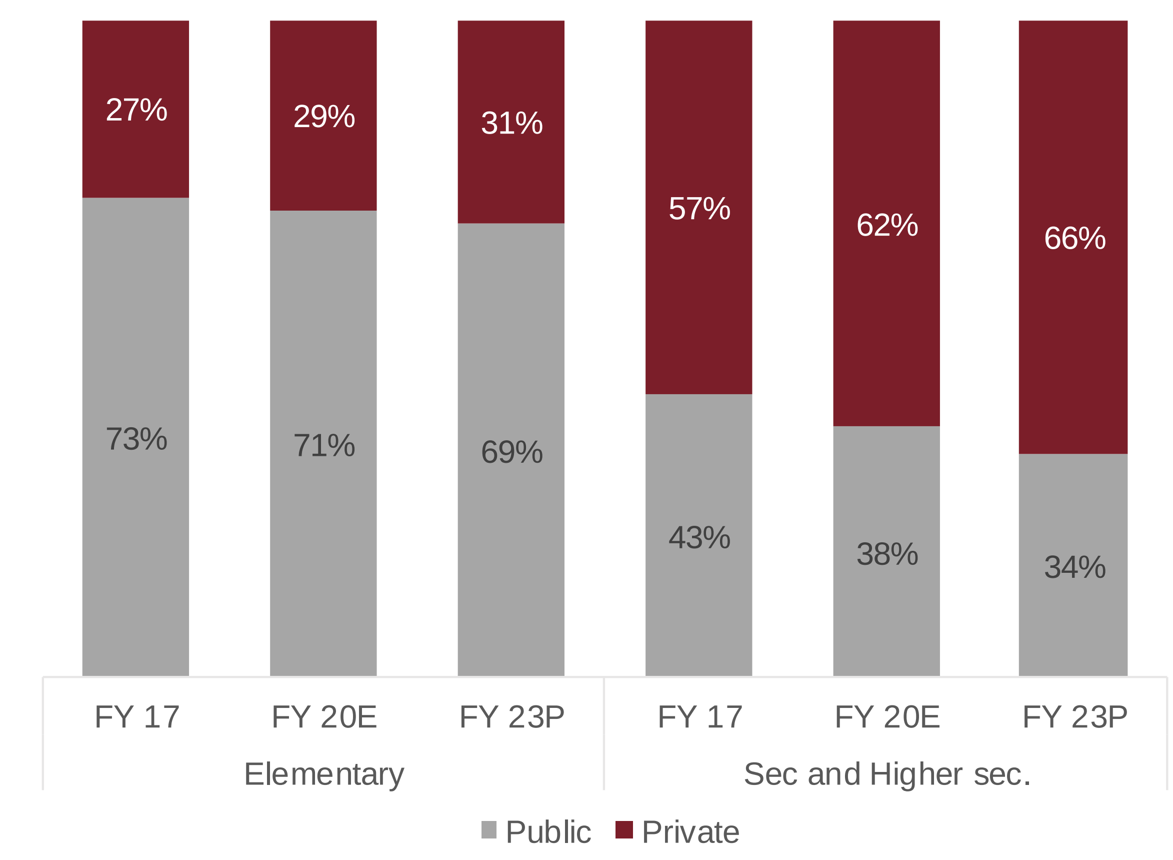
- Demand slowdown following Covid-19 impacted AC sales in fiscal 2021. With impact being highest in the first quarter which is the most productive quarter for AC sales, the segment is expected to be worst hit among all the segments. However demand is expected to be grow highest among segments at 35-40% on-year in fiscal 2022.
- CTV demand is less impacted than cooling product segments in fiscal 2021 due to shift towards online education and increased TV viewing. Demand is expected to increase by 15-20% in fiscal 2022.
- The central government has launched 2 new schemes for public sector employees for encashment of leave travel coupons and festival advances, which may cause result in slight positivity in consumer spending for goods in >12% GST slab . The government estimates these schemes to generate additional consumer spending of ~INR 36,000 crore

Online school concept due to second wave of cases to have severe dent on school bus demand fiscal 2022

K-12 (Elementary + Sec & Higher Sec) : Institutions and GER



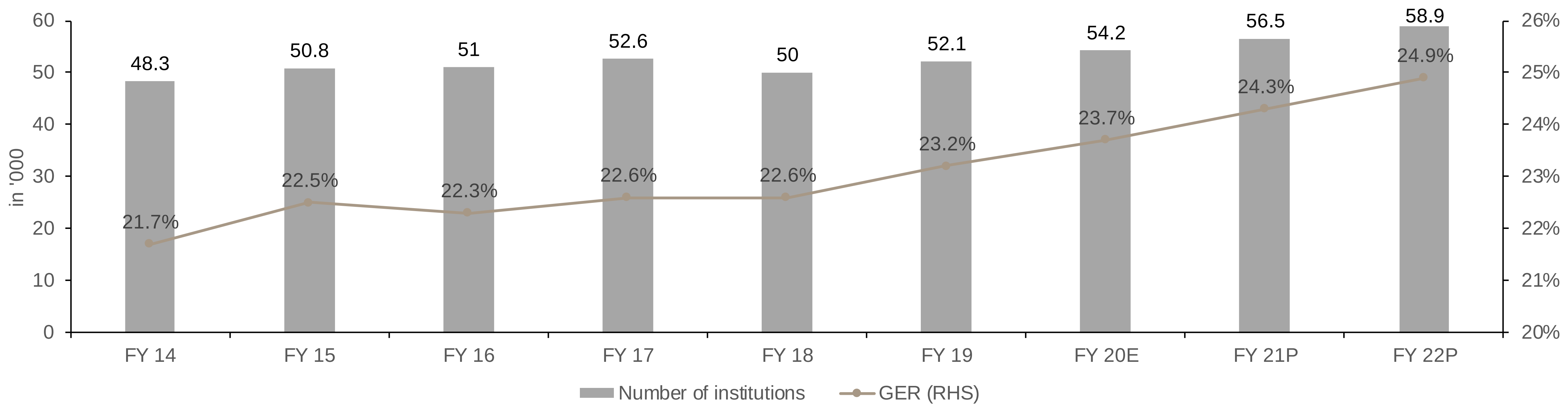
Private institute shaping up, share expected to increase further



Note – GER is e ratio of the number of students enrolled to the population of those w ho qualify for the particular grade level.
E : Estimated, P : Projected
Source: CRISIL Research, DISE, MHRD

Higher education in India characterised by large number of Institutions and low GERs , bus demand unlikely to materialize in Q1 FY22

Higher education institutes (Above 12th Class)



The delay in opening of educational institutes as well as the expected social distancing and "virtual classroom" measures are severely expected to dent demand for buses

As the policy discussion moves towards reopening of schools, it is crucial to keep in mind that over 40% schools are being used as quarantine/ration distribution centres and 43% teachers believe that WASH facilities in their school are not adequate to promote safe, hygienic practices.^^

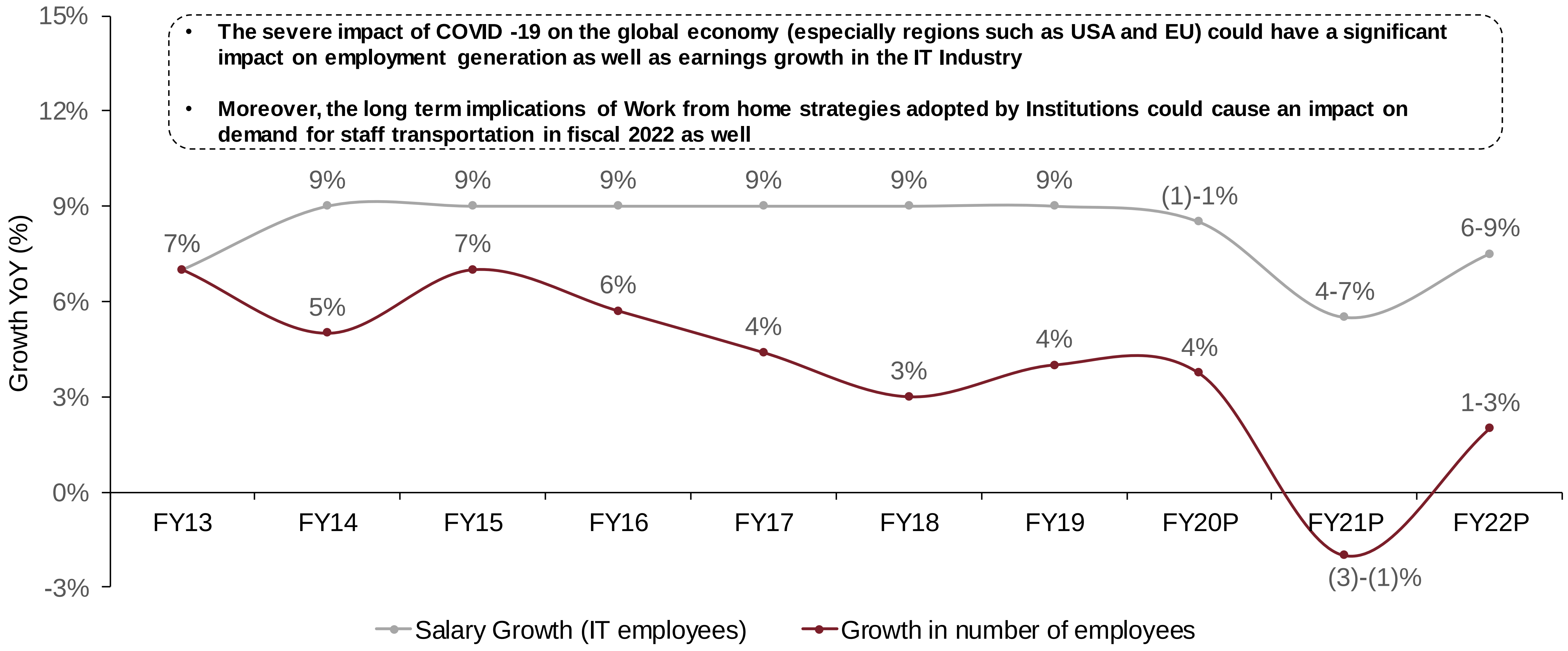
As a result demand from the School segment is to be impacted in fiscal 2022

^^ based on Oxfam rapid survey of schools in Sep 2020
NOTE: P - Projected
Source: CRISIL Research, DISE

Employee base to contract in current fiscal, non-linearity to limit medium term employee additions; salary growth to be better in fiscal 2022.

Growth in salary and number of IT employees

- **The severe impact of COVID -19 on the global economy (especially regions such as USA and EU) could have a significant impact on employment generation as well as earnings growth in the IT Industry**
- **Moreover, the long term implications of Work from home strategies adopted by Institutions could cause an impact on demand for staff transportation in fiscal 2022 as well**

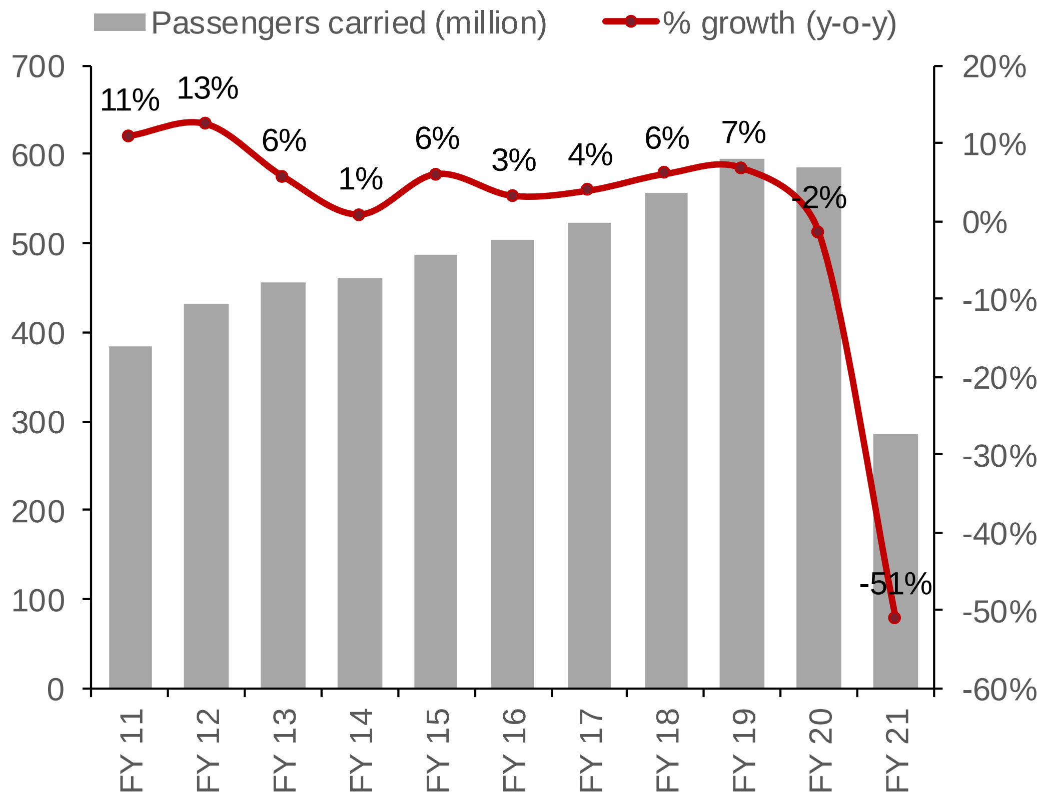


NOTE: Employee growth is summation of employees working for domestic and international clients based in India

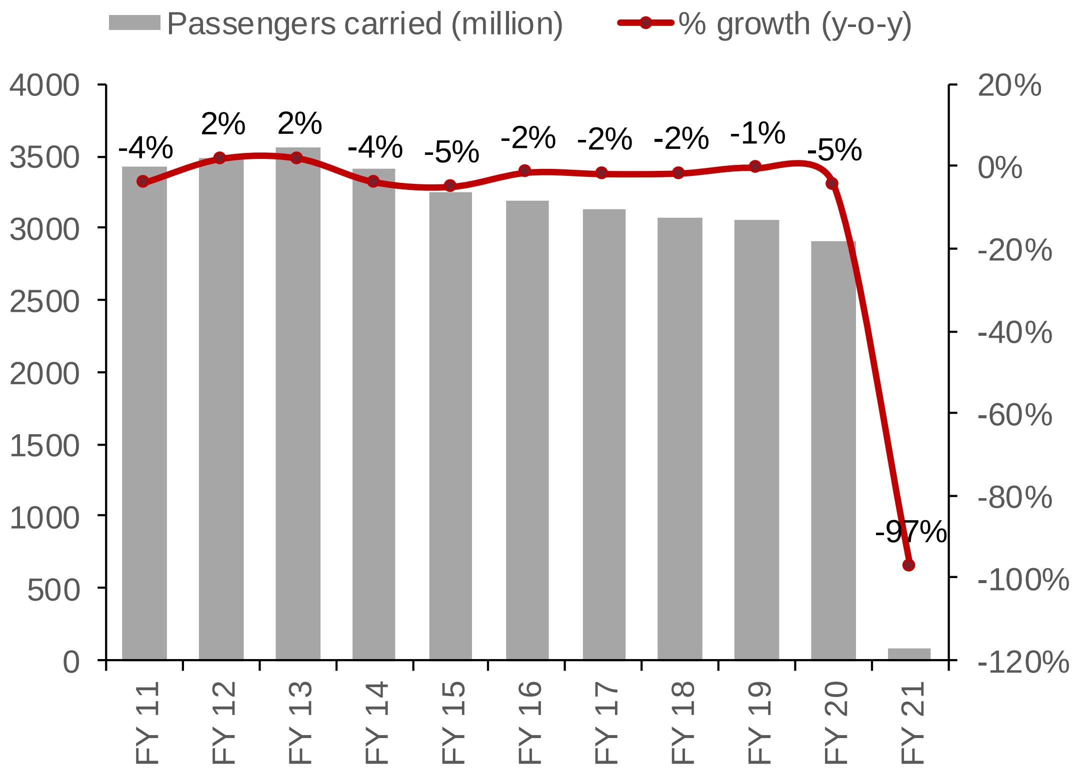
Source: National Association of Software and Services Companies (NASSCOM), CRISIL Research

While railways was losing share to road and air based modes earlier, with the advent of COVID-19 passenger movement across modes to suffer

Railway Passenger Traffic growth (%)-Non suburban-Reservation

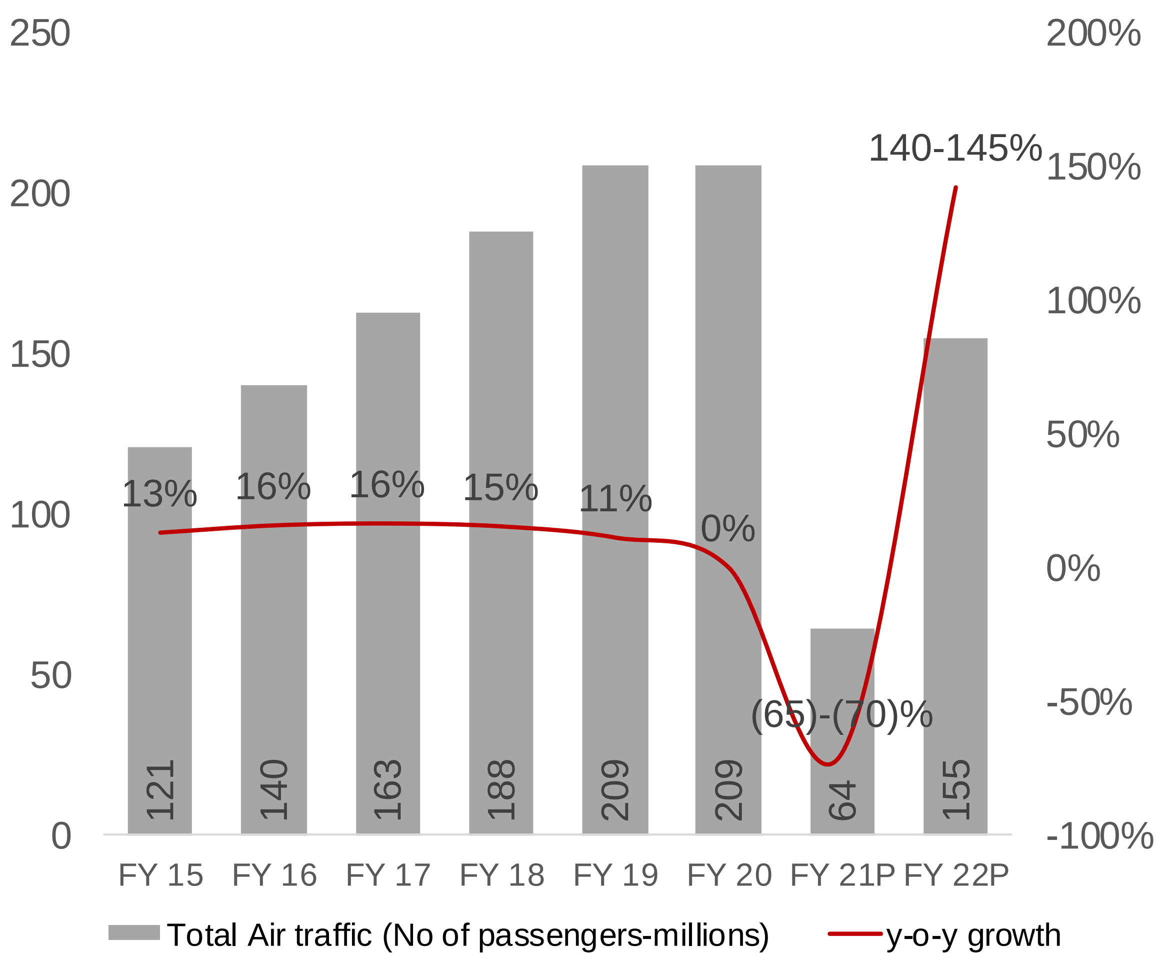


Railway Passenger Traffic growth (%)-Non suburban-Unreserved

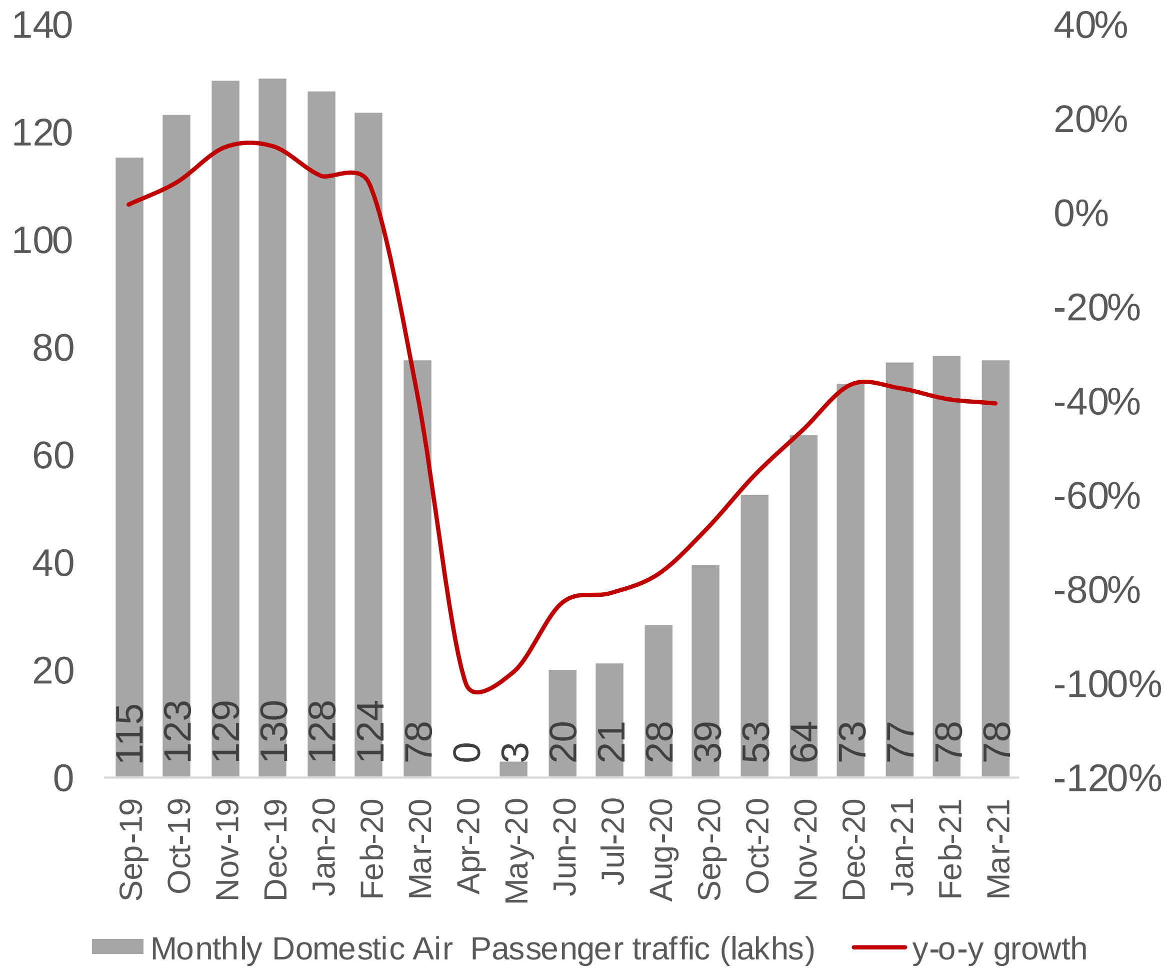


Covid-19 sets back domestic passenger traffic by a decade, may just touch fiscal 2018 level in fiscal 2022

Air passenger traffic- Annual (Domestic + International)

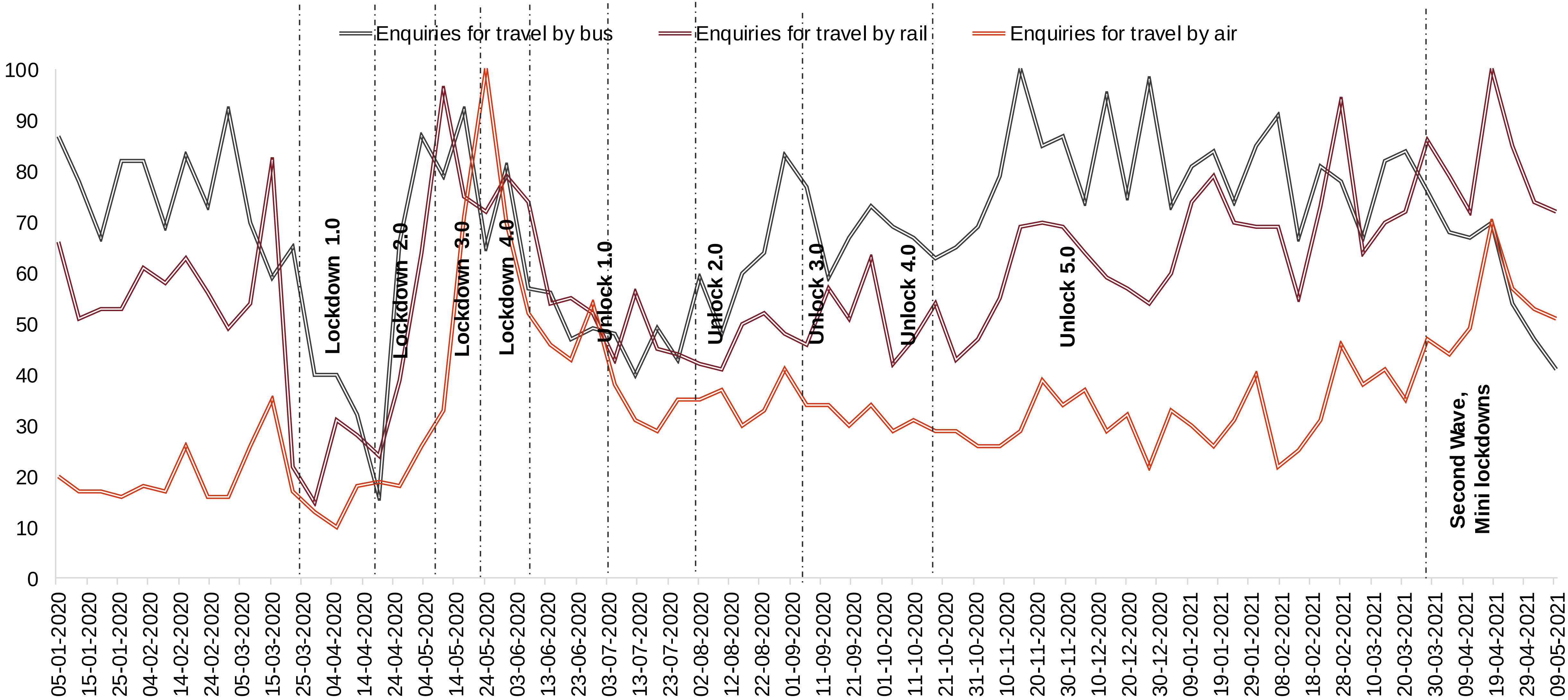


Domestic Air passenger traffic- Monthly



Source: Directorate General of Civil Aviation (DGCA), CRISIL Research

Travel enquiries dived down from the second half of April



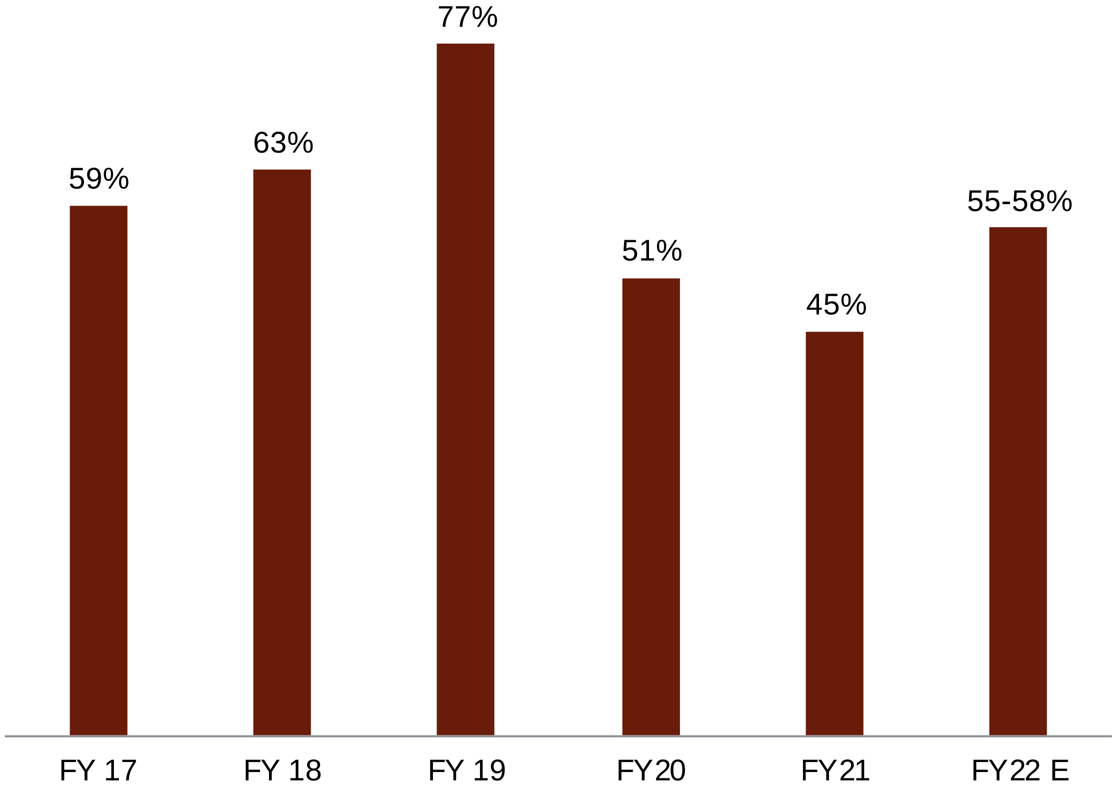
Research

Source: CRISIL Research, Google analytics

CRISIL
An S&P Global Company

Capacity utilisation dropped in FY21, some improvement expected in FY22

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

Player-wise capacity utilisation

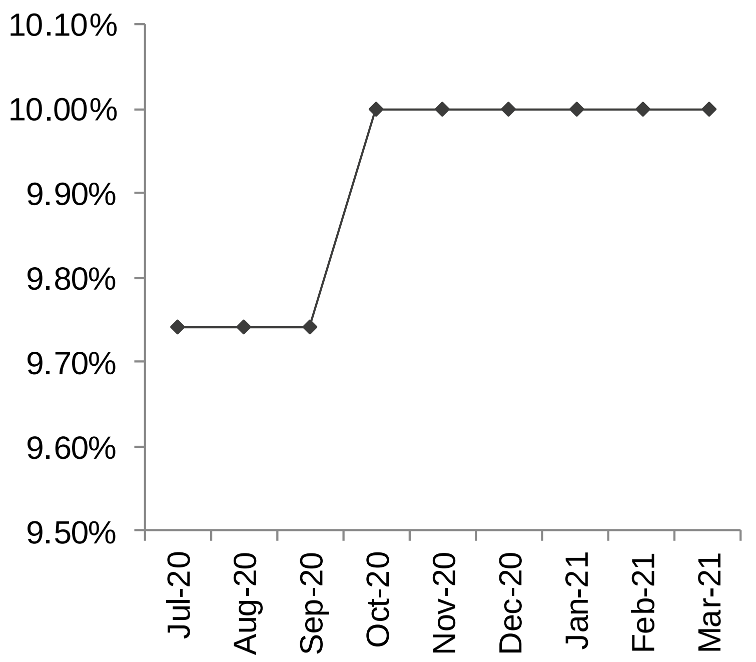
Player	Effective Capacity estimate (as on 31st Mar 2020)	Production (FY21) (in '000)	Capacity utilization in FY21
Ashok Leyland	2,22,300	103,349	46%
Eicher Motors	97,500	41,752	43%
Tata Motors	7,62,000	262,919	35%
Mahindra & Mahindra	2,92,000	168,040	58%

Source: Industry, CRISIL Research

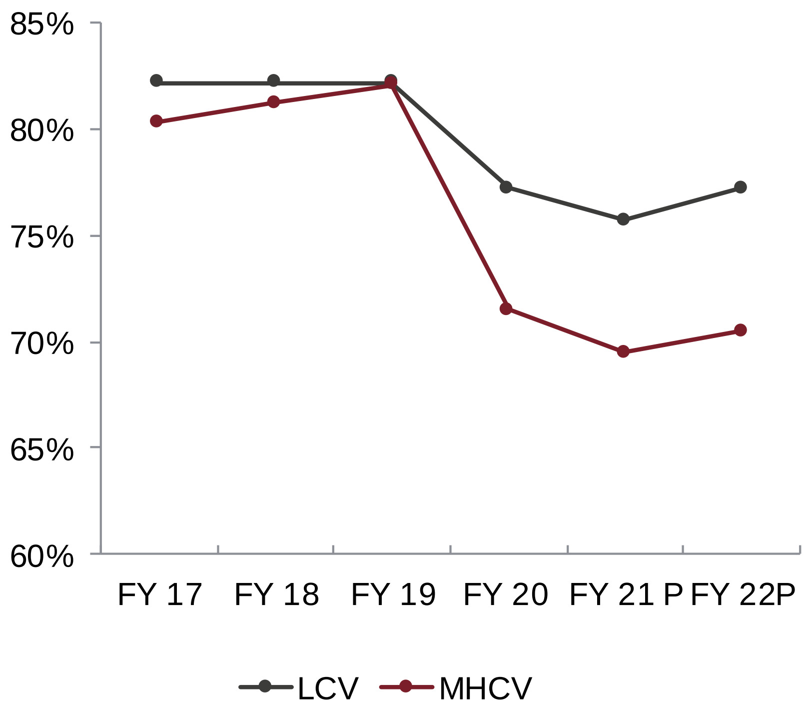
- The capacity utilisation of the top four players - Tata Motors (standalone), Ashok Leyland, Volvo Eicher Commercial Vehicles (VECV), and Mahindra & Mahindra - which was at ~77% in fiscal 2019, have fallen to ~42% in fiscal 2021 but expected to show improvement in fiscal 22 and settle at ~50-55%
- OEMs had earlier anticipated demand to be muted in FY21 (owing to increase in vehicle prices) because of which they had refrained from any major capacity expansion in FY20 and FY21.

Cautious lending by banks; more focus on collections

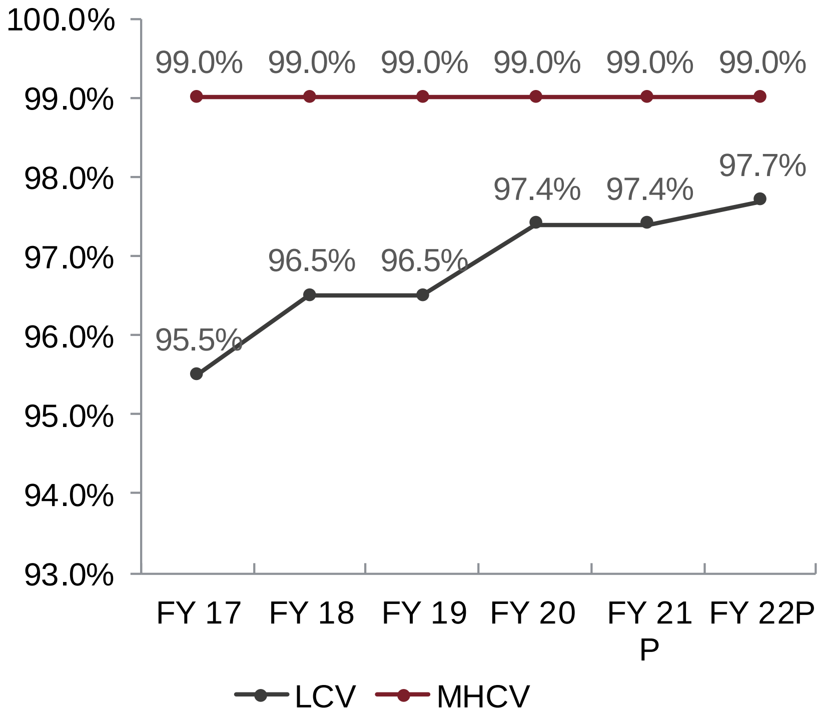
CV finance rates (%)



Loan-to-value for CV



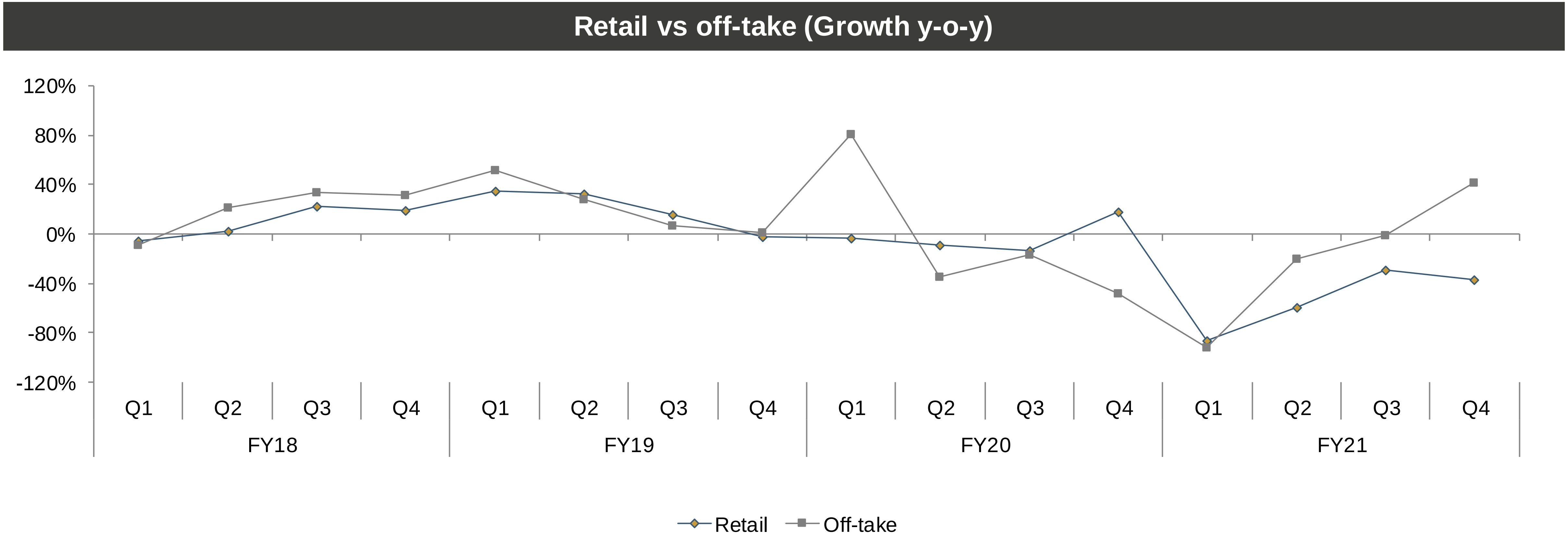
CV finance penetration



NOTE - Interest rates are an indicative rates charged by Banks

Source: Company Reports, Industry, Crisil Research

Retail & offtake showing recovery on sequential basis

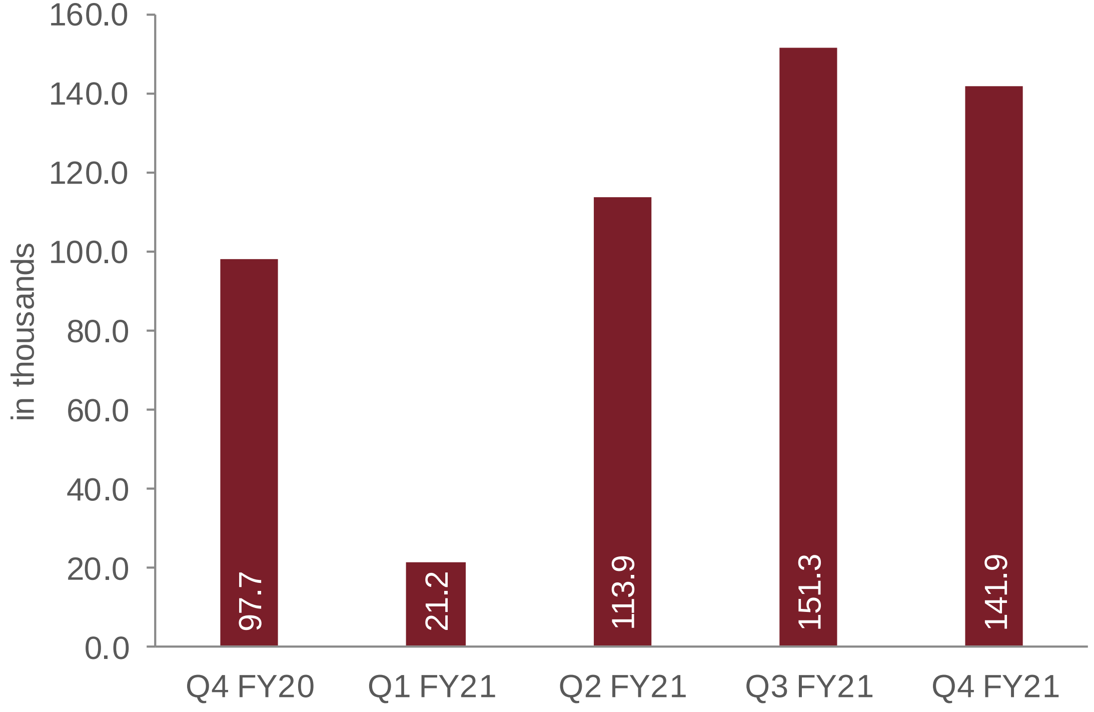


Source: SIAM, MoRTH, CRISIL Research

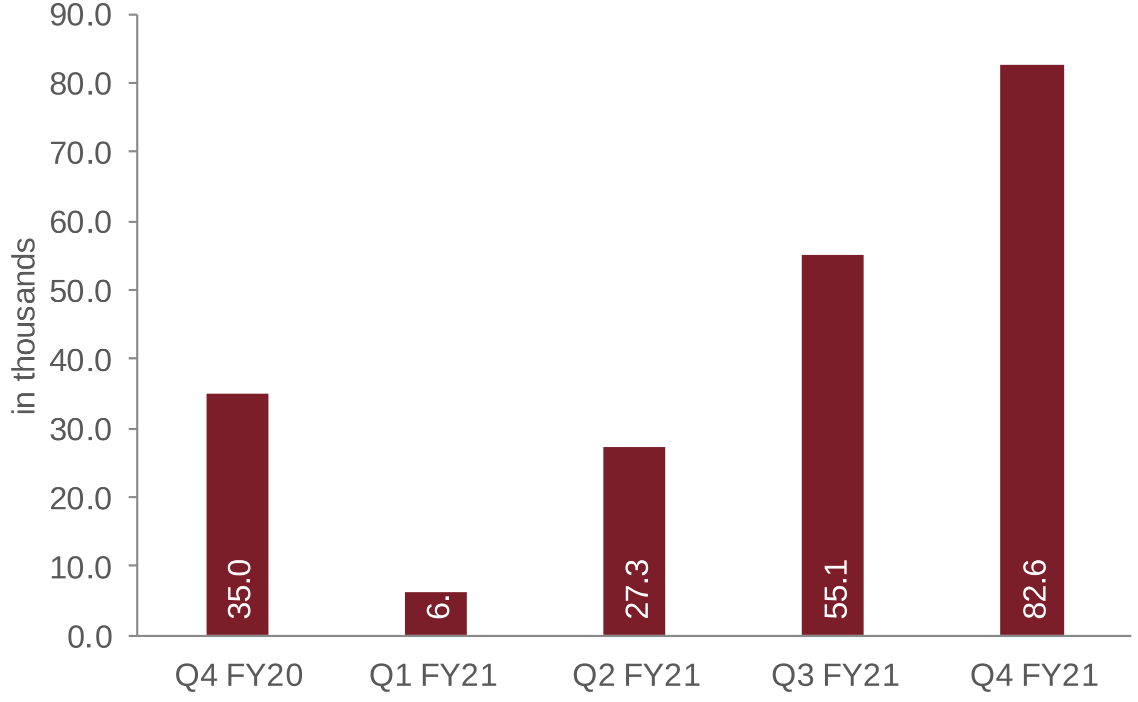
- OEM's facing supply issues due to semi conductor supply constraints. Production issues to continue in FY22.
- Among all segments- Pick-ups and SCV continue to see good traction in the economy especially in rural areas.
- This is followed by the ICV segment with good traction visible due to e-commerce

Production of MHCVs fared better than LCVs in Q4 FY21

LCV production levels



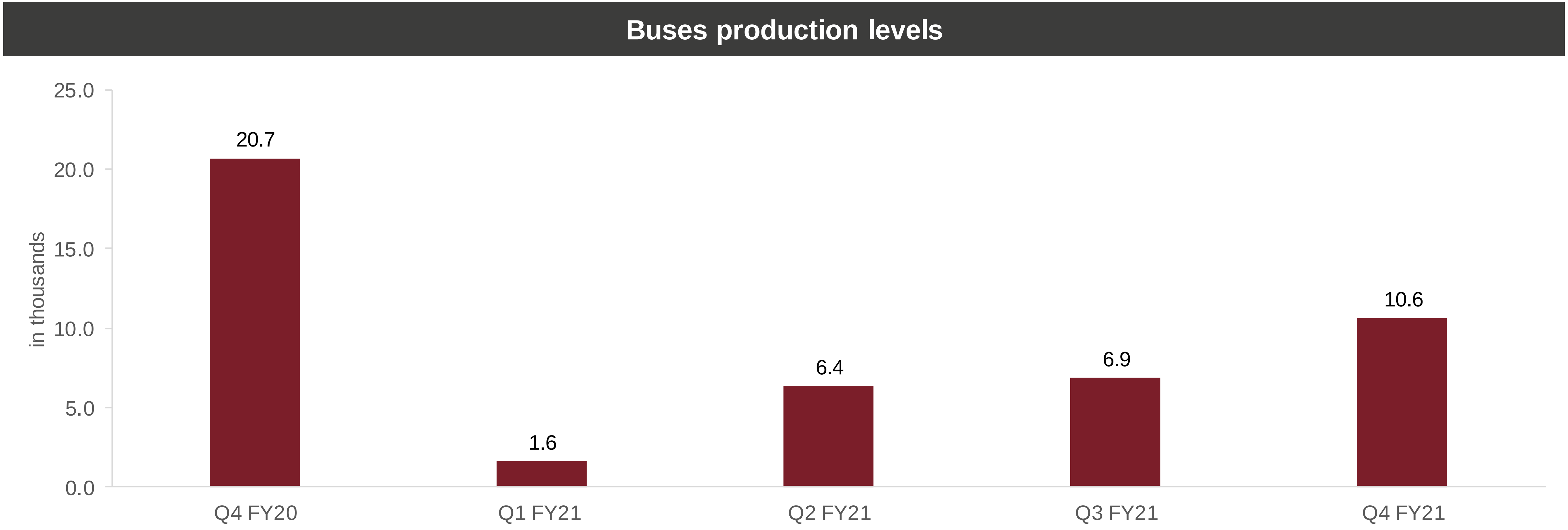
M&HCV production levels



- LCV production witnessed growth of 45% yoy and MHCV of 136% yoy in Q4 FY21. Growth in LCV was aided by sub-one tonne and pick up category. Both category remain robust due to boom in e-commerce demand
- MHCV production growth due to gradual pick up in end use sectors.

NOTE: Figures in thousands
Source: SIAM, CRISIL Research

Bus demand is still subdued



- Demand for buses has been depressed even in Q4 FY21.Production saw a de-growth of 50% in Q4 FY21.
- Demand on LCV bus side was mainly seen from ambulance segment and STU procurement

NOTE: Figures in thousands
Source: SIAM, CRISIL Research

Domestic – Annual Forecast

	CV	SCV	ULCV	MHCV	Buses
FY 20 volumes	718	411	36	185	86
YoY Growth in FY20	29%	20%	26%	47%	7%
FY 21 volumes	566	365	30	154	17
YoY Growth in FY21	21%	11%	17%	17%	80%
FY 22 E volumes	**700-703**	421-423	35-37	222-224	19-21
YoY Growth in FY22 E	23-25%	15-17%	21-23%	44-46%	14-16%

NOTE: Volumes in thousands units;
YoY Growth in red indicates a negative growth
YoY Growth in green indicates a positive growth

Source – SIAM, CRISIL Research

Domestic – Quarterly Forecast

Period		CV		SCV		ULCV		MHCV		Buses	
		Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth
FY21	Q1	31.5	(85)%	25.2	(77)%	1.1	(88)%	4.1	(93)%	1.1	(96)%
	Q2	133	(20)%	98.4	(1)%	6.8	(23)%	23.9	(41)%	4.0	(76)%
	Q3	193.1	(1)%	128.3	5%	10.8	5%	50	15%	4.1	(78)%
	Q4	208.6	41%	113.6	40%	11.2	58%	76	92%	7.9	(62)%
FY22 E	Q1	95-97	202-204%	64-66	157-159 %	2-4	135-137%	24-26	510-512%	2-4	140-142%
	Q2	197-199	21-23%	87-89	(12)-(10)%	10-12	62-64%	60-62	153-155%	2-4	(22)-(20)%
	Q3	209-211	8-10%	129-131	0-2%	10-12	2-4%	63-65	27-29%	4-6	26-28%
	Q4	232-234	11-13%	139-141	22-24%	10-12	2-4%	73-75	(4)-(2)%	8-10	10-12%

- **SCV & ULCV**: Q1FY22 expected to see a considerable downside due to the second wave of the pandemic, however due to continuance of essential services and consumer goods, SCVs and ULCVs to be amongst the least impacted segments. Even so, absolute volumes to be much lower than momentum seen in Q4FY21. Healthy rabi output along with strong demand for E-commerce to continue to drive volumes in the months to come as more people extend their Work From Home. Depending on the resolution of the second wave of the pandemic, second half of FY22 is expected to show a marked recovery as discretionary segments of the economy resume.
- **MHCV**: ICV segment to see relatively better trajectory than other haulage segments with applications such as FMCG and E-commerce which are expected to be more resilient compared to other industrial goods. Tipper segment to also perform better than MHCV haulage as Infrastructure focus of the government continues and NHAI increases execution pace to achieve target of 4600km execution in FY22
- **Buses**: School revival to be extremely prolonged as fear factor creeps in with the onset of a second wave as well as potential forsubsequent wave/s; school demand highly unlikely to recover in H1FY22, any chance of revival only probable towards Q4FY22. Also, with expert opinion hinting towards larger impact of third wave on children the chances of school opening especially for pre-primary and primary students without inoculation seems highly unlikely. Traction in STU revival seen in Q4FY21 to be absent in H1FY22, However depending on the resolution of the pandemic and vaccination progress, H2 could be relatively better for the Industry

Source – SIAM, CRISIL Research

Stakeholder interactions

OEM

- Production trimmed across OEMs, varying from 30-40% cut for diversified OEMs to up to 70% cut for some PV focused OEMs. Due to dealership staff being impacted OEM staff also pursuing direct sales on field with KAMs
- OEM interactions indicate impact in May could be as high as 60-70% of anticipated volume with June seeing a flat to positive trajectory.
- Pickups seeing most severe supply constraints where waiting periods for market's leading player/s have reached a few months. Issues to continue into Q1FY22 with resolution likely starting Q2FY22
- ILCV segment facing least amount of issues with ICVs facing near negligible constraints. Situation expected to continue provided trade flows remain unaffected
- Some shortages creeping up across component chains due to some clusters in west facing harsh lockdowns as well as some import issues.

Dealer

Demand Story

- Dealerships in west worst affected due to second wave of COVID-19 followed by north, south and east respectively
- Drop in SCVs from demand side to be relatively lower within cargo, however supply to be worst impacted due to semiconductors as well as oxygen issues for brazed metal components.
- MHCV-ex construct to see highest drop, followed by IMCV where drop could be curtailed due to movement of essentials and pharma products,
- Tippers currently seeing limited impact, however impact ahead to be driven by government spending patterns towards infrastructure.
- Buses segment seeing a problem from demand side itself with most OEMs able to cater to the incoming demand

Financier

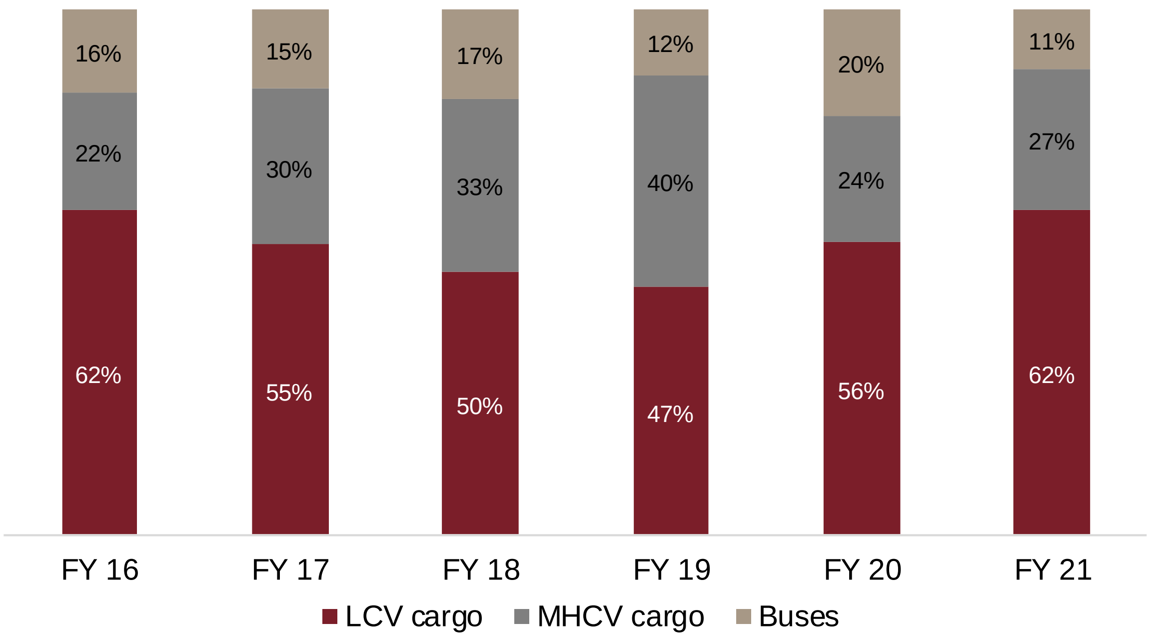
- Collections had improved till March 2021, April exhibiting some pressure. Some Transporters have expressly indicated inability to pay as a result of either being directly/indirectly impacted by COVID or due to lower freight earnings due to drop in load availability.
- Customers operating in west and on west bound routes seeing highest pressure across the country. Customers based in South, East but operating on Mumbai bound corridors facing problems in returning vehicles to base locations
- Transporters have suggested that they may need to utilize the ECLG scheme which has been extended till June-30 in order to meet some of the short fall.
- Some OEMs have also started approaching financers with proposals of 60 day and 90 day moratoriums on new vehicles, where the interest cost would be borne/offset by OEMs. In addition to this loss pools are also on offer from most MHCV OEMs for financers for the MHCV space

Source – Industry, CRISIL Research

Commercial Vehicle exports

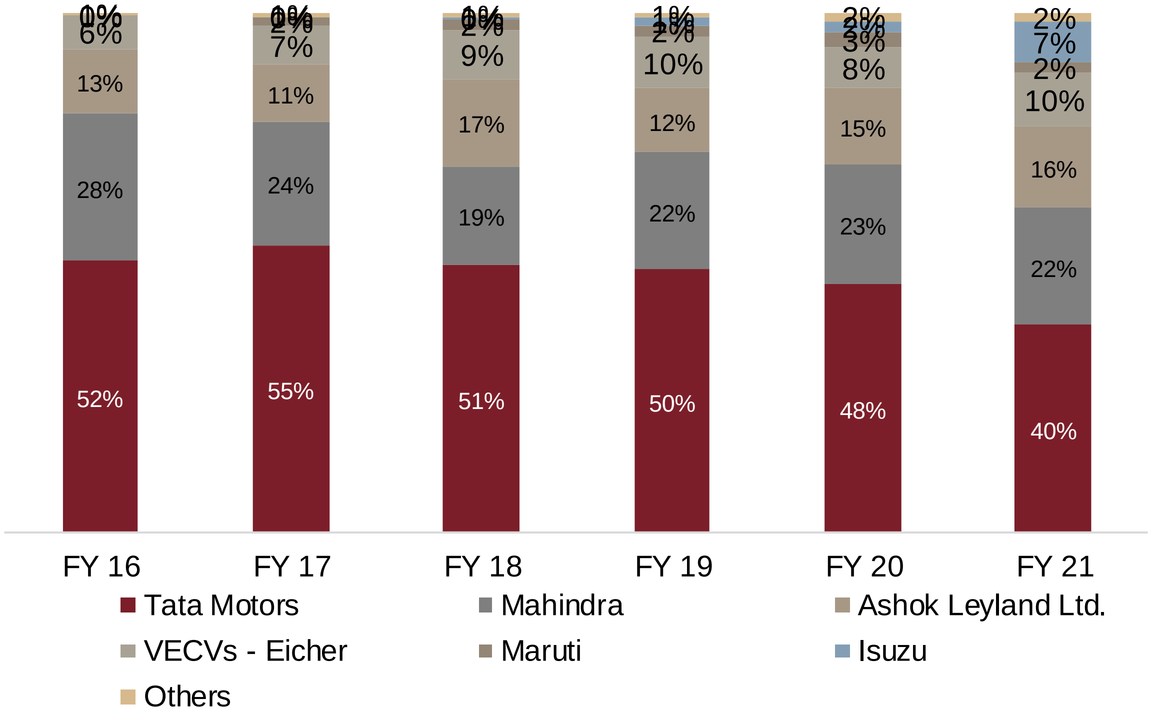
Share of LCV cargo on an uptrend

LCV occupies ~2/3rd share



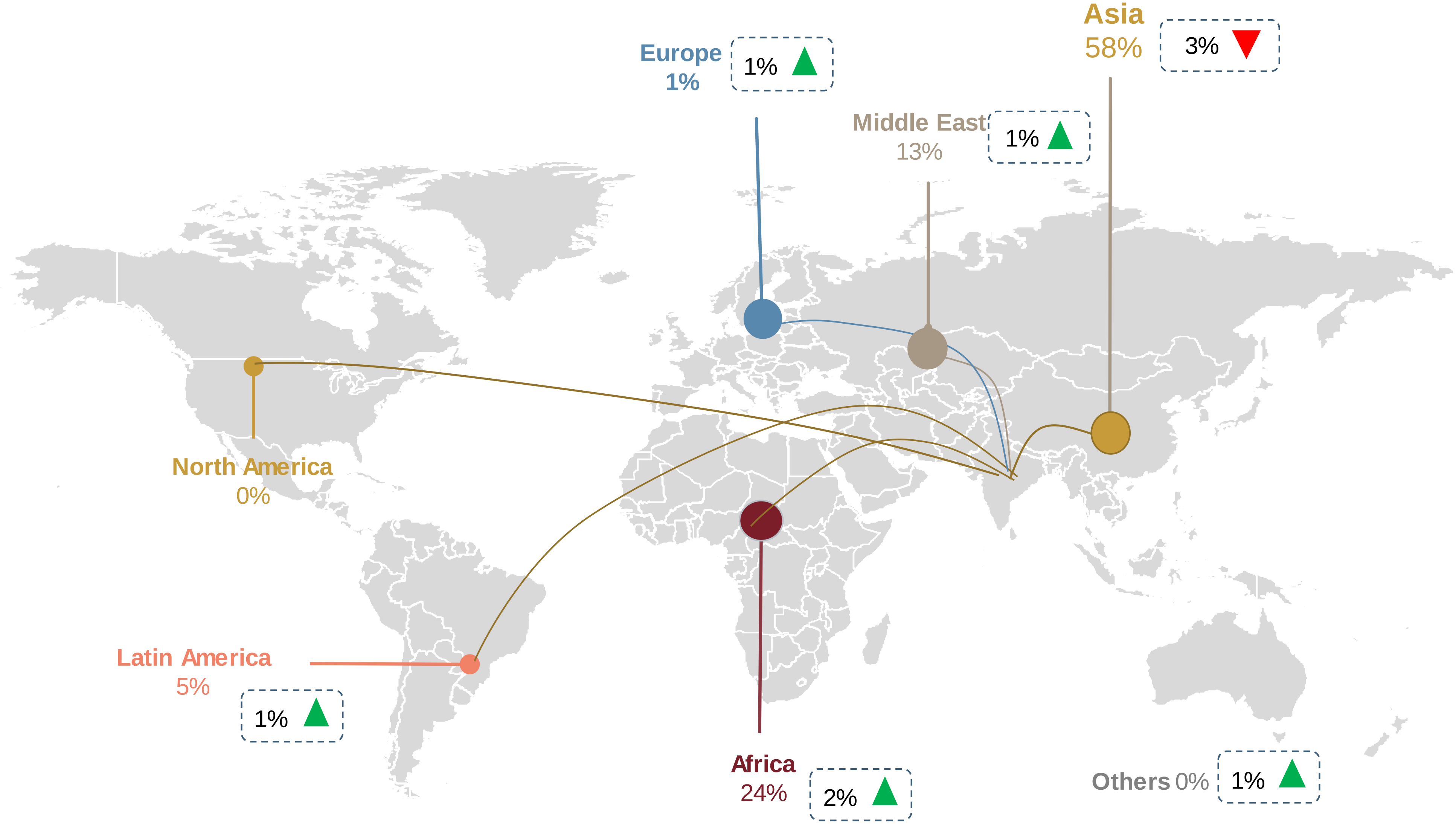
Source: SIAM, CRISIL Research

Share of leading players declines



- Exports continue to shrink across segments. Overall CV exports declined by 17% in FY21, LCV cargo by 8%, MHCV cargo by 7% and buses by 53%.
- LCV/ICV segment expected to fare better due to continued traction for e-commerce and essential movement.
- Tipper category is also expected to perform better due to revival in construction activities in the underlying economies.
- Isuzu has gained a share of 7% by mainly gaining traction on pickup category in exports market.

Commercial vehicles exports



- Bangladesh and Nepal continue to dominate Indian exports contributing ~50% in FY21
- Srilanka continues with its ban on non-essential imports.
- Saudi Arabia has expanded its presence in FY21
- Good traction seen from Middle East nations, mainly in buses category for staff segment
- Asia is majorly impacted due to the next Covid wave & its impact on the demand remains a key monitorable

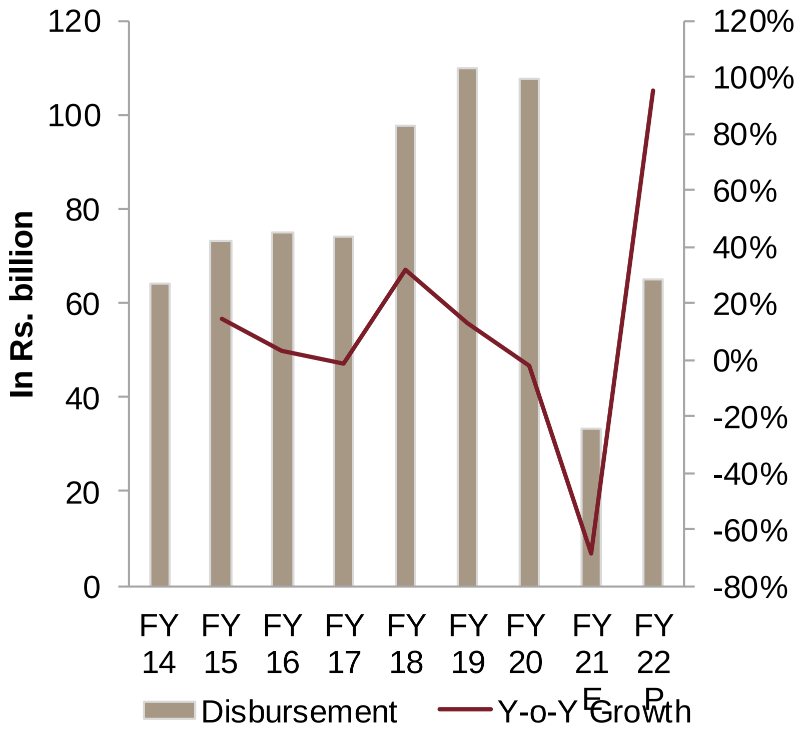
Note: : Represents volume data for FY20 exports, % in dotted boxes indicates change in market share from FY20 to Apr-Jan 2021

Source: DGFT, CRISIL Research

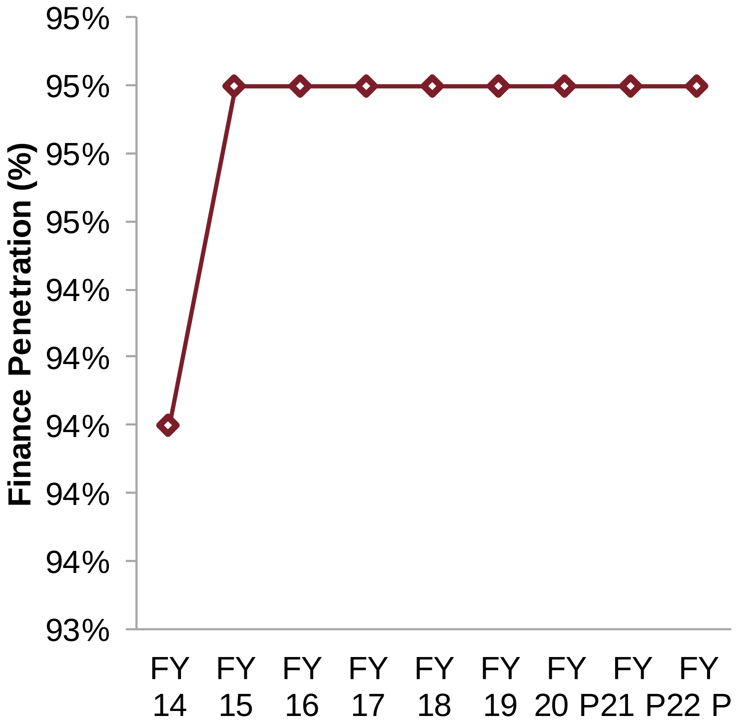
Three-wheelers

With estimated improvement in demand, disbursement levels to recover in FY22, although not expected to reach pre Covid levels

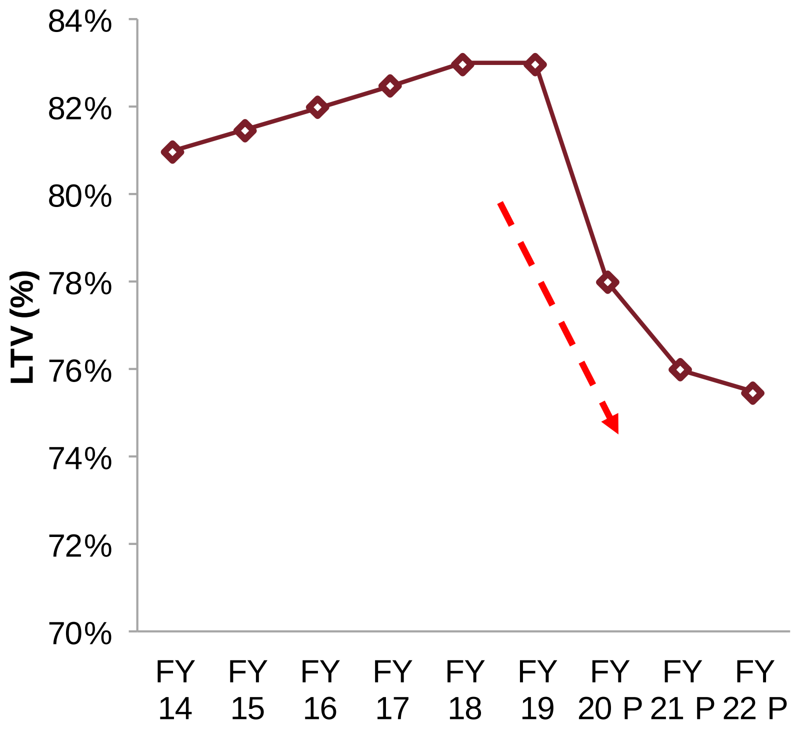
Disbursement



Finance penetration



Decline in loan-to-value continues

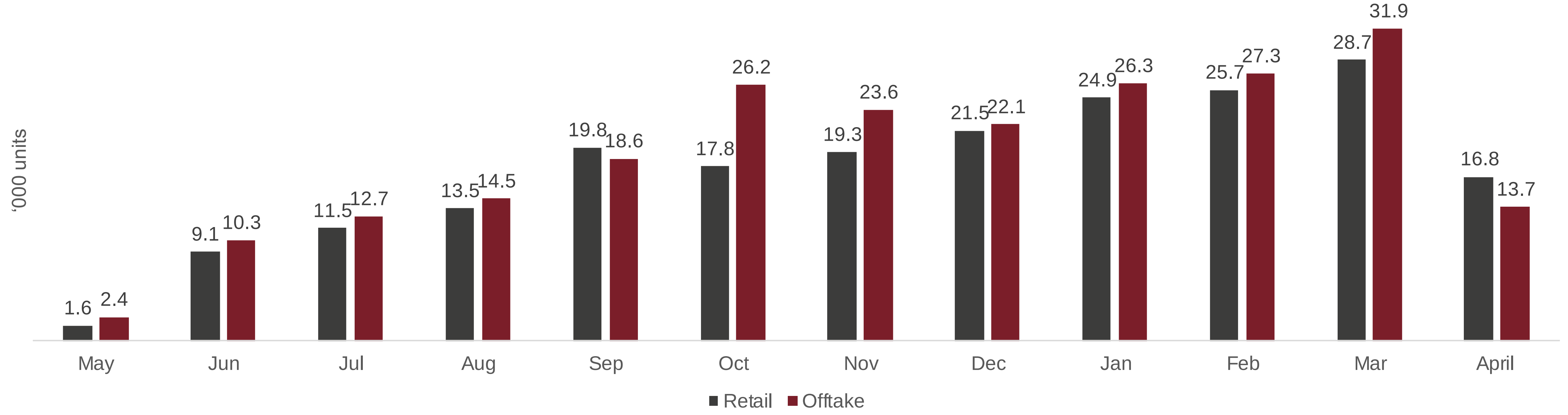


- In line with the sales drop during fiscal 2021, financing parameters also took a hit, disbursements reached a historic low
- Moreover, with the drop in earning of 3W buyers, most financers turned extremely cautiously and focused more on recovery during the year
- LTV levels were dropped despite rise in vehicle prices
- Going ahead, some improvement is expected in disbursement levels , however, financers are expected to remain cautious , and LTVs to remain under pressure

Source: Experian Credit Bureau, Company Reports, CRISIL Research

Gradual improvement in offtake as well as retail sales, April saw a sharp slump

Retail vs off-take FY21



Note: April numbers are estimated, All retail numbers are estimated
Source: SIAM, Vahan, CRISIL Research

- Three wheeler industry witnessed gradual improvement after a sharp drop in Q1FY21
- Industry clocked healthy q-o-q growth in Q4FY21 with retails clocking ~35% increase
- Retail & off take sales were range bound with off take witnessing some additional year end push from OEMs
- Dealers started the year with a lower than normal inventory with BSVi implementation as well as lockdown. Inventory levels have increased marginally to ~15 days as of March 2021
- April saw a sharp drop in off take as well as retail

Domestic – annual forecast

	Three wheelers	Cargo	Passenger
FY 20 volumes	637	112	525
YoY Growth in FY20	9%	13%	8%
FY 21 volumes	216	82	134
YoY Growth in FY21	66%	26%	74%
FY 22E volumes	260-265	90-95	172-177
YoY Growth in FY22E	22-24%	11-13%	29-31%

NOTE: Volumes in thousand units, numbers in red boxes indicate y-o-y de-growth, numbers in green boxes represent y-o-y growth

Source – SIAM, CRISIL Research

Domestic – quarterly forecast

Period		Three-wheeler		Cargo		Passenger	
		Volume (‘000)	YoY Growth	Volume (‘000)	YoY Growth	Volume (‘000)	YoY Growth
FY21	Q1	12.8	(91)%	5.8	(90)%	6.9	(94)%
	Q2	45.9	(75)%	19.8	(27)%	26.2	(83)%
	Q3	72.7	(59)%	29.1	(2)%	43.6	(70)%
	Q4	85.6	(66)%	28.3	15%	57.2	(46)%
FY22 E	Q1	37-39	193-195%	16-18	183-185%	20-22	202-204%
	Q2	65-66	42-44%	23-25	20-22%	41-43	59-61%
	Q3	77-79	6-8%	24-26	(13)-(11)%	52-54	19-21%
	Q4	85-87	0-2%	26-28	(7)-(5)%	58-60	3-5%

Source – SIAM, CRISIL Research

- After a long hiatus, passenger vehicle segment showed some improvement during the last quarter of fiscal 2021 & clocked ~30% growth on a q-o-q basis
- However, in Q1 FY22, second wave of covid & the resulting curbs are expected to impact the passenger segment demand
- From a very low base, we expect some recovery in the second half for the passenger segment
- Cargo segment saw some q-o-q drop in Q4FY21, & is expected to remain under pressure going ahead with estimated impact on construction related activities
- However, its exposure towards essential segments like FMCG & e retail is expected to restrict its fall.
- The severity of the second wave & its impact on the economic scenario remains a key monitorable

Stakeholder interactions

OEM

- Q-o-Q improvement continued in Q4, 3W segment seemed on a path of recovery
- However, resurfaced Covid uncertainty to derail the recovery in short term
- Reverse migration being seen in many metro areas
- Will cost passenger segment dearly
- Cargo segment to provide some breather with continued end use traction for FMCG, milk, vegetables, e commerce
- Some impact of the lockdowns is expected on cargo 3W demand for real estate projects
- Some disruption in production possible amidst the Covid second wave

Dealer

- Q4 quarter saw some improvement in passenger segment demand after poor sales in first three quarters
- PV segment seeing m-o-m improvement, still retail numbers are nowhere close to pre Covid sales
- Cargo segment is doing steady numbers
- However, sharp rise in fuel prices dampened consumer sentiment in March;
- Significant impact expected on the sales in Q1 amidst the second wave of Covid
- Economic uncertainty to impact retail sales at least in H1
- Reluctance towards shared mobility with renewed Covid concerns to impact passenger segment more
- No discounts being offered, stock levels have increased due to push from OEs in Q4

Financier

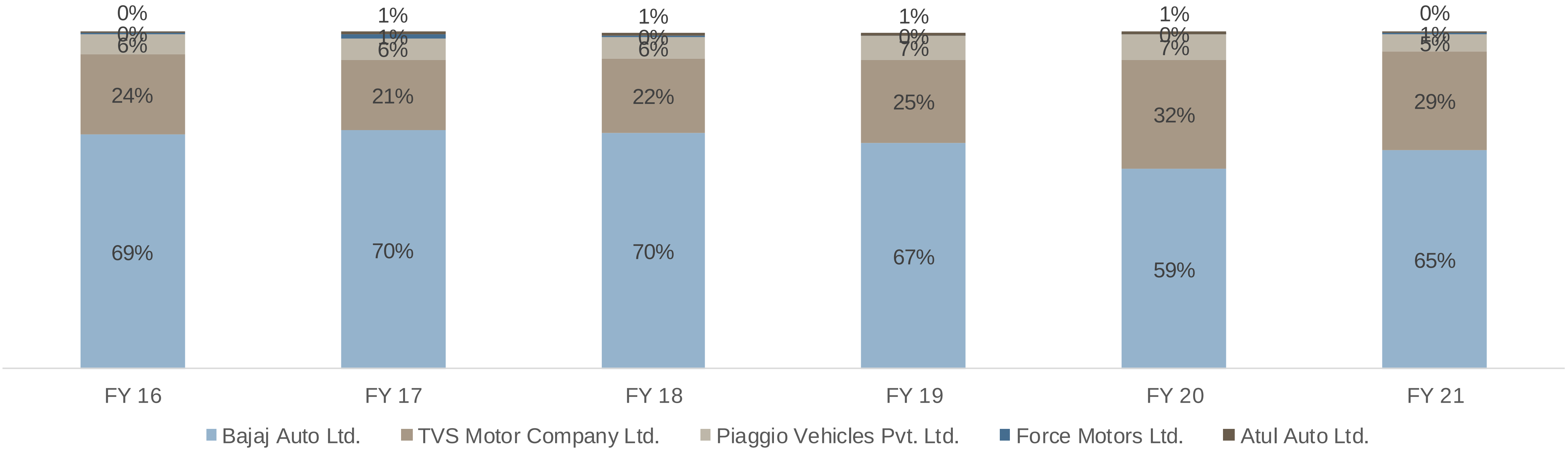
- Some improvement in incomes of 3W customers in Q4 especially for passenger segment
- However, financers to remain cautious
- Resurfacing of Covid issues has put the income expectation of customers in question
- Some increase in LTV was expected after the Q4 improvement, but now financers are in wait and watch mode
- No changes in LTV or interest rates expected in the short run despite the price rise
- Lending to be done after much deliberation & caution

Source – Industry, CRISIL Research

Three wheeler exports

Lower drop for GV segment, Bajaj expands its lead in FY21

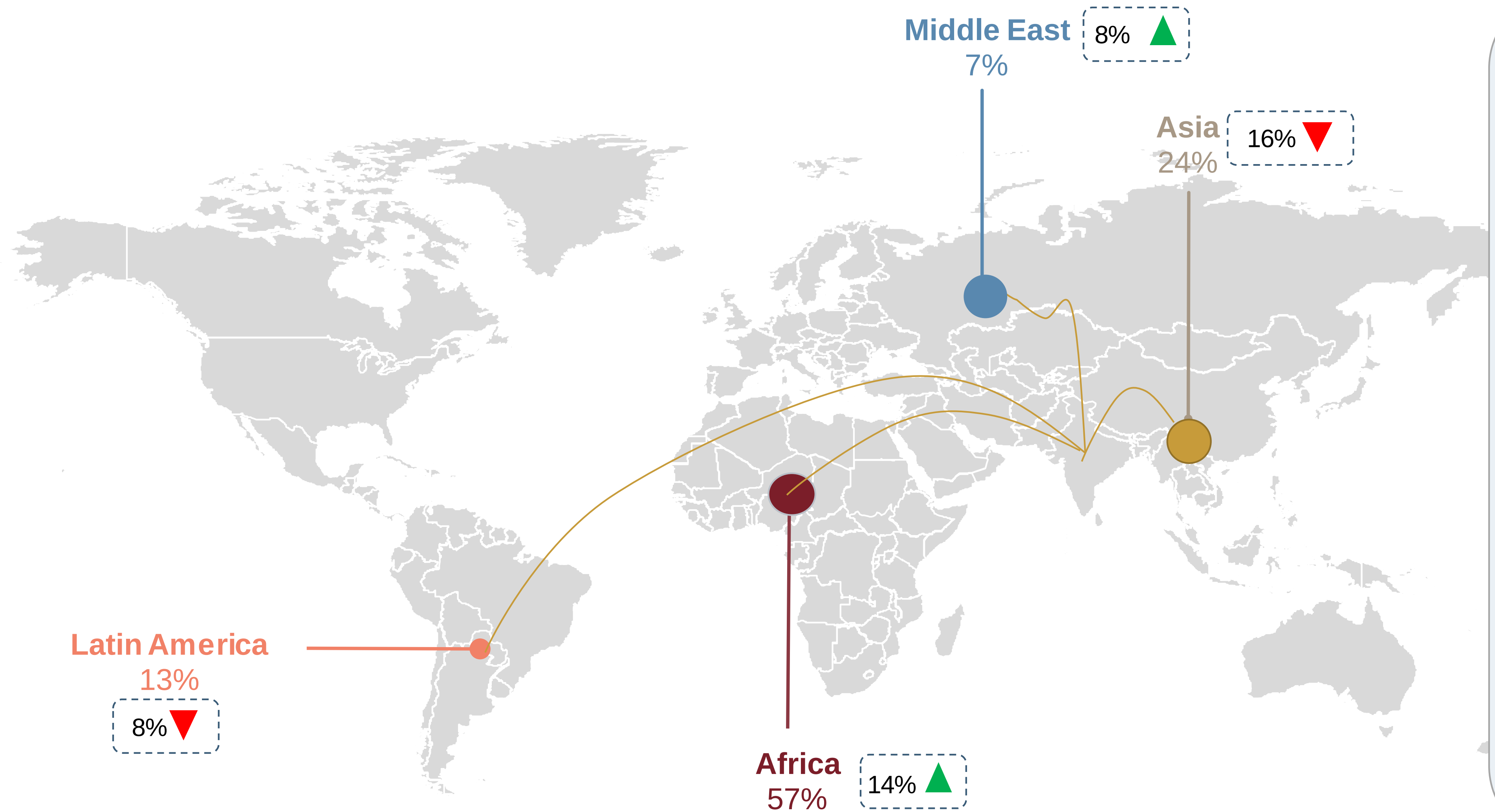
Bajaj maintains its top position



Source: SIAM, CRISIL Research

- In FY21, exports dropped 22%, cargo segment saw a dip of 12% whereas the major passenger segment declined by 22%.
- Bajaj continues to perform better even in passenger three-wheeler exports.
- Companies with higher exposure towards African markets performed better compared to others.

Three-wheeler exports



- Exports share of African and Middle East countries increased aided by lower covid spread and crude prices firming up in FY21
- Covid has impacted demand from Asia, & is expected to remain under pressure
- Substantial recovery is seen in exports to Egypt after the ban of auto-rickshaw was lifted which has aided to exports growth.
- Demand from Iraq has supported expansion of Middle East share
- Exports to Latin American country was lower due to considerable spread of Covid and reluctance to use shared mobility
- The impact on the demand due to the resurgence of Covid remains a key monitorable

Note: : Represents volume data for FY20 exports, % in dotted boxes indicates change in market share from FY20 to Apr-Jan 2021

Source: DGFT, CRISIL Research

Tractors

Back to Summary Forecast Slide

After a healthy growth in FY21, tractor sales growth to taper down in FY22

Parameters	Impact		
	FY 20	FY21	FY22E
Farm Income**	Neutral	Favorable	Neutral
-- Crop Prices	Favorable	Favorable	Neutral
-- Crop Output	Neutral	Favorable	Neutral
-- Kharif Output	Neutral	Favorable	Neutral
-- Rabi Output	Neutral	Favorable	Neutral
Demand Indicators	Favorable	Neutral	Neutral
-- Infrastructure Development	Favorable	Not Favorable	Neutral
-- Sand Mining	Not Favorable	Favorable	Neutral
Supply side variables & financing	Neutral	Neutral	Favorable
-- Finance Availability	Neutral	Neutral	Favorable
-- Channel Inventory	Neutral	Favorable	Favorable
-- Player Action	Favorable	Favorable	Neutral

Favorable

Neutral

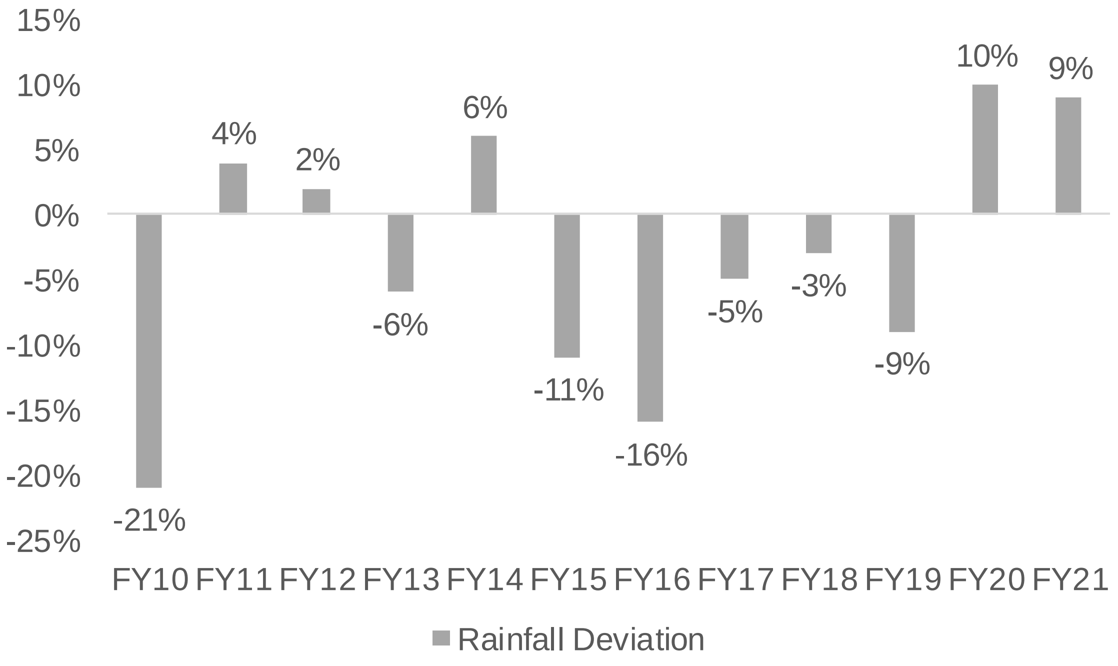
Not Favorable

*NOTE : ** Fiscal 2022 assumed neutral assuming normal monsoon,*

Source: CRISIL Research

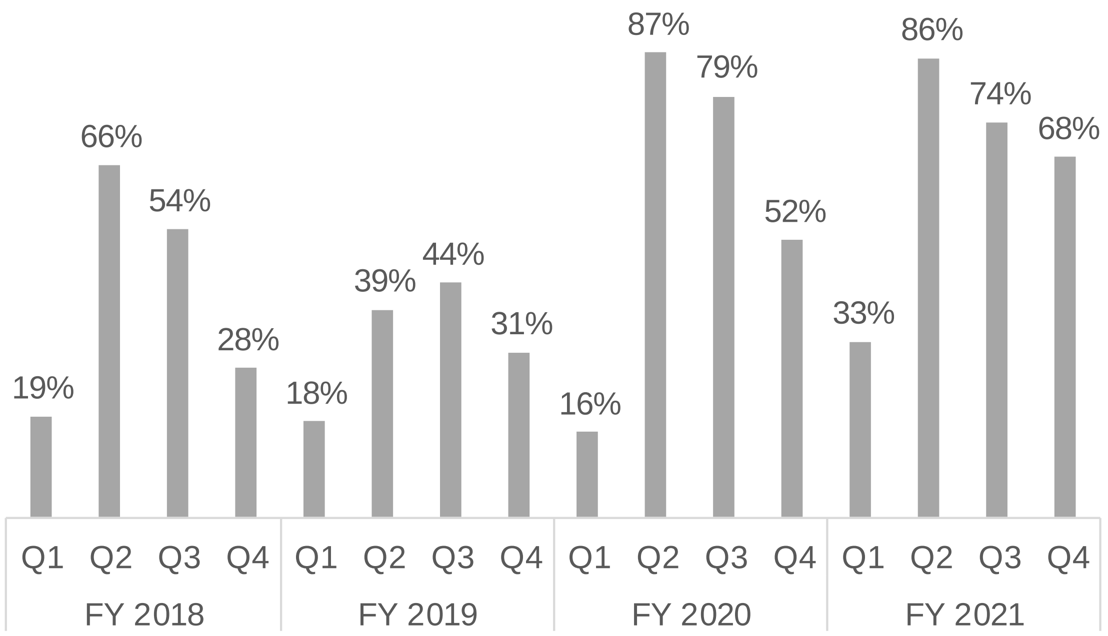
Normal and well distributed monsoon in FY21 aiding to better farm sentiments

Normal rainfall in fiscal 2021



NOTE: Rainfall deficiency in the range of -10% to 10% of the long period average is considered as normal as per IMD. P: Projected
Source : IMD, CRISIL Research

Reservoir Levels are higher

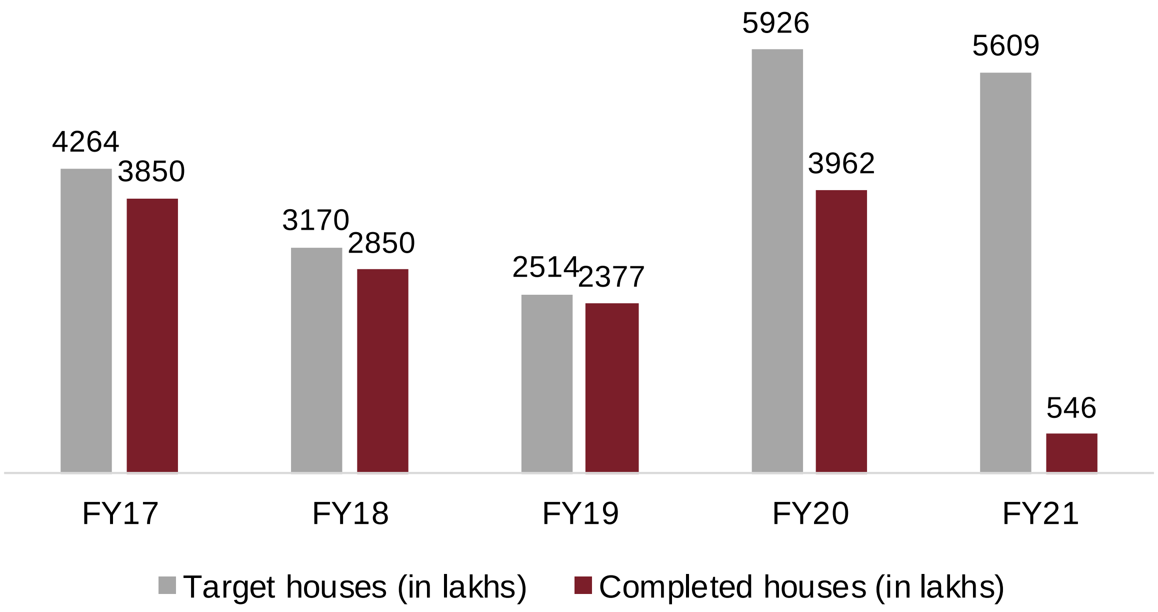


Notes: Storage Status of 120 Reservoirs of the Country
Source: CWC, CRISIL Research

- The total live capacity of 130 monitored reservoirs is 174.23 billion cubic meter (BCM), which is about 67.58% of the live storage capacity of 257.812 BCM.
- Good reservoir levels, an expected normal monsoon, better commercial demand, and higher government support in the form of schemes and subsides to augur well for the industry in fiscal 2022.
- Increase in total profit by ~8% and 7-9% for the rabi and kharif crop respectively expected to aid farm incomes.

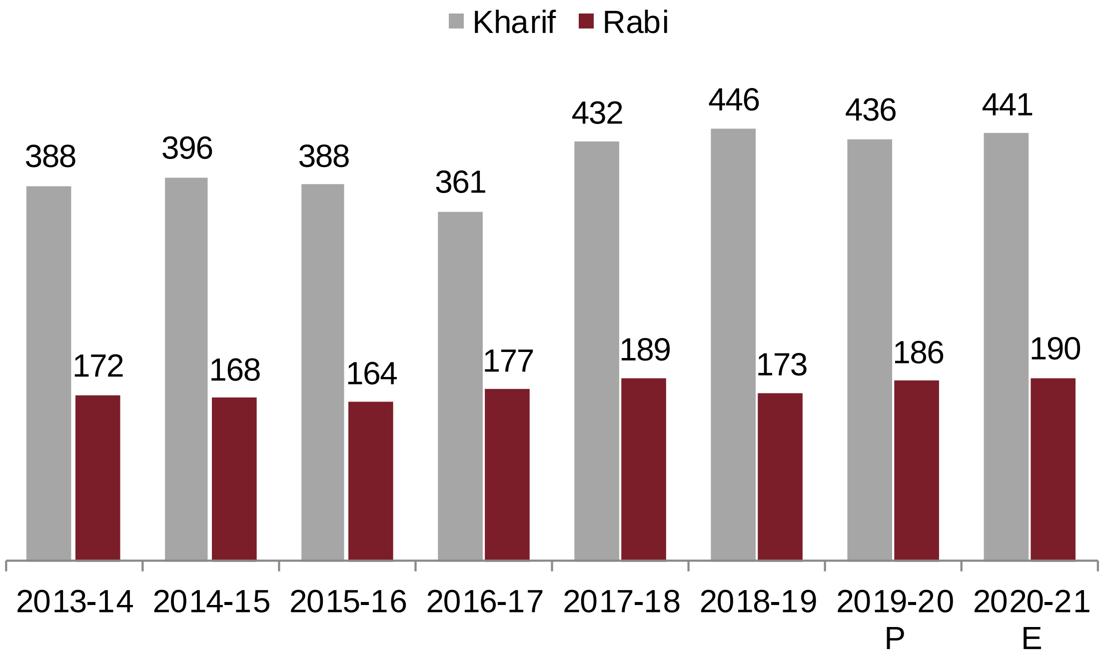
PMAY-G witnessed uptick in eastern states and Rajasthan

PMAY-G



SOURCE: Ministry of Rural Development, CRISIL Research

Crop production growth higher for MY20

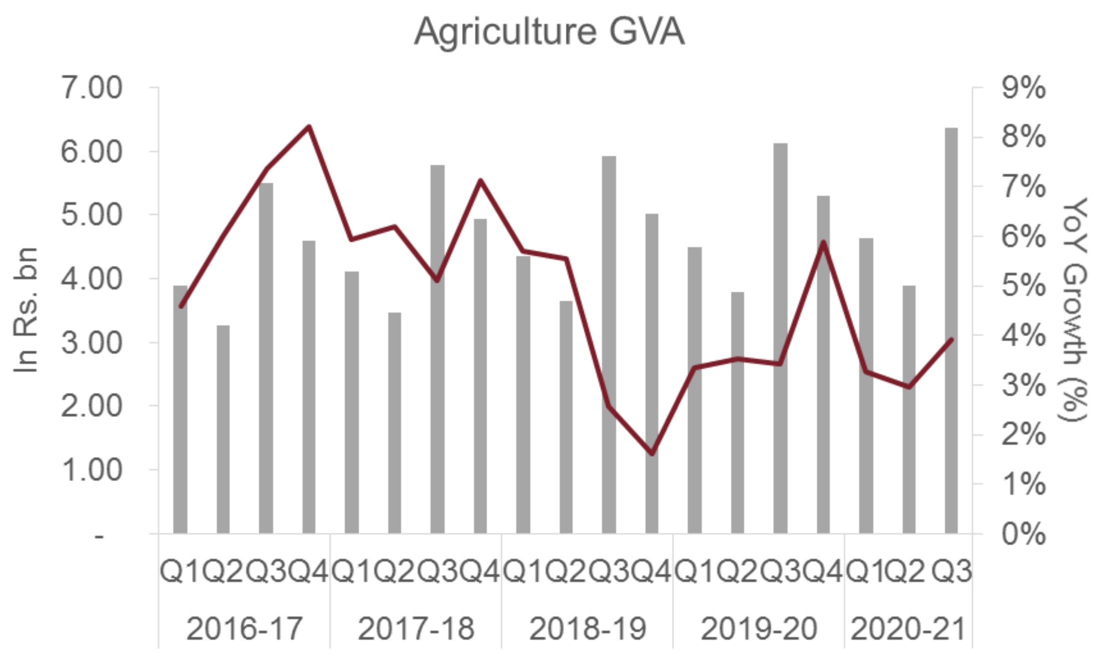


MY: Marketing year, P: Projected
Notes: 1) Base of 100 for Index (kharif and rabi) taken in MY Jan-Dec 2015
Source: Ministry of Agriculture, CRISIL Research

- High investment by farmers on agriculture activities amid absence of any other earning opportunities due to COVID-19 outbreak.
- The completion rate under Pradhan Mantri awas yojana-Gramin(PMAY-G) also picking up but mostly for eastern states and Rajasthan.

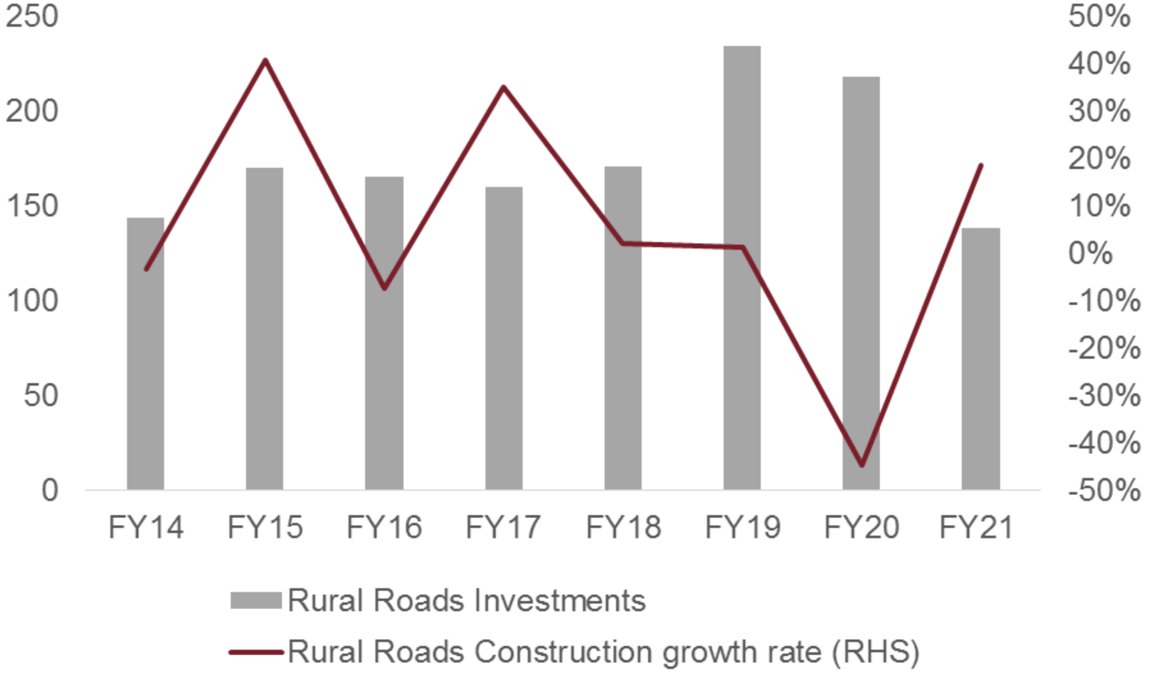
GVA for agriculture sector remains in positive trajectory in the Q3 FY21 on the back of bumper Rabi and aggressive procurement

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

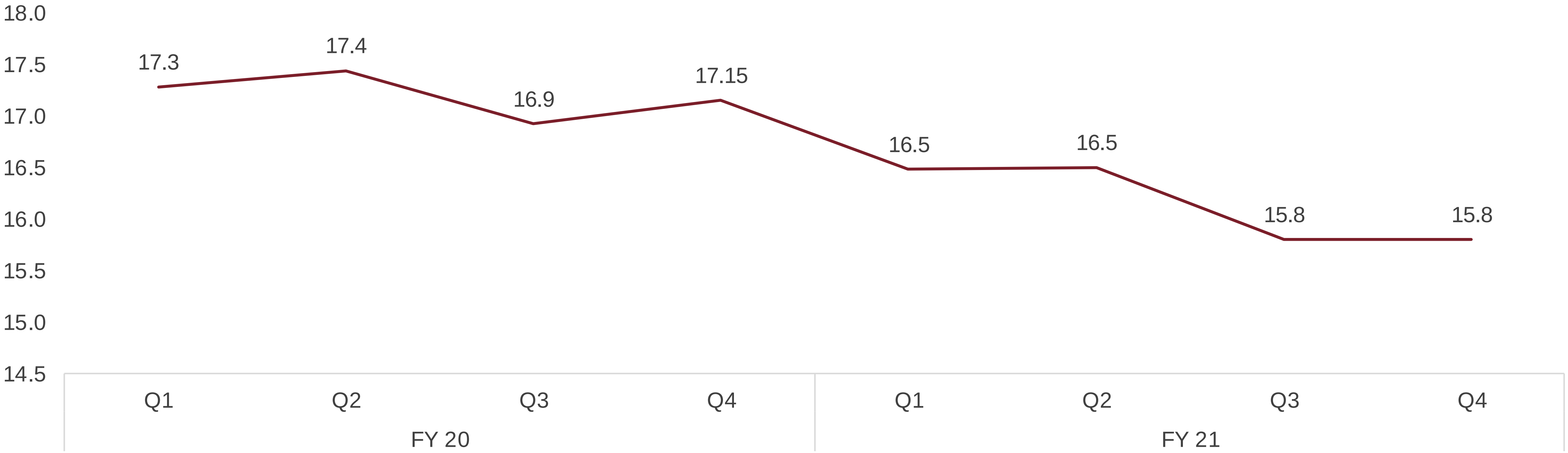


Source: OMMS (Online management, Monitoring and Accounting System), CRISIL Research

- Pace of rural construction plunged in Q1FY21 as construction activities being put to halt in April and May'20 on account of nationwide lockdown. However, due to higher government spend since Q2FY21 under PMGSY, commercial demand picked up.
- The agricultural sector had remained unruffled by the lockdown in the Q3, backed by a bumper rabi crop and aggressive procurement by the government.

Interest rates have been cut by 30-50 bps for banks and 20-40 bps for NBFCs

Repo rate cuts from RBI can lead to marginal decline in the interest rates

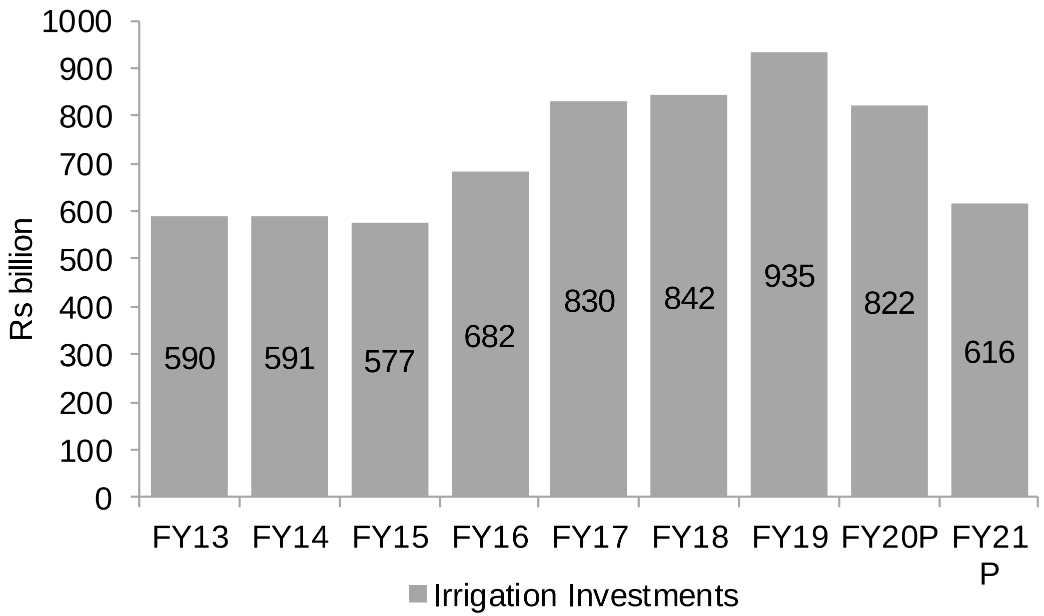


Source: CRISIL Research

- Financing issue persisted in April’20 as doorstep inspection could not be performed. However, financers have now come up with digital processes.
- Amid robust demand, no interest cuts were done in Q2FY21 during festive season.
- Interest rates remained range bound in H2 FY21
- Tractor NPAs are estimated to be at a stable level in FY21.
- LTVs are expected to remain at a similar level of 70-75% due to risky nature of business.

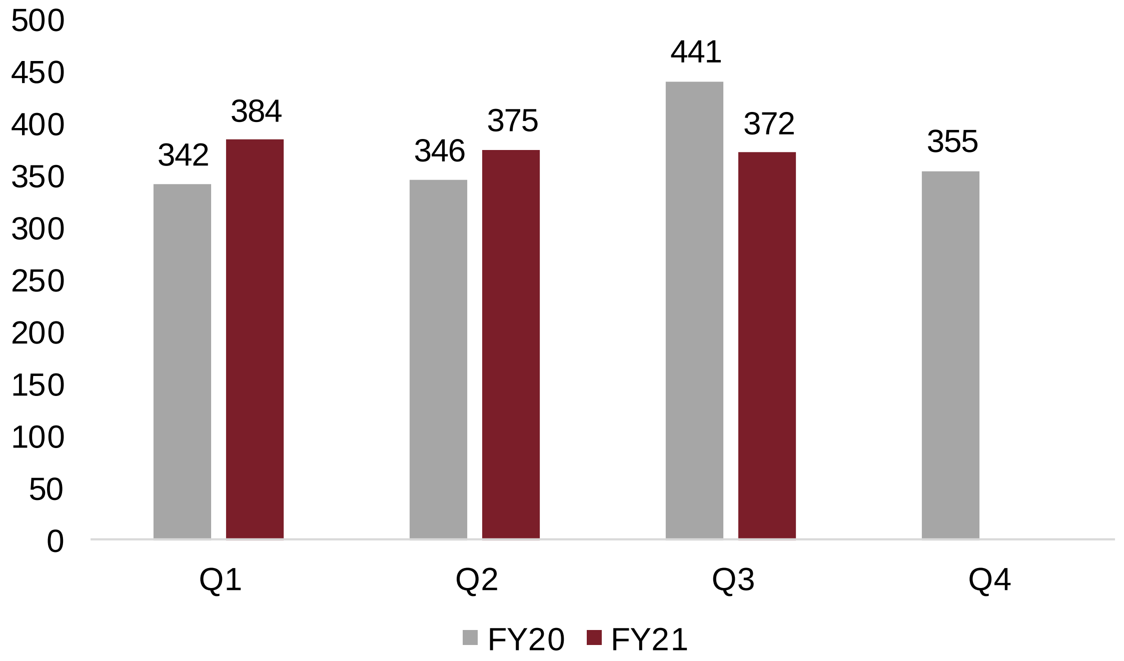
Lower tractor penetration and investments in irrigation are expected to drive sales growth at higher pace.

Irrigation spending increasing at a slower pace



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

Daily Rural Wage

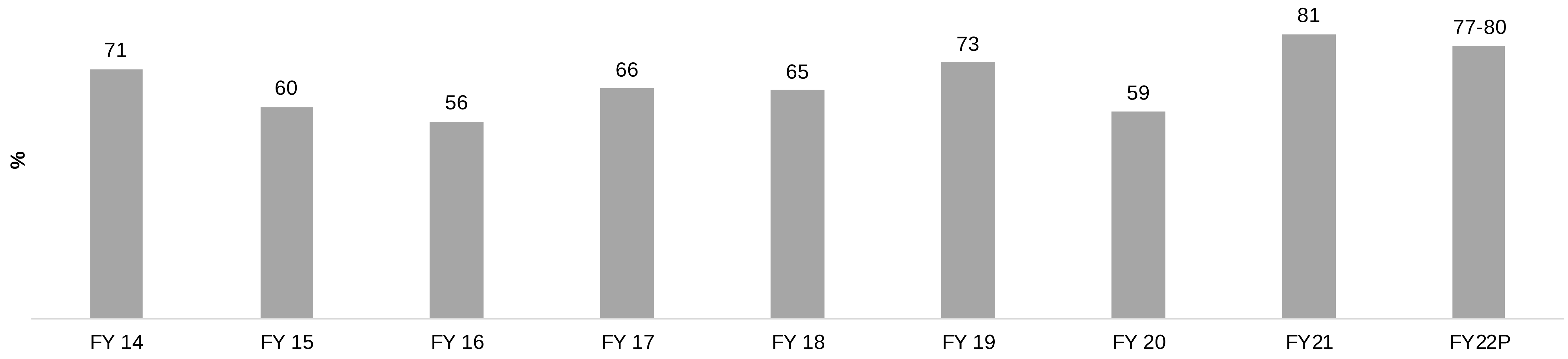


Rural wages includes general non-agricultural labour.
Q3 FY21 data till November 2020 ; Q4 data is not yet available
Source: RBI, CRISIL Research

- 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. Irrigation investments to increase at long term.
- The northern states of Punjab, Haryana and Uttar Pradesh have already achieved high levels of mechanisation and are driven mostly by replacement demand.
- Also, mechanisation has increased in western and southern states, viz., Gujarat, certain areas of Tamil Nadu, and Andhra Pradesh, with an increase in the area under irrigation and growing awareness among farmers.

Utilization to drop marginally in FY22 from a historic high of FY21

Capacity utilization



P = Projected
Source: CRISIL Research

- In FY21, basic raw material index (BRMI) have increased on the back of increase in steel and iron prices.
- OEMs have undertaken price hikes due to increasing commodity prices. Thus, OEMs are expected to maintain their margins to some extent.
- In FY22, capacity utilization is expected to drop from its peak level as tractor demand is contract 2-7% amidst the increase in Covid cases in rural areas
- Sonalika(ITL) gained share at Mahindra's expense due to having in-built capacities and low dependency on suppliers. TAFE, which have been losing its share since past few years also gained share.

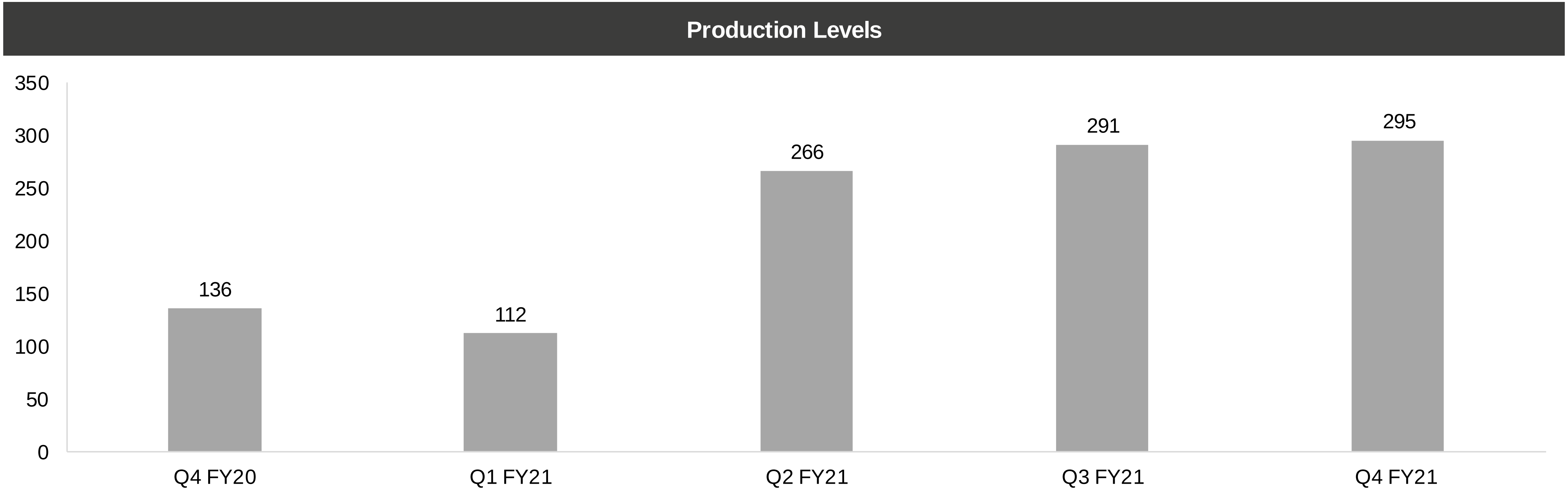
Implementation of Trem IV norms in Oct 2021

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	8%	No change			
	25 to 50HP	84%				
	50 to 75 HP	8%	1st October 2021	5	4.7	0.025

Source: Industry, CRISIL Research

- The new emission norms which are expected to be set in place will require Agricultural machinery – including agricultural tractors, power tillers and combined harvesters.
- To simplify and avoid any confusion with other vehicle norms with "BS" or "Bharat Stage" prefix, Agricultural tractors and other farm equipment vehicles will fall under the TREM Stage-IV and TREM Stage-V.
- The TREM-IV regulations effective from October 2021 (due to which the price for >50 hp tractors is expected to increase by 10-12%) will aid in increasing realizations marginally.
- As tractor with more than 50HP contribute only 8% to overall tractor sales, we expect limited impact on tractor industry.

Production levels higher as the demand continues to be high



Figures in thousands
Source: CRISIL Research

- Supply situation has improved gradually, demand remains healthy
- Q4 FY21 saw a production growth by 117% y-o-y.

Domestic – Annual & Quarterly Forecast

FY 21 volumes	898
YoY Growth in FY21	26.6%
FY 22 E volumes	840-880
YoY Growth in FY22 E	2-7%

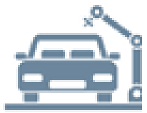
Period		Tractors	
		Volume ('000)	YoY Growth
FY21	Q1	165	(13)%
	Q2	236	40%
	Q3	258	26.5%
	Q4	238	63%
FY22 E	Q1	155-160	(5)-(3)%
	Q2	230-235	(2)-0%
	Q3	248-253	(4)-(2)%
	Q4	215-220	(10)-(8)%

NOTE: Volumes in thousand units;
YoY Growth in red indicates a negative growth, green indicates positive growth
Source – CRISIL Research

- Tractor demand increased by ~27% in FY21 on account of higher farm profitability, better government support and increased focus on rural development.
- Domestic tractor demand is expected to contract (7)-(2)% in FY22 from a high base of FY21. Better rabi profitability, high government support through income support schemes, higher procurement of field crops, improved finance availability to support farm incomes, Moreover, healthy reservoir level, expected pick up in commercial demand especially for eastern states and low inventory at the start of fiscal 2022 is a positive for the tractor industry. However, impact of second wave of Covid to derail the tractor growth as state-wise lockdown and impact of Covid-19 in rural areas to affect customer sentiments which will impact retail demand.

Stakeholder interactions

OEM



- There has been good retail momentum due to the festival of Ugadi in southern states and Vasant Navratri in Northern States.
- Rabi crop is doing very well on the back of high reservoir levels. Sentiments are positive.
- Procurement payment has started coming in. Prices for most crops are good.
- Supply scenario has normalized . This month is comparatively leaner in terms of retail momentum. Higher HP models are in demand across the states and there is yet a supply constraint with these.

Dealer

- The rising COVID cases have dampened sentiments and in some cases farmers are not willing to go to dealerships and have deferred their purchases. Lockdown fears exists.
- Supply constraints for higher HP tractors still exist. In case a lockdown takes place, supply could be a problem.
- Rabi crop is looking good at present. Harvest has started in many places. Market price of crops are good for Mustard. Potato prices have come down considerably. It is expected that most farmers will opt for putting their potato crop in cold storage.

Financier

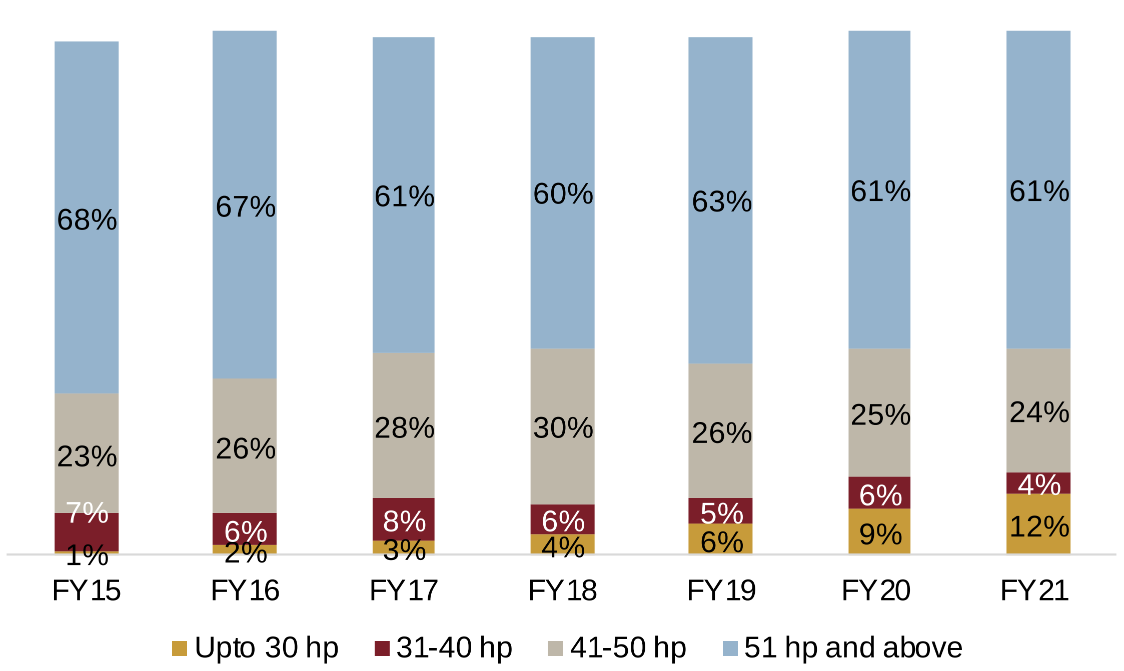
- There is cash flow in market as farmers have received better crop realizations
- This year there has been good collection. Collection is at 75% till now and if it continues to be good for coming months financers will also be aggressive for the next quarter.
- LTVs are expected to remain at a similar level at 70-75% amid risk averse investors.
- Moratorium levels in tractor segment are comfortable

Source – Industry, CRISIL Research

Tractor exports

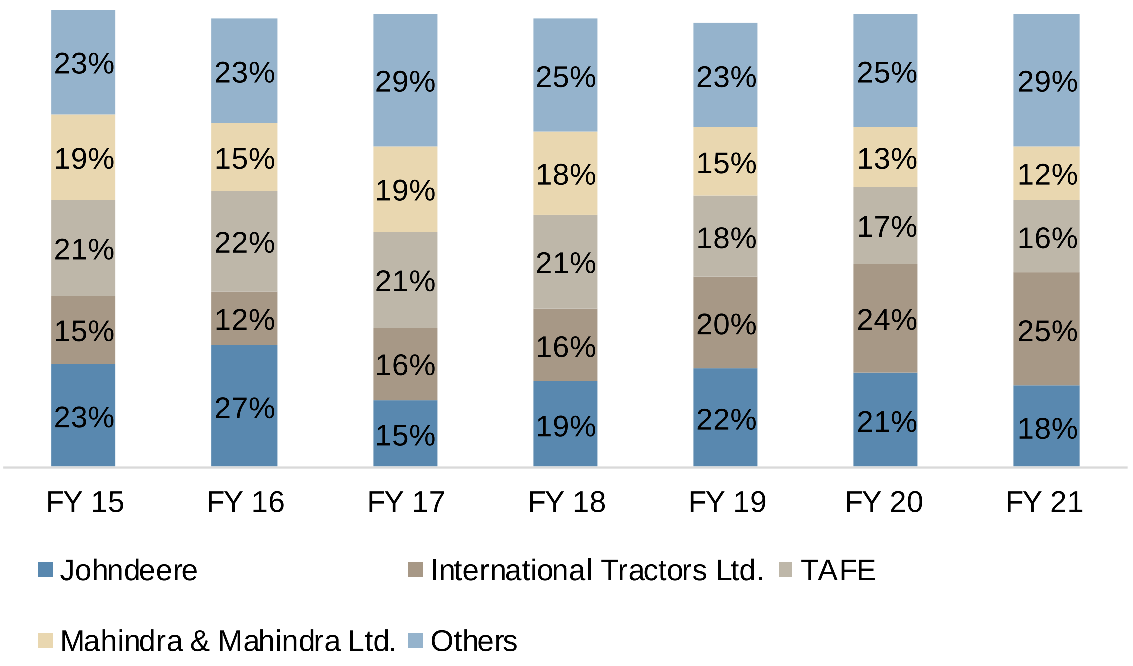
Growth in exports expected to continue in FY22

Segment wise market share of exports



Source: CRISIL Research

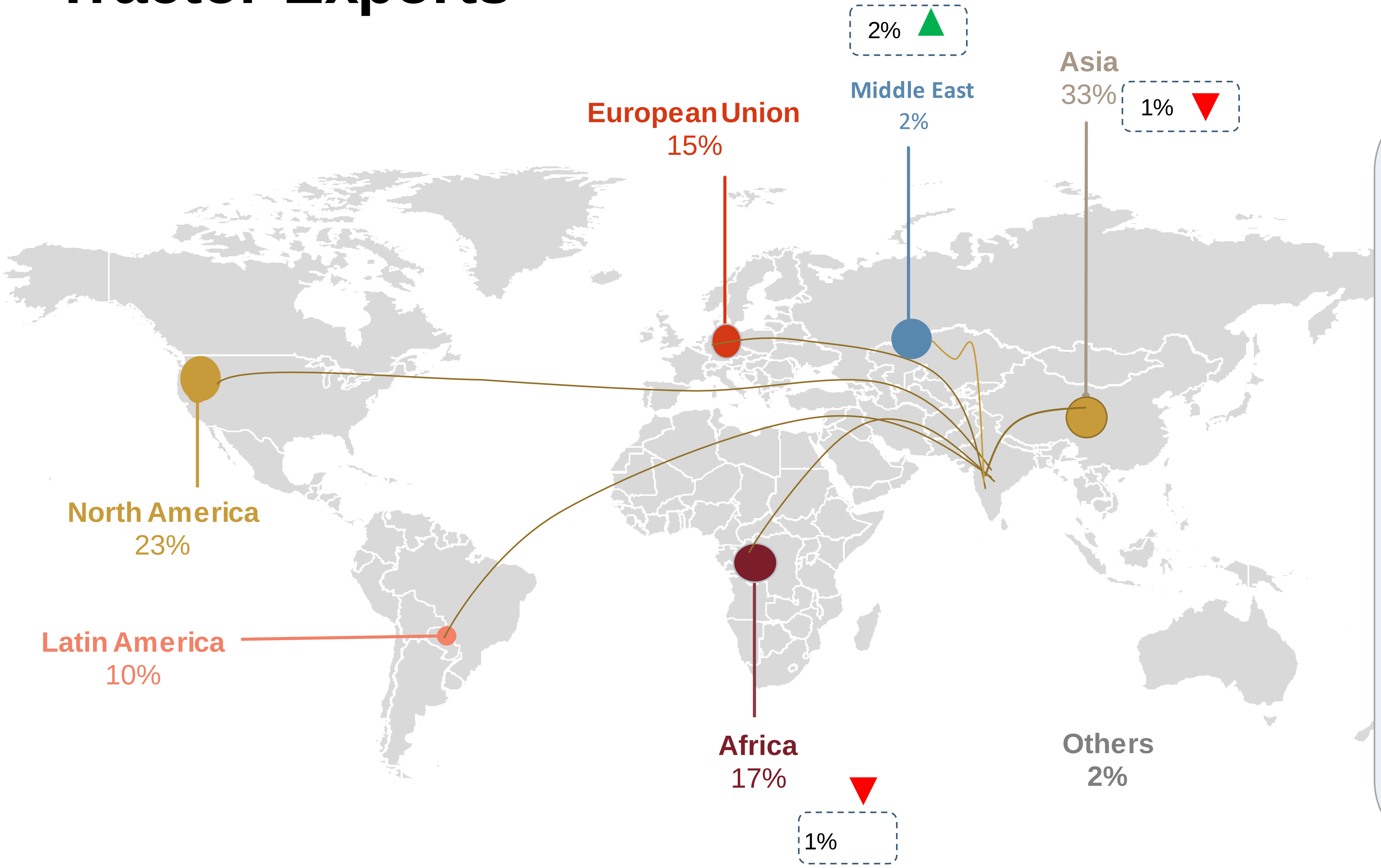
Player wise market share of exports



Source: CRISIL Research

- Tractor exports in FY21 improved by 16% despite supply constraints for most of the year on account of robust demand from major importers such as Europe and Latin america and players such as Escorts developing strategic partnerships.
- Exports are expected to grow 14-16% in FY22 as majority of export destinations were not greatly impacted by COVID and demand from European and Latin American markets have been growing at a very fast pace.
- However, the impact of the resurgence in global Covid cases needs to be monitored

Tractor Exports



- During April-Jan'21, exports to USA declined by 1% on year (in value terms). Exports to europe improved by 10% on account of high farm profitability.
- Exports to Asian countries such as Nepal decreased marginally by 1% in the same time period. However, tractor exports more than doubled for less impacted Sri Lanka
- Increased exports to Turkey during the year helped expand exports to Middle East
- In FY22, African market is expected to push demand given the limited impact of current wave in the African market
- Impact on the other markets needs to be monitored closely..

Note: : Represents value data for FY20 exports

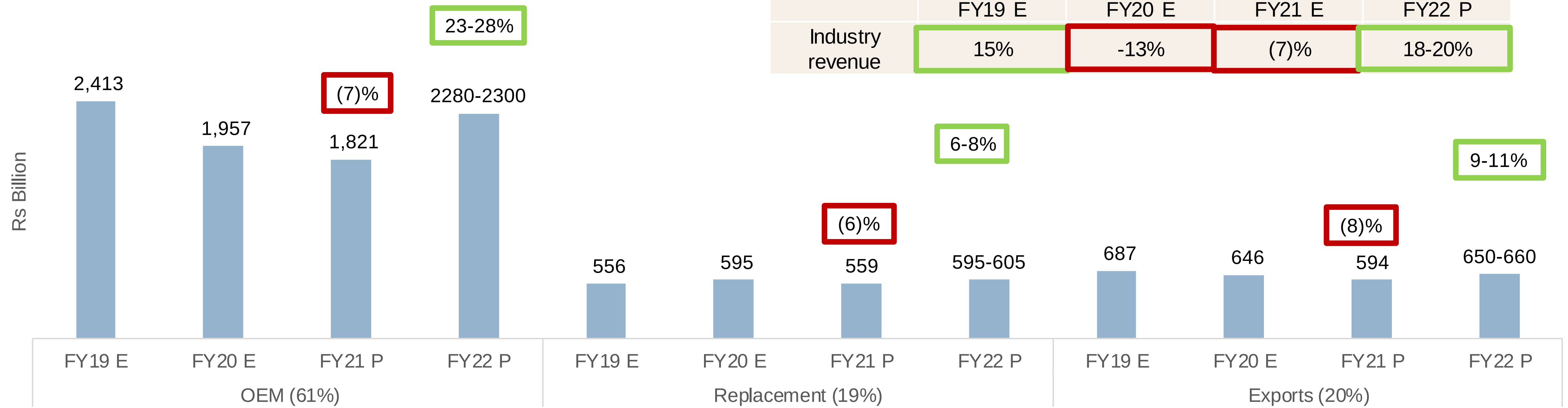
Source: DGFT, CRISIL Research

Auto Components

Second pandemic wave to put brakes on the expected revival in the auto component industry in FY22

Demand from OEMs to drive auto component growth in fiscal 2022

	FY19 E	FY20 E	FY21 E	FY22 P
Industry revenue	15%	-13%	(7)%	18-20%

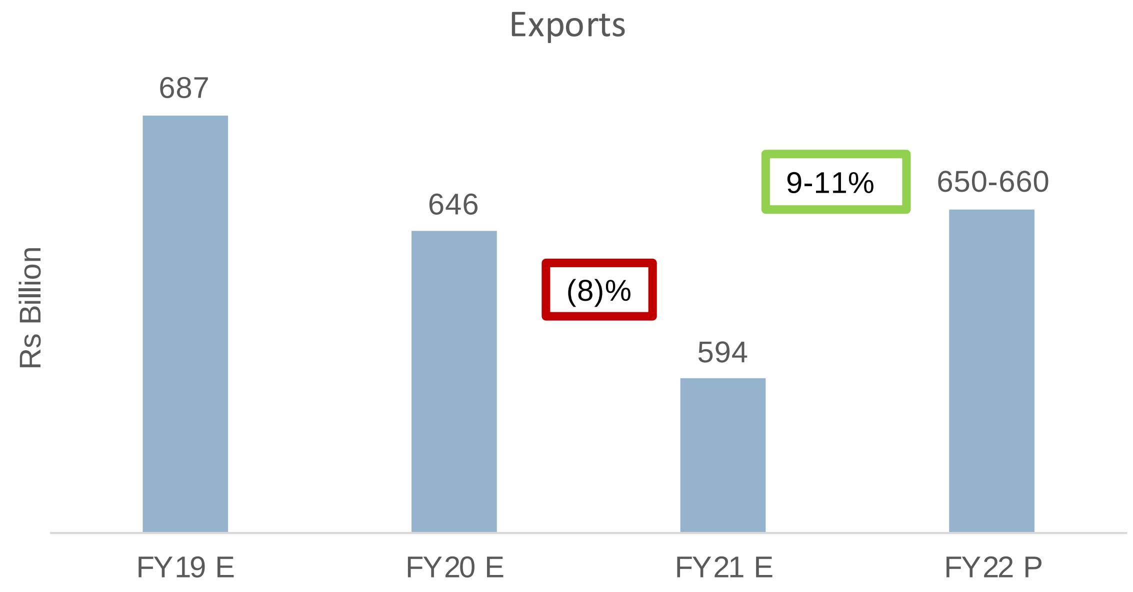


Note: Coloured brackets represent y-o-y growth; Numbers in the bracket in the axis represent share in production for fiscal 2020
Source: CRISIL Research

- Production revenue is estimated to have dropped ~7% in fiscal 2021, amidst subdued demand across all automobile asset classes, decline in exports given COVID-19 outbreak in key export destinations and lower demand from replacement market owing to less movement of vehicles
- In fiscal 2022, revenue is projected to grow 18-20% on the back of an expected global recovery and recovery in domestic auto demand
- However, the second pandemic wave & the subsequent lockdowns are estimated limit the demand recovery. Severity of the second wave & its impact on auto demand remains a key monitorable.

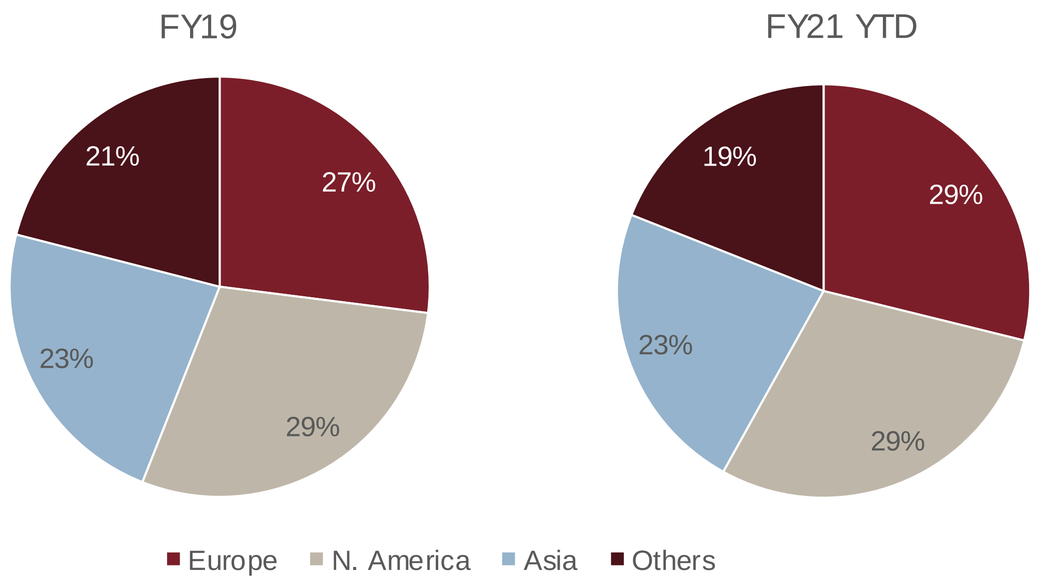
US, Europe to lead export revival in fiscal 2022, impact of pandemic wave remains a key monitorable

Export demand expected to revive partially in fiscal 22



Note: Brackets represent y-o-y growth;
Source: CRISIL Research

Early recovery pushed Europe demand in H2 FY21

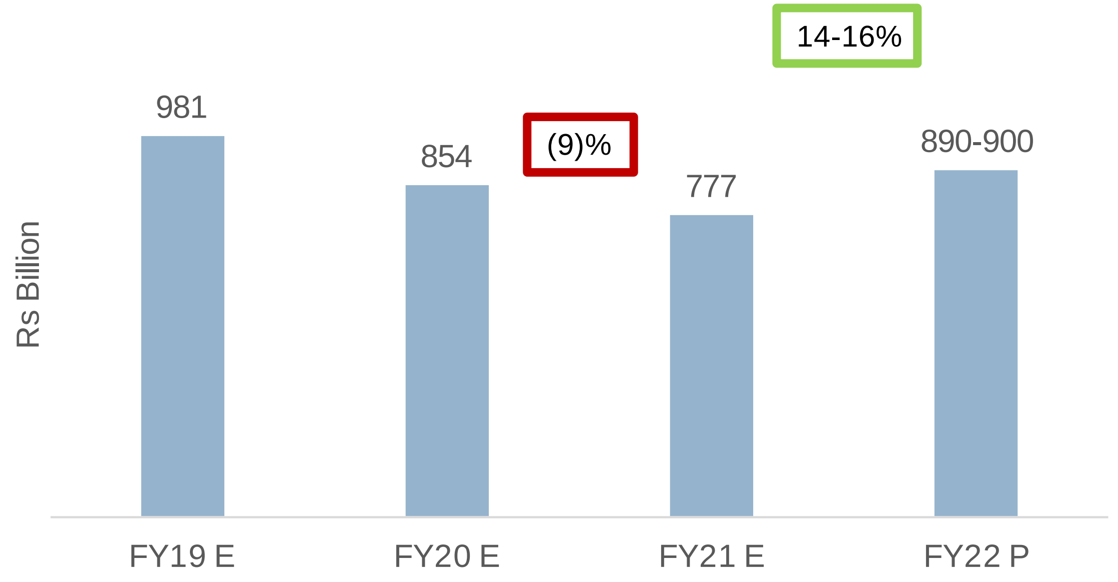


Note: YTD represents April- Dec 2020 data
Source: DGFT, CRISIL Research

- While exports plunged by 36% on-year during April-August 2020, the pace of decline slowed down to 14% during 9 months ended December 2020.
- The recovery was led by an increase in demand from European and North American markets.
- Going ahead, demand from Europe remains a key monitorable owing to re-imposition of restrictions in the wake of second wave of COVID-19
- With easing of pandemic situation & improvement in global production, export demand expected to recover in fiscal 2022

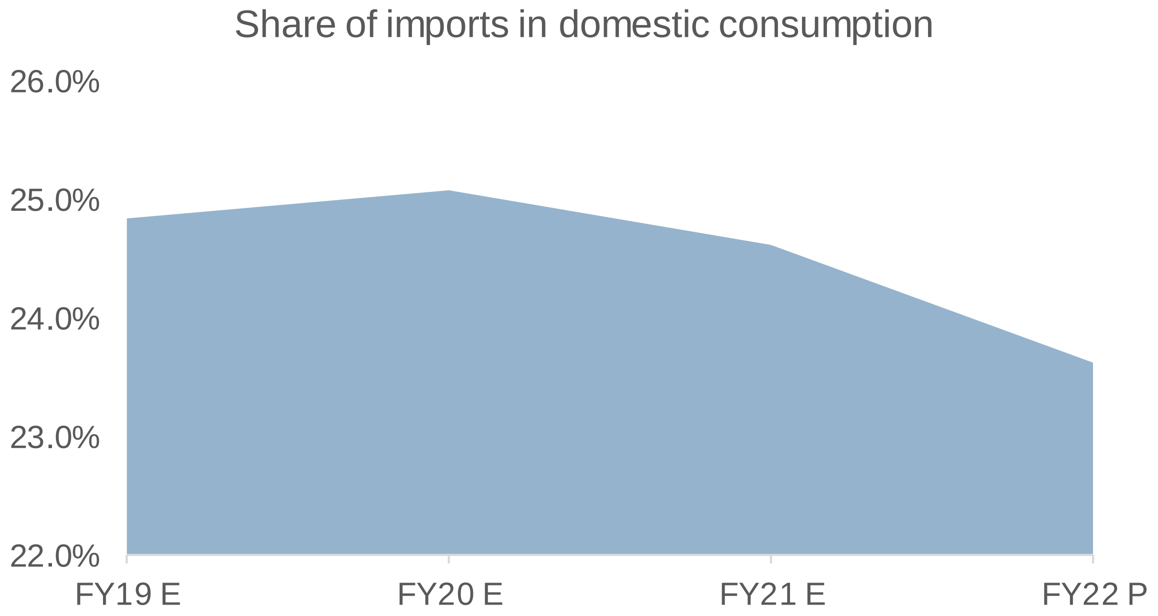
Slowdown in domestic demand dragged import levels further down in FY21, some recovery in domestic demand to back imports in FY22

Partial recovery in FY22 after a consecutive drop



Source – DGFT, CRISIL Research

Localisation pulling the import share down

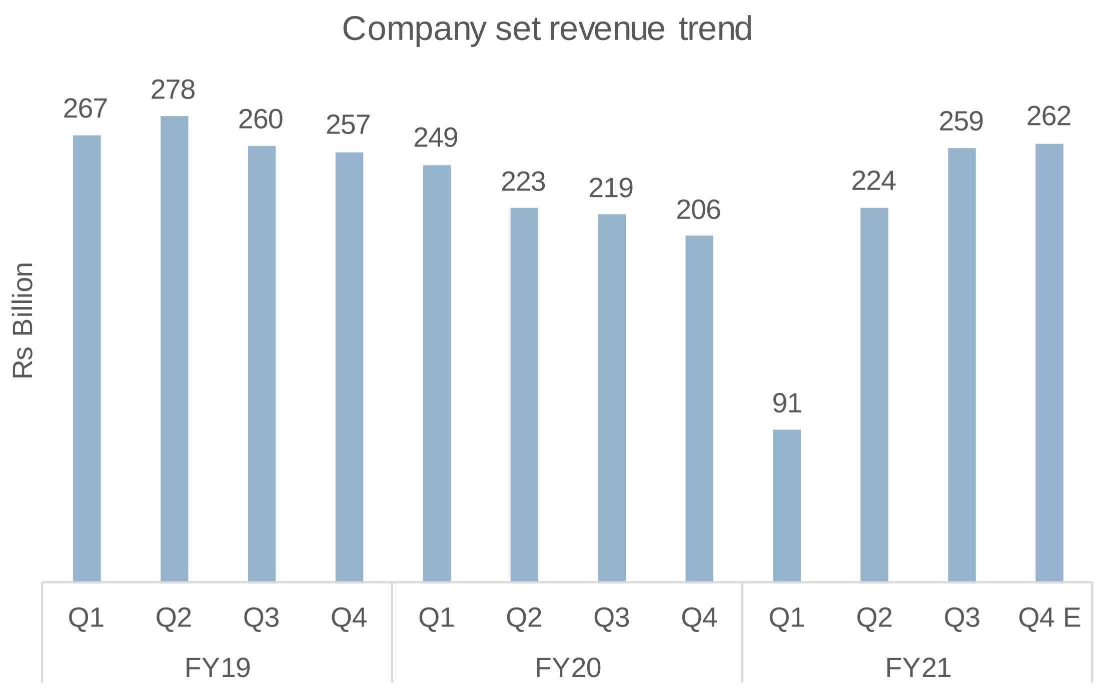


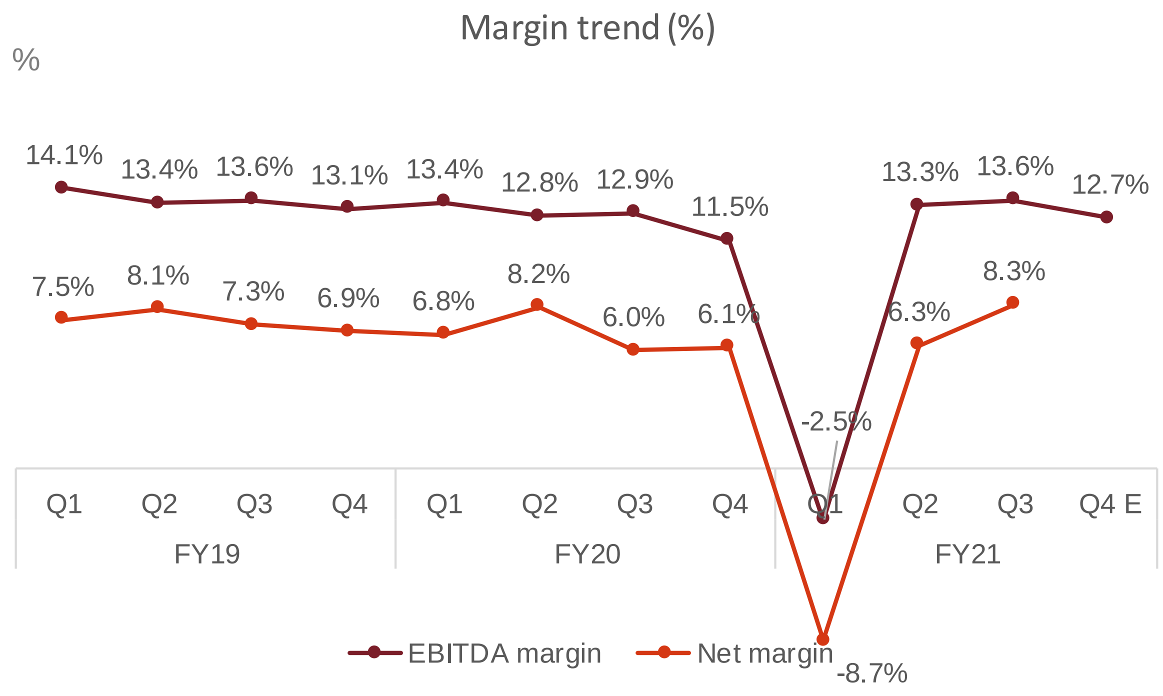
Source: DGFT, CRISIL Research

- India imports mainly from China, Korea, Germany, Japan and the USA
- Imports declined 35% on year during H1 FY21. However, with improved demand from domestic OEMs and aftermarket, imports recouped during Q3 FY21 and grew by 17% on year.
- In fiscal 2021, imports are expected to have declined by 9% owing to subdued demand from OEMs and aftermarket.
- In fiscal 2022, imports to recover from the low base with some improvement in auto demand, impact of pandemic remains a key monitorable.

Company financials estimated to have returned to pre Covid levels in Q4 FY21, pressure on margins increases

Revenue bounces back in the second half of FY21





Source: Company financials, CRISIL Research

- With improvement in production, revenue of the auto component companies is expected to have risen further in Q4
- Operating margins are expected to have contracted amidst the continued increase in raw material prices
- Portion of the rise in raw material prices is expected to be passed on the end customer

Thank You

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