Impact of macro-economic environment on the automotive industry

Automotive Component Manufacturers Association of India

October 2023

Market Intelligence & Analytics

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Content

Global scenario

Faster growth in CY2023 and pace to taper during CY2024

GDP growth forecasts

(%)	Latest forecast 2023	2024	2025	2026	Change from previous forecast 2023	2024	2025	2026
U.S.	2.3	1.3	1.4	1.8	0.5	0.0	-0.1	-0.1
Europe								
Eurozone	0.6	0.9	1.5	1.5	0.0	0.0	-0.1	-0.1
Germany	-0.2	0.6	1.4	1.4	0.0	-0.2	-0.2	-0.3
France	0.8	0.9	1.5	1.4	0.1	-0.1	0.0	0.0
Italy	0.9	0.7	1.2	1.4	-0.2	0.1	-0.1	0.1
Spain	2.1	1.6	2.2	2.2	0.5	0.3	-0.1	0.0
U.K.	0.3	0.5	1.5	1.6	0.3	-0.3	-0.1	-0.1
Asia-Pacific								
China	4.8	4.4	5	4.5	-0.4	-0.3	0.3	0.0
Japan	1.8	1	1	0.9	0.6	-0.1	0.0	0.0
India*	6	6.9	6.9	7	0.0	0.0	0.0	-0.1
Other emerging economies								
Mexico	3	1.7	2	2.1	1.2	0.1	-0.1	0.1
Brazil	2.9	1.2	1.8	2	1.2	-0.3	-0.1	0.1
South Africa	0.8	1.7	1.7	1.7	0.2	-0.1	0.0	-0.6
World	3.1	2.8	3.3	3.3	0.2	-0.2	0.0	0.0

*Fiscal year, beginning April 1 in the reference calendar year. Sources: S&P Global Market Intelligence and S&P Global Ratings.

- **US:**
  - Economy poised to slow down after stronger than expected growth witnessed during the year
  - Interest rates near peak, another hike expected
  - Monetary stance to remain tight
- **EU**
  - Pronounced downturn in the labor market could push the eurozone economy into a recession.
  - High energy prices keeping the trade surplus lower than before
  - Key rates may have peaked, but the plateau could be lengthy.
- **APAC**
  - China will continue to contain its macroeconomic stimulus following a property-driven downturn.
  - Cutdown in China growth forecasts
  - Weaker global trade and higher interest rates exerting pressure on rest of the region
  - Rising food and oil prices to keep interest rates high

India landscape

Macroeconomic indicators pointing towards a year of stable growth ahead for India

Macro Indicators	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25P
GDP growth (%)	7.4	8.0	8.3	6.8	6.5	3.7	(5.8)	9.1	7.2	6.0	6.9
CAD (as a % of GDP)	(1.3)	(1.1)	(0.7)	(1.8)	(2.1)	(0.9)	0.9	(1.2)	(2.0)	(1.8)	-
10-year G-sec yield (%)	7.7	7.5	6.8	7.6	7.5	6.2	6.2	6.8	7.4	7.0	-
PFCE growth (%)	6.4	7.9	8.1	6.2	7.1	5.2	(6.0)	7.6	7.5	6.2	6.9
Crude oil ($/barrel/CY)	99.0	52.0	44.0	54.5	71.0	64.0	42.3	70.4	99.8	80-85	75-80
Inflation (CPI)	5.9	4.9	4.5	3.6	3.4	4.8	6.2	5.5	6.8	5.5	-

P: Projected; CY: Calendar year; PFCE: Private final consumption expenditure
Note: Crude oil prices are for CY, upward revision possible amid OPEC supply cuts
Source: Central Statistics Office, Reserve Bank of India and CRISIL MI&A estimates

High frequency parameters seeing sequential improvement

Segments	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Core Sectors																		
Coal	29%	25%	31%	11%	8%	12%	4%	12%	12%	13%	9%	12%	9%	7%	10%	15%	18%	
Crude Oil	-1%	5%	-2%	-4%	-3%	-2%	-2%	-1%	-1%	-1%	-5%	-3%	-4%	-2%	-1%	2%	2%	
Natural Gas	6%	7%	1%	0%	-1%	-2%	-4%	-1%	3%	5%	3%	3%	-3%	0%	4%	9%	10%	
Petroleum Refinery Products	9%	17%	15%	6%	7%	7%	-3%	-9%	4%	5%	3%	2%	-2%	3%	5%	4%	10%	
Fertilizers	9%	23%	8%	6%	12%	12%	5%	6%	7%	18%	22%	10%	24%	10%	3%	3%	2%	
Steel	-1%	15%	3%	6%	2%	7%	4%	11%	9%	6%	7%	9%	12%	9%	22%	14%	11%	
Cement	8%	26%	19%	2%	2%	12%	-4%	29%	9%	5%	7%	-1%	12%	16%	9%	7%	19%	
Electricity	11%	22%	16%	2%	1%	11%	0%	12%	10%	12%	8%	-2%	-1%	0%	3%	7%	14%	
Auto-offtake																		
Two Wheelers	15%	250%	23%	10%	16%	14%	2%	16%	4%	5%	8%	9%	15%	17%	2%	-7%	1%	1%
Cars+UVs	-4%	185%	19%	11%	21%	91%	29%	31%	8%	17%	11%	4%	13%	14%	2%	3%	9%	2%
Three Wheelers	51%	2162%	184%	73%	65%	73%	69%	102%	34%	102%	85%	59%	101%	70%	112%	83%	70%	47%
Auto-Vaahan																		
2W	56%	238%	34%	2%	23%	20%	76%	31%	-1%	10%	15%	13%	-7%	10%	7%	8%	6%	22%
Cars+UVs	31%	219%	46%	0%	12%	16%	51%	23%	12%	24%	13%	16%	0%	6%	6%	4%	8%	17%
Others																		
PMI Manufacturing	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5
IIP Overall	7%	20%	12%	2%	-1%	3%	-4%	7%	4%	5%	6%	2%	4%	5%	4%	6%	10%	
Diesel consumption	8%	32%	24%	8%	13%	14%	6%	19%	7%	13%	8%	1%	9%	13%	3%	4%	5%	4%
Rail freight (NTKM)	21%	19%	18%	18%	13%	10%	1%	4%	6%	6%	5%	3%	-1%	-2%	-8%	-4%	2%	4%
Bitumen consumption	-2%	12%	21%	-22%	1%	-9%	-11%	54%	-7%	-14%	-1%	13%	10%	18%	9%	56%	75%	45%

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Source: CSO, RBI and CRISIL estimates
Note - (based on MOSPI classification)*

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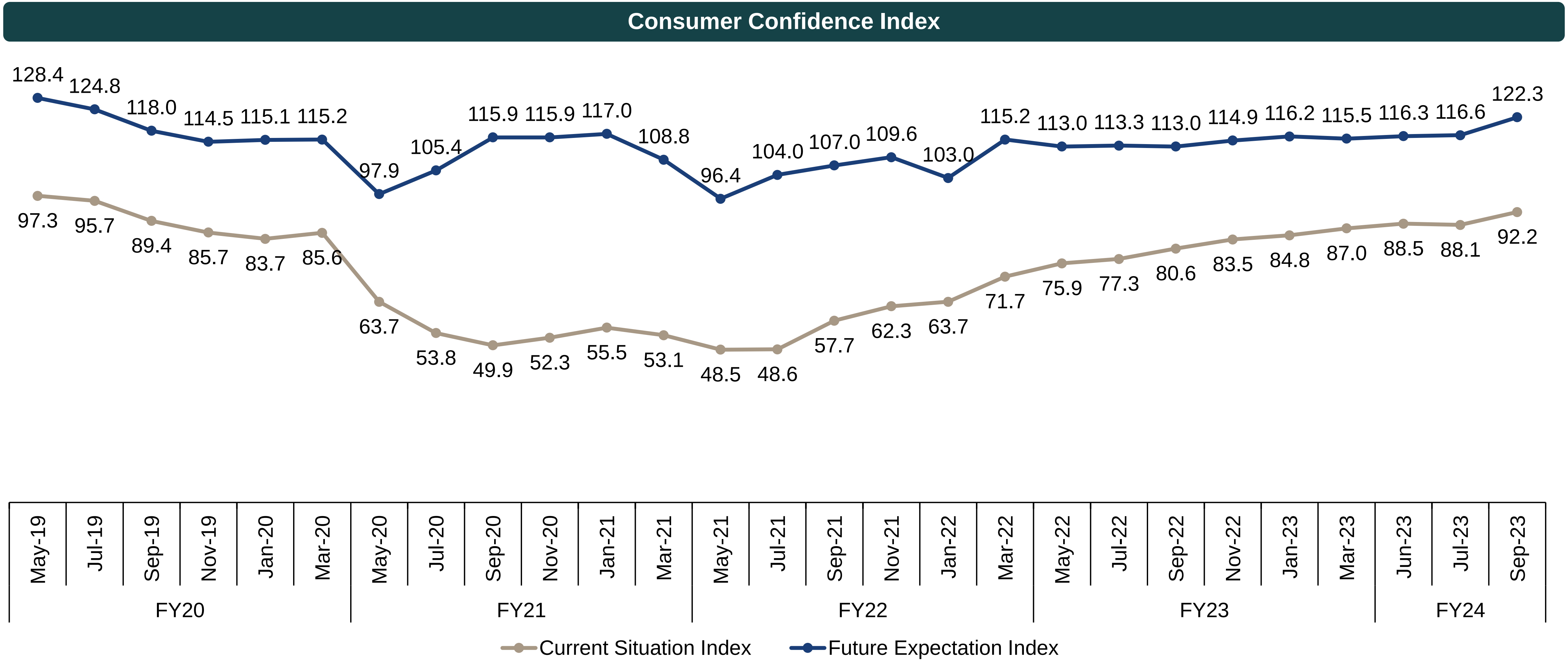
Improvement in current situation index as well as future expectation index

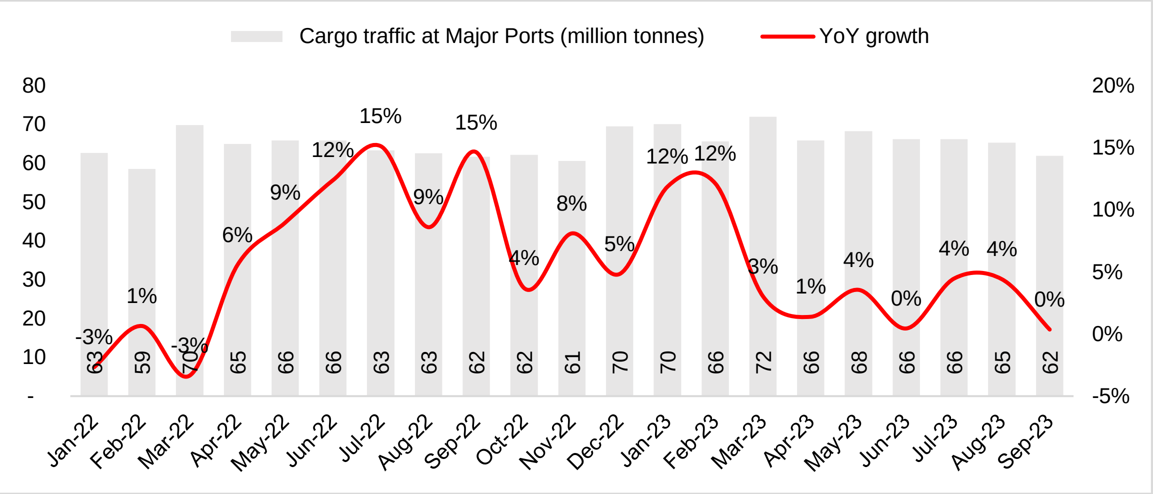


Source: CRISIL MI&A, RBI, NCAER

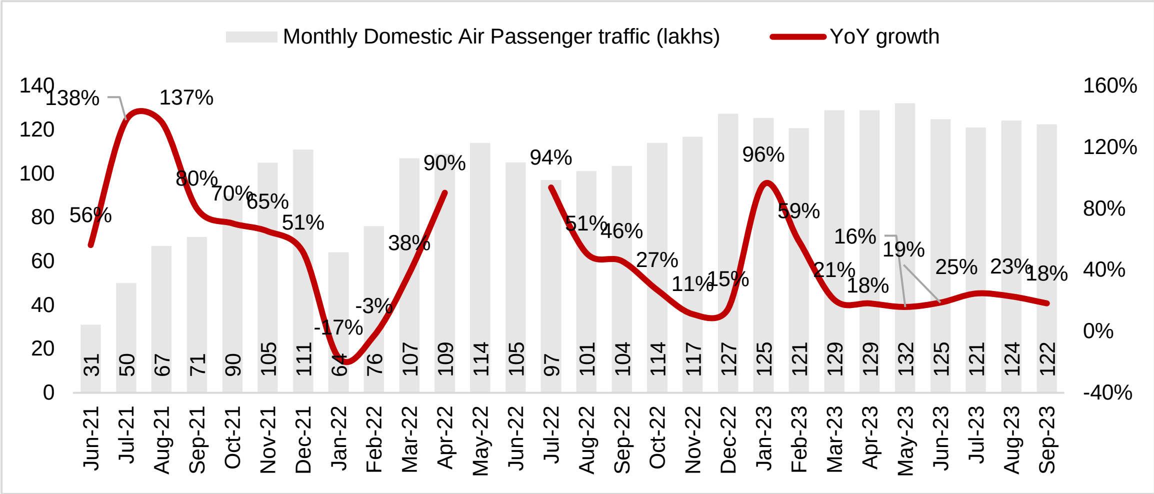
Mobility & Auto industry

Overall mobility

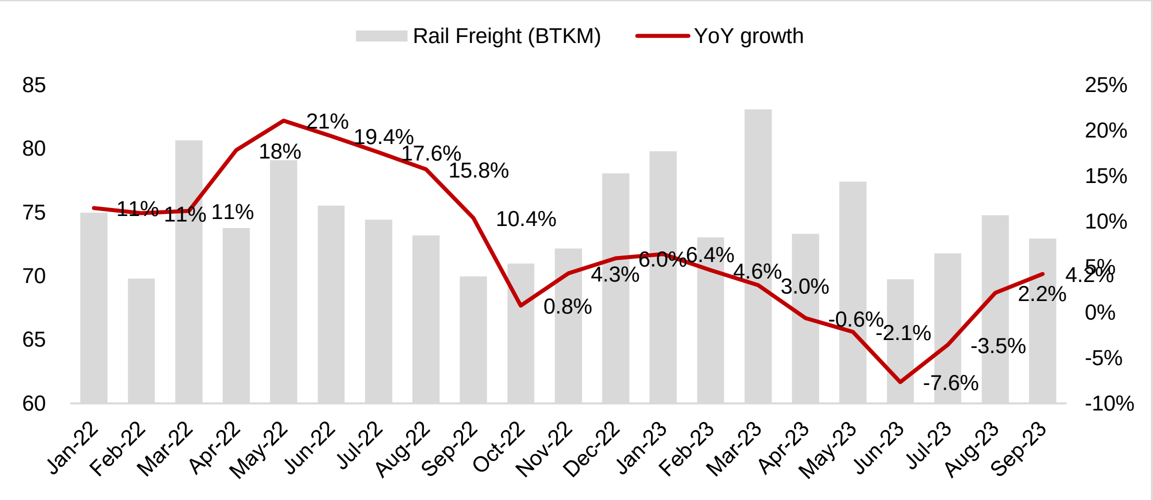
Port Traffic



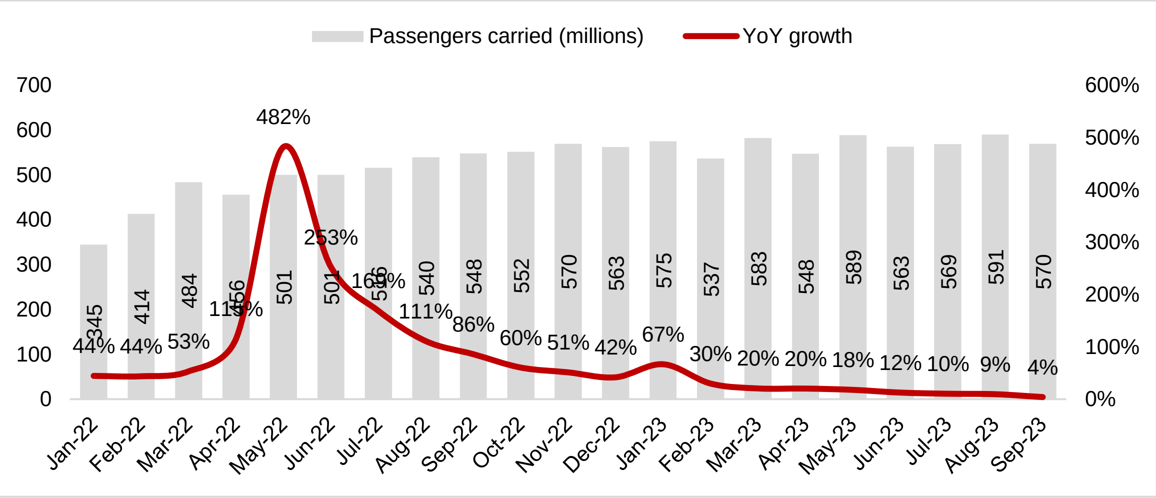
Air traffic domestic



Rail Cargo



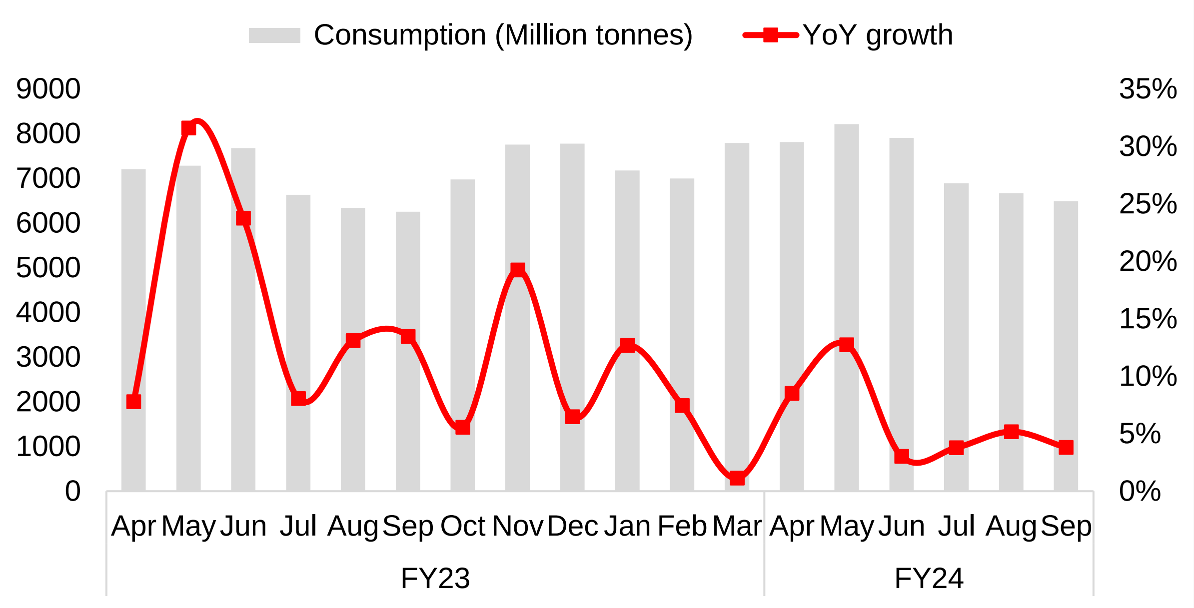
Rail Passenger



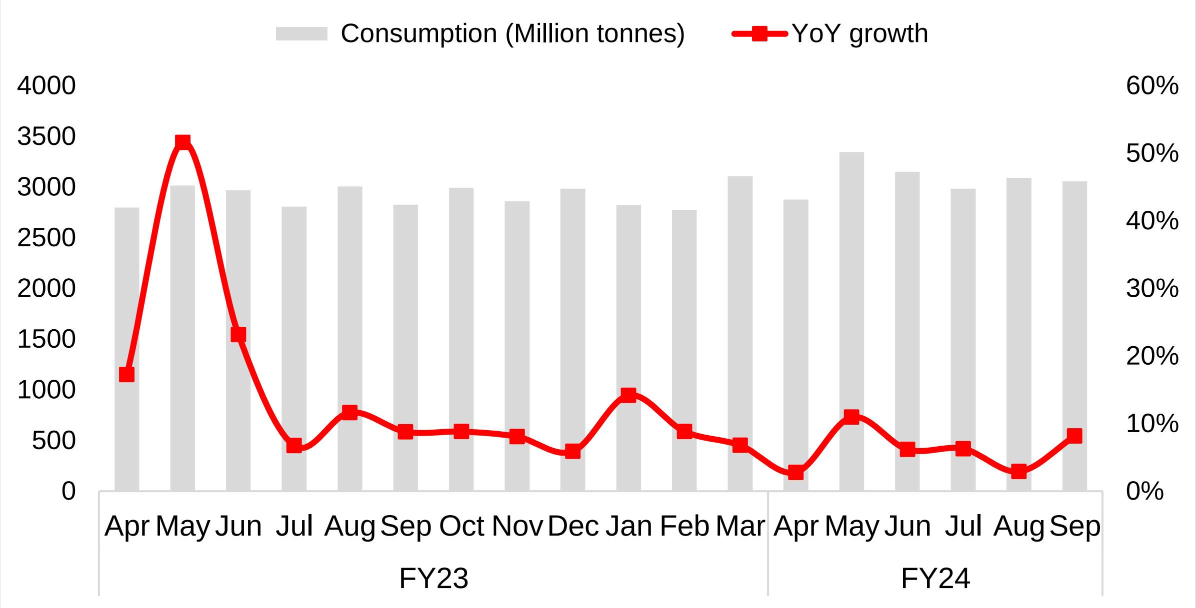
Source: IPA,DGCA, Indian Railways, PPAC,NPCI,RBI, CRISIL MI&A Consulting

Fuel consumption trend

Diesel consumption



Petrol consumption



- Diesel consumption increased at a tapered pace of 3.8% in September 2023 on YoY basis while Petrol consumption saw a faster growth 8.2% during the same period.

Hi-Frequency indicators
How are they shaping?

Mobility indicators and Vaccination progress

Mobility Indicators in first half of October month indicate that most segments such as grocery and pharmacy, parks, retail and recreation and transit stations showing mixed trends

Fuel and Power consumption

- Power consumption witnessed an 10.3% year on year growth in September 2023. Diesel consumption witnessed a tapered growth of 3.8% in September 2023 on YoY basis while Petrol consumption saw a faster growth 8.2% during the same period.

Freight movement & Transporter Profitability

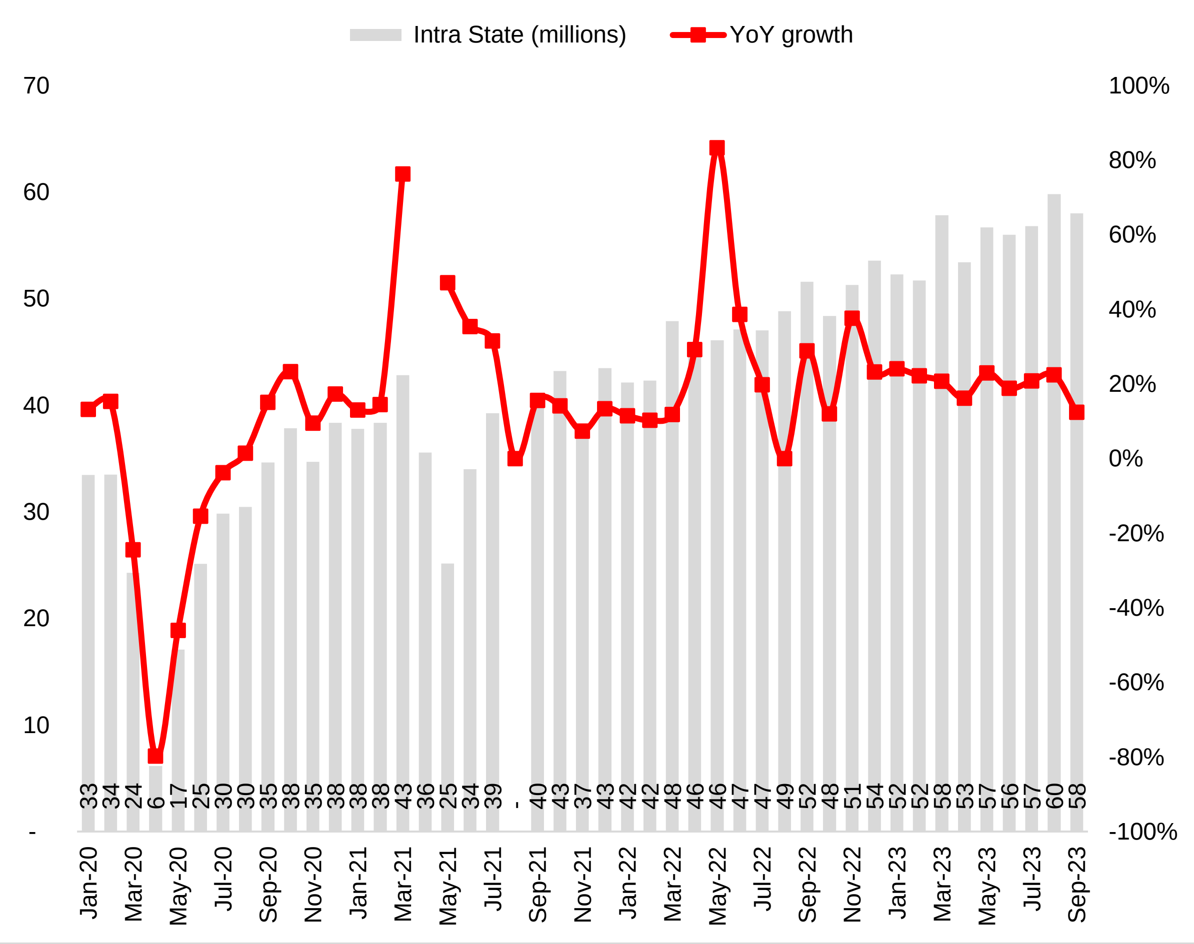
- E-waybill generation has been at daily average of 1.93mn in September 2023 compared to August 2023 daily average of 1.93mn for intra-city
- While for inter-city the same has been about daily average of 1.13mn in September 2023 compared with daily average of 1.1mn in August 2023

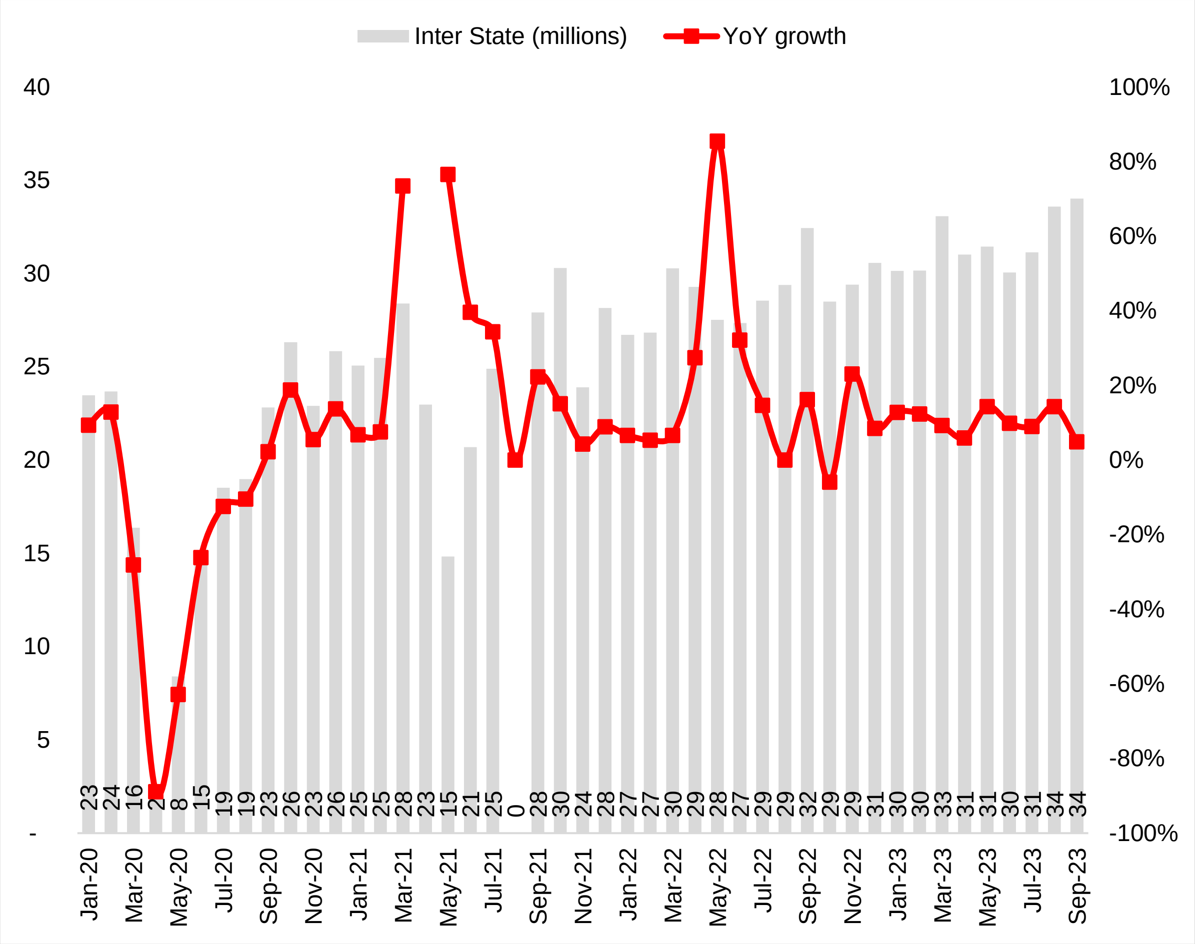
STU Tendering Tracker

Interactions indicate STU tenders from states like Delhi, Maharashtra, Karnataka, Uttar Pradesh, Tamil Nadu, Telangana, can see delivery spread over the next 12 months

E-waybill trend

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

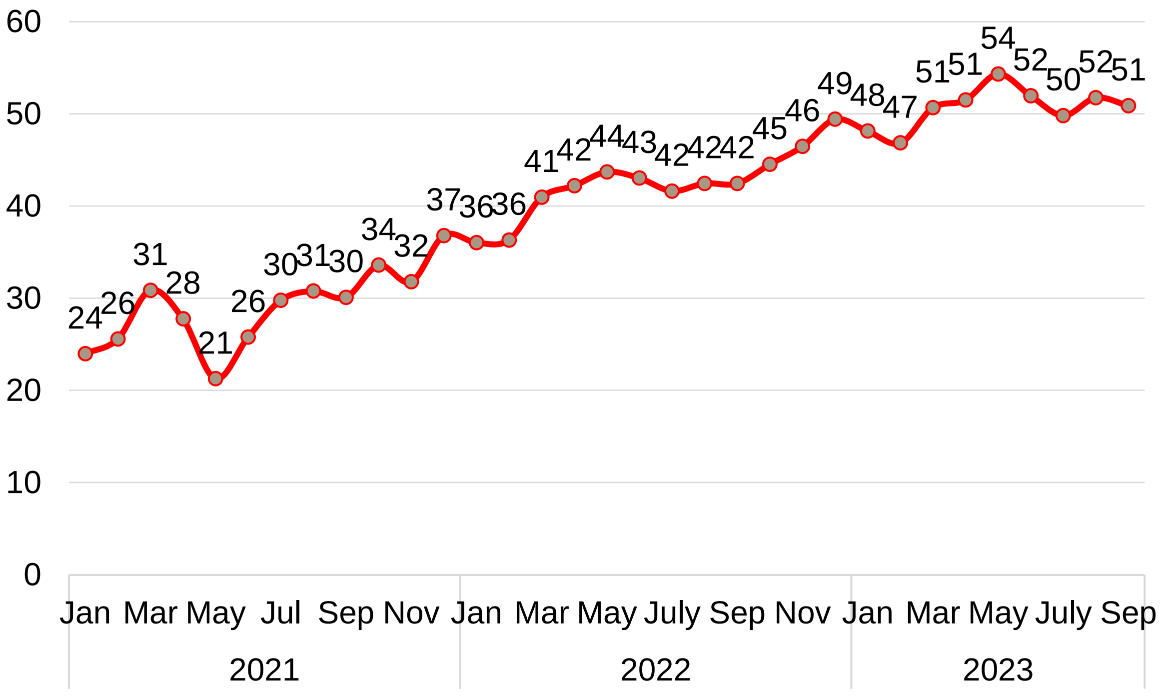




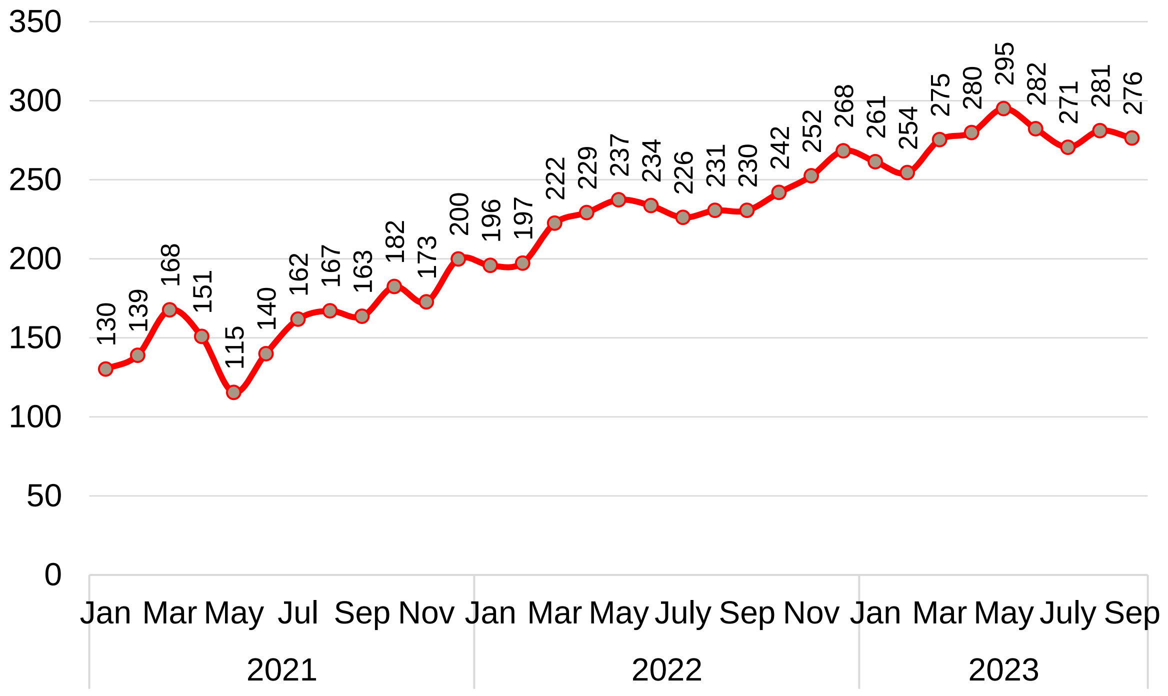
Note:
1. y-o-y growth not mentioned in Apr-21 as values are not meaningful due to low base effect of previous year caused by the nationwide lockdown. 2.Agri, last mile distribution and market load operations do not come under ambit of E-way bill hence the E-way bills mentioned here may not represent the entire movement of goods in the country
3. Source: GST Network, CRISIL MI&A Consulting

NETC Fastag collection for September at about ₹51 billion

Fastag collections (INR billion)

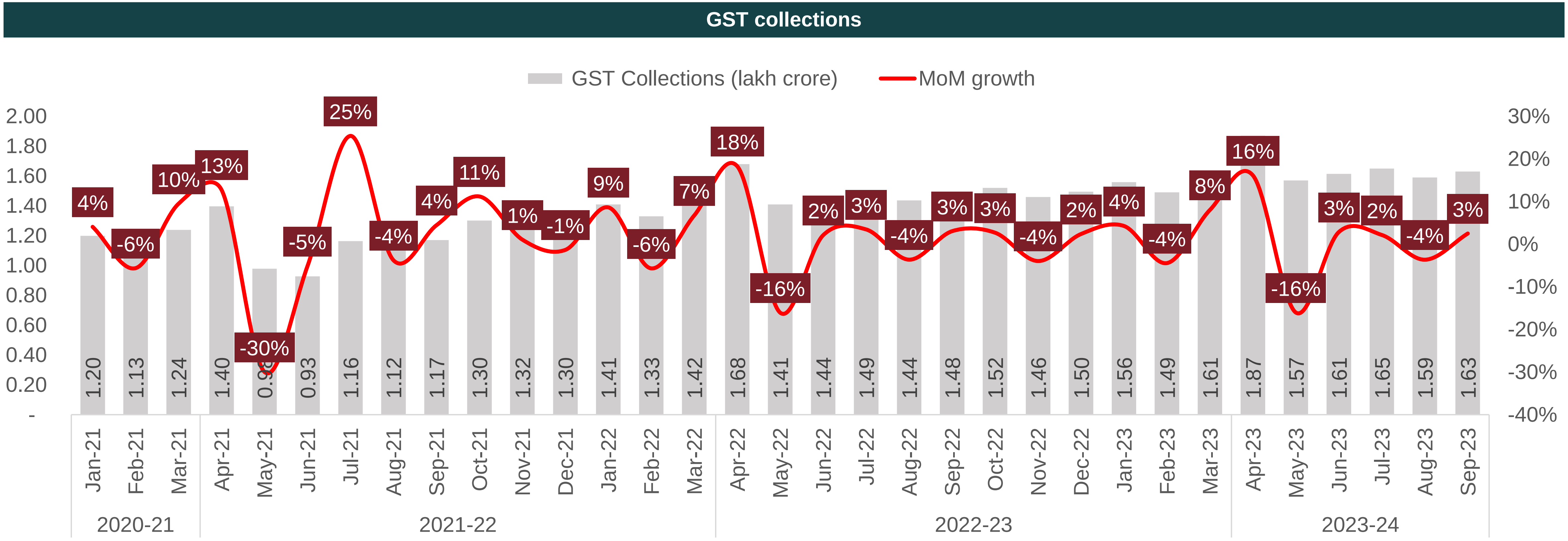


Fastag trend (Feb 2020 level = 100)



- Fastag recorded an index of 276 in September 2023.

GST collections rebound and rise 3% sequentially in September



- September GST collection at ₹1.63 lakh crore is 10% higher than the GST revenue in the same month last year, which was ₹1.48 lakh crore

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Source: GST Network, NPCI, CRISIL MI&A Consulting

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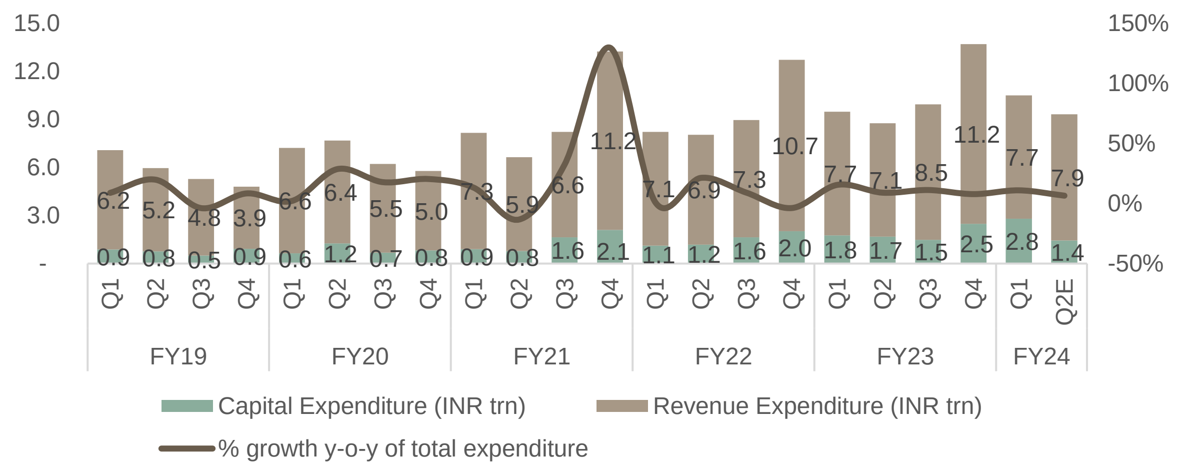
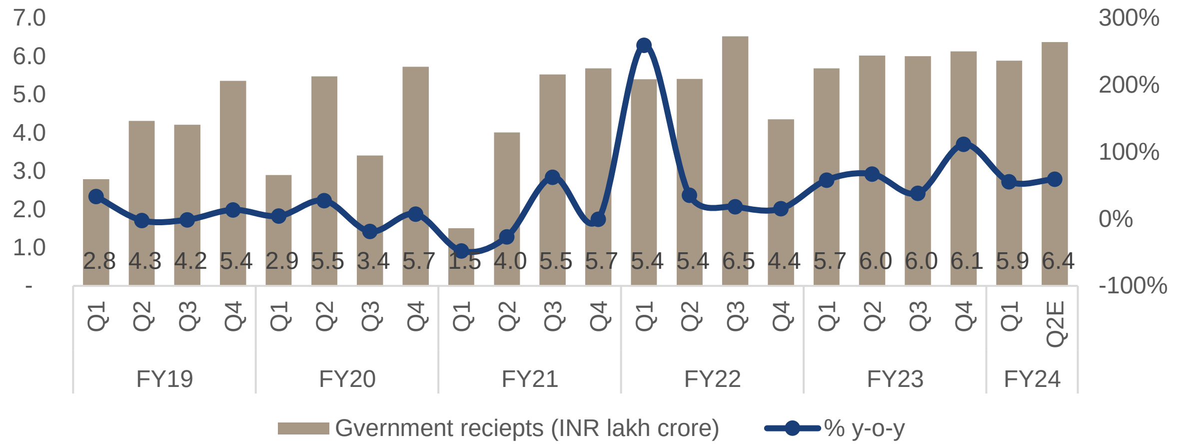
Central government finances in a relatively healthier position in Q2FY24 compared to last year

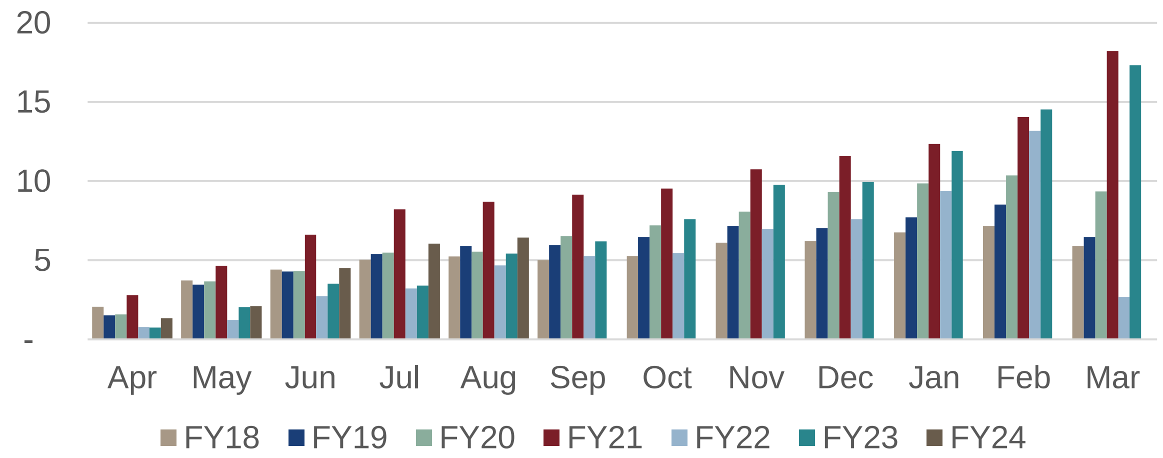
Government expenditure better in Q4FY23 than Q3FY23



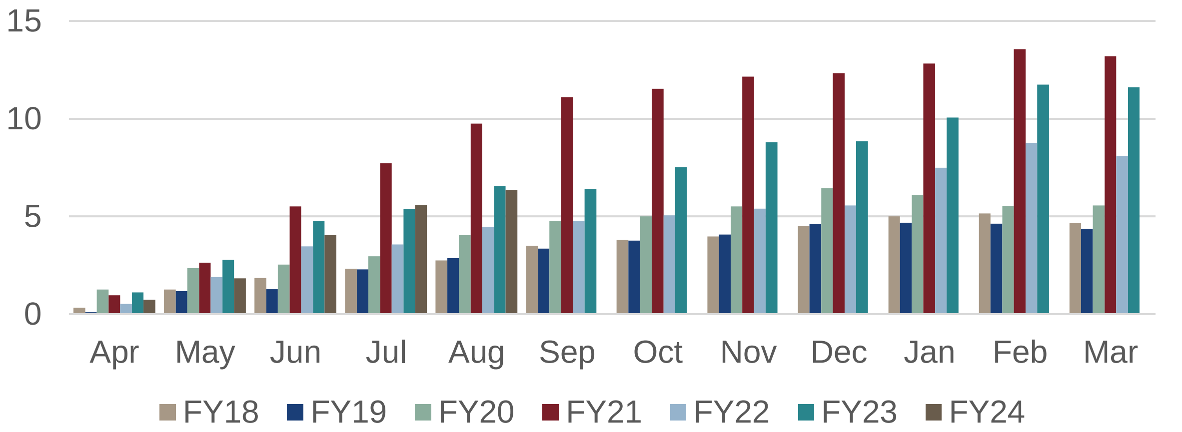
Receipts in Q4FY23 improve



m-o-m build up of cumulative fiscal deficit in value terms (INR trillion)



m-o-m build-up of cumulative market borrowings of the govt. (INR trillion)



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Note : exp and receipts data for Q2 extrapolated based on 2 months data
Source: RBI, CONTROLLER GENERAL OF ACCOUNTS, MINISTRY OF FINANCE , CRISIL MI&A Consulting

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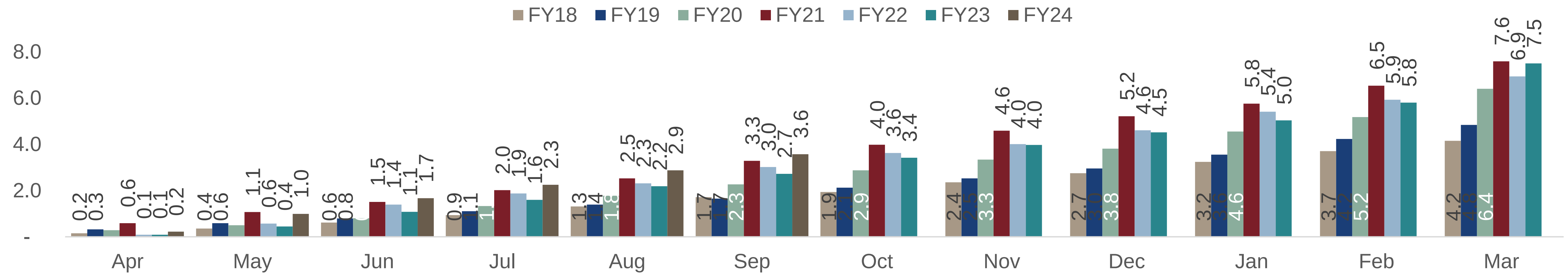
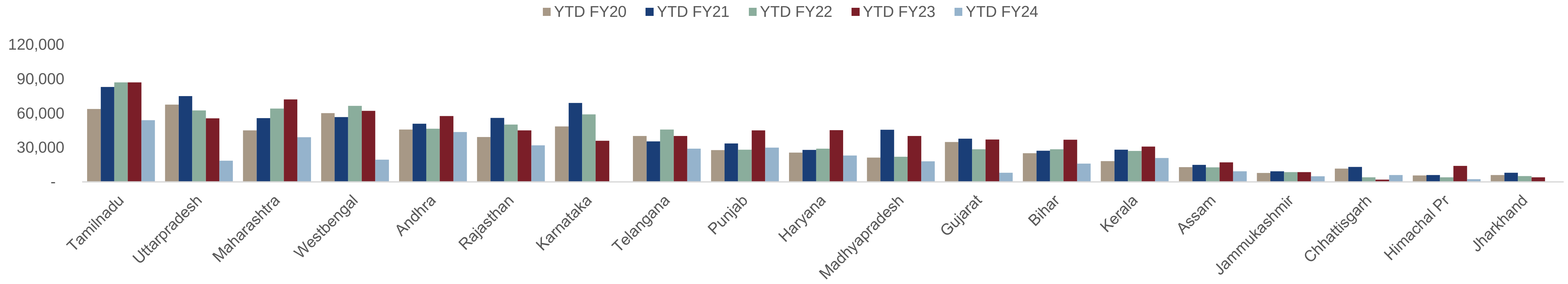
State government borrowings better than last year

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



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



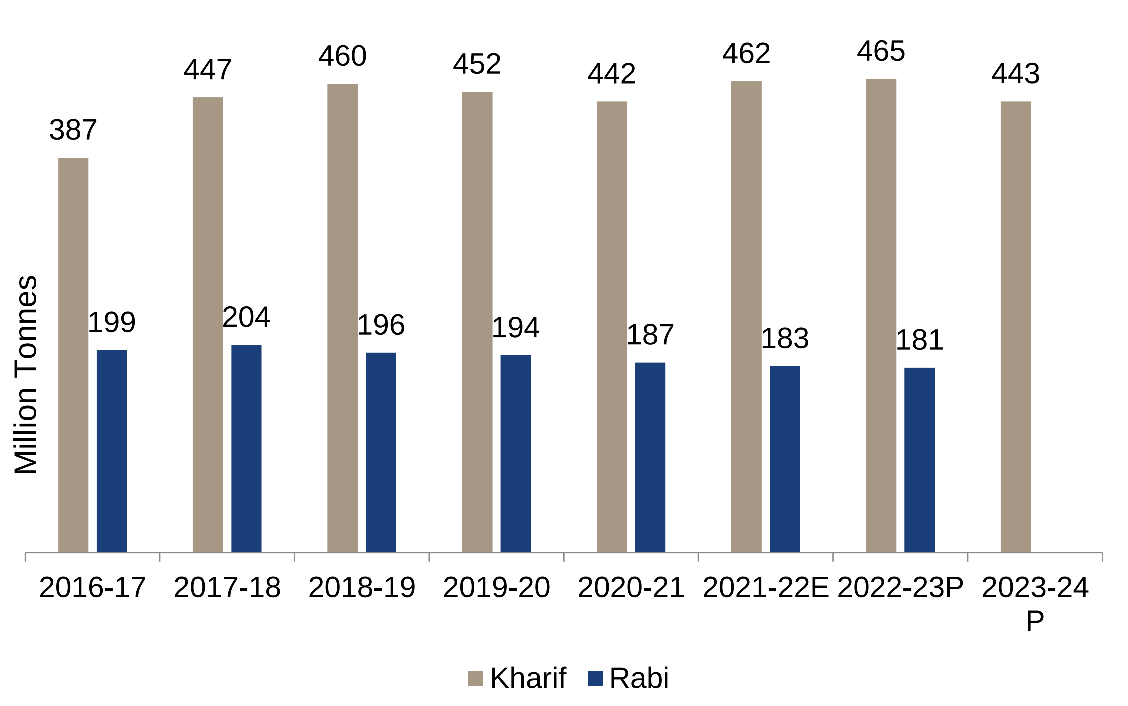
Note: YTD : H1

Source: RBI, MINISTRY OF FINANCE , CRISIL MI&A Consulting

Rural Scenario

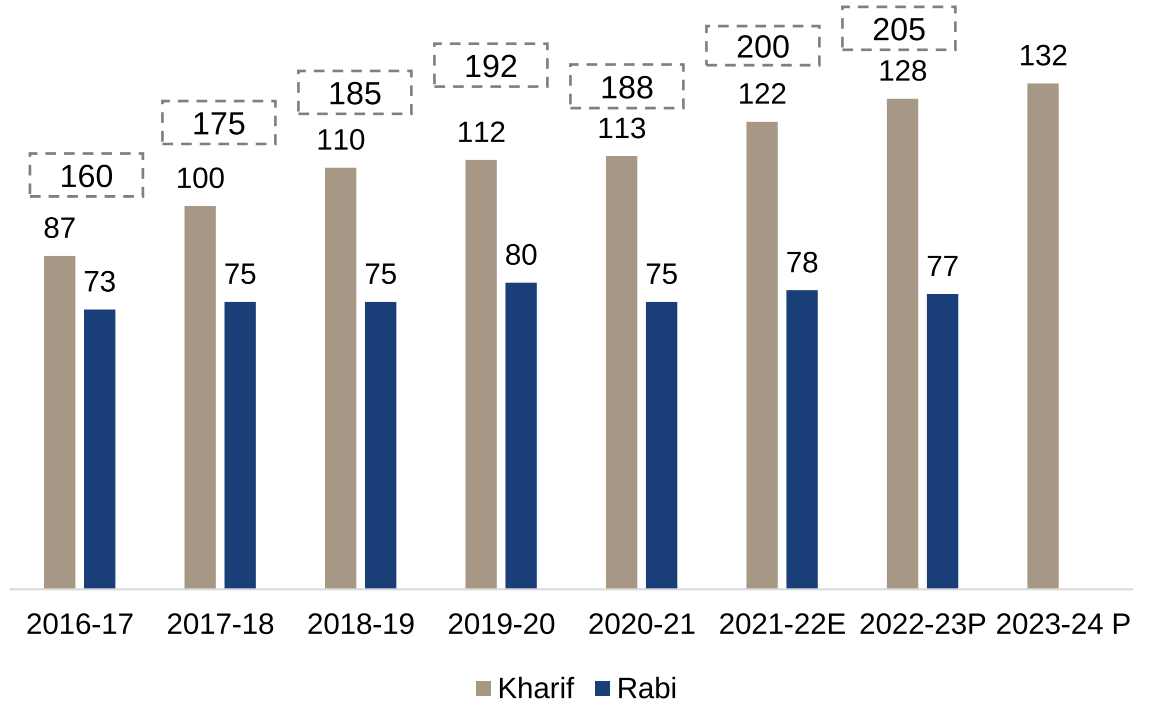
Uneven rainfall spread expected to impact kharif production; crop prices to support farm income

Food-grain Crop Production



Source: CRISIL MI&A

Food-grain CVI (Crop Value Index)



Total CVI

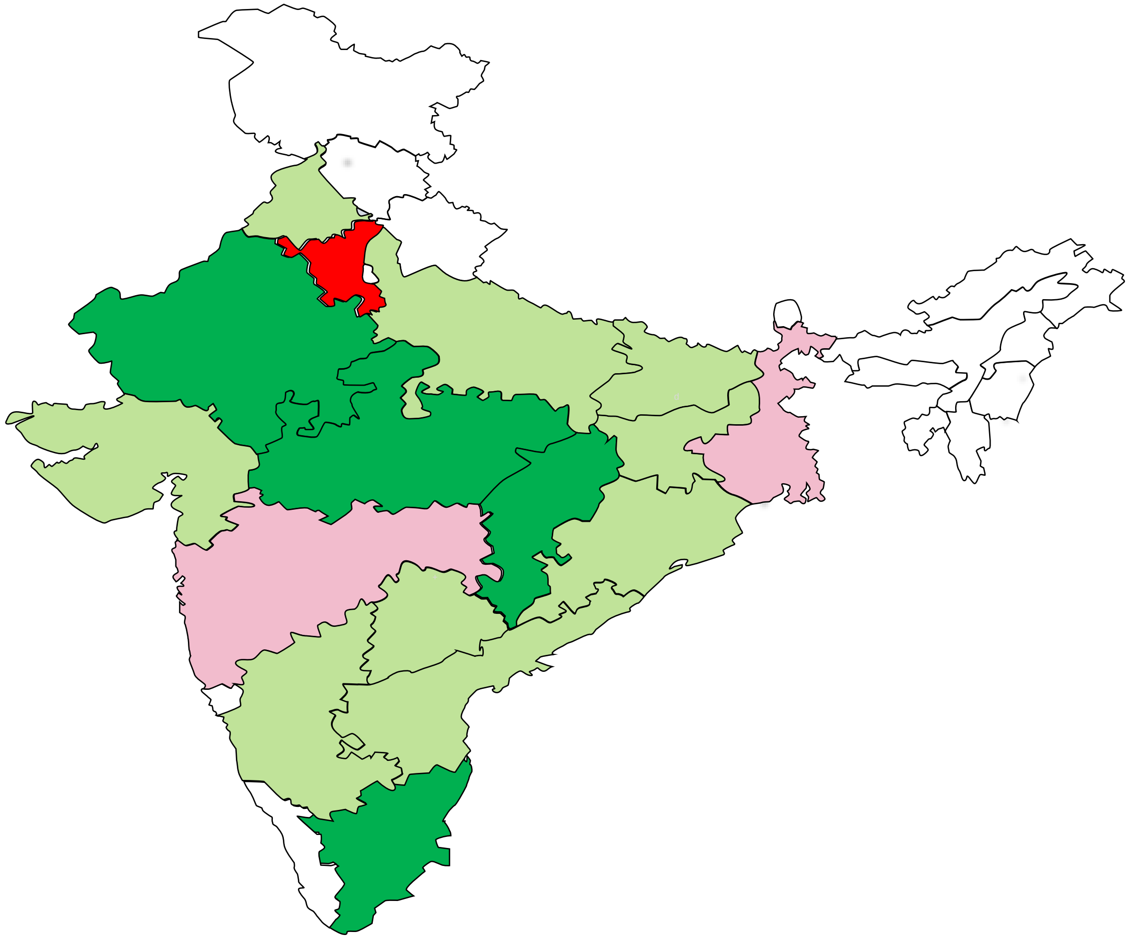
Source: CRISIL MI&A;
Note: CVI- Crop value index, CVI has been indexed to 100 at 2011-12

Kharif production is expected to be 3-5% lower on-year on account of uneven rainfall spread across the country.

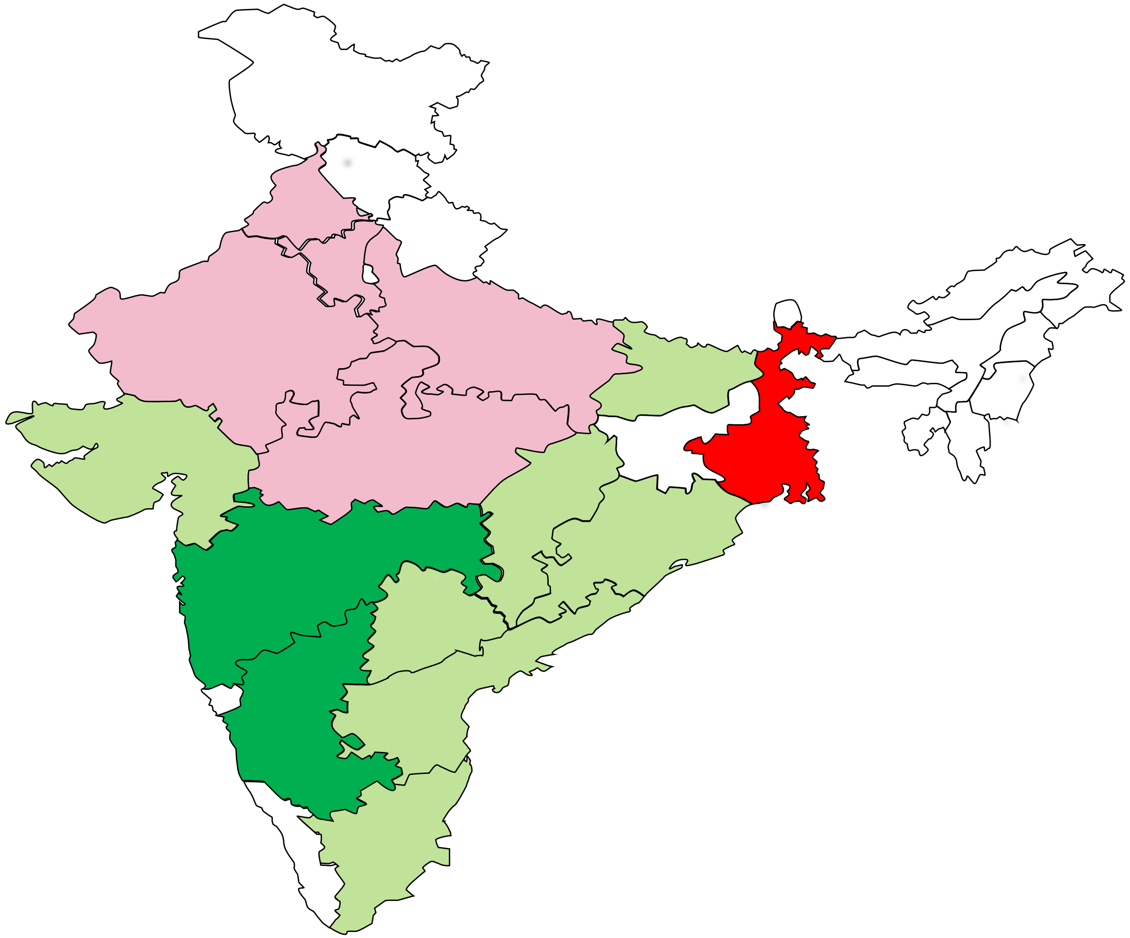
Higher MSP allocation for FY24 and good prices in mandis has maintained the positivity on-ground

State-wise farm income expectation

Kharif CVI heat Map for FY24



Rabi CVI heat Map for FY23



Source: CRISIL MI&A

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Colours indicate % change on-year

>10% | 0-10% | (10)%-0% | <(10)% | No data

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Kharif production loss, shift in govt focus from transfers to investment

Agri scenario lends support in Q2

Crop scenario

- Rabi CVI dipped slightly in FY23 amidst the unseasonal rainfall which had led to crop damage & decline in quality of standing crop
- Rabi cashflow positive during Q1 FY24
- Kharif production to be impacted, rural incomes to remain rangebound
- Rabi production expected to be healthy with sufficient reservoir levels
- Rural scenario to remain positive

Rural schemes

- For FY24,allocated expenditure for MGNREGA has been cut by 33% to Rs.60,000 cr.
- It is one of the lowest allocations to the scheme in the last 5 years
- However, substantial increase in allocation for Pradhan Mantri Awaas Yojana – Gramin (PMAY-G) scheme for FY24 at Rs 54,487 crore from the Rs 20,000 crore BE (Rs 48K crore RE).
- The budgetary allocation for the Pradhan Mantri Gramin Sadak Yojana has been retained at Rs 19,000 crore, the same as FY23.

Government support

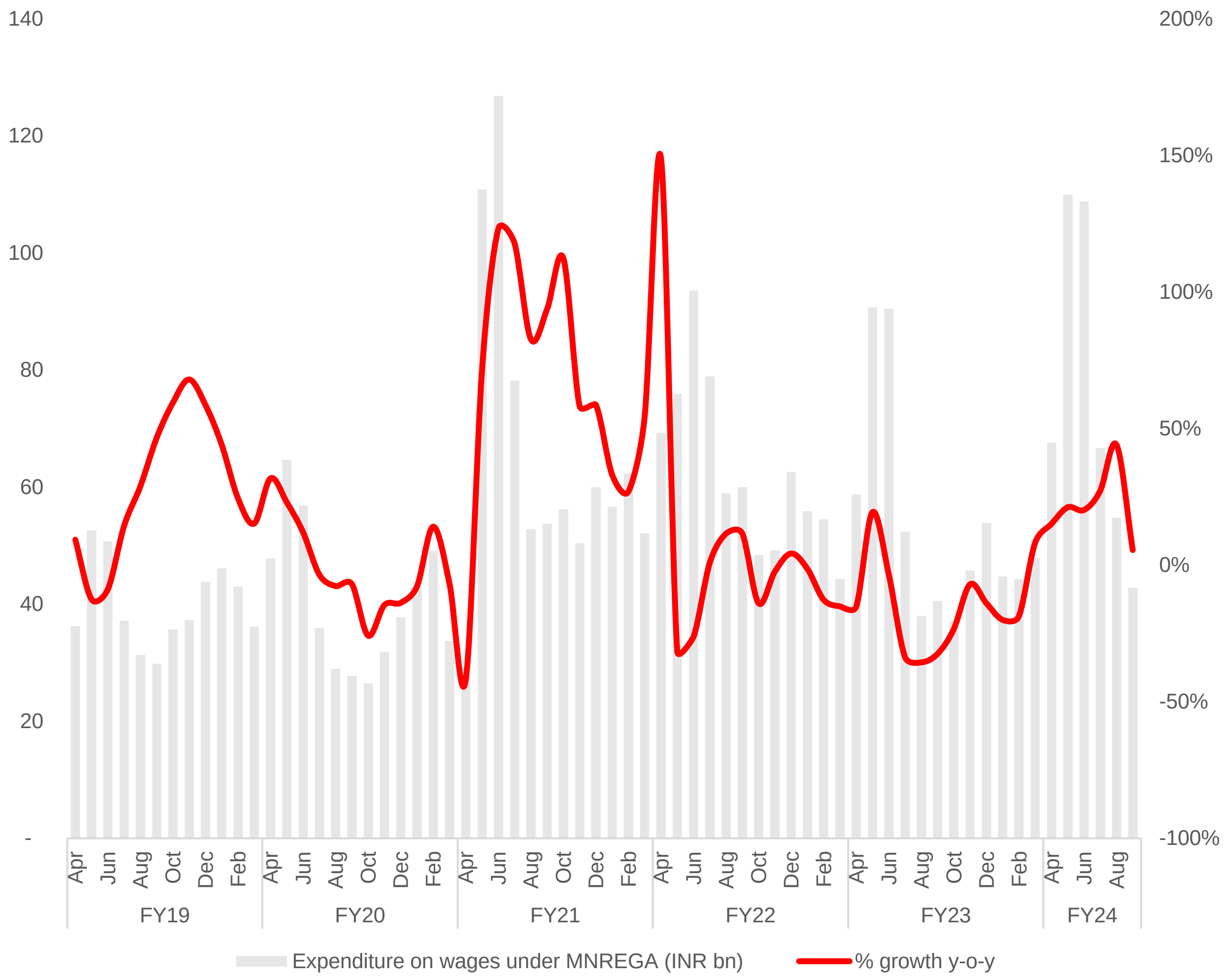
PM Garib Kalyan Yojana

- The Cabinet approved new integrated food security scheme Pradhan Mantri Garib Kalyan Ann Yojana (PMGKAY). for providing free foodgrains to Antodaya Ann Yojna (AAY) & Primary Household (PHH) beneficiaries,
- Free foodgrains will be provided under PMGKAY for the year 2023 to all PHH and AAY beneficiaries (around 80 crore poor people)

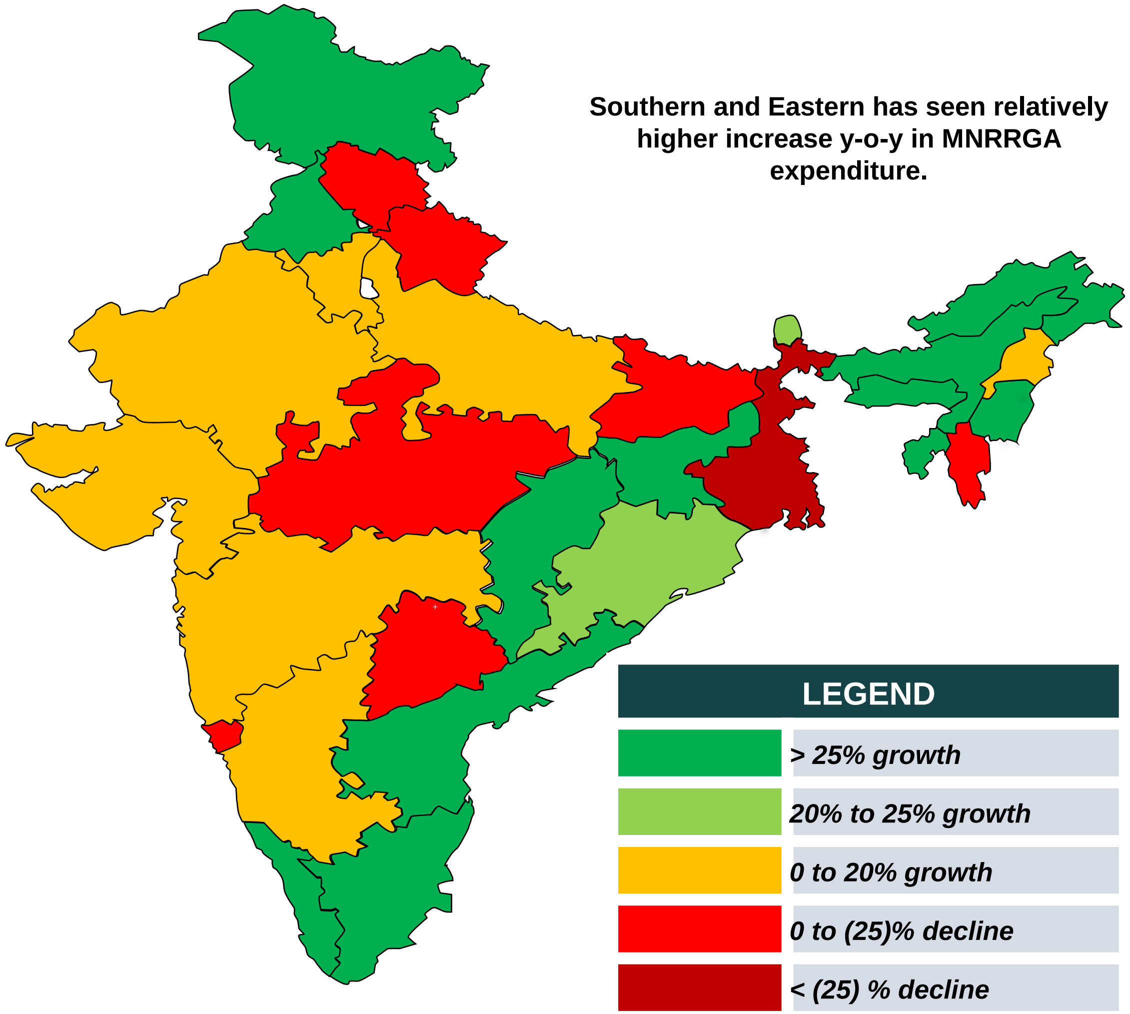
Source - Industry, CRISIL MI&A

MNREGA scheme expenditure shows improvement in H1 FY24

MNREGA wages growth



State wise growth in MNREGA wages expenditure for H1 FY24



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Source: Budget documents, Ministry of Rural development, CRISIL MI&A Consulting

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National Infrastructure pipeline

Roads & highways , real estate and railways investments dominate the investments outlined in the NIP; completion picks up pace

Pre-construction & planning

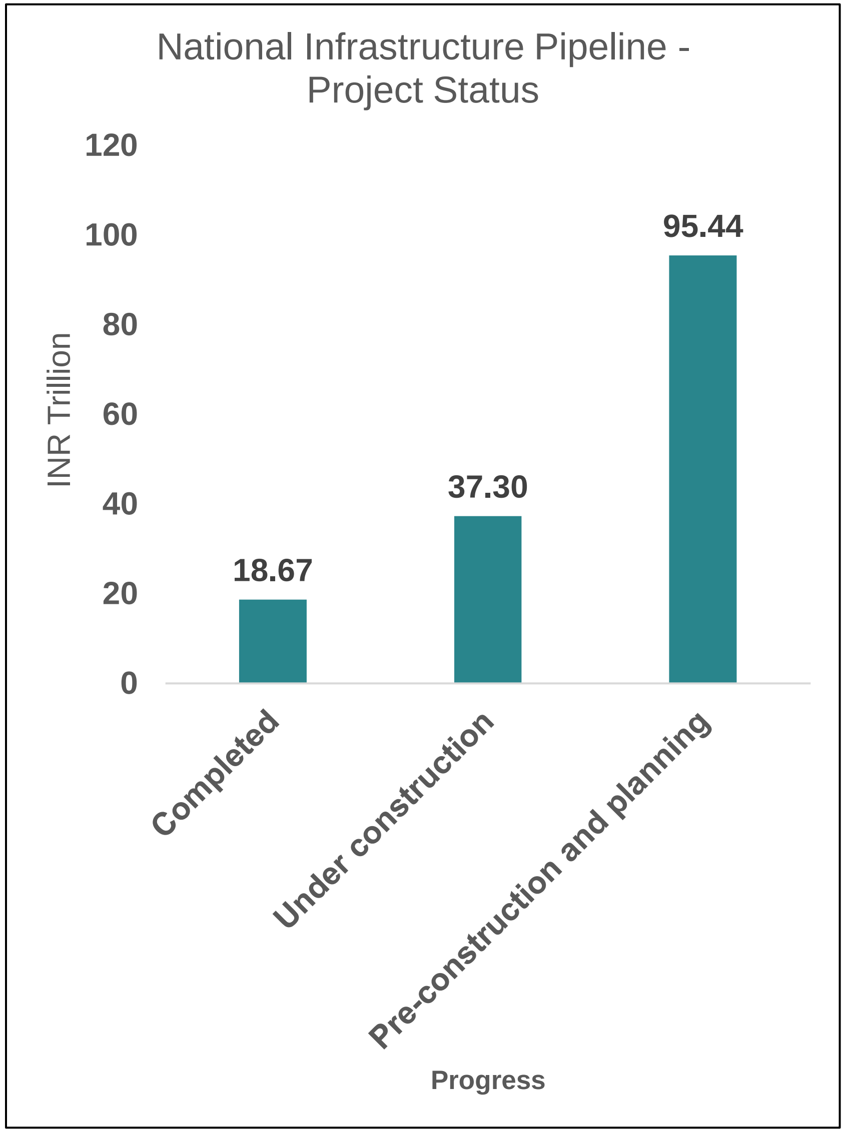
Sectors	Amt (INR Trillion)
Roads and Highways	18.98
Waste and water	5.76
Railways	15.10
Real Estate	8.79
Water Resources	10.38
Education	1.59
Electricity Generation	8.38
Healthcare	1.67
Transmission & Distribution	4.30
Urban Public Transport	5.84
Aviation & Aviation Infrastructure	1.12
Sports	0.12
Oil & Gas	2.58
Shipping	0.36
Tourism Hospitality & Wellness	0.22
Storage	2.59
Oil & gas (Refining; Exploration and production)	4.92
Food processing and agriculture	0.14
Logistics Infrastructure	0.12
Food Processing	0.15
Telecommunication	1.34
IT/ITES	0.06
Textiles	0.02
Utility and Resources pipeline	0.02
Inland Waterways	0.77
Coal	0.06
Leather	0.01
Steel	0.03
Chemicals	0.01
Construction	0.00
Total	**95.44**

Under construction

Sectors	Amt (INR Trillion)
Roads and Highways	11.24
Education	0.68
Waste and water	3.45
Water Resources	1.24
Railways	0.88
Electricity Generation	12.90
Real Estate	1.35
Healthcare	0.20
Urban Public Transport	1.75
Transmission & Distribution	0.51
Shipping	0.85
Food processing and agriculture	0.95
Logistics Infrastructure	0.29
Aviation & Aviation Infrastructure	0.31
Tourism Hospitality & Wellness	0.08
Sports	0.03
Inland Waterways	0.23
Steel	0.20
Food Processing	0.02
Energy Storage	0.02
Telecommunication	0.08
Utility and Resources pipeline	0.01
IT/ITES	0.00
Coal	0.02
Total	**37.30**

Completed

Sectors	Amt (INR Trillion)
Roads and Highways	1.54
Waste and water	0.31
Railways	3.37
Real Estate	7.77
Education	0.12
Transmission & Distribution	1.67
Energy Storage	0.46
Electricity Generation	1.05
Healthcare	0.15
Urban Public Transport	0.24
Water Resources	0.83
Shipping	0.07
Oil & Gas	0.27
Logistics Infrastructure	0.17
Aviation & Aviation Infrastructure	0.17
Tourism Hospitality & Wellness	0.01
IT/ITES	0.00
Food processing and agriculture	0.00
Sports	0.00
Telecommunication	0.00
Textiles	0.00
Inland Waterways	0.01
Coal	0.02
Metals and Mining	0.01
Energy and Storage	0.44
Total	**18.67**



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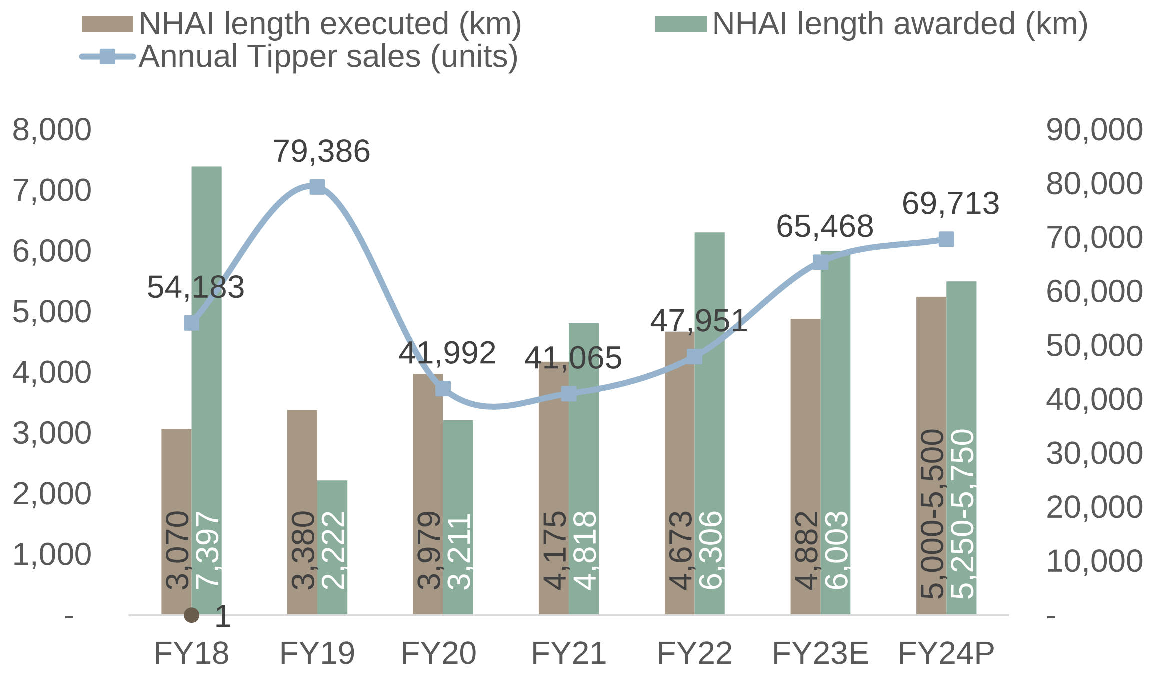
Source: *CRISIL MI&A Consulting*, India Investment Grid
Note: Data as of Sep 2023

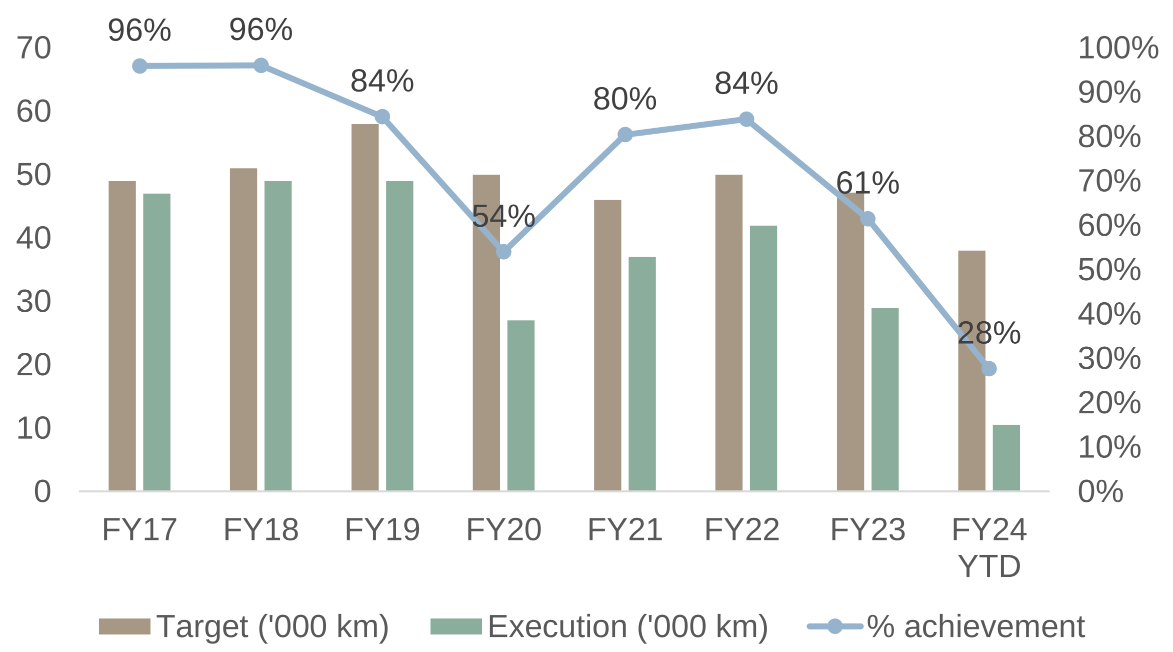
Focus on Road Infrastructure

Strong pace of central government projects to keep tipper demand higher than previous year

National highways (NHAI) – Awarded and executed



Trend in PMGSY target and execution



FY24, being a pre-election year continues to see strong infra push from the government side, thus tipper sales are anticipated to subsequently support the completion of infra projects, registering y-o-y growth in its entire year sales for FY24P

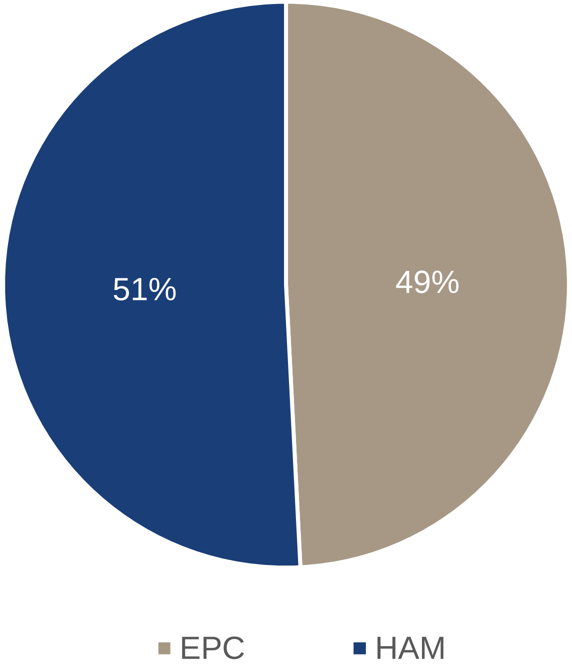
E: Estimated; P: Projected, National Highway Authority of India

Source: NHAI, MoRTH, CRISIL MI&A Consulting

NHAI tendering in April-September FY24

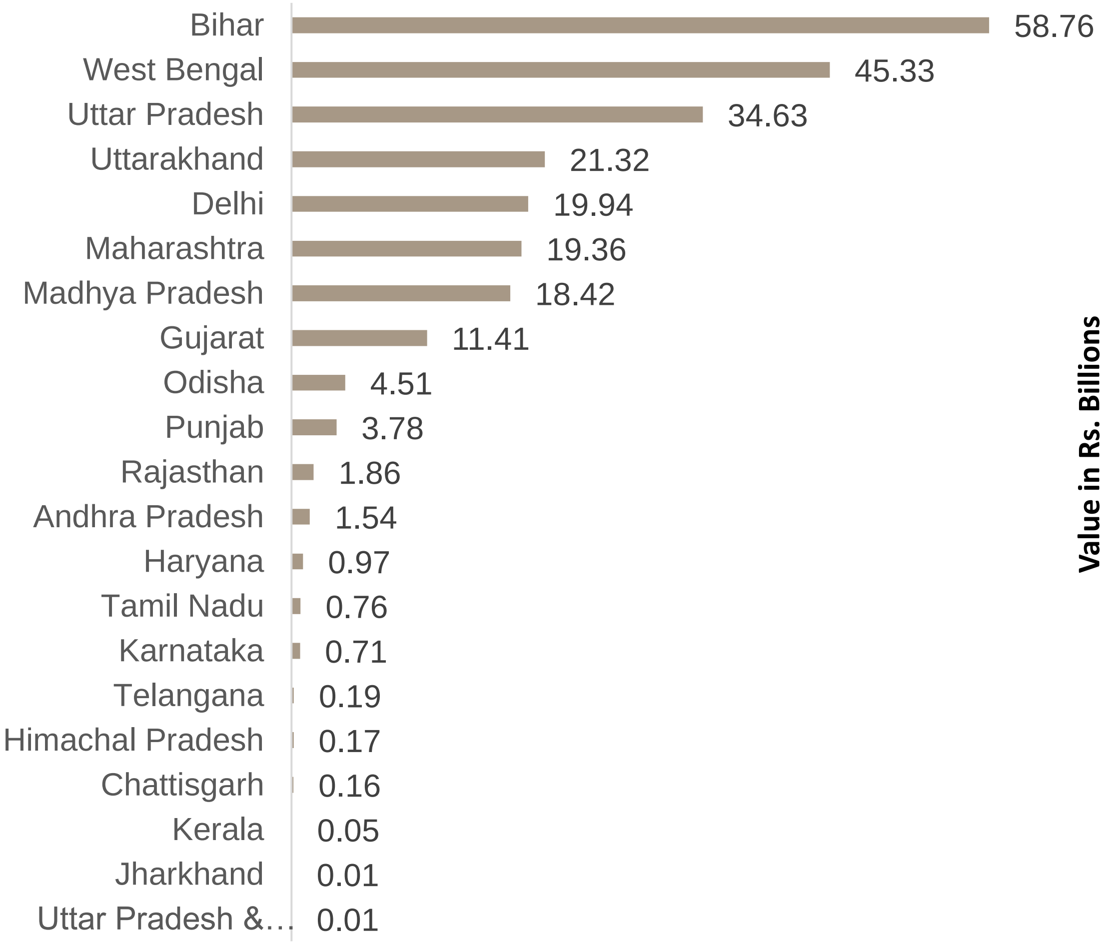
Total NHAI project value by mode type in April-September

Value in Rs. Billions | **~241**



*Total tender value consists of states mentioned herewith

Tender project value in major states



Source: CRISIL MI&A Consulting

Order books swelling at EPC firms amid high govt spending and swift economic rebound

Major players have bulging order book; Players with focus on roads, bridges and metro witnesses' robust growth

(Rs in billion)	Q4FY22	Q1Y23	Q2Y23	Q3FY23	Q4FY23	Q1FY24
Larsen & Tourbo	3576	3634	3724	3866	3995	4126
Hindustan constructio n	160	148	138	127	148	136

Source: CRISIL MI&A Consulting; Company Reports
Note: Order book is cumulative till that quarter
NA- Not available

Indian Automobile Industry

Assumptions for forecast

- **No further global disruptions**
- **No disruptions to semiconductor/ component supply chain**
- **Normal monsoons**
- **Continued government investments and focus on rural India**
- **OEM production/launch plans to continue unabated**
- **Financing scenario to remain accommodative**
- **Impact of ongoing conflict in the Middle East remains a key monitorable**

Domestic – Annual forecast

Segment	Volumes				*Y-o-y growth rate*			
	FY21	FY22	FY23	FY24E	*FY21*	*FY22*	*FY23*	*FY24E*
PV (mn)	**2.7**	**3.1**	**3.9**	**4.1- 4.3**	*(2)%*	*13%*	*27%*	*6-8%*
PV-EV penetration	0%	0.5%	1.5%	3-4%				
Two Wheelers (mn)	**15.1**	**13.7**	**16.3**	**18.2-18.5**	*(13)%*	*(10)%*	*18%*	*12-14%*
TW-EV penetration	0%	2%	4.5%	4-6%				
CV (‘000)	**566**	**731**	**960**	**995-1014**	*(21)%*	*29%*	*34%*	*4-6%*
CV-EV penetration	0%	2%	3%	2-4%				
Three Wheelers (‘000)	**217**	**260**	**489**	**760-790**	*(66)%*	*23%*	*88%*	*58-61%*
3W- EV penetration	1%	4%	6%	12-15%				
Tractors (mn)	**0.89**	**0.84**	**0.94**	**0.92-0.94**	*27%*	*(6)%*	*12%*	*(2)- 0%*

Numbers include EVs

Exports – Annual forecast

Segment	Subsegment	Volumes				*Y-o-y growth rate*			
		FY21	FY22	FY23	FY24E	*FY21*	*FY22*	*FY23*	*FY24E*
PV (mn)	Cars	0.26	0.37	0.41	0.4-0.5	*(44)%*	*42%*	*10%*	*7-9%*
	UV+vans	0.14	0.20	0.25	0.24-0.27	*(25)%*	*45%*	*23%*	*2-4%*
	Industry	**0.40**	**0.58**	**0.66**	**0.68-0.73**	***(39)%***	***43%***	***15%***	***5-7%***
Two Wheelers (mn)	Motorcycle	3.0	4.1	3.2	2.7-2.9	*(3)%*	*34%*	*21%*	*(13)-(11)%*
	Scooter	0.2	0.4	0.42	0.4-0.6	*(40)%*	*23%*	*19%*	*9-11%*
	Moped	0.008	0.01	0.004	0-0.002	*(37)%*	*51%*	*(60)%*	*(53)-(48)%*
	Industry	**3.3**	**4.4**	**3.6**	**3.2-3.5**	***(7)%***	***36%***	***(18)%***	***(11)-(9)%***
CV ('000)	LCV	31.1	58.3	54.8	47-49	*(8)%*	*87%*	*(6)%*	*(13)-(11)%*
	MHCV	13.5	26.1	11.6	6-8	*(7)%*	*90%*	*(55)%*	*(41)-(39)%*
	Buses	5.7	8.3	12.3	12-14	*(53)%*	*(46)%*	*(48)%*	*3-5%*
	Industry	**50.3**	**92.3**	**78.7**	**66-69**	***(17)%***	***83%***	***(15)%***	***(15)-(13)%***
Three Wheelers ('000)	GV	5.6	10	4.5	1-3	*(12)%*	*82%*	*(56)%*	*(53)-(48)%*
	PV	387	490	361.1	310-320	*(22)%*	*26%*	*(26)%*	*(15)-(12)%*
	Industry	**393**	**500**	**365.5**	**312-323**	***(22)%***	***27%***	***(27)%***	***(14)-(12)%***
Tractors ('000)		**89**	**129**	**125**	**101-106**	***17%***	***45%***	***(3)%***	***(18)-(15)%***

Segment wise inventory

Vehicle segment	Normal inventory in days	Current inventory levels*	Inventory Units	Reasons
Passenger Vehicles	~30	50+	~0.5 million	Sizeable inventory built up for the festive season done in Q2, from August onwards. Built up to continue in Q3 as well. High stock of basic hatchbacks, lower inventory of UV segment.
Two Wheelers	~45	55-60	2.5-3 million	Stock built up for the festive season. Continued push from OEMs. Higher stock of basic motorcycles and scooter 110 segment. Stock is expected to be liquidated during the festive season.
Commercial Vehicles	~30	24-28	66-70 thousand	Inventory levels increased for most of the segments in Q1 largely in the MHCV cargo, Tippers and Buses segment. Inventory levels for LCV decreased marginally as one of the OEMs was facing production issues in the initial month of the quarter while the other OEM was focusing on upgrading the existing models in the sub-1 tonne segment
Three Wheelers	20-25	30-35	~50 thousand	Industry witnessed festive built up during Q2; Offtakes reached a sizeable high, closer to the pre covid sales, retails witnessed continued sequential improvement. Increased stock at dealer level with Offtakes surpassing retails during the quarter
Tractors	~40-45	52-57	148-158 thousand	Inventory levels have been high in Q2 FY24 end, built up in anticipation of start of kharif season harvesting and festivals. However, retails were average due to slow agriculture and commercial movement. Some correction is expected from the month of November.

NOTE: Inventory level at the end of Q2*

Source: Industry, CRISIL MI&A

Passenger vehicles

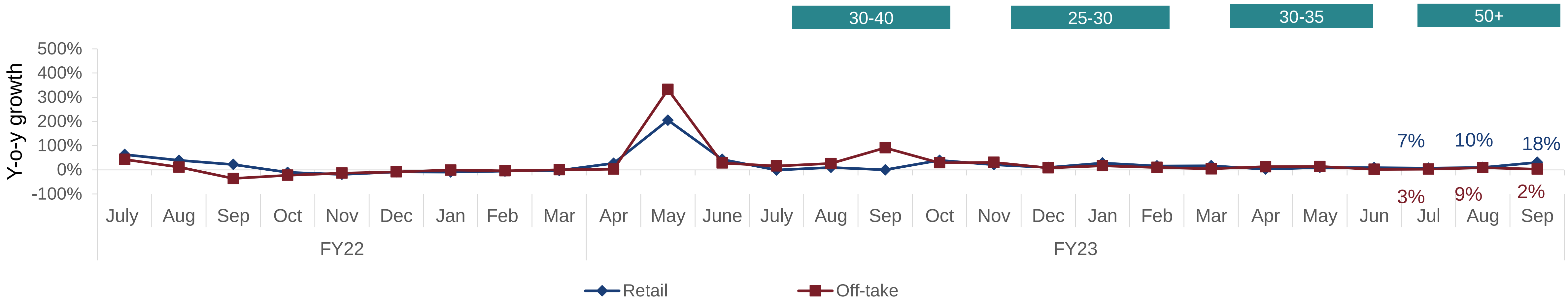
Industry to continue its growth momentum in FY24, albeit at a slower pace

Variables	FY21	FY22	FY23	FY24 E
Income for discretionary spending	NF	F	F	F
Cost of ownership	N	N	NF	NF
Petrol / CNG Vehicles	N	NF	NF	NF
Diesel vehicles	NF	NF	NF	NF
Interest rates	F	N	NF	NF
New model/ facelift launches	N	F	F	F
Regulations – passenger vehicles	NF	N	N	NF
Vehicle Supply	NF	NF	N	F
Impact on Overall Sales Growth	**NF**	**F**	**F**	**N**

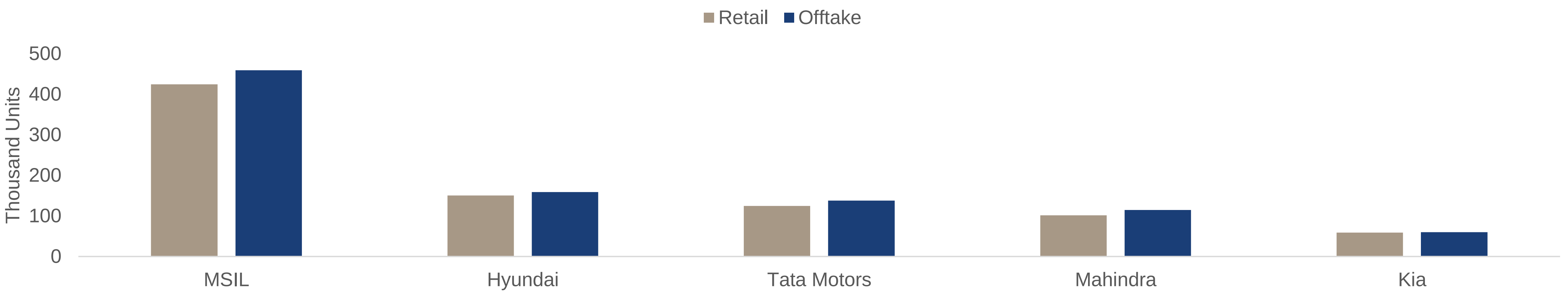
E: Estimated; *: Due to estimated pressure on GDP growth, inflation & rate hikes
Source: Industry, CRISIL MI&A

Strong offtake push, industry maintains 3 lakh+ retails in Q2

Elevated inventory levels, primarily lower compact segment stock



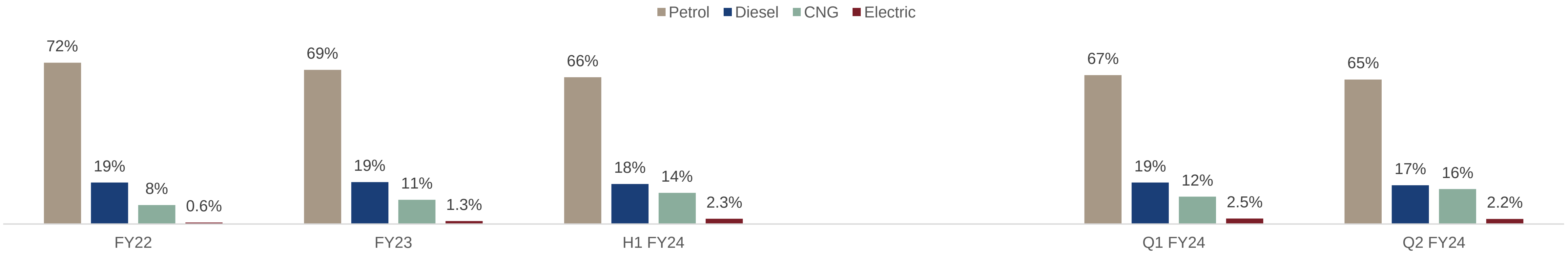
Q2 Retail vs Offtake - Increased offtake for all major players



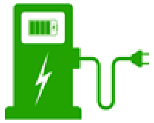
xxx *Dealer inventory days* *Source: SIAM, MoRTH, CRISIL MI&A*

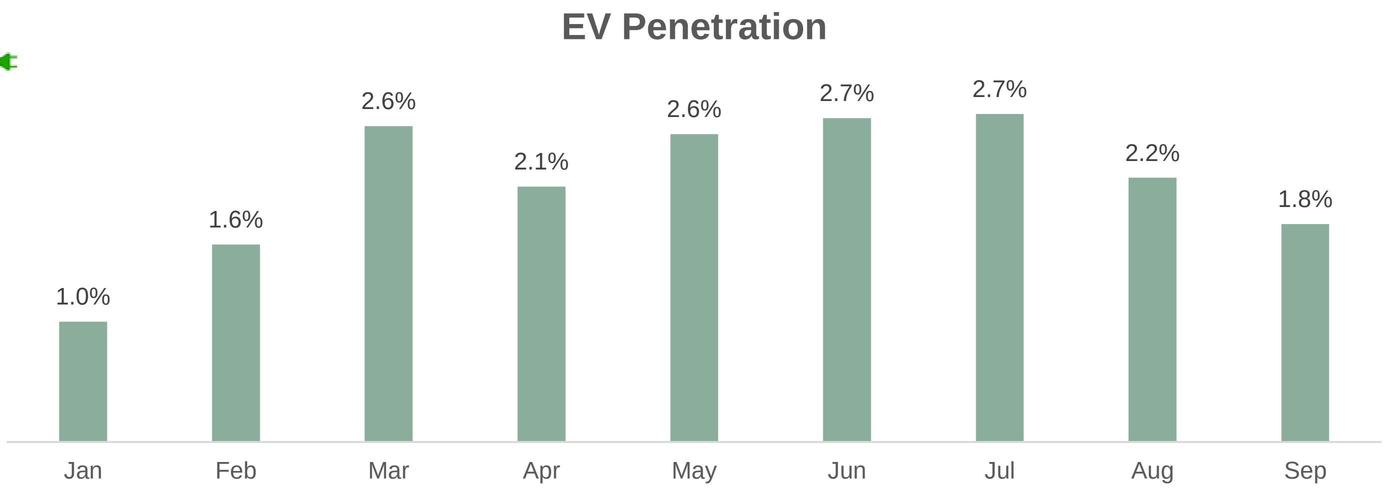
CNG, Diesel almost neck to neck during Q2; M&M expanding presence in EVs

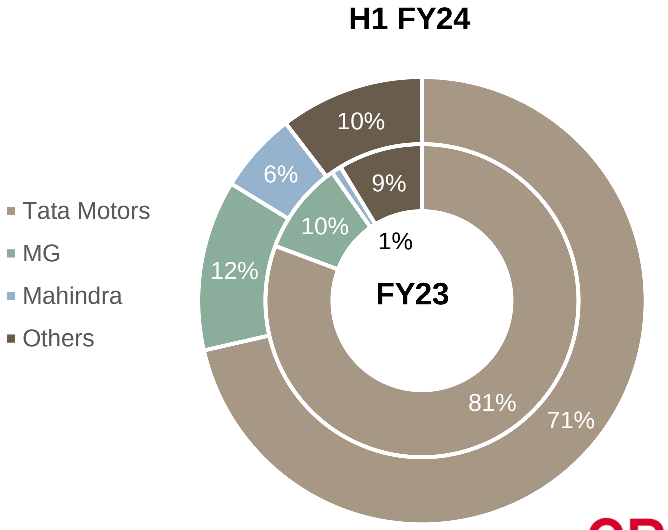
Model launches, subdued fuel price backing CNG demand



Nexon transition impacted EV penetration in Aug & Sep, intensifying competition in the segment







Market Intelligence & Analytics

Source: Industry, MoRTH, CRISIL MI&A

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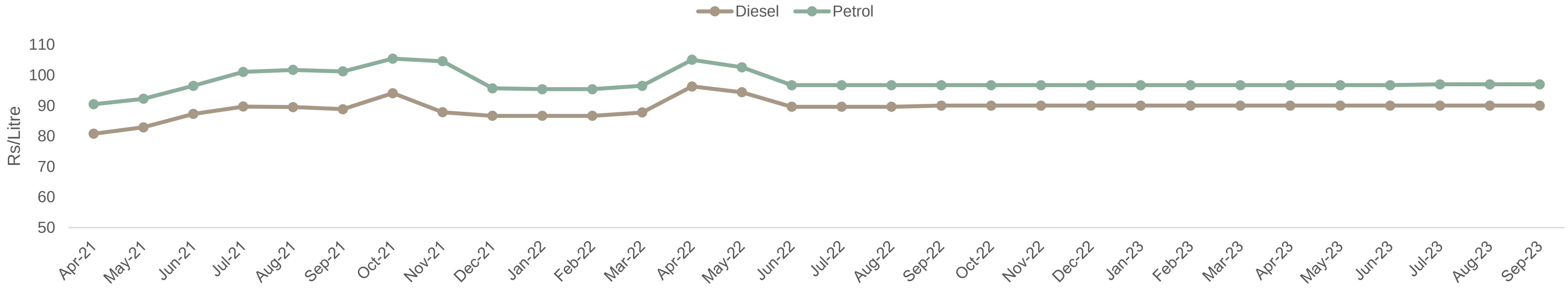
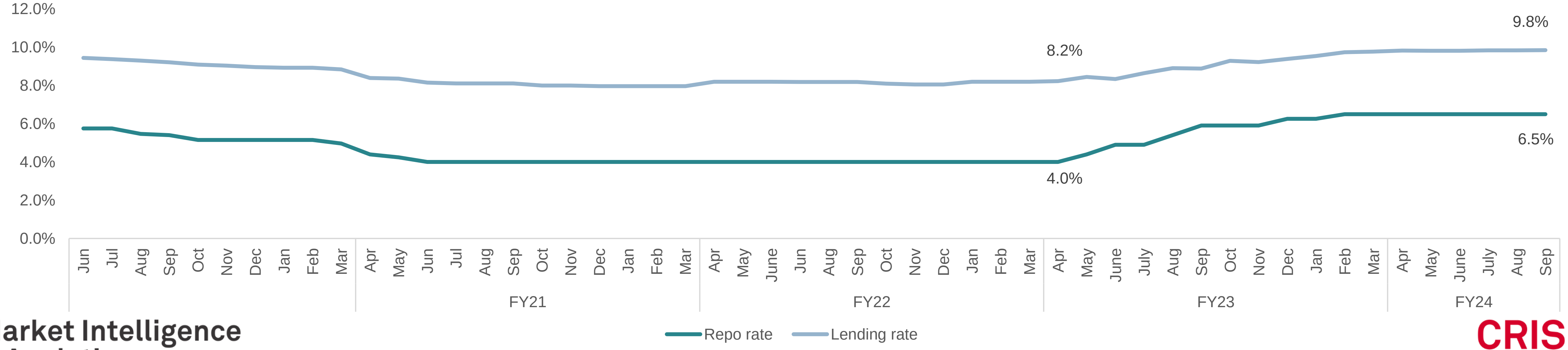
No respite from elevated fuel prices and high interest rates

Fuel prices remain elevated, although no further hike done



Increasing interest burden weighing on vehicle TCO



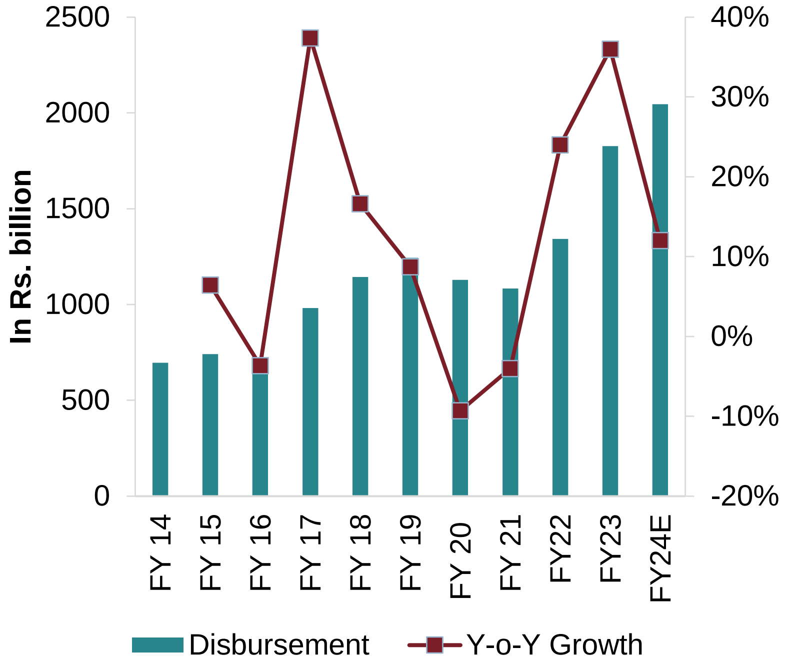
Market Intelligence & Analytics

Source: Industry, MoRTH, CRISIL MI&A

CRISIL An S&P Global Company

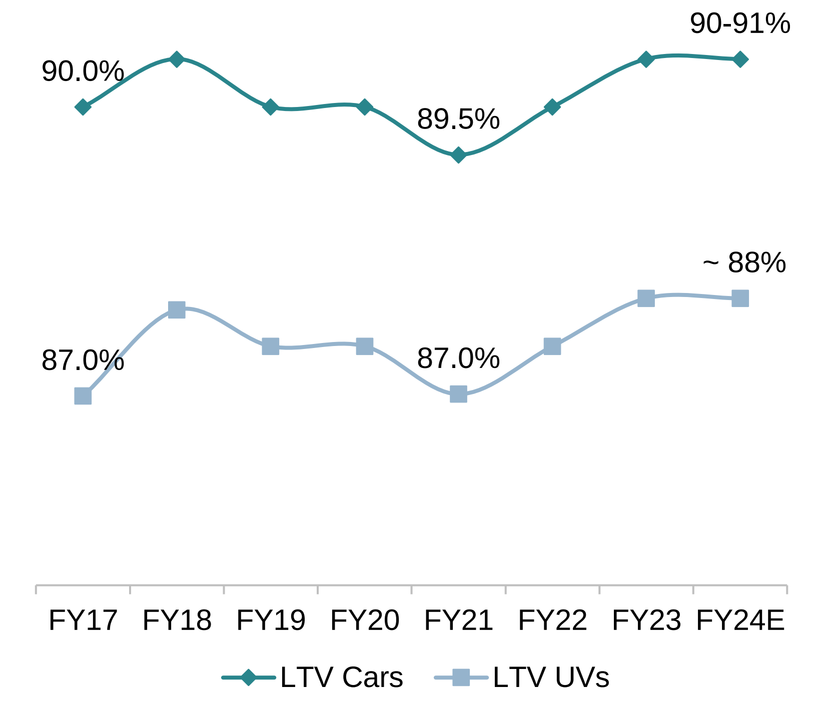
Disbursement growth to continue in FY24 albeit at a slower pace

Disbursement

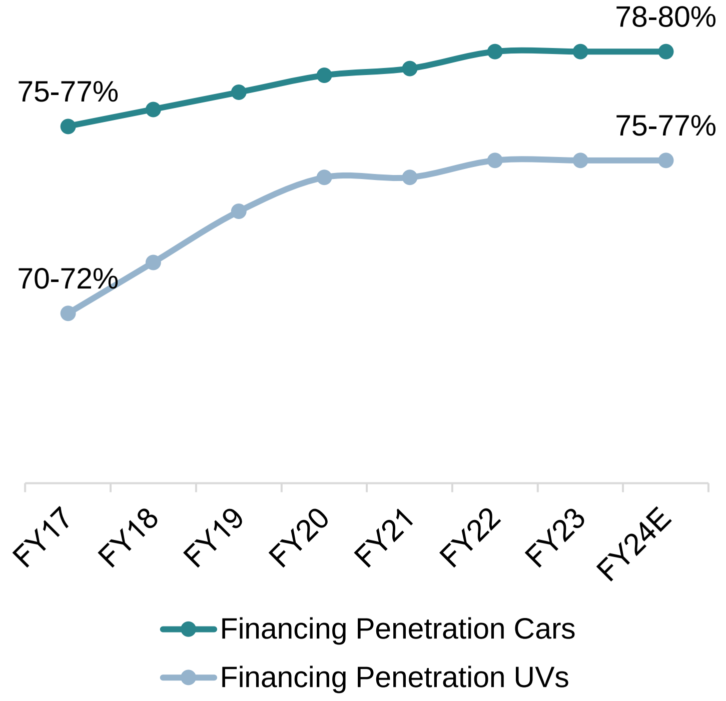


Source: Company Report, Industry, CRISIL MI&A

Loan-to-value (LTV)



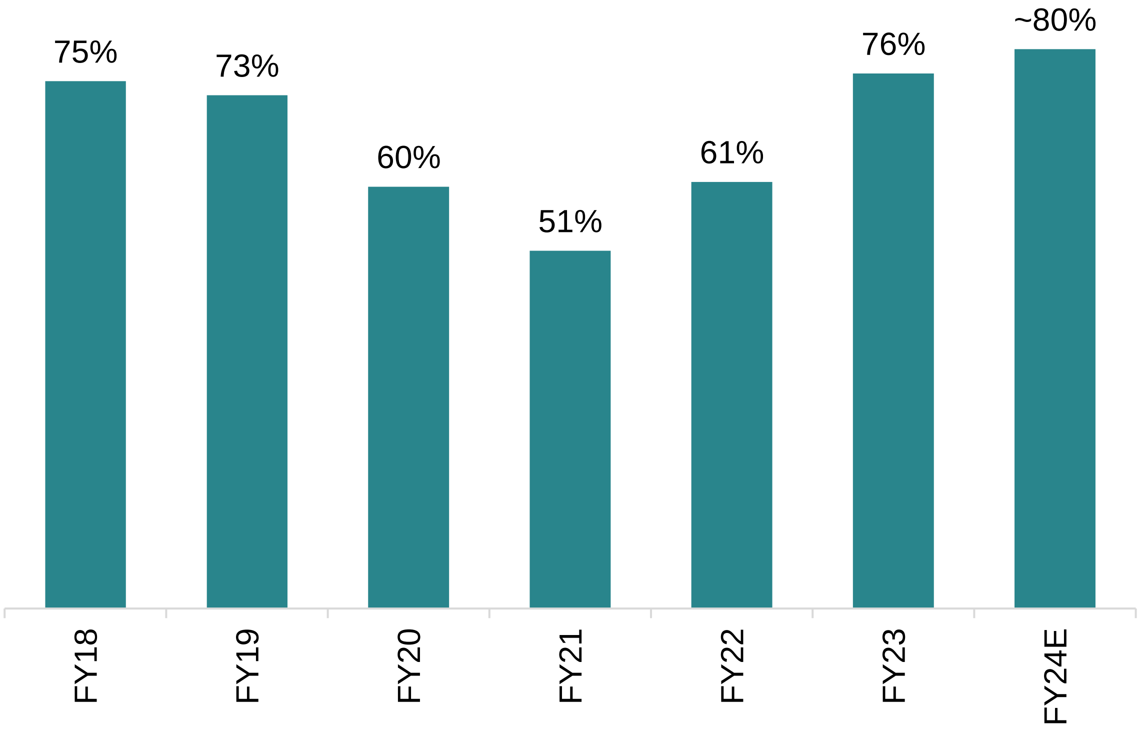
Financing penetration



- There was a significant improvement in disbursement levels during FY23 led by the sharp rise in vehicle sales coupled with the price hikes undertaken during the year
- Even on this high base, disbursements are expected to grow further in FY24 albeit at a slower pace
- The vehicle sales are expected to grow 6-8% during FY24.
- Price hike for the year to include hike for the phase 2 coupled with annual price hike undertaken every year
- Financers remain accommodative of the PV industry
- RBI has kept the rates unchanged since February hike, however, elevated interest rates remain a concern

Utilization rebounded to pre Covid levels in FY23, further improvement expected in FY24

Utilization trend in the PV industry



Source: CRISIL MI&A Estimated

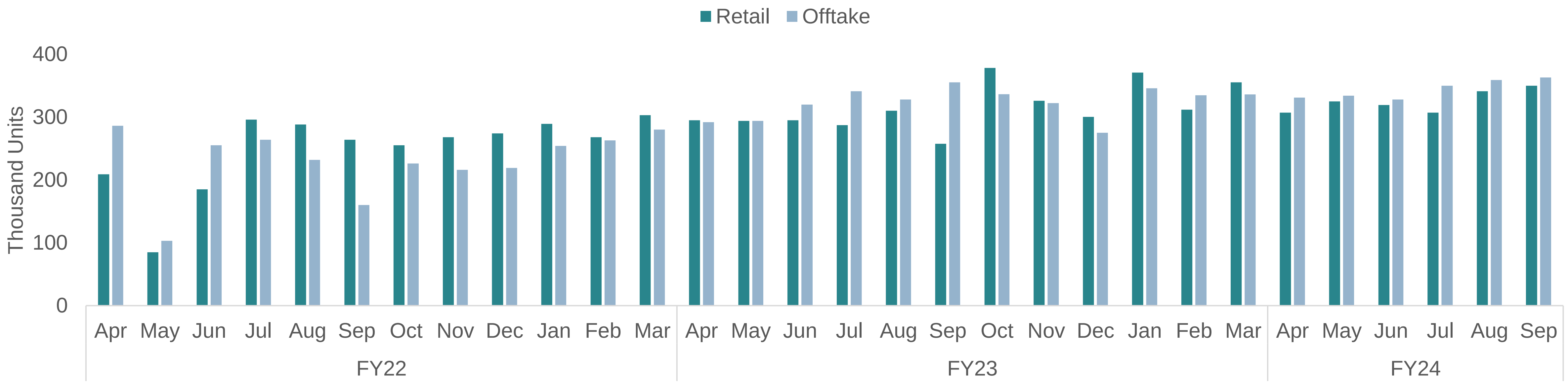
Capacity utilisation of key players

Player	Effective Capacity (in '000) (on 31st Mar 2023)	Capacity Utilisation in FY22	Capacity Utilisation in FY23	Capacity Utilisation in H1 FY24
Maruti	2,250	79%	84%	85%
Hyundai	763	79%	93%	101%
Tata Motors	564	66%	98%	61%
Renault-Nissan	480	39%	45%	28%
Toyota	310	24%	54%	107%
Honda	180	59%	65%	47%
Volkswagen	179	43%	37%	55%
Kia Motors	400	79%	90%	81%

Source: SIAM, Industry, CRISIL MI&A

Continued offtake push & festive built up during Q2

Retails maintained 3 lakh+ levels during Q2

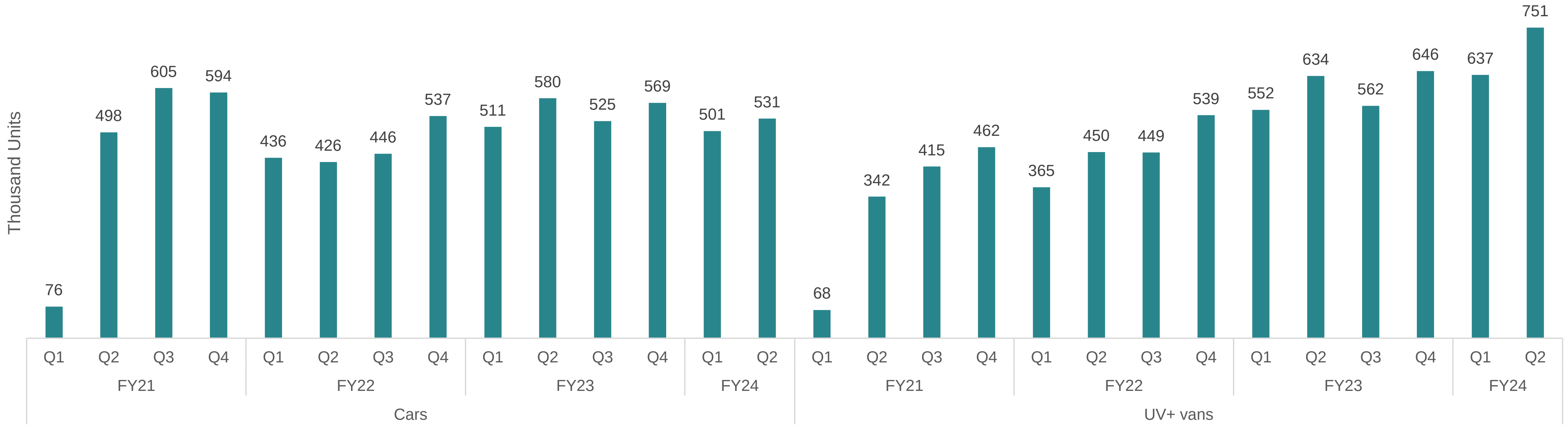


Note: Retail numbers are estimated, Offtake numbers include Tata Motors sales
Source – MoRTH, SIAM, CRISIL MI&A

- Retails remained buoyant during Q2, especially for the UV segment; basic hatchback retails remained under stress
- Festive built up started in Q2 and is expected to continue in October & November
- Offtake push was also done from major OEMs
- Retails, although healthy remained below offtake levels during the quarter
- Thus, dealer stock levels increased to 50+ days at the end of Q2

Some sequential drop in production, UVs remain the focus

Quarterly production trend



Source: SIAM, CRISIL MI&A

- Production levels increased across segments during Q2 to support the inventory built up for the festive season
- OEMs prioritized UV production over cars given the continued growth momentum in the UV segment. The recent launches in the UV segment provided an added boost to the UV production during Q2
- Traction for cars, especially the basic hatchbacks has been under pressure, keeping the production restricted for the cars segment

Domestic – Annual forecast

	Units	Passenger cars	UVs & vans	Total	EV penetration
FY21	Millions	1.54	1.17	**2.71**	**0%**
y-o-y growth	*%*	*-9%*	*9%*	***-2%***	
FY22	Millions	1.47	1.60	**3.06**	**0.5%**
y-o-y growth	*%*	*-5%*	*37%*	***13%***	
FY23	Millions	1.73	2.15	**3.88**	**1.5%**
y-o-y growth	*%*	*18%*	*34%*	***27%***	
FY24E	Millions	1.5-1.7	2.5-2.7	**4.1-4.3**	**3-4%**
y-o-y growth	*%*	(10)-(8)%	19-21%	**6-8%**	

Source – SIAM, CRISIL MI&A

Domestic – Quarterly forecast

Fiscal	Quarter	Passenger cars		UVs & vans		Total	
		Sales ('000)	*y-o-y growth*	Sales ('000)	*y-o-y growth*	Sales ('000)	*y-o-y growth*
FY22	Q1	336	*348%*	309	*317%*	649	*335%*
	Q2	344	*(21)%*	396	*32%*	740	*0%*
	Q3	349	*(32)%*	411	*9%*	760	*(15)%*
	Q4	437	*(15)%*	482	*15%*	919	*(1)%*
FY23	Q1	398	*19%*	509	*65%*	908	*40%*
	Q2	470	*37%*	554	*40%*	1,025	*38%*
	Q3	420	*20%*	514	*25%*	934	*23%*
	Q4	448	*2%*	570	*17-19%*	1,017	*11%*
FY24E	Q1	413	*4%*	580	*14%*	992	*9%*
	Q2	398	*(15)%*	675	*22%*	1,072	*5%*
	Q3 E	380-390	*(9)-(7)%*	650-660	*26-28%*	1,035-1,045	*10-12%*
	Q4 E	370-390	*(17)-(15)%*	675-685	*18-20%*	1,050-1,060	*3-5%*
FY25P	Q1 P	370-390	*(8)-(6)%*	660-680	*15-17%*	980-990	*5-7%*
	Q2 P	390-410	*0-2%*	690-710	*1-3%*	1,025-1,035	*1-3%*

Domestic – Quarterly forecast

- Industry clocked a historic high of 3.9 million sales in FY23
- Continued healthy offtake as well as retail momentum during H1 FY24
- Retails as well as offtake remained above 3 lakh levels during H1
- During Q2, retails remained healthy, especially for UVs segment backed by continued traction for recent launches
- Basic hatchback segment felt some heat, as retails remained subdued despite sizeable discounts especially during September
- Offtake were upbeat during Q2, inventory built up done during the quarter for the upcoming festive season
- Stock levels are high at the end of the quarter, basic hatchbacks primarily in the inventory
- Offtake during October to be buoyant backed for festive inventory built up , to continue in November, some drop in expected in December
- UVs to continue its march forward, while cars offtake to remain rangebound
- Latest launches in UVs providing the thrust
- For the complete year, industry to reach a historic high of 4.1-4.2 million in fiscal 2024
- EV sales remain strong at ~2.5% penetration levels during Q2, a hiatus in penetration witnessed for the Nexon transition
- EV penetration levels to grow further and reach 3-4% levels during fiscal 2024

Stakeholder interactions

OEMs

- Recent launches providing the necessary boost
- Booking pipeline is relatively healthy, fresh bookings remain a key monitorable
- Major launches for the year are over for all OEMs, few facelifts expected in Q4
- UVs pushing the industry, hatchbacks continue to remain under stress
- Lower compact segment has not picked up, festive season should provide some push
- Premium compact facing intense competition from micro & compact SUVs – rising preference for Punch, Exter, Fronx over Baleno, Altroz, i20
- Large SUVs providing the major thrust
- October November dispatches expected to be healthy, December to see some dip
- Industry to cross 4 mn number easily
- Might reach 4.2 mn levels if the festive season turns out to be bumper
- Lukewarm response to festive demand will create a major stock problem at the year end
- Keeping the fingers crossed
- Price rise postponed to Q4- might not happen in current year

Dealer

- Healthy retails continued in September
- Recent launches providing the major thrust
- Stress continues in the lower compact segment
- Sizeable inventory poor customer traction for the segment despite significant discounts
- 40-50k discount for the segment across OEMS
- Good traction for models like Fronx, Exter, Grand Vitara
- Very positive response to the New Nexon
- Onam, Ganapati festivals were mildly positive
- 50+ days stock with dealers, primarily of lower compact segment
- Push continues from all OEMs
- Fast moving vehicles continue to attract high waiting periods
- Few models like Exter, Thar, Scorpio have more than a years waiting
- Record discounts expected during festive
- Added discounts from the dealers to clear the inventory
- Inter dealer competition has intensified due to the increased stocks and limited dispatches of fast moving vehicles
- Dealers expect festive demand to be positive- extent remains a key monitorable

Financier

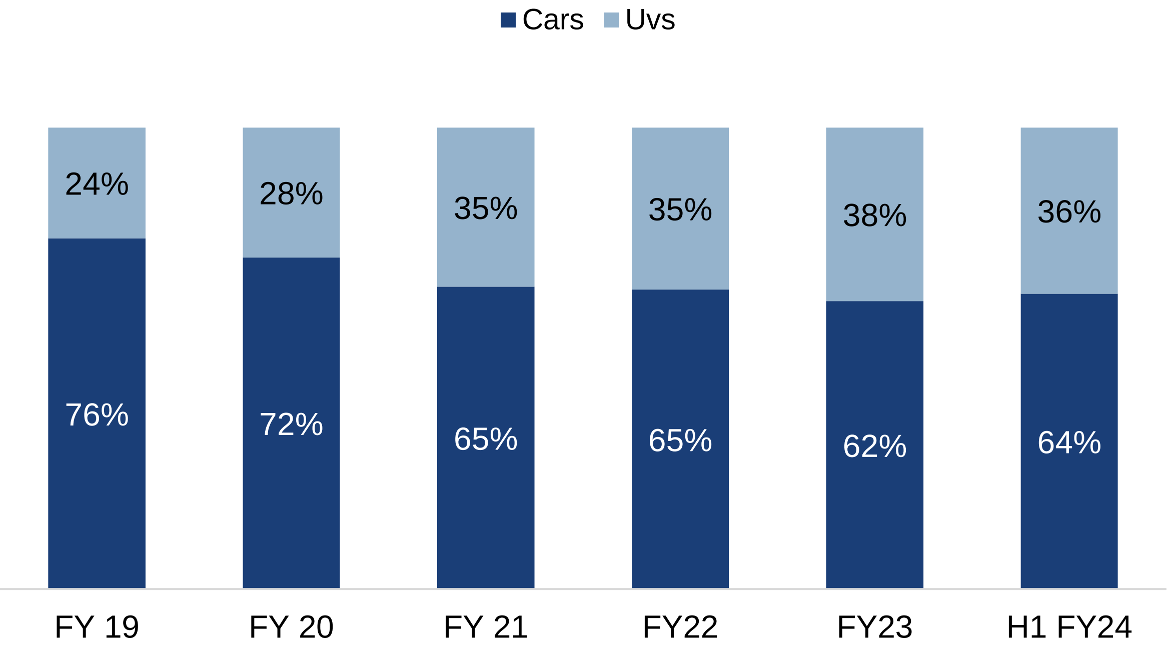
- Stance of financers remains accommodative
- High retail traction in the market is backing the disbursement growth
- Interest rates remain elevated, no further rise expected with RBI keeping the rates steady
- LTV and penetration levels remain steady

Source – Industry, CRISIL MI&A

PV exports

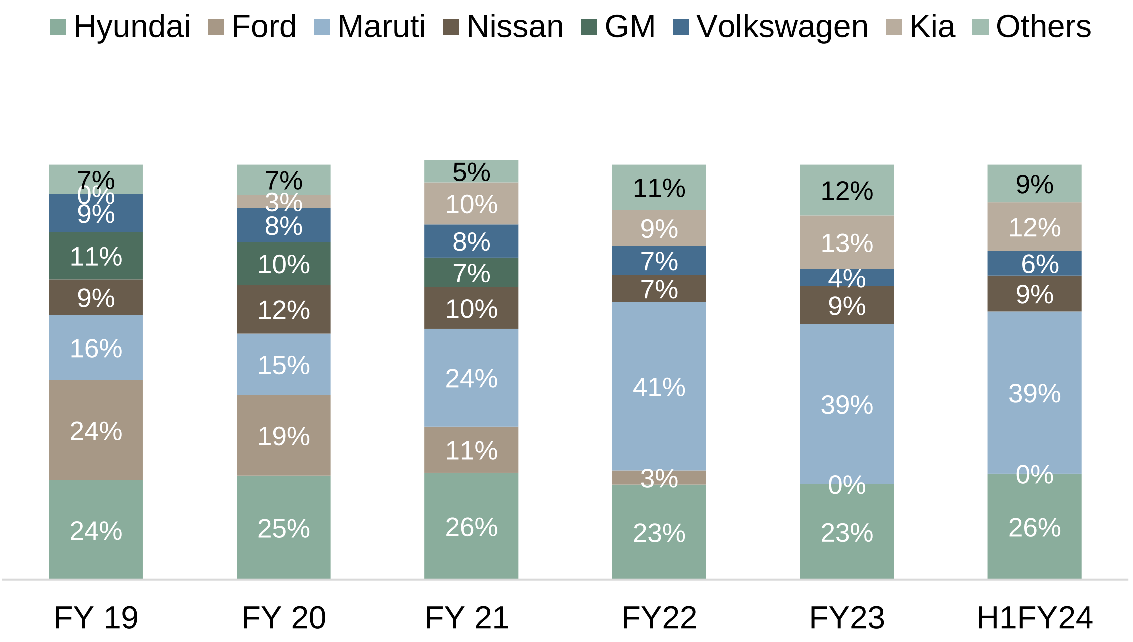
Unlike the domestic market, cars provide the push to exports in H1 FY24

Increased contribution of cars



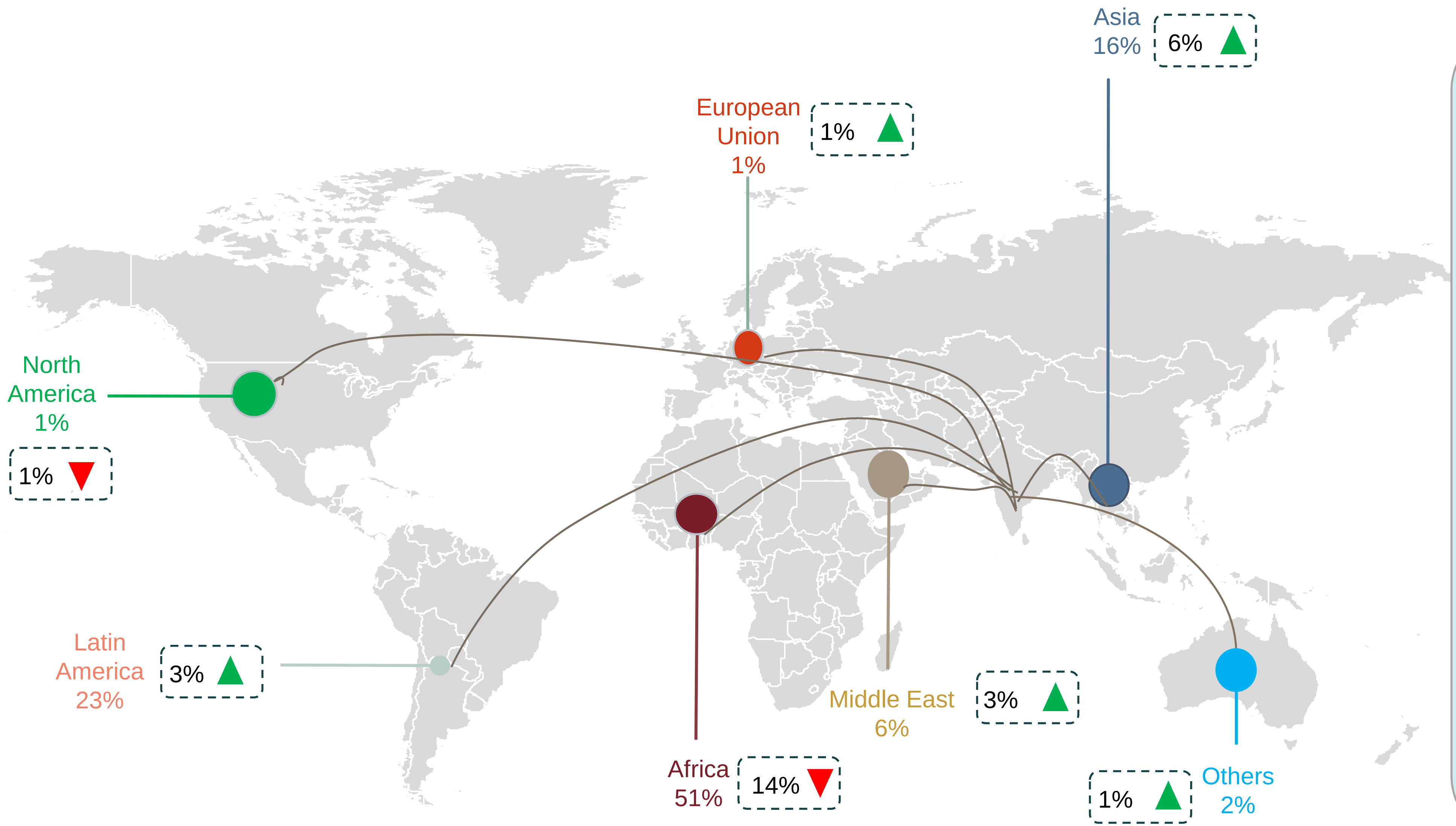
Source: SIAM, CRISIL MI&A

MSIL maintains its export focus



- Industry exports recorded 5% growth during H1 FY24
- Cars have regained their share in exports amidst slowdown in the segment demand in the domestic market
- In turn, MSIL & Hyundai have maintained their lead during H1
- Kia has fast gained ground even in the exports space with Seltos and Sonet
- Third highest contributor to domestic sales, Tata Motors has low presence in the exports market

Passenger Vehicle Exports



- During FY23, PV exports increased at a healthy pace, there was a marginal improvement witnessed during H1 FY24
- Africa continued to dominate the exports, however, its lead contracted in FY24 amidst tapered exports to South Africa, the leading export destination
- Contribution of exports to LATAM increased during Apr-Jun FY24, with increased exports to Mexico.
- Contribution of Asia also expanded with increased exports to Philippines and Indonesia.

Note: : Represents volume data for Apr-June FY24 exports, % in dotted boxes indicates change in contribution from FY23

Source: DGFT, CRISIL MI&A

Two-wheelers

Growth to continue, at a slightly tapered pace

Variables	FY21	FY22	FY23	FY24E
Income for discretionary spending	NF	N	F	F

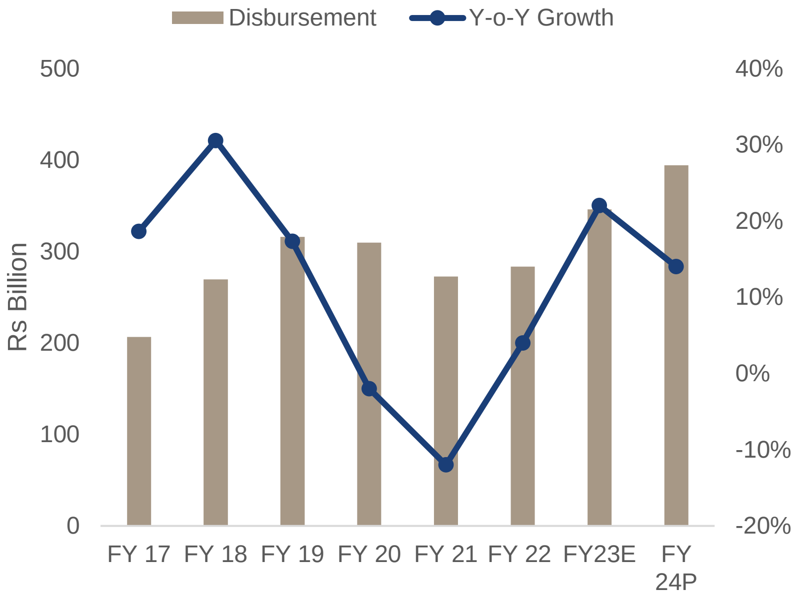
Variables	FY21	FY22	FY23	FY24E
Cost of ownership	N	N	NF	NF
Interest rates	F	N	NF	NF

Variables	FY21	FY22	FY23	FY24E
New model/ facelift launches	N	F	F	F
Regulations – two-wheeler vehicles	NF	N	N	NF
Impact on Overall Sales Growth	**NF**	**NF**	**F**	**F**

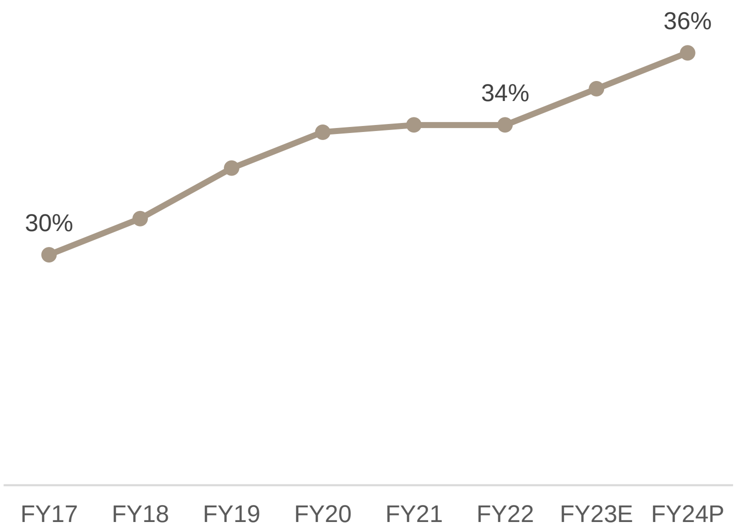
NF: Not Favorable, F: Favorable; N: Neutral
E: Estimates P: Projected

Disbursements to improve further in FY24, albeit at a slower pace

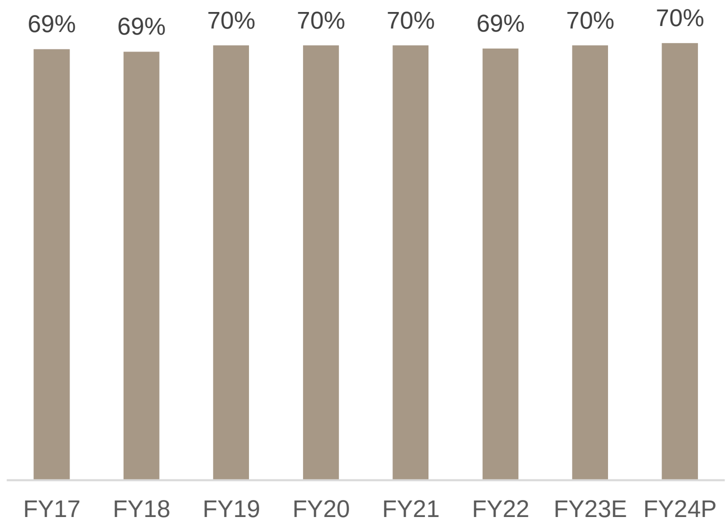
Disbursements



Auto finance penetration



Loan-to-value

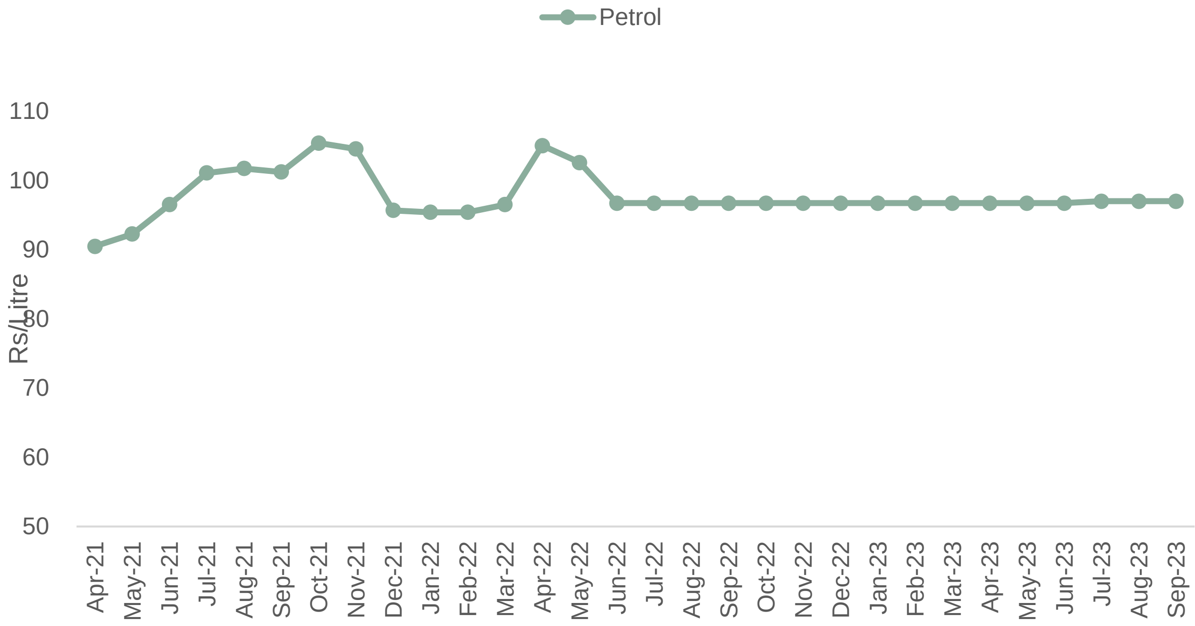


Source: Experian Credit Bureau, Company Reports, CRISIL MI&A

- Disbursements rebounded in FY23 after the subdued levels witnessed during the Corona period
- The improvement was on the back of improvement in vehicle sales as well as the price hikes undertaken. Moreover, there was some improvement in the penetration as financers became more accommodative with reopening of economy
- The disbursement growth is expected to continue in FY24 , although at a subdued pace given the relatively tapered vehicle sales growth expected next year
- Penetration improvement is expected to continue in FY24, as financers remain positive about the segment
- LTVs are expected to remain rangebound

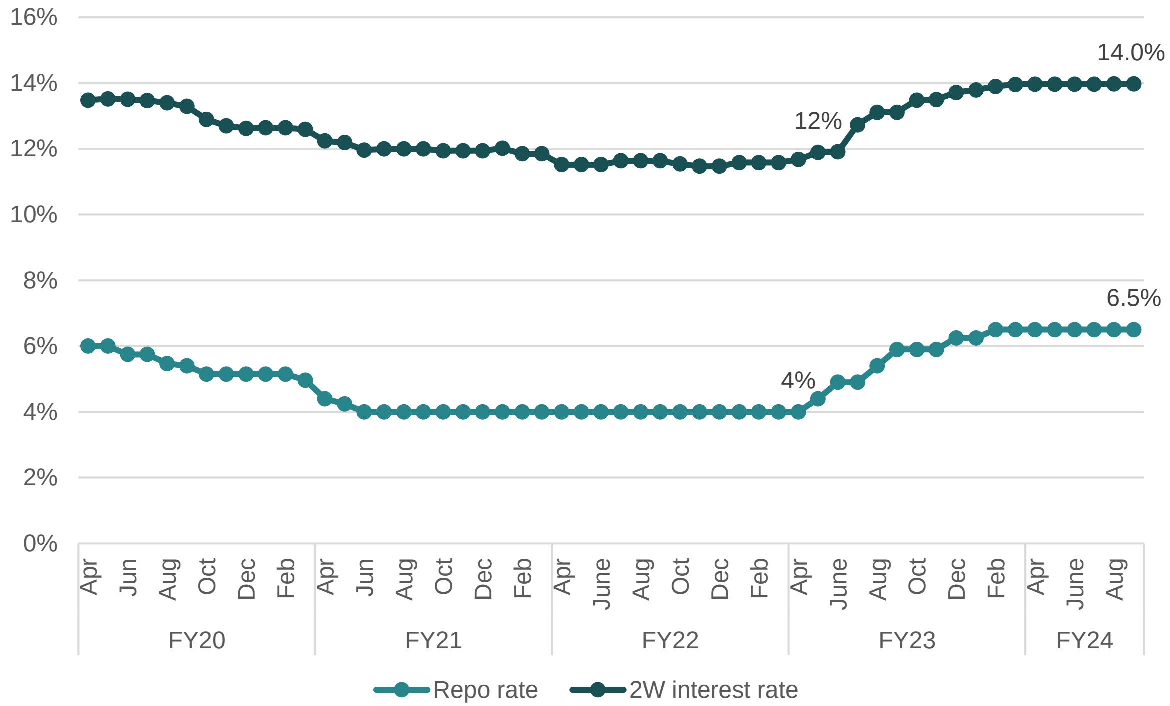
Operating costs remain elevated

Petrol Prices: Remained steady



Note: Fuel prices in Delhi region
Source: Industry, CRISIL MI&A

Interest Rates mimicking the repo trend

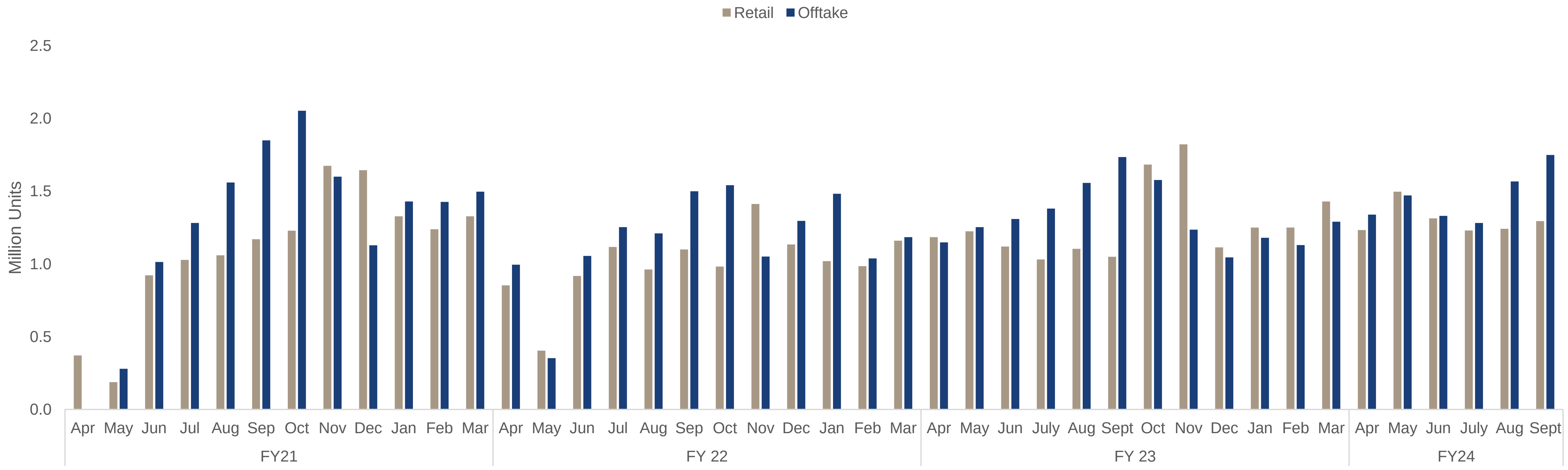


NOTE – Mentioned interest rates are indicative rates charged by Banks
Source – CRISIL MI&A

- Fuel prices after being stagnant for about three months from Dec-Feb, spiked to Rs. 105 in Apr 22 owing to rise in worldwide crude oil prices. It has now settled in the range from Rs. 96 to Rs.97
- Interest rates have been hiked by more than 200 bps in tandem with 250 bps rise in repo rates since April 22
- Rising operating costs remain a concern for the industry especially for the commuter segment

Festive inventory built up in Q2, retails remain rangebound

Retail vs off-take sales trend

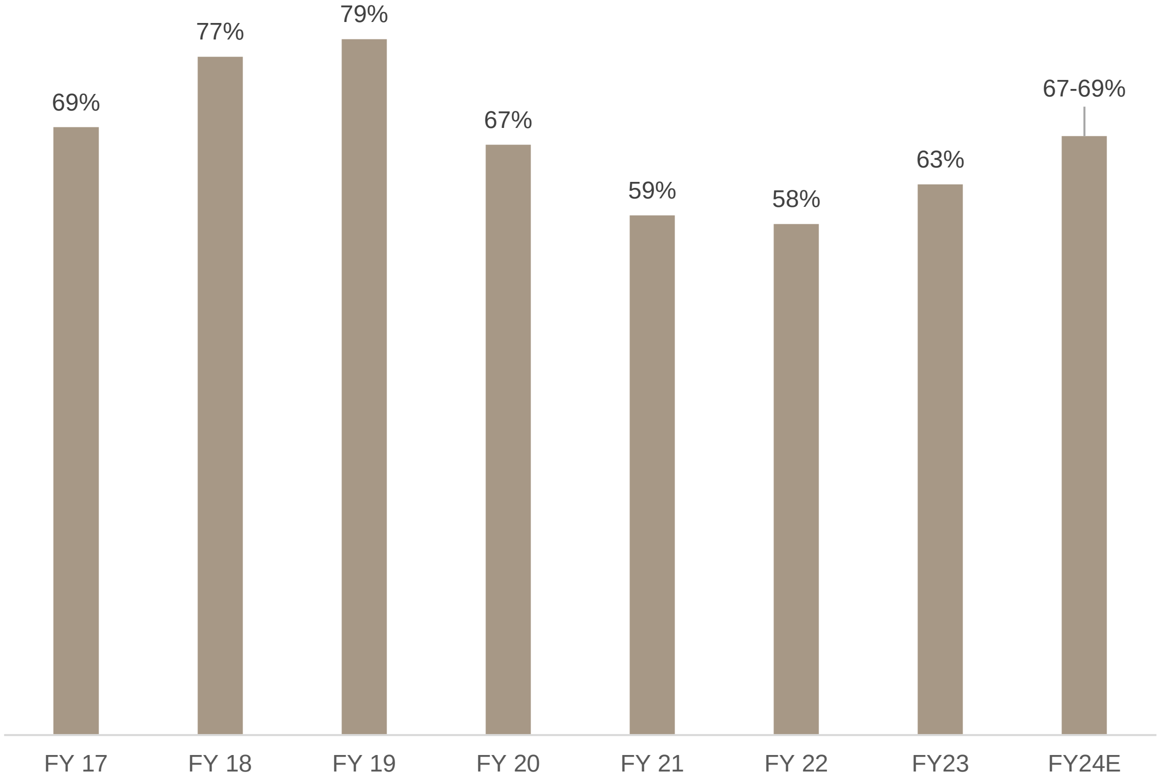


Note: Retail numbers do not include TS & LD numbers
Source – MoRTH, SIAM, CRISIL MI&A

- From August, OEMs started inventory built up for the festive season
- Industry is counting on healthy festive season
- Sizeable offtake push happened during Q2
- While retails remained rangebound in 12-13 lakh range
- In turn, inventory levels increased to 55-60 days at the end of the quarter

Further improvement in utilization expected in FY24

Utilisation improved in FY23 from low Covid base



Source: Industry, SIAM, CRISIL MI&A

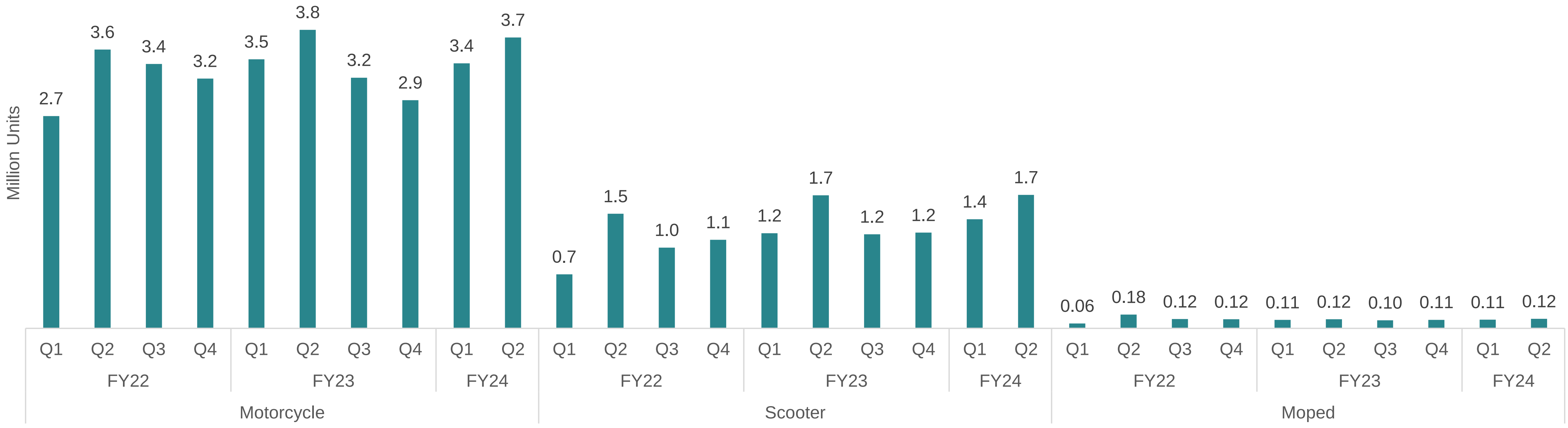
Player wise utilization

Player	Effective Capacity estimate in mn (as on 31st Mar 2023)	Production H1 FY24	Utilization
Hero Motocorp	9.6	2.7	57%
Bajaj Auto	5.7	1.8	62%
HMSI	6.4	2.4	74%
TVS Motor Company	4.5	2.0	89%
India Yamaha Motors	1.6	0.5	57%
Suzuki Motors	1.3	0.6	90%
Royal Enfiled	1.0	0.5	103%

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

Increased production to provide for higher offtake during Q2

Segment wise production trend



Source: SIAM, CRISIL MI&A

- OEMs increase production for the inventory built up to be done before the festive season
- This year as well, a sizeable sequential increase was done to support the festive offtake
- Scooters witnessed higher sequential increase as well as y-o-y growth
- While motorcycles witnessed relative slower sequential growth and some moderation compared to last year’s production
- Q3 production is also expected to be positive to support the continued festive built for Diwali during mid November

Domestic – Annual forecast

	Units	Motorcycle	Scooters	Mopeds	Total	EV penetration
FY21	Millions	10.0	4.5	0.6	**15.1**	0%
y-o-y growth	*%*	(11)%	(20)%	(3)%	**(13)%**	
FY22	Millions	9.0	4.3	0.5	**13.7**	2%
y-o-y growth	*%*	(10)%	(6)%	(23)%	**(9)%**	
FY23	Millions	10.2	5.6	0.4	**16.3**	4.5%
y-o-y growth	*%*	14%	31%	(7)%	**18%**	
FY24E	Millions	11.3-11.8	6.3-6.8	0.4-0.5	**18.2-18.5**	4-6%
y-o-y growth	*%*	11-13%	15-17%	0-2%	**12-14%**	

Note: Numbers include EVs, EV data based on VAHAN retail numbers
Source – SIAM, CRISIL MI&A

Domestic – Quarterly forecast

Fiscal	Quarter	Motorcycle		Scooter		Moped		Total	
		Sales (mn)	*y-o-y growth*	Sales (mn)	*y-o-y growth*	Sales (mn)	*y-o-y growth*	Sales (mn)	*y-o-y growth*
FY22	Q1	1.7	93%	0.6	85%	0.1	28%	2.4	88%
	Q2	2.6	(17)%	1.4	5%	0.2	(17)%	4.2	-11%
	Q3	2.4	(22)%	1.1	(24)%	0.1	(38)%	3.7	-24%
	Q4	2.2	(22)%	1.1	(19)%	0.1	(30)%	3.4	-22%
FY23	Q1	2.4	38%	1.3	109%	0.1	61%	3.9	60%
	Q2	3.0	15%	1.6	18%	0.1	(29)%	4.9	17%
	Q3	2.5	4%	1.4	21%	0.1	(20)%	4.1	11%
	Q4	2.3	4%	1.3	12%	0.1	0%	3.6	7%
FY24E	Q1	2.7	14%	1.4	10%	0.1	(6)%	4.3	12%
	Q2 E	2.9	(3)%	1.6	0%	0.2	1%	4.7	(2)%
	Q3 E	2.9-3.1	16-18%	1.6-1.8	25-27%	0-0.2	9-11%	4.7-4.9	19-21%
	Q4 E	2.7-2.9	24-26%	1.6-1.8	28-30%	0-0.2	0-2%	4.6-4.8	24-26%
FY25P	Q1 P	2.8-3.0	4-6%	1.6-1.8	21-23%	0-0.2	4-6%	4.6-4.8	10-12%
	Q2 P	2.9-3.1	0-2%	1.8-1.9	9-11%	0-0.2	(6)-(4)%	4.8-5.0	3-5%

Note: Numbers include EVs, EV data based on VAHAN retail numbers
Source – SIAM, CRISIL MI&A

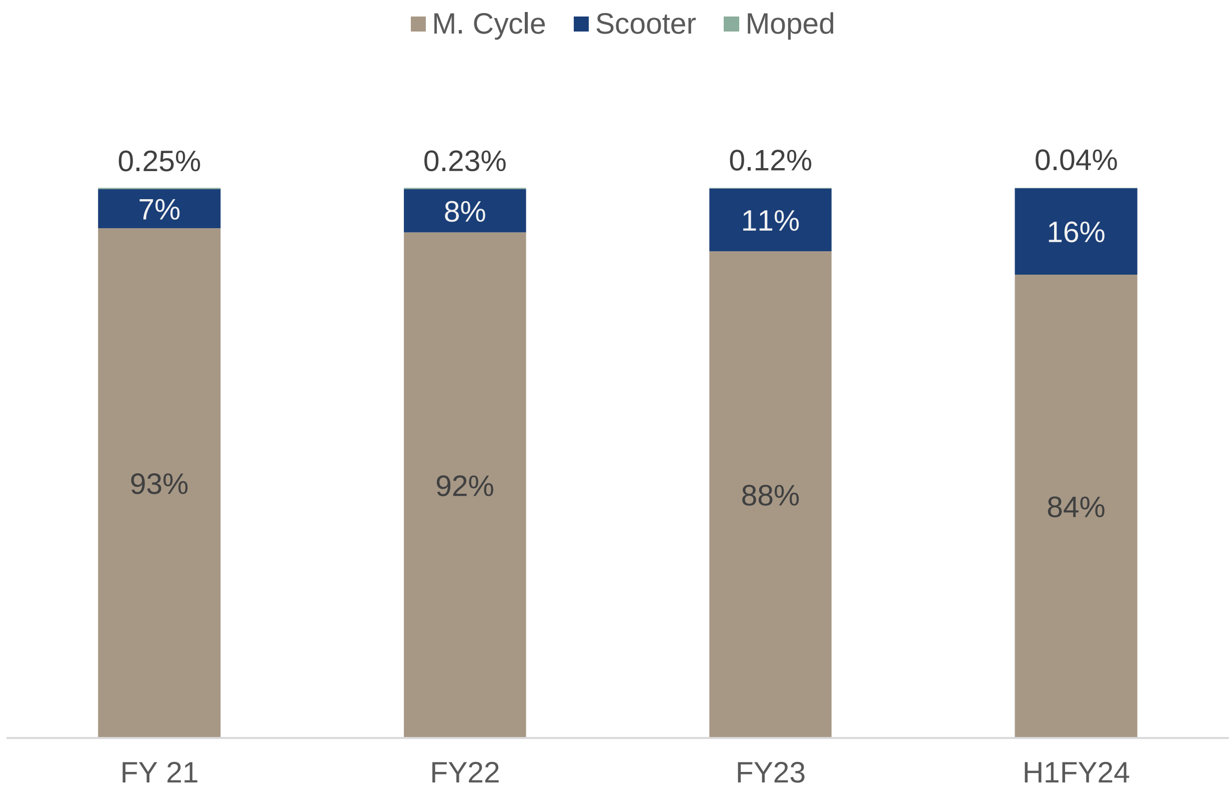
Domestic – Quarterly forecast

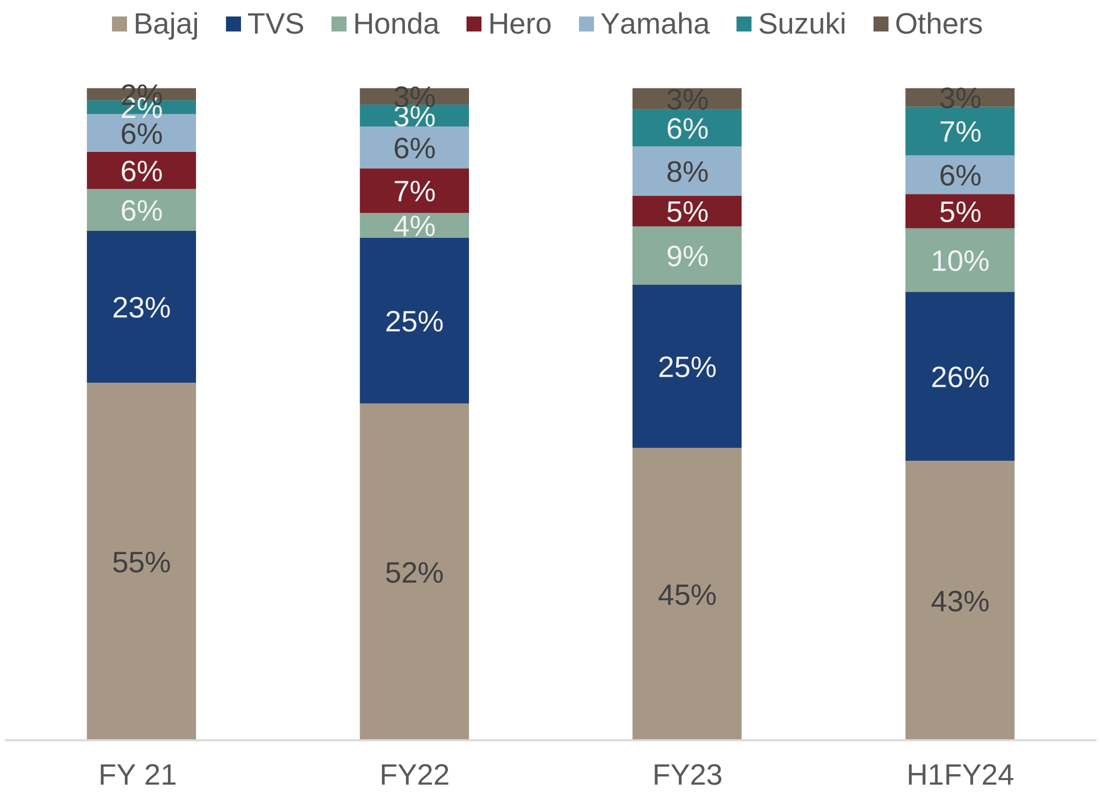
- FY23 saw healthy growth in offtakes from a low base after consecutive contractions
- Festive inventory built up began in Q2 and is expected to continue in Q3
- There was an increased push from the OEMs side as well
- On the other hand, retails moderated sequentially in Q2 , but witnessed y-o-y increase
- September saw some improvement in retails with the onset of festivals
- Discounts were offered by OEMs as well as dealers during the quarter, especially on commuter motorcycles; However, retails of the segment remained under pressure
- Premium segment saw healthy traction for motorcycles as well as scooters
- New launches provided an added kicker
- Stock levels have been built expecting a healthy festive season this year
- Dealer stock levels have increased to 55-60 days at the end of Q2, commuter motorcycle and scooter 110 segment stock remained relatively higher
- Stock built is expected to continue in Q3 for Diwali as well as upcoming marriage season
- EV supply has improved across OEMs
- Recent launches at competitive pricing have backed the EV demand
- EV traction remains buoyant despite the subsidy cut
- Industry is expected to witness healthy growth for the fiscal with premium segment providing the primary thrust
- EVs are expected to provide an additional support to the growth going ahead

Two-wheeler exports

Exports contract 20% y-o-y in H1FY24; Scooter exports rise

In turn, scooter major Honda, Suzuki extend their presence

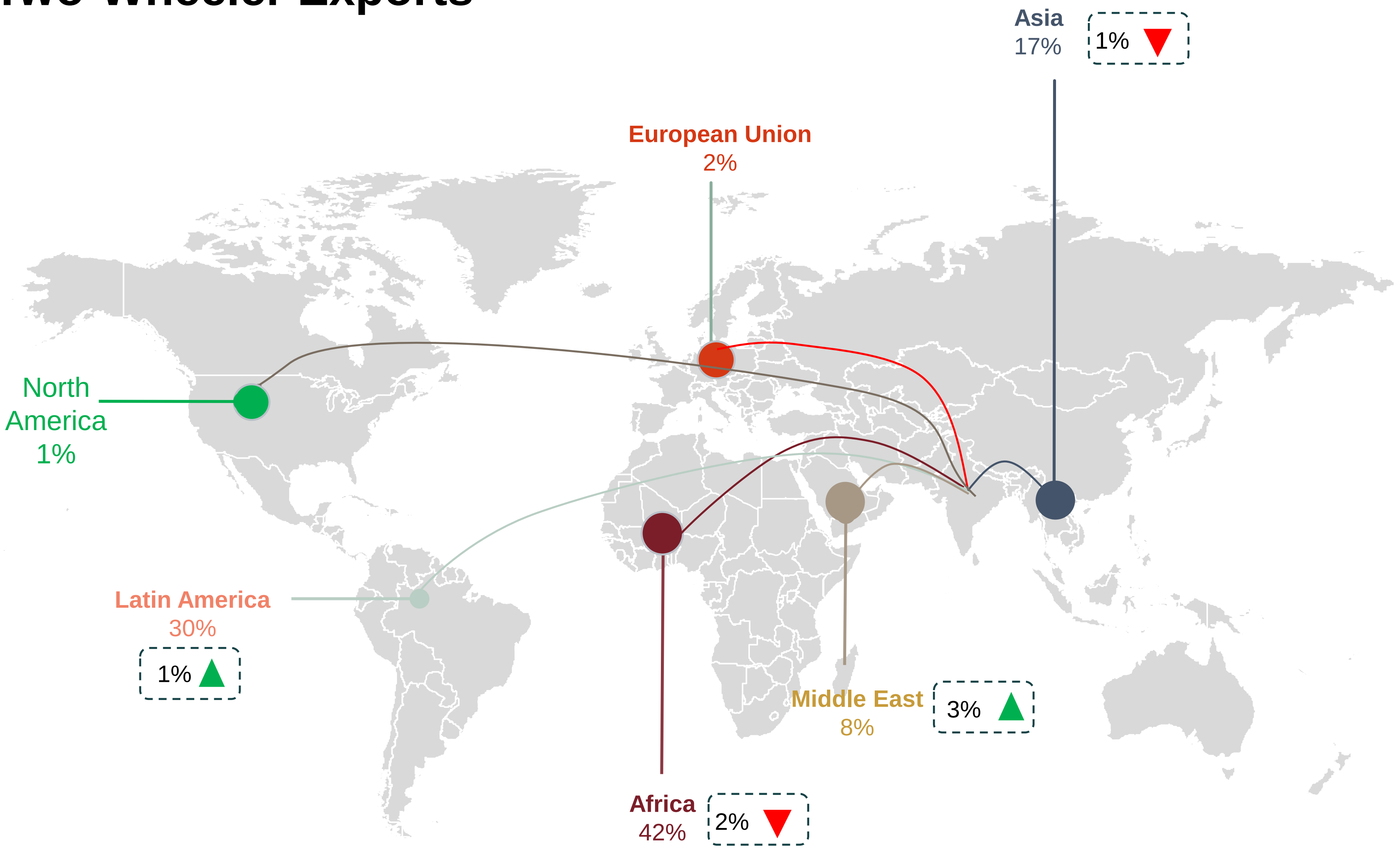




Source: SIAM, CRISIL MI&A

- Exports contracted 18% in FY23; Motorcycles dropped 21% , while scooter exports rose 19%
- Similar trend continued in H1FY24 , overall exports dropped 27% y-o-y; on the other hand, scooter exports rose 30%
- In turn, the share of scooters rose from 11% in FY23 to 16 % in H1 FY24
- Consequently, share of HMSI and Suzuki expanded during the quarter, while the leader Bajaj witnessed some contraction

Two-Wheeler Exports



- There has been demand pressure in key export destinations due to global tightening, high inflation & FOREX unavailability
- Devaluation of currencies against the Indian rupee and US dollar has also made products expensive.
- Contribution of Africa, the primary contributor to exports dropped amidst moderated exports to Nigeria
- Increased exports to Turkey supported Middle East share expansion
- While increased exports to Mexico backed the expansion of exports to LATAM region

Note: Represents share of volume for FY 24 April-June exports, % in dotted boxes indicates change in share from FY 23

Source: DGFT, CRISIL MI&A

Commercial Vehicles

Overview of end-use segments - Cargo

Segments (% Growth Y-o-Y)	FY19	FY20	FY21	FY22	FY23	FY24P	FY25P	
Coal (Production)	7	0	(2)	9	14	5-6	6-7	Core Sectors
Iron ore (Production)	3	19	(17)	23	3	6-8	6-8	
Steel (Consumption)	9	1	(5)	11.4	13.3	7-9	6-7	
Cement (Consumption)	12	(3)	1	9	12	10-12	2-4	
Roads (Km Constructed / Day)-NHAI	9	11	11	13	13-14	14-15		
Port (Traffic)	8.2	2	(5.5)	4.3	8.7	3-6	2-5	
Two-wheelers (Domestic sales)	5	(18)	(13)	(11)	19	12-14		Discretionary Products
Passenger vehicles (Domestic sales)	3	(18)	(2)	13	27	6-8		
Consumer durables (Consumption)	7	5	(17)	12-17	10-13	6-8	8-10	
E-retail	35-37	23	13	27	27	20-25	21-26	
RMG (Market Size)	6	(2)	(24)	23	14	9-11	10-12	
Dairy (Production)	7	5	(4)	3	3	3-4	5-6	Non - Discretionary Products
FMCG	12	5	3.5	13-15	13.3	7-9		
Pharmaceuticals (Market Size)	15	9	13	7-8	12	8-10	9-11	

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

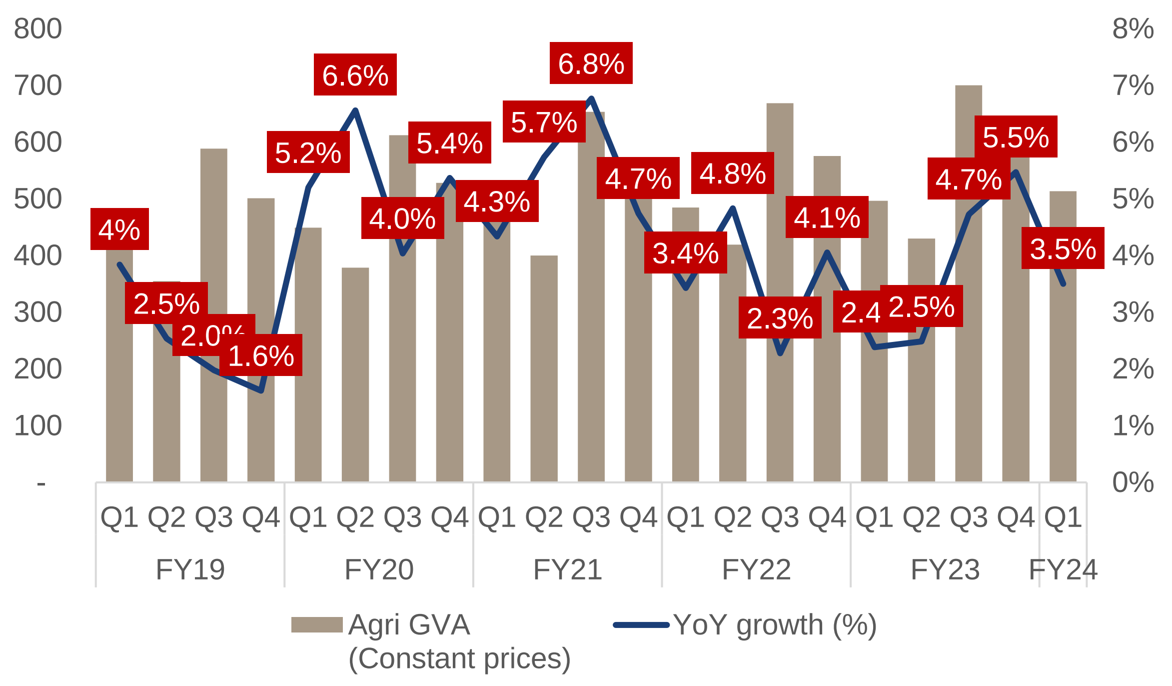
Overview of end-use segments - Buses

Segments (% Growth Y-o-Y)	FY19	FY20	FY21	FY22	FY23	FY24P	FY25P	
Gross School Enrollment								Buses
K-12	73.4	78	74.5	74.8	75.1	75.4	75.7	
Above K-12	22.5	22.5	22.2	23.0	23.4	23.4	23.3	
IT Employee Base	4	4	7	14.5	7-9	1-3	2-5	
Air Passenger Traffic – Domestic (million passengers)	140	142	54	84.7	135	153-163	179	
Air Passenger Traffic – International (million passengers)	69	66.5	10.4	22.1	60	68-73	80-82	
Hotel Room Demand	4	1	(51)	68	55-60	8-12	4-8	

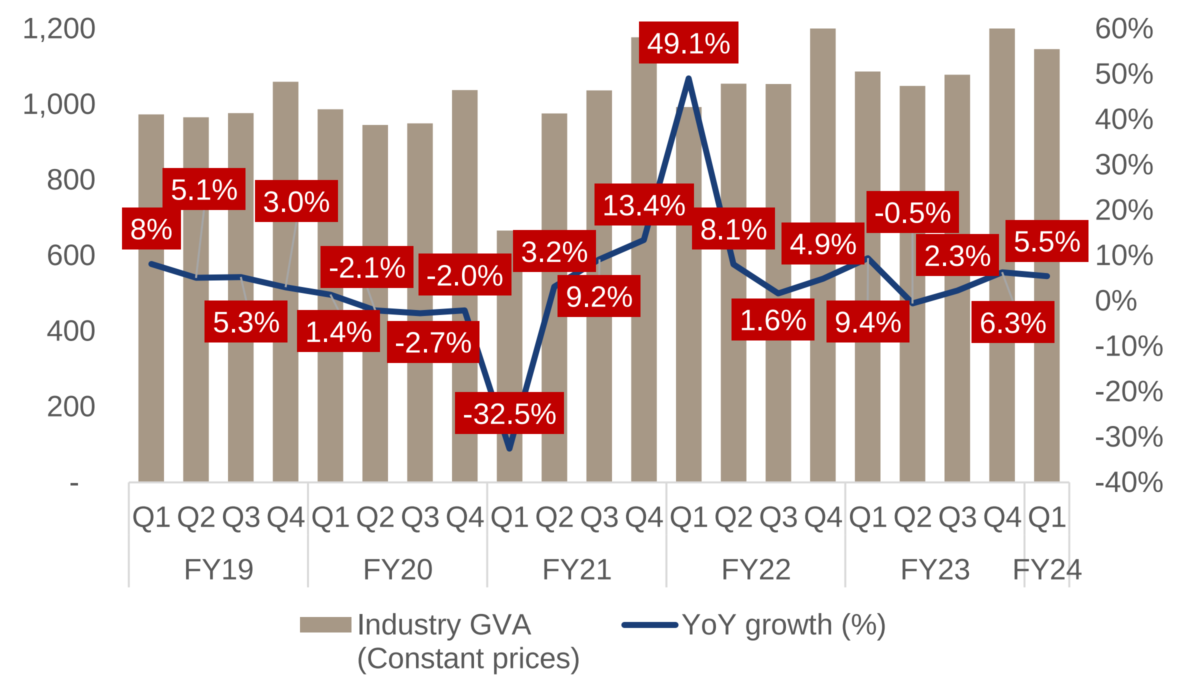
Source: CSO, RBI, SIAM and CRISIL estimates E: Estimated; P: Projected

Agri/ Industry GVA increase at a reduced pace during Q1

Agriculture GVA growth (in Rs. Thousand Crore)



Industry GVA growth (in Rs. Thousand Crore)

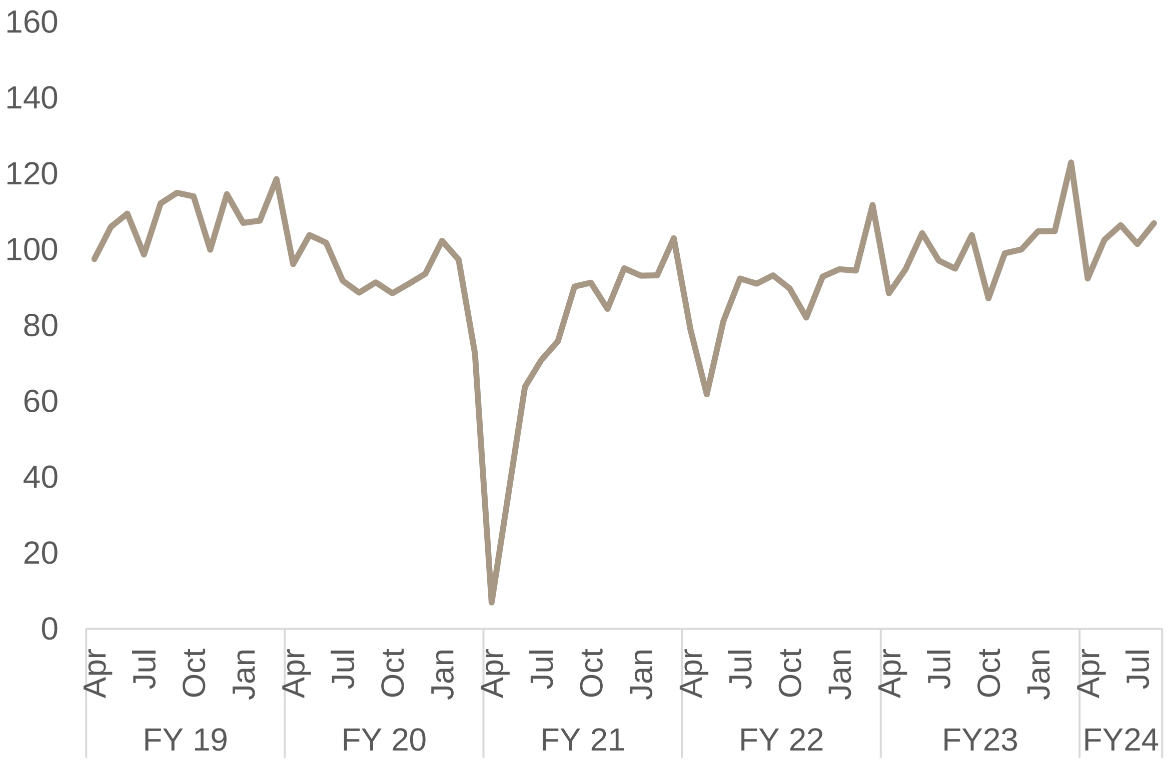


- Agri GDP increased at 3.5% on-year during Q1FY24. Growth in Q1FY23 was around 2.4%
- Overall agriculture growth is expected to remain around 3% in FY24
- Industry GVA witnessed 5.5% growth in Q1FY24

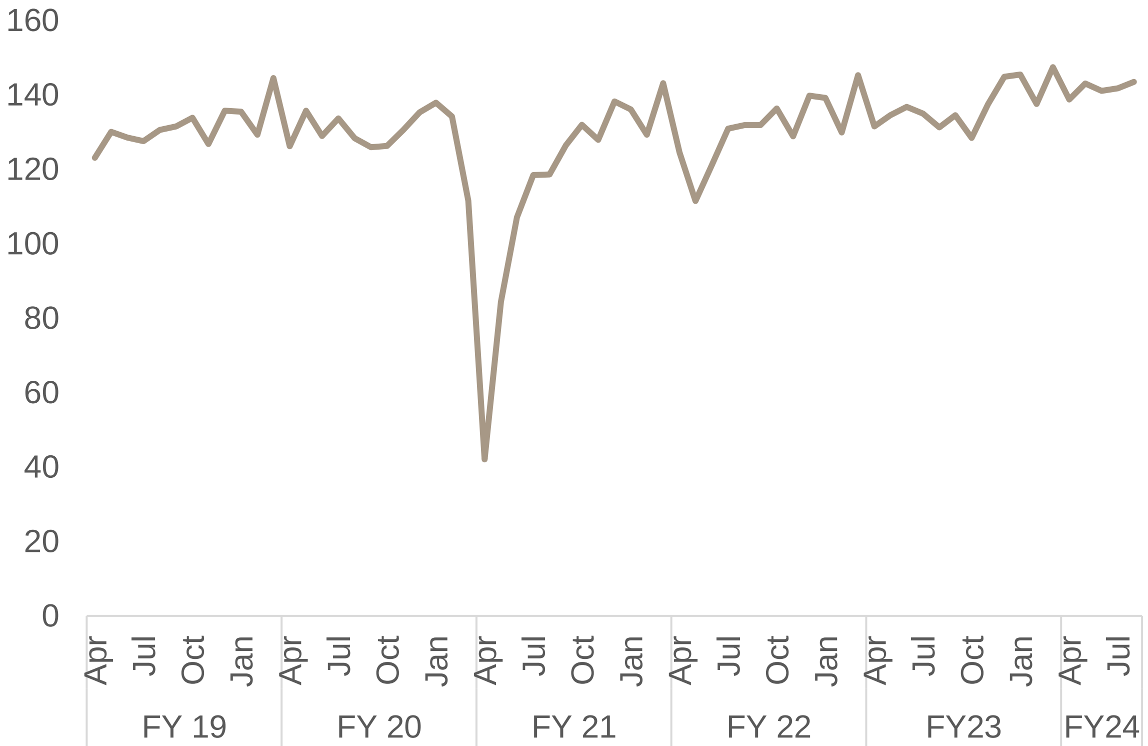
Source: MOSPI, CRISIL MI&A

Mild m-o-m improvement in industrial activity

IIP Capital Goods



IIP Manufacturing

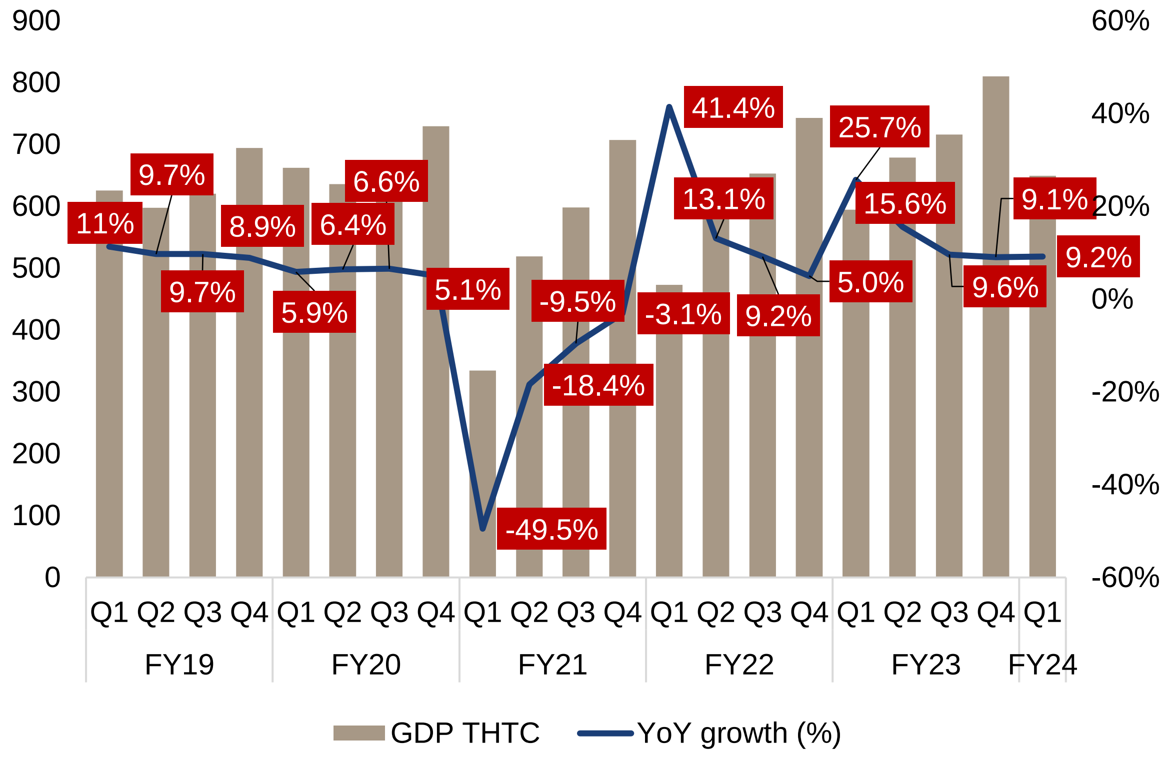


- The Index of Industrial Production (IIP) general grew 10.3% on-year in August 2023 compared with 6% on-year in July 2023.
- Activity picked up for industrial goods, manufacturing but growth continued to be slower for consumer-oriented sectors.

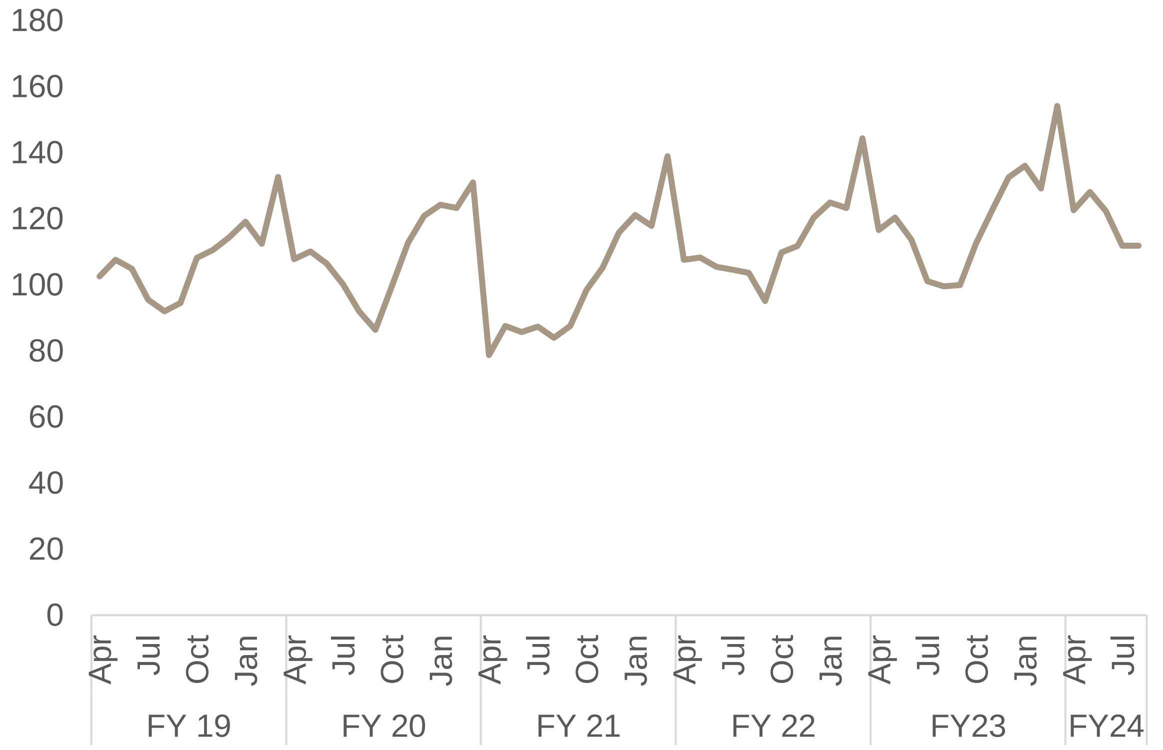
Source: MOSPI, CRISIL MI&A

GDP THTC sees growth on low base; Mining IIP on year growth improves

GDP THTC (in Rs. Thousand Crores)



IIP Mining



- GDP THTC registered a growth of 9.2% in Q1FY24 over Q1FY23. This segment is showing healthy growth on account of tourism sector picking up.
- Mining IIP increased to 12.3% on-year in August from 10.7% levels witnessed in July.

Note: THTC: Transport Hotel Transport Communication Services

Source: MOSPI, CRISIL MI&A

Overview of end-use segments – Discretionary consumer goods

Segments (% Growth Y-o-Y)	FY19	FY20	FY21	FY22	FY23	FY24P	FY25P
Consumer durables (Consumption)	7	5	(17)	12-17	10-13	6-8	8-10

- Rising inflation and reduced discretionary spend in the short term is expected to limit growth of consumer durables sector in FY23 and FY24.
- Consumer durables to witness healthy growth in fiscal 2025 on increasing affordability because of stable product prices, easy financing options, increased government spending on rural infrastructure amid higher economic growth, and assuming moderate inflation.

Segments (% Growth Y-o-Y)	FY19	FY20	FY21	FY22	FY23	FY24P	FY25P
E-retail	35-37	23	13	27	27	20-25	21-26

- The Indian E-retail sector is expected to grow by 21-26% in FY25 on the back of rising internet penetration, online shopping awareness, and lucrative deals and discounts from well-established players and start-ups. Online retail penetration to cross 6% in the long term over the current 3.7% in FY24.Inflation and slowdown in consumption will hinder growth next fiscal. Grocery, Jewellery and Electronics are expected to be the fastest growing sub-segments in the near future

Segments (% Growth Y-o-Y)	FY19	FY20	FY21	FY22	FY23	FY24P	FY25P
RMG (Market Size)	6	(2)	(24)	23	14	9-11	10-12

- Overall RMG market is projected to cross Rs.6 trillion by FY25, up 10-12% from the projected Rs 5.4 trillion by the end of FY24. The RMG industry's revenues are estimated to have increased by around 14% during FY23. There will be sustained demand on the domestic front, export market is expected to register a 1-3% de-growth in prices. To make Indian exporters more competitive, the government announced several new schemes and extended some older schemes as well like including the industry in PLI.

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

Overview of buses

Segments	FY19	FY20	FY21	FY22	FY23	FY24P	FY25P
No of K-12 institutions (million)	1.56	1.65	1.62	1.6	1.7	1.7	1.71
Gross enrolment ratio (GER) (%)	73.4	78	74.5	74.8	75.1	75.4	75.7

- Off the high base of FY23, the industry is expected have a moderate growth of 10-15% in FY24. The formal and informal segments are projected to grow at 5-10% and 15-20%, respectively. Due to natural causes (increase in eligible population) and efforts of the government, the overall enrolments are expected to increase.

Segments (% Growth Y-o-Y)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25P
Growth in number of IT employees	4	4	7	14.5	7-9	1-3	2-5

- For FY24 companies are adopting a cautious approach and net employee addition is expected to be between 1-3%. The pandemic has led to rise in offshoring which resulted into rise in Indian export employee additions. Over FY23-28 IT services' export revenue to log a compounded annual growth rate (CAGR) of 9-11%. This growth will be led by digital export services in cloud services, RPA, and AI, along with offer differentiation.
- The growth is expected to be in the range of 2-5% for FY25

Segment	FY19	FY20	FY21	FY22	FY23	FY24P	FY25P
Pan India hotel rooms supply	75250	77619	79300	83415	92868	96419	97411
Occupancy rates (%)	65	64	31	50	69	73	77

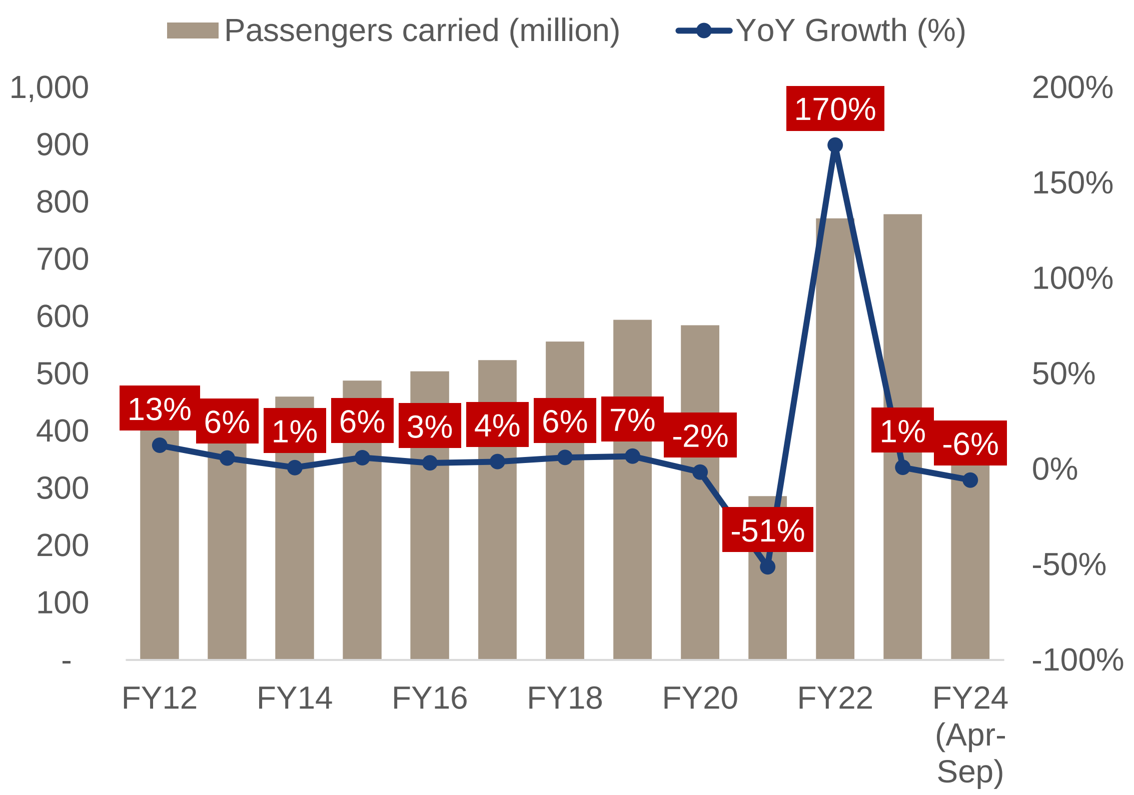
- Revenue of hotel chains is estimated to rise 20-25% in FY24, in which almost half of it will be driven by average room rate and in fiscal 2025 revenue is expected to rise by 8-12%. Premium hotels witnessed 10-year high average room rates and occupancy levels in FY23 and it is projected, occupancies and average room rate will rise to 68-73% and by 11-13% in FY24. Pan India Occupancy rates is projected to touch 77% by fiscal 2025. Growth is led by a pickup in corporate travel and MICE (meetings, incentives, conferences and exhibitions) and revival in inbound international travel demand. Growth is led by a pickup in corporate travel and MICE (meetings, incentives, conferences and exhibitions) and revival in inbound international travel demand.

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

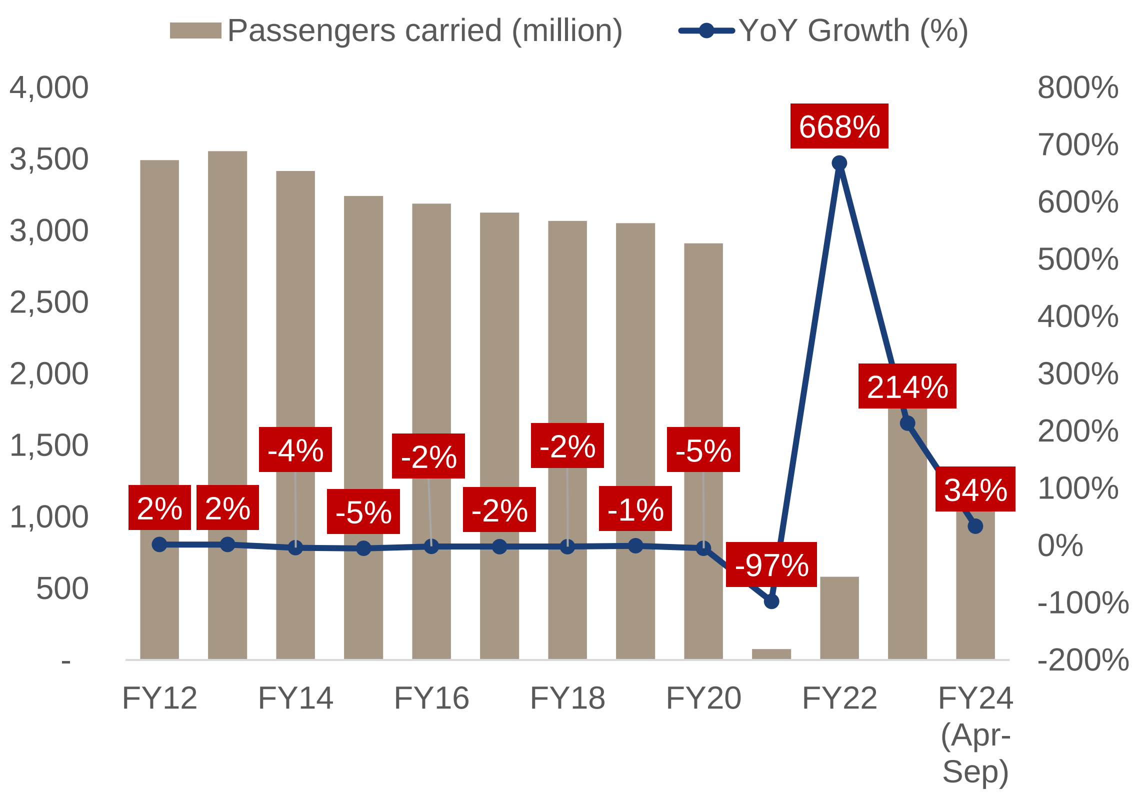
With the COVID-19 effect waning, passenger movement across modes has improved

Railway passenger traffic growth (%) – Non-Suburban

Reserved



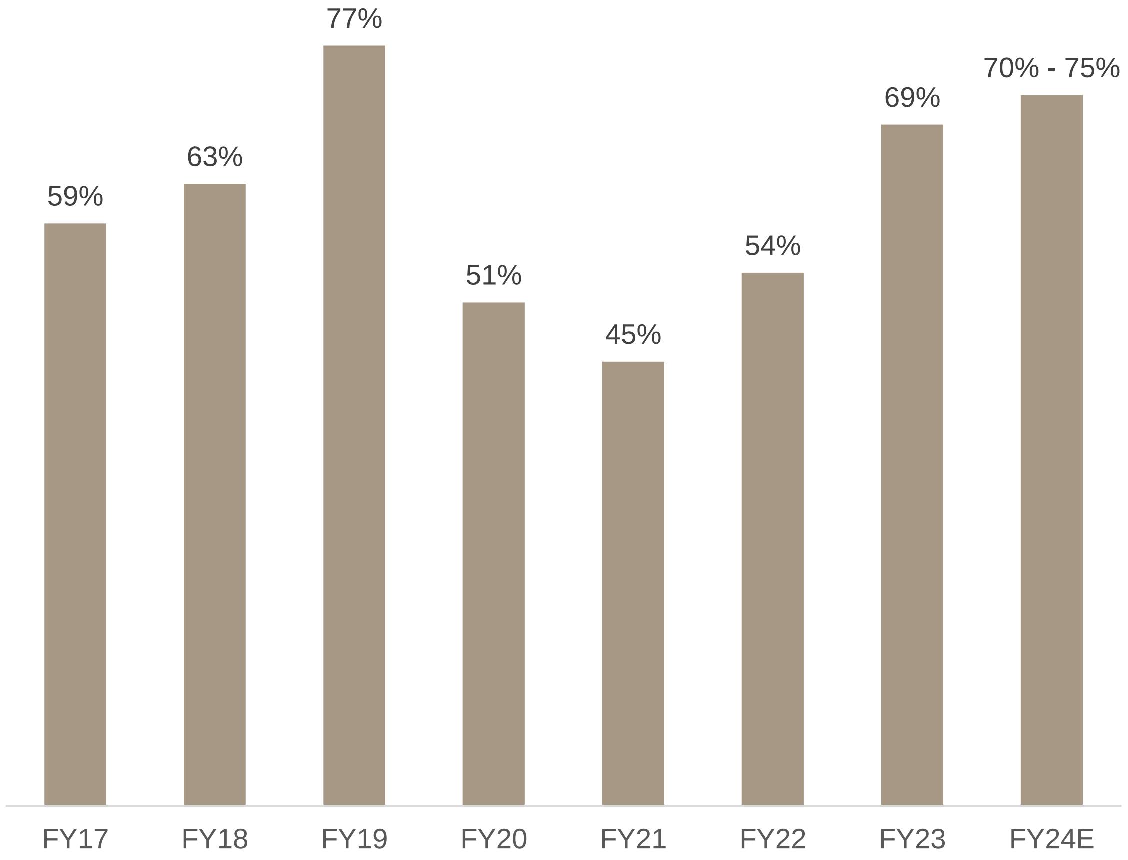
Unreserved



Source: Ministry of Railways, CRISIL MI&A

Utilization to improve further

Increase in capacity utilization level



Player-wise capacity utilisation

Player	Effective Capacity estimate (as on 31st Mar 2020)	Production in H1FY24	Capacity utilization in H1FY24
Ashok Leyland	2,22,300	92,879	84%
Tata Motors	7,62,000	1,99,975	52%
Mahindra & Mahindra	2,92,000	1,44,812	99%
Eicher Motors	97,500	40,273	83%

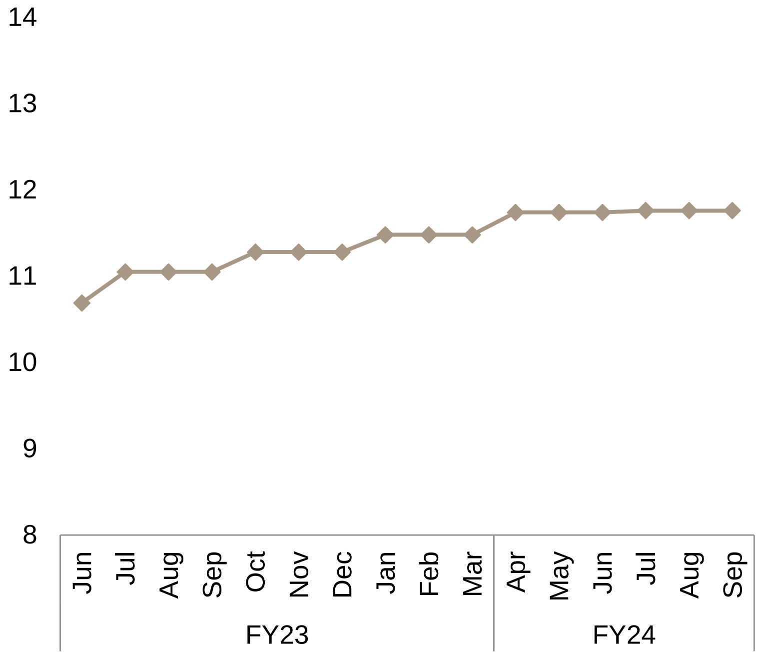
Capacity additions

Player	Location	Capacity '00 units	Status
Causis E-Mobility Pvt. Ltd.	Murshidabad, West Bengal	15	Planning
Causis E-Mobility Pvt. Ltd.	Pune, Maharashtra	10	Under implementation
Veera Vahana Udyog Pvt. Ltd.	Anantapur, Andhra Pradesh	30	Planning
Triton Electric Vehicle Pvt. Ltd.	Kutch, Gujarat	500	Planning

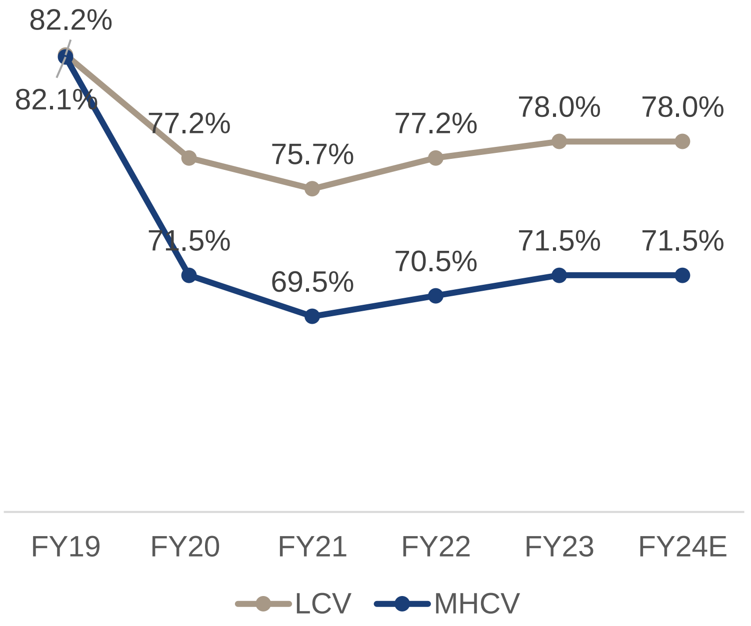
Note: Capacity utilization is that of Tata Motors, Ashok Leyland, Eicher Motors and Mahindra & Mahindra representing 90% of domestic sales
Source: Industry, CRISIL MI&A

Lending rates remain elevated, cautious lending by banks in few states

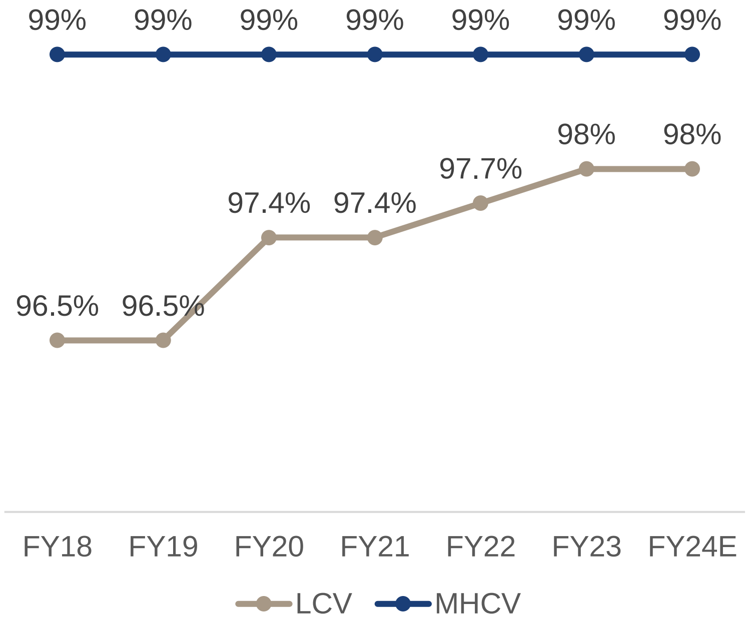
CV finance rates (%)



Loan-to-value for CV



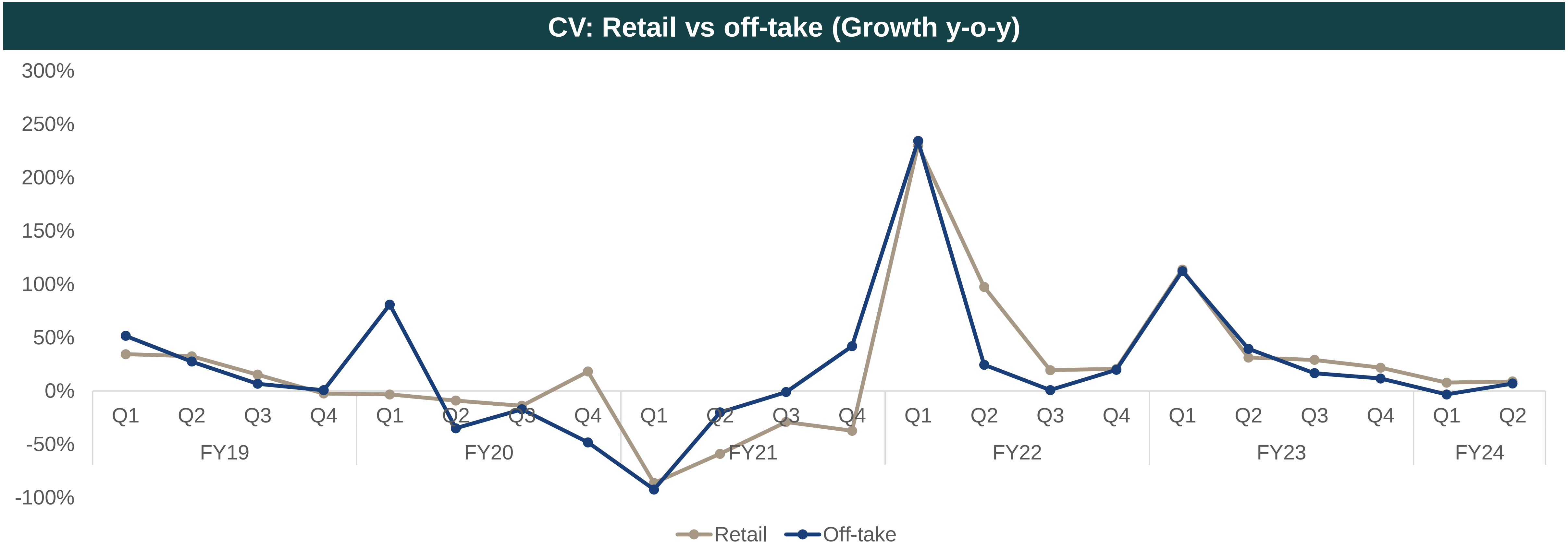
CV finance penetration



NOTE - Interest rates are an indicative rates charged by Banks

Source: Company Reports, Industry, Crisil MI&A

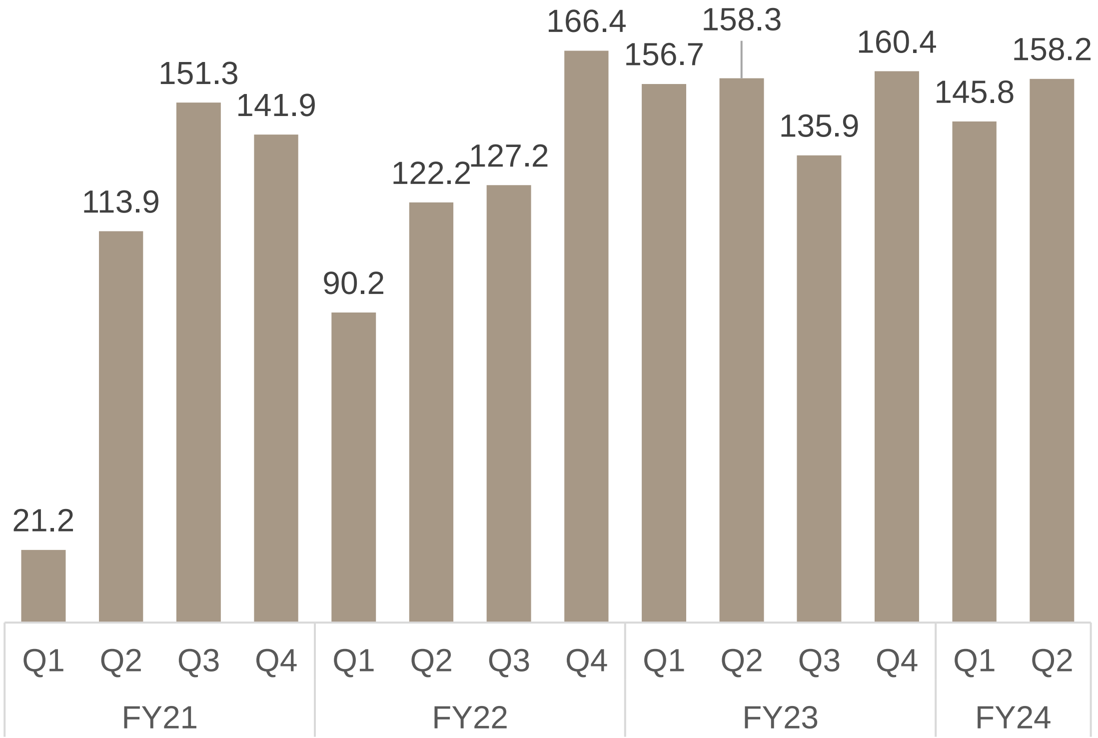
Positive momentum in retail as well as offtake during Q2



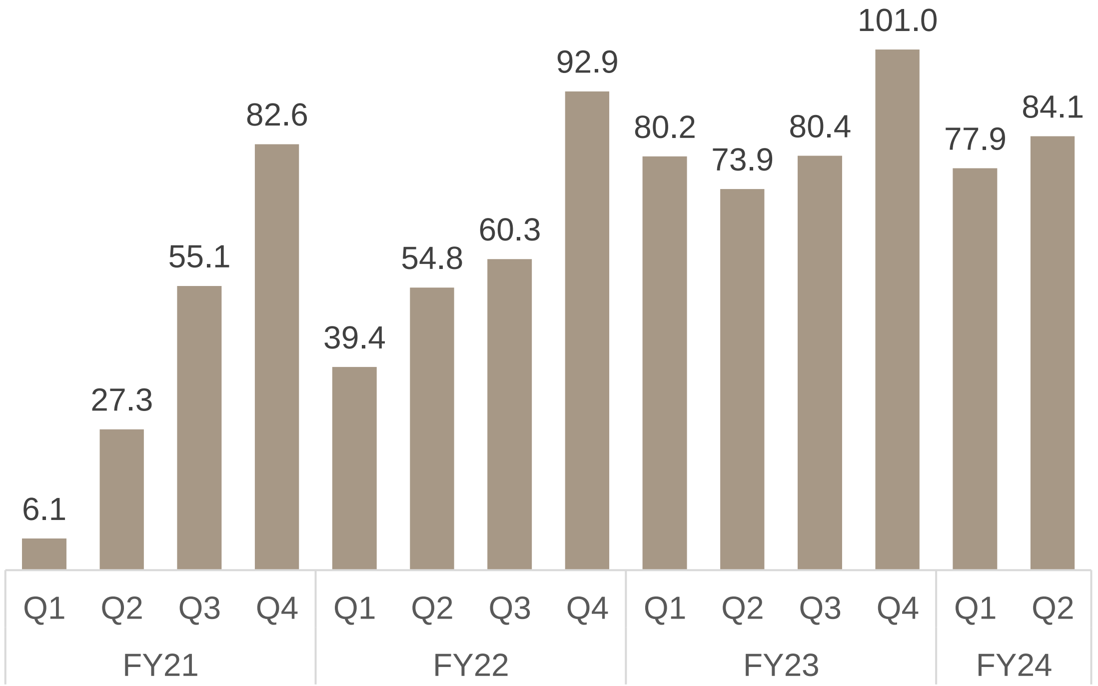
Source: SIAM, MoRTH, CRISIL MI&A

Production of LCVs and MHCVs increased sequentially in Q2FY24

LCV production levels (in thousands)



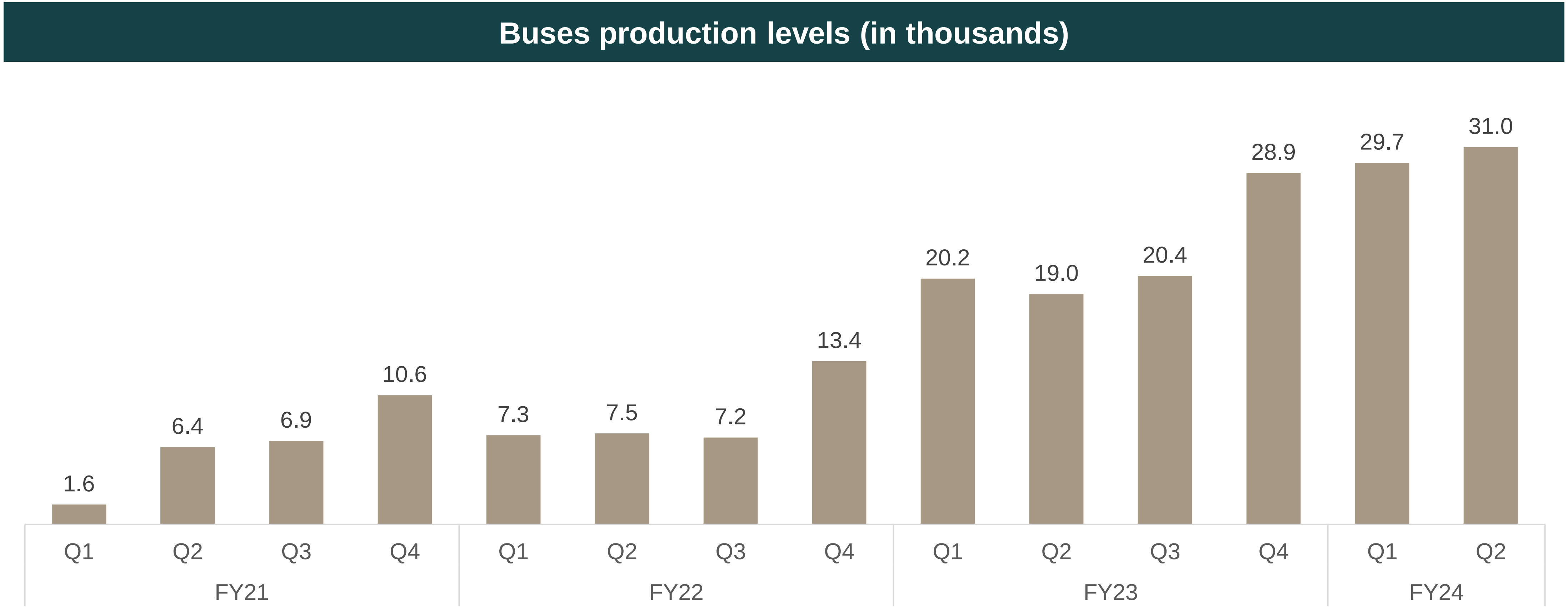
M&HCV production levels (in thousands)



- Production for LCV remained rangebound y-o-y and MHCV increased by approx. 14% y-o-y in Q2FY24.
- Production increased in Q2FY24 and is expected to remain strong for the entire fiscal as government uses infrastructure-capex to support the economy that would further aid to the demand of MHCV.

Source: SIAM, CRISIL MI&A

Bus demand supported by tourism and STU procurement in Q2FY24



- Tourism and other avenues of passenger mobility have seen return to normalcy over the last 1 year and hence the normal buying cycle seen in FY23 is expected to continue in FY24
- STU procurement by means of GCC contract is expected to continue in FY24 before certain states as well as general elections come into play

Source: SIAM, CRISIL MI&A

Domestic – Annual forecast

Sales	Units	LCV cargo	IMHCV cargo	Buses	CV	EV Penetration
FY22	Thousands	472	227	32	**731**	**2%**
y-o-y growth	*%*	*19%*	*47%*	*90%*	***29%***	
FY23	Thousands	559	320	81	**960**	**2-4%**
y-o-y growth	*%*	*22%*	*41%*	*163%*	***34%***	
FY24E	Thousands	*561-572*	*335-342*	*98-101*	***995-1014***	***3-5%***
y-o-y growth	*%*	*0-2%*	*5-7%*	*22-24%*	***4-6%***	

Source – SIAM, CRISIL MI&A

Domestic – Quarterly forecast

Annual	Quarter	LCV cargo		IMHCV cargo		Buses		Total	
		Sales ('000)	*y-o-y growth*	Sales ('000)	*y-o-y growth*	Sales ('000)	*y-o-y growth*	Sales ('000)	*y-o-y growth*
FY22	Q1	73.6	*180%*	27.3	*567%*	5.4	*389%*	106.2	*237%*
	Q2	108	*3%*	51.3	*115%*	6.3	*57%*	165.5	*24%*
	Q3	127.6	*(8%)*	60.4	*21%*	6.9	*67%*	195	*1%*
	Q4	148.9	*19%*	88.1	*16%*	12.1	*53%*	249	*19%*
FY23	Q1	136.6	*86%*	67.4	*147%*	19.1	*255%*	223.1	*111%*
	Q2	141.7	*31%*	72	*40%*	17.9	*185%*	231.6	*40%*
	Q3	133.3	*4%*	76.8	*27%*	15.9	*129%*	225.9	*16%*
	Q4	147	*(1)%*	104.1	*18%*	27.9	*130%*	279	*12%*
FY24E	Q1	123.8	*(9)%*	67.0	*(1)%*	25.2	*32%*	216.0	*(3)%*
	Q2	140.7	*(1)%*	82.7	*15%*	23.8	*33%*	247.2	*7%*
	Q3E	145-148	*9-11%*	86-88	*12-14%*	21-22	*34-36%*	253-257	*12-14%*
	Q4E	154-157	*4-6%*	101-103	*(3)-(1)%*	29-31	*3-5%*	283-289	*1-3%*
FY25P	Q1P	117-120	*(5)-(3)%*	65-67	*(4)-(2)%*	22-24	*(10)-(8)%*	204-209	*(5)-(3)%*
	Q2P	135-138	*(4)-(2)%*	76-78	*(8)-(6)%*	21-22	*(11)-(9)%*	232-237	*(6)-(4)%*

Source – SIAM, CRISIL MI&A

Domestic – Quarterly forecast

- **SCV & ULCV**: Apart from interest rate hike, continuation of increase in upshift from sub-1 tonne to pickup segment is causing some pressure on the sub-1 tonne segment. It is also facing competition from EV 3 wheelers as well in view of operating economics and companies wanting to earn more carbon credits. There is some pressure expected to be on production for kharif crop. However, Rabi crop is expected to fare better comparatively. Taken this into consideration on overall current scenario the agri output for horticulture and foodgrains is expected to have a stable outlook for FY24, which is also expected to reflect in healthy figures for the pickup segment. Replacement demand from municipal applications to be one of the key drivers for the ULCV segment

- **MHCV**: With the advent of key models in ICV (16T 32 ft) and MCV (19T 160 HP) replacement cycle could see uptick in the coming quarters. Model launches by OEM's in MCV, POL tenders from the northern states are expected to keep this segment buoyant in next few quarters. As freight rates have been in line with fuel prices over the last 12 months, transporter profitability has been stable. Tipper demand to stay resilient on account of pre-elections spending towards the completion of existing projects in advanced stages as the focus is likely to shift on timely completion of these projects before the general elections. Tractor Trailer to witness some incremental demand as Tip trailers have been making some headway in the industry. Further the usage of tip-trailers for the transportation of commodities like coal, fly ash and clinkers has begun to show a rising trend. Higher tonnage has been dominating TT segment which is largely used for haulage movement could have minimal impact of DFC as it would largely affect 40T (shrinking share) used for container movement.

- **Buses**: Major IT companies have gradually ended hybrid culture and are shifting to work from office permanently especially in export oriented SEZ units as a result demand from staff buses to see growth in the coming quarters. Due to elections next year, coming quarters may see uptick in sales of vans owing to rise in disposable income with the SFO which largely dominates the van segment. It is expected that deliveries of tenders awarded may get fast tracked in next 2 quarters as deployment of vehicles gets prioritized due to this being a pre-election year and the model code of conduct coming into effect by end of Q4FY24 or start of Q1FY25.

Stakeholder interactions

Transporters

Utilization levels

- Utilisation levels have improved due to improved movement of commodities like parcel/loose goods, FMCG/FMCD, e-commerce, which has been keeping the fleet of LFO's engaged. Whereas SFOs have been facing some challenges with regards to load availability and financing issues, thus affecting their utilization levels
- Post BS6 phase II implementation, the new models have been consuming more urea for proper functioning, thus transporters have been complaining of added cost of urea which has been keeping their profit margins tight.

Freight rates

- Post monsoon, movement of commodities have improved, thus freight rates have also improved. Specially for FMCG/FMCD, E-commerce, Auto-carriers, the freight rates have improved from September month due to several reasons like good auto dispatches in September month, upcoming sale bonanzas of E-commerce companies and subsiding of rains, collectively improving freight movement.
- Whereas freight rates for mining are yet to be improved due to uneven rainfall in most regions keeping mining activities halted, however, coming quarters may see resumption in mining activities which will impact its freight rates positively.

Dealers & OEMs

Demand Story

- The SCV category is primarily driven by pik-ups, although sub-one tonne demand is slightly slowing down as a result of the preference shift towards pik-ups due to factors including customer business expansion to meet future needs.
- Outlook for LCV segment is anticipated to be better in the coming quarter due to demand from E-commerce companies for their last-mile delivery needs particularly for carrying FMCG/FMCD products. Whereas there has been some demand from local municipal bodies for LCVs catering to the garbage collection application,
- MAVs are anticipated to do better in the coming quarters due to greater infra push in several regions like Uttar Pradesh, Assam, Maharashtra where dealers have been hinting that many projects are either under implementation or towards completion. Also, demand from cement and aggregates shall get better in the coming two quarters due to resumption in construction activities post monsoon season
- Tipper's segment, which is mostly driven by mining and construction, experienced a little slowdown in demand in Q2 as a result of the monsoon's regular seasonality. But now the rains have stopped, and mining activity will gradually resume, it is believed that the upcoming quarters would be better for tippers.
- For Buses, due to FAPS (Fire Alarm Protection System) coming into effect from Oct 1st, there may be some challenges from the OEM side with regards to preparedness of the models, however it will get better as we enter Q4 of fiscal 24.

Financier

LTVs and participation levels

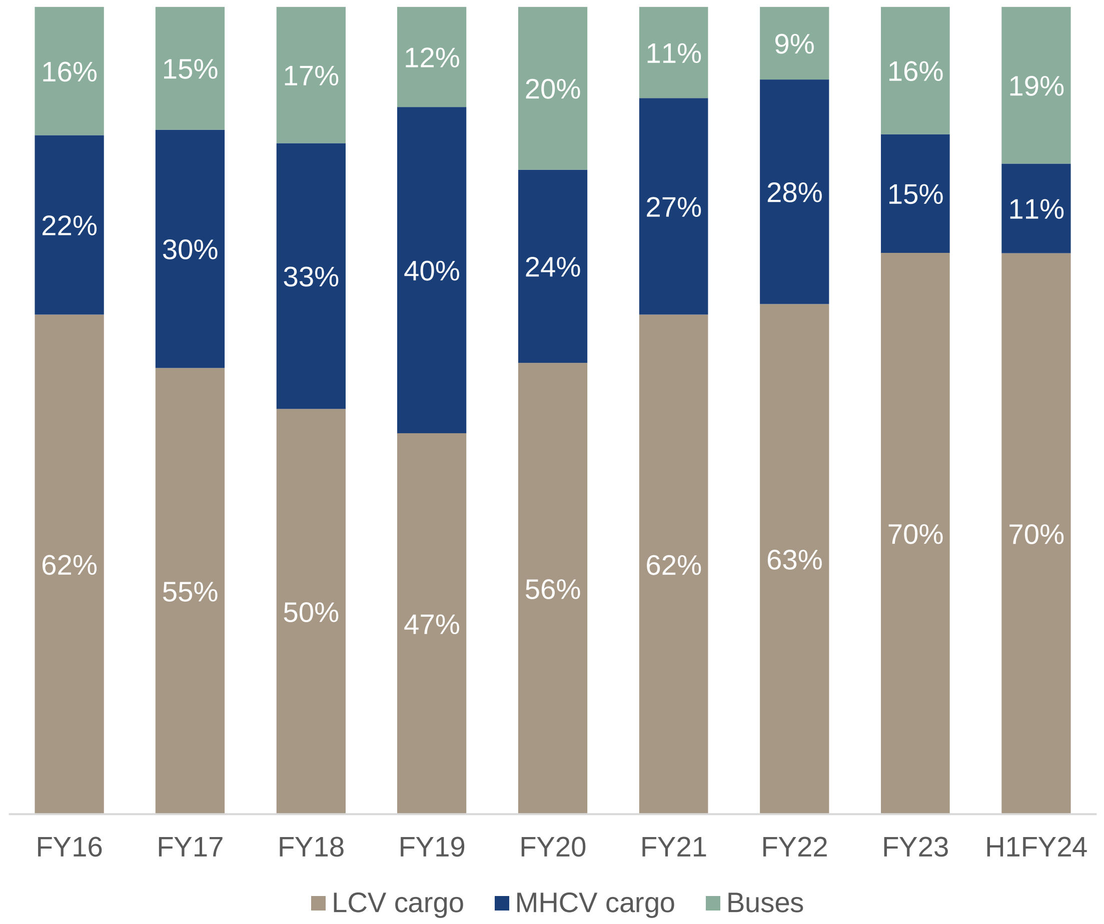
- Post change in RBI norms regarding NPAs and provisioning, financiers have become more stringent and wary of approving risky vehicular loans.
- Financiers have become particularly stringent regarding approval of MHCV, MAV, TT loans where customers are made to go through various conditions. Only upon the fulfillment of all these express conditions will the corpus be disbursed.
- For SCVs, LCVs the process of financing is less cumbersome and rigid. SCVs have been witnessing aggressive financing options and higher loan offerings as the customers in this segment are generally more price sensitive.
- Interest rates have been on a rising trajectory since FY22 however, this has not dampened overall CV sales. Furthermore, MPC has kept the interest rates unchanged for the third consecutive time. This is expected to continue.
- Payments from government agencies are expected to pickup before elections, which will alleviate the liquidity crunch for contractors and transporters. This will alleviate any NPA anxiety for financiers.

Source – Industry, CRISIL MI&A

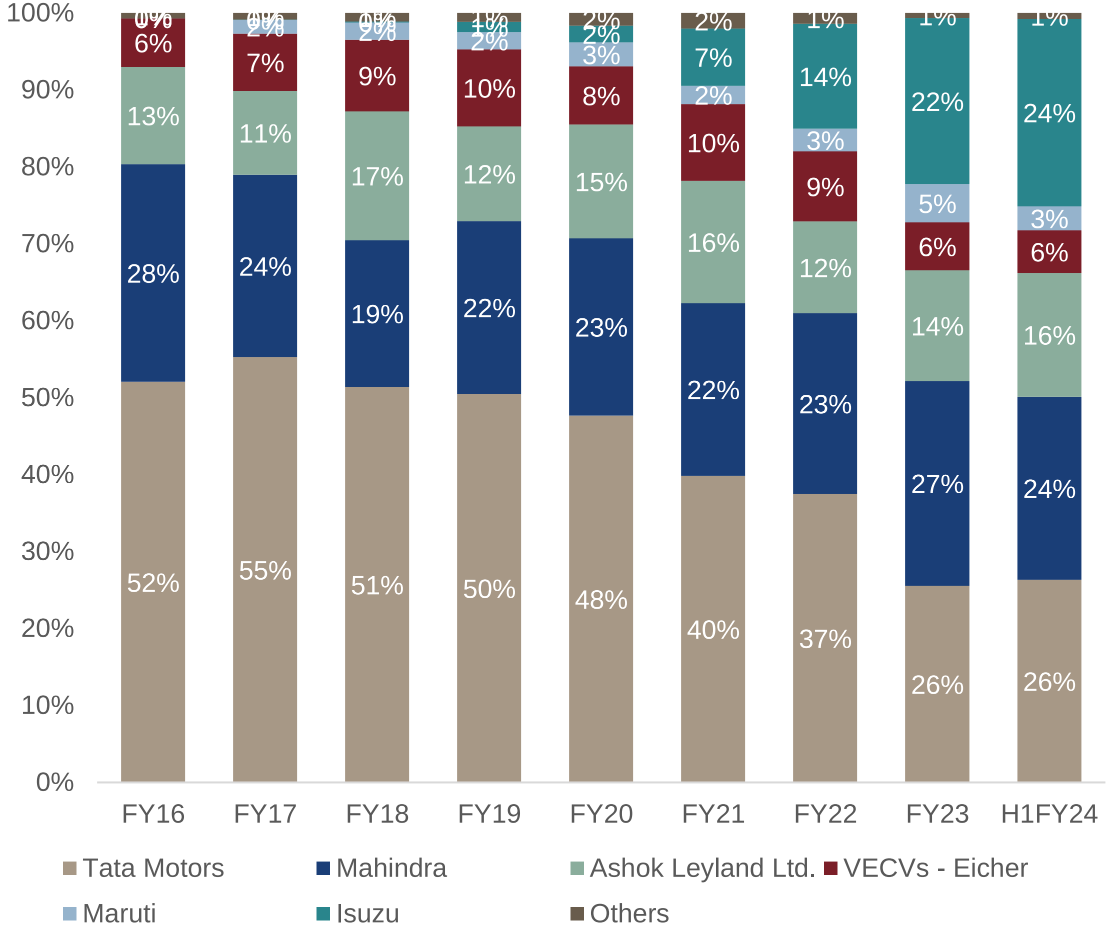
Commercial vehicle exports

Share of Buses on an uptrend

LCV occupies more than ~2/3rd share



Share of leading players declines

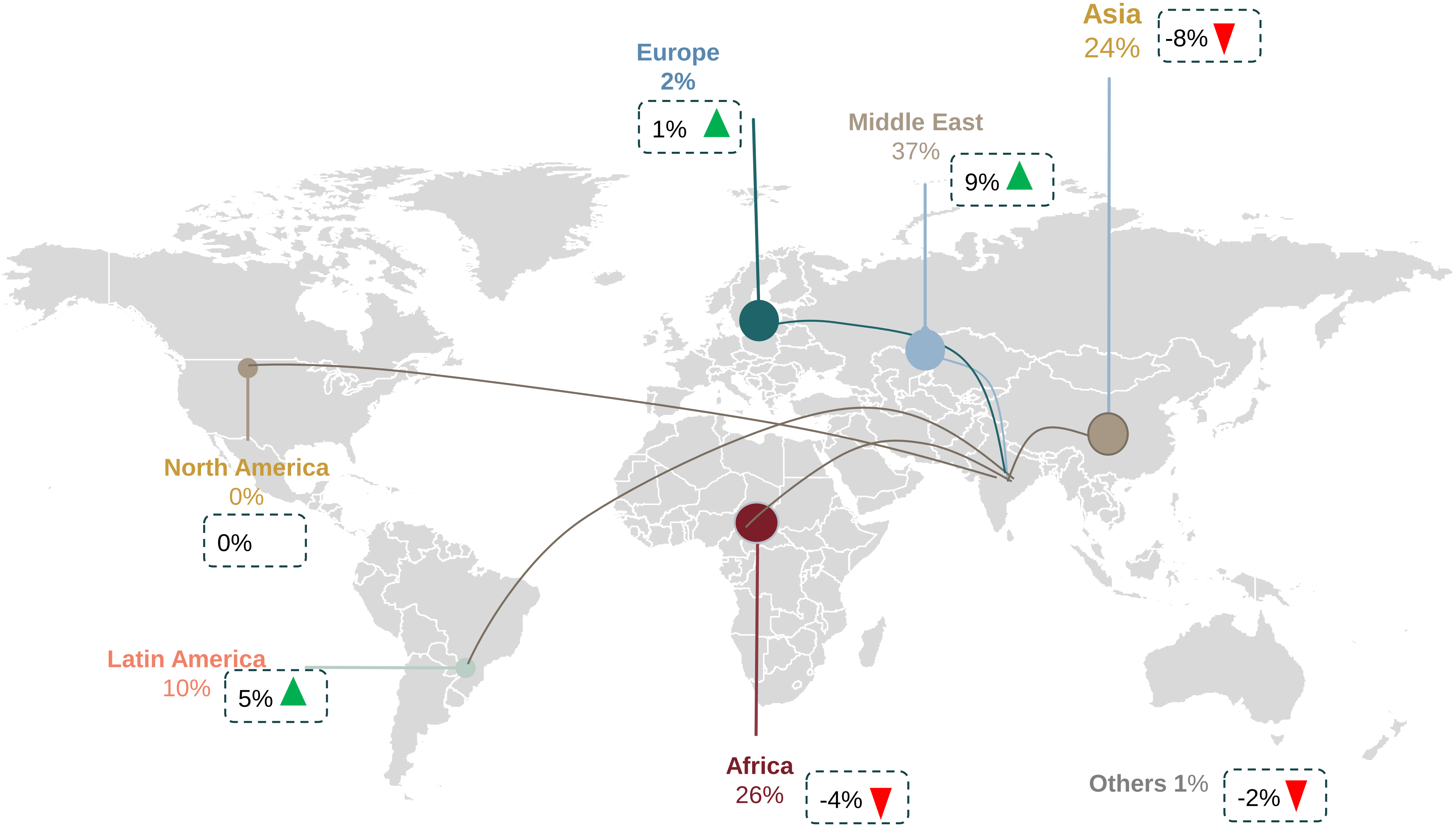


Market Intelligence & Analytics

Source: SIAM, CRISIL MI&A

CRISIL
An S&P Global Company

Commercial vehicles exports



- CV exports have been under pressure in FY24 amidst the slowdown in exporting countries, unavailability of FOREX as well as limited retail financing.
- Saudi Arabia has taken the lead in recent times.
- Asia has lost share amidst the slowdown in demand from neighbouring countries of Bangladesh, Nepal & Bhutan.

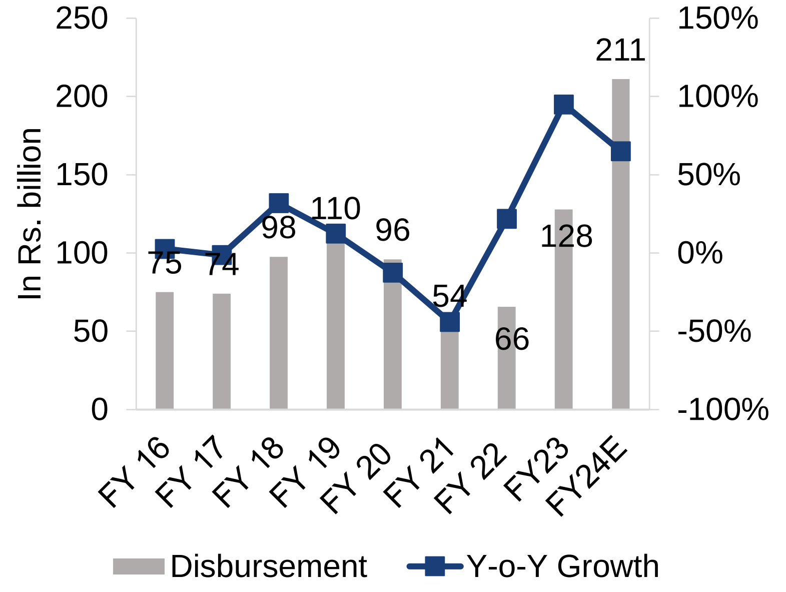
Note: Represents share of exports for FY24 (Apr-June), % in dotted boxes indicates change in market share from FY23 to FY24

Source: DGFT, CRISIL MI&A

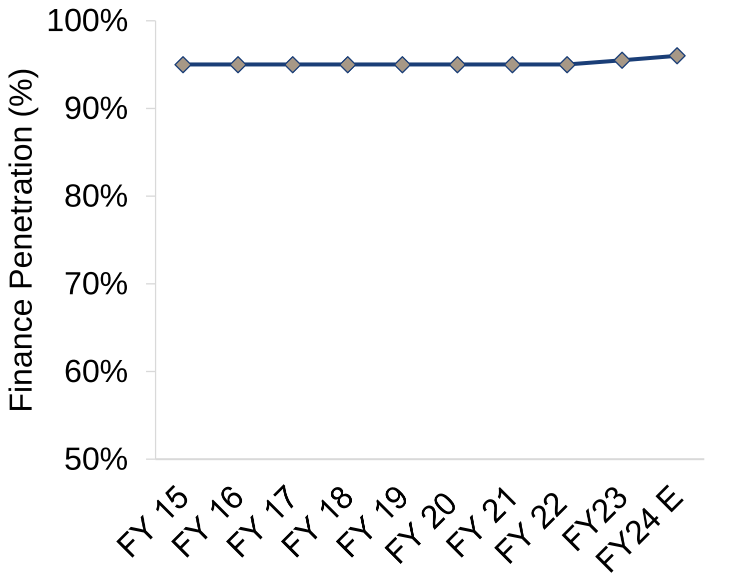
Three-wheelers

Improvement in financing scenario

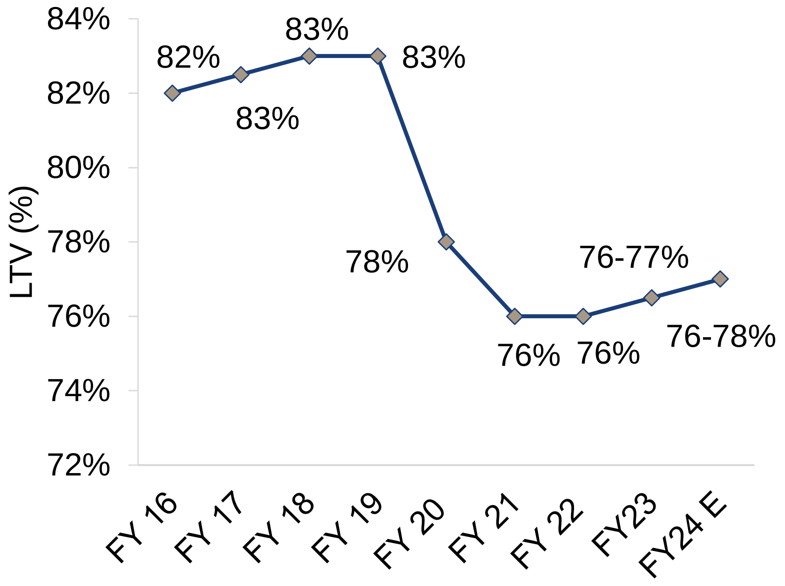
Disbursements to improve further



Finance penetration



Recovery in LTV levels

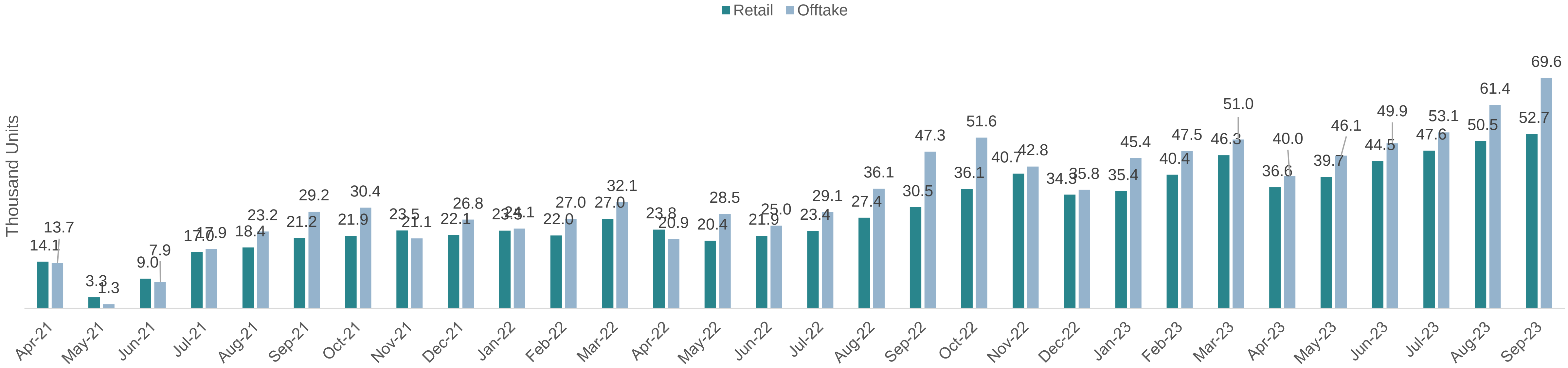


- From the bottom reached during the pandemic, sales and in turn disbursements are on the rising momentum
- FY23 saw a significant improvement, with sales rising 88% on year
- Going ahead, disbursement growth is expected to continue in FY24, albeit at a slower pace
- Price rise for BSVI phase 2 over and above the annual price rise will provide an additional support to the disbursement growth during the year
- Financers are expected to be accommodative in FY24 backing the improvement in LTV and in turn, the penetration

Source: Credit Bureau, Company Reports, CRISIL MI&A

Festive built up during Q2

Gradual improvement in retails



Note: Data does not include E rickshaw & E cart numbers
Source: SIAM, Vahan, CRISIL MI&A

- Industry witnessed festive built up during Q2
- Offtakes reached a sizeable high, closer to the pre covid sales, 35% sequential increase in offtakes while on a y-o-y basis increase was more than 60%
- Retails also witnessed sequential improvement during Q2 supported by continued demand especially for the passenger segment
- 25% sequential increase and 85% increase compared to last year
- 30-35 days inventory with dealers

Domestic – Annual forecast

Sales	Units	Passenger	Goods	Total	EV penetration
FY21	'000	133	84	**217**	**1%**
y-o-y growth	*%*	*-75%*	*-24%*	***-66%***	
FY22	'000	178	83	**260**	**4%**
y-o-y growth	*%*	*34%*	*-1%*	***20%***	
FY23	'000	376	113	**489**	**6%**
y-o-y growth	*%*	*112%*	*37%*	***88%***	
FY24E	'000	635-645	130-140	**760-790**	**12-15%**
y-o-y growth	*%*	*70-73%*	*17-19%*	***58-61%***	

Note: Includes EV 3W/ E Auto, does not include E Rickshaw; VAHAN retail data has been used for E Auto numbers
Source – SIAM, CRISIL MI&A

Domestic – Quarterly forecast

Fiscal	Quarter	Passenger		Goods		Total	
		Sales ('000)	*y-o-y growth*	Sales ('000)	*y-o-y growth*	Sales ('000)	*y-o-y growth*
FY22	Q1	16	121%	9	54%	25	90%
	Q2	46	73%	25	26%	71	53%
	Q3	62	8%	24	10%	86	9%
	Q4	60	7%	25	-15%	85	0%
FY23	Q1	53	241%	24	168%	77	214%
	Q2	94	105%	25	-2%	119	67%
	Q3	108	75%	31	28%	139	62%
	Q4	121	102%	33	31%	154	81%
FY24E	Q1	123	132%	28	14%	150	95%
	Q2 E	171	82%	35	43%	207	74%
	Q3 E	170-175	61-63%	32-37	13-15%	208-213	50-52%
	Q4 E	172-177	43-45%	32-37	3-5%	205-210	34-36%
FY25P	Q1 P	172-177	41-43%	30-35	22-24%	205-210	38-40%
	Q2 P	180-185	4-6%	32-37	(4)-(2)%	212-217	3-5%

- Three-wheeler industry has witnessed robust growth in FY23 from a low base of previous year. H2 saw much better sales.
- Passenger segment performed better as compared to the goods segment as urban movement for schools, colleges, business and recreational outings increased substantially during the period
- Sales momentum has continued in FY24. H1FY24 witnessed 82% y-o-y growth where PV segment sales doubled during the period.
- Momentum is expected to continue in H2FY24 , albeit at a slower growth pace, on the increased base of H2 FY23.
- Passenger segment is expected to outpace the goods segment, EV segment is estimated to expand its presence and contribute 12-15% in FY24

Stakeholder interactions

OEMs

- Growth in passenger segment thrusted industry growth in FY23 from a low base of previous years.
- Urban movement has been growing on account of normalcy. Businesses have also witnessed good growth which has led to an uptick in employment.
- On a high base of FY23, some moderation is expected in FY24
- Goods segment is facing competition from the SCV segment, EV a threat for passenger segment
- Supply of E autos has improved gradually and expected to improve further
- ICE segments are also witnessing good traction
- Industry may reach Pre covid levels in FY24
- CNG price cut is helping the ICE segment

Dealers

- Healthy traction witnessed in Q2
- Retails improved sequentially from Q1
- Passenger segment is maintaining its strong momentum
- Normalised mobility is aiding the requirement
- Seeing pre Covid level demand
- Primary growth driver is the larger passenger segment
- Goods segment remained range bound
- E Autos supply improved during the quarter
- Improved demand for E Autos as well
- Passenger segment doing better even in EVs
- Higher price remains a concern for EVs
- Inventory built up done during Q2
- Stock of 30-35 days with dealers
- ICE segment to lead the charge, EV adoption to be gradual

Financier

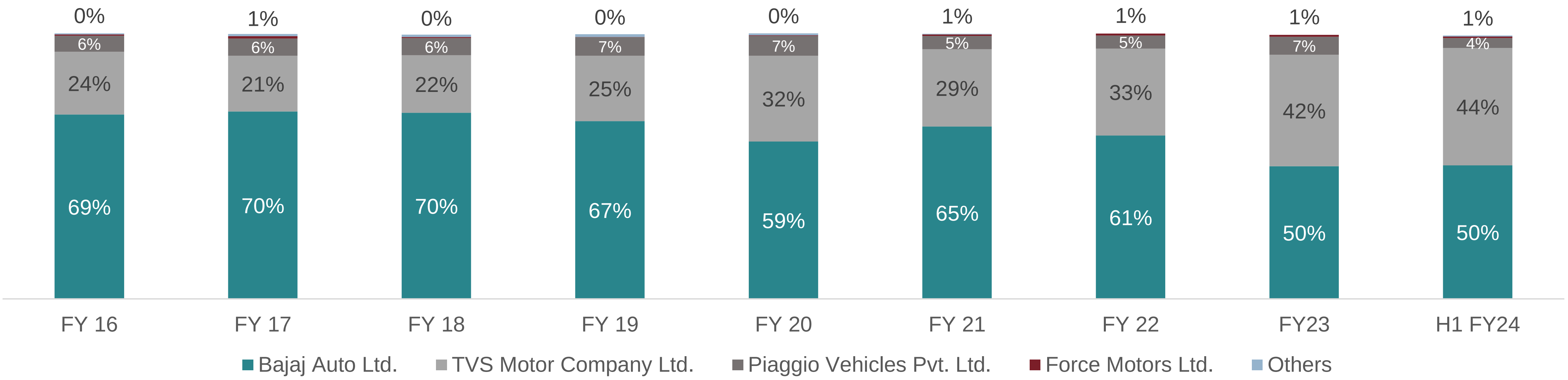
- Continued increase in disbursements with rising retails
- Aggressive financing by the financers: LTV in the range of 95-100% which has increased in the near term.
- No further rise in repo rates after the Feb round
- Stance of the financers to remain accommodative

Source – Industry, CRISIL MI&A

Three-wheeler exports

Slide continues for 3W exports

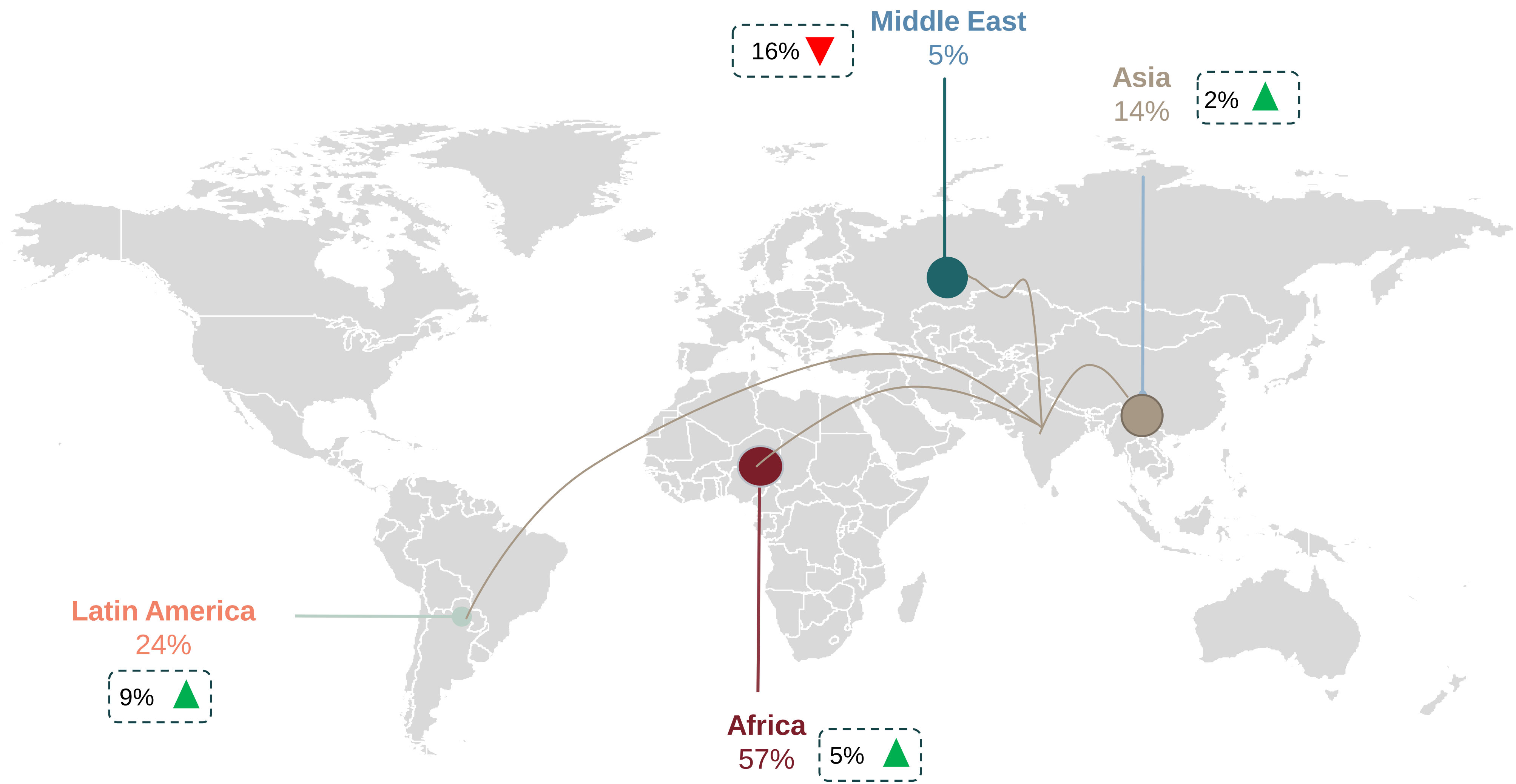
TVS gained further ground



Source: SIAM, CRISIL MI&A

- FY22 witnessed sharp improvement in exports, exports grew 27% y-o-y , with smaller cargo segment registering a sharp growth of 82% y-o-y.
- On this high base, exports contracted 27% during FY23
- H1 FY24 witnessed a further drop of 27% y-o-y
- The larger passenger segment contracted 27% and cargo segment dropped 56%
- Bajaj maintained its lead in the market, Piaggio lost some ground to TVS

Three-wheeler exports



- Amidst the sluggish global macroeconomic environment, reduced Forex availability in importing countries, improvement in domestic demand, 3W exports are sliding
- Moderated exports to UAE & Iraq contracted share of Middle East
- On the other hand, share of Latin America rose with increased contribution from Mexico, Peru & Guatemala

Note: : Represents share of volume data for April-June FY 24 exports, % in dotted boxes indicates change in market share from FY23

Source: DGFT, CRISIL MI&A

Tractors

Tractor demand to contract marginally in FY24

Parameters	Impact		
	FY 22	FY23	FY24E
Farm Income**	Neutral	Favorable	Neutral
-- Crop Prices	Favorable	Favorable	Neutral
-- Crop Output	Favorable	Favorable	Neutral
-- Kharif Output	Neutral	Favorable	Neutral
-- Rabi Output	Favorable	Neutral	Neutral
Demand Indicators	Neutral	Neutral	Neutral
-- Infrastructure Development	Neutral	Favorable	Favorable
-- Sand Mining	Neutral	Neutral	Neutral
Supply side variables & financing	Favorable	Favorable	Favorable
-- Finance Availability	Neutral	Neutral	Favorable
-- Channel Inventory	Not Favorable	Not Favorable	Neutral
-- Player Action	Not Favorable	Favorable	Neutral

Favorable

Neutral

Not Favorable

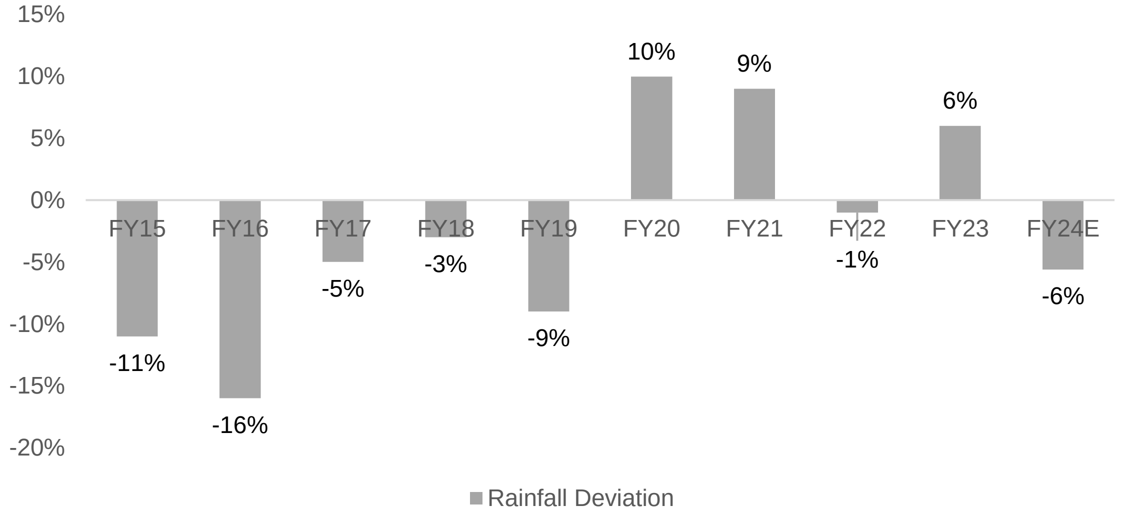
*NOTE : ** FY24 assumed neutral assuming normal monsoon,*

Source: CRISIL MI&A

Consulting

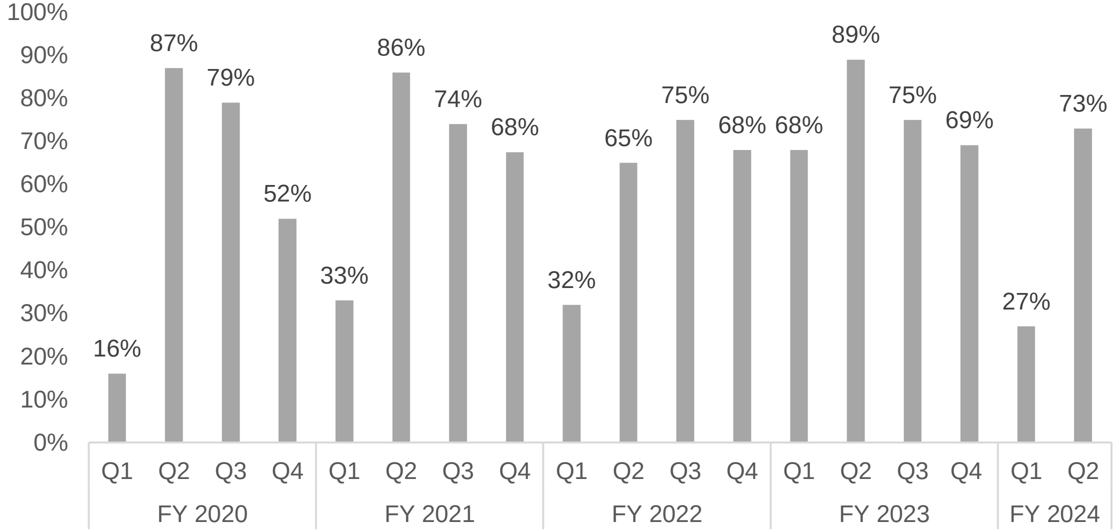
Delay in monsoon caused postponement in harvesting activities for kharif crops across the country

Southwest Monsoon deviation is slightly above normal



NOTE: Rainfall deficiency in the range of -4% to 4% of the long period average is considered as normal as per IMD. P: Projected
Source : IMD, CRISIL MI&A

Reservoir Levels are average

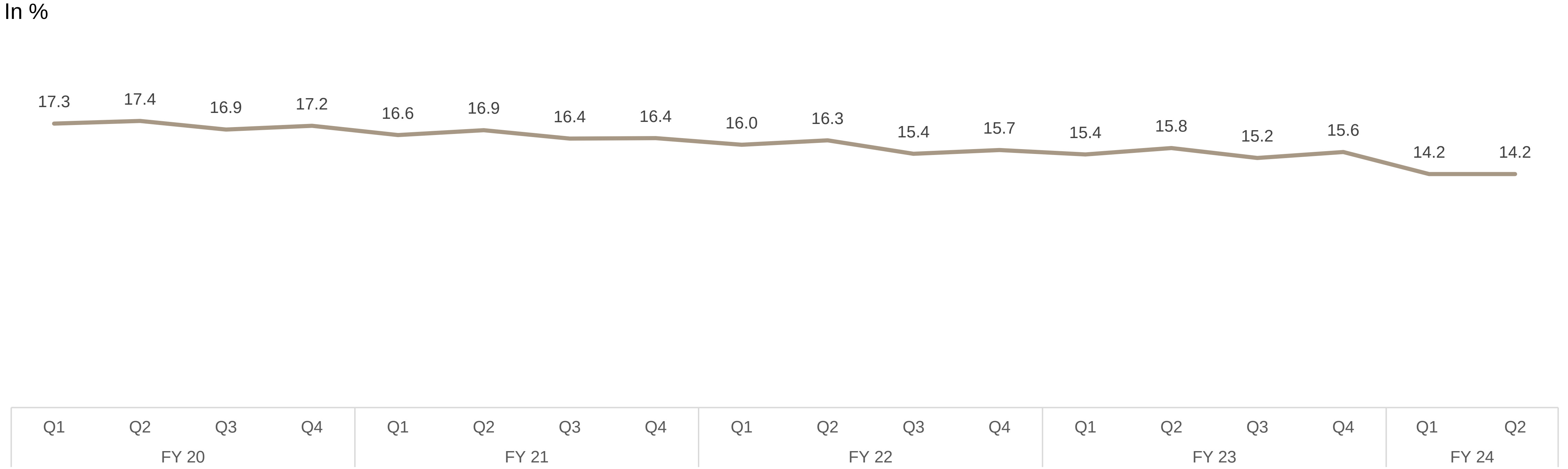


Notes: Storage Status of 143 Reservoirs of the Country

- Reservoir levels are at average levels, although there is a contraction compared to last year due to delayed and erratic monsoon majorly in the southern states
- Kharif harvesting activities are delayed due to erratic and delayed monsoon across the country.
- Sown area under major kharif crops like paddy, cotton and groundnut has declined especially in southern states like Andhra Pradesh, Telangana, Karnataka.
- Harvesting activities for Kharif season are expected to start by mid-October which can lead to some positive momentum in coming months.

Tractor financing subsided to some extent

Interest Rates trend

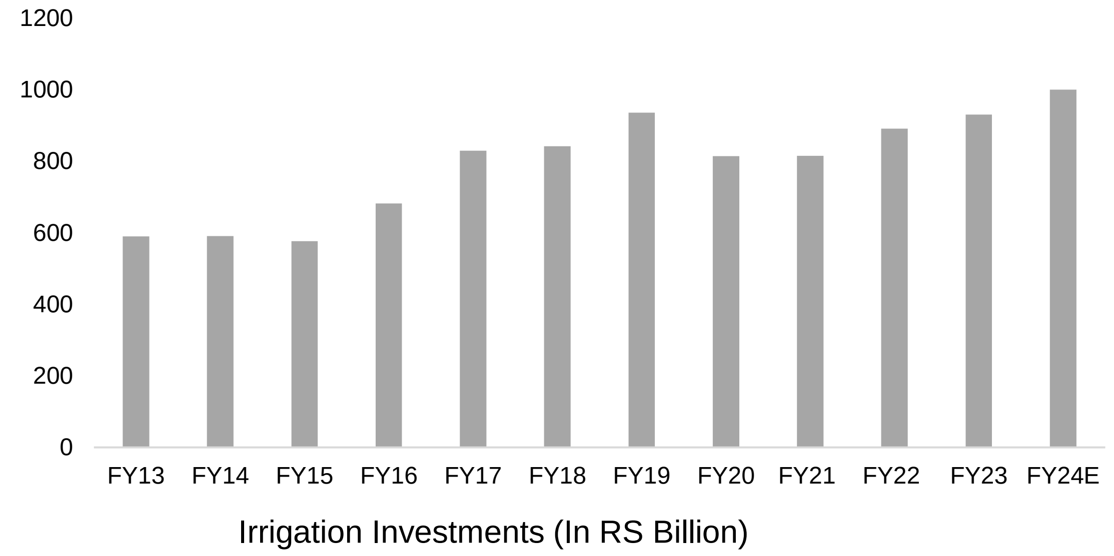


Source: CRISIL MI&A

- There has been a modest decline in interest rates as new players have entered into the market with competitive financing rates leading to escalation in market competition.
- Finance penetration has remained rangebound, majorly because of delay in crop payments to the farmers from government increasing the delinquency levels due to which financers have become a bit cautious.
- We expect LTVs to increase marginally in FY24.
- The entry of private financiers over the past few years has also increased finance availability.
- Increasing budgetary allocation towards the rural sector, government support for farm mechanization to encourage growth and start of harvesting activities along with festivals in the coming months are expected to increase credit availability and affordable rates of finance.

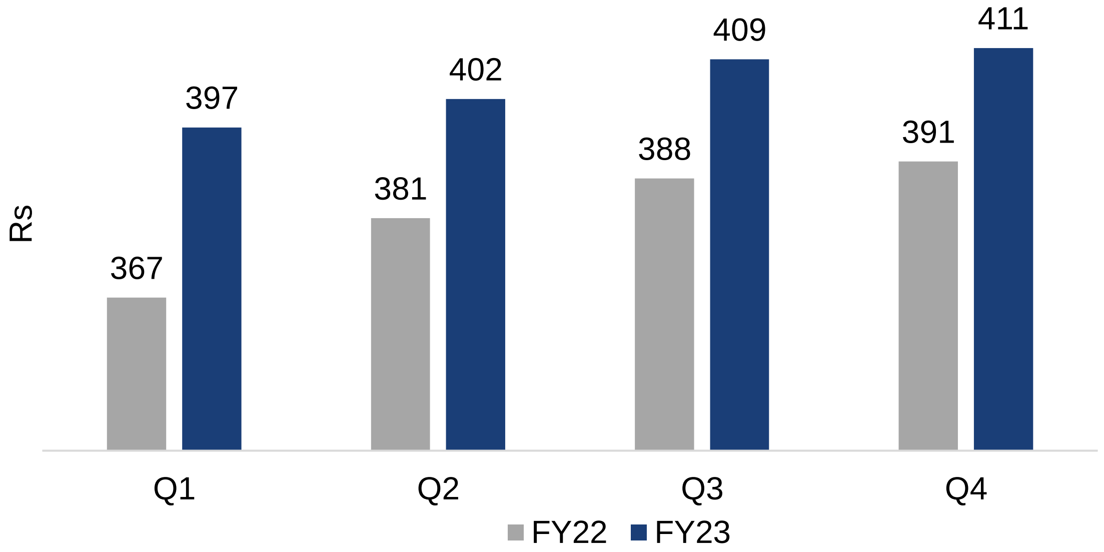
Irrigation intensity is expected to continue to improve over the medium term, supporting tractor sales

Irrigation spending is expected to increase



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

Daily Rural Wage increased in Q3 and Q4 FY23

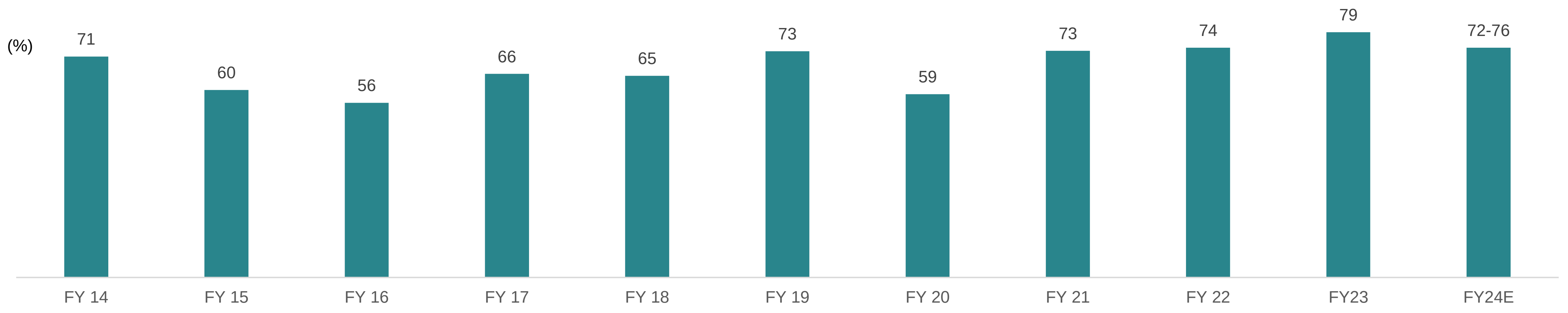


Note: Latest data for FY24 is not yet available
Rural wages includes general non-agricultural labour.
Source: Labour Bureau, CRISIL MI&A

- Irrigation investments have risen considerably in past 10 years, resulting in a consistent increase in irrigation intensity. This, in turn, heightened cropping intensity and has led to higher and stable farm incomes over the period.
- Estimated irrigation spending of Rs 1000 billion has been proposed by the central government as per the budget document of 2023-24 registering a growth of 7% as compared to last year.
- Irrigation intensity is the highest in Punjab and Haryana, which have the highest tractor penetration in India.
- As irrigation facilities improve in the rest of India, tractor penetration will see corresponding increase.
- The government has announced hike in wage rates under the rural job guarantee program with average wage being Rs 411 per day witnessing a growth of 5% as compared to last year. Haryana has the highest daily wage at Rs 357 per day and Madhya Pradesh and Chhattisgarh the lowest at Rs 221.

Utilization to witness some contraction in FY24

Capacity utilization trend



E: Estimated
Source: CRISIL MI&A

- In FY23, capacity utilization of the industry rose to 79% due to 12% increase in domestic volumes.
- In FY24, anticipated decline in volumes for the fiscal and capacity additions to lead to decline in capacity utilization of the players. Capacity is expected to increase with volume additions by Swaraj.
- Moreover, expected contraction in exports to exert added pressure on utilization

TREM IV norms have come into effect from 1st January’23

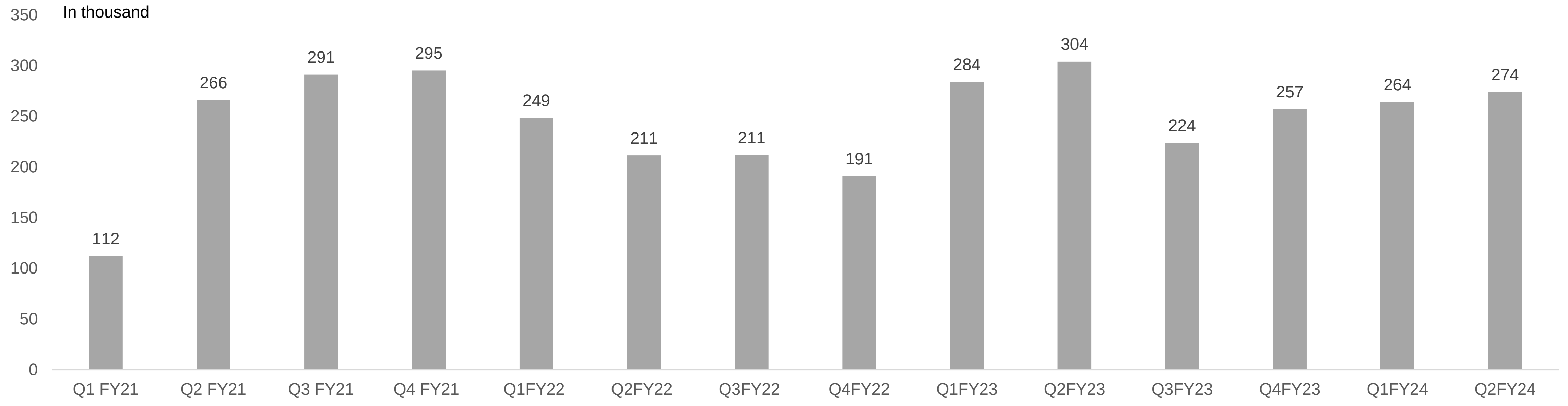
Emission standard stage	Engine Power	Market share	Date	CO	HC+Nox	PM
	HP			*g/kWh*		
Trem Stage III A	11 to 25HP	9%	1st April 2010	5.5	8.5	0.8
	25 to 50HP	84%	1st April 2010	5.5	7.5	0.6
	50 to 75 HP	7%	1st April 2010	5	4.7	0.4
Trem Stage IV	11 to 25HP	8%	No change			
	25 to 50HP	84%				
	50 to 75 HP	8%	1st January 2023	5	4.7	0.025

Source: Industry, CRISIL MI&A

- TREM IV norms are applicable only on 50HP and above tractor segment forming ~7% of domestic sales, thus we expect limited impact on tractor industry.
- Although major technological changes are available with OEMs, the pass through of the incremental cost, related to the technological changes, to the farmers is likely to be a challenge, given the price sensitive nature of the farming community.
- Cost escalations to the tune of 10-15% are expected
- John Deere, Mahindra and Sonalika accounts for about 66% in more than 51 hp tractors in the domestic market.

Production levels are 10% lower on-year in Q2

Production Levels



Source: CRISIL MI&A

- Q2 Production levels have registered a slight growth of 4% sequentially and de-growth of 10% on y-o-y basis
- Production was slightly better as compared to Q1 FY24 in anticipation of start of harvesting activities for Kharif season as well as the start of festivals from the month of October.

Domestic – Annual & Quarterly forecast

	Units	Sales
FY22	Millions	0.84
y-o-y growth	*%*	*(6)%*
FY23	Millions	0.94
y-o-y growth	*%*	*12%*
FY24 E	Millions	0.92-0.94
y-o-y growth	*%*	*(2)-0%*

Source – TMA, CRISIL MI&A
Note: Forecasts for FY24 and FY25 have been given assuming normal monsoon

Fiscal	Quarter	Tractors	
		Sales ('000)	*y-o-y growth*
FY22	Q3	223	*-13%*
	Q4	177	*-25%*
FY23	Q1	266	*16%*
	Q2	222	*4.8%*
	Q3	247	*11%*
	Q4	211	*19%*
FY24 E	Q1	261	*-1.9%*
	Q2	209	*-5.8%*
	Q3 E	261-265	*4-6%*
	Q4 E	205-209	*(2)-0%*
FY25 P	Q1 P	258-263	*(1)-1%*
	Q2 P	217-221	*3-5%*

- Domestic tractor demand to decline 0-2% in FY24 amid negative farmer sentiments brought about by current delayed monsoon after registering a 12% on-year rise in FY23. Demand is expected to be positive in Q3 owing to start of festive season and harvesting activities for Kharif crops.
- India has received below normal monsoon in the current year. Moreover, rains were uneven throughout the country as majorly northern states faced floods due to excess rainfall with farmers fearing the crop damage, whereas majorly southern states faced drought like situations due to rainfall deficit leading to delay in kharif sowing and thus delay in harvesting activities.
- In FY24, replacement demand is expected to be higher by 4-6% on-year with healthy sales registered in fiscals 2017 and 2018.
- Commercial demand expected to be slow with ban on mining amidst the NGT guidelines
- Demand for lower hp tractors to cater to the small and marginal farm is relatively better.

Stakeholder interactions

OEMs

- Moderate cash flow availability as farmers were busy in sowing activities, average reservoir levels due to delay in monsoon season and dampened agriculture sentiments due to delay in Kharif season has led to decrease in demand in Q2.
- Healthy festive demand, various government schemes and discounts supported retail growth momentum.
- Due to delay in monsoon agriculture sentiments for kharif season were impacted. Overall sentiments are moderate in most of the states.
- Commercial demand is muted from sand mining due to restrictions and from brick kilns due to their increased cost of operations owing to NGT regulations to prevent pollution.
- Demand from haulage and construction activities are however unaffected.

Dealers

- Q2 was slow as generally August and September are lean months as there is no major agriculture activity during these months and this year festivals are also delayed.
- Crop prices are good, but yield is expected to be impacted this season as in many regions water availability was not good due to delayed monsoon.
- Cash flow from the Kharif crops are expected to be generated in the month of November as harvesting is delayed due to erratic monsoon this year.
- There is not much of a change in discount pattern, tractor prices which were increased last year are indirectly going back to the customers in the form of Cash Discounts, Consumer Offerings, and Exchange.
- The MSP for wheat and paddy is good, which means the farm cash flows are expected to be better.

Financier

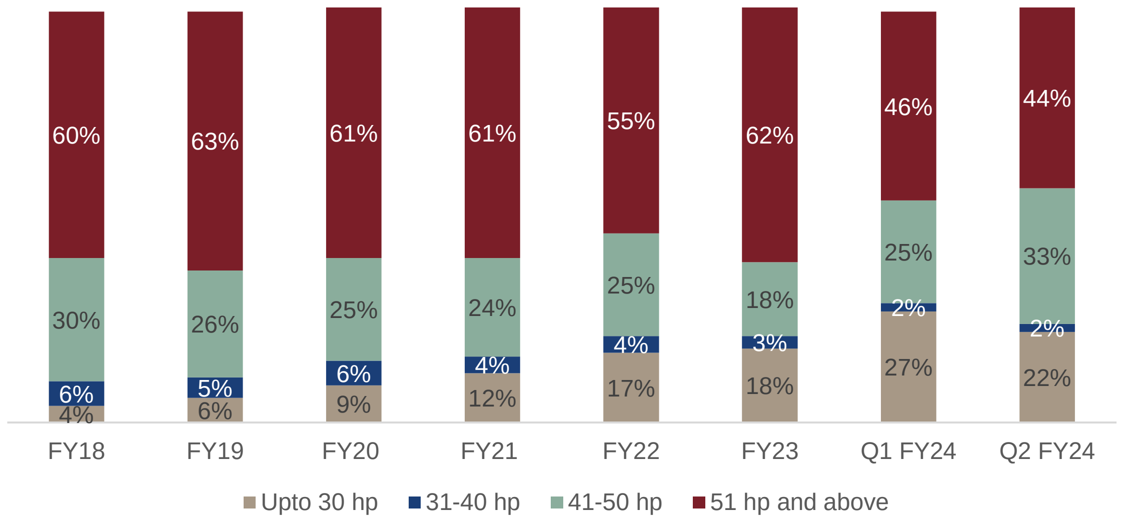
- Financing was slightly declined in Q2 but has started to normalize with lucrative terms of credit offered during festive
- Disbursements to increase at a moderate pace in FY24.
- Non-performing assets are higher in public banks as compared with private banks and NBFCs.
- LTVs are estimated to have grown from 76% in FY23 to 76.50% in FY24.
- Financing situation in certain states lie Andhra Pradesh and Telangana are worrisome with rising NPA levels and is a key monitorable in the coming months as funding levels could be significantly impacted

Source – Industry, CRISIL MI&A

Tractor exports

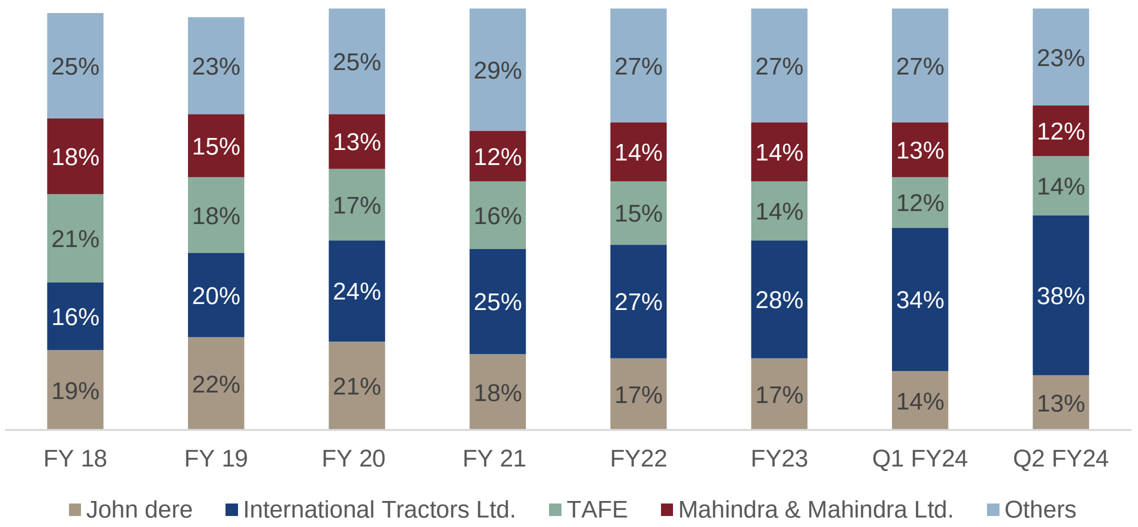
Exports to remain under pressure in FY24

Segment wise market share of exports



Source: CRISIL MI&A

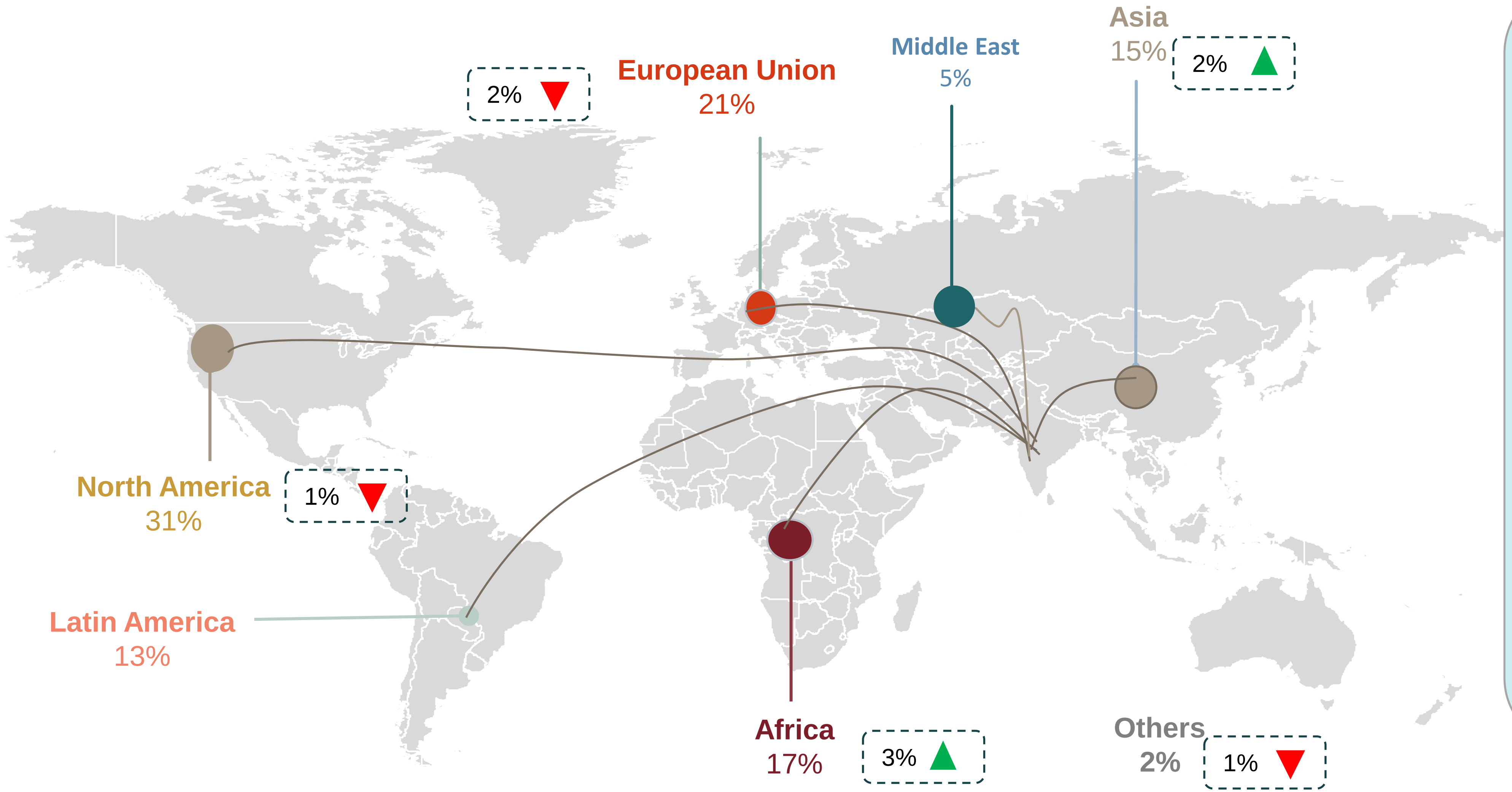
Player wise market share of exports



Source: CRISIL MI&A

- During Q2FY24, exports dropped 27% compared to Q2FY23 as demand for Indian tractors had been slower in various Asian and European countries due to the political disruptions and energy crisis in these regions.
- Exports of up to 30 hp, 31-40 hp, and 51 hp and above tractors dropped by 4%, 63%, and 47% respectively while exports of tractors of 41-50 hp rose by 8% respectively.
- In Q2 FY24 ITL and TAFE expanded its share in overall exports
- India has been emerging as an export hub for relatively smaller tractors. The share of upto 30 hp tractors has been on the rise while 51 hp & above segment maintains its leadership
- In FY24, amidst the slowdown in Asian and European countries coupled with slower demand from the US is expected to exert pressure on exports.

Tractor Exports



- In FY23, tractor exports declined by 3% on-year on a high base of 45% on-year growth registered in FY22.
- During H1FY24, exports witnessed 30% drop y-o-y
- Demand for Indian tractors had been slower in various European countries due to the political disruptions and energy crisis in these regions.
- Some support from South Africa, Kenya as well as Tanzania & Namibia backed share expansion for Africa
- Going ahead, Slowdown in various Asian and European countries coupled with slower demand from the US to exert pressure on Indian exports in FY24

Note: : Represents value data for April- June FY24 exports, % in dotted boxes indicates change in market share from FY23

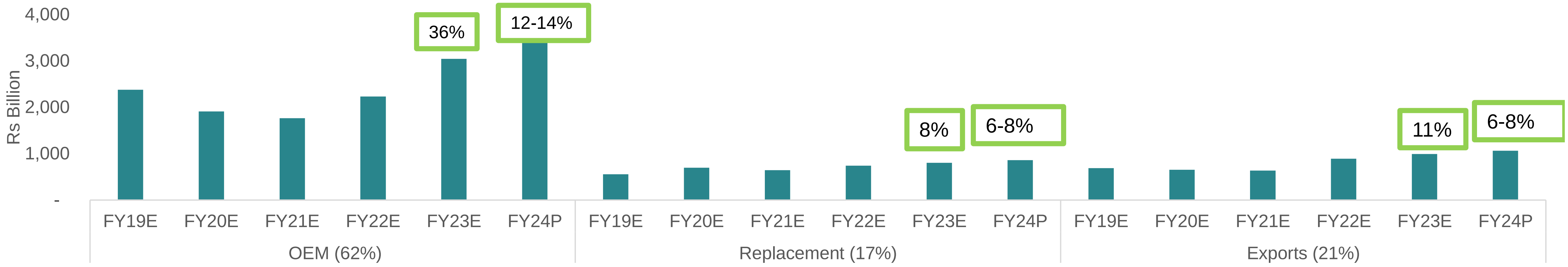
Source: DGFT, CRISIL MI&A

Auto Components

Revenue growth to continue in FY24, albeit at a slower pace

Demand from OEMs to push the industry revenue in FY24

	FY20	FY21	FY22	FY23E	FY24P
Industry revenue	-10%	-6%	27%	25%	10-12%

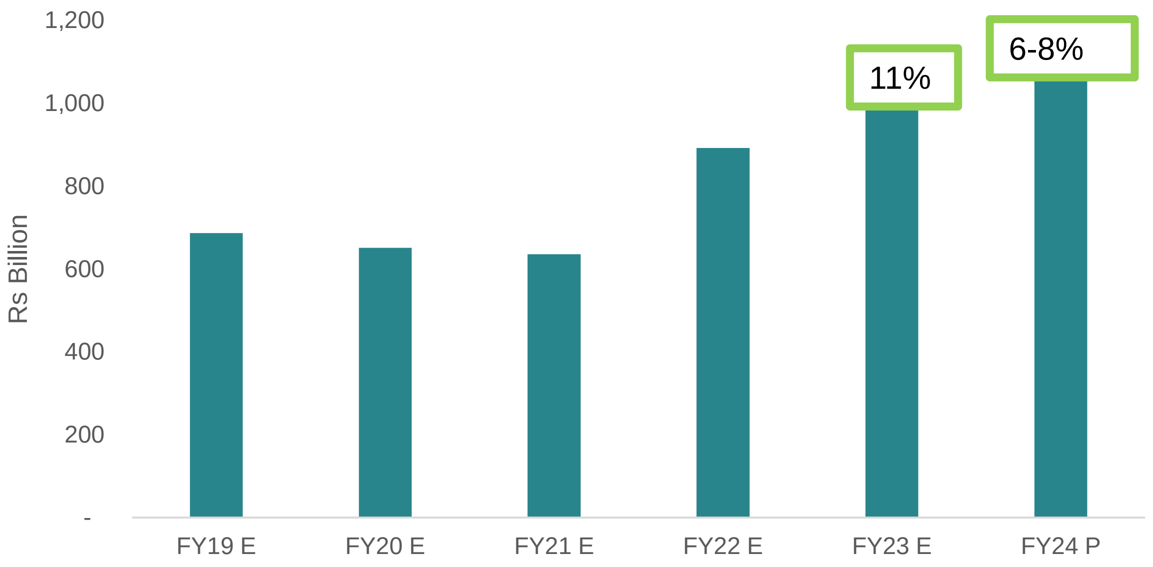


Note: Coloured brackets represent y-o-y growth; Numbers in the bracket in the axis represent share in production for FY23
Source: CRISIL MI&A

- Industry witnessed healthy growth in FY23 across segments. On this high base, demand growth rates are expected to moderate in FY24, decelerating the growth of components segment as well
- In FY23, the OEM segment (62% of revenues) witnessed robust growth; PV and CV segments provided the thrust in FY23. On a lower base, two-wheeler and three-wheeler segments also improved and supported the component industry growth. Some tapering is expected during FY24.
- Exports (21% of revenues) are projected to increase by 6-8% in FY24, over the 11% growth clocked in FY23
- Replacement demand (17% of revenues) is also expected to grow by 6-8% in FY24, driven by higher vehicle movement and the high sales witnessed in FY18-19

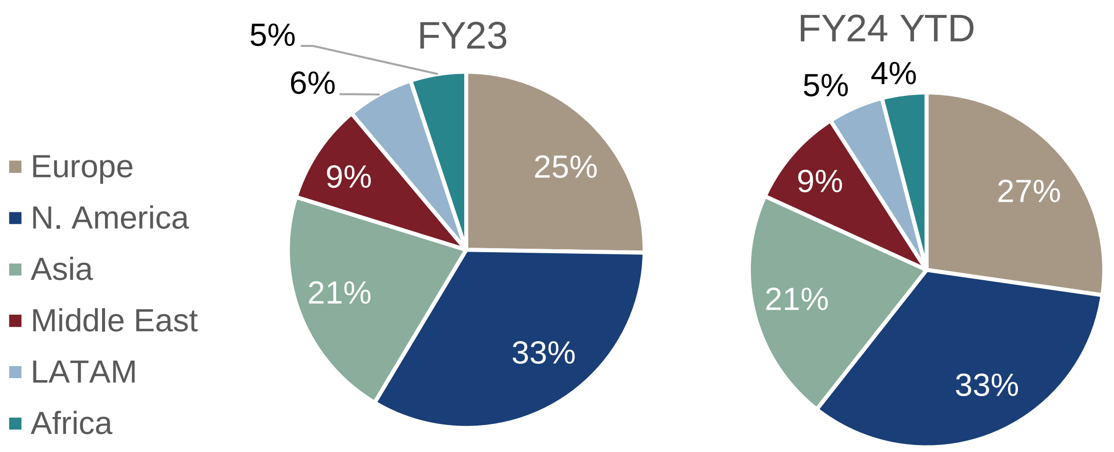
Improvement in global economic scenario to back growth in FY24

Export demand expected to grow further in FY 24



Note: Brackets represent y-o-y growth;
Source: CRISIL MI&A

Developed nations support exports

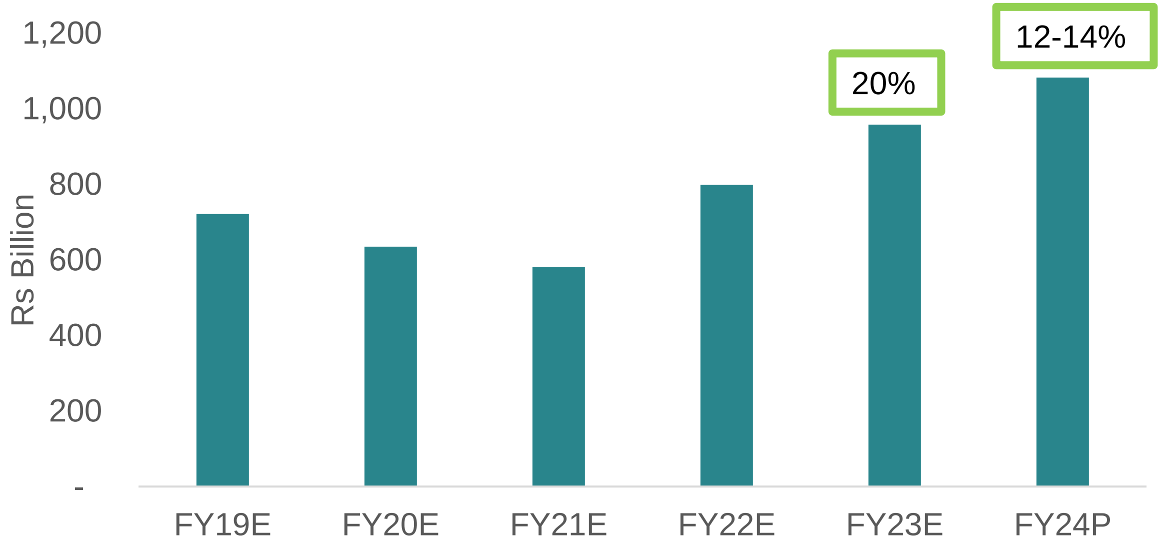


YTD: April-June 2023
Source: DGFT, CRISIL MI&A

- Auto component exports (accounting for 21% of the overall demand in FY23) are projected to witness 6-8% growth over the healthy 11% growth witnessed in FY23
- Export revenues are also expected to be supported by the global demand and China +1 strategy.
- The growth would be on the back of healthy demand from North America and Europe
- Projections have been increased with improvement in global economic forecast for CY2023
- The volatile global political situation remains a key monitorable

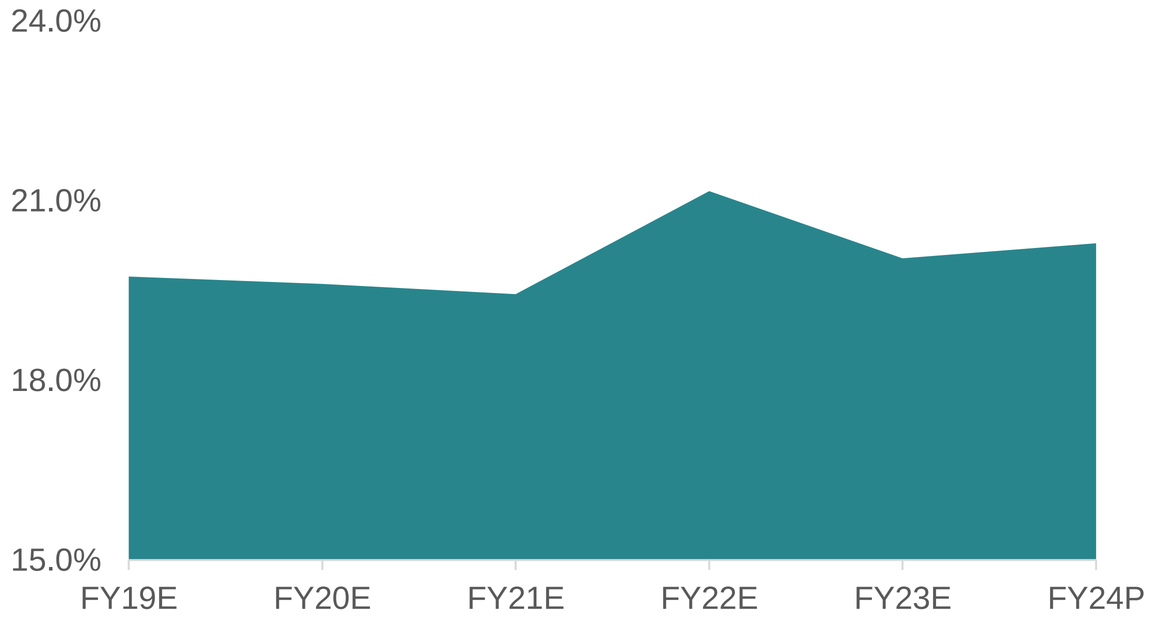
Continued traction to back higher import demand in FY24

Import demand to grow further, at a reduced pace



Source – DGFT, CRISIL MI&A

However, the share in consumption to remain subdued

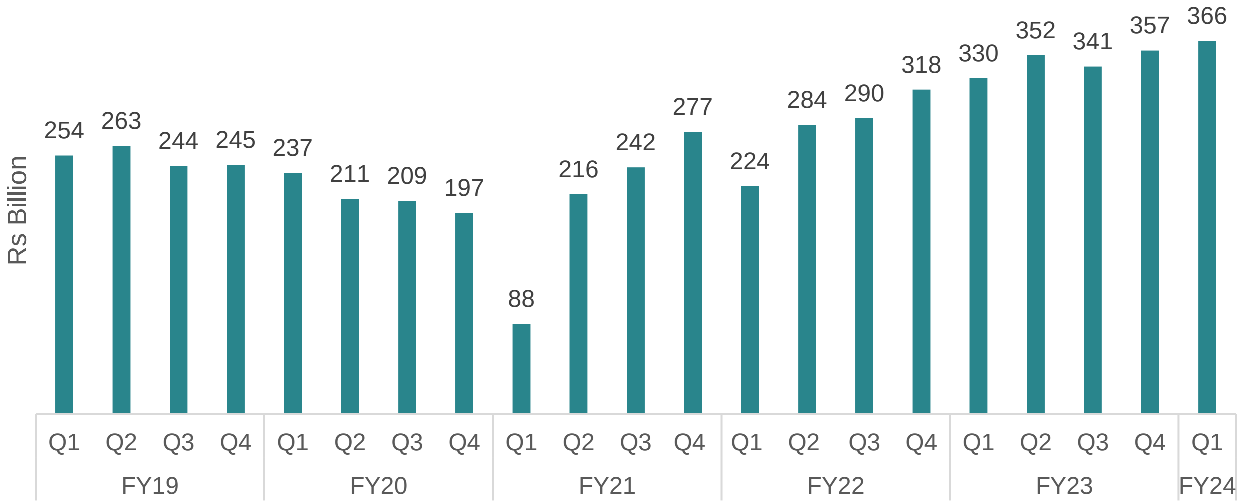


Source: DGFT, CRISIL MI&A

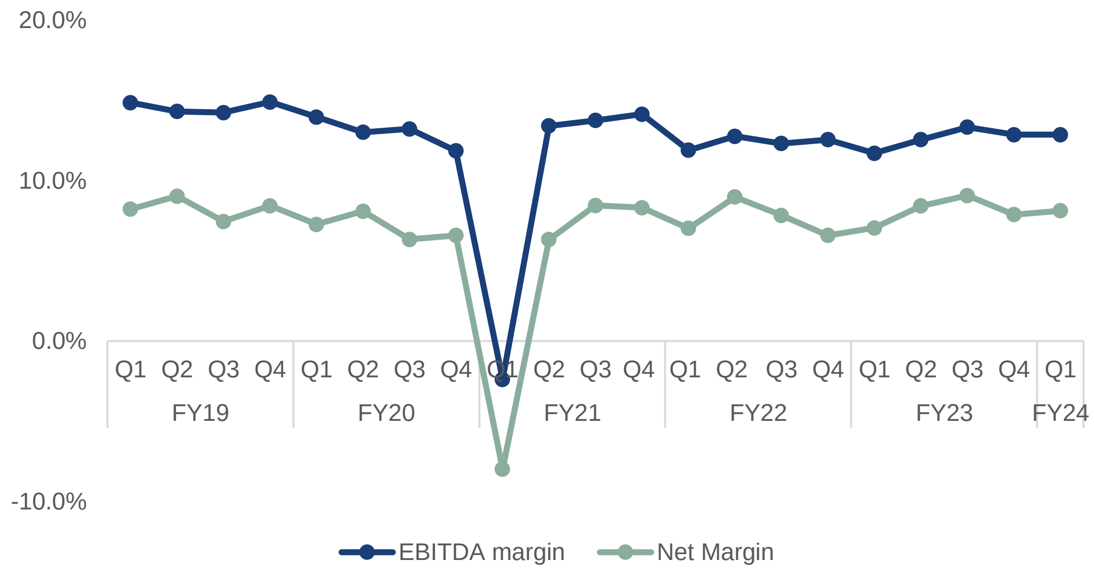
- Auto component imports improved in FY23 with improving domestic vehicle production.
- Going ahead, import demand is likely to grow led by continued growth in domestic market
- In FY23, imports increased by 20% amidst the increased need of components for higher domestic demand with consumption increasing at 24%
- In FY24, consumption growth pace is estimated to taper down, some moderation is expected in import demand growth as well

Financials improve further in Q1FY24

Company financials



Note: Based on the aggregated financials of 57 auto component players



Source: Company financials, CRISIL MI&A

- Revenue levels remained healthy for the component players during FY23, Q-o-q improvement during Q1 FY24
- Some improvement was witnessed in the margins during Q1 amidst the improved demand from all segments and recovery in utilization levels
- Utilization levels of players had dropped to an all-time low in fiscal 2021; This coupled with higher input costs took a toll on profitability during fiscal 2022.
- Utilization is on an improving trend with sustained demand
- In FY24, margins are expected to remain buoyant with input costs correction and improving revenues

Thank You

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Argentina | Australia | China | Hong Kong | India | Japan | Poland | Singapore | Switzerland | UAE | UK | USA
CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India
Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

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