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INDUSTRY OUTLOOK

AUTOMOBILE INDUSTRY: OUTLOOK AND CHALLENGES

02 December 2020

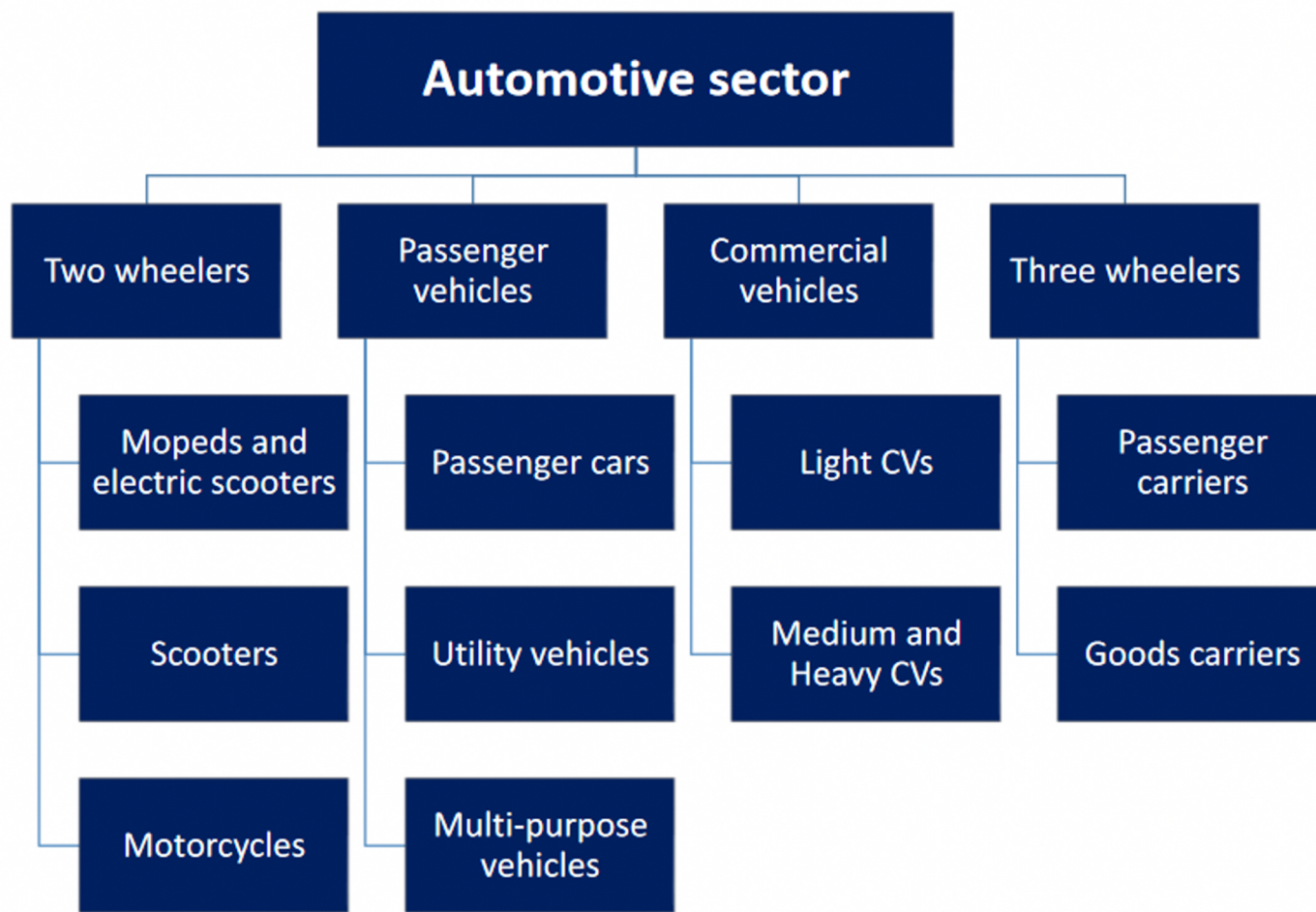
Introduction

The Covid-19 pandemic has created an unprecedented situation for the global as well as Indian automotive industry, despite the industry being recognized as a 'sunrise industry.' Economists and financial pundits have lamented about the coronavirus pandemic and subsequent lockdowns that gave major headwinds to the Indian Economy. India's automobile industry is not insulated from the current crisis. Concerns arose that India's automobile industry is going to experience another year of substantial declines. Sales of passenger vehicles got especially hit amid the lockdown.

However, from "Unlock 1.0" as India has progressed towards "Unlock 5.0", automobile sales saw rebound in recent months, ahead of festive season, with both passenger car and two-wheeler segments received a festive boost. Nevertheless, future outlook depends on the sustained momentum given further easing of Covid cases. A caveat is de-growth of Commercial vehicles posing challenges. The optimism regarding sales rebound needs to be more watchful in near future. (for segment-wise risk factors/challenges refer to the "Industry Risk" Section). Used car market are eyeing for substantial opportunity with the increasing demand for accessible and safe individual mobility solutions.



Profile of the Automobile Industry in India



Source: EU project Seconded European Standardization Expert for India (SESEI); http://www.sesei.eu/wp-content/uploads/2018/12/Automotive-Sector-Presentation_Final.pdf

Passenger vehicle (PV) and two-wheeler segment shows increase in wholesale domestic sales in October 2020 (see following Table 1). According to the Society of Indian Automobile Manufacturers (SIAM) data, Passenger Vehicles(PV) sales was 310,294 units in October 2020, compared to 271,737 units in October 2019, marking a growth of 14.19%. Two-wheeler sales was 2,053,814 units in October 2020, compared to 1,757,180 units in October 2019, with a growth of 16.88%. However, sales of three-wheelers have declined substantially. Three-wheeler sales was 26,187 units in October 2020 compared to 66,985 units in October 2019 marking a decrease by (-) 60.91%.

Also, from Table 2 and Chart 1, it is observed that while two-wheelers have shown substantial increase followed by passenger vehicles (PV) both in domestic sales and production over the years, sales and production of commercial vehicles (CVs) and three-wheelers remain subdued. Factors like increased demand for personal mobility, festive season offers, higher offtake from semi-urban, Tier-2 and Tier-3 markets, the excitement created by new launches, supply chains and pushing up of stocks at dealerships have also contributed to the October revival of sales.

Table 1: Vehicle Sales in Units and y-o-y% increase (Oct'20/Oct'19)

Vehicle type	Oct-20	Oct-19	Per Cent increase (%)
Passenger Vehicles	310294	271737	14.19%
Two-Wheelers	2053814	1757180	16.88%
Three Wheelers	26187	66985	-60.91%

Source: "Passenger Vehicle sales Highest in the month of October" (12 November 2020) Economic Times.

[<https://auto.economicstimes.indiatimes.com/news/industry/october-2020-sales-analysis-festival-demand-revs-up-auto-sales/78996289>]

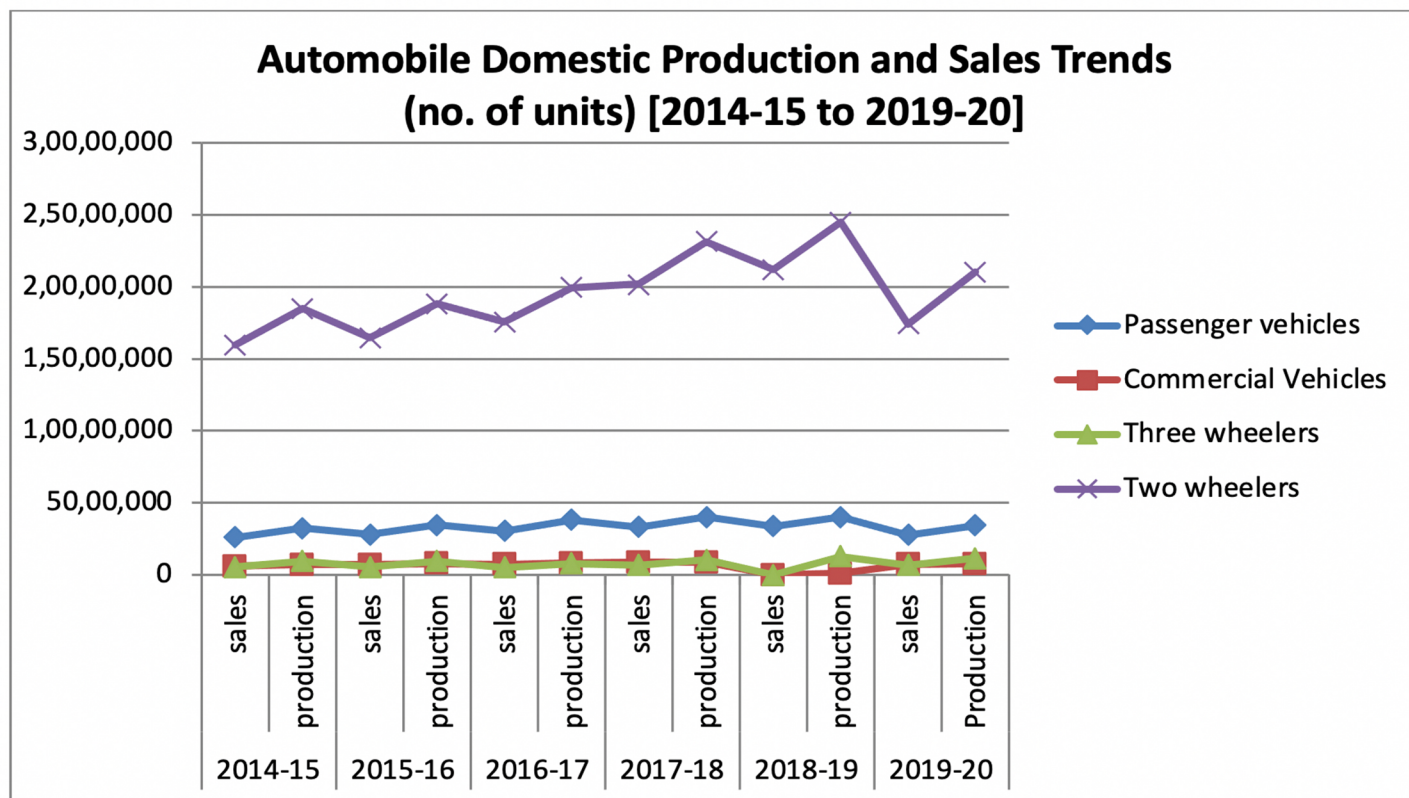
[<https://auto.economicstimes.indiatimes.com/news/industry/october-2020-sales-analysis-festival-demand-revs-up-auto-sales/78996289>]

Table 2: Domestic sales and production trends of different vehicle types in units (2014-15 to 2019-20)

Vehicle type	2014-15		2015-16		2016-17		2017-18		2018-19		2019-20	
	sales	production	sales	production	sales	production	sales	production	sales	production	sales	Production
Passenger vehicles	2,601,236	3,221,419	2,789,208	3,465,045	3,047,582	3,801,670	3,288,581	4,020,267	3,377,389	4,028,471	2,773,575	3,434,013
Commercial Vehicles	614948	698,298	685,704	786,692	714,082	810,253	856,916	895,448	10,07,311	112,405	717,688	752,022
Three wheelers	532626	949,019	538208	934,104	511,879	783,721	635,698	1,022,181	7,01,005	1,268,833	636,569	1,133,858
Two wheelers	15,975,561	18,489,311	16,455,851	18,830,227	17,589,738	19,933,739	20,200,117	23,154,838	21,179,847	24,499,777	17,417,616	21,036,294

Source: Society of Indian Automobile Manufacturers (SIAM).

Chart 1: Domestic production and sales trends of automobiles in units (2014-15 to 2019-20)



Source: Society of Indian Automobile Manufacturers (SIAM).

Market share of major players as per Federation of Automobile Dealers Associations (FADA) vehicle registration data:

According to the FADA vehicle registration data, the month-on-month (m-o-m) vehicle registration have increased substantially in the passenger vehicle (PV) segment exhibiting increased retail sale by dealers possibly on the occasion of festive mood. Though FADA retail sales data shows a positive sentiment for PV segment, for others, the picture is mixed.

The year-on-year (y-o-y) comparison shows (see Table 3) that in the passenger vehicle (PV) segment, among major players, the market share of Maruti Suzuki (from 49.55% in Oct'19 to 49.73% in Oct'20), Tata Motors (from 4.73% in Oct'19 to 7.34% in Oct'20), KIA Motors (from 3.23% in Oct'19 to 6.44% in Oct'20) have increased, on the other hand, the market share of Hyundai Motor (from 17.41% in Oct'19 to 17.11% in Oct'20), Mahindra & Mahindra (from 6.21% in Oct'19 to 4.97% in Oct'20) and Honda Cars (from 4.34% in Oct'19 to 3.20% in Oct'20) have declined.

Table 3: Original Equipment Manufacturer (OEM) wise market share data of major players in Passenger Vehicle (PV); year-on-year (y-o-y) (Oct'20/Oct'19) and month-on-month (m-o-m) comparison (Oct'20/Sept'20) % growth

PV OEM	October 2020	Market share (%) Oct 2020	October 2019	Market share (%) Oct 2019	September 2020	Market share In Sept'20(%)
MARUTI SUZUKI INDIA LTD	124261	49.73	135752	49.55	97640	49.90%
HYUNDAI MOTOR INDIA LTD	42757	17.11	47711	17.41	35182	17.98%
TATA MOTORS LTD	18340	7.34	12972	4.73	15636	7.99%
KIA MOTORS INDIA PVT LTD	16096	6.44	8859	3.23	11060	5.65%
MAHINDRA & MAHINDRA LTD	12414	4.97	17017	6.21	8021	4.10%
HONDA CARS INDIA LTD	7995	3.20	11899	4.34	6650	3.40%

Source: Federation of Automobile Dealers Associations (FADA) Press Release (9 November 2020).

On the other hand, a month-on-month (m-o-m) comparison shows KIA Motors and Mahindra & Mahindra, in the PV segment have experienced increase in market share [figures compared of Sept'20 and Oct'20] (see Table 3).

In the two-wheeler segment (Table 4) both y-o-y and m-o-m shows that the market share of Honda Motorcycle and Scooter India (HMSI) have increased. Market share on the basis of y-o-y data has increased for TVS, Royal Enfield, Suzuki Motorcycle, India Yamaha.

Table 4: Two-Wheeler OEM wise market share data of major players (both Y-o-Y and M-o-M growth in %)

Two-Wheeler OEM	Oct'20	Market share (%)Oct'20	Oct'19	Market share (%)Oct'19	Sept'20	Market share (%)Sept'20
HERO MOTOCORP LTD	333563	32.02	487701	34.26	342940	33.72
HONDA MOTORCYCLE AND SCOOTER INDIA (P) LTD	292267	28.06	396996	27.89	259935	25.56
TVS MOTOR CO. LTD	156063	14.98	190991	13.42	157347	15.47
BAJAJ AUTO LTD	118486	11.37	175022	12.30	122098	12.01
ROYAL-ENFIELD(Unit of EICHER LTD)	46593	4.47	59242	4.16	44436	4.37
SUZUKI MOTORCYCLE INDIA PVT LTD	43361	4.16	54280	3.81	41487	4.08
INDIA YAMAHA MOTOR PVT LTD	41961	4.03	47174	3.31	39996	3.93
PIAGGIO VEHICLES PVT LTD	3643	0.35	6090	0.43	3343	0.33

Source: Federation of Automobile Dealers Associations (FADA) Press Release (9 November 2020).

Table 5: Three-Wheeler OEM wise market share of major players (y-o-y and m-o-m % growth)

Three-wheeler OEM	Oct'20	Market Share(%) Oct'20	Oct'19	Market share (%)Oct'19	Sept'20	Market share(%) Sept'20
BAJAJ AUTO LTD	8339	37.26	29263	46.42	9149	43.28
PIAGGIO VEHICLES PVT LTD	4395	19.64	10842	18.08	5394	22.42
ATUL AUTO LTD	876	3.91	3415	5.42	940	3.91%
TVS MOTOR Co. Ltd.	728	3.25	996	1.58	703	2.92
MAHINDRA & MAHINDRA LTD	524	2.34	4147	6.58	468	1.95

Source: Federation of Automobile Dealers Associations (FADA) Press Release (9 November 2020).

In the Commercial vehicle segment, y-o-y data shows that market share of Mahindra & Mahindra and Maruti Suzuki have increased, on the other hand, m-o-m data shows barring Tata Motors, most of the other players have experienced a decline in their market share. [FADA data shows that overall market share of CV has declined from 63837 units in October 2019 to 44,480 units in October 2020].

Table 6: Major Players in Commercial Vehicle (CV) OEM and their market share (%)

Commercial Vehicle OEM	Oct'20	Market Share(%) Oct'20	Oct'19	Market share (%)Oct'19	Sept'20	Market share(%)Sept'20
TATA MOTORS	15316	34.43	26090	40.87	12401	31.32
MAHINDRA & MAHINDRA LTD	14982	33.68	17457	27.35	13875	35.04
ASHOK LEYLAND LTD	5259	11.82	9649	15.12	9649	15.12
MARUTI SUZUKI INDIA LTD	2286	5.14	2291	3.59	2337	5.90

Source: Federation of Automobile Dealers Associations (FADA) Press Release (9 November 2020).

The FADA data of October 2020 shows that the overall vehicle registration for Tractor segment has increased remarkably from 35456 in October 2019 to 55146 units in October 2020. The y-o-y data shows that market share of Mahindra & Mahindra, International Tractors, John Deere India have increased. The m-o-m data shows, market share of TAFE Ltd, John Deere and Eicher Tractors have increased (Table 7).

Table 7: Market share comparison of major players in Tractor OEM Y-o-Y (Oct'20/Oct'19) and M-o-M (Oct'20/Sept'20)% growth

Tractor OEM	Oct'20	Market Share(%)Oct'20	Oct'19	Market Share in Oct'19	Sept'20	Market share(%) Sept'20
MAHINDRA & MAHINDRA (TRACTOR)	12466	22.61	7881	22.23	15597	22.75%
TAFE LTD	7010	12.71	4573	12.90	7749	11.30
INTERNATIONAL TRACTORS LTD	6451	11.70	4101	11.57	8778	12.80
ESCORTS LTD (AGRI MACHINERY GROUP)	5496	9.97	4021	11.34	7377	10.76
JOHN DEERE INDIA PVT LTD	4628	8.39	2816	7.94	5065	7.39

Source: Federation of Automobile Dealers Associations (FADA) Press Release (9 November 2020).

Government Initiatives

The Automotive Mission Plan 2016-26 (AMP 2026) is the collective vision of Government of India (Government) and the Indian Automotive Industry that sets the following basic objectives:

- AMP 2026 aims to propel the Indian Automotive industry to be the engine of the “Make in India” programme, as it is amongst the foremost drivers of the Manufacturing sector.
- AMP 2026 aims to make the Indian Automotive Industry a significant contributor to the “Skill India” programme and make it one of the largest job creating engines in the Indian economy.
- The focus of AMP 2026 is to promote safe, efficient and comfortable mobility for every person in the country, with an eye on environmental protection and affordability through both public and personal transport options.
- AMP 2026 identifies that the Indian Automotive industry (both vehicles and auto components) has the potential to scale up exports to the extent of 35-40% of its overall output over the next ten years and become one of the major automotive export hubs of the world. In line with this, AMP 2026 makes several prescriptions to improve competitiveness, technological advancement, infrastructure investment, and branding. The AMP 2026, however recognises that on the flip side, the import intensity of automobiles is likely to increase in the coming years on account of the increasing use of electronics and the enhancement in the value of design and engineering in making of vehicles and components.

On 11 November 2020, the Cabinet gave approval to Production Linked Incentives (PLIs) worth INR 1.45 lakh crore for 10 sectors including white goods, automobiles, pharmaceuticals, textiles. Of this, the most is for automobiles and auto components at INR 57,042 crore. Under the scheme, cash subsidy is provided to companies as a percentage of incremental sales from the base year (the year the scheme becomes effective). The PLI scheme for automobiles can help India enhancing its competitiveness and become a part of the global value chain.

In March 2016, the Government of India (GoI) set the country’s ambitious target to have of 100% electric vehicles (EVs) fleet on road by 2030. The GoI has initiated various efforts to promote faster adoption of electric vehicles, including the National Electric Mobility Mission Plan (NEMMP) , Faster Adoption and Manufacturing of (Hybrid & Electric Vehicles in India (FAME India) and schemes such as Green urban transport and urban green mobility that promote e-mobility in public transport.

Amid growing concerns about usage of fossil fuels and rising air pollution as well as depleting stocks of mineral oils like gasoline and diesel, the GoI has mooted a roadmap for reduction of import of crude oil dependence by 10% by 2021-22 and reducing the energy emissions intensity by 33%-35% by 2030 as per the Nationally Determined Contribution (NDC) targets agreed in COP21 at Paris, aiming at the following objectives:

- By increasing production of natural gas;
- Promoting energy efficiency and conservation measures;
- Giving thrust on demand substitution;
- Capitalizing untapped potential in biofuels and other alternative fuels/renewables;
- Implementing measures for refinery process improvements.

Used/Pre-owned car market in India

The used car market has evolved within India, with the growth of both organised and semi-organised sector. One among the key growth drivers of this market is revision of the GST rate on used cars from 28% to 12-18%. As the automobile industry is moving towards BS VI compliances, the “value proposition” of used car could be strengthened, since new cars will be expensive due to added technology costs. Companies specialising in reducing the assembly of diesel cars, (for instance, Maruti Suzuki’s decision to exit the diesel car segment by April 2020), could also increase the demand for compact diesel cars in the used car market.

The organised sales channel has viewed noteworthy growth over the past couple of years driven by increased sales of used cars in metro cities and a proliferation in online sales platforms, such as CarDekho, Cars24, Droom, etc. Many OEMs have entered the used car market. The shift of product launches to online platforms is a major fillip in this regard. On the flip side, factors such as standardised dealership experience, fair price experience, and high financing cost for used cars, may hinder the growth of the used car market.



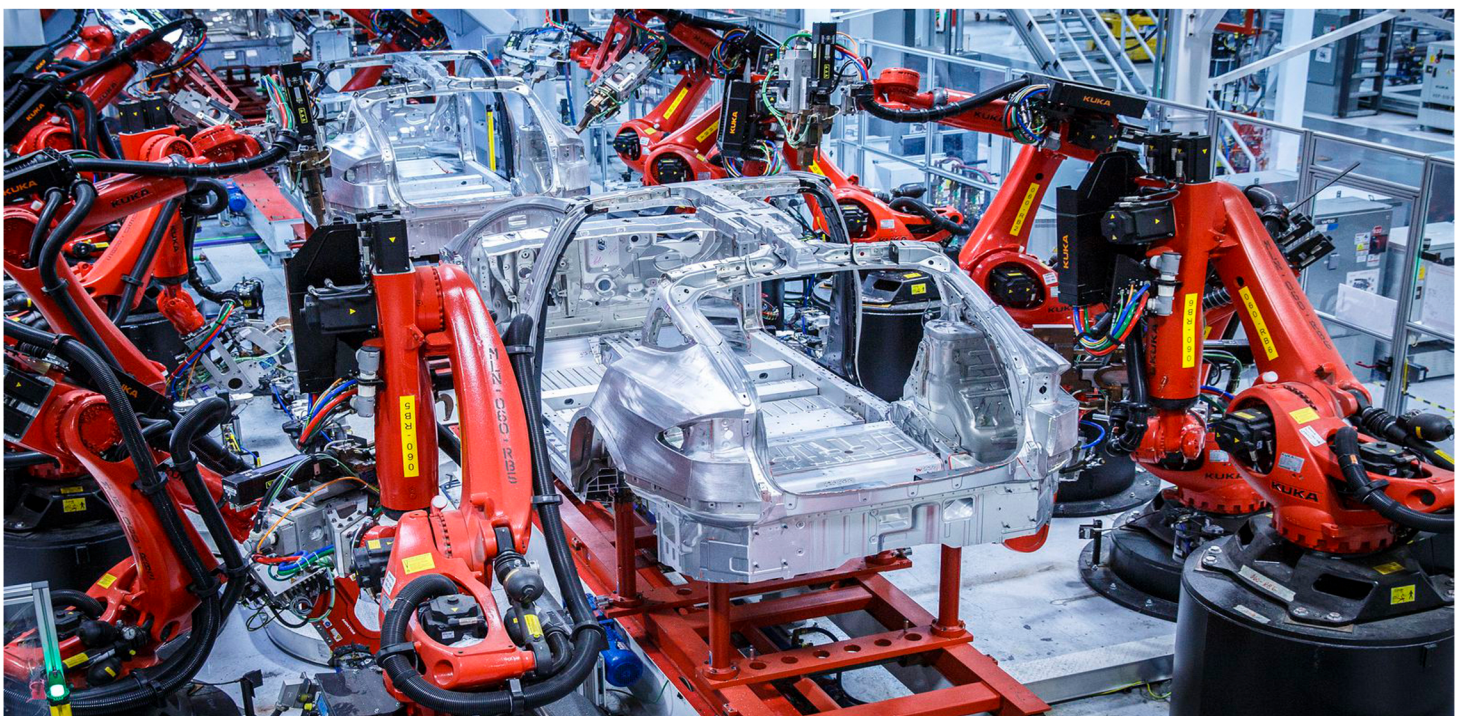
Luxury-used cars

The used car market has experienced growth also due to the rising demand for luxury-used cars. According to OLX, over 55,000 luxury cars (priced above INR 15 lakh) were listed on OLX every month and supply for premium cars jumped substantially. As per the report, titled OLX Auto Note, top-end sedans and luxury cars added up to 38% of the total four-wheeler listings on the platform. Some major factors driving the growth of this segment are – high rate of depreciation value, fast growing base of young population, increasing disposable income of the consumers (along with rapid urbanisation), and growing internet penetration in non-metros.



Technological Developments

Advances in sensor technology that enhance navigation and object detection, advanced braking systems, image processing algorithms, and machine vision have created opportunities for automobile manufacturers to explore a wide range of automobile electronics solutions. Radar, vision and LiDAR (Light Detection and Ranging) system technologies can be expected to have a high impact in making vehicles fully autonomous with enhanced safety features. Advancements in electronic control units (ECUs), powertrains can be expected to fast-track the adoption of EVs. Miniaturisation of electronic components, product convergence, and smart device adoption facilitate developments in the industry. The emergence of hybrid vehicles is paving the way for more environmentally acceptable alternative to fossil-fuel based vehicles. Such vehicles could now have a range useful to most commuters. A more robust network would help popularise this form of vehicle among the masses.



Industry Risk

Automobile industry is still not out of the woods, albeit while a belief was getting stronger that the pandemic would have less impact for major auto players, potential adverse impact for certain players cannot be removed. For instance, despite Maruti Suzuki announced a 17.6% jump in domestic passenger vehicle sales in October 2020; according to the company it is still uncertain on India due to Covid-19 situation. It's global sales estimates appears to be around 2.37 million units in the current fiscal year; a decline of 16.6 per cent compared to the previous year. Furthermore, despite positive impact of festival times, the growth in sales could be temporary. For instance, in October 2020, retail sales of passenger vehicles (PVs) declined by 9 per cent compared to previous year which is in sharp contrast to the robust growth posted by OEMs in dispatches to the dealers expecting strong demand in Diwali.

According to Federation of Automobile Dealers Associations (FADA), October 2020 Press release , while October 2020 witnesses a positive momentum on a monthly basis (9 days Navratri period witnessed robust vehicle registrations), but a comparison on yearly basis shows during the same Navratri and Diwali period the sales growth was greater in the previous year. In the two wheeler segment, entry level motorcycles witnessed a lean demand. Most of the passenger vehicle dealers ended with limited stock of high selling items and odd variants which did not attract much demand, due to supply side mismatch. While the Medium and Heavy Commercial Vehicles (MHCVs) segment continue to face severe challenges, Small Commercial Vehicles (SCVs) are seeing robust demand due to local goods transportation back to pre-covid levels. One potential challenge is since Inventory levels are at its highest during this Financial Year, it may impact dealers financial health.

Furthermore, while many industries are eyeing for their growth coming from rural sector, in recent months, the vehicle sales did not experience impressive growth in rural areas, and increasing new covid-19 cases have coincided with a decline in the rural market share. Passenger vehicles (PVs) sales dropped from 36 per cent to 34 per cent during June-September 2020 quarter. While rural India accounted for over half (51 per cent) of the total two-wheeler sales in June 2020, this fell to 46 per cent in September 2020. The share of commercial vehicle also declined from 44 per cent to 43 per cent during this quarter.

Challenges regarding enhancing capex lies across different vehicle type manufacturers, including two-wheeler manufacturers. Original Equipment Manufacturers (OEMs) will need to maintain high capex. The 3Ws manufacturers too need to increase their capex figures as demand shifts from traditional energy sources to new sources. The OEMs will have to capture emerging technologies and focus on producing products that are environment-friendly and also BS VI-compliant.

The Way Forward

The future of the automobile industry is not entirely of gloom and doom, instead there is buying spree as a fallout of the current pandemic, since many people prefer personal owned vehicle, instead of sharing vehicles. A global survey revealed that over 40 per cent have stopped using ride sharing services like Uber to reduce the odds of contacting the contagious virus. Many other stated that they have started using their personal vehicles to avoid sitting in stranger's vehicle containing many other passengers. The pandemic has prescribed a change in approaches towards mobility, with health and safety taking utmost priority, with the newer preference could be for micro-mobility or small-format mobility. While the electric vehicle (EV) segment was also hit by the global slowdown caused by the Covid-19 pandemic, adoption could rise again 2021 onwards in key geographies.

A Mckinsey report stated India could expand its share in the global auto component trade to 4 to 5 percent by 2026 by suitable export-import, technological and manufacturing policies/capabilities. The report further cited that Turkey's decision to offer low-cost vehicle loans, for instance, was one of the initiatives that helped the country's auto sales grow in July 2020. Another example cited is South Korea's extension on passenger car tax cuts has helped domestic vehicle sales surge 40 percent in June and 10 percent in July 2020 compared to the previous year.



Car loans with low interest rates coupled with reasonable tax regime can help in increasing consumerism. Optimisation in product design, especially in the expensive manufacturing processes could reduce costs. Institutionalizing the power of digital tools and technologies, investing in the best talent of the future and research and development could be major factors, coupled with the adoption of analytics in supply chain optimization which could help in reducing inventory costs. A good scrappage policy will take unsafe and polluting vehicles off roads.



FOOTNOTES

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