

## **Digital push to drive growth for Automobile sector**

**JULY 20, 2017**

### **Automobile Industry's medium to long-term outlook looks promising**

Indian Auto industry is one of the major automobile industries in the world, with the production of around 253 lakh vehicles in a year. It is also one of the key drivers that boost the economic growth of the country, accounting for 7.1 percent of the country's gross domestic product (GDP) by volume. Directly and indirectly it employs more than 19 million people. The automobile industry in India is a vast business producing a large number of cars annually due to rapidly growing population of the country.

In the early period the auto industry was overlooked by the Government and the policies were also not favorable. The liberalization policy and various tax reliefs by the Government of India in recent years has made considerable impact on Indian Automobile Industry.

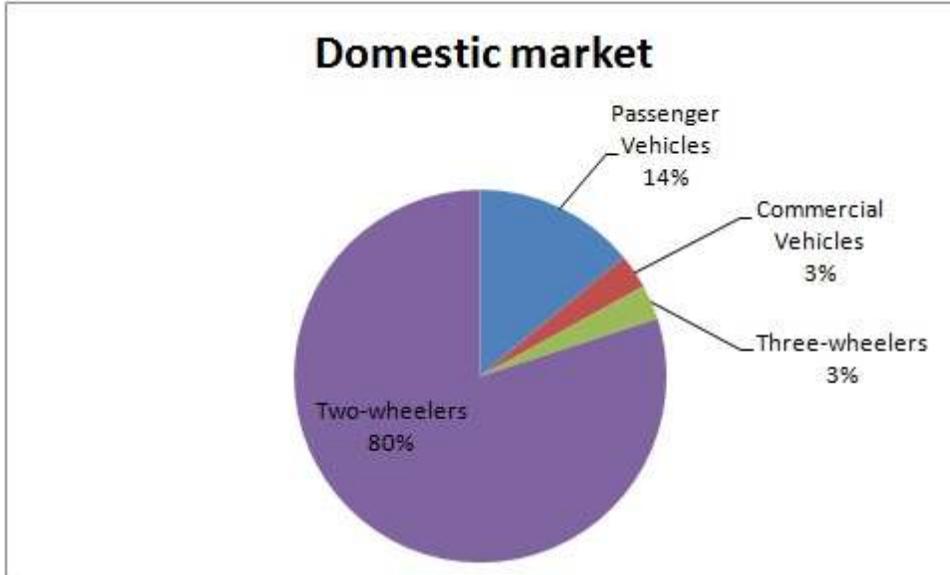
India is emerging as one of the world's fastest growing passenger car markets and second largest two wheeler manufacturer. It is also home for the largest motor cycle manufacturer, fifth largest commercial vehicle manufacturer. It is fourth largest tractor market and tenth largest passenger car market. India is also emerging as an export hub for sports utility vehicles (SUVs). Indian auto industry has become a hot destination for global auto players like Volvo, General motors.

The automobiles sector is divided into four different segments:

- Two-wheelers which comprise of mopeds, scooters, motorcycles and electric two-wheelers
- Passenger Vehicles which include passenger cars, utility vehicles and multi-purpose vehicles
- Commercial Vehicles that are light and medium-heavy vehicles
- Three Wheelers that are passenger and goods carriers.

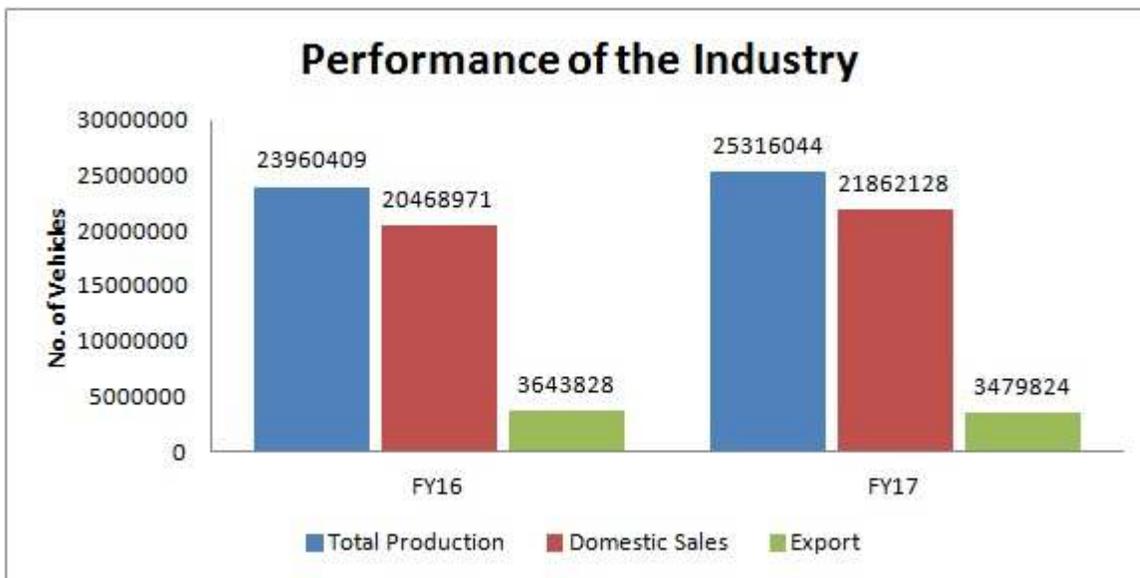
### **Domestic market:**

Two Wheelers segment with 80 percent market share is the leader of the Indian Automobile market owing to a growing middle class and a young population. The overall Passenger Vehicle segment has 13 percent market share. Besides, commercial and three wheelers segment hold 3 percent each.



**Overall performance of the industry:**

Overall automobile industry witnessed a positive growth with total production of 25,316,044 vehicles including passenger vehicles, commercial vehicles, three wheelers, two wheelers and quadricycle in April-March 2017 as against 24,016,599 in April-March 2016, registering a growth of 5.41 percent. Total domestic sales of the industry registered a growth of 6.81 percent at 21,862,128 vehicles during financial year 2016-17, as against 20,468,971 vehicles sold in previous financial year. Though, cumulative export of the industry declined by 4.50 percent to 3,479,824 vehicles in FY17, as against 3,643,828 vehicles exported in FY16.

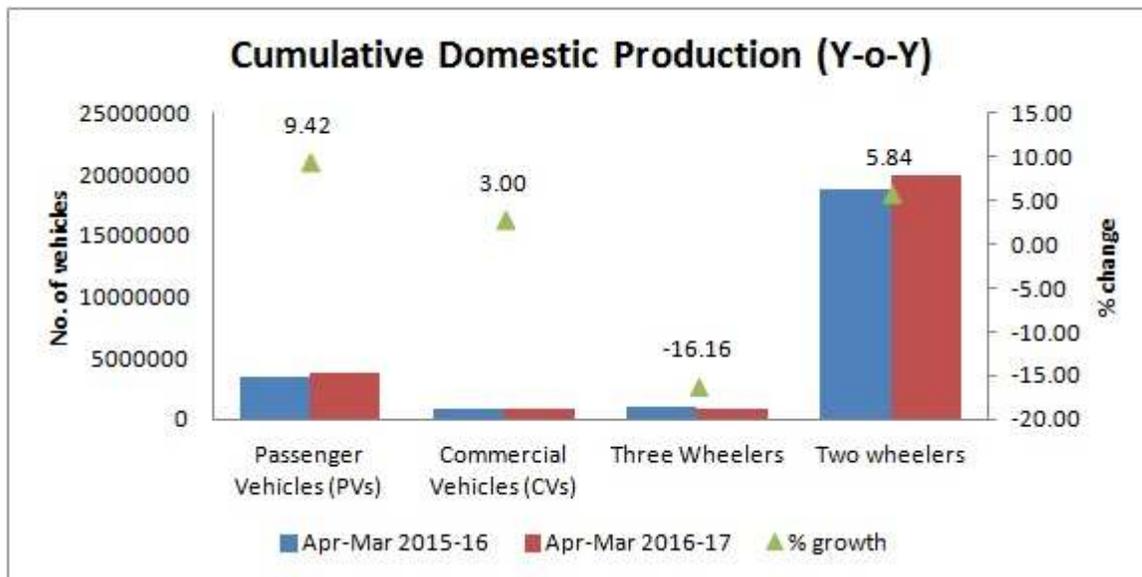


**Segment wise production growth:**

Barring the three wheeler segment, all the other segments registered positive growth in their production, on account of declining prices of fuel and improving consumer sentiment. In FY17, out of total production, Passenger Vehicle (PV) segment recorded 9.42 percent growth at

3,791,540 vehicles against 3,465,045 vehicles in the previous year. Under PV segment, Passenger Cars was 2,704,600 units, Utility Vehicles was 906,750 units and Vans was 180,190 units. Total Commercial Vehicle (CV) production increased by 3 percent to 810,286 vehicles as against 786,692 vehicles produced in previous year. Under CV segment, medium and heavy commercial vehicles (M&HCVs) production increased marginally by 0.42 percent and light commercial vehicle (LCVs) improved by 4.97 percent.

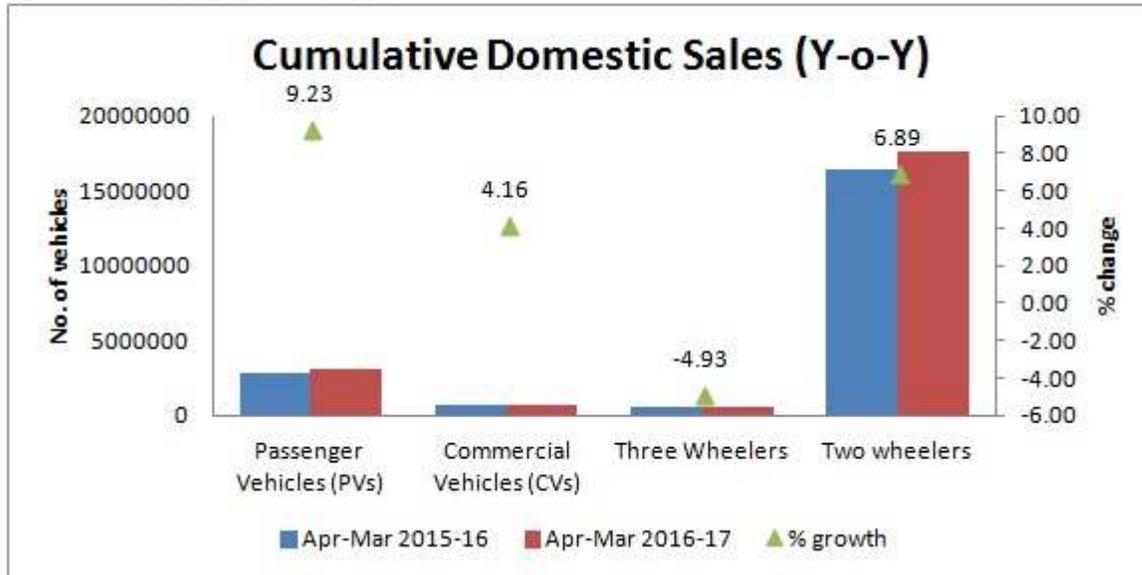
Two wheeler segment registered 5.84% growth at 19,929,485 vehicles against 18,830,227 vehicles in the previous year. Within two wheeler segment, Scooter/Scooterettee, Motor cycles/Step-Throughs and Mopeds grew by 12.32 percent, 2.09 percent and 24.55 percent respectively. However, production of three wheeler segment in FY17 registered a fall of 16.16% at 783,149 vehicles as compared to 934,104 vehicles in the previous year. Under three wheeler segment, Passenger Carrier production declined by 19.57 percent, while Goods Carrier increased by 12.34 percent during fiscal 2016-17.



### Domestic Sales:

The sales of PV grew by 9.23 percent in April-March 2017 over the same period last year. Within the PV, Passenger Cars, Utility Vehicles and Vans grew by 3.85 percent, 29.91 percent and 2.37 percent respectively during April-March 2017 over the same period last year. As for demonetisation, the impact was for only two months on the PV segment and recovery was quick. The overall CV segment registered a growth of 4.16 percent in April-March 2017 as compared to the same period last year. M&HCVs increased marginally by 0.04 percent and Light Commercial Vehicles grew by 7.41 percent during April-March 2017 over the same period last year.

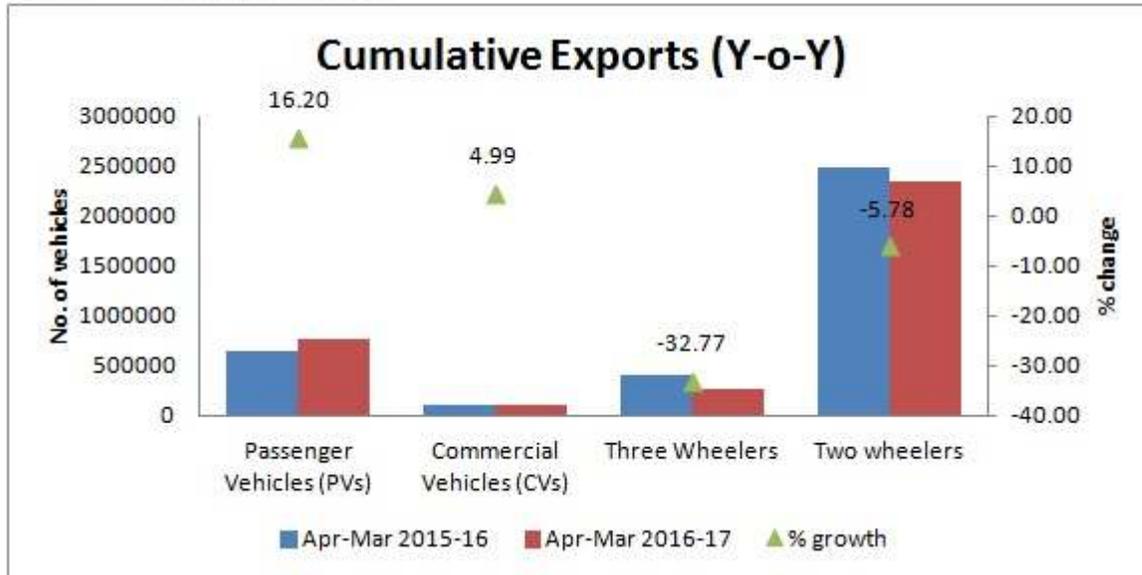
Two Wheelers sales registered a growth of 6.89 percent during April-March 2017 over April-March 2016. Within the Two Wheelers segment, Scooters, Motorcycles and Mopeds grew by 11.39 percent, 3.68 percent and 23.02 percent respectively in April-March 2017 over April-March 2016. However, three wheelers sales declined by 4.93 percent in April-March 2017 over the same period last year. Passenger Carrier sales slipped by 8.83 percent, while Goods Carrier sales grew by 12.75 percent in April-March 2017 over April-March 2016.



**Exports:**

The overall industry recorded a fall in exports, but passenger and commercial vehicles reported a growth for the year ended 2017 over last fiscal. Export of passenger vehicles registered a growth of 16.20 percent to 758,830 units in FY17, as against 653,053 units exported in FY16. Within PV, Passenger Cars, Utility Vehicles and Vans registered growth of 13.09 percent, 29.82 percent and 38.88 percent respectively. CV segment reported 108,271 units over 103,124 units, with growth of 4.99 percent. Under CV segment, M&HCVs increased by 24.21 percent, while LCVs declined 4.97 percent.

However, three wheelers segment witnessed sharp fall of 32.77 percent to 271,894 units as against 404,441 units exported in the last fiscal. Among three wheelers, passenger carrier slipped 33 percent and Goods Carrier fall by 1.70 percent. Besides, two wheelers segment declined 5.78 percent to 2,339,273 units over 2,482,876 units in fiscal year 2016.



### Government Initiatives:

- Government of India aims to make automobiles manufacturing the main driver of 'Make in India' initiative, as it expect passenger vehicles market to reach 9.4 million units by 2026, as highlighted in the Auto Mission Plan (AMP) 2016-26. The government has formulated a Scheme for Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India, under the National Electric Mobility Mission 2020 to encourage the progressive induction of reliable, affordable and efficient electric and hybrid vehicles in the country.
- The Lok Sabha approved Motor Vehicle (Amendment) Bill 2016, to unleash radical reforms in the transport sector by ensuring 100 percent e-governance, checking bogus driving licenses and vehicle thefts, slapping heavy penalty on traffic violators and protecting the Good Samaritan. The basic aim of the Bill is to save human lives, as a whopping five lakh accidents take place every year claiming around 1.5 lakh lives across the country.
- The government has withdrawn incentives given to mild hybrid vehicles under FAME India scheme. As per the Ministry of Heavy Industries and Public Enterprises notification Mild hybrid technology will stand excluded from the benefits of the FAME India scheme with effect from April 1, 2017. Earlier, mild hybrid, strong hybrid, plug-in hybrid and pure electric vehicles were given incentives under the scheme. Government was offering incentives on electric and hybrid vehicles of up to Rs 29,000 for bikes and Rs 1.38 lakh for cars under the FAME India scheme.

### Recent Development:

The Supreme Court banned the sale and registration of vehicles that don't meet the Bharat Stage-IV emission standards or higher from April 1. As per the SIAM data, the companies were holding stock of 8.24 lakh vehicles. This was the second major legal hurdle faced by the sector in a little more than a year. The first blow had come in December of 2015 when the court imposed a complete ban on sales and registration of diesel-run passenger vehicles (cars and SUVs) with an engine capacity of 2,000 cc and above in the National Capital Region.

### Outlook

The financial year 2016-17 has been an eventful year for the Indian automotive industry. From the ban on diesel cars to demonetization and the very recent ban on sale and registration of BS-3 vehicles, auto manufacturers in India have experienced a handful of major challenges in this fiscal year. However, the industry registered a positive growth for the year due to better monsoon after two years of draught and revival of demand in passenger vehicle segment. The factors that have led to the growth of automobile industry also include favourable government policy and the role played by supporting industries. Besides, the Indian automotive sector has the potential to generate up to \$300 billion in annual revenue by 2026, create 65 million additional jobs and contribute over 12 percent to India's GDP.

The automobile industry has shown good growth and is continue the growth momentum with demand picking up across all segments. Apart from meeting the advancing domestic demands, it is penetrating the international market too. From directly introducing Bharat Stage (BS-VI) emission standards by April 2020 to implementing advance safety norms in vehicles, the regulatory changes are also likely to present sizeable opportunity for select auto component segments besides altering the demand dynamics (i.e. Petrol-Diesel mix) and pushing vehicle prices upwards. Further, implementation of GST would reduce the cost of manufacturing of cars due to the subsuming of different taxes levied currently.

### Companies Financial Data in Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YIELD %	TTM EPS	TTM PE
Eicher Motors Ltd.	28465.00	77463.94	1441.40	0.35	573.25	49.66
Maruti Suzuki India Ltd.	7253.25	219106.22	1197.40	1.03	242.91	29.86
Hero MotoCorp Ltd.	3826.05	76405.01	506.14	2.22	169.11	22.62
Force Motors Ltd.	4222.40	5563.54	1263.94	0.24	136.55	30.92

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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