

INDIAN AUTOMOBILE SECTOR



...where truth builds trust

PRESENT

- India is the sixth largest automobile market in the world (24 million vehicles p.a.)
 - Largest tractor manufacturer
 - Largest two wheeler manufacturer
 - 2nd largest bus manufacturer
 - 5th largest heavy truck manufacturer
 - 6th largest car manufacturer
 - 8th largest commercial vehicle manufacturer
- 100% FDI is allowed in the sector. Has attracted FDI worth USD 15.065 bn during the period April, 2000 to March, 2016

SEGMENT SHARE

Segment	Market Share
Two wheelers	80%
Passenger vehicles	14%
Commercial vehicles	3%
Three wheelers	3%

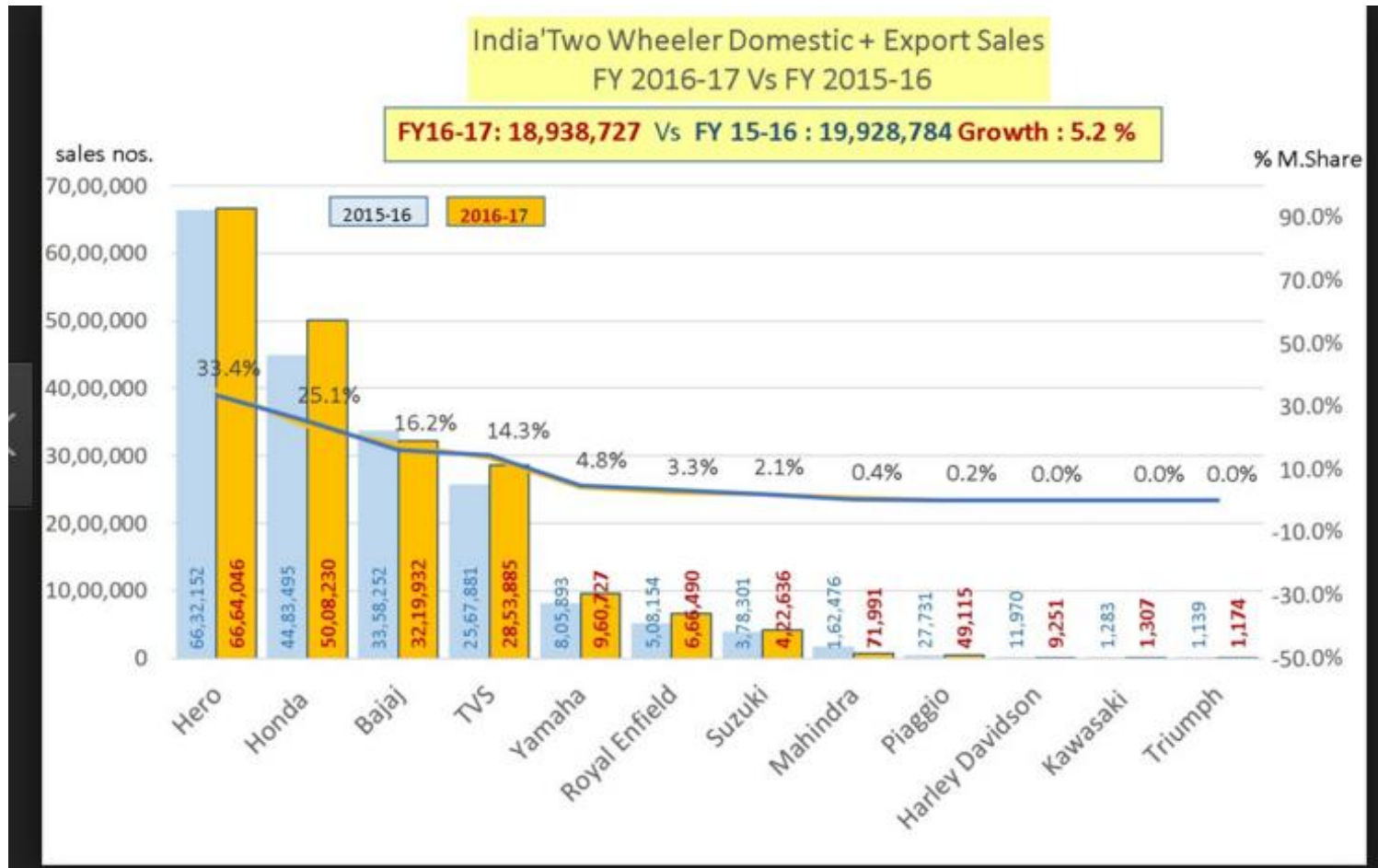
KEY REFORMS UNDERTAKEN

- Automotive Mission Plan (2026)
 - Aim to make India among top three automotive industries in the world by 2020
 - Increase exports to 35-40% of total production levels from 20% now
 - Increase contribution to GDP over 12% from 7.1% current levels
 - Generate 65 million more jobs
 - Increase the size to USD 300 billion by 2026
- Faster Adoption and Manufacturing of Hybrid and Electric (FAME) India scheme in 2015 with a capital outlay of USD 122.3 million
 - Based on NEMMP (National Electric Mobility Plan) 2020 road map and covers all segments i.e. two, three wheelers, cars, LCVs, buses, and all forms of hybrid and pure electric vehicles
 - 5 large automotive clusters in the country viz. Delhi-Gurgaon-Faridabad in the north, Sanand-Halol and Mumbai-Pune-Nasik-Aurangabad in the west, Chennai-Bengaluru-Hosur in the south and Jamshedpur-Kolkata in the east

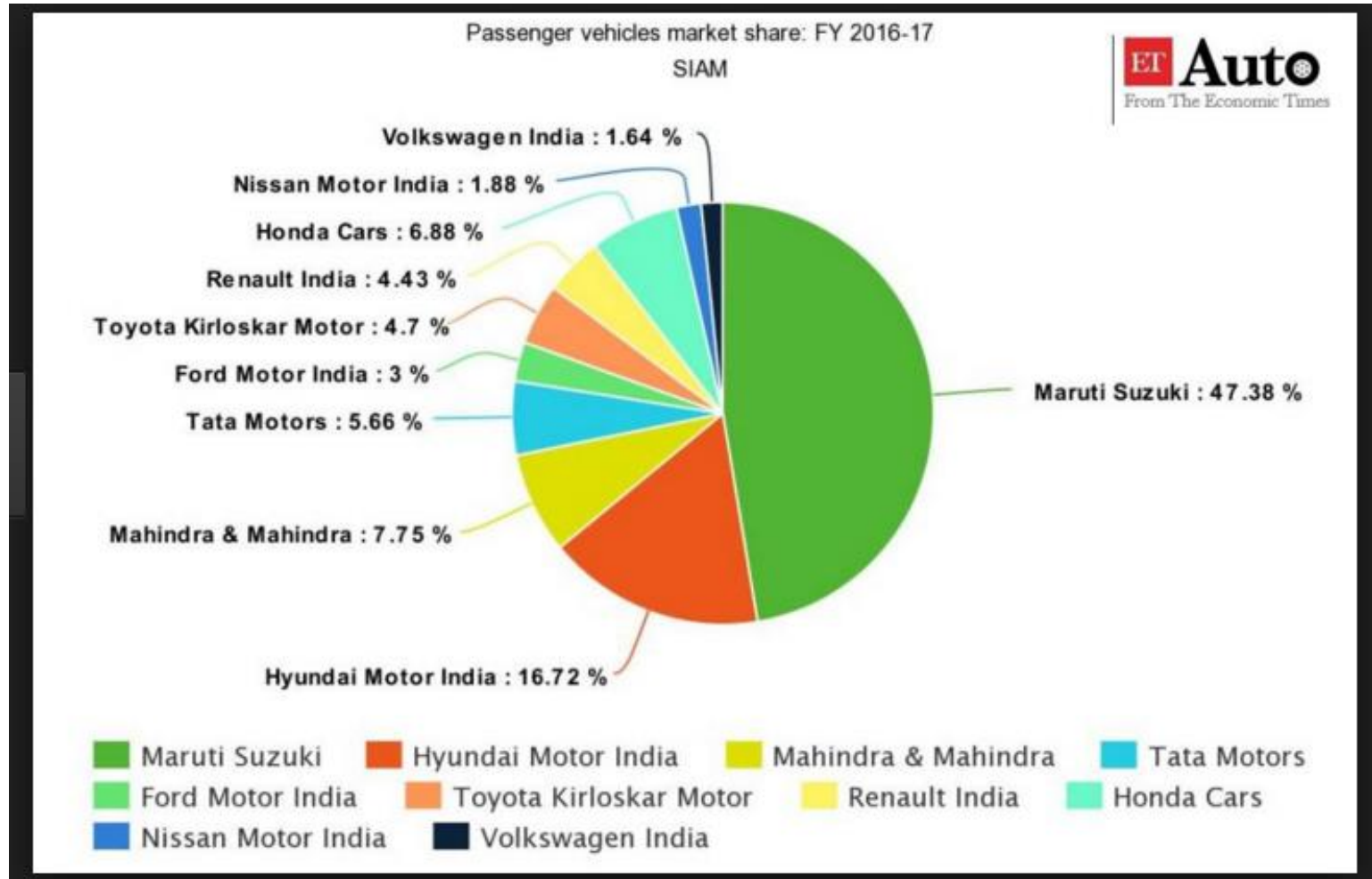
SALIENT POINTS

- The vehicle penetration in India is very low. Only 32 vehicle per 1000 in India. In comparison it's 809, 519 and 101 in USA, UK and China respectively
- Indian population moving up the Income Curve. By 2021, India's emerging and middle class people will comprise 900 million people
- 75-80% of four wheeler purchase is done using Bank Loans. Interest rate movement is critical
- Reliance on monsoons in rural India. High dependence on schemes like MGNREGA
- Industry has been plagued by high incidence of strikes
- High focus on Infrastructure to boost demand
- Continued R&D, technical advancements and effective implementation will help the industry reach its full potential

MARKET SHARE - TWO WHEELERS



MARKET SHARE- PASSENGER CARS



COMMERCIAL VEHICLES – 95% MARKET WITH FOUR PLAYERS

COMMERCIAL VEHICLE SALES IN 2016-17			
OEM	2016-17	2015-16	YoY Growth
Ashok Leyland	145,066	140,457	3.28%
Mahindra & Mahindra	180,948	166,783	8.49%
Tata Motors	325,211	327,142	-0.59%
VECV	49,406	44,271	11.60%
Total	700,631	678,653	3.24%

TAX STRUCTURE BEFORE AND AFTER GST- TWO WHEELERS

ENGINE CAPACITY	PLAYERS	BEFORE GST	AFTER GST	DIFFERENCE
Below 350cc	Honda Activa 4G, Hero Splendour, Bajaj Pulsar 150, RE Classic 350	30%	28%	(2%)
Above 350 cc	KTM 390 Duke, Harley Davidson Street Rod, Ducati Scrambler, Triumph Street Twin	30%	31% (28%+3% Cess)	1%

GST AND TWO WHEELERS SEGMENT

- Road Tax does not fall under GST
- Insurance Cost increased as service tax at 15% replaced by 18%
- Cost of spare parts increased
- Service cost increased

TAX STRUCTURE BEFORE & AFTER GST- FOUR WHEELERS

Segment	Excise	Auto Cess	VAT	Road Tax	*Motor vehicle tax	Total	CGST	SGST	TOTAL	Difference
Small Cars <1200cc	12.50%	1.10%	14%	State based	State based	28%(approx)	9%	9%	18%	10%
Mid-Size Cars from 1200cc to 1500cc	24%	1.10%	14%	State based	State based	39%	9%	9%	18%	21%
Luxury Cars >1500cc	27%	1.10%	14%	State based	State based	42%	14%	14%	28%	14%
SUV's >1500cc, >170mm ground clearance	30%	1.10%	14%	State based	State based	45%	14%	14%	28%	17%

IMPACT OF GST ON FOUR WHEELERS

- Lower procurement costs due to improved supply chain mechanism
- Importers/Dealers can claim the GST paid on imports/sales. Were unable to claim the Excise Duty and VAT till GST
- Less burden of tax on the end user
- Free services/warranties would also be taxed
- Tax would be charged on the consumption state rather than the origin state

NEGATIVES OF GST

- State incentives based on Current VAT may be done away with. Companies will have to renegotiate MoUs
- State governments may impose additional duties to make up for revenue loss
- Demo cars were not considered Capital Goods till now
- Useful for cars produced only in India

EFFECT OF CAB AGGREGATORS ON CAR SALES IN INDIA

- Half a million vehicles added in the last two years, which is 10% of total sales
- Presently operational in 7 cities. Demand expected to increase by 25% as they expand. Projected to contribute 15% of total sales
- Most companies are already working on special pricing, features and customization
- Offer attractive financing and insurance
- Maruti has tied up with Uber and Ola to train 30,000 and 40,000 driver partners at their driving schools
- Mahindra to design 30,000 cars for Ola; Tata Motors to make 20,000 cars for Uber
- Toyota's sales doubled in FY 17 and Maruti posted a 67% increase in the demand by cab aggregators in the first 9 months of FY 17
- Lease is classified as a service and attracts GST leading to an approximate increase of 30% increase in EMI

FOCUS STOCKS (TWO WHEELERS)



Segment- Young boys and men in the middle class families in the age group of 18-30 years

THE HERO HONDA SPLIT

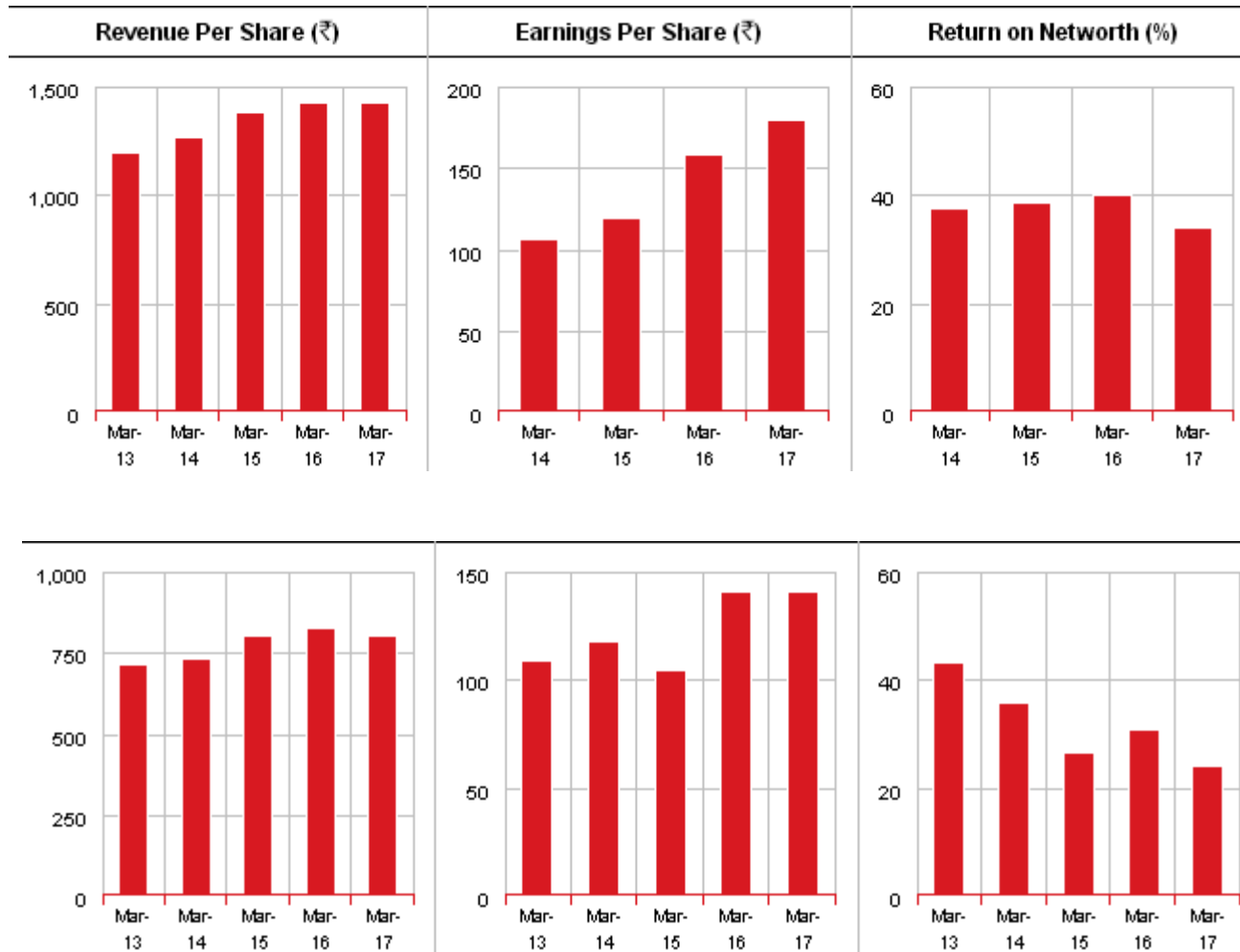
- On Dec 16, 2010, India based Hero Group and Japan based Honda Group agreed to dissolve their partnership
- The Munjals acquired the 26% stake held by Honda
- Honda provided technical support till 2014
- Transaction was completed for a valuation of Rs. 739.97 per share which was less than 50% of the Market Value
- Primary reasons of the split were issues on Exports and Technology sharing

STOCK PRICE - HERO vs BAJAJ

- Both have underperformed w.r.t BSE Auto in last 5 years.



KEY RATIOS – HERO vs BAJAJ

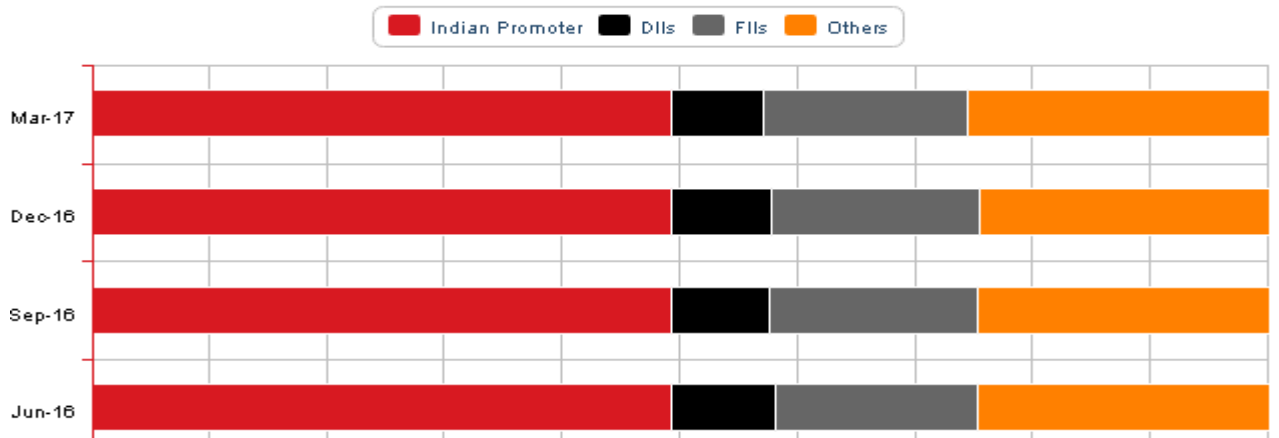
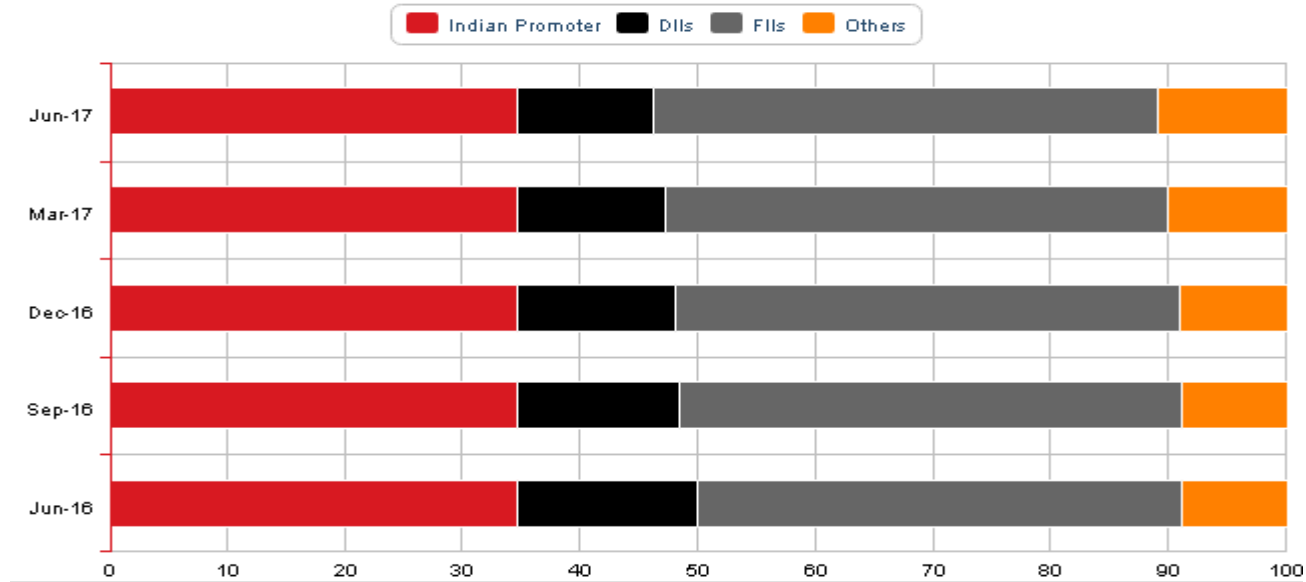


PEER COMPARISON

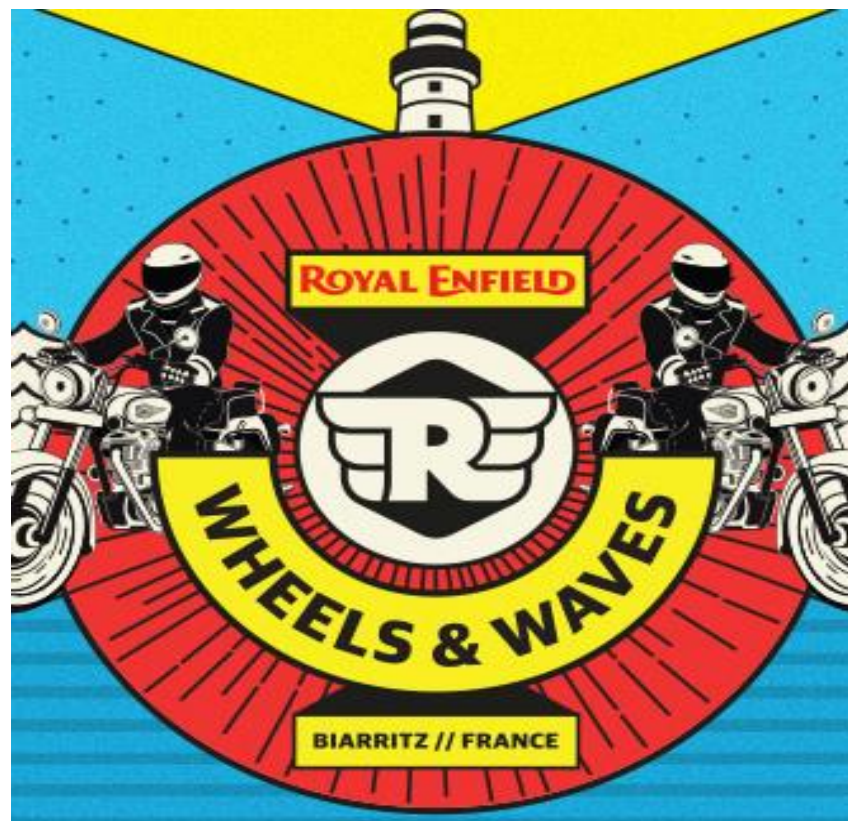
- Divergence between market cap and market share

	Market Cap (₹ Cr)	Revenue (₹ Cr)	Net Profit (₹ Cr)	Net Margin (%)	RoE (%)	Price to Book	Price to Earnings
Hero Motocorp	75,309.67	29,047.87	3,377.12	11.42	33.74	7.30	21.01
Bajaj Auto	81,602.95	22,082.19	3,824.86	16.41	24.00	4.57	20.00
TVS Motor Co.	27,291.38	12,366.83	558.08	4.45	25.24	12.32	53.38
Eicher Motors	79,504.97	7,277.84	1,523.61	20.30	34.13	15.00	47.69

SHAREHOLDING – HERO vs BAJAJ



Hero – FII's favorite



EICHER MOTORS

MAIN BUSINESS

- Premium motorcycles more than 250 cc capacity (Royal Enfield)
- Commercial Vehicles (VE Commercial Vehicles)
- Engines

INVESTMENT ARGUMENTS

- Favourable demographics
- Growing GDP will aid CV sales. Most efficient player
- New product launch in the 25-40T ton segment
- Engine manufacturing plant in a technical tie-up with Volvo. Euro 5&6 compliant engines to Volvo French facilities.

KEY RISKS

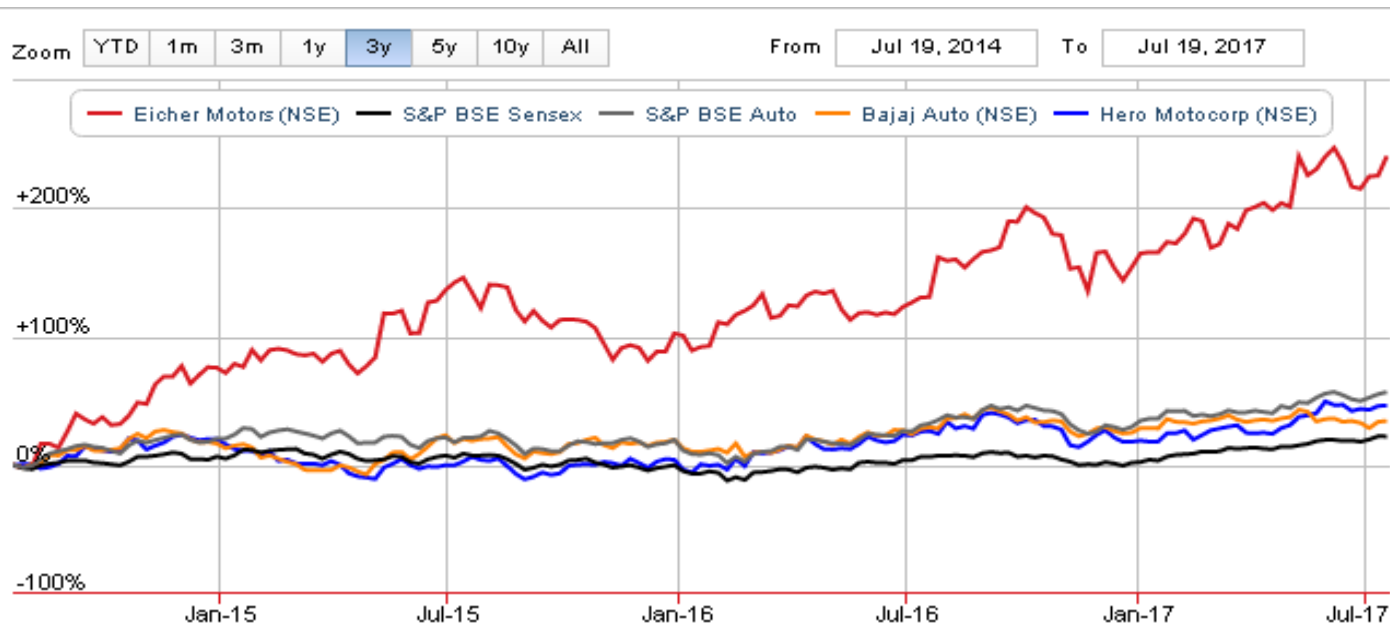
- Weaker than anticipated demand
- Economic slow down

INTERESTING FACTS - EICHER

- Acquired majority stake in Royal Enfield -1993
- High margin : 85-90% of Eicher's profit is from Royal Enfield while it is 40% of the revenue
- Royal Enfield has 80% share in 350-500CC
- Sells more bikes than Harley – Davidson
- Next growth engine for Royal Enfield – Exports
- CEO shifted to London to focus on Exports

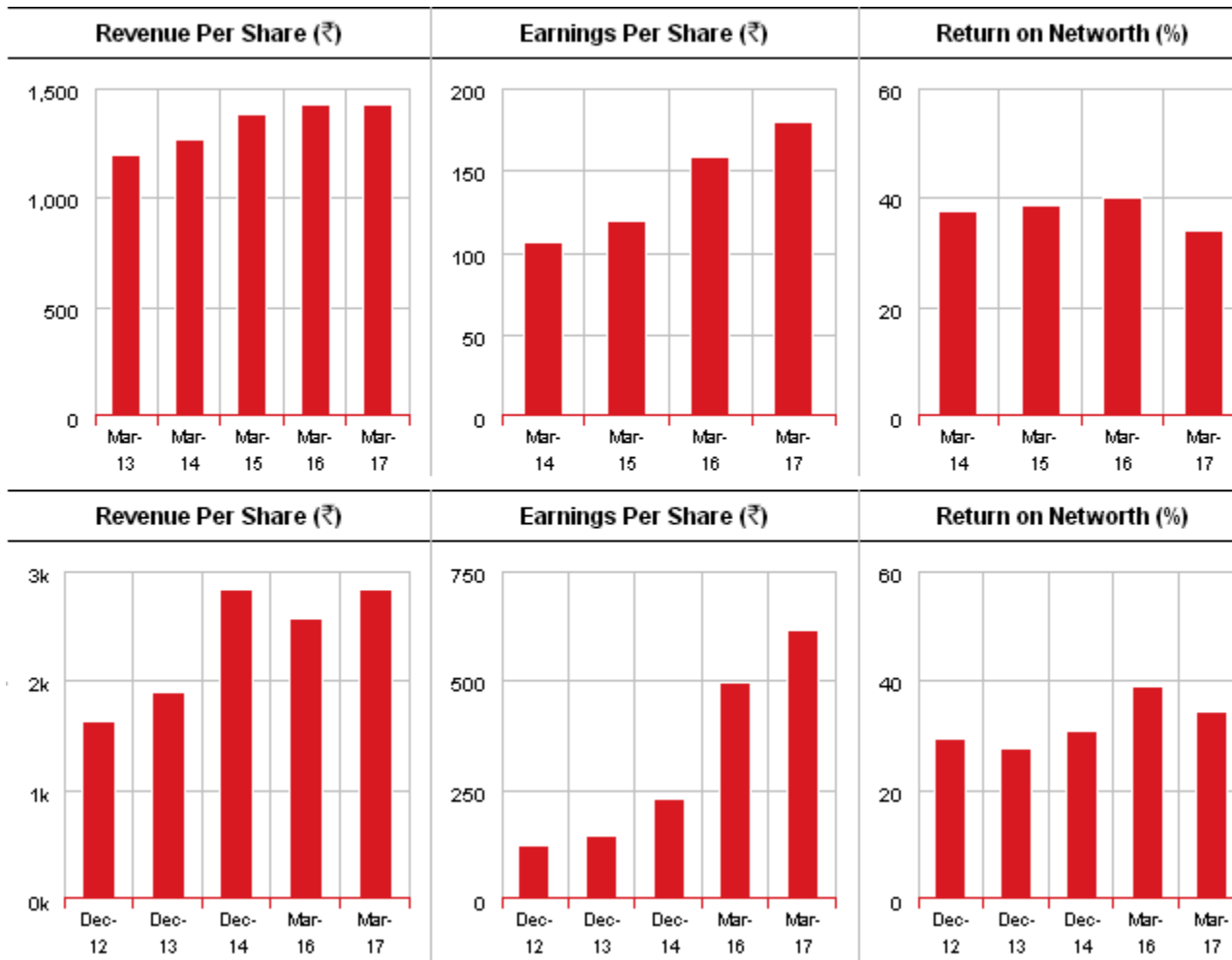
STOCK ON STEROID

- 15 times return in last 5 years



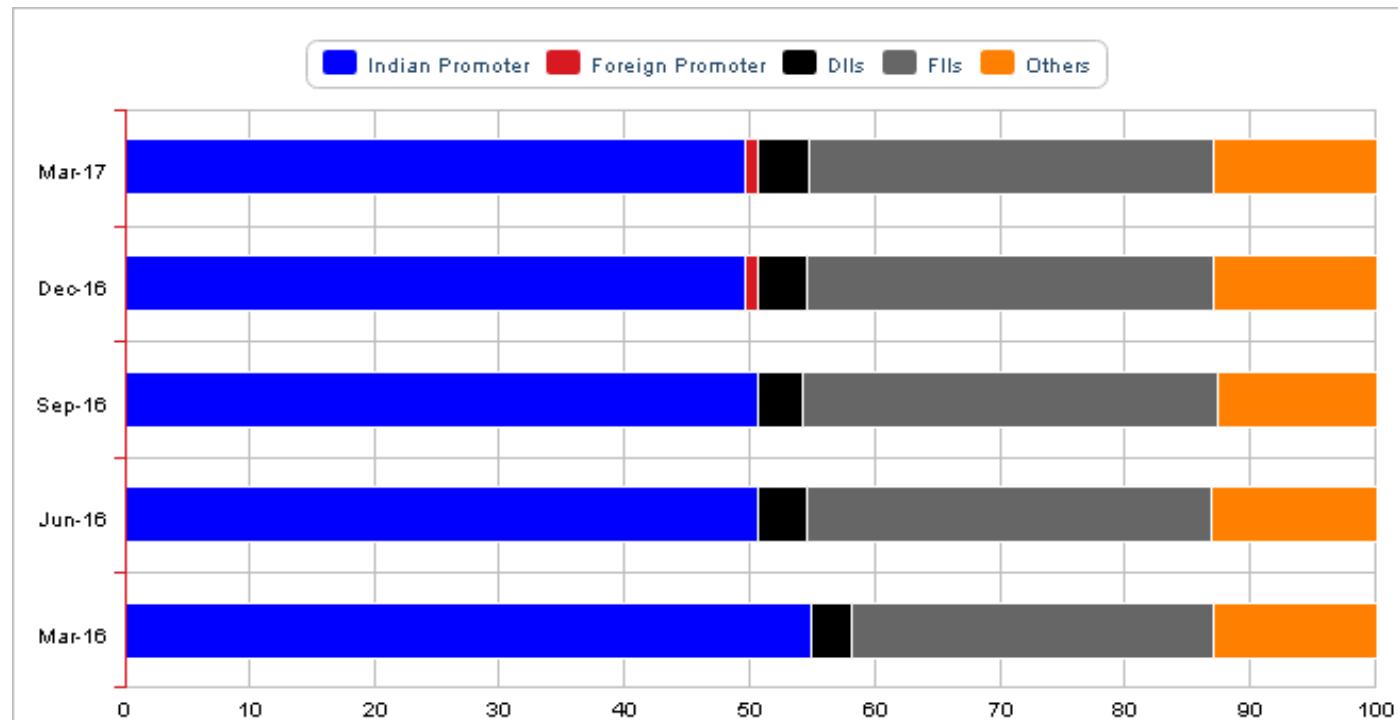
KEY RATIOS – HERO vs EICHER

- EPS growth justifies high P/E multiple



SHAREHOLDING PATTERN - EICHER

- Owned primarily by promoters and FIIs



FOCUS STOCKS (FOUR WHEELERS)

MARUTI  **SUZUKI**

Way of Life!



TATA

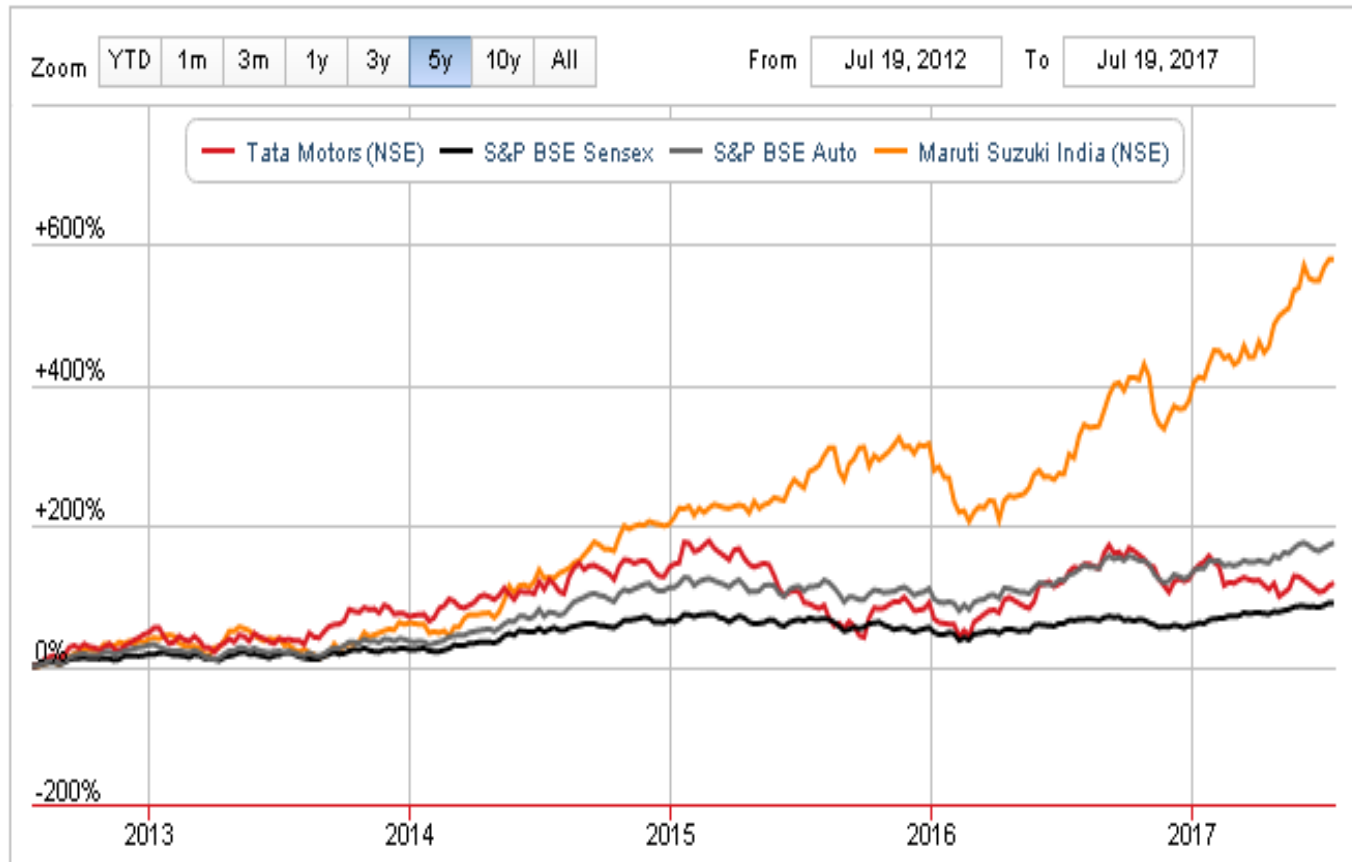
MARUTI – FACTS AND FIGURES

- Wide reach : Network larger than the combined network of entire competition
- 1820 sales outlets across 1471 cities
- 3145 service outlets across 1506 cities.
- Services 40,000 cars a day
- Makes one car every 12 seconds
- Launched 36 new models in last 6 years
- Eighth biggest company in India by market capitalization
- Contributes more to top line than Suzuki Japan

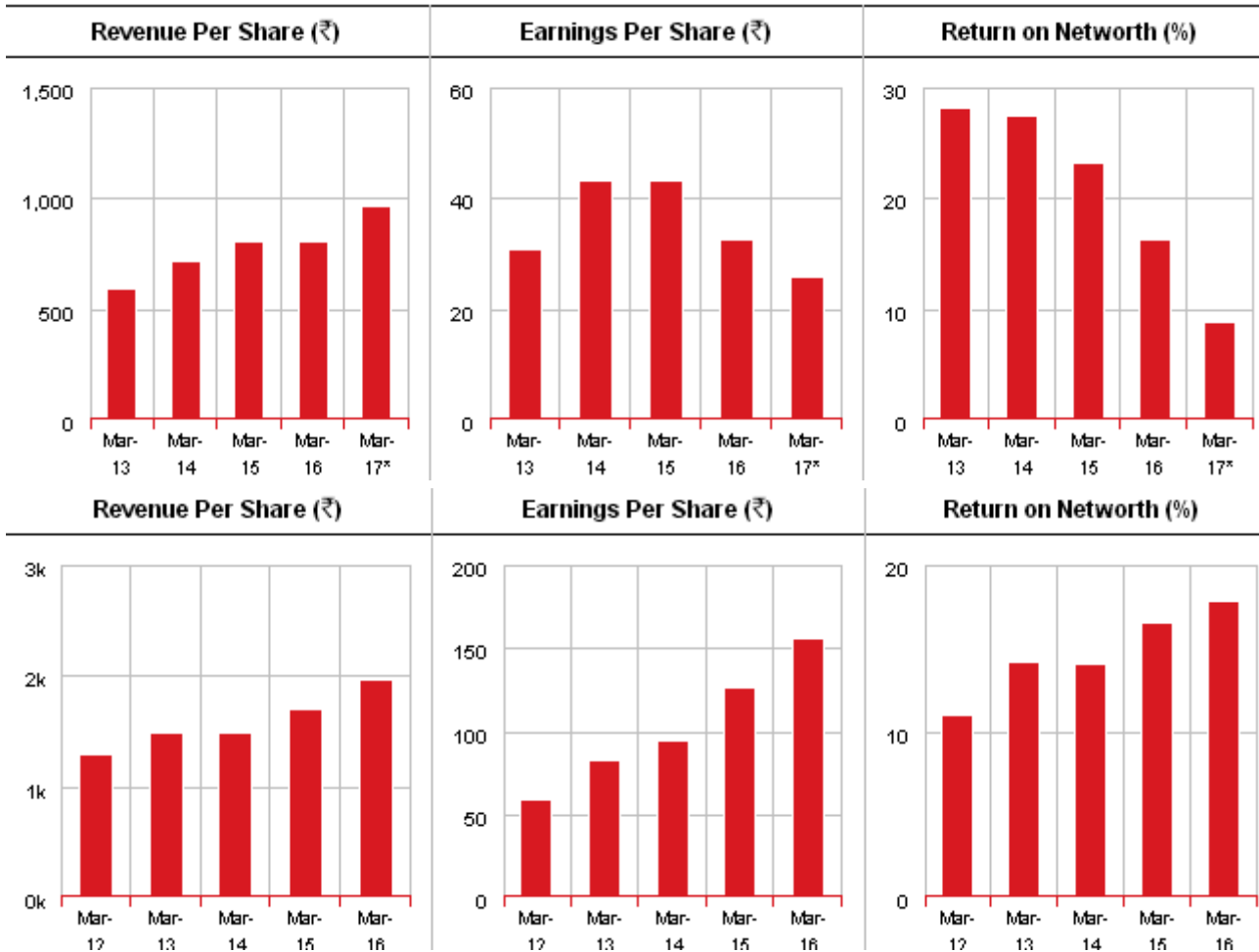
TATA MOTORS

- Manufacturer of first indigenous car
- Acquired Daewoo truck unit in 2004
- Acquired JLR in 2008
- Production spread over 3 continents
- Wide array of product categories
- Would be phasing out Nano
- Controversies : Karl Slym, Nano
- Concern : Brexit

PRICE GRAPH



KEY RATIOS – TAMO vs MARUTI



PEER COMPARISON

	Market Cap (₹ Cr)	Revenue (₹ Cr)	Net Profit (₹ Cr)	Net Margin (%)	RoE (%)	Price to Book	Price to Earnings
Tata Motors	132,976.83	279,083.05	6,063.56	2.17	16.22	2.30	17.84
Maruti Suzuki India	228,399.71	70,386.10	7,337.70	10.09	17.79	8.23	30.41

Tata Motors struggling with poor margins

THANK YOU