AUTOMOBILES

For updated information, please visit www.ibef.org

October 2017
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>3</td>
</tr>
<tr>
<td>Advantage India</td>
<td>4</td>
</tr>
<tr>
<td>Market Overview</td>
<td>5</td>
</tr>
<tr>
<td>Recent Trends &amp; Strategies</td>
<td>11</td>
</tr>
<tr>
<td>Growth Drivers and Opportunities</td>
<td>15</td>
</tr>
<tr>
<td>Investment Scenario</td>
<td>18</td>
</tr>
<tr>
<td>Policies and Initiatives</td>
<td>19</td>
</tr>
<tr>
<td>Key Players</td>
<td>20</td>
</tr>
<tr>
<td>Case Studies</td>
<td>21</td>
</tr>
<tr>
<td>Key Industry Organizations</td>
<td>26</td>
</tr>
<tr>
<td>Useful Information</td>
<td>28</td>
</tr>
</tbody>
</table>
# EXECUTIVE SUMMARY

### 3rd largest automobile industry
- Presence of established domestic and international original equipment manufacturers (OEMs).
- Strong market in terms of both, the domestic demand and exports.
- 7th largest manufacturer of commercial vehicles
- The only country among top seven car markets globally to achieve double digit growth rate of 11 per cent during Jan-May 2017.
- Automobile exports to grow at a CAGR of 3.05 per cent during 2016-2026.

### Segmented Market
- Automobile sector split into four segments, each having few market leaders.
- Two-wheelers and passenger vehicles dominate the domestic demand.
- Two-wheelers account for 80 per cent of domestic demand.
- Commercial vehicle segment expected to grow at 11.07 per cent between 2016-26.

### Positive growth prospects
- Exports grew at 4.3 per cent CAGR between FY12-17.
- Two-wheeler production estimated to grow at 16 per cent CAGR between FY17-20.
- Domestic sales of passenger vehicles expected to increase at a CAGR of 12.87 per cent between 2017-26
- Strong policy support from government.

*Sources: SIAM, OICA, Aranca research, Business Standard*
Advantage India

- Strong growth in demand due to rising income, middle class, and a young population.
- Domestic sales of passenger vehicles expected to increase at a CAGR of 12.87 per cent between 2016-26.
- Utility vehicle sales increased 26.21 per cent year-on-year in September 2017.

- Focus shifting on electric cars to reduce emissions.
- Innovation is likely to intensify among engine technology & alternative fuels.
- Government aims to build India into an R&D hub.

- India has significant cost advantages; auto firms save 10-25 per cent on operations vis-à-vis Europe & Latin America.

- Automotive Mission Plan: 2016-26 shows clear vision of government.
- The government aims to develop India as a global manufacturing centre.
- Reforms like GST to help boost the sector’s growth.

Sources: Automotive Mission Plan (2016–2026), Make in India, SIAM
MARKET OVERVIEW
MARKET OVERVIEW

- Indian government & Suzuki formed Maruti Udyog and commenced production in 1983
- Component manufacturers entered the market via JV
- Buyer’s market
- More than 35 market players
- GST to support lower raw material cost
- Launch of Automotive Mission Plan 2016-26 in 2015

Before 1982
- Closed market
- 5 players
- Long waiting periods & outdated models
- Seller’s market

1983-1992

1992-2007
- Sector de-licensed in 1993
- Major Original Equipment Manufacturers (OEMs) started assembly operations in India
- Imports permitted from April 2001
- Introduction of value-added tax in 2005

2008 onwards

Sources: Tata Motors, Society of Indian Automobile Manufacturers (SIAM), Aranca Research
MARKET OVERVIEW

Automobile Sector

- Two-wheelers
  - Mopeds and electric scooters
  - Scooters
  - Motorcycles

- Passenger vehicles
  - Passenger cars
  - Utility Vehicles
  - Multi-purpose vehicles

- Commercial Vehicles
  - Light commercial vehicles
  - Medium & heavy commercial vehicles

- Three-wheelers
  - Passenger carriers
  - Goods carriers

Source: Aranca Research, Annual Report
The automotive manufacturing industry comprises the production of commercial vehicles, passenger cars, three & two-wheelers.

Two-wheelers are by far the most popular form of vehicle in India, taking an 80 per cent share in 2015-16.

25 million automobiles produced in FY17.

Total production volume grew at a CAGR of 5.56 per cent between FY12-17 and increased 9.18 per cent year-on-year in April-September 2017.

Automobile exports from India increased 10.71 per cent year-on-year in April-September 2017. During the same period, two and three-wheelers exports increased 15.22 per cent and 19.42 per cent, respectively.

Source: Society of Indian Automobile Manufacturers (SIAM)
MARKET OVERVIEW

% Share of each segment in total production volume in FY17

- **Two Wheelers**: 79
- **Three Wheelers**: 3
- **Commercial Vehicle**: 3
- **Passenger Vehicle**: 15

Number of automobiles exported (in millions)

- **FY12**: 2.9
- **FY13**: 2.9
- **FY14**: 3.1
- **FY15**: 3.6
- **FY16**: 3.6
- **FY17**: 3.5

CAGR 4.3%

- Two-wheelers and passenger vehicles dominate Indian auto market. Sales of two-wheelers are expected to grow 8-10 per cent in FY18.
- Two-wheelers and passenger cars accounted for 79 per cent and 15 per cent of production volume in FY17 respectively.
- Domestic passenger car sales are dominated by small and mid-size cars.
- Over 67 per cent of export volumes comprised of two-wheelers, followed by 22 per cent for passenger cars.

*Source: Society of Indian Automobile Manufacturers (SIAM)*
### Porter’s Five Force Framework Analysis

<table>
<thead>
<tr>
<th>Force</th>
<th>Impact</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Threat of Substitutes</strong></td>
<td>Low</td>
<td>The threat from substitute products continues to be low, with public transportation being underdeveloped even in cities.</td>
</tr>
<tr>
<td><strong>Bargaining Power of Suppliers</strong></td>
<td>Low</td>
<td>Bargaining power of suppliers is low as most of the auto component manufacturers are specialised in some segments related to only one client.</td>
</tr>
<tr>
<td><strong>Competitive Rivalry</strong></td>
<td>High</td>
<td>The competition has turned more intense after the entry of foreign players like Volkswagen and Ford with their changed designs to cater to Indian market.</td>
</tr>
<tr>
<td><strong>Threat of New Entrants</strong></td>
<td>Moderate</td>
<td>The threat of new entrants is generally medium because of the brand equity and capital intensive nature of the business.</td>
</tr>
<tr>
<td><strong>Bargaining Power of Buyers</strong></td>
<td>High</td>
<td>In a market, like India there is lot of bargaining power available to the customers as there are variety of products available in the same range, by different manufacturers.</td>
</tr>
</tbody>
</table>

*Source: Aranca Research*
RECENT TRENDS
## RECENT TRENDS

### Luxury Cars
- The luxury car segment has been seeing high growth rates and expanded at 37 per cent CAGR between FY07-15. Sale of luxury cars stood at 33,279 units in 2016. The luxury car market in India is expected to grow at 25 per cent CAGR till 2020
- With 12th largest population of high net worth individuals (HNIs), India still has huge room for this segment.

### New Financing Options
- Carmakers such as BMW, Audi, Toyota, Skoda, Volkswagen & Mercedes-Benz have started providing customised finance to customers through NBFCs
- Major MNC & Indian corporate houses are moving towards taking cars on operating lease instead of buying them

### Electric Cars
- The Indian government has shifted its focus on electric cars in order to meet the emission reduction targets. It has aims to sell only electric cars by 2030 under the National Electric Mobility Mission Plan which was launched in 2013.
- Mahindra has launched its new electric car and Tesla motors is also set to enter the Indian market. Suzuki Motors is setting up a battery plant in Gujarat. Electric buses from Tata Motors are in testing phase.
- Suzuki Motors is setting up a new plant in Gujarat to manufacture lithium ion batteries.

### New Product Launches
- Ashok Leyland is planning to launch couple of light commercial vehicle variants, in every quarter of FY18.
- In March 2017, Maruti Suzuki launched Baleno RS, a high performance hatchback car in the hatchback. In September 2017, it brought Suzuki's lubricant and car care brand Ecstar to India.
- SAIC motors is planning to enter the Indian market, the first Chinese automotive company to do so.

**Sources:** World Wealth Report (2011) of Merrill Lynch Wealth Management and Capgemini, Aranca Research, media sources
Over the past few years four specific regions in the country have become large auto manufacturing clusters, each present with a different set of players.

Sources: ACMA, Aranca Research
## RECENT STRATEGIES ADOPTED BY COMPANIES IN INDIAN AUTOMOBILES SECTOR

### Capacity Addition
- Considering low cost of production, prominent auto companies are increasing their production capacity in order to capture a dominant share in Indian automobile industry.
- Most of the automobile companies are eyeing India as an outsourcing hub.
- With the total investment of around US$ 163.7 million, Honda Motorcycle & Scooter India expanded its production of Activa in three variants at Ahmedabad plant.
- Volvo has started local assembly of its cars in India from October 2017.

### Catering Indian needs
- Most of the firms including Ford & Volkswagen have adapted themselves to cater to the large Indian middle class by dropping their traditional structure and designs.
- This allows them to compete directly with domestic firms making the sector highly competitive.

### Launch of new models
- Honda is planning to introduce bigger & premium car models in 2017 to uplift its sales & share in the market
- Fiat Chrysler Automobiles India, launched its new Jeep brand Compass in February 2017, which is going to be produced indigenously in Ranjangaon, Maharashtra. India will be the 4th manufacturing hub, globally, for the brand.
- In March 2017, Tata Motors’ new sports car was unveiled, under its new sub brand – TAMO, at the Geneva International Motor Show. The show will displayed niche segment models with advanced technologies.
- In May 2017, Pune based Kinetic Green Energy and Power Solutions Ltd. has launched its 1st electric 3-wheeler “Kinetic Safar”, This 3-wheeler is equipped with an advanced lithium-ion battery.

*Source: Media sources*
GROWTH DRIVERS AND OPPORTUNITIES
GROWTH DRIVERS

Growing demand
- Rising income and a large young population.
- Greater availability of credit and financing options.
- Demand for commercial vehicles increasing due to high level of activity in infrastructure sector.

Policy Support
- Clear vision of Indian government to make India an auto manufacturing hub.
- Initiatives like ‘Make in India’, ‘Automotive Mission Plan 2026’, and NEMMP 2020 to give a huge boost to the sector.

Support infrastructure and high investments
- Improving road infrastructure.
- Established auto ancillary industry giving the required support to boost growth.
- 5.1 per cent of total FDI inflows to India went into the automobiles sector.

Gross turnover of automobile manufacturers in India (in US$ billion)

Source: Society of Indian Automobile Manufacturers (SIAM), Aranca Research
Note: NEMMP – National Electric Mobility Mission Plan; E - estimate
OPPORTUNITIES

India is fast emerging as a global R&D hub

- Strong support from the government; setting up of NATRIP centres.
- Private players, such as Hyundai, Suzuki, GM, keen to set up R&D base in India.
- Strong education base, large skilled English-speaking manpower.
- Comparative advantage in terms of cost.
- Firms both national and foreign are increasing their footprints with over 1,165 R&D centres.

Opportunities for creating sizeable market segments through innovations

- Mahindra & Mahindra targeting on implementing digital technology in the business.
- Bajaj Auto, Hero Honda & M&M plan to jointly develop a technology for 2-wheelers to run on natural gas.
- Tata Motors to launch MiniCAT, a car running on compressed air,
- By 2018, Hyundai is planning to enter the hybrid vehicles segment, to explore alternative fuel technology & to avail the government incentives.

Small-car manufacturing hub

- General Motors, Nissan & Toyota announced plans to make India their global hub for small cars.
- Passenger vehicle market is expected to touch 10 million units by 2020. Sales crossed the three million milestone in FY17.
- Strong export potential in ultra low-cost cars segment (to developing & emerging markets).
- Maruti Suzuki launched facelift version of Alto 800, after the success of earlier model

Sources: Automotive Mission Plan 20216-2026, media sources, Aranca Research
Note: NATRIP – National Automotive Testing and R&D Infrastructure Project
Indian automobile sector has seen huge investments from both domestic and foreign manufacturers. FDI inflows to the sector were US$ 17.39 billion between April 2000 and June 2017.

**Nissan**
- Planning to double its current investment level of about US$ 2.5 billion over the next five years
- Aims to raise its market share to 10 per cent by FY19
- To increase the Chennai Plant capacity to 400,000 units a year in a few years time
- The company plans to launch 8 new car models in India by 2021

**Toyota**
- Toyota is planning to invest US$ 165 million on its new engine plants and projects.

**Hyundai**
- Plans to invest US$ 552-737 million over the next two to three years to develop new products.

**SAIC**
- Chinese state owned auto major, SAIC Motor has announced investment of over US$ 310 million in India.

**Mercedes-Benz**
- Increased the plant capacity of 20,000 units per year in Chakan Plant, which is the largest for any luxury car manufacturer in India.
- Expansion of MIDC and MoU, and to invest US$ 244 million for capacity expansion in Chakan, Pune.

*Note: MIDC – Maharashtra Industrial Development Corporation; MoU – Memorandum of Understanding*

*Sources: Company websites, media sources, Aranca Research, Autocar India*
Support from the Indian government in the form of new policies and initiatives has been crucial in development and growth of Indian automobile sector.

<table>
<thead>
<tr>
<th><strong>Policies and Initiatives</strong></th>
<th>Details</th>
</tr>
</thead>
</table>
| **NATRiP**                    | Setting up of R&D centres at a total cost of US$ 388.5 million to enable the industry to be on par with global standards.  
Nine R&D centres of excellence with focus on low-cost manufacturing & product development solutions. |
| **Department of Heavy Industries & Public Enterprises** | Worked towards reduction of excise duty on small cars and increase budgetary allocation for R&D  
Weighted increase in R&D expenditure to 200 per cent from 150 per cent (in-house) & 175 per cent from 125 per cent (outsourced). |
| **The Automotive Mission Plan 2016-26 (AMP 2026)** | AMP 2026 targets a 4-fold growth in the automobiles sector in India which includes the manufacturers of automobiles, auto components & tractor industry over the next 10 years. |
| **FAME**                      | Planning to implement Faster Adoption & Manufacturing Of Electric Hybrid Vehicles (FAME) till 2020 which would cover all vehicle segments, all forms of hybrid & pure electric vehicles. |

Source: Aranca Research
KEY PLAYERS

Each segment in the Indian automobiles sector has few established key players which hold major portion of the market.

- **Maruti Suzuki**
  - Market leader in the passenger vehicles segment and held over 47 per cent market share in the segment in FY17.
  - The company sold 163,071 units in September 2017, an increase of 9.3 per cent year-on-year.

- **Tata Motors**
  - Market leader in the commercial vehicles segment held 42 per cent market share in FY17.

- **Hero MotoCorp and Honda**
  - Hero MotoCorp and Honda are the top two players in the two-wheelers segment, with almost equal market share of 31.5 per cent each in May 2017.

- **Bajaj Auto**
  - Bajaj auto is a leader in passenger carrier segment with a 59.9 per cent market share and Piaggio Vehicles is the leader in goods carrier segment with 49.7 per cent market share in FY17.

*Source: Aranca Research, Autocar India*
CASE STUDIES
TATA MOTORS

- Tata Motors is part of the Tata group of companies established in 1868.
- Sales operations in over 175 countries.
- The company employs over 60,000 people in India and other locations.
- Tata Motors has sold over 9 million vehicles in its operational history.
- It is a market leader in the commercial vehicle segment in India with a 42 per cent market share in FY17 and also a key player in the passenger vehicle segment.
- The company has been at the forefront of technology and innovation and launched the cheapest car in the world.
- Tata Motors posted consolidated revenues of US$ 9.10 billion in Q1 of FY18.
- The company posted 14 per cent year-on-year growth for September 2017 sales and sold a total of 116,419 units.

**Tata Motors revenue (US$ billion)**

Source: Company website, Annual Report
TATA MOTORS: MILESTONES

1945
Establishment of Tata Engineering & Locomotives

1982
Launch of the 1st indigenous CV

2008
Acquisition of Jaguar Land Rover

2009
Launched Tata Nano, the cheapest car in the world

2017
Consolidated revenue for FY17 is US$ 41.3 billion

Sources: Company Website, Annual Report
Note: CV – Commercial Vehicle
Maruti Suzuki is a majority owned subsidiary of Japanese conglomerate Suzuki.  

- The company started in Gurgaon, Haryana as a partnership between the Indian government and was known as Maruti Udyog Limited.  

- It is now the undisputed market leader in the passenger vehicles segment in India with a market share of 47 per cent in FY17.  

- The company had a consolidated revenue of US$ 10.30 billion in FY17.  

- The company has made the most affordable cars for the Indian middle class for more than three decades.  

- New models are being launched each year to hold the position of the leader in its home market.  

- The company posted total income of US$ 3.17 billion in Q1 2017-18.  

- The company posted 9.3 per cent year-on-year growth for September 2017 sales and sold a total of 163,071 units.

Source: Company website, Annual Report
MARUTI SUZUKI: MILESTONES

- **1983**: The first lot of Maruti cars assembled
- **1990**: India's first luxury sedan, Maruti 1000, launched
- **1999**: Expansion with launch of 3rd manufacturing plant.
- **2007**: Renamed Maruti Suzuki India Limited
- **2016**: Consolidated revenue for FY17 is US$ 10.3 billion

*Source: Company website, Annual Report*
KEY INDUSTRY ORGANISATIONS
### INDUSTRY ORGANISATIONS

<table>
<thead>
<tr>
<th>Society of Indian Automobile Manufacturers (SIAM)</th>
<th>FEDERATION OF INDIAN AUTOMOBILE ASSOCIATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core 4-B, 5th Floor, India Habitat Centre</td>
<td>Indian Merchant's Chamber Bldg. 76 Veer Nariman</td>
</tr>
<tr>
<td>Lodhi Road, New Delhi – 110 003</td>
<td>Road – Churchgate, Mumbai - 400020</td>
</tr>
<tr>
<td>India</td>
<td>Phone ; 91 22 2204 1085</td>
</tr>
<tr>
<td>Phone: 91 11 24647810–2</td>
<td>Fax: 91 22 2204 1382</td>
</tr>
<tr>
<td>Fax: 91 11 24648222</td>
<td></td>
</tr>
<tr>
<td>E-mail: <a href="mailto:siam@siam.in">siam@siam.in</a></td>
<td></td>
</tr>
</tbody>
</table>
USEFUL INFORMATION
GLOSSARY

- CAGR: Compound Annual Growth Rate
- CV: Commercial Vehicle
- FDI: Foreign Direct Investment
- FY: Indian Financial Year (April to March)
  - So FY17 implies April 2016 to March 2017
- GOI: Government of India
- HCV: Heavy Commercial Vehicle
- INR: Indian Rupee
- LCV: Light Commercial Vehicle
- OEM: Original Equipment Manufacturers
- SIAM: Society of Indian Automobile Manufacturers
## EXCHANGE RATES

### Exchange Rates (Fiscal Year)

<table>
<thead>
<tr>
<th>Year</th>
<th>INR Equivalent of one US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004–05</td>
<td>44.81</td>
</tr>
<tr>
<td>2005–06</td>
<td>44.14</td>
</tr>
<tr>
<td>2006–07</td>
<td>45.14</td>
</tr>
<tr>
<td>2007–08</td>
<td>40.27</td>
</tr>
<tr>
<td>2008–09</td>
<td>46.14</td>
</tr>
<tr>
<td>2009–10</td>
<td>47.42</td>
</tr>
<tr>
<td>2010–11</td>
<td>45.62</td>
</tr>
<tr>
<td>2011–12</td>
<td>46.88</td>
</tr>
<tr>
<td>2012–13</td>
<td>54.31</td>
</tr>
<tr>
<td>2013–14</td>
<td>60.28</td>
</tr>
<tr>
<td>2014–15</td>
<td>61.06</td>
</tr>
<tr>
<td>2015–16</td>
<td>65.46</td>
</tr>
<tr>
<td>2016–17</td>
<td>67.09</td>
</tr>
<tr>
<td>Q1 2017–18</td>
<td>64.46</td>
</tr>
<tr>
<td>Q2 2017–18</td>
<td>64.29</td>
</tr>
</tbody>
</table>

### Exchange Rates (Calendar Year)

<table>
<thead>
<tr>
<th>Year</th>
<th>INR equivalent of one US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>43.98</td>
</tr>
<tr>
<td>2006</td>
<td>45.18</td>
</tr>
<tr>
<td>2007</td>
<td>41.34</td>
</tr>
<tr>
<td>2008</td>
<td>43.62</td>
</tr>
<tr>
<td>2009</td>
<td>48.42</td>
</tr>
<tr>
<td>2010</td>
<td>45.72</td>
</tr>
<tr>
<td>2011</td>
<td>46.85</td>
</tr>
<tr>
<td>2012</td>
<td>53.46</td>
</tr>
<tr>
<td>2013</td>
<td>58.44</td>
</tr>
<tr>
<td>2014</td>
<td>61.03</td>
</tr>
<tr>
<td>2015</td>
<td>64.15</td>
</tr>
<tr>
<td>2016</td>
<td>67.21</td>
</tr>
<tr>
<td>H1 2017</td>
<td>65.73</td>
</tr>
</tbody>
</table>
India Brand Equity Foundation (IBEF) engaged Aranca to prepare this presentation and the same has been prepared by Aranca in consultation with IBEF.

All rights reserved. All copyright in this presentation and related works is solely and exclusively owned by IBEF. The same may not be reproduced, wholly or in part in any material form (including photocopying or storing it in any medium by electronic means and whether or not transiently or incidentally to some other use of this presentation), modified or in any manner communicated to any third party except with the written approval of IBEF.

This presentation is for information purposes only. While due care has been taken during the compilation of this presentation to ensure that the information is accurate to the best of Aranca and IBEF’s knowledge and belief, the content is not to be construed in any manner whatsoever as a substitute for professional advice.

Aranca and IBEF neither recommend nor endorse any specific products or services that may have been mentioned in this presentation and nor do they assume any liability or responsibility for the outcome of decisions taken as a result of any reliance placed on this presentation.

Neither Aranca nor IBEF shall be liable for any direct or indirect damages that may arise due to any act or omission on the part of the user due to any reliance placed or guidance taken from any portion of this presentation.