CRISIL view on the automobile sector

June 2023

CRISIL
An S&P Global Company

Key messages

PVs and CVs to lead automobile sector growth in fiscal 2024, 2Ws showing moderate recovery, tractor demand to soften

- Passenger vehicles to grow **6-8%**; utility vehicles (UVs) and premium models' prime drivers
- Commercial vehicle **8-10%** growth driven by buses, transporter profitability and deferred replacement demand, to reach pre-Covid level
- Two-wheelers **yet to surpass pre-Covid level** despite growing **9-11%**; scooters (ICE + EVs) almost there
- Tractors to record **2-4% decline** on account of high base, declining rabi profitability, elevated inventory levels
- EV penetration to remain higher in 2Ws and 3Ws; uncertainty around sustained government support a near-term headwind

Operating profitability to improve 70-80 basis points (bps) on average across segments in fiscal 2024

- Operating margin to **benefit from** softening input prices and freight costs, coupled with recent price hikes by OEMs

Credit outlook of OEMs to remain ‘Stable’, capex to step up (including PLI)

- Capex being stepped up to augment capacity mainly by PV OEMs, as well for EVs, and PLI related schemes
- Better cash generation, strong balance sheets and superior liquidity will keep debt metrics healthy

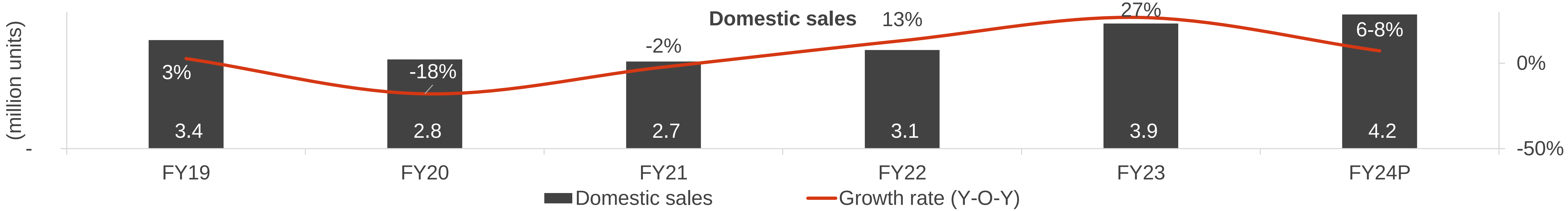
Key monitorbales

- New stringent regulations, or supply chain constrains
- Sharp increase in key raw material prices
- Impact on consumer sentiments of continuing inflationary scenario and likelihood of El Nino

Automobile OEMs: Demand dynamics

PV segment to grow at 6-8% on-year this fiscal

Modest on-year price rise to aid growth; Rising interest rates, healthy inventory levels and cooling pent up demand to constrain

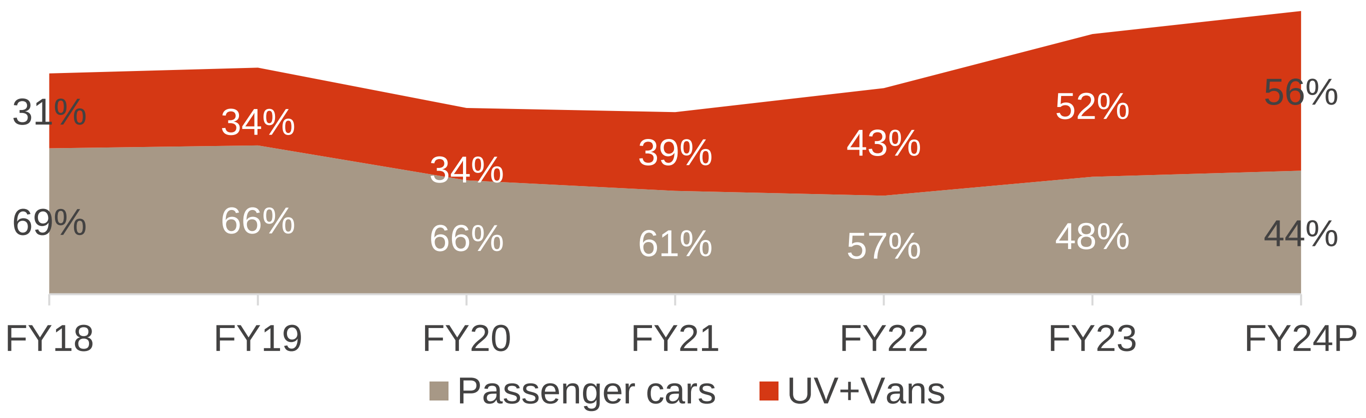


PV lending rate	FY19	FY20	FY21	FY22	H1FY23	H2FY23	FY24P
	9.35%	**9.15%**	**8.04%**	**7.69%**	**8.1%**	**9.2%**	**9.5%**

Note: Lending rates above 9% is marked red and below is marked green
Source: SIAM, CRISIL MI&A Research

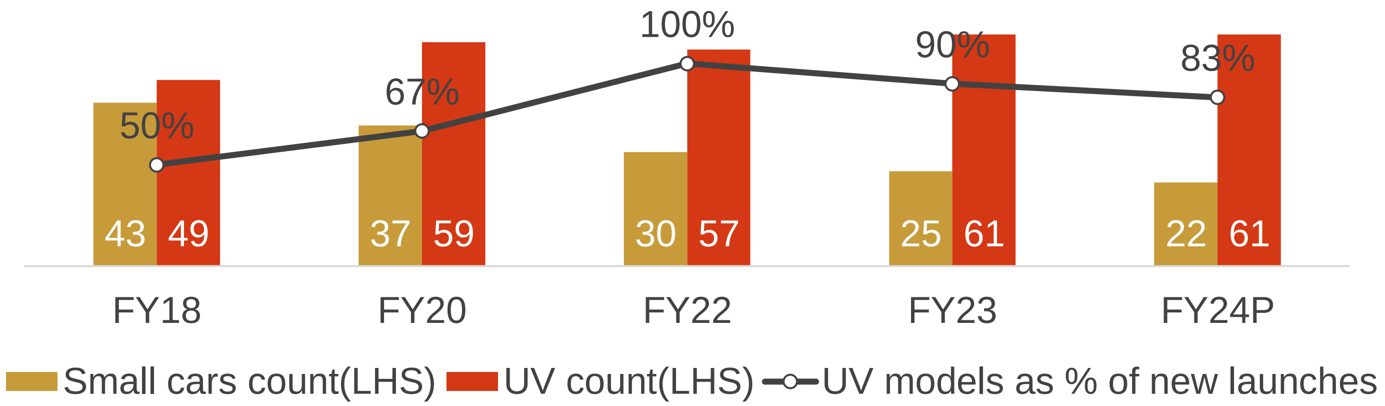
Share of UVs in total sales projected at 56% in FY24

Segmental share



UV's dominate new model launches

Comparison of UV and car models

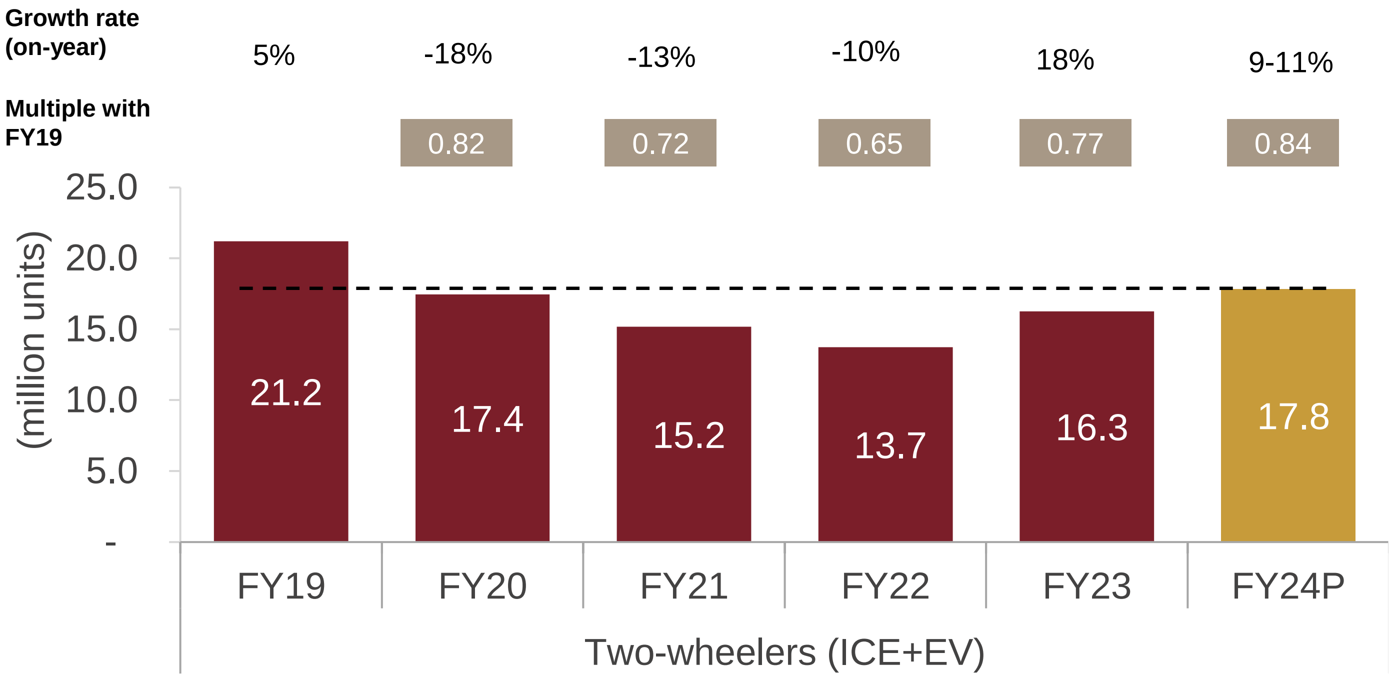


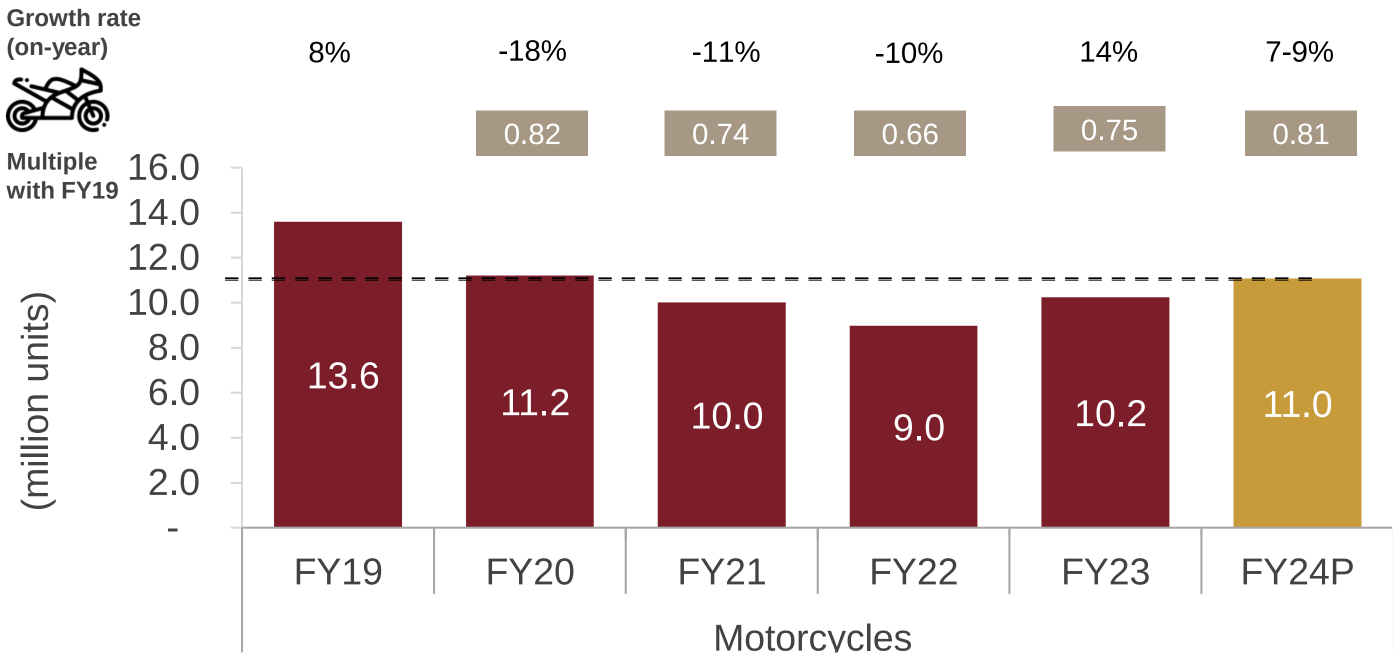
Source: CRISIL MI&A Research

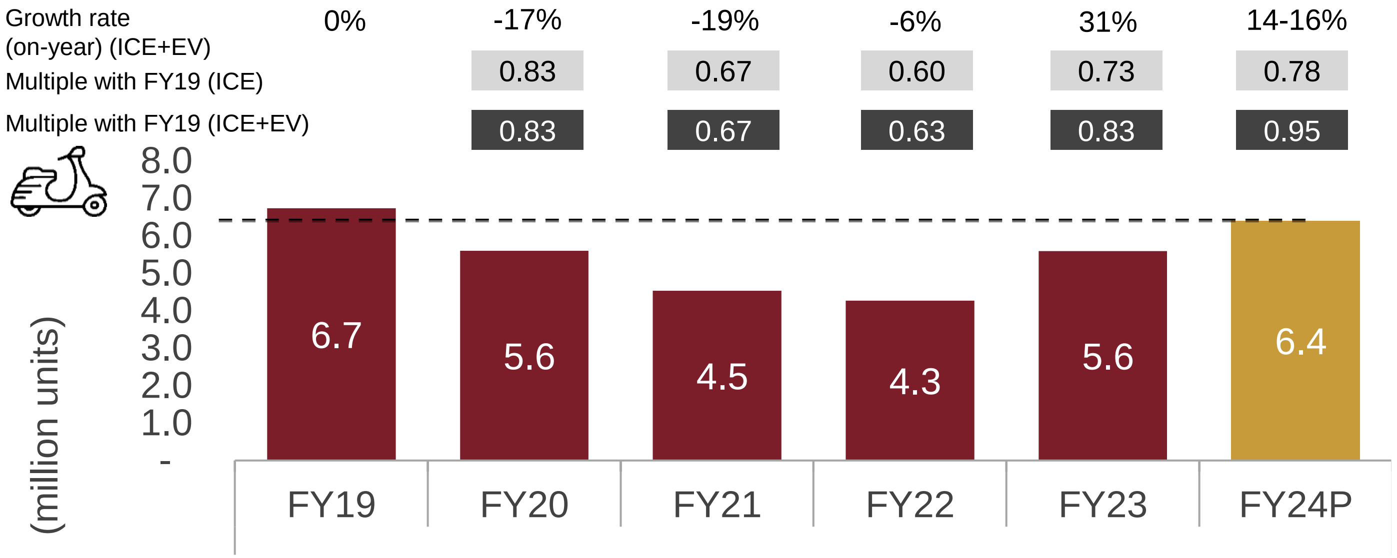
CRISIL
An S&P Global Company

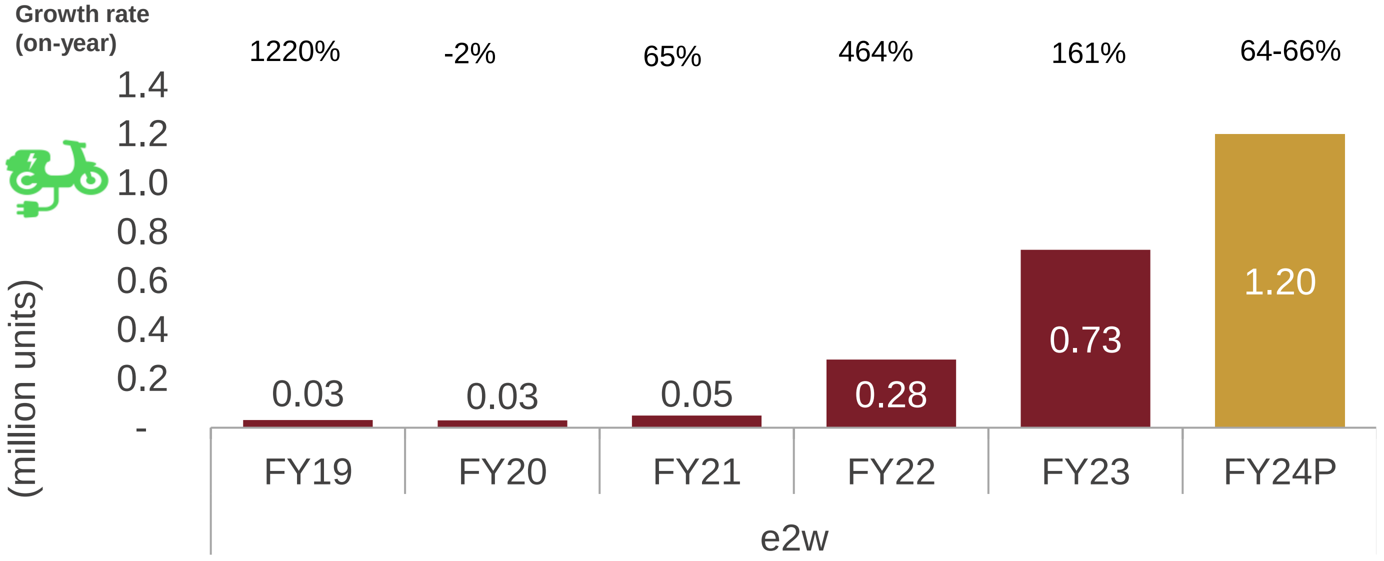
2W sales projected to grow in double digits this fiscal

But it will remain below pre-pandemic highs







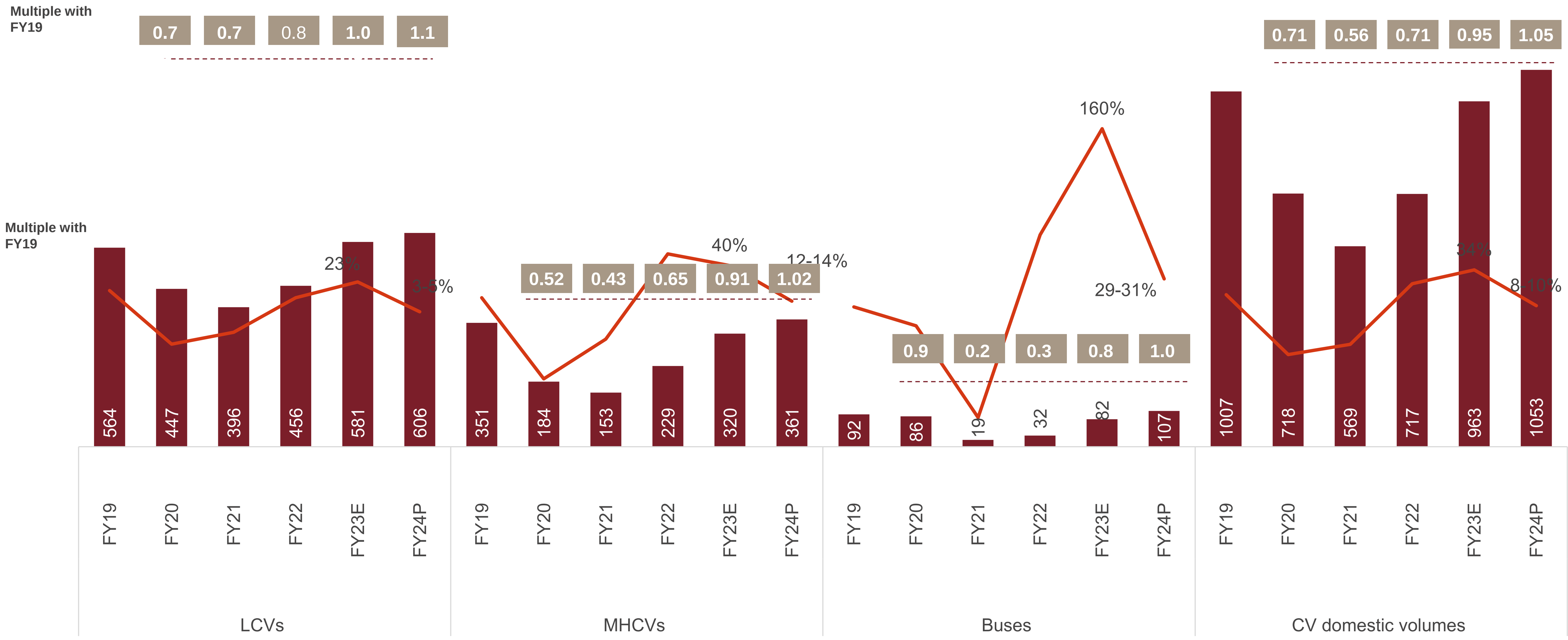


Source: SIAM, VAHAN, CRISIL MI&A Research

CRISIL
An S&P Global Company

MHCV and bus sales to drive overall CV growth this fiscal

On the flipside, LCV sales seen moderating



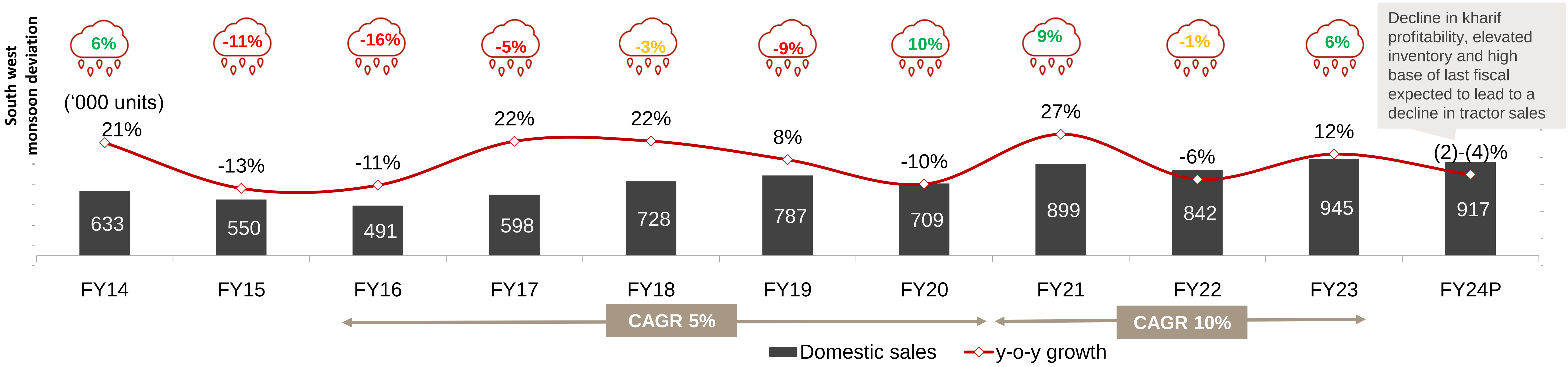
All units in '000s

Note: LCVs – light commercial vehicle; MHCVs – medium and heavy commercial vehicles
Source: SIAM, CRISIL MI&A Research

CRISIL
An S&P Global Company

Headwinds building up for tractors in fiscal 2024

Domestic tractor sales expected to decline in fiscal 2024 on account of declining rabi profitability and elevated inventory levels

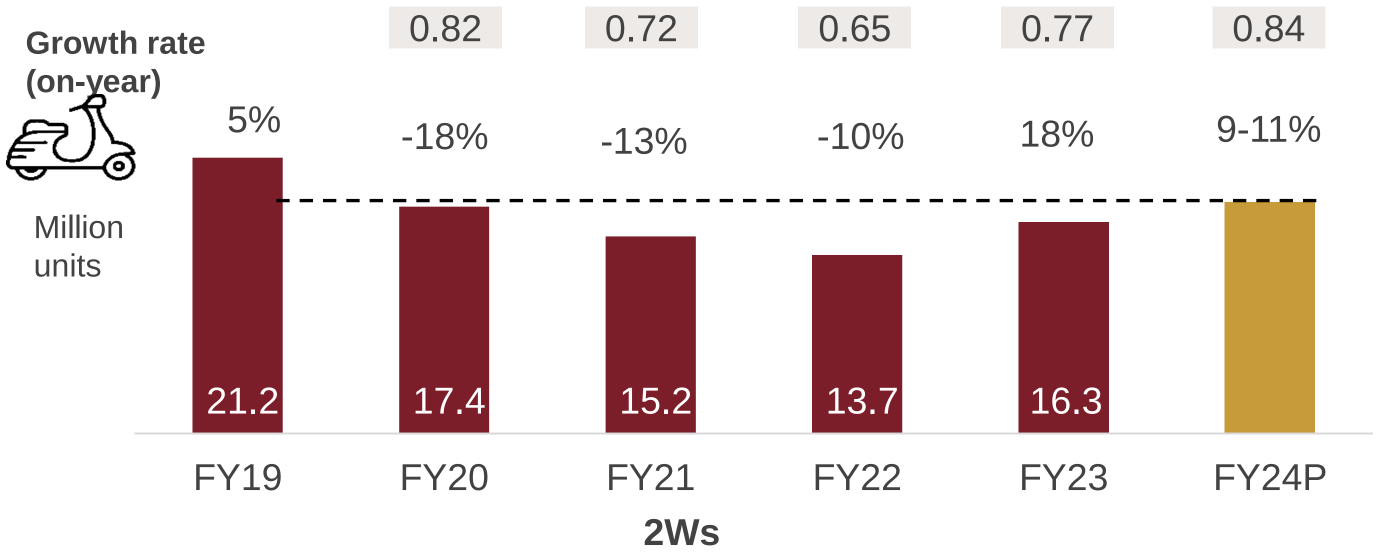


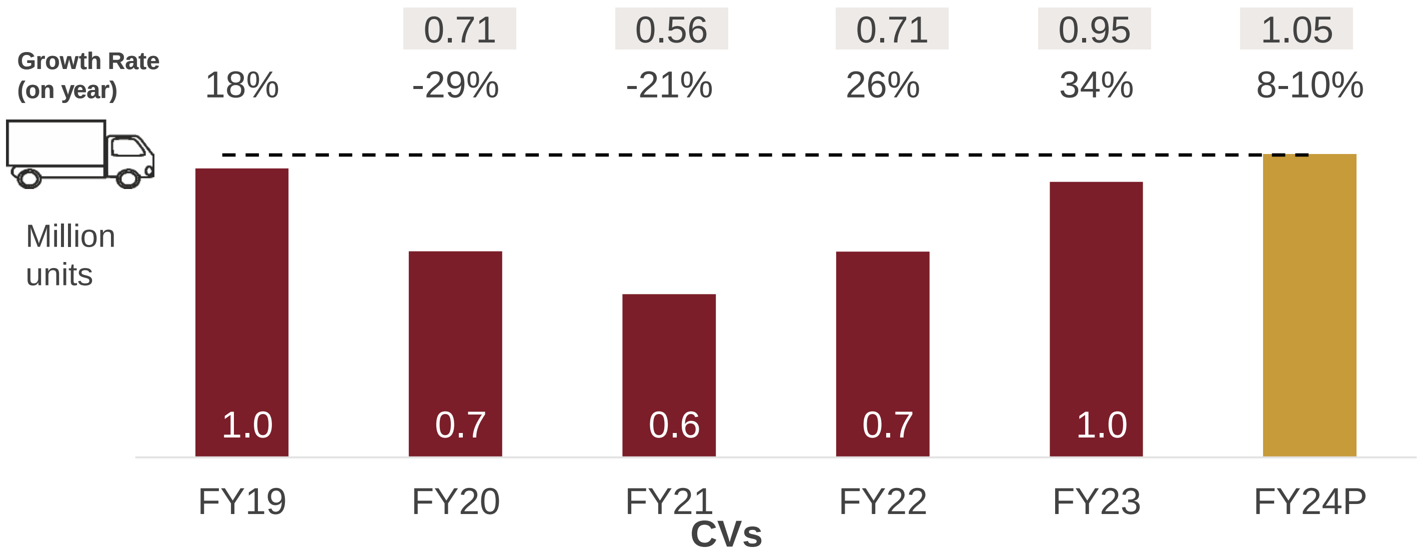
Note: E Estimated, P: Projected; Colour coding indicates: <-4% red - below normal monsoon, -4% to 4% amber - normal monsoon, >4% green - above normal monsoon;
Source: Tractors manufacturers association (TMA), CRISIL Research

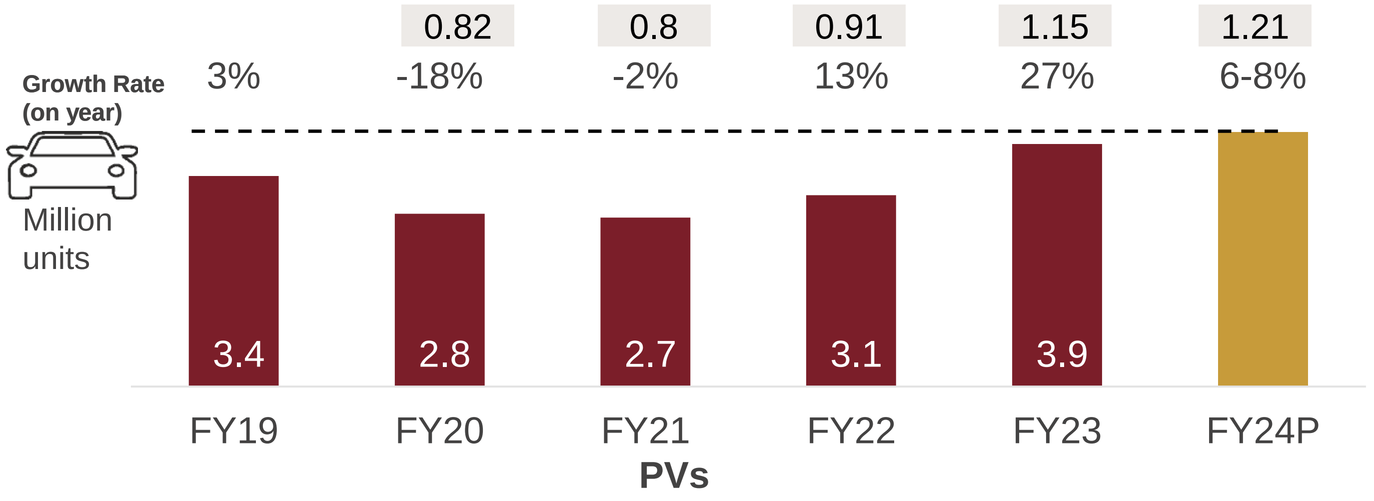
- In fiscal 2024, we expect tractor demand to decline 2-4% on-year due to:
  - Slower retail momentum, due to lower rabi profitability, which is expected to decline by 13-15% on-year amid decline in yield and lower prices of wheat and mustard
  - Elevated inventory at the closure of fiscal 2023 should lead to inventory liquidation in fiscal 2024 and impact wholesale demand
  - Pick-up in commercial activities and anticipated increase in replacement demand to prevent further decline in sales
- In fiscal 2023, tractor volume grew 12% on-year, due to positive farmer sentiment on the back of:
  - Healthy reservoir levels due to above-normal monsoon, elevated crop prices and higher MSP announcement by the government

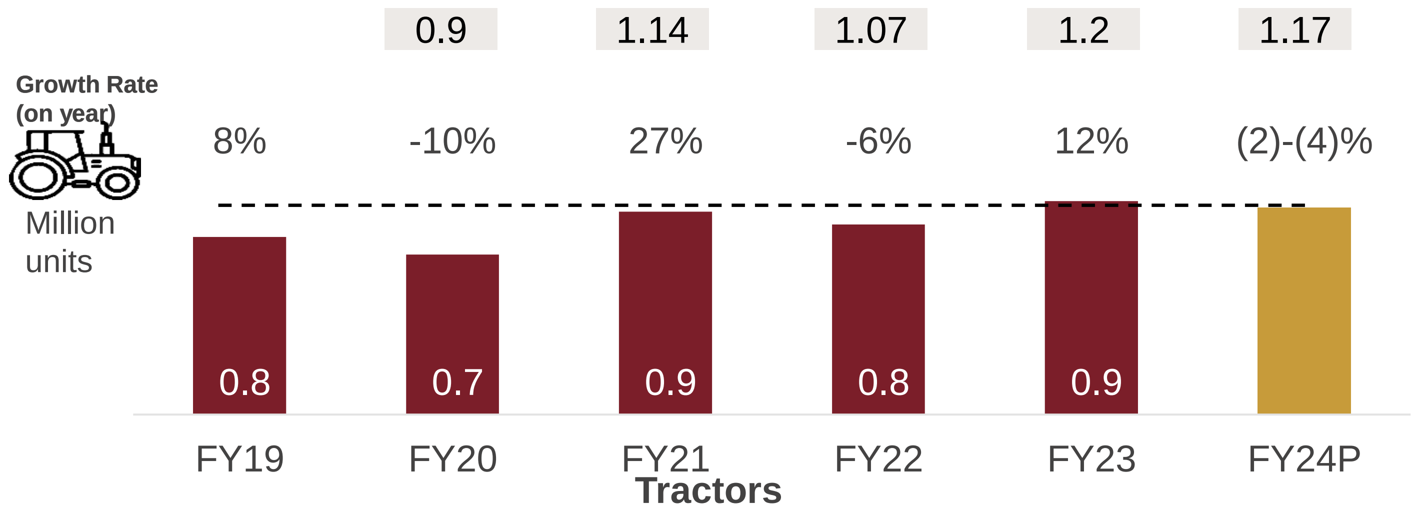
All segments except 2Ws to cross pre-pandemic levels this fiscal

Tractors sales not impacted by Covid, PVs breached pre-Covid levels last fiscal; CVs to follow this fiscal





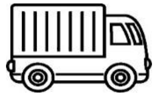




P: Projected; Red bars represent actual domestic sales growth, yellow bars denote forecast
Numbers in boxes indicate volume multiplier as a proportion of fiscal 2019 levels
Source: Society of Indian Automobile Manufacturers (SIAM), Tractor and Mechanization Association (TMA), CRISIL MI&A Research

EV penetration to be led by 2Ws, 3Ws over the medium term

Favorable TCO and TCA as well as model availability for 2Ws and 3Ws to support EV offtake; bus EV demand to be driven by STUs

	EV Viability basis TCO: Fiscal 2023	EV Viability basis TCO: Fiscal 2025	EV Viability basis TCO: Fiscal 2027	EV Viability basis TCA: Fiscal 2023	EV Viability basis TCA: Fiscal 2025	EV Viability basis TCA: Fiscal 2027	EV Penetration: Fiscal 2023	EV Penetration: Fiscal 2025	EV Penetration: Fiscal 2027
	NF	NF	NF	N	NF	NF	1.7%	2-6%	5-10%
	F	F	F	F	NF	NF	4.7%	7-11%	20-25%
	F	F	F	NF	NF	NF	10.3%	18-22%	30-35%
	NF	NF	NF	NF	NF	NF	0.4%	1-5%	1-6%
	NF	NF	NF	NF	NF	NF	6.2%	7-11%	9-14%

NF: Not favourable **N: Neutral** **F: Favourable**

Source: Industry estimates, CRISIL Research

CRISIL
An S&P Global Company

Portfolio performance trends and credit outlook

CRISIL Ratings coverage of automotive OEM players

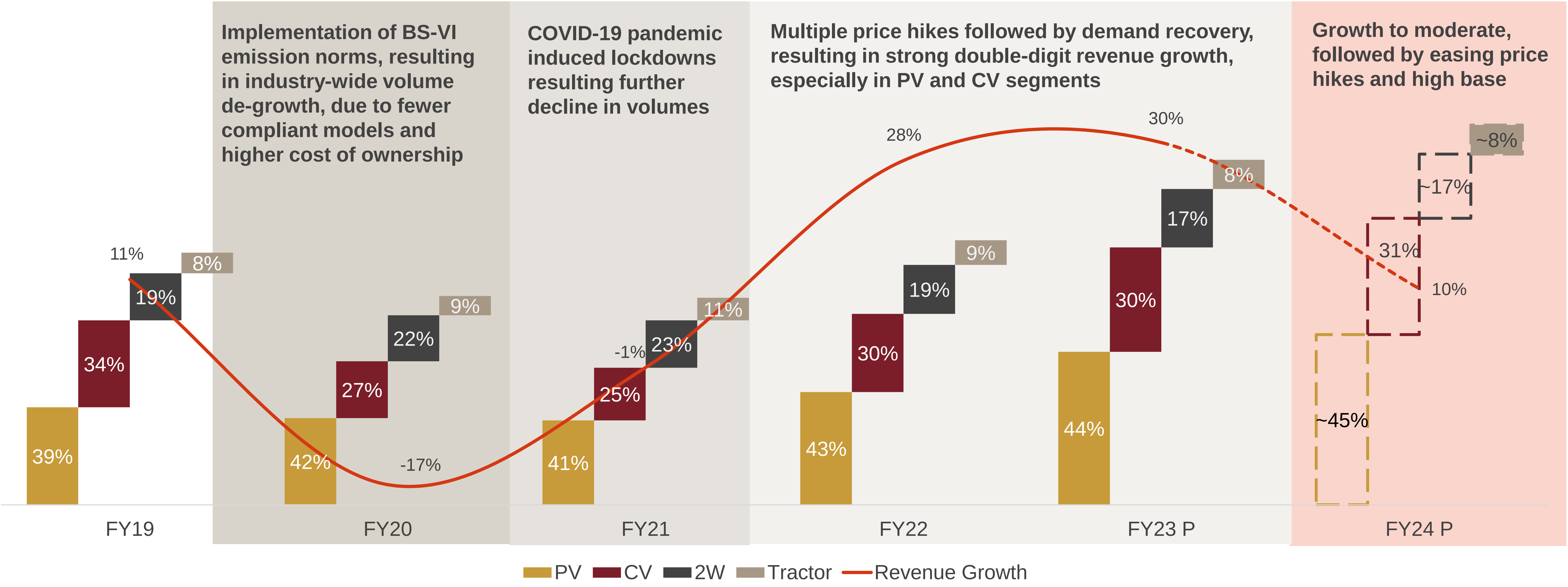
- CRISIL Ratings rates 17 auto OEM players
- Strong balance sheet and ample liquidity, besides a steady market share, are the key rating driving factors

List of rated entities				
Company	**Segment**	**Long Term Rating**	**Short Term Rating**	**Outlook**
Maruti Suzuki India Limited	PV	CRISIL AAA	CRISIL A1+	Stable
Hyundai Motor India Limited	PV	CRISIL AAA	CRISIL A1+	Stable
Mahindra and Mahindra Limited	PV,CV,Tractor	CRISIL AAA	CRISIL A1+	Stable
Hero Motocorp Limited	2W	CRISIL AAA	CRISIL A1+	Stable
Mercedes-Benz India Private Limited	PV	CRISIL AAA	CRISIL A1+	Stable
Bajaj Auto Limited	2W, 3W	CRISIL AAA	CRISIL A1+	Stable
Daimler India Commercial Vehicles Private Limited	CV	CRISIL AA+	–	Positive
Tractors and Farm Equipment Limited	Tractor	CRISIL AA+	CRISIL A1+	Stable
Tafe Motors and Tractors Limited	Tractor	CRISIL AA+	CRISIL A1+	Stable
Escorts Kubota Limited	Tractor	CRISIL AA+	CRISIL A1+	Stable
Fiat India Automobiles Private Limited	PV	CRISIL AA	CRISIL A1+	Stable
Force Motors Limited	CV, Tractor	CRISIL AA	CRISIL A1+	Stable
Tata Motors Limited	CV	CRISIL AA-	CRISIL A1+	Stable
Tata Motors Passenger Vehicles Limited	PV	CRISIL AA-	CRISIL A1+	Stable
Piaggio Vehicles Private Limited	3W	CRISIL A	CRISIL A1	Negative
Atul Auto Limited	3W	CRISIL BBB+	CRISIL A2	Negative
Hero Electric Vehicles Private Limited	2W	CRISIL BB+	CRISIL A4+	-

Source: CRISIL Ratings

Easing of pent-up demand, higher base to clip revenue growth of OEMs

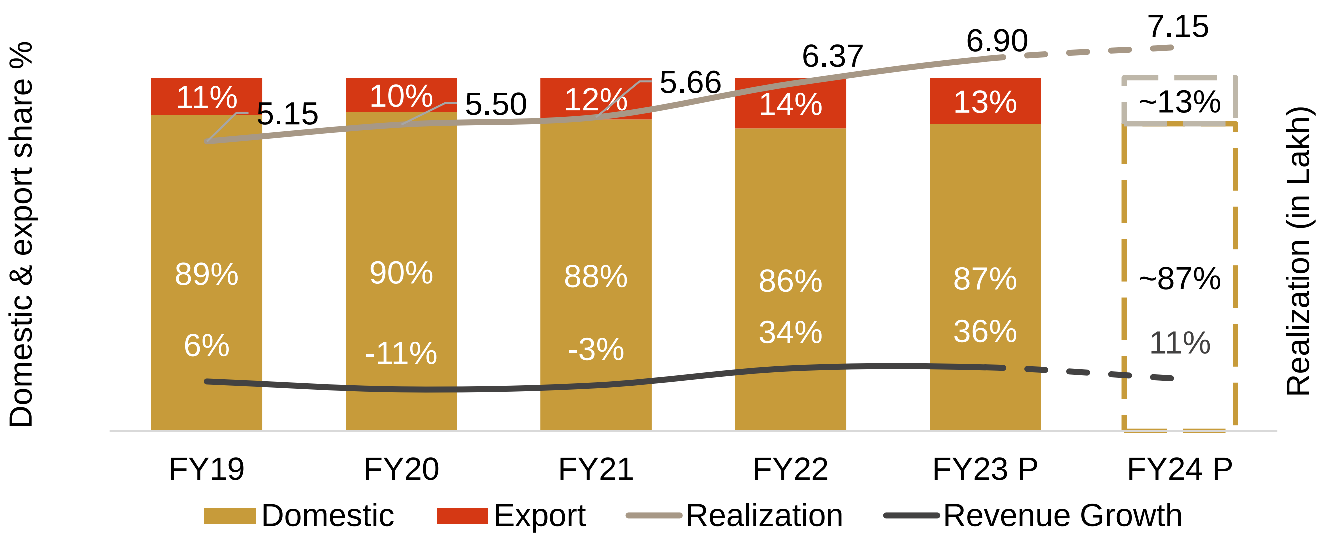
	FY19	FY20	FY21	FY22	FY23 P	FY24 P
Total Revenue (in BN)	4,090	3,387	3,356	4,291	5,595	6,157
Volume Indicator vs. peak volumes in FY'19 (in times)	0.0x	0.84x	0.77x	0.78x	0.85x	0.90x



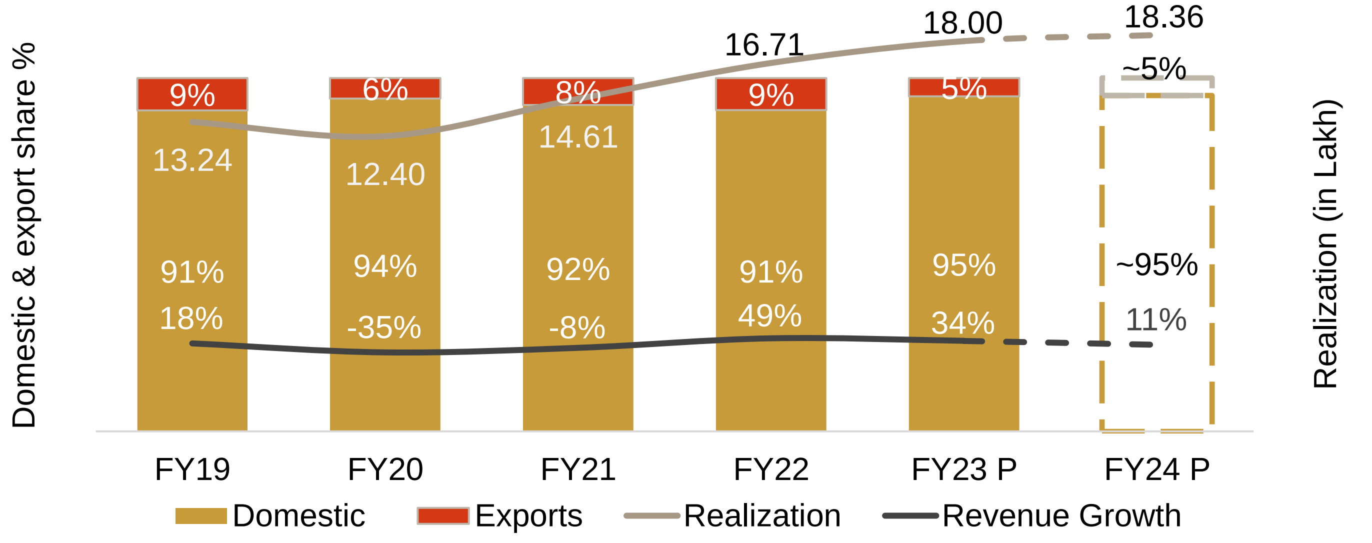
Source: Analysis of CRISIL Rated players

Domestic demand to drive revenue; exports to be sluggish

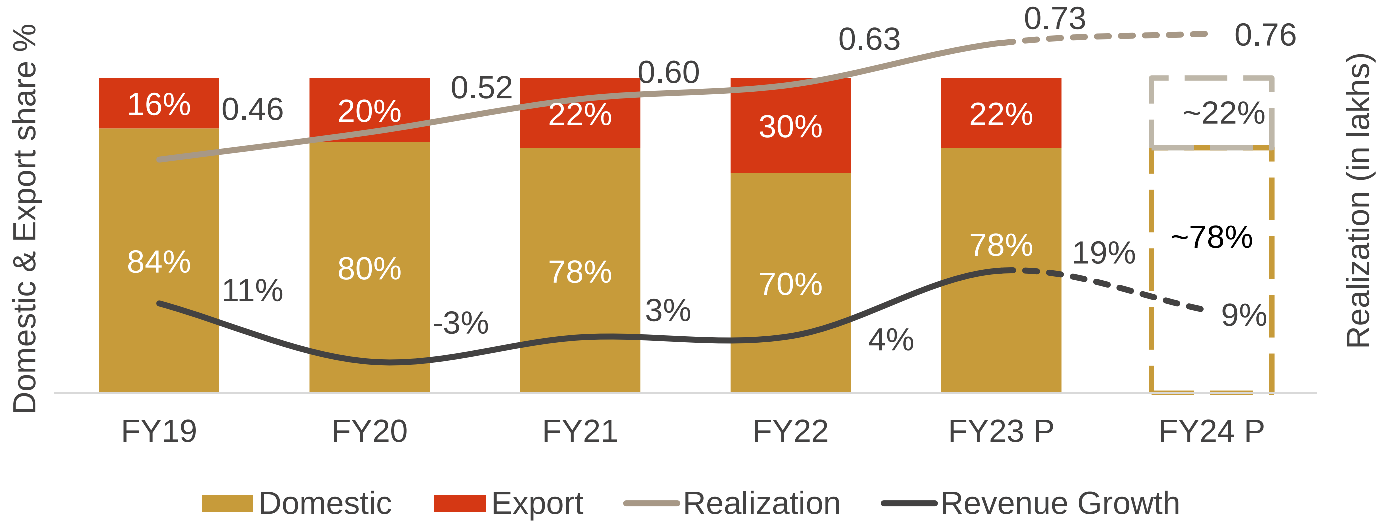
PV volume to clock a steady growth in fiscal 2024, backed by steady demand and large order backlog



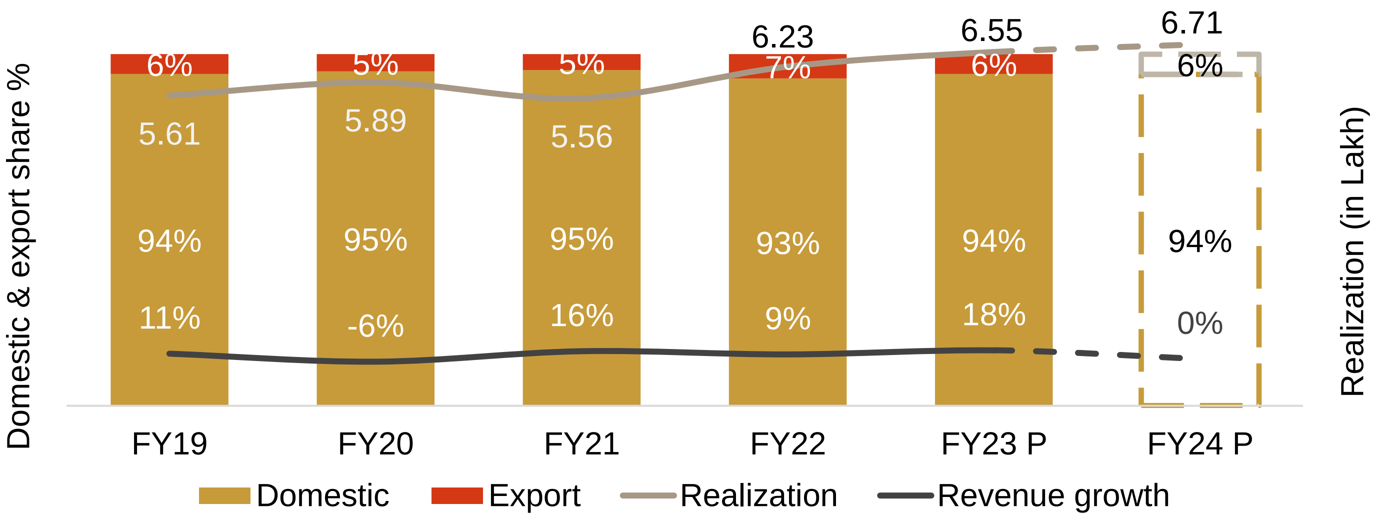
CV realization supported by price hikes and growing MHCV contribution post FY21



2W realisation to be supported by growing premiumisation



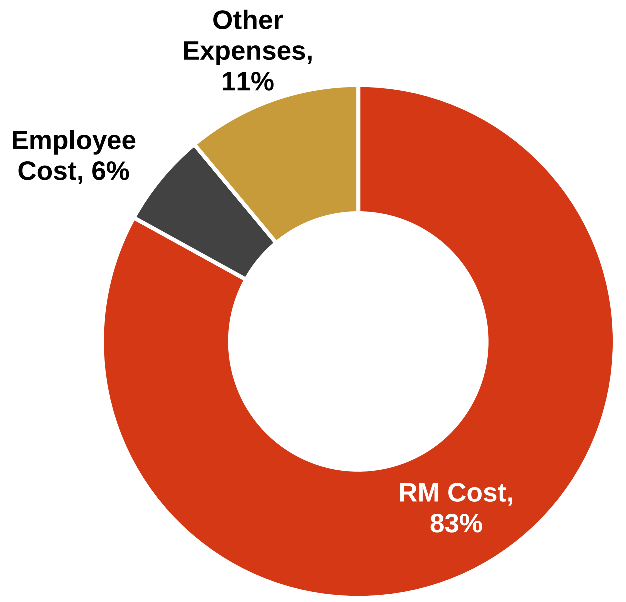
Improving product mix and price hikes supporting tractor realisation



Source: Analysis of CRISIL Rated players

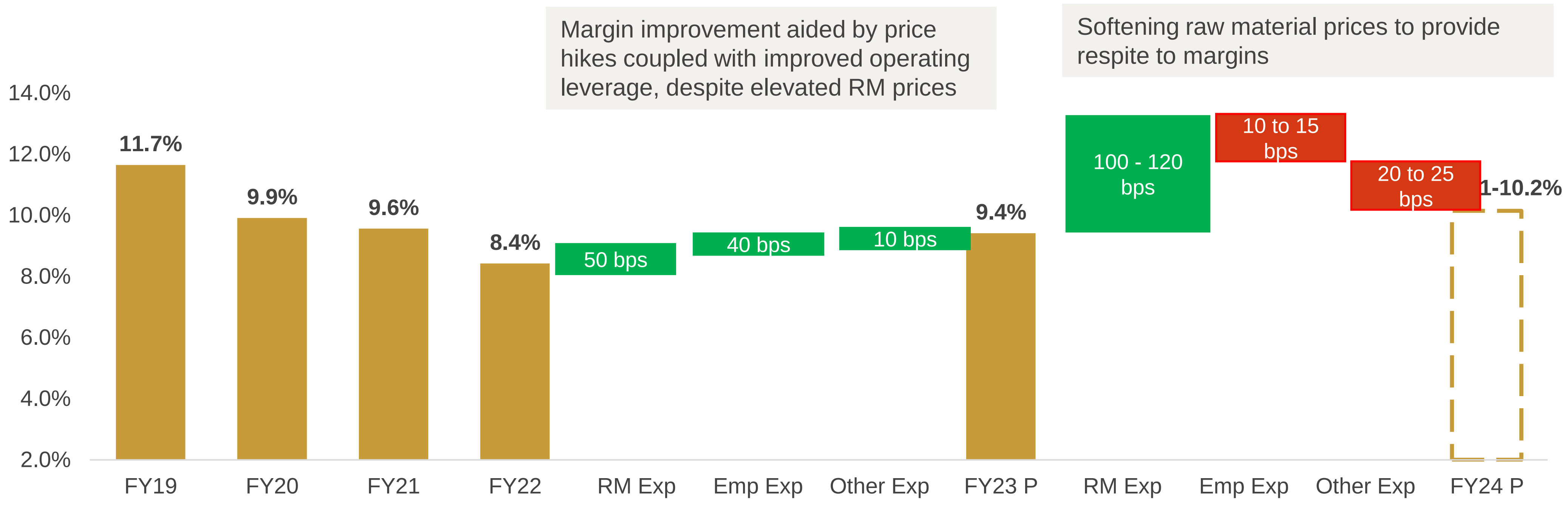
Operating margin to maintain improving trajectory

Cost structure

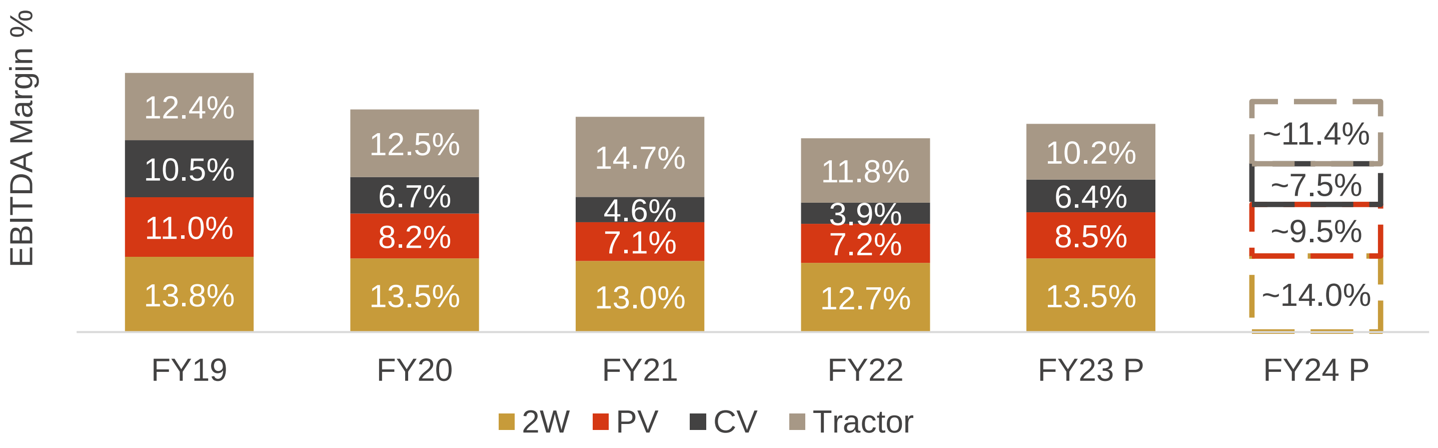


Source: Analysis of CRISIL Rated players

Softening raw material prices to aid margin recovery, however, to remain below pre-pandemic levels



Segmental break-up of operating margin transition

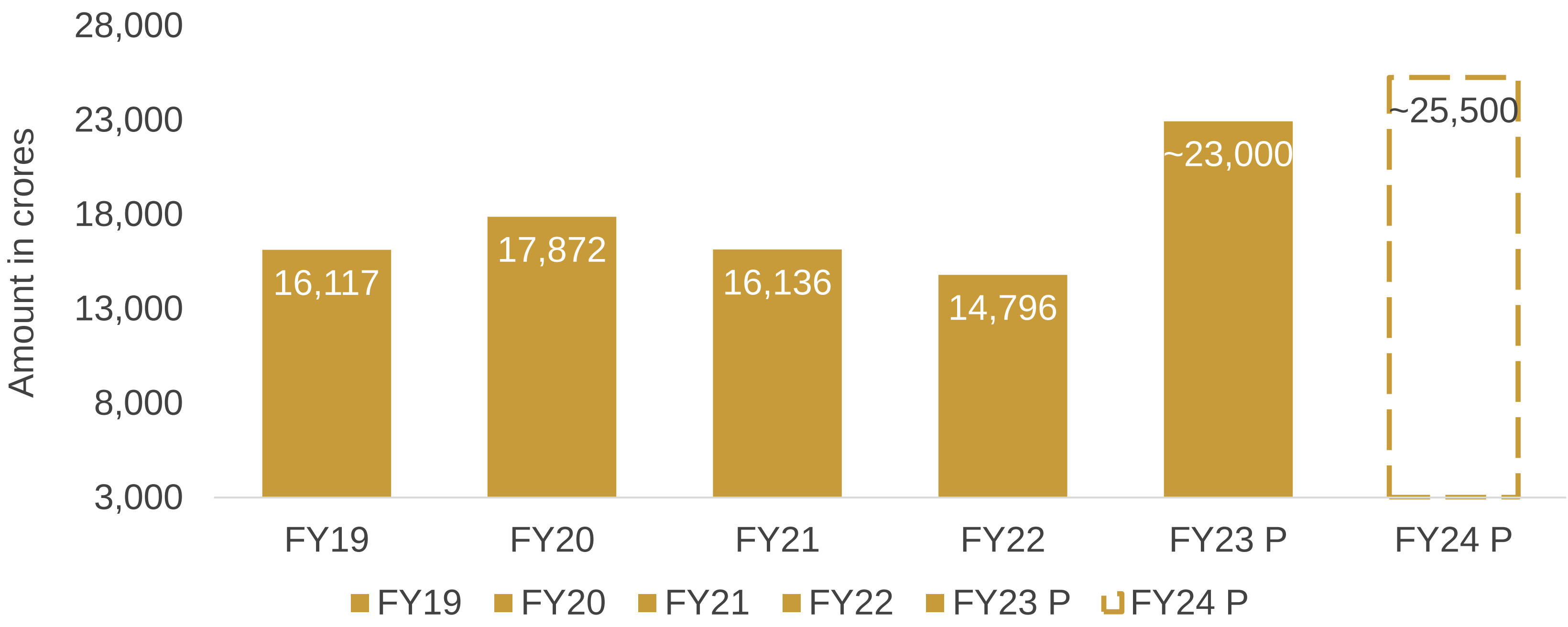


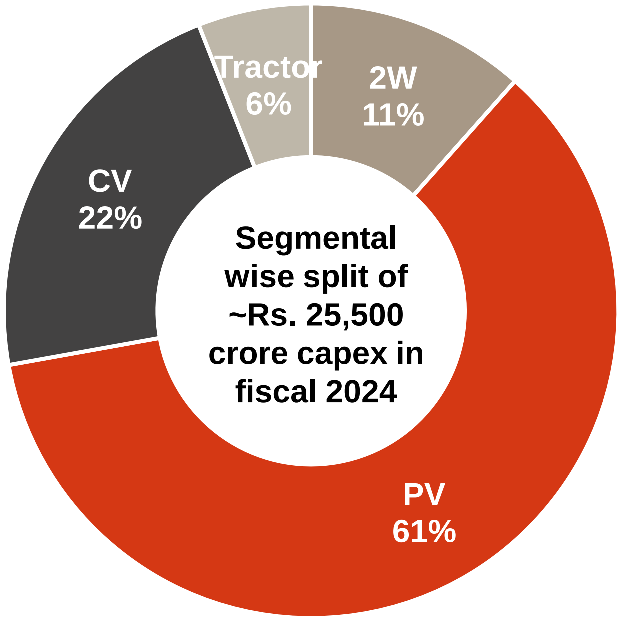
Source: Analysis of CRISIL Rated players

- Apart form the softening raw material prices, specific trends are expected to impact the margins positively:
- **2Ws:** Improved premiumisation trend
- **PVs:** Rising share of high margin SUVs
- **CVs:** Better operating leverage and continued recovery in the higher-margin MHCV segment
- **Tractors**: Increasing share of higher HP tractors

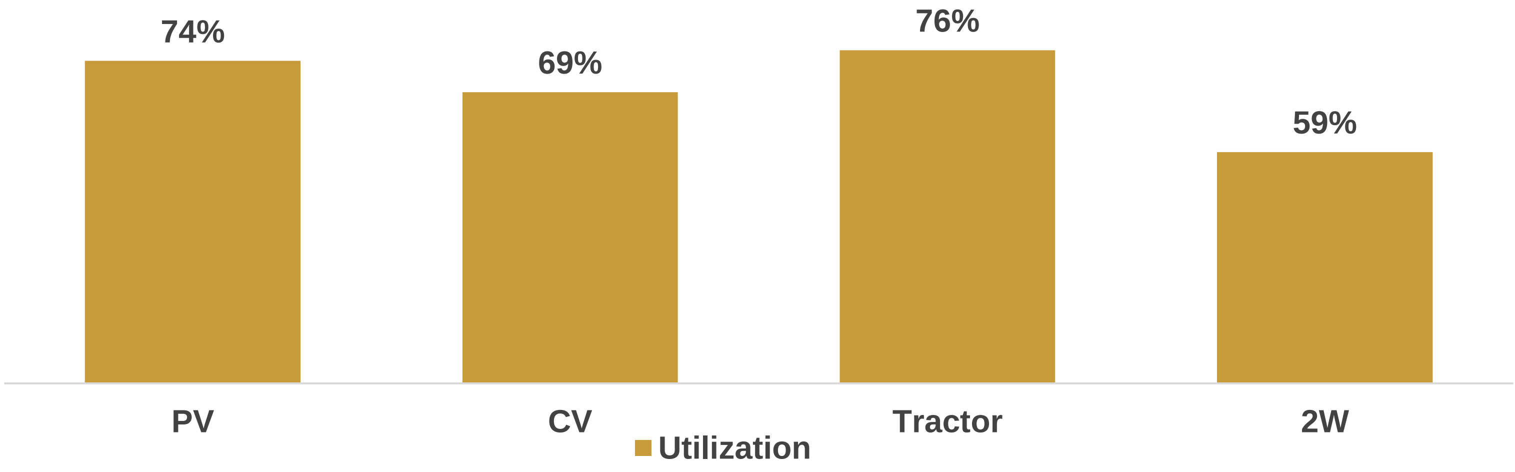
Capital expenditure intensity to be driven by **PV OEMs**

Acceleration also seen towards EVs





Average capacity utilization for Auto OEMs' at ~70% in fiscal 2023



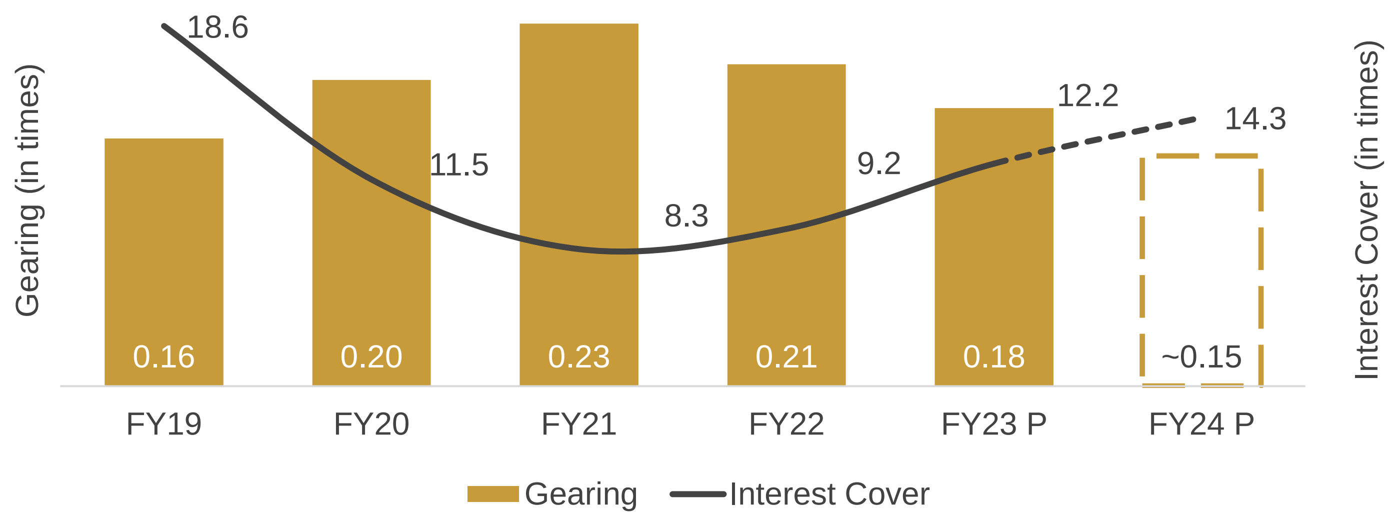
- **PVs** to witness bulk of capex investments due to healthy demand sentiments & launch of EV products over next 2-3 years, in addition, to debottlenecking and maintenance.
- **2W / CVs -** capex investments shall be largely towards EV
- Capex in tractors segment expected to be largely towards regular maintenance

Source: CRISIL Ratings, Company Annual reports

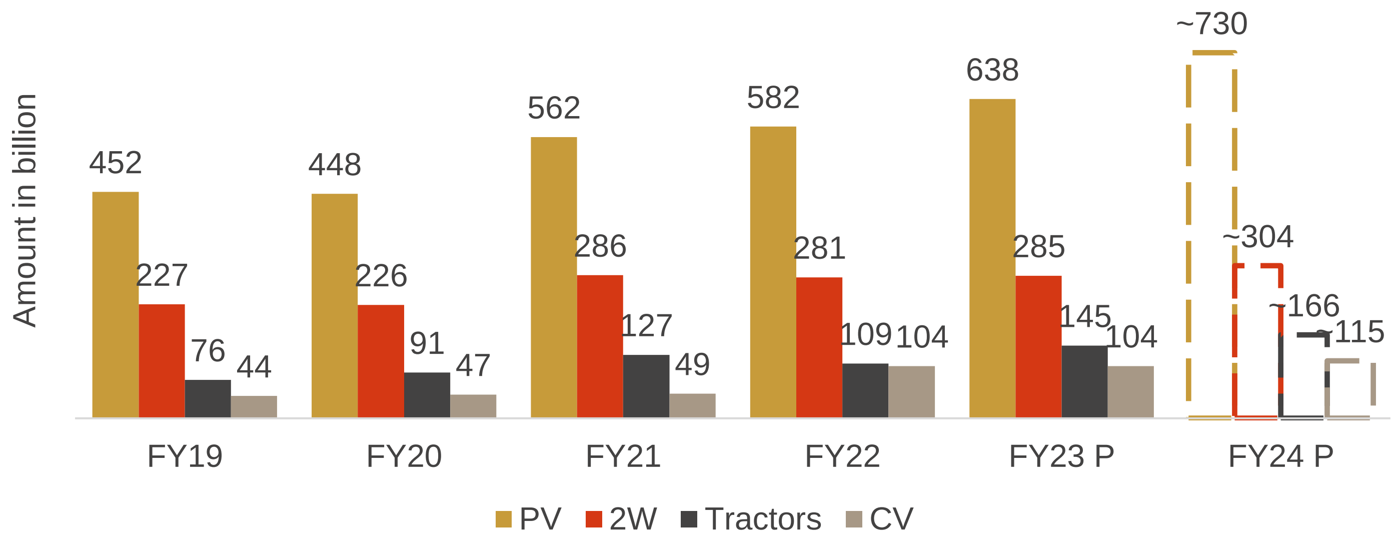
CRISIL
An S&P Global Company

Financial profile of OEMs to remain 'healthy'

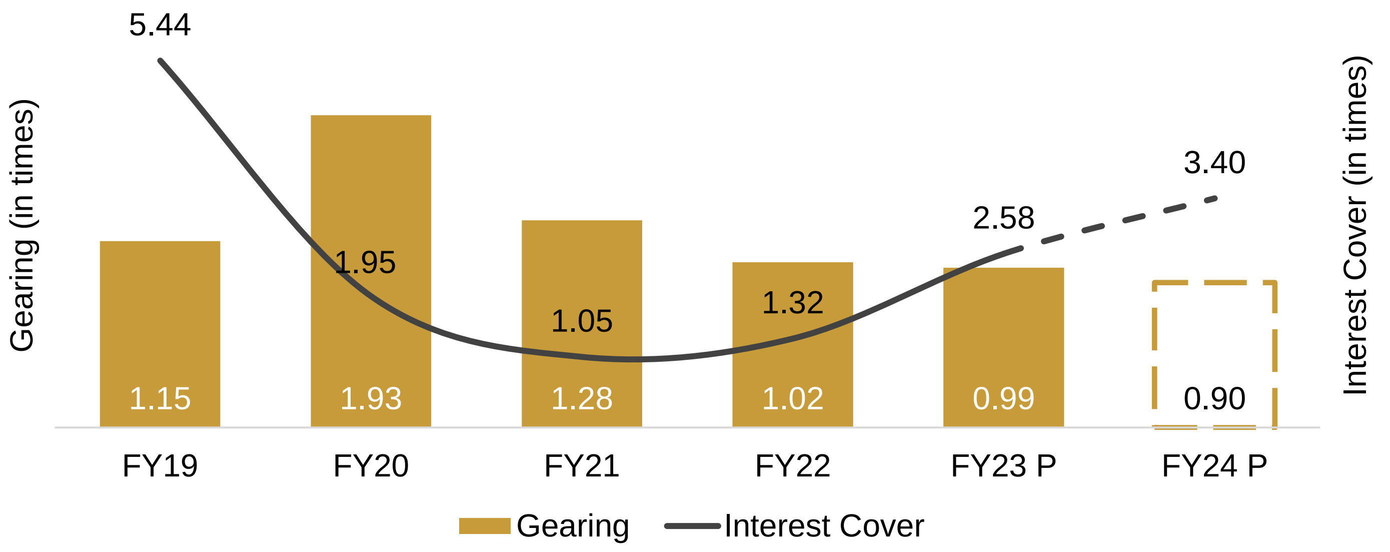
Key credit metrics of OEMs to remain healthy over the medium term



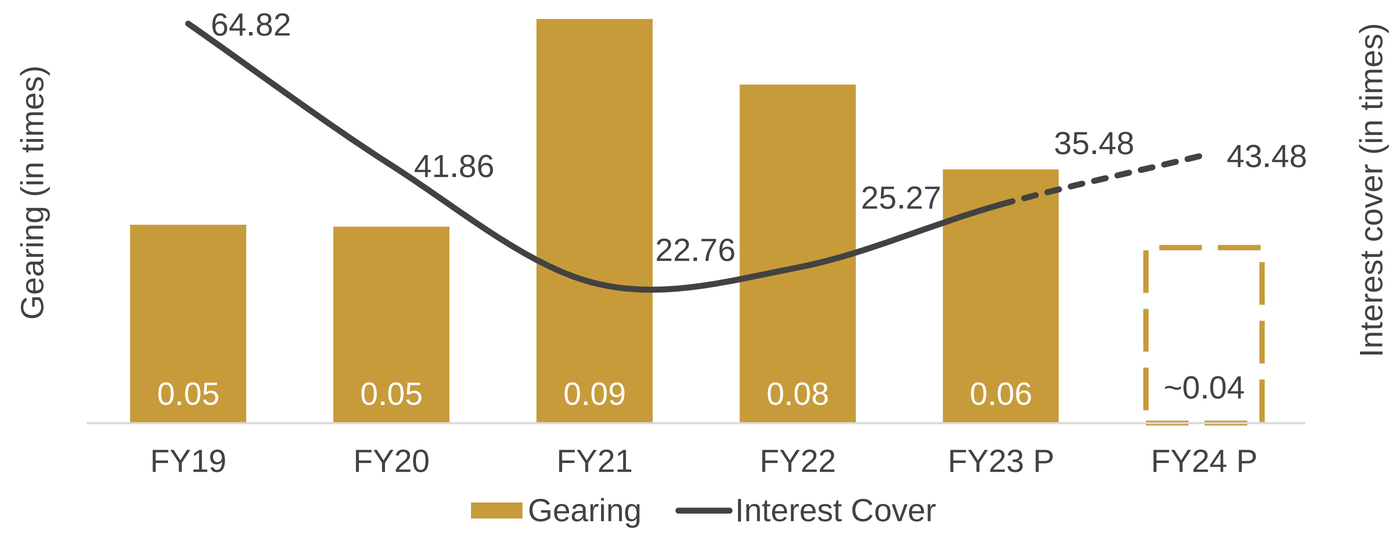
Healthy cash surplus providing an additional layer of comfort



CV segment most vulnerable to economic downturns as seen in recent past



Balance sheet strength of non-CV players remain robust



Source: Analysis of CRISIL Rated players

CRISIL
An S&P Global Company

To summarise

- Revenues of automotive OEMs to grow ~10% in fiscal 2024, driven by steady domestic demand with growing contribution from premium category variants across all segments
- Easing of input-cost pressures, coupled with price hikes, to result in net margin expansion across business segments
- Capex intensity to remain elevated, with over ~60% coming from the PV segment, primarily geared towards EV and launch of new models. Capex from 2W and CV segments to be largely EV-focused
- Debt metrics remain healthy despite higher capex intensity, aided by steady cash generation, strong balance sheets and robust liquidity
- Risk monitorables
  - Impact of monsoon and anticipated effects of El Nino on rural demand
  - Semiconductor availability and stability of supply chain
  - Adverse movement of key raw material prices
  - Regulatory landscape

Section 2: Their View

CRISIL
An S&P Global Company

Views excerpted from a panel discussion held during the webinar

Eminent panellists

Dinesh Thapar
Chief Financial Officer
Bajaj Auto Ltd

T R Kesavan
Group President
TAFE

Anuj Sethi
Senior Director
CRISIL Ratings Ltd

Perspective on Passenger Vehicles (PV) segment:

- Skepticism on FAME subsidy not much of an issue when it comes to PVs. Electric vehicles (EV) are priced higher than conventional ICE vehicles. Hence penetration rates much lower than other segments.
- However, substantial decline in lithium-ion prices post China's policy in January 2023 of non-subsidizing EVs could increase penetration. The drop in lithium-ion prices could provide impetus to demand and lower costs. In addition, China's stance and policy to be key monitorable as it controls 80-90% of lithium-ion.
- Profitability in fiscal 2023 improved by 100-120 bps on the back of premiumization and higher sales of Utility Vehicles. In the current fiscal, margin should further improve by 80-120 bps given increasing UV sales trends coupled with cost pass-on of BS-VI stage II emission norms implementation.

Perspective on Commercial Vehicle (CV) segment:

- Fiscal 2023 was another strong year for CV segment recording double digit growth. MHCV to be the growth driver in fiscal 2024 aided by Government's continuous thrust on infrastructure spending evident from rapid expansion of road networks across the country.
- MHCV sales volume likely surpass pre-pandemic level in fiscal 2024 due to peaking of replacement demand. Improving transporter profitability with stabilization in fuel prices and step-up in capex may result in fleet replacement. Further, new orders from STCs shall add to overall MHCV demand growth as no large bus orders placed since pandemic.
- Improvement in profitability by ~300 basis points (bps) in fiscal 2023 primarily aided by operating leverage and multiple price hikes taken by OEMs. In fiscal 2024, higher share of MHCVs, easing input cost pressures coupled with full benefit of recent price hikes should enable better operating leverage thus ensuring further improvement in operating margin by about 80-120 basis points.
- Scrappage Policy – While announced and implemented, it did not have any impact on incremental demand because only vehicles older than 20 years to be scrapped which leaves only around 1.5 lakh – 2 lakh vehicles available for replacement. Hence no major impact on overall sales.

Views excerpted from a panel discussion held during the webinar

Perspective on Two-Wheeler (2W) segment

- 2W industry weathered the storm and showed resilient performance given recent regulatory developments pertaining to BS-VI & ABS coupled with COVID-19 pandemic and semi-conductor supply chain disruption. Regulatory developments resulted in increase in cost of acquisition for entry level 2Ws by ~40% which impacted volumes.
- Industry has witnessed some structural changes as well. Entry level motorcycles to premium motorcycles mix was about 60:40 five years back which as of fiscal 2023 stands at 50:50. While entry level demand got impacted due to unprecedented price rise and subdued demand, premium segment has faster growth on account of premiumization and positive urban demand.
- While overall volumes are lower than pre-pandemic levels, revenues have increased due to favorable pricing environment on the back of increased sale of premium vehicles yielding higher realizations.
- Electric 2W sales fueled by FAME subsidy resulted in per month sales of 65,000-70,000 units for large part of fiscal 2023. This further increased to around 80,000 units per month towards the end of same fiscal. As of today, around 20% of scooter sales are EV, which is approximately around 6% of overall scooter market.
- Skepticism around continuation or withdrawal of FAME subsidy will indeed impact investments and industry structure.
- Operating margins were under pressure for past two fiscals on account of COVID-19 pandemic, semi-conductor supply chain disruption, and commodity inflation. During fiscal 2023, favorable product mix, higher exports coupled with rupee depreciation, easing commodity price in later part of fiscal 2023, and operating leverage benefits enabled improvement in margins.
- Exports will likely remain subdued with recovery in later part of fiscal 2024. However, favorable product mix within domestic markets to offset impact of subdued exports on margins.

Capex plans:

- Capex will primarily be towards electric vehicles, as there is sufficient capacity for ICE portfolio, given industry is operating below pre-pandemic levels. Investments towards EVs driven by commitments under PLI scheme, while sustenance capex for ICE portfolio to continue.

Views excerpted from a panel discussion held during the webinar

Perspective on Tractor Industry

- Overall Tractor volumes reached record levels of 9.45 lakh units in fiscal 2023 on account of positive farm sentiments supported by normal monsoon, higher remunerative crop MSP and DBT scheme aiding improving farm income.
- Profitability of the players moderated in fiscal 2023 with steep increase in raw material prices which they were not able to pass on fully. Improvement in product mix towards higher HP tractors with better margins and price hikes taken in order to pass on RM price rise was offset by increase in prices of steel – the key raw material. Accordingly, no major increase in profitability is expected in fiscal 2024 as well.
- Despite lower volumes in April 2023 majorly due to higher base of previous year, tractor volume is expected to remain steady at 5-7% which is not likely to be impacted by rising interest rates as overall rates for tractor loans were always higher even during pandemic times. However, impact of looming EL-Nino possibility on progress of monsoons will be key monitorable.

Capex plans

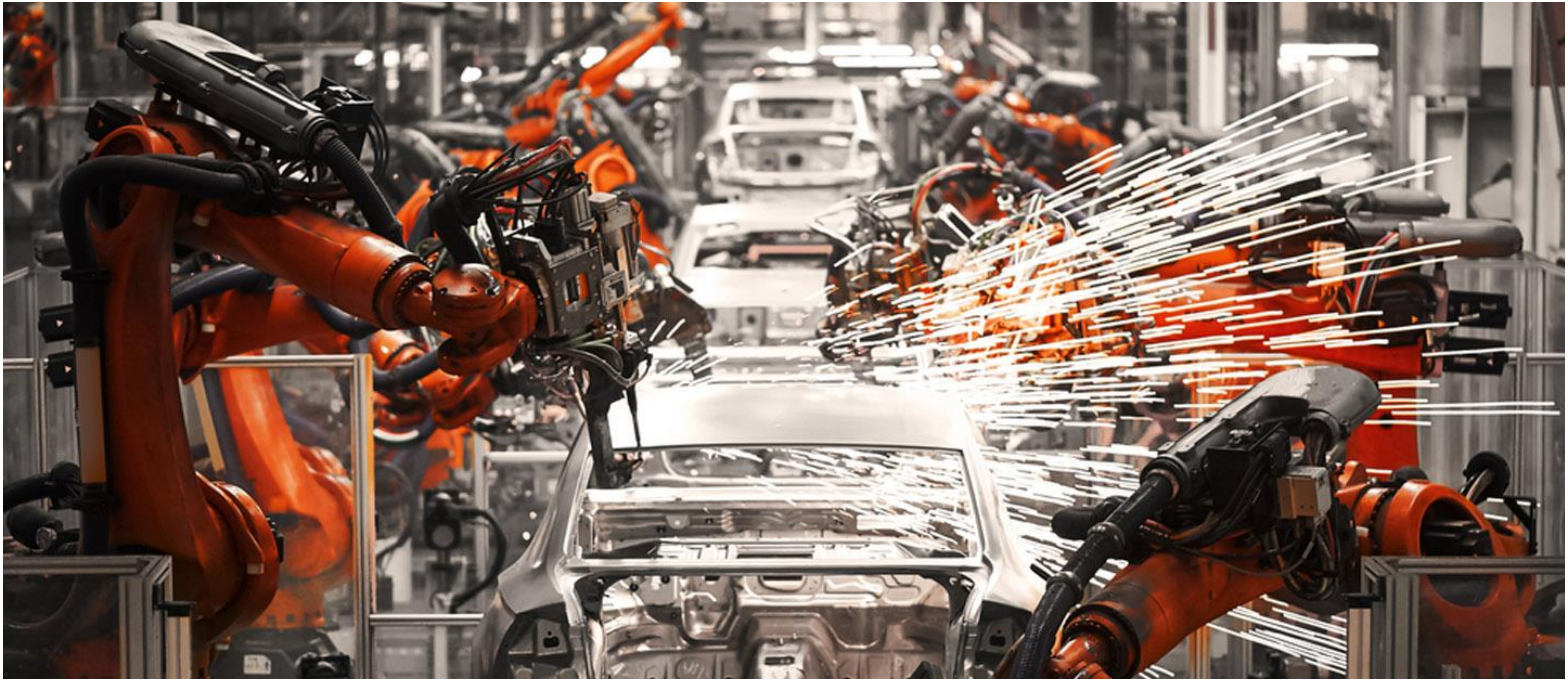
- Capex in fiscal 2023 was primarily geared towards complying with latest tractor emission norms (TREM-IV) which kicked off from January 2023 onwards for above 50 HP tractors. Capex in fiscal 2024 to be majorly towards next stage of TREM regulations which will be effective from April 2024 onwards.
- With additional filters to meet latest TREM regulations expected to add up to Rs.25,000- Rs.30,000 per unit to overall tractor cost will result in people opting for local filters with lower prices or gradual reduction in share of higher HP tractors. This is similar to significant reduction in share of higher HP tractors from 10-12% to ~3% when TREM 3A was implemented. Accordingly, the players are planning to wait and watch and to obtain clarity on people preference before making any huge investments towards meeting new TREM norms as it is a price sensitive market.

EV scope:

- EV prospects is very low considering the continuous usage of tractors during peak seasons which will be employed for entire day.
- However, in case of horticultural crops and weeding, EV may have some scope going forward

Section 3

Poll view

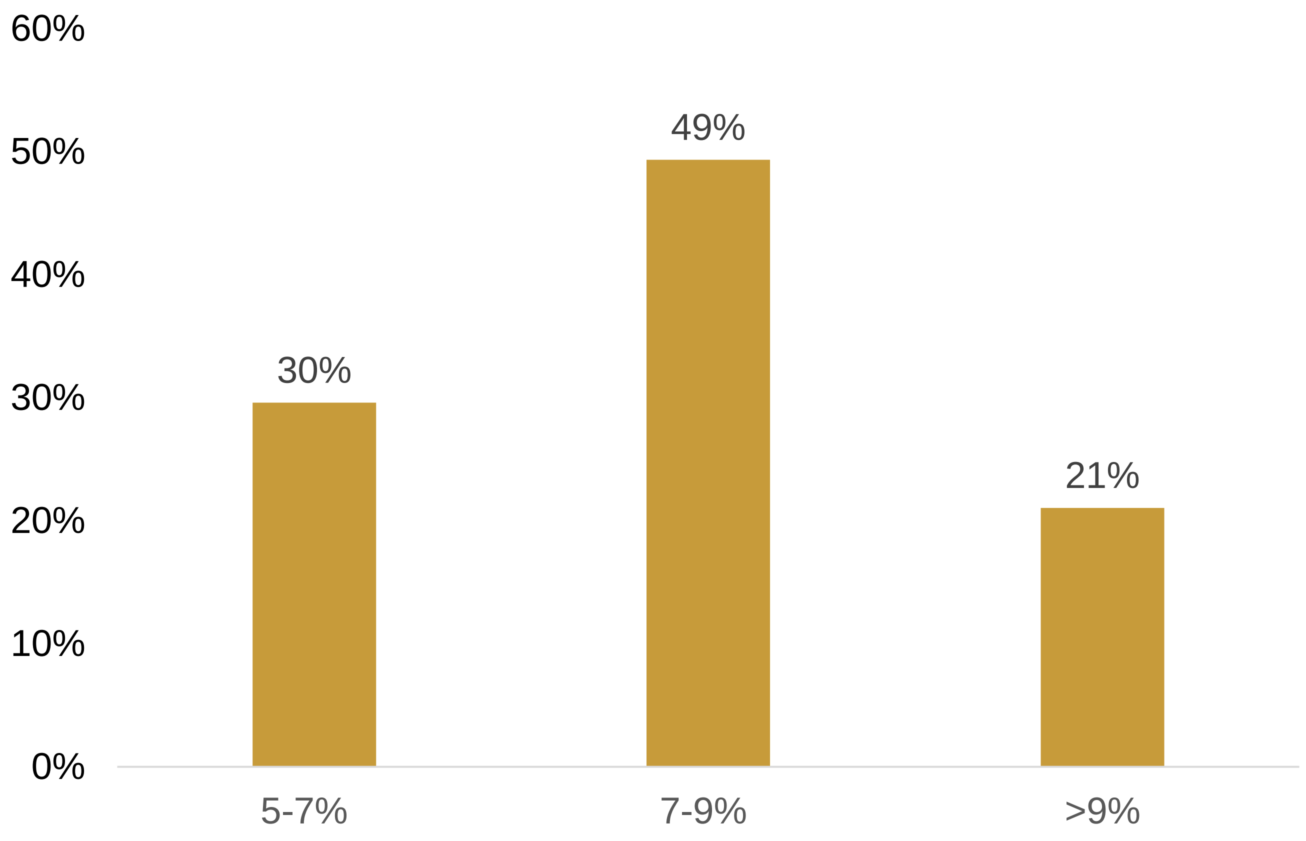


CRISIL

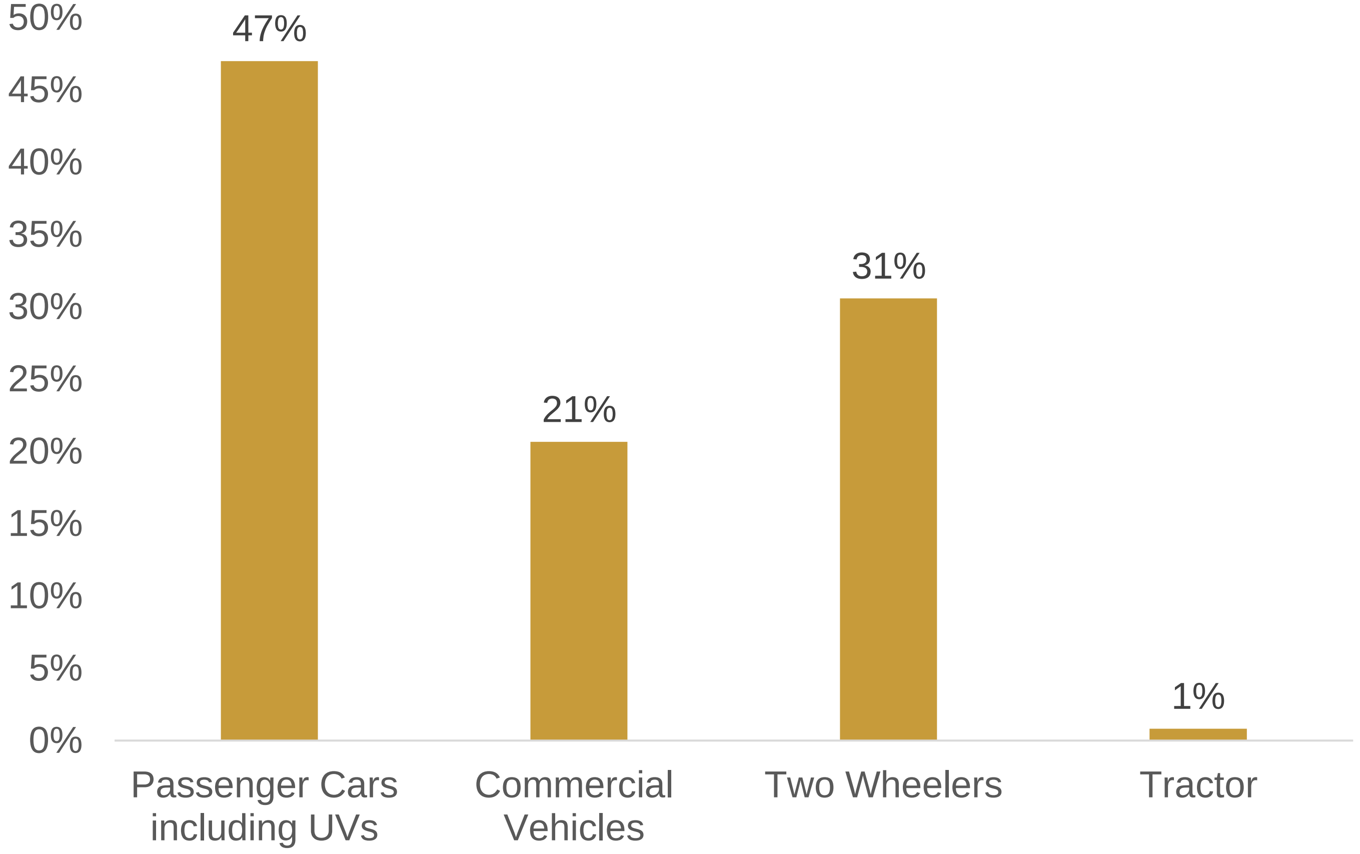
An S&P Global Company

Results of a survey of more than 400 webinar participants (1/3)

Q1.What is your expectation on the domestic sales volume growth for the overall automobile sector in fiscal 2024?

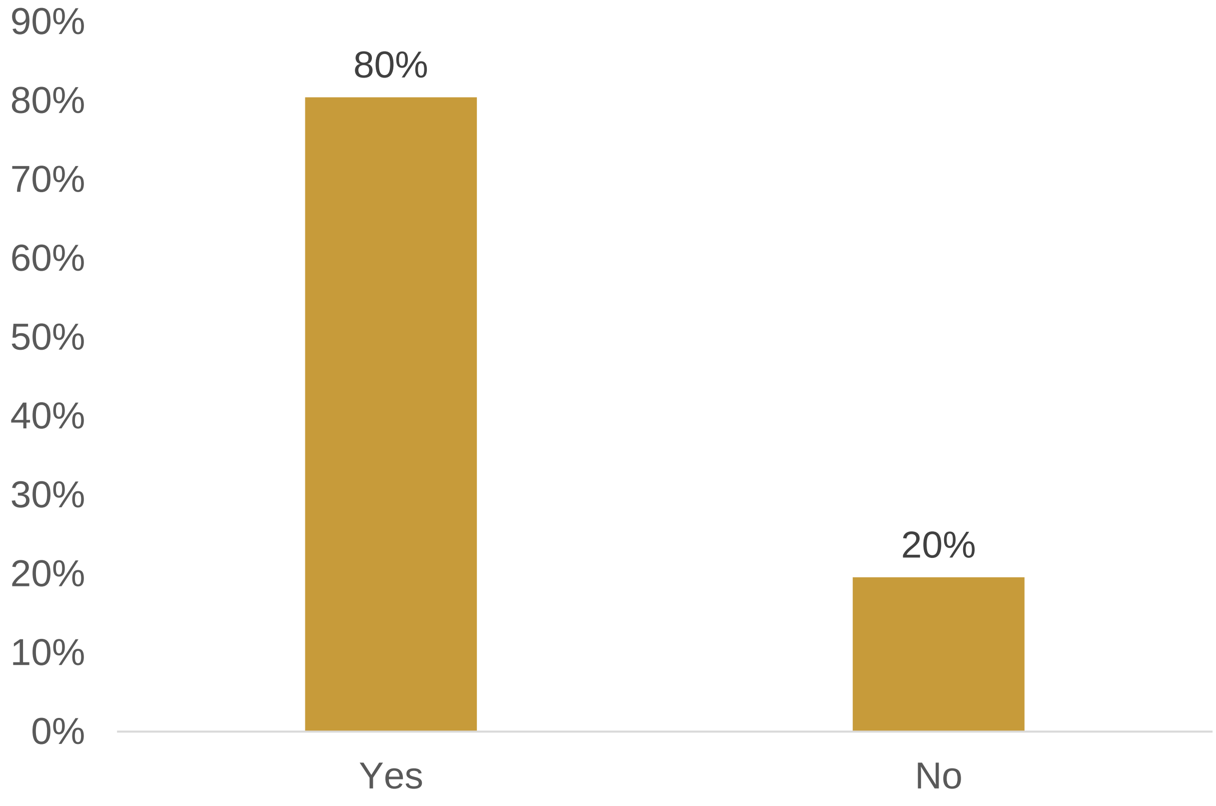


Q2. Which segment do you expect will grow the fastest in volume terms in fiscal 2024?

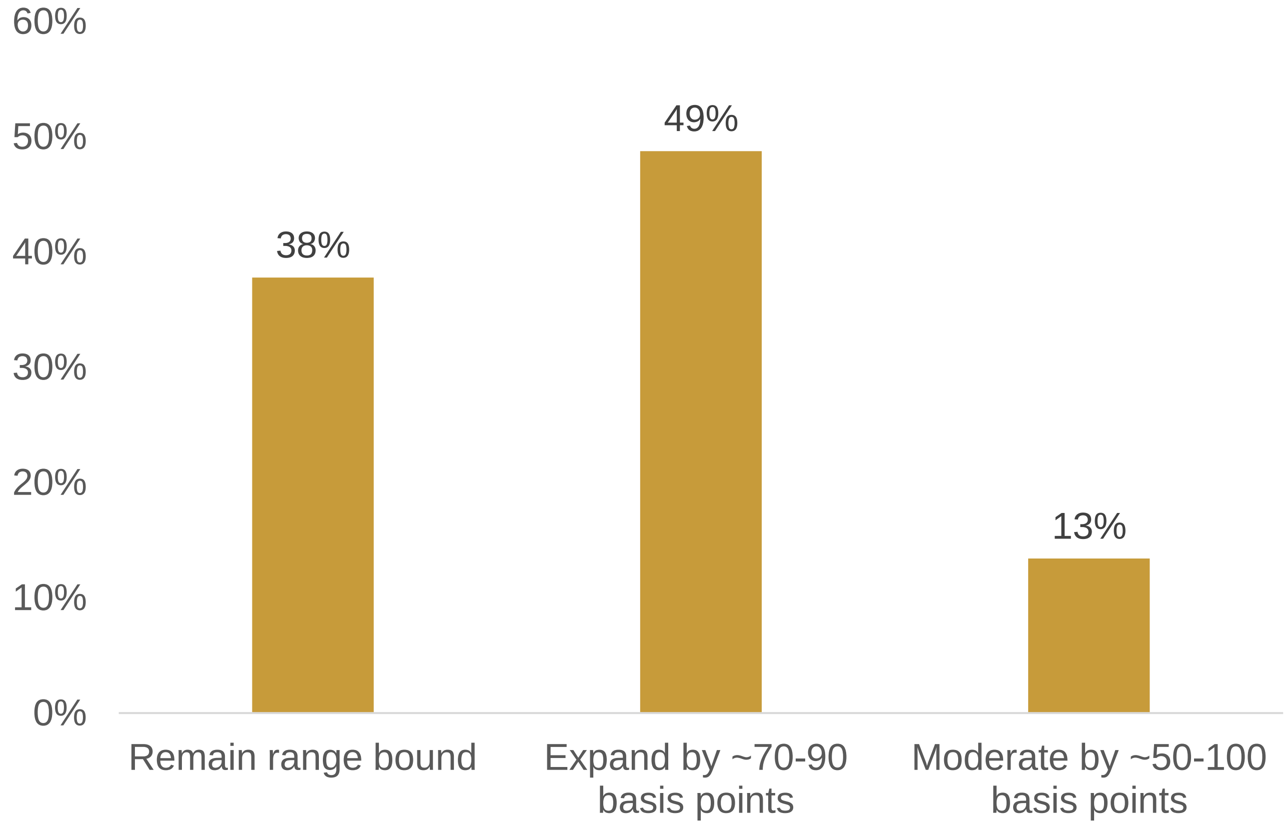


Results of a survey of more than 400 webinar participants (2/3)

Q3. Will the expiry of the government subsidy scheme impact demand for EVs in the near term?

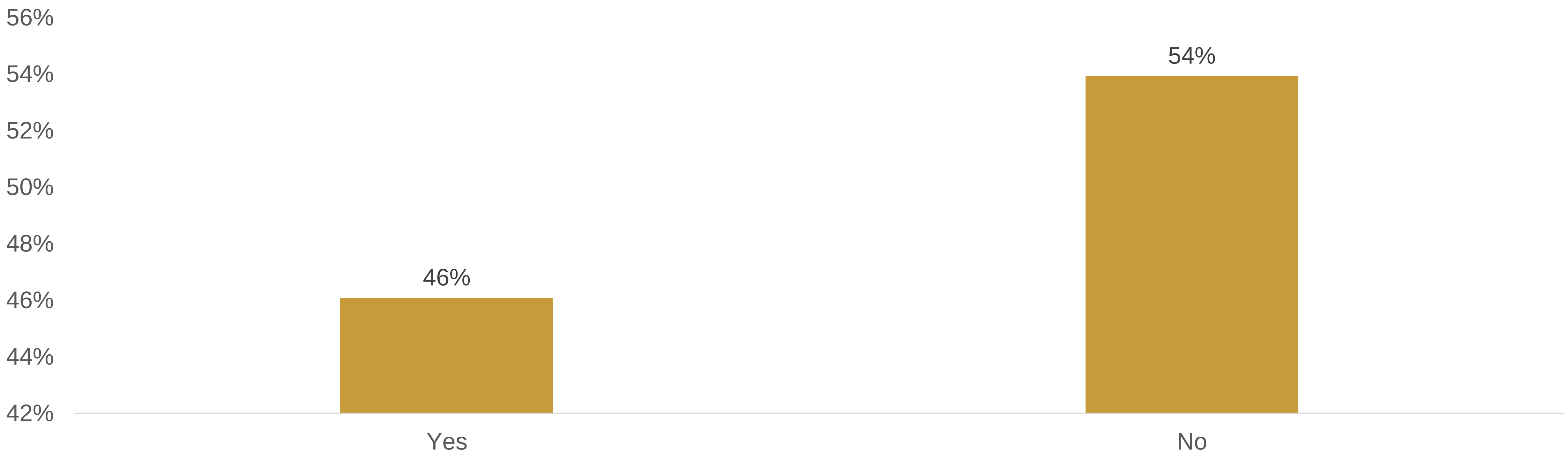


Q4. What is your expectation of operating margin for the overall automobile sector in fiscal 2024, over fiscal 2023?



Results of a survey of more than 400 webinar participants (3/3)

Q5. Do you expect overall exports volume to revive in fiscal 2024?



Thank you

For further assistance and queries, write to us at events@crisil.com

**Disclaimer: This event and its content are intellectual property and confidential information of CRISIL. Any use of the same without written permission of CRISIL is illegal and hence punishable. Recording the webinar in any form in full or part or copying, altering, distributing or streaming the webinar is strictly prohibited and violation will attract legal action.*

CRISIL
An S&P Global Company

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide

CRISIL Privacy Notice

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy