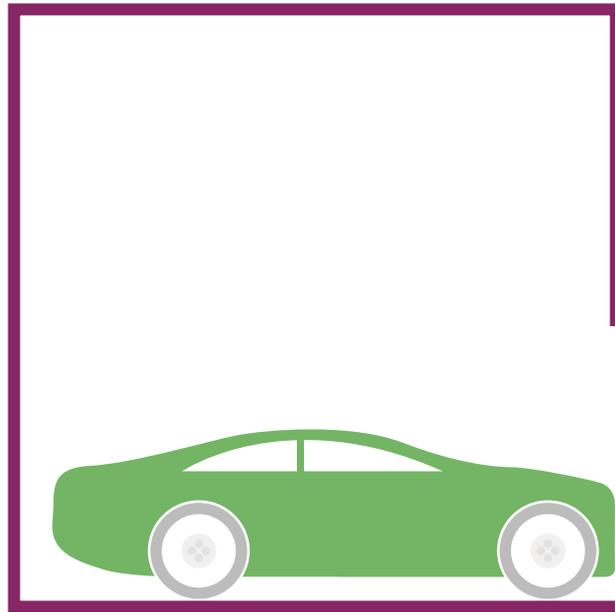




SECTORAL OUTLOOK'17



AUTOMOBILES

Healthy economic growth to sustain demand for automobiles in 2017; outlook on sales remains positive across vehicle categories ■

In the year 2016, growth in domestic sales of automobiles saw resurgence, after the subdued performance in 2015. Automobile sales recorded y-o-y growth of 9.2% in 2016, driven by revival in two-wheeler segment, sales of which grew by 9.6% (0.7% growth in 2015). At the same time, growth in sales of passenger vehicles (7.0%) and commercial vehicles (7.8%) was also healthy. Improvement in economic growth, robust demand from the rural and semi-urban markets and lower cost of ownership drove sales during the year gone by.

2016 has been a recovery year for the automobiles industry, after growth slumped in the preceding year. The growth story of the automobiles industry is expected to continue into 2017 across all vehicle categories, viz. commercial vehicles, passenger vehicles, and two & three wheelers.

Following the announcement of demonetisation, vehicle sales across all the segments were hit during November and December 2016, and recovery is expected to take another 2-3 months. Consequently, although the mid to long term prospects of the industry look positive, given the impact of demonetisation and the uncertainty regarding the implementation and implication of the Goods & Services Tax (due to which purchase decisions have been deferred), the automobile industry may not sustain the growth rates achieved in 2016.

Rural and semi-urban demand will play a significant role in boosting overall sales of automobiles, particularly two wheelers and passenger cars, driven by a favourable monsoon and increased disposable income of the farming sector. In the urban markets, apart from the traditional factors such as rising disposable incomes, state of public transportation, competitive finance rates etc, consumption growth



would be supported by the implementation of the 7th Central Pay Commission awards, which will infuse an estimated ₹1.02 lakh crore in 2016-17, benefitting over one crore employees. Cab aggregators are also expected to support PV sales volumes in the year ahead, as they look to expand their operations.

Key factors to drive demand for vehicles across categories:

- Recovery in economic activity
- A favourable monsoon which will positively impact rural income and eventually help consumption to grow
- Implementation of the 7th Pay Commission awards
- Lower cost of ownership due to benign fuel costs and lower interest rates
- Higher replacement demand on account of the expected implementation of new emission norms
- Impact of deferred purchases as a result of demonetisation
- Under-penetrated markets, particularly rural and semi-urban markets.

Expected increase in discretionary spending to aid higher sales of passenger vehicles

After the meager 0.8% increase in 2014, domestic sales of passenger vehicles grew by 7.7% in 2015 and 7% in 2016, driven by an uptick in the economy and positive consumer sentiments. Going ahead, in 2017, the 7th Pay Commission awards are expected to boost consumer spending, thereby positively

impacting sales of passenger cars. In the utility vehicle segment, rising aspirations of Indian consumers, launch of new models, and competitive pricing, particularly in the crossover and compact utility vehicle segments will boost sales in the year ahead.

Favourable factors: Uptick in economic growth and consumer sentiments, strong demand from rural markets, decline in fuel prices and therefore cost of ownership, expected softening of interest rate, new product launches lined up, and

implementation of 7th Pay Commission awards.

Demand outlook for commercial vehicles remains positive due to favourable outlook on economic growth and infrastructure push

After two years of poor performance, domestic sales of goods vehicles (medium & heavy commercial vehicles and light commercial vehicles) posted a recovery in 2015 (6.3% growth) and further grew by 7.7% in 2016. The recovery in demand for goods vehicles is attributable to healthy replacement demand, improvement in demand from construction and mining sectors, increased freight movement, and moderation in fuel prices and firm freight rates, thereby improvement in operating environment for fleet operators.

Looking ahead in 2017, a normal monsoon, which is expected to drive strong agricultural freight demand, coupled with pick up in consumption-driven sectors (retail, FMCG, etc), would support demand for lower tonnage goods carriers. Government's increased focus on infrastructure sector would drive demand for specialised heavy goods carriers such as construction trucks, mining tipper trucks, etc.

Sales of buses also staged a recovery (15.8% in 2015 and 8.4% in 2016), after two years of decline. In 2017, sales of buses is expected to remain in the positive territory on the back of robust demand from the private segment, as also orders received by the bus OEMs from State Road Transport Undertakings.

Favourable factors: Healthy growth outlook on industrial activity, revival in mining activities, moderate inflation, expected softening of interest rates, growth in infrastructure, rural recovery, tightening of overloading regulations, pre-buying ahead of the implementation of BS-IV norms across India from April 2017, and new product launches.

Demand from rural and semi-urban markets to strongly support higher sales of two wheelers

A normal monsoon in 2016 augurs well for boosting demand for two-wheelers in the year ahead, on account of expected pick up in farm income. Rural and semi-urban demand, a key component of overall two wheeler sales in India, is expected to remain buoyant on the back of a good monsoon, albeit with a lag. Government's strong focus on rural development and agriculture to also boost demand for two-wheelers.

In a span of 5 years, annual scooter sales have nearly doubled (from 2.9 mn units in 2012 to about 5.6 mn units in 2016). This segment has outperformed (i.e. sales growth) the overall domestic two wheeler market in this period; consequently its share in domestic two wheeler sales has surged to 32% in 2016 from 21% in 2012. The buoyant performance of the scooter segment is expected to continue into 2017. Growth will be driven by factors such as inadequate public transportation, increase in participation of women in workforce, implementation of 7th Pay Commission awards, good monsoons, and strong demand from the semi-urban markets.

2016 was the second consecutive year of decline in exports of two-wheelers, largely due to drop in demand from the key export markets of Africa and Latin America. A slump in crude oil prices has adversely affected oil producing economies such as Africa, while a sharp depreciation in local currencies of Latin American countries has impacted purchasing power, thereby curtailing demand. Given the subdued outlook on the key export markets, OEMs are likely to realign their export strategies in line with the changing market conditions.



Favourable factors: Strong demand from rural markets, lower fuel prices, expected softening of interest rate, new vehicle launches planned by OEMs, and increase in discretionary spending due to the implementation of the 7th Pay Commission awards.

Growth in vehicle exports to remain muted

A double-digit fall in exports of two & three wheelers (-10.6%) dragged overall automobile exports in the negative territory (-5.1%) during 2016, although exports of commercial vehicles (12.6%) and passenger vehicles (17.4%) grew at double-digit rates. Looking ahead, growth in automobile exports is expected to remain muted on account of demand slowdown from India's key vehicle export markets. These include Egypt, Angola, Algeria, Nigeria and South Africa, amongst others. ■

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Dun & Bradstreet Information Services India Pvt. Ltd.

ICC Chambers, Saki Vihar Road, Powai, Mumbai - 400 072.

Phone: +91 022 6676 5555, 2857 4190 / 92 / 94 | Fax: +91 22 2857 2060

Email: DNB_India-economy@dnb.com

www.dnb.co.in

NEW DELHI

1st floor, Administrative Building,
Block 'E', NSIC – Technical
Services Center, Okhla Industrial
Estate Phase - III,
New Delhi – 110 020
Tel: +91 11 4149 7900 / 01
Fax: +91 11 4149 7902
Email: DNB_India-dbdelhi@dnb.com

CHENNAI

New no:28, Old no:195,
1st Floor, North
Usman Road, T Nagar,
Chennai - 600 017
Tel: +91 44 2814 2265 / 75
Fax: +91 44 2814 2285
Email: DNB_India-dbmadrass@dnb.com

BENGALURU

No. 7/2 Gajanana Towers,
1st Floor, Annaswamy Mudaliar
Street, Opp. Ulsoor Lake,
Bengaluru - 560 042
Tel: +91 80 4250 3500
Fax: +91 80 42503540
Email: DNB_India-dnbblr@dnb.com

HYDERABAD

504, 5th Floor, Babukhan's
Millennium Centre,
6-3-1099/1100, Somajiguda,
Hyderabad - 500 082
Tel: +91 40 6662 4102, 6651 4102
Fax: +91 40 6661 9358
Email: DNB_India-dnbhyd@dnb.com

KOLKATA

166B, S. P. Mukherjee Road,
Merlin Links,
3rd Floor, Unit 3E,
Kolkata - 700 026
Tel: +91 33 2465 0204
Fax: +91 33 2465 0205
Email: DNB_India-dbkolkata@dnb.com

AHMEDABAD

801 - 8th Floor, Shapath V,
Opp. Karnavati Club, S.G. Highway,
Ahmedabad - 380 054
Tel: +91 79 6616 8058 / 59
Fax: +91 79 6616 8064
Email: DNB_India-dbabd@dnb.com

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