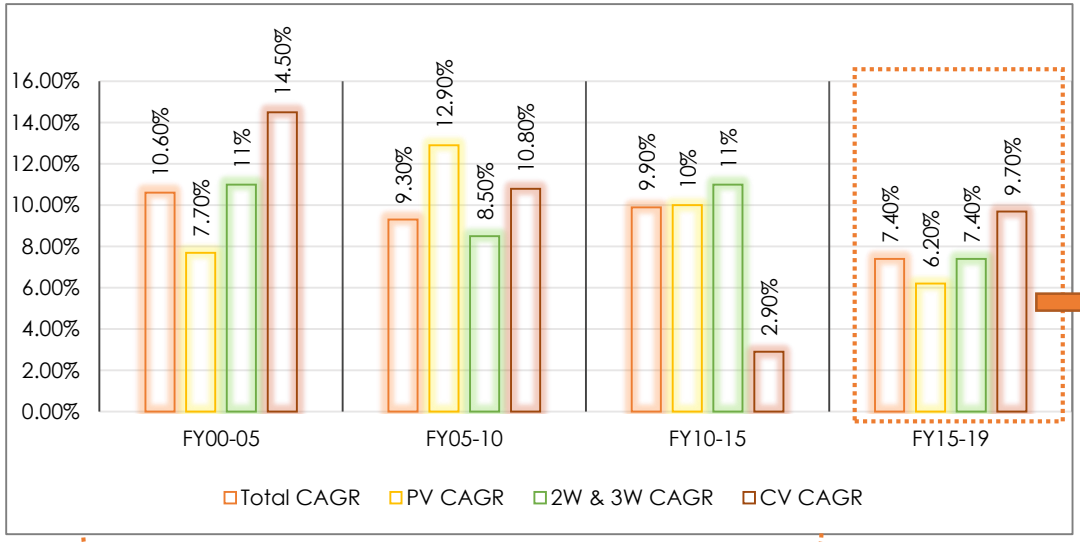
Indian Automobile Sector is at the cusp of a transformation; Lower than expected growth is however a new normal

By the virtue of being the world's fourth largest Auto industry, India records a total production of 30.9 million, translating into 26.3 million in sales. Considering FY19 figures, the sector has experienced multiple cycles since its post liberalisation transformation. The sector, which constitutes - 2W (81 per cent to total sales), PV (13 per cent to total sales), CV (4 per cent to total sales) and 3W (3 per cent to total sales) - contributes around 7.1 per cent to the total Indian Gross Domestic product (GDP) in FY19, employing nearly 32 million people. Over the past two decades, despite evolving into a much more matured market, the sector remains a subject to the vagaries of structural and cyclical events.

Coming to the analysis, Acuité has completed the exercise encompassing four phases (FY1999-05, FY05-10, FY10-15 and FY15-19) covering the previous two decades. Along with that, we have also deep dived to understand the on-going slowdown, which has started since H2FY19. The first slowdown of the period under consideration was marked in FY99/00 and was triggered by the ASEAN crisis – this came at a time when the Indian Automotive market was on the verge of its exponential growth. As a result, in FY99 - total sales volume fell by 9 per cent. This was followed by another slowdown in FY00-FY01 wherein sales volumes fell by 2 per cent due to the Dot Com Bubble crisis. Auto industry then got some respite until the global financial recession took things to another nadir in FY08-FY09. The phase witnessed 8 per cent fall in FY08 YoY. It must be noted that between FY01 and FY07, the market had grown 2x, from 4.5 million vehicles to 9 million vehicles. In FY12-13, yet another slowdown that engulfed most consumer durables, ravaged the automotive sector as well. No structural issues were however responsible for low sales and the slowdown was most likely cyclical. To sum up, it can be ascertained that the slowdowns between FY00-FY15 mirror cyclicality (associated with consumption) and are driven by macro factors both global as well as domestic. Also, the recovery after every slowdown came as a strong one with recorded growth being >10 per cent during these phases.

When considering the phase FY15-19 however, things appear to be different as the slowdown is driven by prolonged structural changes brought about by Government regulations. Therefore, slowdowns in this phase were largely driven by technology upgradation related costs, which were in turn influenced by renewed safety standards and BS IV and BS VI implementations. This can be clearly deciphered from the key observations of the movement of the sales volume growth. CAGR of sales volume in each segment (PV, 2W, 3W and CV) in phases FY00-05 (CAGR: 10.6 per cent), FY05-10 (CAGR: 9.3 per cent) and FY10-15 (CAGR: 9.9 per cent) have been better than the CAGR of phase FY15-19 (CAGR: 7.4 per cent) because the former phases have always been supported by strong recovery after a slowdown.

Additionally, we believe that FY15-19 was a phase where the structural changes such as those pertaining to shift to shared mobility, higher penetration of used cars and accompanied financing, consumer edginess towards newer technology requirements, reducing consumers' urge for owning a vehicle in urban areas along with certain government reforms such as demonetisation and GST - have played an important role. Also, these structural changes have been a prolonged problem over the last 2-3 years and not an abrupt change – making the on-going slowdown different from the previous ones. While analysing the cyclicality in each segment, we observe that PV and 2W/3W segment have entered a yet another usual cycle of downturn. However, why it's different this time pertains to the fact that the present downturn might showing a sharper fall in PV and 2W/3W segments (together contribute 96 per cent to the overall auto pie) sales. We believe that this on-going slowdown is a combination of the usual cyclical downturn phase witnessed by the industry after a gap of positive YoY growth over the last 6-7 ending FY18, in addition to peaking structural changes, government regulations like BS VI migration, NBFC liquidity crisis and changing rural vs urban growth mix.



Slowdowns between FY00-FY15 mirrors cyclicality + driven by macro factors both global as well as domestic; Recovery post every slowdown comes strongly with growth of >10%

FY00-05:

- Emanates from the ASEAN crisis (1996/97) and the Dotcom bubble crisis in 99/01.
- Petrol prices increased from Rs23/litre to Rs.38/litre (↑ 1.6x times) and diesel prices from Rs.13/litre to Rs.28/litre (↑2x times); GDP growth rate declined by 3 percentage points and impacted PV sales volume. Adoption of BS I norms an additional obligation.

FY05-10:

- Global financial recession in FY08-09; impact mainly felt on CV segment due to industrial slowdown. Implementation of BS II in 2005 and BS III in 2010 also noted.
- Petrol prices increased from Rs.38/litre to Rs.48/litre (↑ 1.3x times) and diesel prices from Rs.24/litre to Rs.38/litre (↑ 1.6x times); GDP growth rate declined by 3.2 per cent in FY08-09; Vehicle registration fees increased 3x across segments in FY08

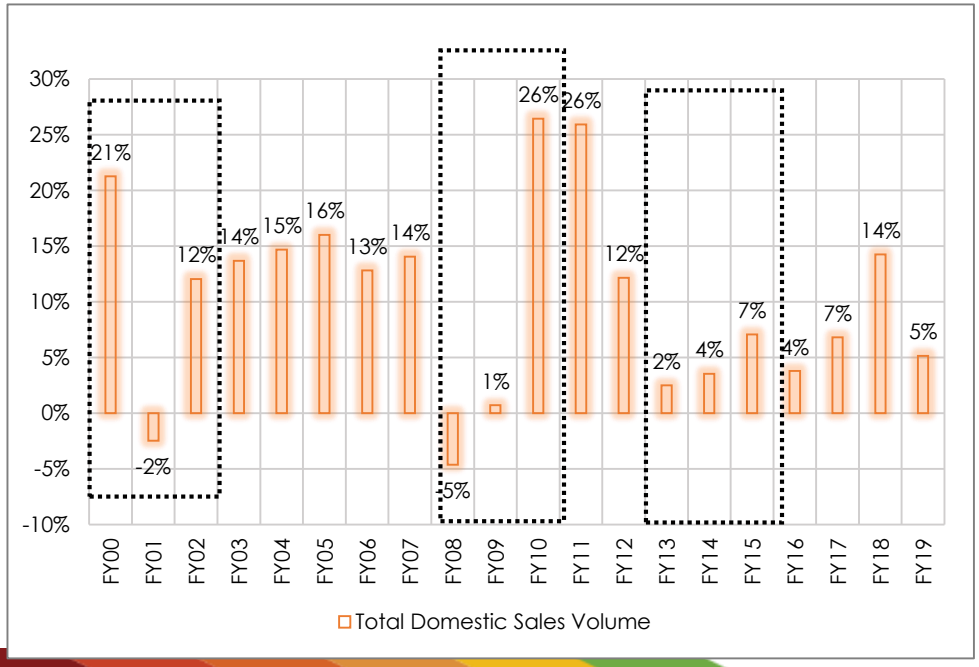
FY10-15:

- Industrial slowdown; weak Rs/$ rate which depreciated > 5percent in FY13-14
- Petrol prices increased from Rs.48/litre to Rs.73/litre (↑ 1.5x times) and diesel prices from Rs.28/litre to Rs.38/litre (↑ 1.3x times); GDP growth rate declined by 5.5 per cent in FY08-09; interest rates increased from 8 per cent to 10.25 per cent; BSIV norms also come into force nationwide.

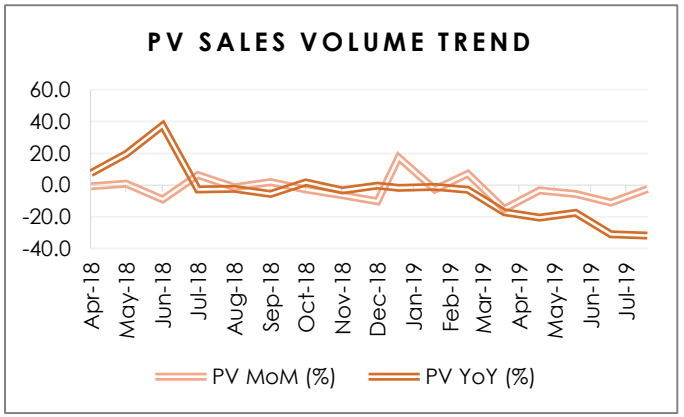
FY15-19: Structural changes along with moderate impact from changes in government regulations manifest a slowdown

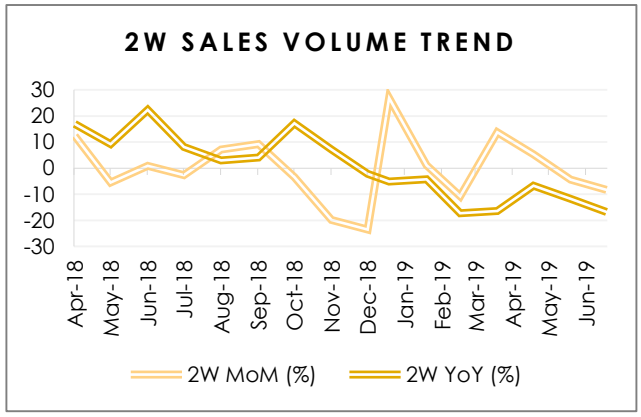
- Structural changes such as Shift towards shared mobility, higher penetration of used cars and available financing in the auto industry, reduced consumer desire to own a vehicle in urban areas - have impacted PV sales the most. PV CAGR stood at 6.2% and 2W at 7.4% consequently.
- Government regulations such as Demonetisation in FY17 along with GST implementation had a positive effect on PV and 2W/3W in FY18. CV and Hybrid car segments were however out of luck.
- Adoption of BS IV across India in FY18 and migration to BSVI slowed down new model launches and iterations.
- Interest rates (Base rates) however declined from 9.15% to 8.5%

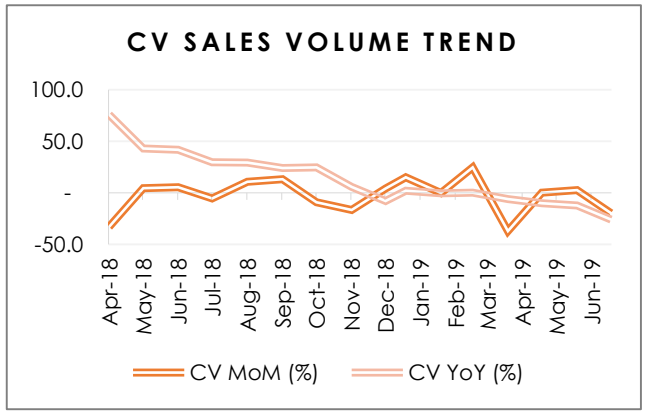
Predominantly, CAGR in each segment in FY00-05, FY05-10 and FY10-15 has been higher than the CAGR in FY15-19 because the former phases have always been supported by strong recovery after a slowdown. This is however baring CV segment CAGR of 2.9 per cent in FY10-15 as the segment was worst hit due to industrial slowdown. Growth in FY15-19 phase has remained consistently low apart from a boom seen in FY18.



Assessing the on-going slowdown: Prolonged structural changes at their peak. Additionally, inventory build-up due to BSVI implementation and accompanies liquidity crisis is impacting margins. Overall, PVs have seen one of worst performances in 20 years







- We believe that the on-going slowdown is the usual cyclical downturn phase witnessed by the industry after a gap of positive YoY growth over the last 6-7 ending FY18. However, what is adding to the pain is the peaking of structural changes, government regulations such as BS VI migration, NBFC liquidity crisis and changing rural vs urban growth mix.
- **Sales volume YTD (Till August of FY20) have shown deeper fall in growth vis-à-vis same period of last fiscal; PV sales performance among worst in over twenty years:** PV sales volume have fallen >30 per cent till August YTD, 2W and 3W have grown marginally by 2 per cent while CV has nearly halved (due to cyclicality; H1 is usually lean period). However, we note that the period April-August of FY20 has seen sharper fall as against the same period of FY19 across segments. Though, H1 of every fiscal is generally lean as compared to H2, the de-growth is sharper this time. CVs de-grew by 10.4 per cent in April-Aug'19, but saw a higher fall in same period of FY20 with de-growth of around 50 per cent. 2Wand 3W sales volume grew by a mere 4 per cent in April-Aug'20 vs 10.7 per cent growth for same period of FY19. PV grew by 0.5 per cent in April-Aug'19 vs a drastic fall of 31 per cent in same period of FY20.

Key Highlights of BSVI Norms:

- The Supreme Court of India has ruled that no Bharat Stage IV vehicle shall be sold across the country with effect from April 1, 2020. Consequently, the BS-VI emission norms would come into force from April 1, 2020 across India.
- BS VI-compliant fuel will be more refined than existing fuel wherein the amount of sulphur, a major pollutant, will reduce to 10 ppm (parts / million) from the current 50 PPM (BS IV). BS VI fuel will cut nitrogen oxide by 70 per cent in diesel cars and 25 per cent in petrol engines. Compliance with the norms will majorly impact the PV and 2W segment — cost implications involve at least Rs 1 lakh for diesel variants and Rs 25,000-50,000 for the petrol variants. The fuel itself is expected to be costlier by up to Rs 2-3/ litre.
- BS IV cars that run on BSVI fuel would also lead to lower emission comparatively but result in a drop-in mileage. However, a BS VI vehicle running on BS IV fuel would rather be more complicated. Currently, BS VI fuel availability is limited to Delhi NCR, but by April '20 more cities are expected to get access.
- BS IV cars purchased before March 2020 will remain operational for the entire period of registration (15 years for petrol and 10 years for diesel).

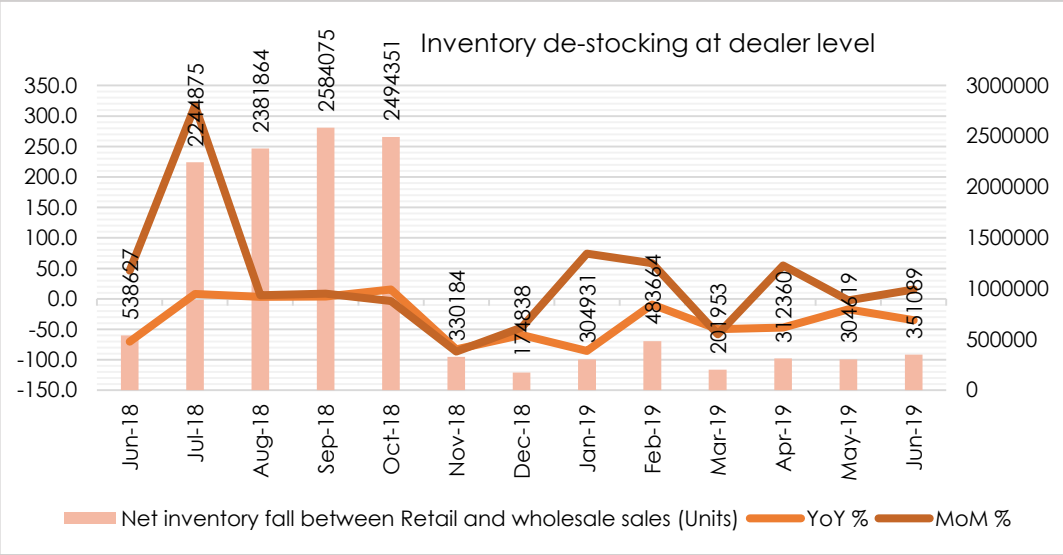
Impact on PV segment and 2W segment:

- Compact diesel cars (<=1.3 litre) are likely to be the biggest victims in the migration to BS VI. The cost of conversion to BS VI is expected to hit the lower end of the diesel car market hardest.
- MSIL expected to lose its market share in PV segment: The <=1.3litre diesel market consists of ~14 models offered by major OEMs such as MSIL, Hyundai, M&M, Tata Motors, etc. The sub 1.3 litre diesel market comprises ~40% of the diesel market and ~16% of the overall passenger vehicle market. MSIL remains the biggest player in the segment, cornering a share of ~90% with its 1.3 litre diesel (DDIS) engine powering its Nexa range - Baleno/Ciaz/Swift/Dzire/Ertiga/S Cross/Brezza. With MSIL/TTMT/M&M planning to discontinue this segment, it is believed that MSIL would be the most impacted by the migration. The discontinued diesel portfolio contributes ~30% to MSIL's overall volumes while Tata Motors and M&M are relatively less impacted with the contribution being ~15% and 3-5% respectively.
- Among the other major OEMs, Honda/Toyota/Ford have no exposure to this segment while Hyundai has announced that it will upgrade its existing 1.1 litre cars which currently powers the Grand i10 and Xcent, to BS VI standards. According to the management, Hyundai India will not have cost issues as its parent company has already invested in upgrading its diesel engines to Euro 6 (in line with BS VI) for the European market.
- On 2W segment, the impact would be comparatively lower than PV segment as the 2W segment is petrol powered. Nevertheless, there would be increase in prices of 2W by 10-15 per cent; however, 3W would remain less impacted as it runs mostly on CNG.

It's Impact on CV segment: In efforts to meet the BS VI emission norms, CV players like Ashok Leyland, Tata Motors, VECV, etc. are upgrading their vehicles. The impact of such change will be directly visible on the prices, which are expected to go up significantly from the current BS-IV compliant vehicles. As per Vinod Aggarwal, CEO and MD of VECV, the price increase for BS VI compliant vehicles can be in the range of 10-15% depending upon the variant. On the inventory side, generally CV dealer stock is to meet ~5-6 months demand. Therefore, dealers need to be very careful during the transition of BS VI to avoid sticky inventory.

Liquidity crisis adding to the woes…De-stocking of new models leads to lower inventory at dealer points; however, inventory days shoot up due to non-sale of existing inventory

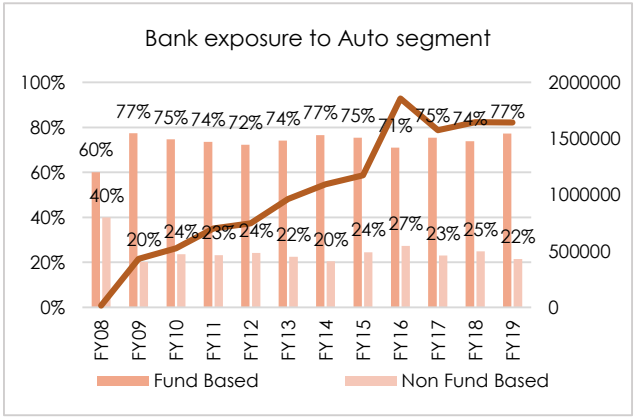
— Dealer Inventory levels dropped by nearly half in July due to de-stocking of cars and commercial vehicles amid production cuts by automakers. The auto industry's net inventory fell to 1,70,532 units in July compared to 3,51,089 units in the previous month. This was mainly led by passenger cars and commercial vehicles where retail sales exceeded the aggregate factory sales. In fact, the de-stocking trend has been continuing since Nov-18. However, the inventory days of the dealers have shot up recently due to lower sale of existing inventory.



Inventory Days	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
PV	50-60	40-45	40-45	35-40	30-35	25-30
2W	80-90	45-50	45-50	55-60	60-65	60-65
CV	45-50	40-45	40-45	45-50	55-60	55-60

42 Days Festive Period	21 Sep'17-1 Nov'17	10 Oct'18-20 Nov'18
2W	18,11,703	15,83,276
YoY %		*(12.6)*
3W	53,457	58,801
YoY %		*10.0*
PV	3,33,456	2,87,717
YoY %		*(13.7)*
CV	1,03,370	1,19,597
YoY %		*15.7*
Total	**23,01,986**	**20,49,391**
YoY %		*(11.0)*
Year to Date Comparison	**1 Apr'17-20 Nov'17**	**1 Apr'18-20 Nov'18**
2W	88,40,375	93,10,770
YoY %		*5.3*
3W	2,37,187	3,64,013
YoY %		*53.5*
PV	16,49,650	16,26,555
YoY %		*(1.4)*
CV	5,27,093	6,88,367
YoY %		*30.6*
Total	**112,54,305**	**119,89,705**
YoY %		*6.5*

Customer touch points facing liquidity crisis



NBFCs remain highest lenders, by financing 70 per cent of new two-wheelers and 60 per cent of new commercial vehicles in the country. Even though the NBFCs have lent enough to the auto segment at Rs.1035 Bn in FY17 to Rs.1942 Bn as on Sept'18, the momentum has slowed down post IL&FS led crises. As a result, NBFCs have difficulty in accessing finance and their NPA levels have also gone up. Consequently, dealer financing has suffered.

21st Century disruptions: Technology driven structural changes have gained traction in recent times

Shared Mobility: The *shifting of gears from 'ownership' to 'usership' has reoriented* consumer behaviour towards mobility

- Shared mobility has been gaining pace for last 3-4 years with several app-based players like OLA, UBER, MERU, etc in the Indian mobility market. Transition to shared mobility has superseded the concept of car ownership which is much more economical. Key Challenges of rapid urbanisation, traffic congestion, parking woes, and affordability are becoming the main driving forces behind digital savvy consumers who are re-thinking their mobility requirements. Shared mobility benefits consumer in many ways like providing speedy, safe and comfortable travel, door to door service, on-demand availability and most importantly, involvement of lower cost.
- **Statistics showing how shared mobility growth cycle is on uptick trend and has huge market to capture due to lower penetration of shared mobility concept:** As per World Bank data, 850 million of Indians are below the age of 35; young generation which are quicker in adopting new trends. With per capita income of $2042 as on March, 2019, India sells over 3 million cars annually and has over 50 motor vehicles per 1,000 people as against China that has $7329 per capita income, sells over 24 million cars annually and has 231 motor vehicles per 1,000. This shows that with such lower per capita income, shared mobility stands at point of huge demand in future as mediocre income group people are the biggest end users of shared mobility.
- **Changing consumer behaviour; car ownership was once a prestigious thing even in the upward class segment:** In metro cities, among the upwardly mobile and aspirational class, the trend is already playing out. A combination of factors like lifestyle shift, pollution concerns, traffic congestion, long commute, steep parking fees, metro rail and emergence of new app-based mobility solutions is reshaping how Indians buy, own and use their cars.
- **Twins impact on PV sales from shared mobility:** In India, issues around public transport, climate and safety concerns have driven the pick-up in Ola/Uber. **Based on FY18 figures, number of drivers at Ola/Uber platform are 1.7 million and PV sales during (FY13-FY18) was ~17 million vehicles; i.e. auto sales attributed to sharing segment was 10 per cent.** We note that while shared mobility has led to lower car buying, limited fleet augmentation by Ola/Uber has resulted in lower PV sales**, causing a twin impact on PV sales. Ola/Uber bought 3.5 per cent of PV sales in FY14 (First year of operations) and contributed 8 per cent of PV sales in FY18 – ultimately falling to 3 per cent in FY19.** The fall is also due to significant inventory build-up by these platforms as they were previously in a rapid growing phase and had reached saturation point.

- **Owning a car becoming a costlier and cumbersome affair vis-à-vis ride hailing services:** Owning a car is cumbersome and costlier affair dealing with multiple components to manage like financing, insurance, parking, maintenance, etc than compared to opting for a comfortable ride in OLA/Uber at consumers' door step. As observed in the adjacent table, the cost of owning a Swift would be Rs.11.5 lakhs for an average user i.e. spending Rs.3.5 lakh a year owning a car. Whereas, travelling in Uber/Ola 10,000Kms a year at rates between Rs.20-50/kms would lead to 25-40 per cent lower cost a year. Also, observed that consumers are ready to commute at higher price in Ola/Uber at peak times. To add, Uber/Ola bike, auto riding services have been added to the list which has boosted the growth in these services. To cater different market segments, Ola is also entering luxury cars self-driving services very soon.

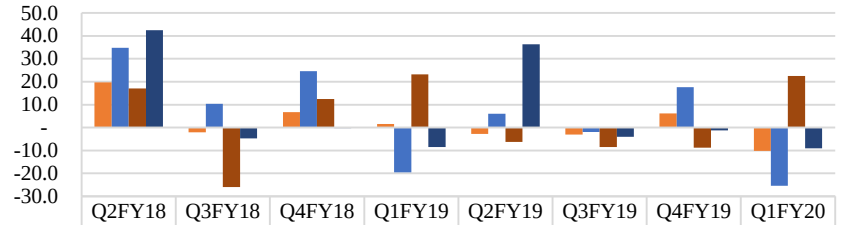
Car Costing – Swift as example and Driven 10000 Kms a Year	
Swift Lxi Upfront Purchase Cost	Rs. 4.78 Lakh in Delhi as ex-showroom
Running Cost monthly distance covered	1,000 km Petrol cost: Rs 71 /lt Mileage: 18 km/lt. Total running cost Rs 3.5 lakh; Monthly running cost Rs 1.21 lakh
Finance	(Interest rate: 9.55%; loan term: 3 years) Down payment Rs 47,800 + Loan interest Rs 66,232
Insurance	Rs 12,000 Total insurance cost Rs 36,000 (3 years)
Registration/taxes	Rs 72,000 (3 years)
Annual maintenance cost:	Rs 15,000 Total maintenance cost Rs 45,000 (3 years)
Parking/Misc	Rs.50,000 (3 years)
Total cost in 3 years	Rs.9 lakh
Total cost with chauffeur @ Rs.12,000 pm	Rs.10.5 lakh
(-)Resale Value after 3 years	Rs.2.5 lakh
Net cost	**Rs 8.5 Lakh approx. with driver**

Growing buyers of used cars ~certified cars at affordable prices to mass mediocre segment

- **Increasing organised market**: Growing organised market for used car with emerging players in market like Olx, Cars24, Carwale, CashmyCar, etc have led to higher used car sales. This is because organised players are offering certified cars, which are thoroughly inspected and provide warranty. **Presently, 16 per cent of market is organised, 35 per cent is semi-organised and remaining is C2C or unorganised, according to India Blue book. As a yardstick, it is noted that used to new car ratio in mature markets is 2-2.5 times**. Also, majority of India's population is part of the medium income group and cannot afford to buy executive/premium segment cars. This group often resorts to used cars at affordable prices. Notably, MSIL – the market leader in PV segment has reported that share of cars sales (via exchange) has increased from ~16 per cent in FY10 to 30 per cent in FY19.
- **Improving financial penetration**: Financing for used car in India was merely 17 per cent in FY19; increasing from 15 per cent in FY17 which itself is very low as compared to in US and China, which peg it at 70-75 per cent. However, the trend has seen traction marginally over the years in India.

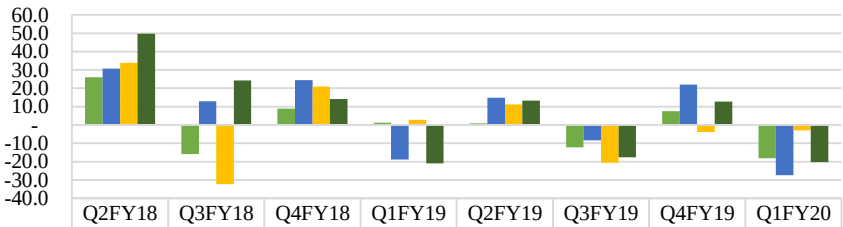
Despite rural demand outpacing urban in recent years, ailing rural economy has off-late started to weaken consumption

RURAL SALES VOLUME GROWTH



	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
PV QoQ (%)	19.7	-2.1	6.7	1.5	-2.8	-3.0	6.2	-10.2
CV QoQ (%)	34.7	10.4	24.6	-19.5	6.1	-1.9	17.5	-25.4
2W QoQ (%)	17.0	-25.9	12.5	23.2	-6.2	-8.5	-8.8	22.5
3W QoQ (%)	42.5	-4.7	-0.2	-8.5	36.3	-4.1	-1.2	-9.0

URBAN SALES VOLUME GROWTH



	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
PV QoQ (%)	26.0	-15.9	9.0	1.3	0.8	-12.2	7.5	-18.1
CV QoQ (%)	30.7	13.0	24.4	-18.8	14.9	-8.4	22.1	-27.3
2W QoQ (%)	33.9	-32.3	20.9	2.8	11.3	-20.6	-3.9	-2.9
3W QoQ (%)	49.8	24.3	14.2	-21.0	13.2	-17.5	12.8	-20.2

— 2W segment, the key indicator of rural demand contributes 43 per cent to total 2W sales volume, with 57 per cent coming from urban segments (based on FY19 data). The segment, which was growing at moderate pace until Q1FY19, started showing negative trend in FY19 onwards. Q1FY20 turned positive with QoQ growth of 22.5 per cent. We note that Hero, Bajaj and TVS gets ~45-50 per cent of sales from rural areas.

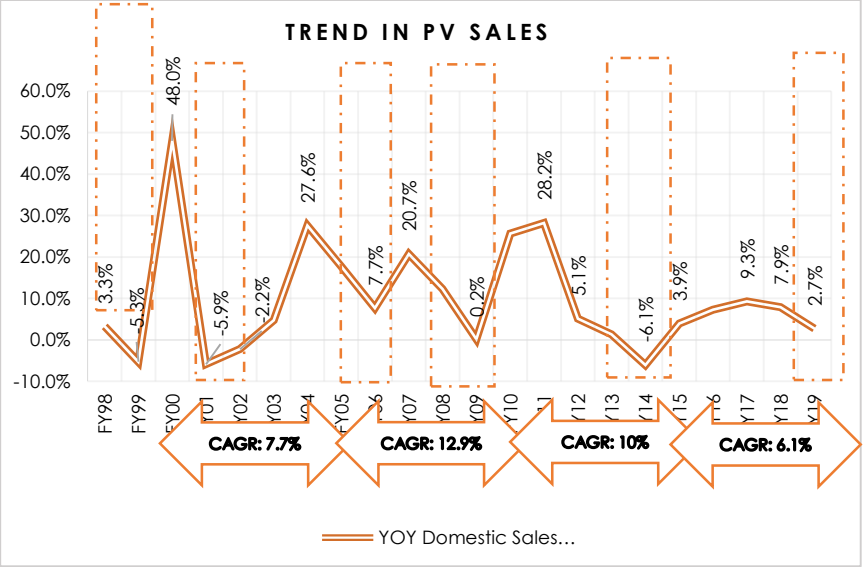
— The rural PV segment contributes 32 per cent to total PV sales volume, while the rest 68 per cent comes from urban (based on FY19 data) market. The segment has been underperforming in both areas over the last 8 quarters. MSIL and Tata gets ~40-50 per cent of sales from rural areas.
CV Rural segment contributes 34 per cent to total CV sales volume, while 66 per cent comes from urban (based on FY19 data) market. The segment has been outperforming in both areas over the last 8 quarters vis-à-vis PV and 2W. Piaggio and Tata gets ~40-50 per cent of sales from rural areas.

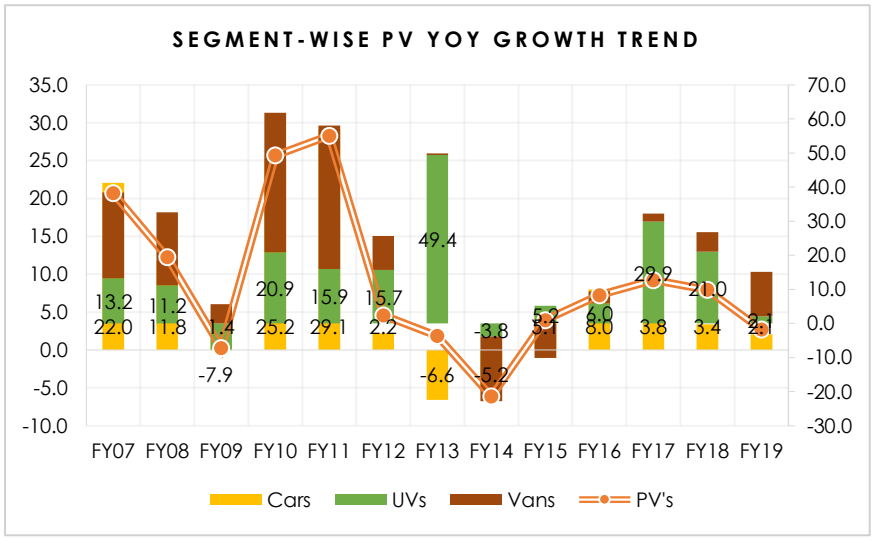
— The rural demand is impacted by weakness in rural income arising from lower farm (monsoon uncertainty, deflation in food and beverages, weak price during the harvest period etc.) and non-farm income.

Reading between the lines in order to understand the cyclicality

To understand the slowdown (cyclicality) in each auto segment, Acuite has delved deep and studied trends over the last two decades.

PV segment cyclicality repeats every 3-4 years and lasts for 1-2 years; It is observed that there has not been a single instance of YoY double digit growth since FY13. Also, FY14 did not elicit a strong recovery like previous slowdowns and has resulted in a new normal





— PV segment's (13 per cent to total auto sales) cyclicality comes in every 3-4 years lasting for about 12-18 months. However, the above trend would be barring exceptional months seeing uptick because of festive season pre-buying.

— Notably, PV segment has not witnessed double-digit growth YoY over the last 8 years. The segment had historically recorded >20 per cent growth YoY in the successive years, post slowdown. However, this has not been happening since FY13 and similar growth is not seen since then.

Headwinds during FY99-FY19

— Slowdown in FY98-99 (Asian Crisis), FY00-01 (Dotcom Bubble), FY08-09 (Global recession) and FY12-13 (Rupee depreciation >10 per cent)

— **Fuel Cost:** 3x times hike in petrol prices from Rs.24/litre to Rs.73/litre (~70 per cent of PV are petrol based); 4x times hike in diesel prices from Rs.16/litre to Rs.67/litre. Current Petrol and diesel price mirror the trend in last slowdown (FY12-14).

— **Registration fees hike:** For cars (65.7 per cent of total PV segment) and remaining (UVs+Vans) registration fees was hiked 3x times in 2007.

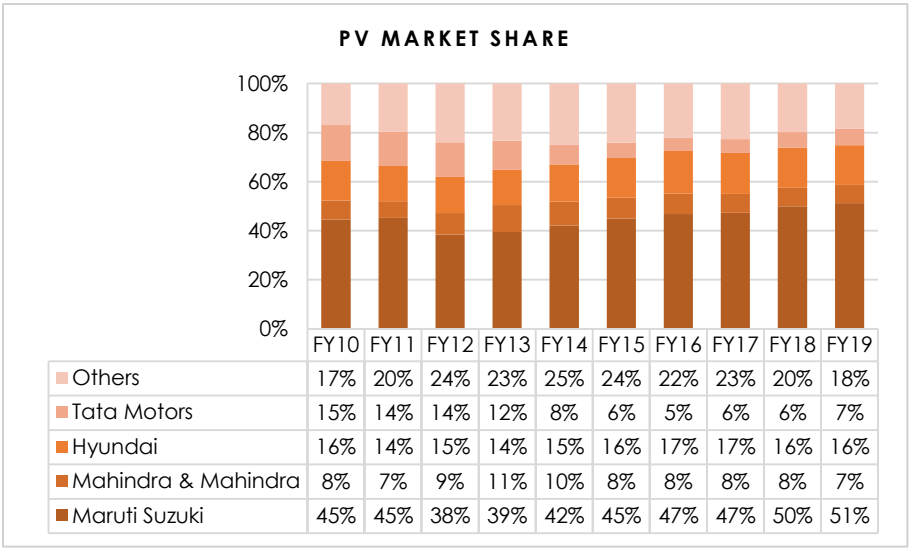
— **Higher insurance cost** in FY19 according to new motor insurance rules. Insurance cost on an average went up by 2-3 times.

— **Upgradation of emission norms from Indian standard to BSIV**

Cars – major contributors to PV segment showing declining trend over the years; UVs/SUVs gaining the market share

— Passenger Cars which comprise 65.7 per cent of total PV segment, once contributed 77 per cent of total PV sales in FY07. The bold labels in chart show growth in passenger cars over the years which have remained subdued since FY12. This is due to several new models launched in the period FY07-FY11 when PV market was in the developing stage.

— On the contrary, UVs are gaining the share from 17 per cent in FY07 to 28 per cent in FY19.



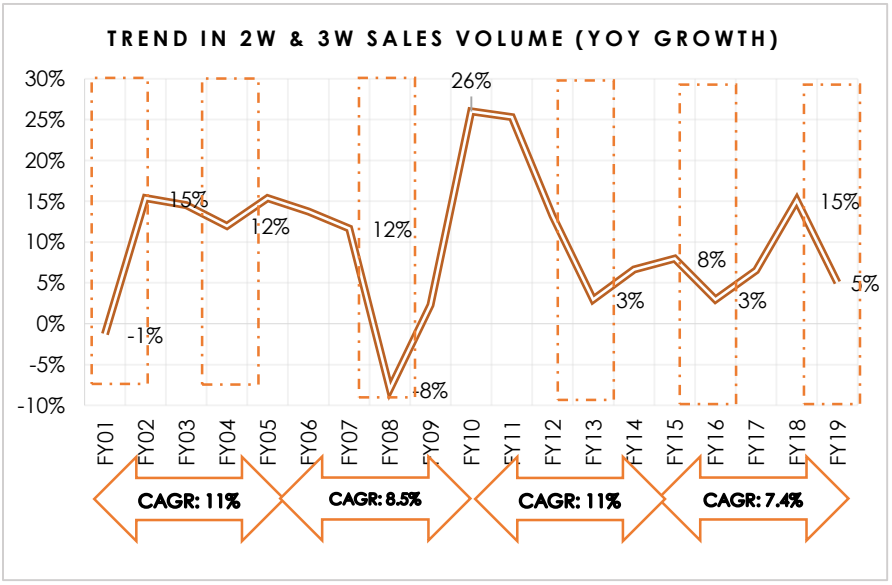
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Others	17%	20%	24%	23%	25%	24%	22%	23%	20%	18%
Tata Motors	15%	14%	14%	12%	8%	6%	5%	6%	6%	7%
Hyundai	16%	14%	15%	14%	15%	16%	17%	17%	16%	16%
Mahindra & Mahindra	8%	7%	9%	11%	10%	8%	8%	8%	8%	7%
Maruti Suzuki	45%	45%	38%	39%	42%	45%	47%	47%	50%	51%

Who is gaining and who is losing? – MSIL remains leader with strong emergence after FY13-14 slowdown and over achieves its historical market share; while Tata Motors loses significantly due to lower demand. Other entrants like Ford and GM (now defunct) arrest the slowdown.

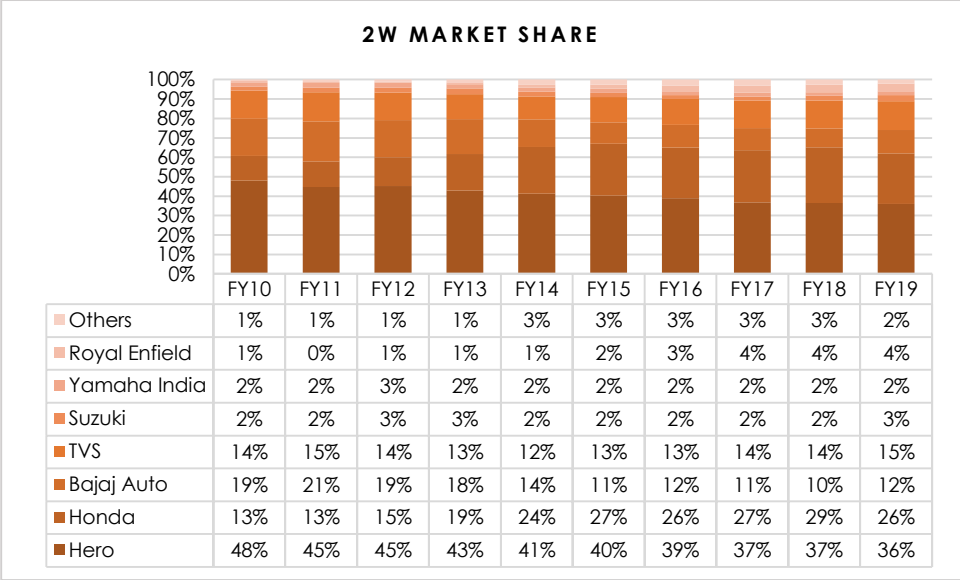
- Maruti Suzuki India Limited (MSIL) has clearly remained the leader in PV space. It derives 38 per cent of its sales from Cars, 7 per cent from UVs ad remaining Vans. Despite volatility in its market share in past (FY12-FY15) due to competition from other players such as Ford, Hyundai and TATA, the proportion of Car: UVs: Vans has remained consistent with that of the decadal average.
- Mahindra & Mahindra's (M&M) entire share comes from UVs and Vans.

Acuité believes that PV segment is seeing another cyclical phase; but this time the fall in sales is expected to be deeper due to various factors discussed above.

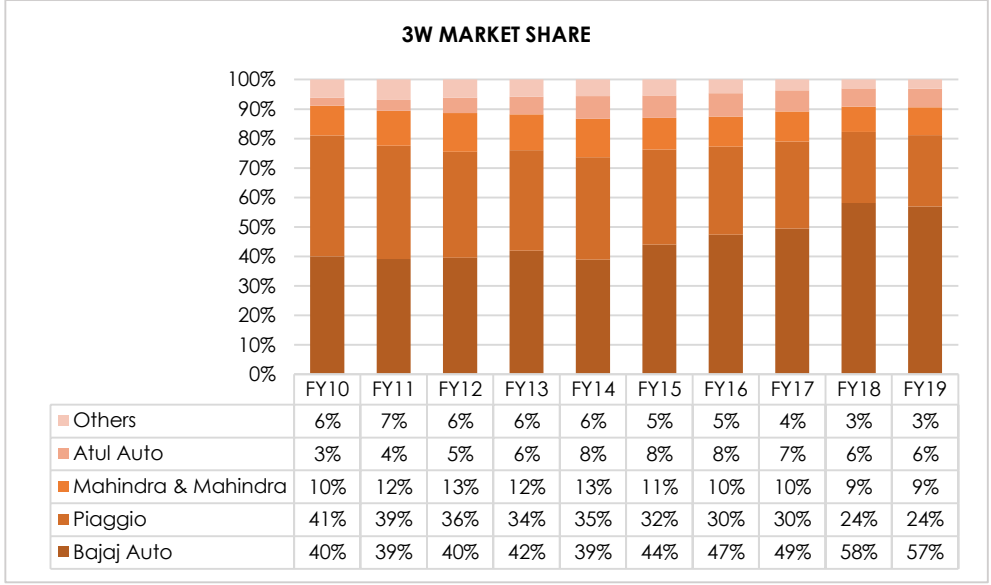
2W & 3W segment cyclicality is narrower as compared to PV and repeats every 1-2 years and lasts for about a year; double digit YoY growth witnessed in only in FY18 after FY13-14 slowdown



- 2W and 3W segment's (83 per cent to total auto sales) cyclicality comes in every 1-2 years lasting for about 8-12 months. However, the above trend would be barring exceptional months seeing uptick because of festive season pre-buying.
- Notably, this segment has not witnessed double-digit growth YoY over the last 7 years except for 15 per cent in FY18. The segment had historically recorded >12 per cent growth YoY even in consecutive years. Unlike PV, 2W and 3W saw strong recovery in sales volume of 15 per cent growth YoY in FY18.
- Acuite believes that the segment is undergoing yet another usual cycle at present. However, this time the sales are expected to slid down further due to migration to BSVI norms and lower rural demand due to ailing rural income.



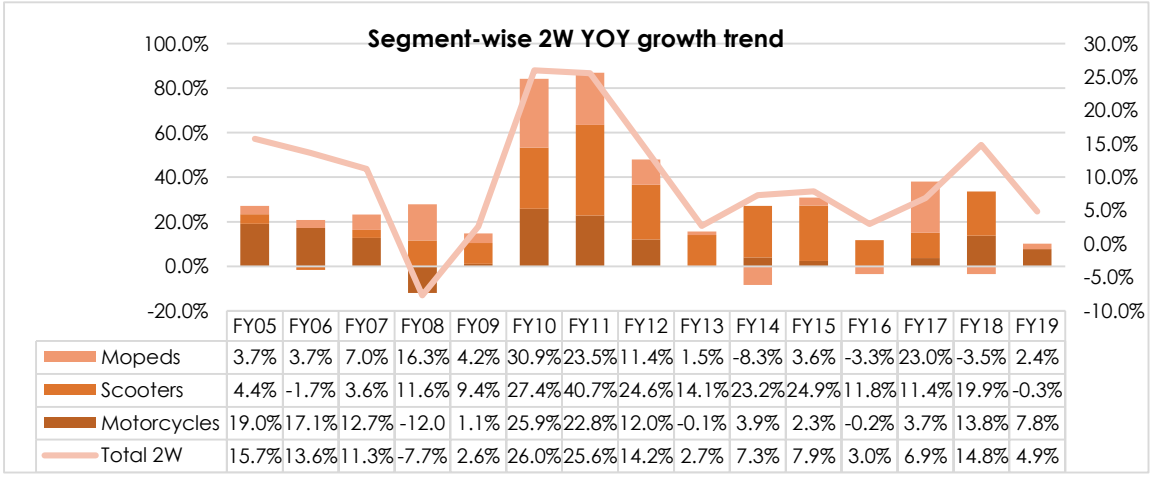
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Others	1%	1%	1%	1%	3%	3%	3%	3%	3%	2%
Royal Enfield	1%	0%	1%	1%	1%	2%	3%	4%	4%	4%
Yamaha India	2%	2%	3%	2%	2%	2%	2%	2%	2%	2%
Suzuki	2%	2%	3%	3%	2%	2%	2%	2%	2%	3%
TVS	14%	15%	14%	13%	12%	13%	13%	14%	14%	15%
Bajaj Auto	19%	21%	19%	18%	14%	11%	12%	11%	10%	12%
Honda	13%	13%	15%	19%	24%	27%	26%	27%	29%	26%
Hero	48%	45%	45%	43%	41%	40%	39%	37%	37%	36%



	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Others	6%	7%	6%	6%	6%	5%	5%	4%	3%	3%
Atul Auto	3%	4%	5%	6%	8%	8%	8%	7%	6%	6%
Mahindra & Mahindra	10%	12%	13%	12%	13%	11%	10%	10%	9%	9%
Piaggio	41%	39%	36%	34%	35%	32%	30%	30%	24%	24%
Bajaj Auto	40%	39%	40%	42%	39%	44%	47%	49%	58%	57%

Who is gaining and who is losing?

- Hero remains leader in 2W segment but market share eroded gradually from 48 per cent to 36 per cent; Honda and Royal Enfield capture the lost share. TVS has been able to hold its market share across the cycles. Bajaj Auto focusing on 3W where its share has increased from 40 per cent in FY10 to 57 per cent in FY19. Consequently, this has reduced its share in 2W space wherein the market share dented from 21 per cent in FY11 to 12 per cent in FY19.
- Under 3W, Piaggio lost its share to Bajaj Auto and Atul Auto over the years FY10-FY19.

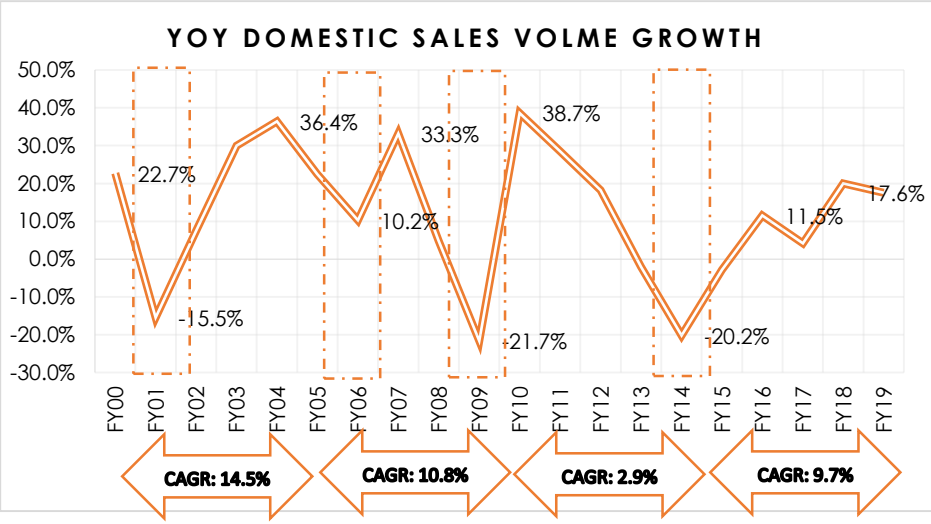


	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Mopeds	3.7%	3.7%	7.0%	16.3%	4.2%	30.9%	23.5%	11.4%	1.5%	-8.3%	3.6%	-3.3%	23.0%	-3.5%	2.4%
Scooters	4.4%	-1.7%	3.6%	11.6%	9.4%	27.4%	40.7%	24.6%	14.1%	23.2%	24.9%	11.8%	11.4%	19.9%	-0.3%
Motorcycles	19.0%	17.1%	12.7%	-12.0	1.1%	25.9%	22.8%	12.0%	-0.1%	3.9%	2.3%	-0.2%	3.7%	13.8%	7.8%
Total 2W	15.7%	13.6%	11.3%	-7.7%	2.6%	26.0%	25.6%	14.2%	2.7%	7.3%	7.9%	3.0%	6.9%	14.8%	4.9%

Motorcycles – major contributors to 2W segment (64 per cent in FY19) showing declining trend over the years in market share; Scooters eating up the share (32 per cent in FY19)

- Overall, 2W are the least hit segment in the last 2 decades. The growth in 2W over the years have remained subdued since FY12. This is due to immense number of new models launched in the period FY07-FY11 when 2W market was in the developing stage and gaining the big shape like PV segment.

CV segment slowdowns and recoveries are steeper as compared to PV/2W/3W and de-grows purely in tandem with influence from worsening of macro-factors; Cyclicality parallels movement in macro-factors and industrial activities.

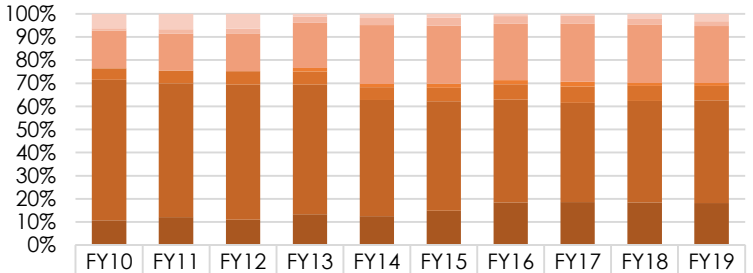


— CV's (4 per cent to total auto sales) cycles move along with the slowdowns and recoveries in the Indian economy. As witnessed, the slowdowns have showed deepest fall in YoY growth and sharpest recoveries as the economy revives.

— Tata motors market share has gradually fallen from 61 per cent in FY10 to 44 per cent in FY19. This was captured by Ashok Leyland and M&M.

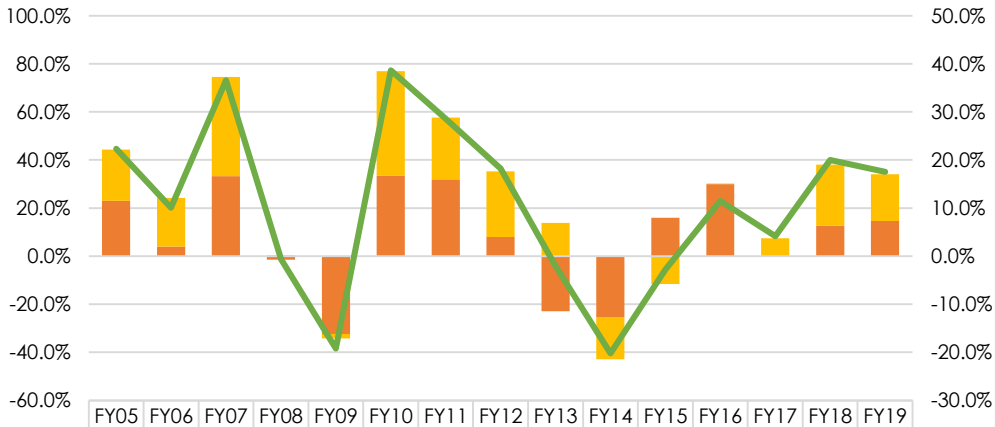
— Acuite believes that CV would be least suffered vertical among all except for the implementation of BSVI norms wherein the prices of CVs would be increasing by 10-15 per cent.

CV MARKET SHARE



	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Others	6%	7%	6%	1%	2%	2%	1%	1%	2%	3%
Force Motors	1%	2%	2%	3%	3%	3%	3%	3%	3%	2%
M&M	16%	16%	16%	20%	25%	25%	24%	25%	25%	25%
SML ISUZU	0%	0%	0%	1%	1%	2%	2%	2%	1%	1%
VECV	5%	6%	6%	6%	5%	6%	7%	7%	7%	6%
Tata Motors	61%	58%	58%	56%	50%	47%	44%	43%	44%	44%
Ashok Leyland	11%	12%	11%	13%	12%	15%	18%	19%	18%	18%

Segment-wise 2W YOY growth trend



	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
LCVs	21.2%	20.2%	41.3%	0.5%	-1.9%	43.4%	25.7%	27.4%	13.8%	-17.6	-11.6	0.3%	7.4%	25.4%	19.5%
M&HCVs	23.1%	4.0%	33.3%	-1.5%	-32.3	33.5%	31.9%	7.9%	-22.9	-25.3	16.0%	29.9%	0.1%	12.6%	14.7%
Total CV	22.4%	10.1%	36.6%	-0.7%	-19.2	38.7%	28.6%	18.2%	-2.0%	-20.2	-2.8%	11.5%	4.1%	20.0%	17.6%

Snapshot of financial performance of Key Players