FY17 Outlook: Auto

Sustained Revival in Cars, MHCV Growth to Moderate

Outlook Report

Rating Outlook

STABLE

(FY16: Stable)

Sector Outlook

STABLE

(FY16: STABLE)

- Falling cost of ownership of PVs
- Low leverage of most OEMs
- Reduced input costs
- Intense competition

Outlook Maintained at Stable: India Ratings and Research (Ind-Ra) has maintained a stable outlook on the auto sector for FY17, on the expectations of an uptick in passenger vehicle (PV) volumes, continued growth in medium & heavy commercial vehicles (MHCV; though at a lower rate), and a revival in light commercial vehicles (LCVs).

The PV segment is likely to post 6%-9% yoy volume growth in FY17 supported by the car (8%-10%) and the utility vehicle (UV) segments (2%-5%). The commercial vehicle (CV) segment's volumes in FY17 will continue to be driven by MHCVs (12%-15% growth), with LCVs posting a modest recovery of 0%-5% after three years of decline. The overall growth in CV would be 5%-10% in FY17.

Low Commodity Prices Driving Improved Financials: Ind-Ra's sample set of 11 listed auto companies registered an increase in the median EBITDA margins to 1.2% in FY15 and further to 2.3% during 1HFY16. The profitability was largely driven by the softening of prices of steel, aluminium, and rubber. In addition, their inputs are mostly in the form of bought out components, whose prices reflect increased labour, power, and other operating costs. The credit profiles of most companies in the sample set continued to be strong in FY15, with median net leverage below 0x (due to net cash position) and EBITDA interest coverage of close to 15x.

Ind-Ra expects these companies to sustain their credit profiles in FY16 and FY17 due to improved profitability. This along with their current low leverage leads the agency to believe that despite the significant capex planned in the PV segment in FY17 for increasing industry capacity by 0.5 million units to around 6.6 million units (in Ind-Ra's estimate), their financial profiles will not be affected.

Continued Growth in MHCVs: Ind-Ra expects MHCV volumes to continue displaying steady growth of 12%-15% yoy in FY17, albeit lower than the 25%-30% growth likely for FY16. The growth is expected to be driven by a combination of replacement of old vehicles and the demand for high tonnage vehicles to achieve cost efficiency in operations.

Recovery in LCVs: Ind-Ra believes that the decline in LCV volumes would bottom out in FY16 with the segment registering 3%-5% lower year-on-year sales volumes. Thereafter in FY17, a moderate volume recovery at 0%-5% yoy is expected, led by demand from the fast growing e-tailing industry.

Capacity Overhang to Persist: In Ind-Ra's assessment, the capacity utilisation in case of PVs and CVs in FY15 was around 57% and 48%, respectively, of the estimated capacity of 5.6 million and 1.4 million. After factoring in the volume growth in PVs and CVs in FY17, the agency believes that utilisation levels could range between 55% to 60% for PVs and 53% to 55% for CVs in the year. This is based on the capacity addition of almost one million units in PVs with no additional capacities in CVs during FY16-FY17. Hence, auto original equipment manufacturers (OEMs) would continue to grapple with low capacity utilisation levels despite an uptick in volumes.

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Analysts

Sudarshan Shreenivas
+91 22 4000 1783
sudarshan.shreenivas@indiaratings.co.in

Chandan Sharma
+91 11 4356 7256
chandan.sharma@indiaratings.co.in

Scooter Growth to Moderate, Motorcycles to Remain Flat: The agency expects domestic scooter volume growth to slow down to 9%-11% in FY17 and 10%-13% in FY16. The slowdown from the growth rate of 25.1% in FY15 is attributed largely to the base effect. Ind-Ra expects motorcycle volume growth to be maintained between negative 2% to 2% yoy in FY17 and the volumes to register flat growth in FY16. Although urban motorcycle demand is likely to remain stable, the small variation in rural demand depending on the adequacy of monsoon would determine the overall growth rate. Growth (or decline) in this segment would be moderate due to the high base effect.

Outlook Sensitivities

Positive Outlook Unlikely: Given the structural issues of overcapacity and intensifying competition, Ind-Ra does not envisage a positive outlook revision in the event of a modest revival in sales. However, curtailment or postponement of planned capacity additions coupled with sales volumes higher than the agency's expectations could have a positive impact on the credit profile of the sector.

Weak Demand, External Shock: If the sales revival for PVs and CVs witnessed thus far in FY16 does not continue into FY17 due to a muted economic activity or otherwise, it could have a negative impact on the sector outlook.

Additionally, any external shock pressuring the rupee and a subsequent spurt in the interest rate may have a moderating impact on the economy. This may affect the volumes as well as the credit profiles of corporates in the sector.

Key Issues

Moderate Improvement in Financial Profile Due to Low Commodity Prices

The median EBITDA margins of Ind-Ra's sample set of 11 listed auto companies grew by 1.2% on average in FY15 and 2.3% in 1HFY16. Ind-Ra expects a significant improvement in the cash flow from operations of most of these companies in FY16 and FY17 given the improvement in PV and CV sales in these years along with low commodity prices leading to reduced input costs.

Ind-Ra's sample set of listed auto companies:

1. Ashok Leyland Ltd
2. Atul Auto Ltd
3. Bajaj Auto Ltd
4. Force Motors Ltd
5. Hero MotoCorp Ltd
6. Mahindra & Mahindra Ltd
7. Maruti Suzuki India Ltd
8. Scooters India Ltd
9. SML Isuzu Ltd
10. Tata Motors Ltd
11. TVS Motor Company Ltd

The improvement in EBITDA margins displayed by these companies has been less than the reduction in raw material costs. This is attributed to the large discounts that several companies were forced to offer until recently, given the intense competition in the industry. Companies with a dominant market position, which have been able to launch new models successfully and which have not needed to offer large discounts to boost sales, such as Maruti Suzuki India Ltd, have benefited most from the softening of raw material prices. Maruti Suzuki India's EBITDA margins improved 430bp yoy (on a standalone basis) during 1HFY16. Others, such as Ashok Leyland Ltd displayed a stronger margin improvement of 500bp yoy (standalone basis) due to a combination of higher capacity utilisation (on account of a strong uptick in its MHCV sales) and lower input costs.

Auto ancillaries on the other hand have to pass through the change in raw material costs to OEMs, typically with a three-month lag. Hence in case of ancillaries, a similar improvement in financial profile due to lower raw material costs is unlikely.

In FY15, seven of the 11 companies had leverage (net debt/EBITDA) below 1x, two had leverage between 1x to 2x and only two companies had leverage exceeding 2x. EBITDA gross interest coverage was also comfortable, with seven companies having coverage greater than 10x, two companies having coverage between 5x to 10x and only two companies with coverage below 5x. For 1HFY16, the coverage has improved further for the sample set with eight companies, two companies and one company displaying coverage of above 10x, between 5x to 10x, and below 5x, respectively.

The low leverage of auto OEMs in the sample set provides resilience to their credit profiles. Although debt would be availed to fund the capacity expansion of OEMs in the PV segment by 0.5 million units to around 6.6 million units (the agency's estimate) in FY17, the increased leverage would continue to be commensurate with the current rating levels of most OEMs and their credit ratings will not be affected.

Commercial Vehicles

The high MHCV growth rate witnessed in August 2014 to December 2015 is attributed to replacement demand, pre-emptive purchases (up to September 2015), and demand for higher tonnage vehicles.

Persistent MHCV Growth Despite Inconsistent Industrial Output

Ind-Ra believes that MHCVs' volume will grow at 12%-15% in FY17, lower than the growth rate of 29.7% witnessed during April-December 2015 due to the tapering off of replacement demand. The demand for higher tonnage vehicles will also increase as fleet owners aim for improving their per ton transportation cost.

MHCV sales have displayed a strong and consistent growth since August 2014, after declining sharply in FY13 and FY14. During August 2014-March 2015, the domestic volume growth was 30.5% yoy while during April-December 2015 it was 29.8%. Based on interactions with auto OEMs, the agency believes that the growth is partly attributed to the replacement of old vehicles by large fleet operators. In FY13 and FY14, fleet operators had been delaying the replacement of their old vehicles beyond the normal term of five to seven years given the weak industrial demand for freight and the consequent low freight rates.

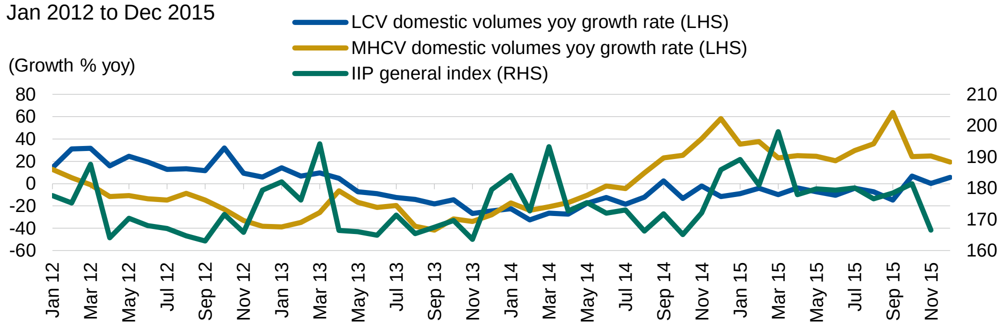
While the low industrial demand continues, the significant lowering of diesel prices has positively impacted the profitability of fleet operators prompting them to use additional cash flows for fleet replacement. In the MHCV segment, the demand for larger tonnage trailers in FY16 has been higher than in FY15 from fleet operators who wish to take advantage of the improved road infrastructure particularly along the Golden Quadrilateral to reduce per ton transportation cost. This is evident from the high volume growth rates ranging from 37%-224% yoy witnessed in the various sub-segments of MHCVs of capacity 25T and above.

Inconsistent industrial output as reflected in the volatility in Index of Industrial Production (IIP) in the 12 months ended December 2015 leads Ind-Ra to believe that the uptick in demand for MHCVs has not been due to the revival in industrial demand for freight. According to the data available on Bloomberg, road freight rates softened significantly around February 2015 across most sectors in the country and have only shown a marginal recovery in some sectors towards the end of 2015.

Figure 1

YoY Growth Rate in MHCVs Versus LCVs

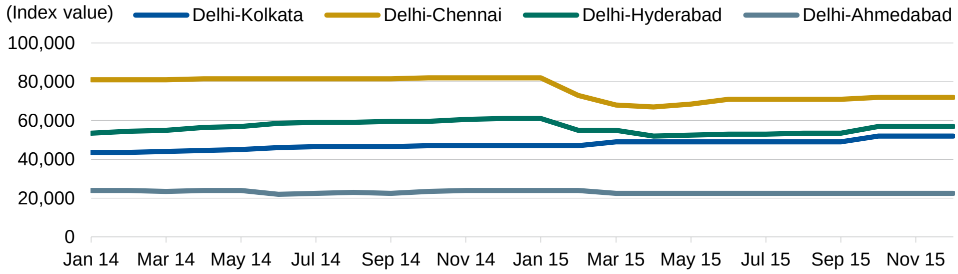
Jan 2012 to Dec 2015



Source: SIAM, MOSPI, Ind-Ra's analysis, November IIP is quick estimate

Figure 2

Freight Rates for 9 Ton Truck for Jan 2014 to Dec 2015



Indexes: Delhi-Kolkata: TWBEKOLK, Delhi-Chennai: TTMLCHEN, Delhi-Hyderabad: TAPRHYDE, Delhi-Ahmedabad: TRGUAHME
Source: Bloomberg, Ind-Ra's analysis

Sales Growth in Various Categories of MHCVs during April-December 2015

Figure 3

Monthly Decline in MHCV Volumes (Number of Units) in October 2015

Month	2014	2015
September	19,035	31,172
October	17,892	22,181
Monthly growth (%)	-6.0	-28.8

Source: SIAM, Ind-Ra's analysis

Figure 4

Passenger Carriers Sales Volumes (Number of Units)

MHCV capacity	April-December 2014	April-December 2015	Growth rate (%)
7.5T-12T	12,525	14,053	12.2
12T-16.2T	12,160	16,233	33.5
Goods Carriers Sales Volumes (Number of Units)			
MHCV vehicle type/capacity	**Apr-Dec 2014**	**Apr-Dec 2015**	**Growth rate**
7.5T-10T	8,334	9,996	19.9
10T-12T	18,633	20,957	12.5
12T-16.2T	23,009	30,686	33.4
16.2T-25T - Rigid Vehicles	36,141	39,497	9.3
>25T - Rigid Vehicles	31,172	42,878	37.6
26.4T - 35.2T Trailers	4,164	5,921	42.2
35.2T - 40.2T Trailers	2,550	8,251	223.6
40.2T - 44T Trailers	10,078	16,419	62.9
44T - 49T Trailers	385	1,147	197.9
>49T Trailers	909	1,630	79.3

Source: SIAM

Ind-Ra believes that some improvement in MHCV sales volumes till September 2015 is attributed to pre-emptive purchases on account of price increases due to the mandatory adoption of anti-skid braking systems (ABS) by all CV manufacturers from 1 October 2015. This safety feature had increased the price of the vehicles by around INR40,000 on average. The agency's postulation is backed by the steep drop in MHCV volumes from September to October 2015. This factor also leads the agency to believe that the growth rate in this category in FY17 would be lower than in FY16.

Bottoming Out of Demand Decline for LCVs

In Ind-Ra's assessment, LCVs will display 0%-5% yoy volume growth in FY17 and a likely bottoming out of volume decline in FY16, with growth being led by increased urban demand from e-tailing.

LCV domestic sales volumes registered an 11.6% yoy decline in FY15 and 17.6% yoy decline in FY14. Ind-Ra believes that the demand for LCVs is on account of both industrial demand and non-discretionary consumer demand for the transportation of food items, as well as for transportation applications such as rural taxis. Considering the weakened demand for industry related freight in FY16, the sales volumes were largely driven by non-discretionary consumer demand.

For FY16, the decline is likely to bottom out to 3%-5%. Ind-Ra believes that while the bottoming out of volume decline is largely attributed to the base effect, the demand growth driver would be the explosion of online retailing (e-tailing) in the past two years. Last mile delivery of goods is expected to lead the demand for LCVs, with urban areas generating a greater proportion of incremental demand than rural areas.

The deregulation of petrol prices in June 2010 had led to a steady increase in demand for diesel PVs. In FY13 and FY14, diesel PVs outsold petrol PVs. The trend reversed in FY15 on account of the fall in fuel prices, which led to increased demand for petrol vehicles, considering the far lower cost of these vehicles.

Passenger Vehicles

Continued Falling Cost of Ownership Driving Sales

Ind-Ra expects car volumes, UV volumes, and van volumes to grow at 8%-10%, 2%-5%, and 0%-2% yoy, respectively, in FY17 and at 8%-9%, 1%-2%, and 2% in FY16. The overall PV volume growth would be in the range of 6% to 9% for FY17. The key demand drivers are lower fuel prices and interest costs.

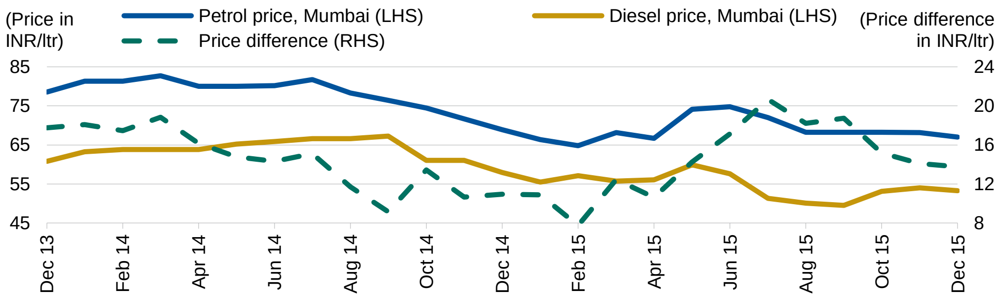
The steady decline in petrol and diesel prices has continued in FY16 with average prices of the two fuels during April-December 2015 falling to INR69.72/litre and INR53.87/litre yoy, respectively, from INR76.85/litre and INR63.94/litre. The price differential between the two fuels remains substantial, at INR15.85/litre on average during April-December 2015 (INR12.92/litre in April-December 2014) despite the decontrol of diesel prices in October 2014; petrol prices have already been deregulated from June 2010.

The falling price of fuel has resulted in a greater demand for petrol vehicles in FY15 and FY16 due to a significantly lower price of petrol vehicles than of diesel variants. With Brent Crude prices likely to average USD40/barrel in 2016 and USD50/barrel in 2017 (US Energy Information Administration's January 2016 forecast), Ind-Ra does not envisage a substantial recovery in fuel prices in FY17.

Figure 5

Trend in Petrol and Diesel Prices

Last recorded monthly prices for Mumbai



Source: Bloomberg. Petrol price index: INOIPMUM, Diesel price index: INOIDMUM

Figure 6

Trend in Change in Repo Rates

Change date	Repo rate (%)
28 January 2014	8.00
15 January 2015	7.75
4 March 2015	7.50
2 June 2015	7.25
29 September 2015	6.75

Source: RBI

Interest costs have also steadily declined, in line with the steady repo rate reduction by the Reserve Bank of India (RBI) to 6.75% in September 2015 from 8% in January 2014. As a result, most banks have declined their base rates which is reflected in declining interest rates on PV loans.

Improved Buying Power Also Favourable for PV Sales

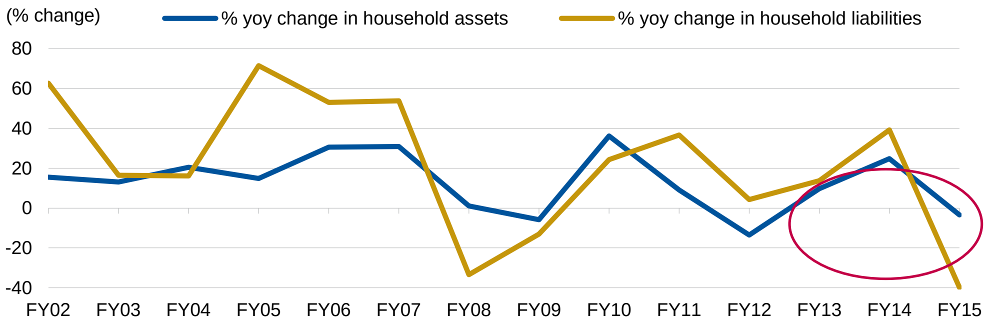
Ind-Ra expects the gross domestic product to increase by 7.4% in FY16 and further by 7.9% in FY17 (7.3% in FY15), mainly driven by a revival in domestic demand. Ind-Ra expects that this would increase private final consumption expenditure to increase to 8.3% in FY16 and further to 8.4% in FY17 (6.3% in FY15). Moreover, a below-normal monsoon in FY17 is unlikely to substantially impact rural demand in view of the share of non-agriculture related activities contributing over 60% to rural GDP currently.

Deleveraged household balance sheets in FY15 to facilitate additional borrowings by households; Higher disposable incomes (due to an increase in the salaries of government employees by the Seventh Pay Commission) to improve buying power of consumers.

The agency expects that the disposable incomes of consumers would be positively impacted in FY17 not just by the higher GDP growth, but also by the 23.55% increase in salaries for government employees implemented from 1 January 2016 based on the recommendations of the Seventh Central Pay Commission. The agency has also assessed the FY15 RBI data on aggregate household assets and liabilities and has found there has been would a greater decline in household liabilities than the decline in household assets. This implies that consumers in FY15 channelised surplus cash to deleverage household balance sheets. This augurs favourably for automotive demand in the next one to two years as buyers would be in a position to avail debt for the purchase of new vehicles.

Figure 7

YoY % Change in Household Assets and Liabilities



Source: RBI, Ind-Ra's analysis

Launch of compact UVs (especially petrol) at competitive price points to drive UV sales growth in FY17

Compact Models to Drive UV Sales, Limited Growth Prospects for Vans

UV volumes had grown 51% yoy in FY13 after declining by 5% yoy the following year. For FY15 and April-December 2015, the growth rates have been muted at 5% and 3% yoy, respectively. While the hike in excise duties on UVs in FY14 possibly led to the volume decline in that year, the volume growth in subsequent periods has been muted. This is because diesel vehicles in general have become less attractive to buyers due to falling fuel prices, and UVs are mostly available in diesel variants.

In FY16, there have been launches of compact UVs which are also available in petrol variants such as Hyundai Creta, and Mahindra TUV300 and KUV100. Various auto OEMs are also working towards incorporating petrol engines in their existing models in view of changing demand preferences and the negative perception of government authorities towards diesel vehicles. In addition, the competitive pricing at which new UV models have recently been launched has led Ind-Ra to believe that UV volumes would recover by 2%-5% yoy in FY17.

The growth in van volumes continues to be constrained by limited model launches in this segment and competitive offerings in the UV and LCV passenger carrier segments. In addition, the sale of vehicles such as soft top vans exhibits a certain degree of volatility depending on rural income levels. In light of this, the agency is of the view that volume growth in this category would be restricted to 0%-2% yoy in FY17.

India's auto exports are now diversified across Asia, Africa, Europe and the Americas and are no longer heavily dependent on Europe which was the case 10 years ago.

Exports Continue to Support Credit Profiles of OEMs

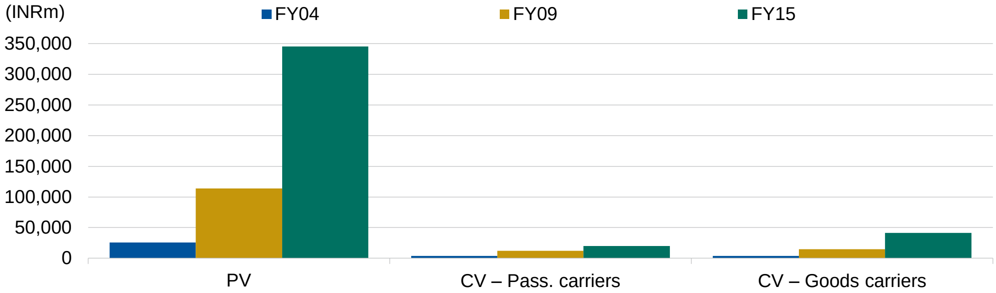
Auto exports grew at a CAGR of 25.6% over FY04-FY15 to reach INR406.2bn. While exports were earlier largely dependent on the European market followed by Asia a decade back, they are now centred on the Asian and African markets which accounted for 32% and 31%, respectively, of India's exports in FY15. Europe (16%), North America (12%) and Latin America (9%) were the other regions importing automobiles from India (refer Annexure).

The geographic diversity of auto exports augurs well for the industry as a weakening of demand in one region can be offset by increased exports to others. This was witnessed in FY15 when the 14.6% decline in auto exports to Europe was more than compensated by the 46.2% and 28.1% growth in exports to North America and Asia, respectively.

Several global auto OEMs operating in India have set up large capacities with the intent of using India as a manufacturing hub for the export of small cars globally. If economic conditions remain muted in multiple markets such as Europe (witnessing slow GDP growth) and Africa (where economies of several countries depend on the export of commodities whose prices are under strain), Ind-Ra believes that OEMs would be forced to channelise additional volumes into the Indian market, thereby intensifying competition.

Figure 8

Growth in Auto Exports from FY04 to FY15



Total: FY04 – INR33.1bn FY09 – INR140.1bn FY15 – INR460.2bn
Source: Ministry of Commerce & Industry, Ind-Ra's analysis

Limited Impact of Supreme Court, NGT Rulings on OEMs

The Supreme Court on 16 December 2015 banned the registration of private diesel vehicles of engine capacity of 2,000cc and above in the NCR till 31 March 2016. Earlier on 11 December 2015, the National Green Tribunal had issued an interim order banning the registration of all new diesel vehicles in the NCR.

The temporary ban on the registration of diesel PVs of >2000cc engine capacity in the NCR to not have a significant detrimental impact on the auto industry.

The sale of large UVs to be most impacted if the ban on large diesel vehicles is extended to other parts of the country.

The companies for which traditionally diesel PVs accounted for the bulk of sales volumes are Mahindra & Mahindra Ltd ('IND AAA/Stable'), Toyota Kirloskar Motor Pvt Ltd and Tata Motors Ltd. For these companies the NCR accounts for a small proportion of sales volumes, hence the impact of the ban is unlikely to be significant. Ind-Ra feels that if a similar legislation is extended to other parts of the country then it would have a detrimental impact on these companies and on the industry as a whole. The sale of large size UVs across various OEMs would be severely impacted as they are designed around diesel engines given the higher torque and power that buyers demand from these vehicles. As a result, even if petrol variants of large UVs are offered by OEMs, the sales of these vehicles would reduce.

Most auto OEMs have petrol alternatives in place for their range of car models, which could insulate these companies against a potential revenue loss should similar regulations be extended to other parts of the country.

Bharat Stage VI Norms Could Moderately Impact Margins, Increase Consumer Preference towards Petrol Vehicles

Bharat Stage VI norms would drive demand in favour of petrol PVs at the cost of diesel.

The central government has decided to advance the date of implementation of Bharat Stage VI (BSVI) emission norms to April 2020 (from the earlier planned date of April 2021) while simultaneously bypassing Bharat Stage V implementation (earlier planned for 2019) altogether. Given the limited time for implementation, Ind-Ra believes that such a move will pose challenges to OEMs such as customisation of technologies for the existing range of models in the country, and validation and testing of the new emission technologies in actual drive conditions.

The cost of incorporating emission control technology (for complying with BSVI standards) for diesel vehicles is substantially higher than for petrol vehicles. Ind-Ra believes that especially in case of diesel vehicles, OEMs will be unable to pass on the full extent of cost increases to clients as a significant jump in vehicle prices would impede sales. Moreover, OEMs could see a spike in development and testing expenses in the next two years as they adapt the new emission control technologies for their range of vehicles. The agency feels that an increase in the cost of diesel vehicles on account of the above would further spur the demand for petrol vehicles at the cost of diesel vehicles from FY20.

Pooling Services and Road Rationing to Pose a Long-term Drag on Sales

Ind-Ra believes that the revenue growth of the auto industry would be curtailed over the long term to an extent. This will be due to the increasing use of mobile applications which facilitate carpooling as well as regulations restricting the number of vehicles plying on roads on a particular day. Road rationing regulations in particular, if extended to other metropolitan cities could have a detrimental impact on industry sales in the long term.

Two Wheelers

Slowdown Persists in Domestic Motorcycle Sales

Figure 9

Motorcycle Sales Volume Trend

Year	% growth
FY11	22.8
FY12	12.0
FY13	-0.1
FY14	3.9
FY15	2.5

Source: SIAM

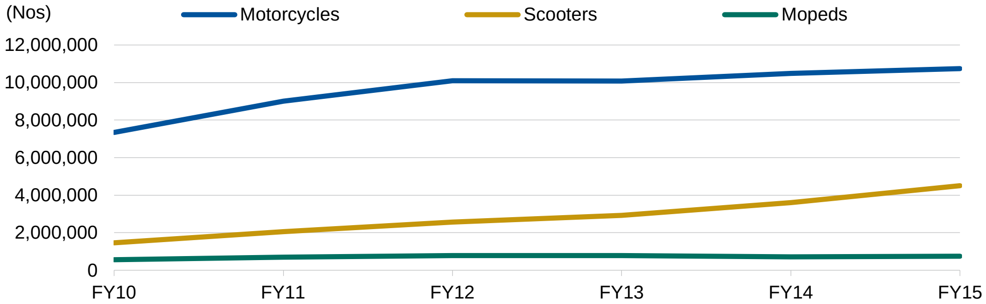
The growth rate of domestic motorcycle sales volumes (equally distributed over rural and urban areas) has flattened since FY13 largely due to the base effect. With rural incomes partly being influenced by the adequacy of rainfall, volume growth has been negative in FY13 and in current financial year. For FY16, the agency believes that the volume change over FY15 (10,743,549 units) will be negative 1% to 0%. For FY17, Ind-Ra estimates the growth rate to be negative 2% to 2% depending on the quantum of rainfall in the country and extent of government spending on the rural sector.

The long-term growth drivers for this segment would continue to be the inadequacy of public transport across the country, poor condition of roads in rural areas (which makes motorcycles preferable to scooters), lack of affordability of four wheelers for the masses and increasing rural incomes.

Figure 10

Trend in 2 Wheeler Domestic Sales Volumes Past 6 Years

FY10-FY15



Source: SIAM, Ind-Ra's analysis

Motorcycle Export Volumes to Remain High

Motorcycles continue to account for over 90% of the two wheeler industry export volumes, and are diversified across Asia, Africa and Latin America

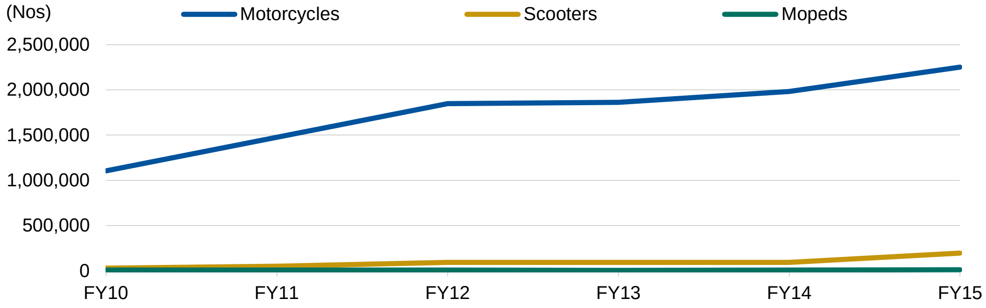
The strong brand equity of Indian motorcycle manufacturers in international markets such as South East Asia, Latin America, SAARC countries and Africa continues to be reflected in strong sales volume growth to these regions, at a CAGR of 15.3% over FY10-FY15. This compares favourably with the growth rate in the domestic market, of CAGR 7.9%. During April-December 2015, the growth in motorcycle exports slowed down by 1.6% compared to the 13.6% growth in FY15, attributed by Ind-Ra to weakening demand from regions whose economies have been affected by falling commodity prices.

During April-December 2015, Indian motorcycle manufacturers exported 17.8% of their total volumes sold (17.3% for FY15). Motorcycle exports have helped Indian manufacturers de-risk their business profile from dependence on the Indian market alone. India motorcycle exports continue to be led by Bajaj Auto Ltd (67.6% of total FY15 export volumes of 2,251,791), followed by TVS Motors Ltd (13.0%), India Yamaha Motor Pvt Ltd (7.3%), Hero MotoCorp Ltd (5.3%), Honda Motorcycles and Scooters India Ltd (4.9%) and others (1.9%).

Figure 11

Trend in 2 Wheeler Export Sales Volumes Past 6 Years

FY10-FY15



Source: SIAM, Ind-Ra's analysis

Scooters to register much higher year-on-year volume growth than motorcycles largely due to a smaller base, and demand being urban centric.

Scooters Volume Growth to Continue To Outpace Motorcycles

Over FY10-FY15, domestic scooter volumes grew at a CAGR of 25.2% to reach 4,505,529 units (7.9% for motorcycles, 11.3% for the two-wheeler industry). During April-December 2015, the growth has been 11.4% (negative 2.5% for motorcycles, 1.2% for the two-wheeler industry). As a result, the contribution of scooters to the two-wheeler industry volumes has displayed a steady increase over the past five years.

The agency expects scooters to register high volume growth of 10%-13% for FY17, albeit lower than the growth rate in the previous years due to the base effect. The key drivers for segment sales volumes continue to be suitability for both male and female family members and increasing urbanisation. In urban settings, scooters provide convenience for short-distance commutes especially in congested areas as well as ease of parking, compared to cars. Ind-Ra believes that scooters will continue to register higher growth than motorcycles in the foreseeable future.

Trend in Contribution of Scooters To Industry Sales Volumes

Figure 12

Increasing Proportion of Industry Volumes Contributed by Scooters

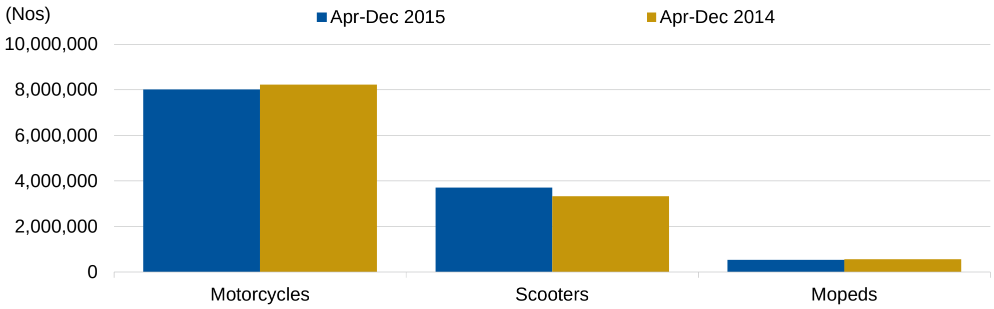
As % of industry domestic sales volumes	FY10	FY11	FY12	FY13	FY14	FY15
Motorcycles	78.4	76.6	75.1	73.1	70.8	67.1
Scooters	15.6	17.5	19.1	21.2	24.3	28.2
Mopeds	6.0	5.9	5.8	5.7	4.9	4.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Industry volumes (nos)	9,368,240	11,768,910	13,435,769	13,797,185	14,805,481	16,004,581

Source: SIAM, Ind-Ra's analysis

Figure 13

Trend in 2 Wheeler Domestic Sales During FY16

Apr-Dec 2015

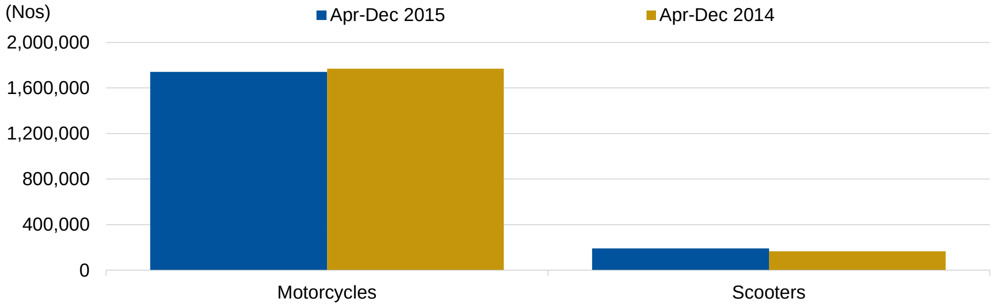


Source: SIAM, Ind-Ra's analysis

Figure 14

Trend in 2 Wheeler Export Sales During FY16

Apr-Dec 2015



Source: SIAM, Ind-Ra's analysis

2015 Review

Spurred by the declining cost of ownership, PVs registered 9.0% yoy volume growth during April-December 2015, driven by the growth in passenger cars (11.5%). While UVs displayed a much lower growth rate of 3.2%, vans appeared to have bucked the declining trend in past two years with growth of 1.3% (although on a much smaller volume base). Cumulative segment volumes at end-December were 1,516,977 for cars, 418,201 for UVs and 131,388 for vans. Sales of both cars and UVs were supported by new model launches (Maruti Celerio, Renault Kwid, Hyundai XCent, Honda Jazz refresh, Ford Figo Aspire, Tata Bolt and Zest in cars and Hyundai Creta, Mahindra TUV300 in UVs).

In case of CVs, MHCVs continued to display strong volume growth of 29.7% yoy for the above period, while LCV volumes continued to decline (3.5% yoy). The overall volume growth in the segment of 8.5% yoy from April to December 2015 was supported by the change in the regulation mandating the fitment of safety features such as ABS in all CVs effective from 1 October 2015. The Ministry of Road Transport and Highways had earlier mandated the fitment of ABS in all new models of CVs effective from 1 April 2015. The agency believes that pre-emptive purchases to avoid the higher cost of vehicles from 1 October 2015 would have partially contributed to the MHCV volume growth till September 2015. This is evident from the month-on-month steep decline in segment volumes in October 2015.

The other key factor contributing to the consistent sales volume growth of MHCVs in 2HFY15 and during April to December 2015 was the demand emanating from the need to replace old vehicles by large fleet operators. The decline in LCV volumes appeared to be bottoming out in the above period, given the greater decline in previous years (11.6% in FY15, 17.7% in FY14).

Scooters continued to display strong volume growth (11.4% yoy) in the April to December 2015 period on account of predominantly urban demand, although the growth rate corrected significantly compared to previous years (25.1% in FY15, 23.2% in FY14) due to the base effect.

Motorcycle volumes declined marginally in the period by 2.5% due to the impact of inadequate rains on the portion of rural demand which is dependent on agriculture.

Annexure – 1: List of Rated Issuers

Figure 15
Issuer Ratings

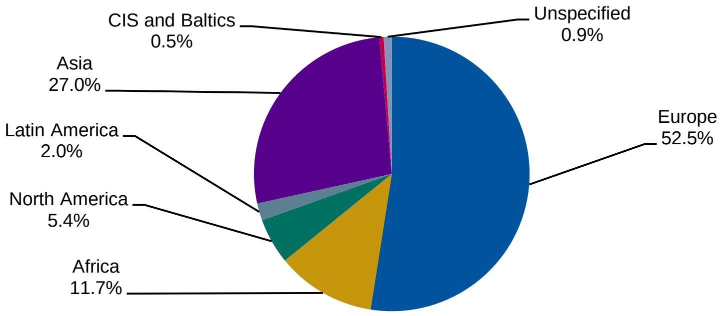
Issuer	Rating/Outlook (Current)	Rating/Outlook (End-FY15)
Mahindra & Mahindra Limited	IND AAA/Stable	IND AAA/Stable
Escorts Limited	IND A-/Stable	Not rated

Source: Ind-Ra

Annexure – 2: Region-wise Auto Exports, FY04-FY15

Figure 16

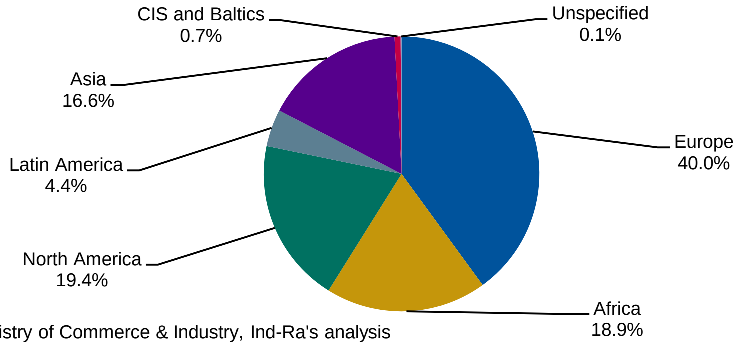
Region-wise Auto Exports in FY04 (INR33.1bn)



Source: Ministry of Commerce & Industry, Ind-Ra's analysis

Figure 17

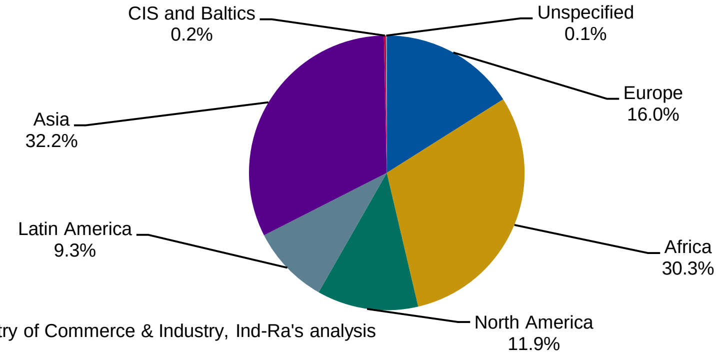
Region-wise Auto Exports in FY09 (INR140.1bn)



Source: Ministry of Commerce & Industry, Ind-Ra's analysis

Figure 18

Region-wise Auto Exports in FY15 (INR406.2bn)



Source: Ministry of Commerce & Industry, Ind-Ra's analysis

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