

MARKET RESEARCH
REPORT

Sector Analysis Report
Outlook - POSITIVE



LIQUID TALK

Prepared on:
Automobile Sector





Automobile Sector



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27/07/2022

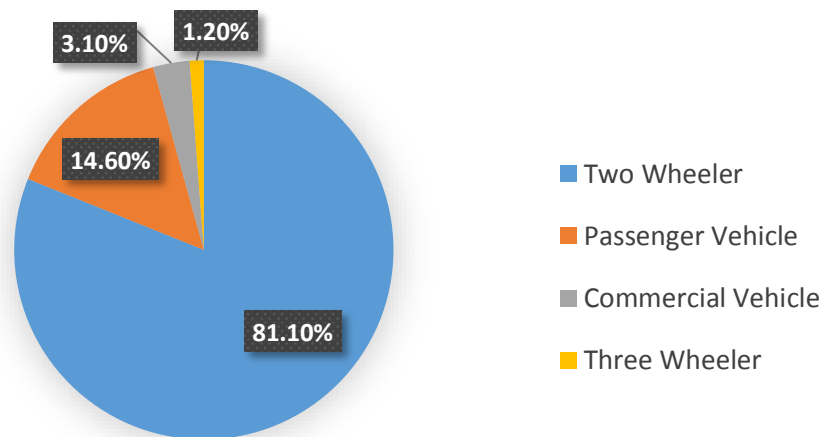
Sector Analysis- Automobile

Introduction:

The automobile sector includes various companies and organizations involved in designing, manufacturing, marketing, developing and selling motor vehicles. The Indian Automobile sector is the Fourth-Largest globally and has an estimated net worth of more than 100 Billion USD.

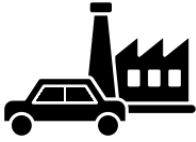
India is expected to become the world's leading automobile manufacturer in the coming years. This sector has faced strong headwinds during the past years affecting its performance and growth rate. However, the industry is set to recover and has already started showing early signs of recovery.

Production Share of different Categories



Different Automobile Categories:

- **Three Wheeler Vehicles:** This sector is critical in the Indian public transport industry and low-capacity cargo transport. Light capacity cargos for goods are used in Indian markets to deliver goods. Although not dominant, this sector is vital for the logistics of small businesses in India. The Major Three Wheeler manufacturers in India are Mahindra & Mahindra and Bajaj Auto.
- **Commercial Vehicles:** This sector is essential for capital growth in the Indian economy. Heavy infrastructural development in the country and increasing productivity promise high demand for commercial vehicles in Indian and global markets. Vehicles under this category can be high-capacity transport vehicles, Public transport vehicles, farming vehicles such as combine harvesters, tractors, etc.



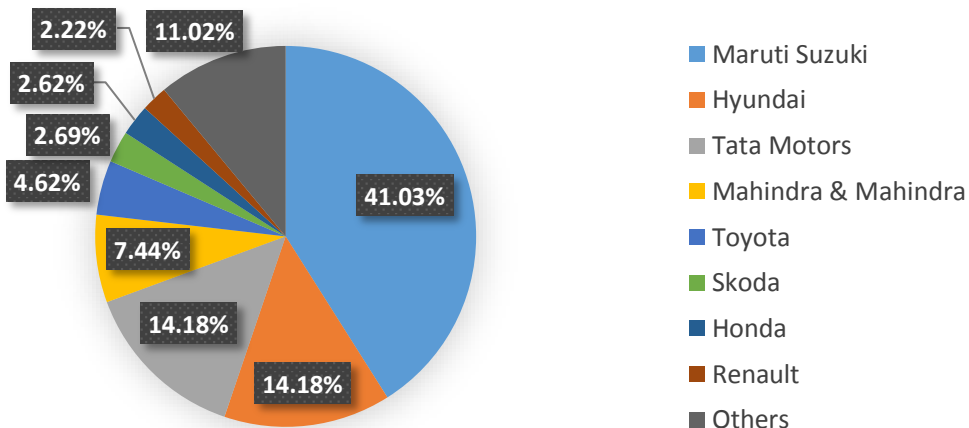
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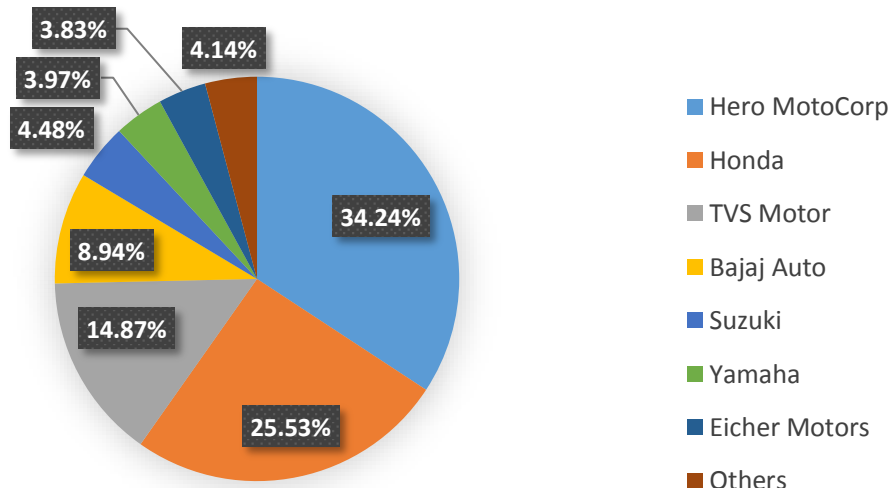
- **Passenger Vehicles:** Passenger Vehicle is the second most dominant sector in the Indian markets, with a production share of 14.60%. This sector includes vehicles used for commuting by the public, which are further classified as Hatchback, SUV, Wagon, Van, Sedan, etc. This category will likely increase its market share with the increasing per capita income and increased preference for private transport over public transport. Some famous brands in the passenger vehicle category are Maruti Suzuki, Hyundai, Tata Motors, and Mahindra & Mahindra.

Passenger Vehicle Marketshare



- **Two Wheeler:** Two wheeler sector is the highest production sector in Indian markets. India being a developing nation, the population needs means to commute that are not very capital intensive. The Indian Two wheeler sector includes gearless scooters, premium and economical motorcycles, electric vehicles, superbikes, etc. India's major two-wheeler brands are Hero MotoCorp, Eicher Motors, Honda and TVS Motors.

2 Wheeler Marketshare





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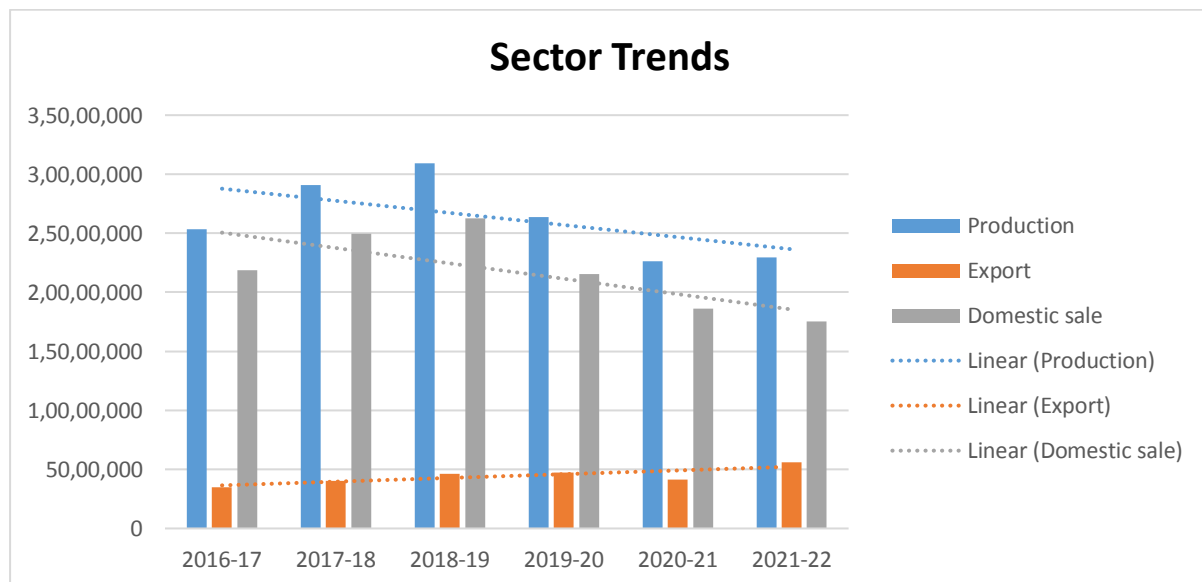
Performance:

The automobile sector faced significant headwinds in the past few years, affecting the growth of companies and making it difficult for companies to register a profit. This affected both the sales and production of automobiles in India.

Some of the significant headwinds faced by Indian Automobile industries were:

- The Global shortage of semiconductor chips significantly affected the supply of vehicles in the market.
- The global political crises amplified supply shortages through trade & travel restrictions, further disrupting the global supply chain.
- The Global pandemic limited the spending power of the consumers, dwarfing the demand for automobiles.
- The limited supply of raw materials resulted in a high cost of making, raising the prices of automobiles and reducing automaker's profit margins.
- The cost of ownership has also significantly risen due to high fuel prices and high-interest rates.
- Stricter emission norms enforced by the government have forced the automakers to invest heavily in Research and Development to comply with the new standards.

Even after facing such strong headwinds, many companies managed to deliver profits and received significant consumer demand through pre-orders and bookings, with manufacturer's websites revealing a cumulative figure of 7 lakh pending orders as of December 2021.

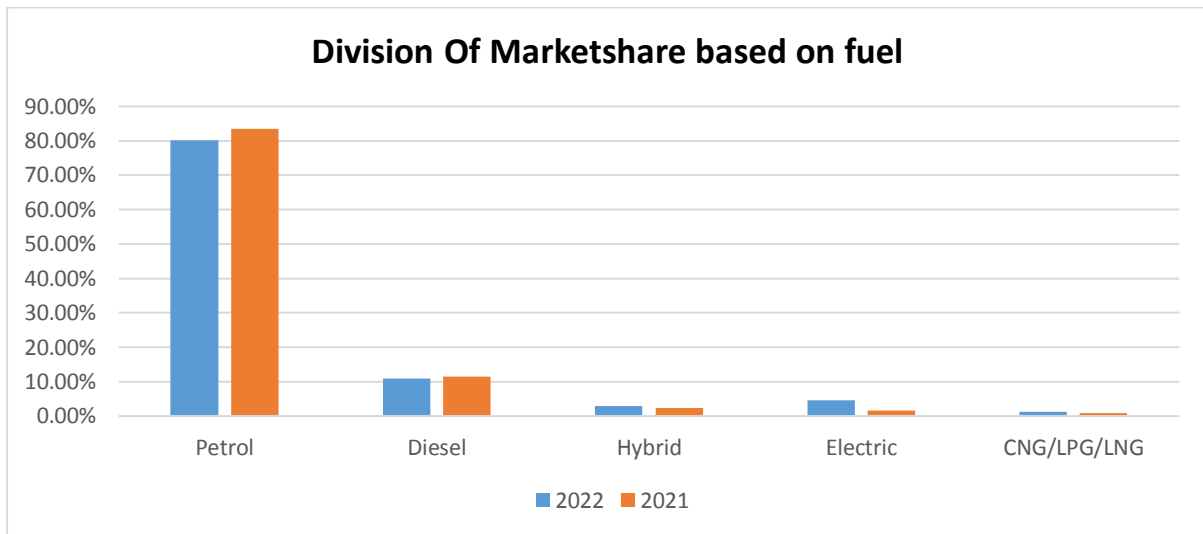


From the above chart, it is clear that the automobile sector was constantly growing till 2018-19 and started to fall from there. Although the current market has started to show signs of recovery, with companies reporting high QoQ growth, the automotive industry is still considerably below its past performance in production and sales.

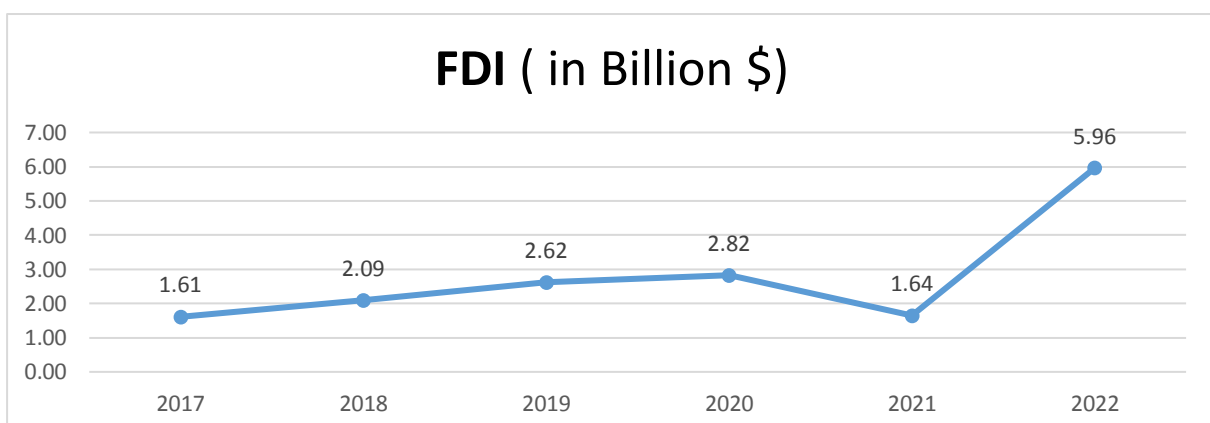


Things to Consider before investing in the Automobile sector:

- The sector is experiencing a dynamic shift towards vehicles using alternate fuels. With the increase in prices of fossil fuels, the cost of ownership has risen significantly. Additionally, vehicles using alternative fuels that are environmentally friendly earn the government's support and invite schemes promoting the sale and research of such vehicles.



- This has resulted in a significant shift in the market share of cars based on fuel, where a downwards trend can be seen in petrol and diesel vehicles and an upwards trend for hybrid and electric vehicles.
- Electric vehicles have doubled in market shares. This has triggered many companies to develop and launch electric vehicles in Indian markets.



- The automobile sector has attracted the second highest equity inflow of FDI of \$ 4.9 Billion for 2021-22.
- Government schemes inviting global companies to come and set up manufacturing units in India under the Make in India Scheme have significantly boosted the Automobile sector.



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- Investment flow into EV start-ups in 2021 touched an all-time high, increasing nearly 255% to reach Rs. 3,307 crores.
- India is the largest tractor manufacturer, second largest bus manufacturer and third largest heavy truck manufacturer worldwide.
- India had a car penetration of 3.2% (2021), much lower than developed nations like the UK & US. This is likely to change given the increase in first-time buyers of vehicles, showcasing huge growth potential in domestic sales and exports.
- One key factor that has allowed Indian Companies to profit in such volatile conditions is the increase in exports and companies entering new international markets—allowing them to sell more premium automobiles with higher margins.
- Central and state governments offer subsidies and tax benefits promoting Electric and hybrid vehicles.
- India aims to reduce its carbon footprint by 35% before 2030. This can be achieved only through stricter emission norms and sustainable fuel vehicles.
- Vehicle scraping system built at Noida by Maruti Suzuki and Toyota to phase out old and unfit vehicles. The government promotes the exchange of old and unfit vehicles against newer ones by offering discounts and exchange benefits.
- To resolve the shortage of chips in India, Tata motors is working towards manufacturing chips locally to reduce dependence on global suppliers.
- The development of NATRIP, a world-class testing facility in Indore, allows automobile manufacturers to test the latest products and meet global standards.

Conclusion:

The automobile sector is vital for India's growth in the long run. Therefore, the government realizes its importance and has started giving more attention to the industry with better emission norms and heavy investments in developing infrastructures. The Indian companies have high R&D resources and have managed to keep up with the dynamic needs and want of the consumers while complying with government standards.

The outlook of the automobile sector is positive with substantial growth potential and ideal for investors to place intelligent investments. Investors can expect good returns from the industry if they consider their position and invest after researching the market carefully.



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