

Indian Automobiles Sectoral Outlook



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AUTO INDUSTRY IN INDIA

The Indian automobile industry usually reflects the state of the economy. With a population that comprises primarily of youth, the two wheeler segment dominates the market.

India accounts for 40% of total \$31 bn of global engineering and R&D spend. This is likely to result in the country being head and shoulders above the rest of the world with regards to cost and efficiency.

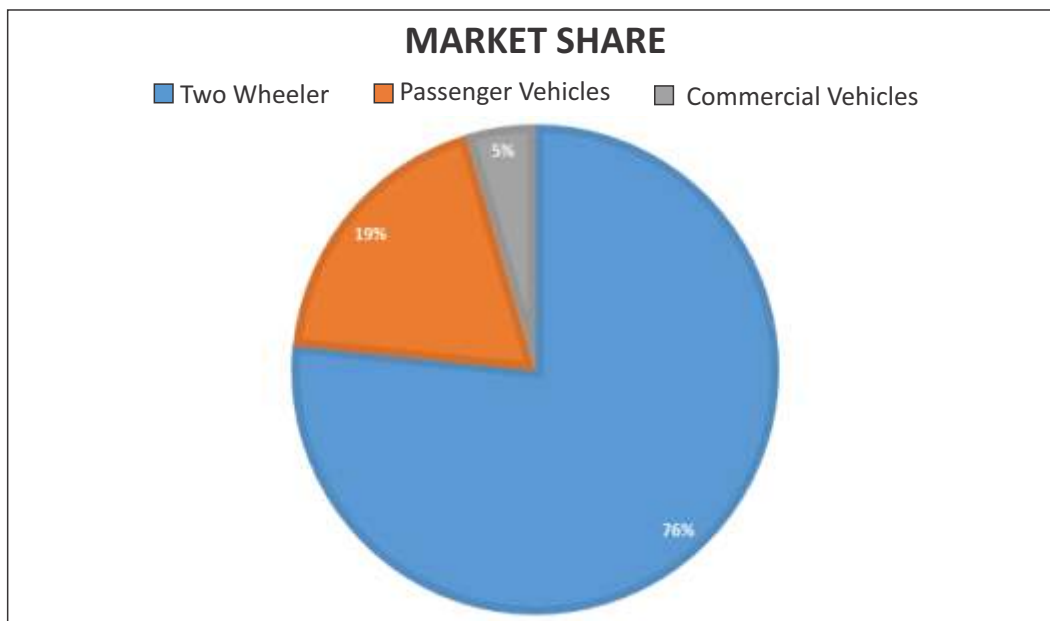
Auto sales are one of the key indicators used to gauge India's private consumption, as it has a share of 50% in the country's manufacturing GDP. This makes it the third largest automotive market in the world.

GROWTH LEVERS

- The country's EV sales doubled due to increased focus from the Government in promoting EV ecosystem. The government has allowed 100% FDI under the automatic route.
- The implementation of Atmanirbhar Bharat Abhiyan, Automotive Mission Plan 2026, scrappage policy, and production-linked incentive scheme are expected to add further impetus to the Indian Auto industry.
- India has the second largest network of roads
- India aims to double auto industry size to INR 15 lakh Cr by 2024 end, making it one of the top countries in this sector.
- Enhanced guidance to profitability due to softened raw material costs which are expected to remain stable

CHALLENGES

A fall in automobile exports due to geopolitical crisis and monetary policy hurdles in the overseas markets

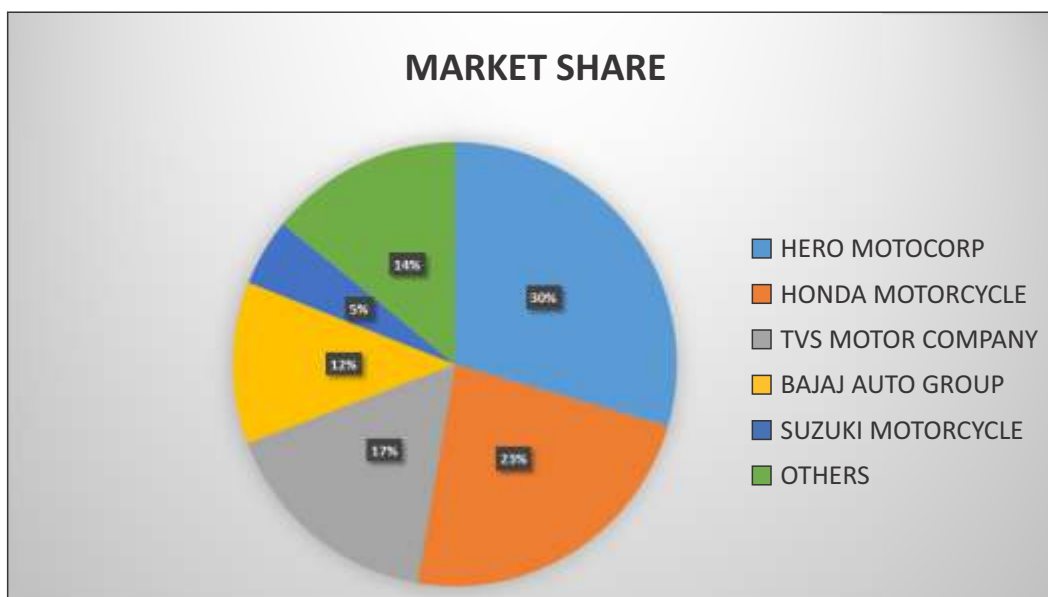


TWO-WHEELER OEM SEGMENT

India is the world's largest manufacturer of two-wheelers, with nearly 21 Mn produced annually. The demand for personal and sustainable mobility solutions continue to keep the global two-wheeler market buoyant. In the long term, the market is expected to benefit from tailwinds such as superior technology, higher fuel efficiency, better drive experience and boom in the two-wheeler EV space.

2 WHEELERS LEADING THE WAY

Retail sales in the auto industry rose by 3.1% YoY in March 2024 to 21.3 lakh units. Two-wheeler retail sales increased by 5.4% YoY to around 15.3 lakh units, while car retail sales decreased by 6.2% YoY to 3.2 lakh units.



Hero MotoCorp leads the market share in the two-wheeler segment.

OUTLOOK

Hero MotoCorp is well placed to capitalise on the existing and emerging opportunities in the two-wheeler industry by focusing on the following factors.

- **PREMIUMISATION** – This is the action or process of attempting to make a brand or product appeal to consumers by emphasizing its superior quality and exclusivity. It is expected to contribute substantially by FY24-25.

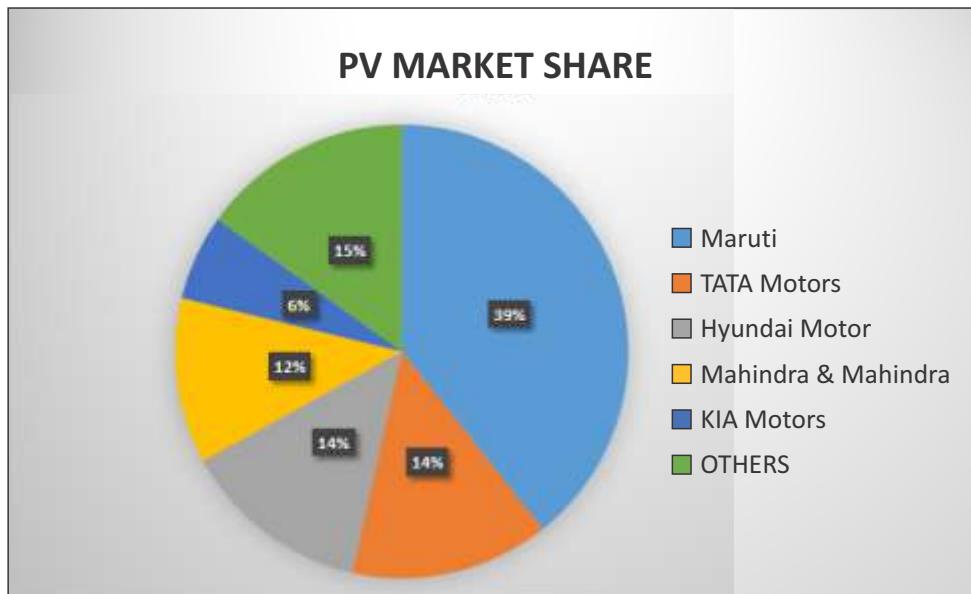
- **PARTNERSHIPS AND COLLABORATIONS** – Hero recently tied up with Harley-Davidson as part of its growth strategy. Harley-Davidson's market share in the 1000cc+ segment grew to 37% in FY22 and is expected to expand further.
- **GLOBAL EXPANSION** – The company intends to cater to the unique customer preferences of countries worldwide, which offers a wider market for expansion.
- **Capacity utilisation:** Hero has capacity utilisation above industry average. This is likely to aid inventory levels going forward.

In FY23 the 2W industry has seen double-digit growth, i.e 10% in revenue guidance which is expected to continue in FY24.

PASSENGER VEHICLE OEM

There has been a shift in the Indian automotive industry from being a components manufacturer to an assembler and manufacturer of complete vehicles including passenger cars. Passenger vehicles make up nearly 20% of the domestic automobile market.

However, the passenger vehicles sales dropped in March 2024 due to substantial reduction in prices. However, the SUV segment, which accounts for a 50% market share, witnessed rise in demand.



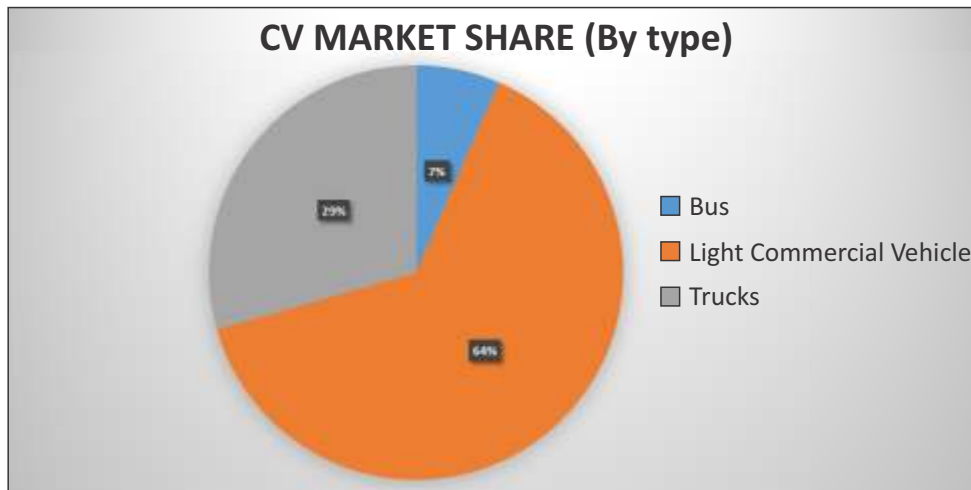
Maruti Suzuki India leads in terms of market share in the Indian passenger vehicle market. Steered by new model launches, product refreshers, introduction of the strong hybrid powertrain, and the expansion of the portfolio of CNG-powered models, the company's new model activity saw a multi-fold increase during the year.

OUTLOOK

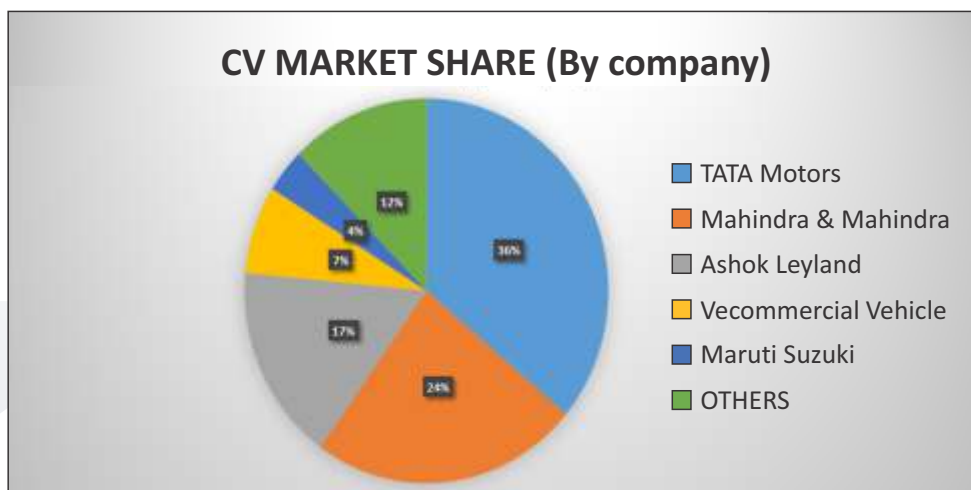
To expand its production capacity, the construction of a new manufacturing facility in Kharkhoda, Haryana has started. A plant with a capacity of 250,000 vehicles per annum is to be commissioned within the year 2025. The Management expects Maruti's growth to be better than the industry in FY23-24.

COMMERCIAL VEHICLE OEM

India's increasing demand for commercial vehicles portrays the country's expanding business activities and infrastructure development. Implementation of stricter vehicle norms has led to the development of vehicles with improved engine technology and emission control systems.



CV sales witnessed a 5.9% decline, which can be attributed to the high base of the previous year, elections, poor agricultural produce, discount pressures, and high interest rates. However, healthy demand in sectors such as coal and cement helped cap the sales decline



GROWTH TRIGGERS

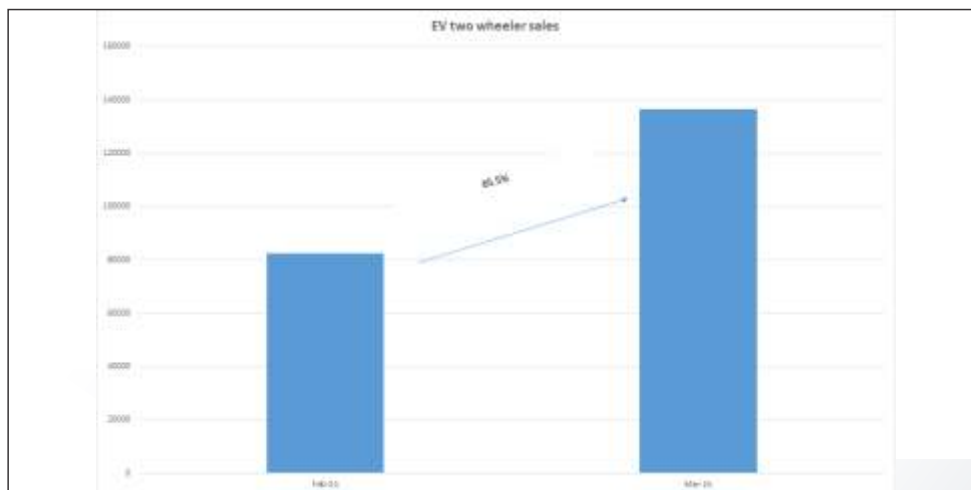
The government's increase in budgetary allocation towards infrastructure is likely to ramp up demand. The commercial vehicle market volume is estimated to increase by 7 to 10 percent in the next fiscal year at the back of lower operating costs and reduction in commodity prices.

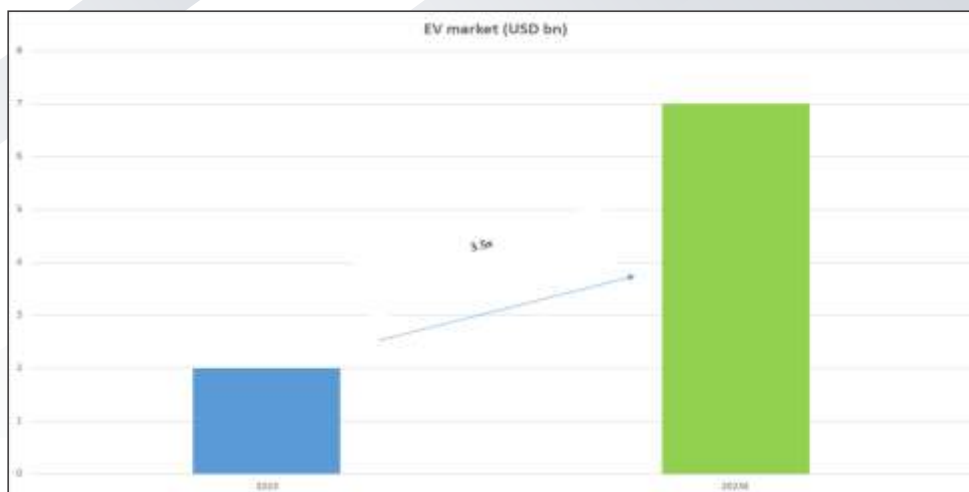
India's commercial market will benefit from growth in various industries like food & beverage, construction, automotive and healthcare which have high use of commercial vehicles like trucks for transportation of raw materials as well as for the distribution of final products from production units to sales channels

ELECTRIC VEHICLE REVOLUTION

The Government of India is steadily working towards its target of reducing carbon emissions by 50 percent by 2030. This has led to an increased impetus towards sustainable energy resulting in expansion in electric vehicle production capacity.

EV two wheelers have recorded a robust 65.5% growth in the last month reflecting the increased preference for the two-wheeler variant of EV automobiles in the country





The EV market, which stands at \$2bn is expected grow exponentially to around \$7bn by 2025. By 2030, electric two-wheelers could constitute 40-45% of all EVs sold in India, while electric passenger vehicles could make up about 15-20%.

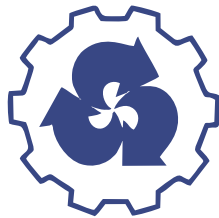
AUTO SECTOR TOP PICKS

Scrip	CMP	CMP / BV	P/E
Tata Motors	1015	6.28	18.41
Maruti	12858	6.13	33.09
M&M	2082	4.27	23.2
Ashok Leyland	177	5.86	22.03
TVS	2130	16.03	62
Bajaj Auto	9054	8.71	34.5
Olectra	1885	17.55	169.93
Hero MotoCorp	4554	5.2	24.7
Eicher Motors	4189	7.23	30.02

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