

Automotive Market Outlook: FY14

*An assessment based on industry views and
macro data analysis*



Prepared for:

An Indian automobile company

2013

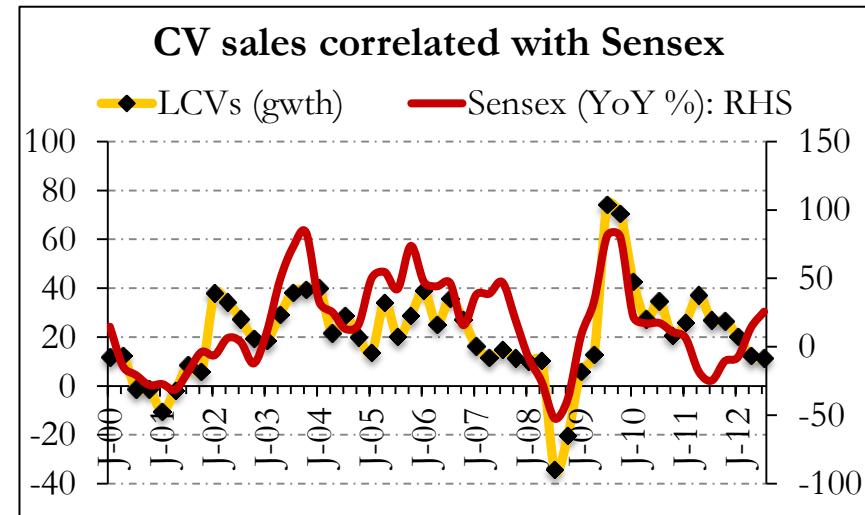
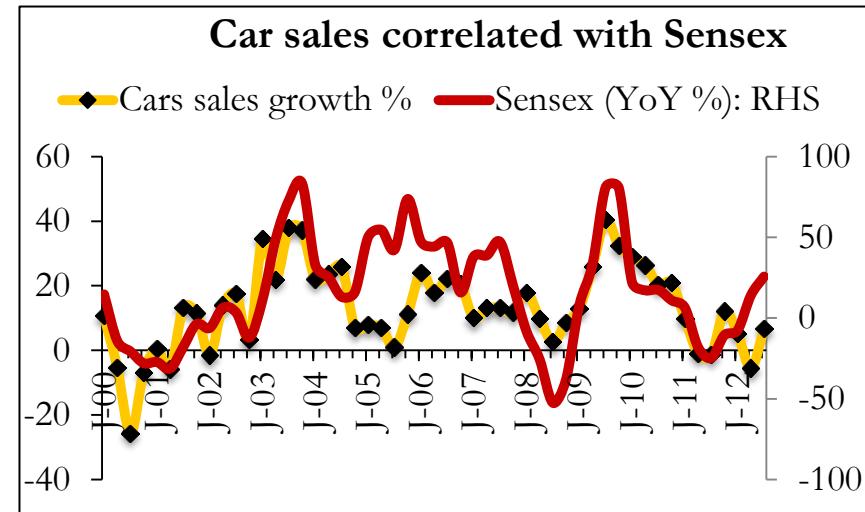
Automotive Market Drivers

Understanding macro relationships



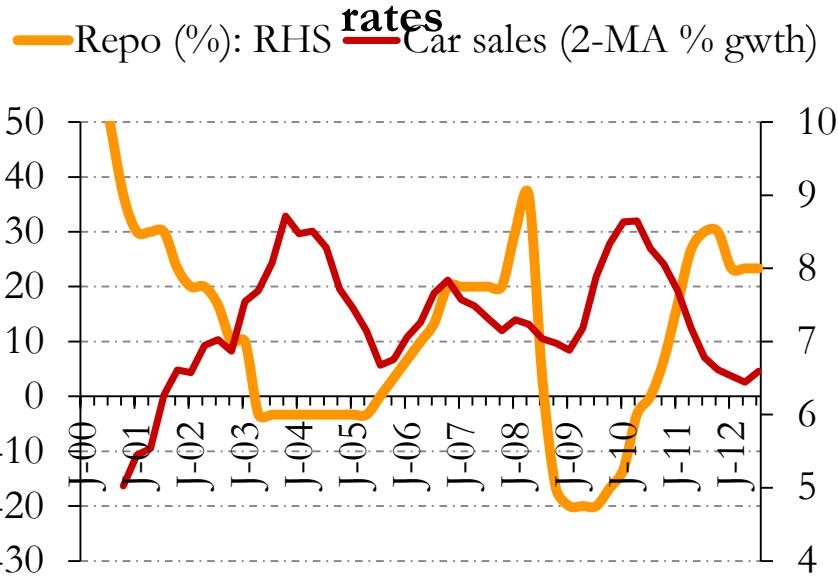
Capital markets drive car and LCV sales

- Passenger cars are driven by the ‘wealth effect’ – notional asset values – and tend to follow stock market movements
- LCVs also show high correlation with the Sensex (>0.6) – both follow vibrant corporate activity
- A strong stock market therefore, implies higher growth in these two segments
- Sensex outlook for FY14 suggests an increase to 22,000-22,500 levels by year end

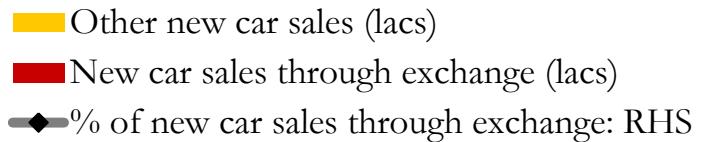


Recent trends: passenger cars

Passenger cars affected by



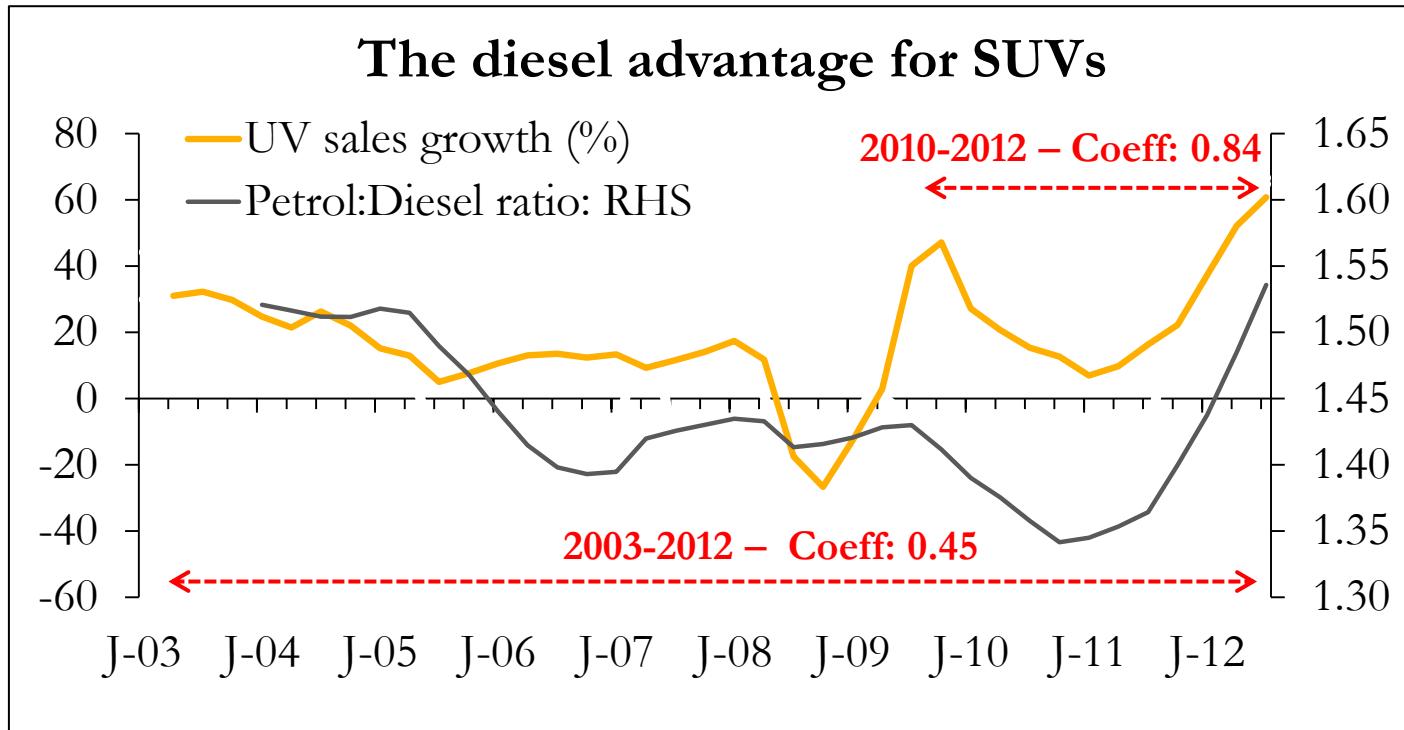
Increasing use of car exchange



- Car sales significantly affected by rising interest rates as well as dropping consumer sentiment
- An increasing preference for purchasing new cars through old-car exchange – implying up-trading, not addition to HH car ownership

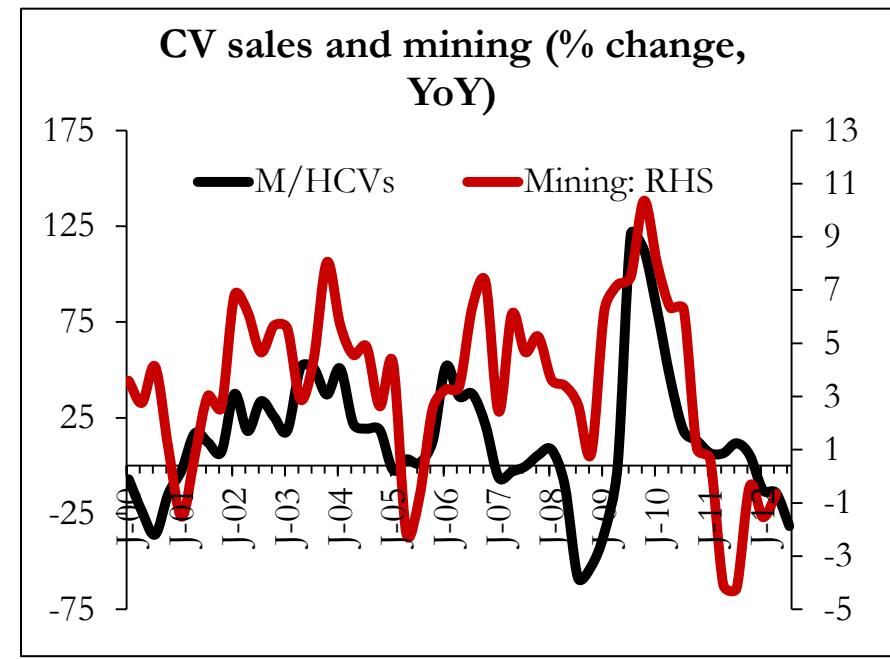
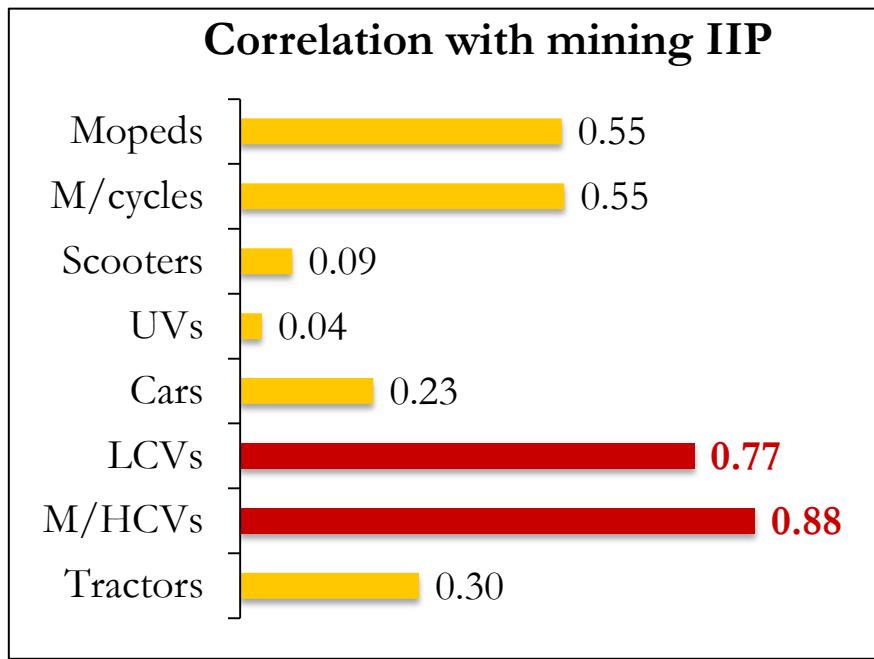
Source: SIAM; RBI; Maruti Suzuki Limited; IMA analysis. Car exchange data pertains to Maruti Suzuki's sales.

Recent trends: UVs



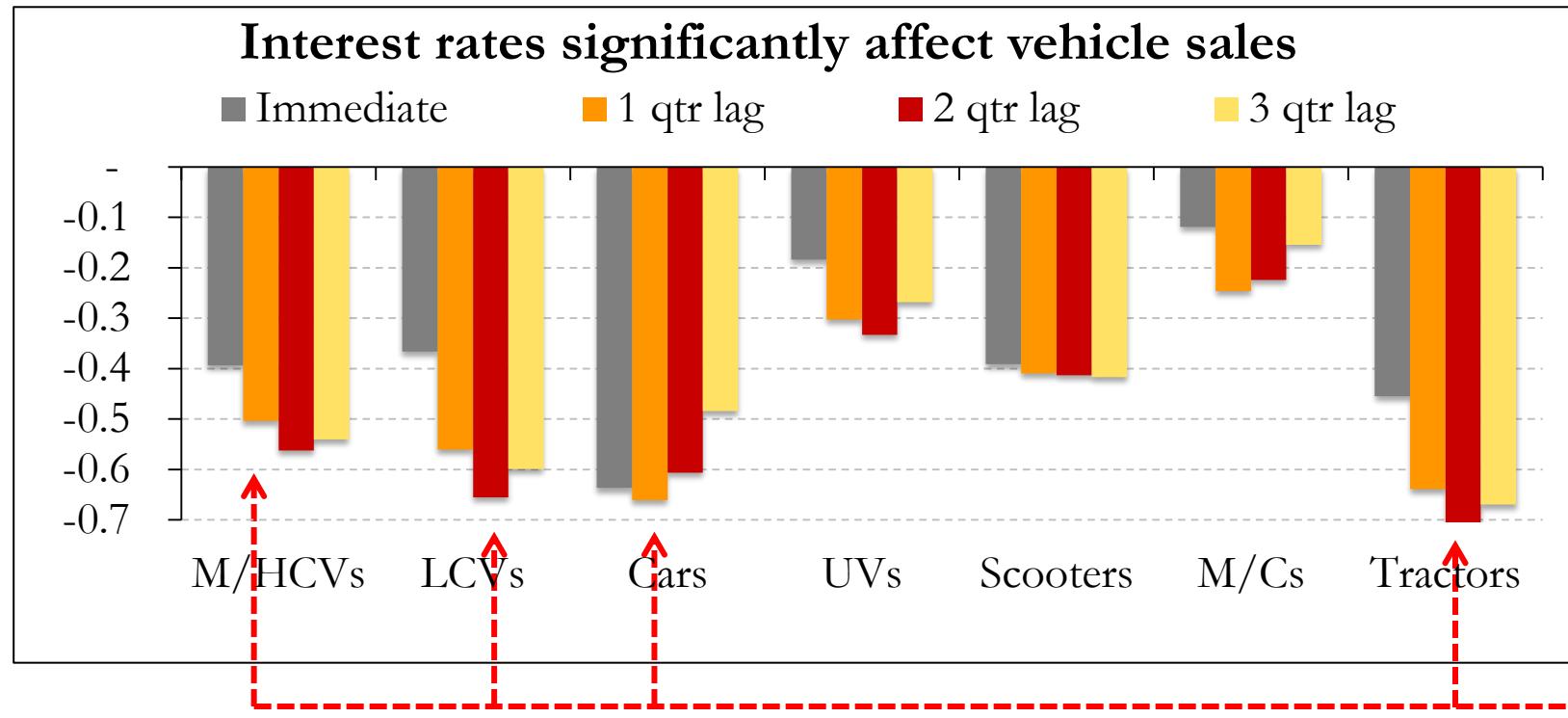
- Since the late 2000s, SUVs have benefitted from the widening petrol-diesel price differential and a slew of new, affordable model launches (correlation coefficient increased from 0.45 to 0.84 from 2003-2012 to 2010-2012)

CV sales are dependent on mining...



- Commercial vehicles exhibit high correlations with the mining sector (coefficients >0.8), reflecting their usage pattern
- Judicial suspensions have led to negative growth in mining, which has impacted CV sales – no immediate improvement likely

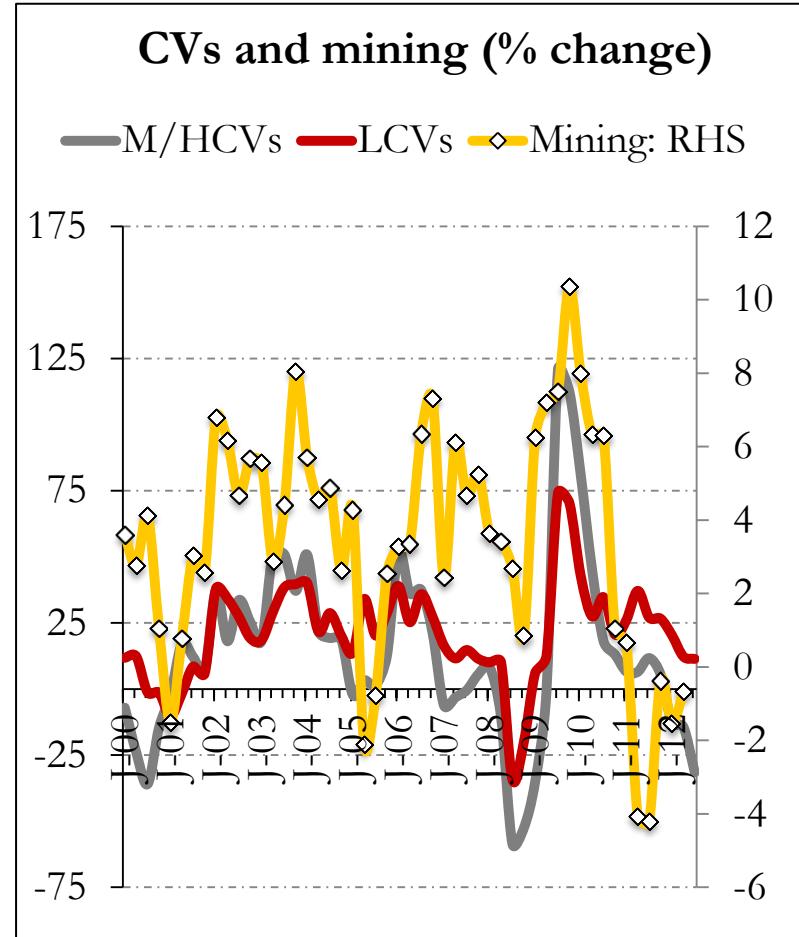
...and interest rates



- Interest rate movements are significantly and inversely correlated with sales of PCs, CVs and mopeds – average coefficients of >0.6
- However, the impact is not immediate: 2-3 quarter lag in case of CVs and mopeds, and 1 quarter for cars

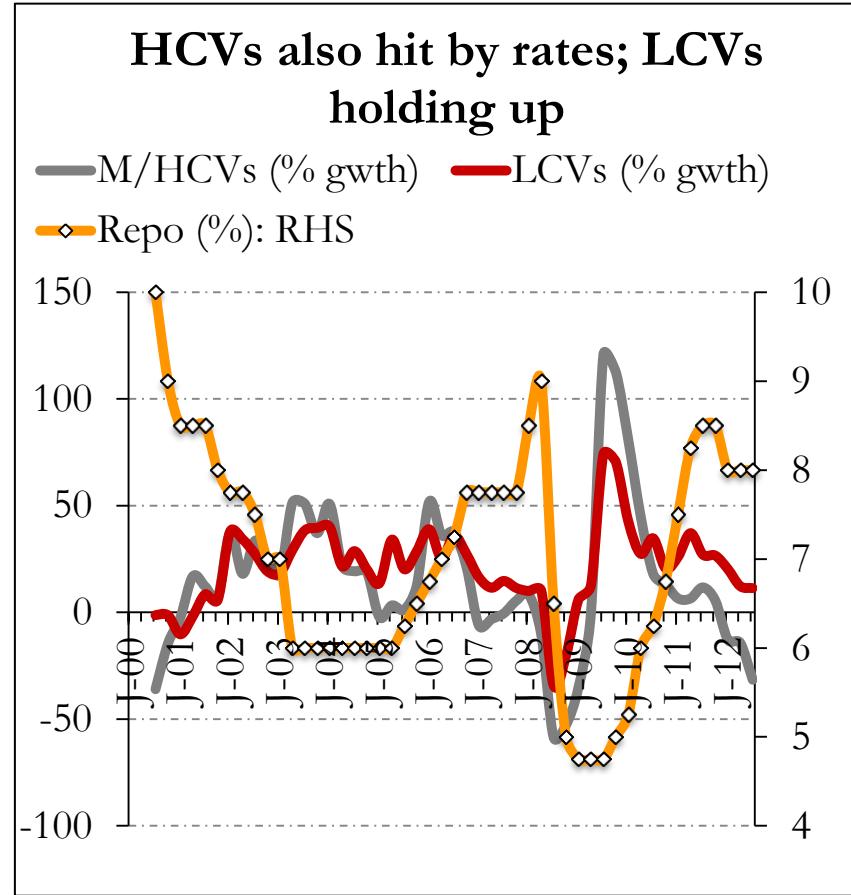
Recent trends: CVs

- MCVs/HCVs have been the worst affected in FY13 with growth turning negative from Q1; reasons include:
 - Restrictions on mineral mining in Karnataka, followed by Goa; large scale suspension of sand mining in North India and elsewhere
 - Slow down in construction and infrastructure projects across the board
- Truck rentals on trunk routes have dipped on account of dropping cargos



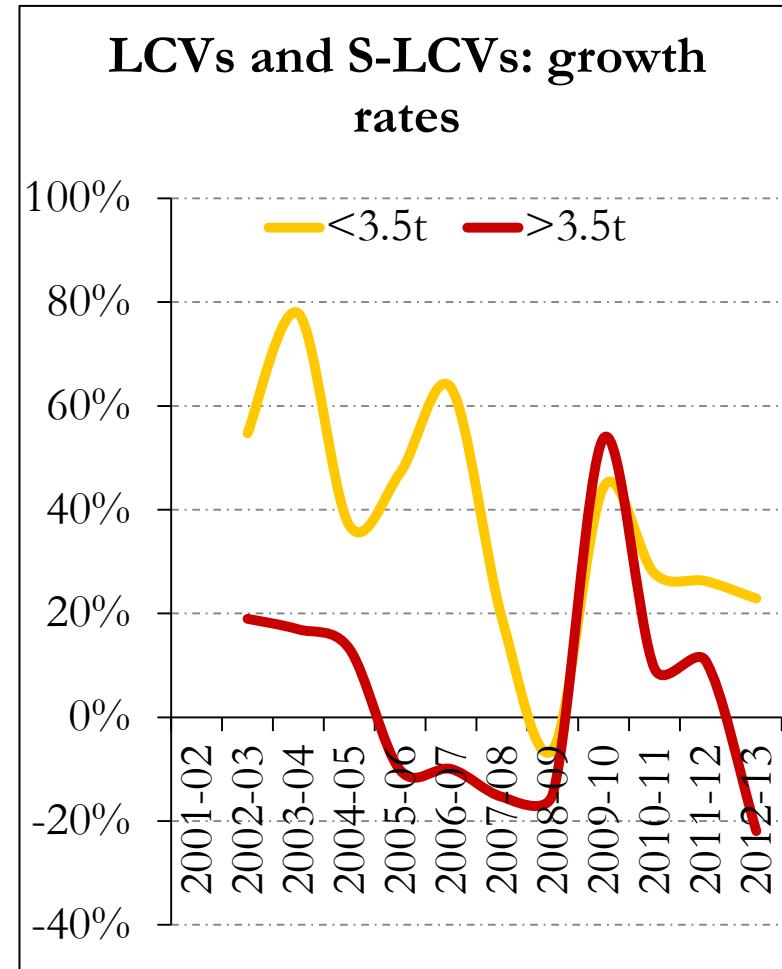
Recent trends: CVs... cont'd

- Higher interest rates have affected all segments of CVs
- LCV growth rates have fallen from the ~30% rates of FY11 and FY12 due to lower GDP and manufacturing sector growth
- Prices of second hand CVs have declined by 15-20%, indicating weak demand



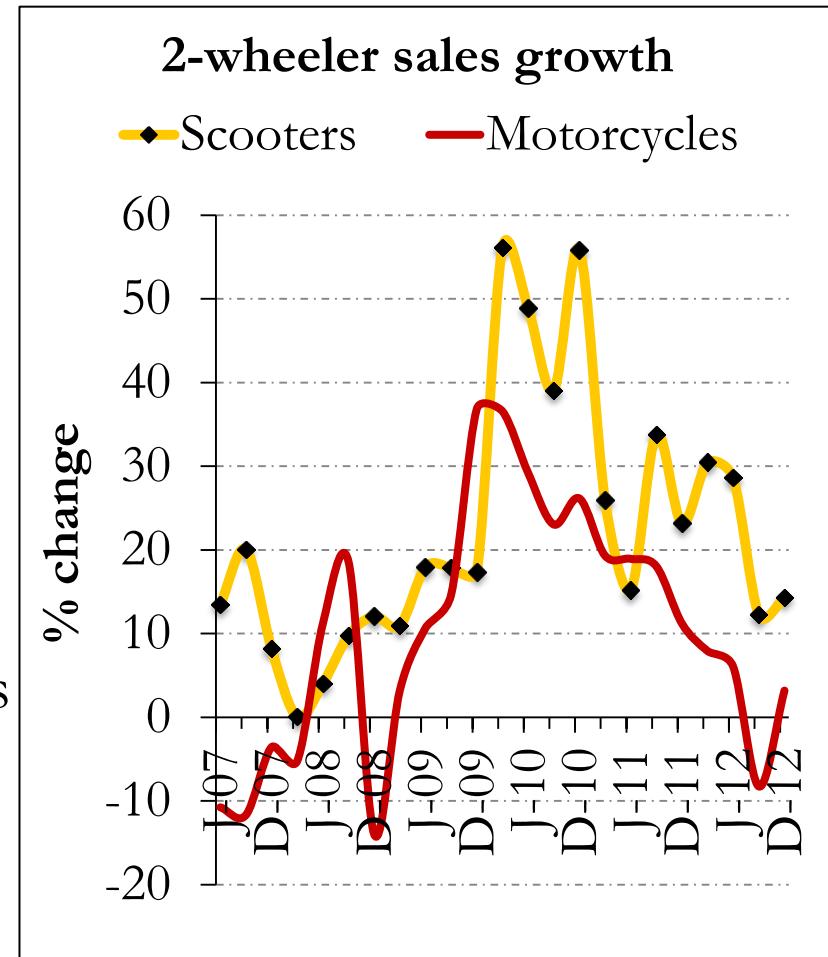
Recent trends: CVs... cont'd

- Construction equipment companies report high levels of under-used equipment – implying re-use of existing equipment instead of new sales
- Introduction of 'ultra-light' CVs (1-3 tonnes – Ace, Dost models) has created a new, fast-growing niche which has resulted in overall LCV sales still growing at a healthy rate

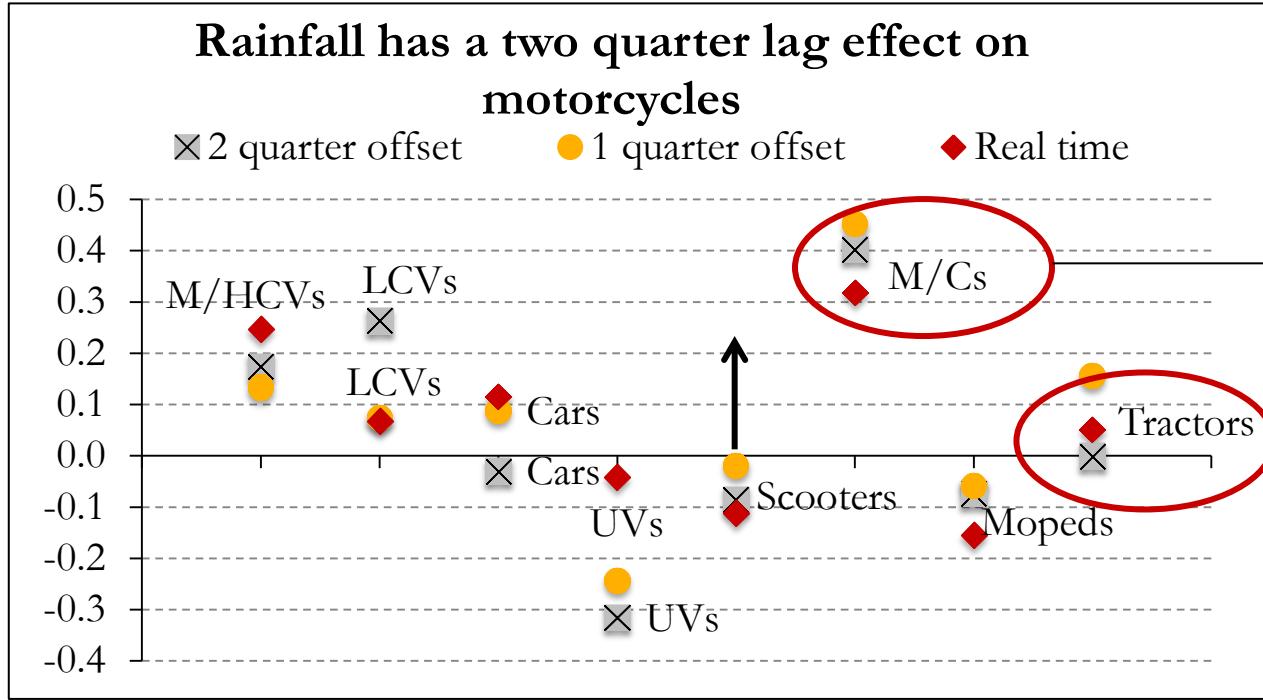


Recent trends: two wheelers

- Scooters have made a comeback since mid-2000s as a repositioned category
 - They are now a discretionary purchase; targeted at younger audiences, including women
 - Gap in fuel efficiency vis-à-vis motorcycles has reduced
- Motorcycles have emerged as the primary mode of transport for HHs that cannot afford cars
 - New model launches have spurred the market, particularly in rural India



Rainfall affects motorcycle sales



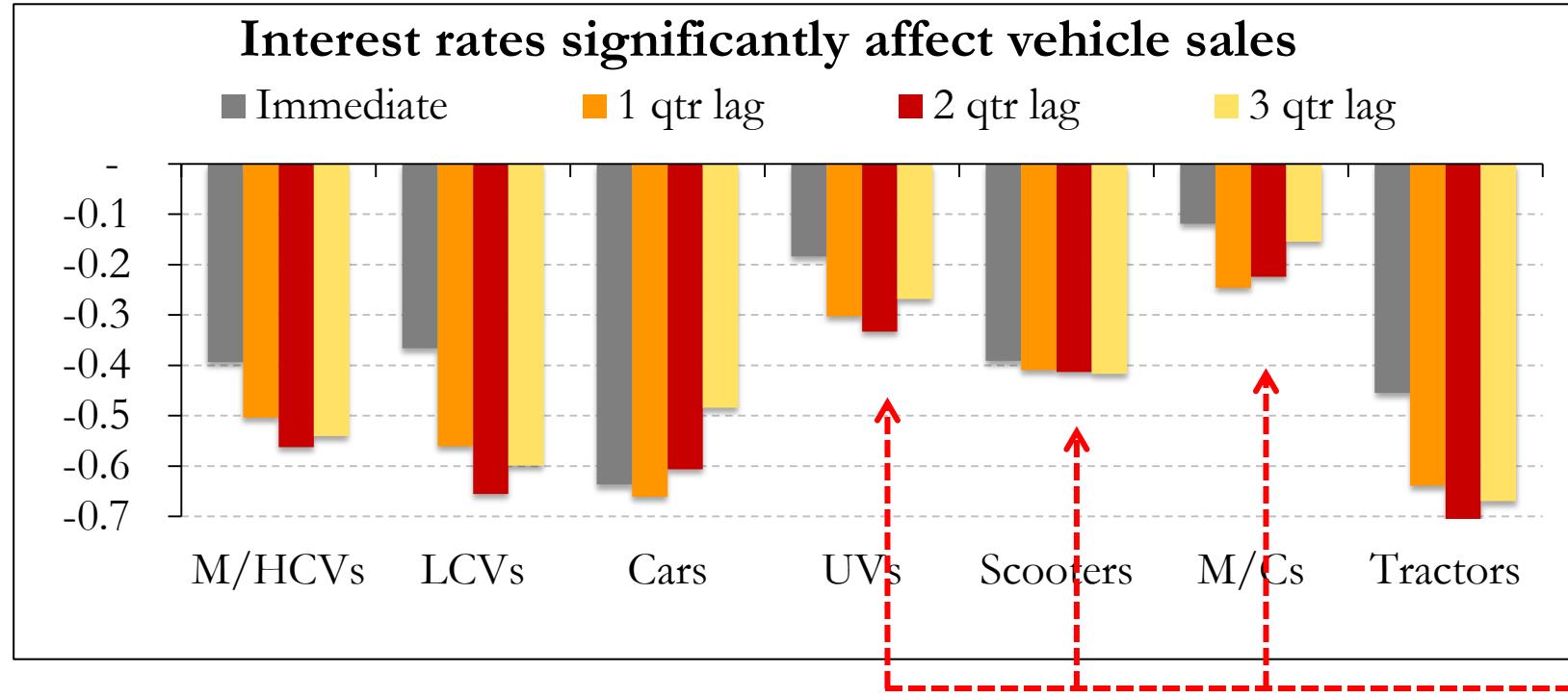
Motorcycle sales show moderate correlation with rainfall with a 1-2 quarter lag

Tractor sales show negligible correlation

- Rainfall correlations are generally low; M/C sales affected with a 1-quarter lag – a result of a higher wealth creation in rural India, which accounts for 60% of sales
- This implies that high rainfall will lift M/C sales one quarter later

Source: SIAM; IMD; industry interviews; IMA analysis. Correlation coefficients computed with rainfall represented on YoY growth basis.

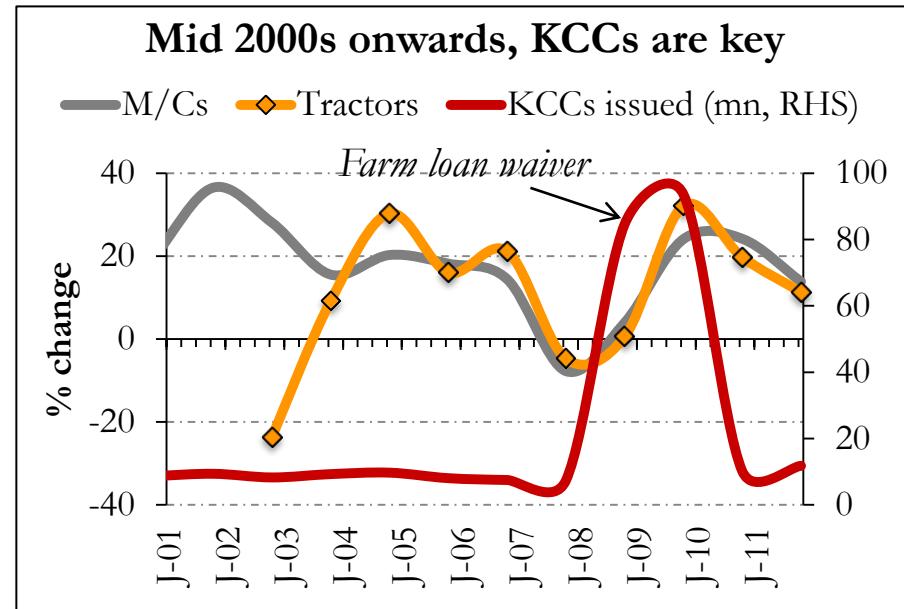
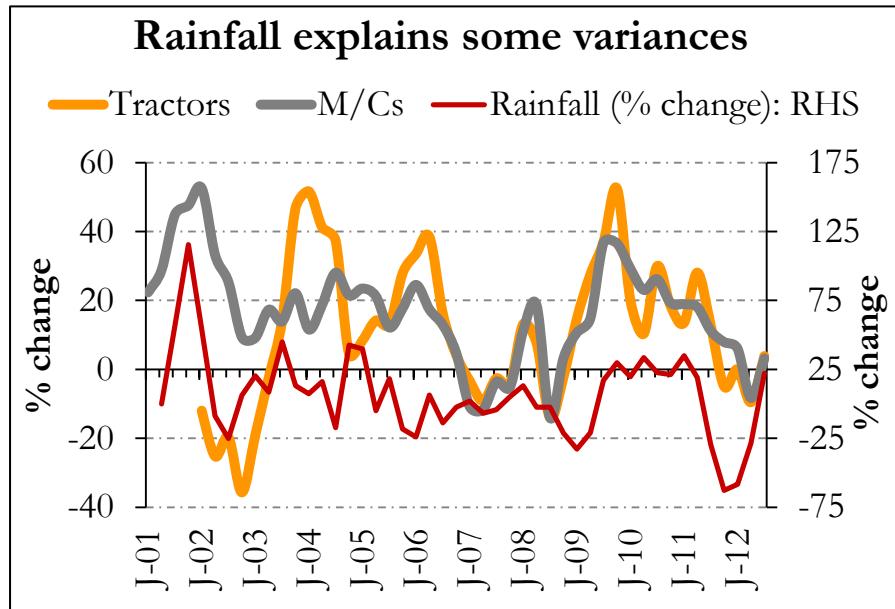
But not interest rates



Interest rates do not significantly affect:

- Motorcycles – overall <40% of motorcycles are bought on finance (20% of 60% + 70% of 40%) and they are generally essential purchases
- UVs – discretionary, high value purchases which are not rate dependent

Recent trends: M/Cs and tractors



- Tractor sales in the early 2000s have grown on account of low penetration
- Since the late-2000s, especially post the farm loan waiver, they have increasingly followed credit availability e.g. as measured through Kisan Credit Card (KCC) issuances

The Outlook for FY14

IMA

Outlook for key industry drivers

IMA

- ↓ Overall economic growth impetus will remain weak at least through H1
- ↓ Mining may restart in a small way; full resumption many months away – demand for M/HCVs likely to remain weak
- ↓ Inflation remains high, though moderating; will continue to dent buyer confidence across vehicle categories and non-essential spares
- ↓ Diesel prices expected to increase – may not impact CVs, but could reduce the attractiveness of UVs if differential with petrol becomes <Rs 10 per litre
- ↓ Urban infrastructure (public transportation) projects under so-called JNNURM II unlikely to become a reality in FY14 – will impact buses and 3-wheelers

↓ Indicates negative impact on industry growth in FY14

↑ Indicates positive impact on industry growth in FY14

? Indicates uncertainty regarding the factor's behaviour in FY14

Source: industry interviews; IMA research and analysis. JNNURM: Jawaharlal Nehru National Urban Renewal Mission.

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Outlook for industry drivers... cont'd

IMA

- ↑ Interest rates likely to fall, but slowly – positive impact on all four-wheeler categories and CVs
- ↑ Capital flows likely to improve in FY14; Sensex expected to gain 8-10% – can boost car and CVs sales mildly
- ↑ Moderate improvement in infrastructure and construction activity with the formation of the Cabinet Committee on Investment – mild positive impact on CVs
- ↑ Supply-side constraints (labour unrest) amongst vehicle companies largely resolved
- ↑ Pre-election year is likely to see increased MSPs and other rural sops – will benefit motorcycles, tractors and LCVs

↓ Indicates negative impact on industry growth in FY14

↑ Indicates positive impact on industry growth in FY14

? Indicates uncertainty regarding the factor's behaviour in FY14

Source: industry interviews; IMA research and analysis. MSP: Minimum Support Price; NHAI: National Highway Authority of India.

Outlook for industry drivers... cont'd

- ? Increase in NHAI road construction targets for FY14 can spur CV and tractor sales, but implementation remains doubtful
- ? A better monsoon will boost tractor and motorcycle sales, but is an unknown factor
- ? Commodity prices may remain stable due to global factors through H1 but could increase thereafter
- ? Most vehicle manufacturers remain upbeat on new model launches – implying growth opportunities for ancillaries but also capex requirements
- ? FDI in retail will spur investment, leading to higher cargo volumes and demand for CVs; however, given the gestation period, FY14 may not witness a large benefit

↓ *Indicates negative impact on industry growth in FY14*

? *Indicates uncertainty regarding the factor's behaviour in FY14*

↑ *Indicates positive impact on industry growth in FY14*

Growth

- FY14 growth likely to be moderately higher, **5-7%*** compared to - 4.6%^ based on stock market strengthening and falling rates; fundamental demand for personal transport remaining strong
- Diesel cars will remain attractive until the price differential between petrol and diesel is > Rs 10/litre

Strategy and issues

- High scope for penetration in tier III and IV towns – major focus area for manufacturers
- New model pipelines intact, but major capex plans postponed
- Cost containment through indigenisation and productivity increases
- Push non-cyclical revenue streams (spares) to counter cyclical

Source: industry interviews; IMA research and analysis. *median projections by industry players; ^pertains to the period April 2012-February 2013.

Growth

- FY14 growth likely to remain strong at 17-20%*, based the continuing shift towards lifestyle-based shift towards larger, versatile vehicles; new model launches

Strategy and issues

- Manufacturers are bullish and will continue launching new models, with finer market segmentation
- To offset the increasing cost of imports, focus on greater indigenisation
- Diesel price increase can reduce attractiveness of UVs if differential vis-à-vis petrol falls below Rs 10/litre (OMCs have not increased diesel prices in the March 2013 review)

Growth

- FY14 growth likely to improve to 5.0-7.0%* from 3.2%^, based on falling rates; and increasing availability of rural credit
- Substantial scope for further penetration (currently at 35% and 14.3% of households in urban and rural India respectively)
- Growth in scooters to remain higher than M/Cs in urban India
- *Game changers for higher growth:* good monsoon; pre-election sops for rural India (e.g. farm loan waiver; Food Security Bill)

Strategy and issues

- Finer segmentation in the budget segment and new models in the premium segment
- Manufacturers attempting to cut down on discounts while increasing value (e.g. disc brakes in entry level bikes)

Source: industry interviews; IMA research and analysis. *median projections by industry players; ^pertains to the period April 2012-February 2013.

Growth

- FY14 growth likely to improve to 5.5-6.5%* from -3.0%^, based on falling rates; increasing availability of credit; and the low base of FY13
- Shift towards farm mechanisation (driven by increasing labour costs) will continue; aided by Government initiatives (e.g. hiring centres)
- *Game changers for higher growth:* faster land consolidation (e.g. Punjab, Rajasthan have introduced laws to boost land leasing); pick up in mining and construction; pre-election rural sops

Strategy and issues

- Rationalisation of HP segments to gather pace (domestic market): down-trading from >50HP to 49HP (due to emission norms) and up-trading from 20 HP to 30HP (due to favourable cost economics)
- Export markets to be led by >50HP tractors; the same capabilities could eventually be leveraged in the domestic market at a later stage

Source: industry interviews; IMA research and analysis. *median projections by industry players; ^pertains to the period April 2012-February 2013.

Outlook for FY14: commercial vehicles

IMA

Growth

- FY14 growth may improve to 2.0-4.0%* from -22.8%^ for HCVs/MCVs and moderate to 11.0-12.5%* from 14.5%^ for LCVs
- HCV/MCV outlook remains weak on account of the poor outlook for mining and construction; however, further volume decline not expected; LCV outlook is stable with continued growth in the SLCV segment and mild recovery in industrial growth
- *Game changers for higher growth:* pick up in mining (through faster judicial processes) or infrastructure (on account of the CCI) in H2

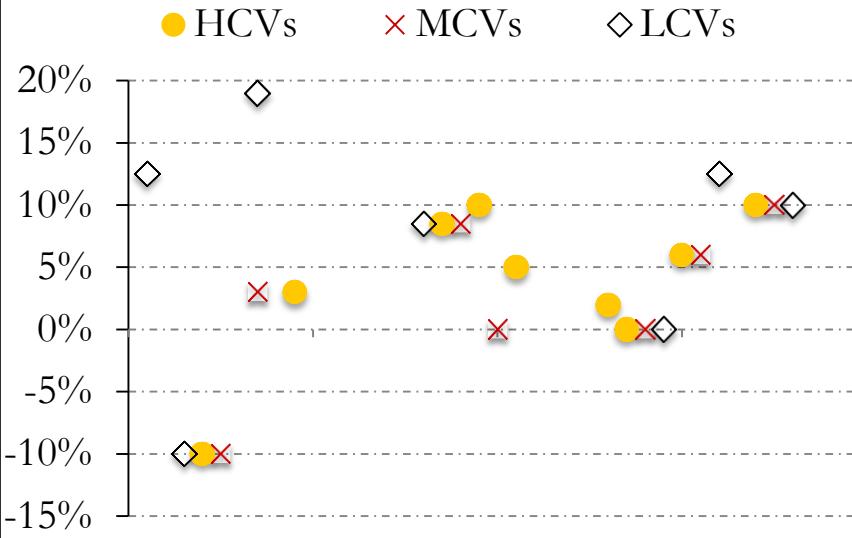
Strategy and issues

- Focus on increasing sales and service network
- Reinforce transition within SLCV category from 1-2t to 3-3.5t vehicles
- Introduction of heavier-duty and more fuel efficient HCVs to leverage improving road quality and insulate against rising fuel costs

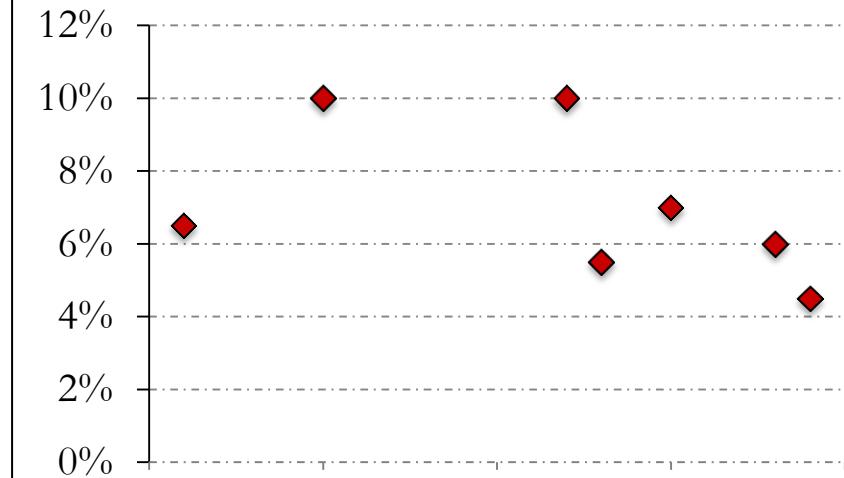
Source: industry interviews; IMA research and analysis. *median projections by industry players; ^pertains to the period April 2012-February 2013.

Outlook at a glance: industry views

FY 14 growth outlook: CVs



FY 14 growth outlook: 2 wheelers

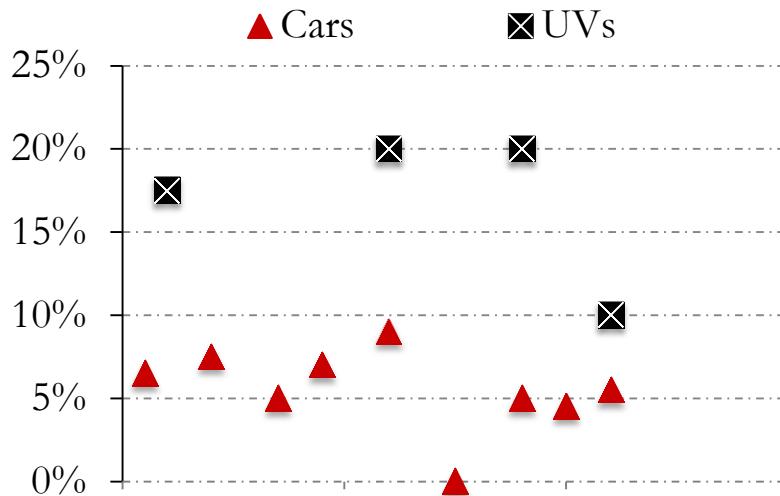


Forecasts obtained from one-on-one industry interviews:

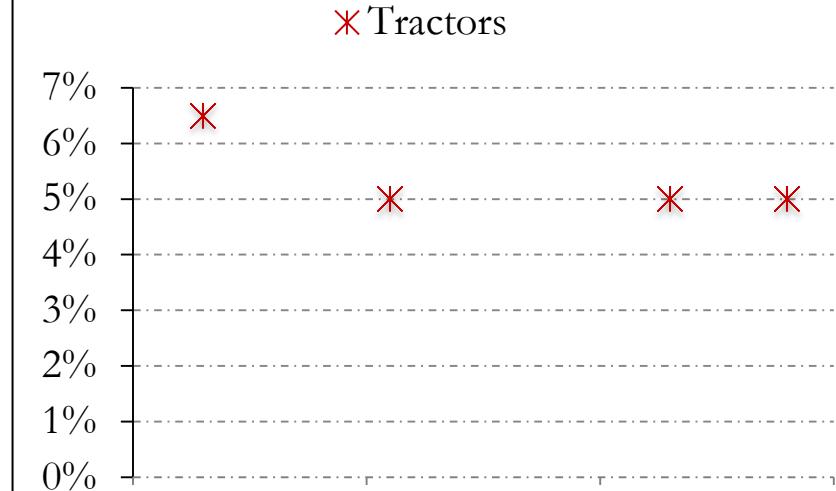
- HCV and MCV forecasts are both in the range of **0-10%**, except one outlier each; LCV forecasts are higher at **8.5-12.5%**, except two outliers
- 2-wheeler forecasts are in the range of **4.5-7%**, except two outliers at **10%**

Industry views...cont'd

FY 14 growth outlook: cars and UVs



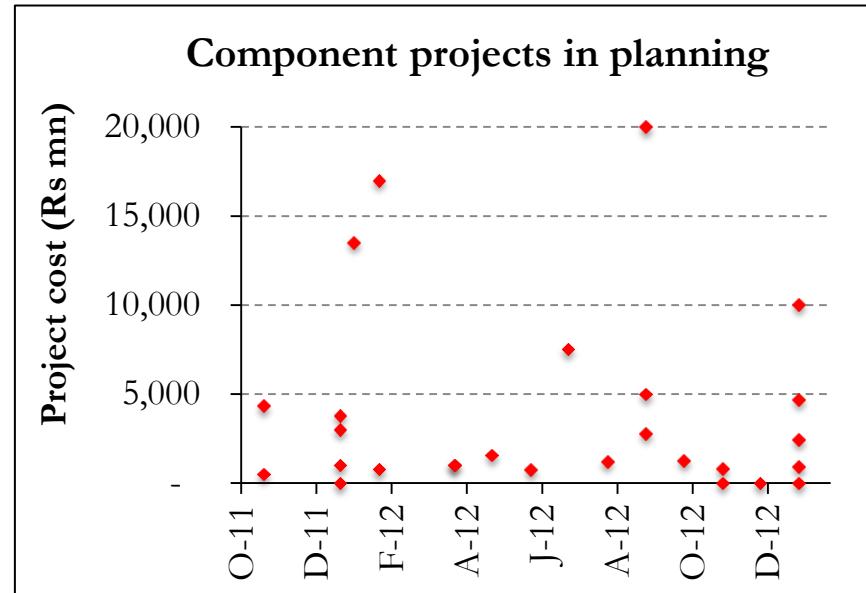
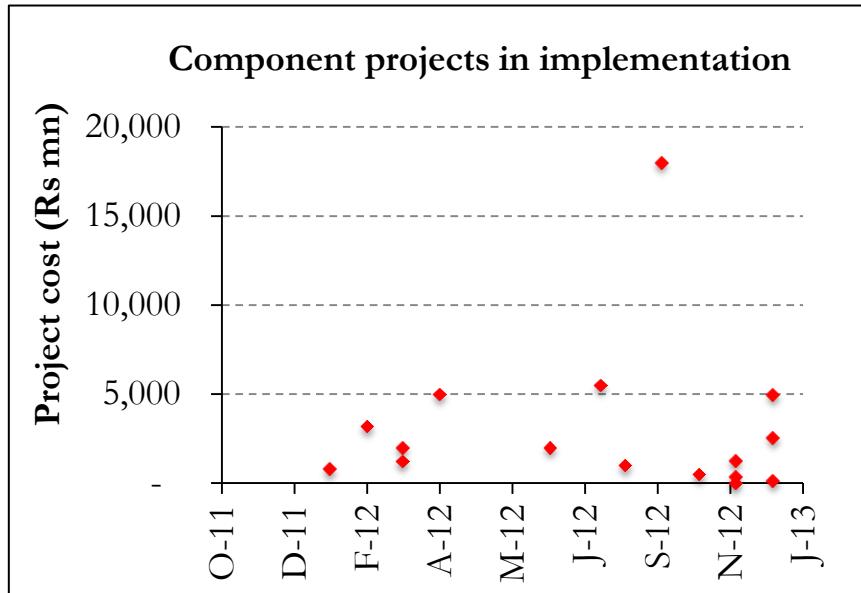
FY 14 growth outlook: tractors



- Passenger car forecasts are in the range of **5-9%**, except one outlier
- UV forecasts are higher in the range of **17.5-20%**, except one outlier
- Tractor forecasts are in the range of **5-6.5%**

Source: industry interviews; IMA research and analysis. Determination of outlier forecasts is based on IMA's independent research and assessment.

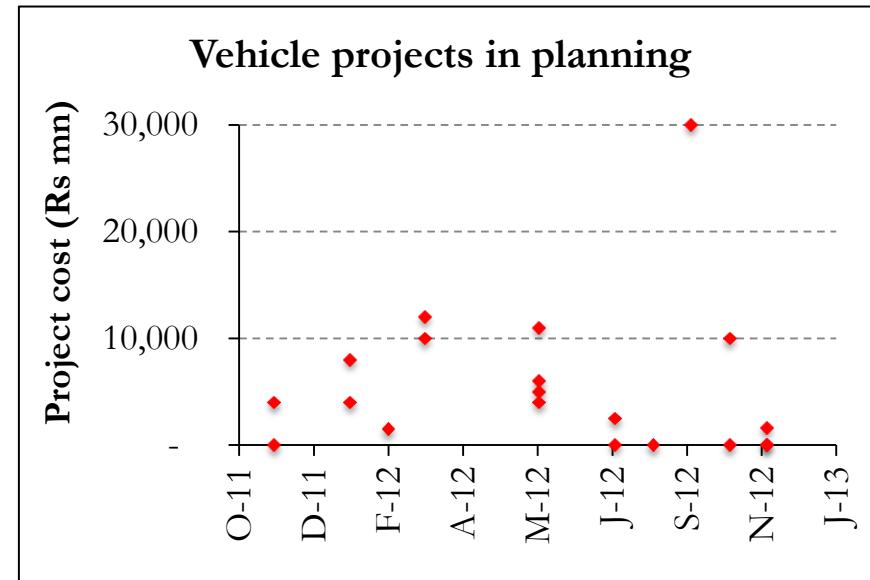
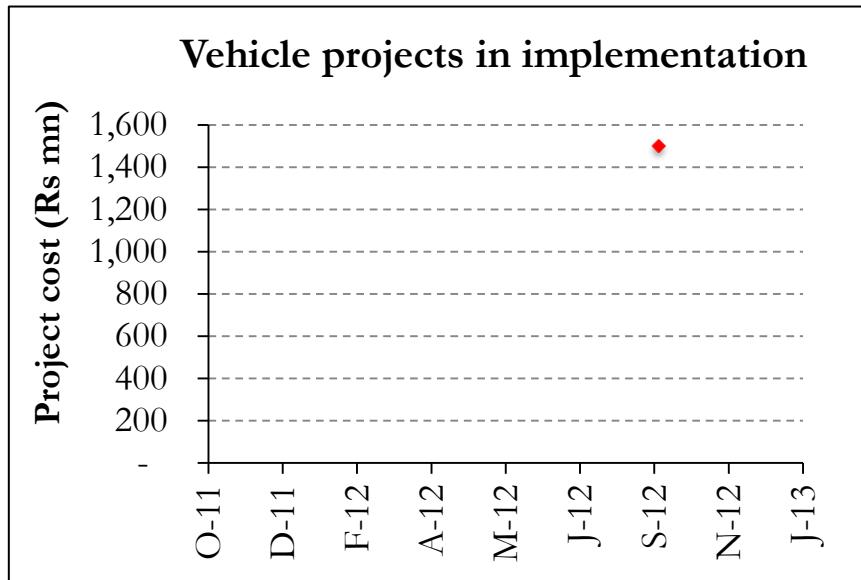
Capex outlook subdued...



- Several capex projects by auto component companies have been envisaged over the last few months
- However, a large number of new projects have been ‘planned’ but not entered implementation as of January 2013 – implying that companies are on a wait-and-watch mode

Source: IndScan; IMA analysis. Project status as of January 2013. Projects whose capex estimates have not been ascertained are not included.

...even more so for vehicle companies

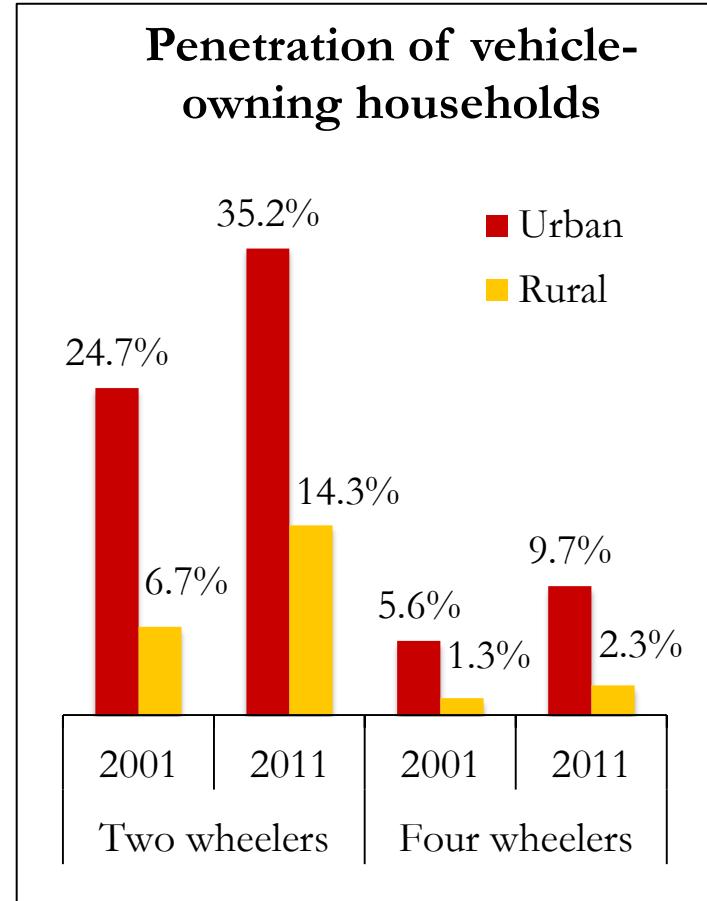


- The status amongst vehicle manufacturers (including engine manufacturers) is even more subdued
- Only one major project is currently under implementation – all others are in ‘planning’ stage

Source: IndScan; IMA analysis. Project status as of January 2013. Projects whose capex estimates have not been ascertained are not included.

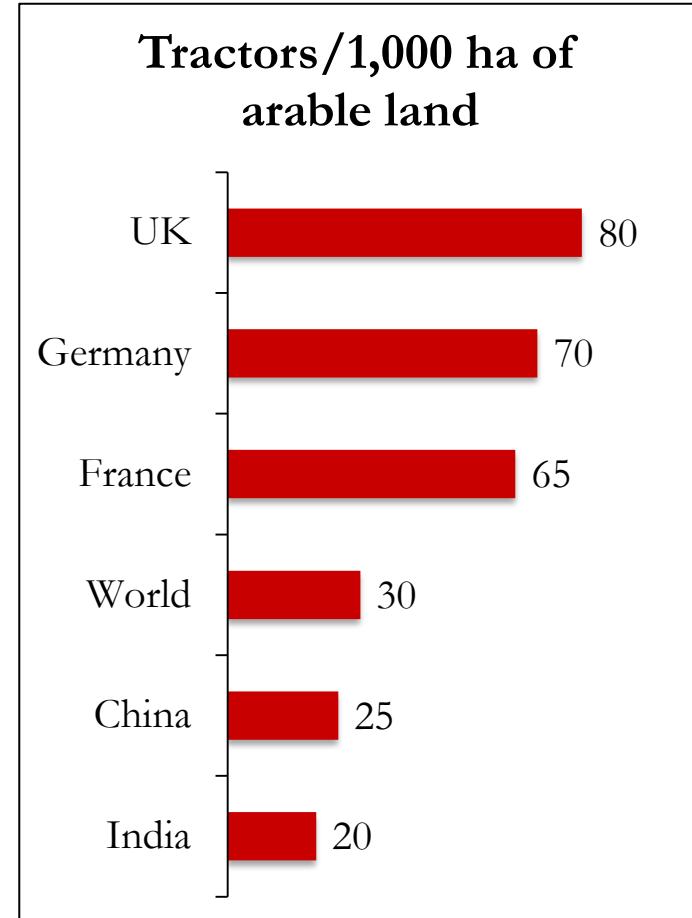
The longer term view

- In 2001, ~25% of urban HHs owned a two wheeler – increased to 35% by 2011
- 6.7% of rural HHs owned one in 2001 – this increased to 14.3% by 2011 i.e. penetration has more than doubled
- 5.6% of urban HHs owned a four wheeler in 2001 and 10% by 2011
- In rural India, the penetration increased from 1.3% to 2.3%
- 2-wheeler sales are growing faster in rural India and 4-wheelers in urban India
- The potential for further penetration is still substantial



Opportunity for tractors and CVs too

- Penetration of tractors is 20 per 1000/ha of arable land, compared to 30+ globally
- Average Indian tractor size is 35-39 hp, well below the world average of 70 hp
- Land consolidation and leasing can compensate for small farm sizes; increasing wage rates for manual labour also have a favourable impact
- LCV growth will be driven by intra-city applications – current LCV:HCV ratio at 1:1 in India, against 5:1 in developed countries
- HCVs will benefit from the improving road network and a more sophisticated retail and logistics sector driving higher cargo volumes



Automotive forecast summary

	FY12	FY13 (YTD)	FY14^	Next 5 years^
Commercial vehicles	13.9%	-1.5%	8.7%	7.7%
<i>Medium and heavy vehicles</i>	2.7%	-22.8%	2.9%	7.9%
<i>Passenger carriers</i>	-3.1%	-4.6%*	5.0%	7.5%
<i>Goods carriers</i>	3.7%	-24.1%*	2.5%	8.0%
<i>Light vehicles</i>	24.2%	14.5%	11.6%	7.6%
>3.5 t	10.9%	-21.9%*	2.5%	3.0%
<3.5 t	26.3%	22.9%*	12.5%	8.0%
Passenger cars and vans	4.7%	-4.6%	6.0%	5.0%
Utility vehicles	16.7%	54.5%	18.5%	11.0%
Two wheelers	15.7%	3.2%	6.0%	8.5%
Tractors	11.3%	-3.0%	6.0%	7.5%

Source: SIAM; industry interviews; IMA analysis. *YTD figures pertain to the April 2012-February 2013 period except entries marked with * which pertain to the April-December 2012 period; ^Forecasts by IMA based on industry inputs and independent macro analysis.

Thank You

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