FY20 Outlook – Auto And Auto Ancillary Sector

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1 Auto Sector and Rating Outlook FY20: Stable

Auto – Outlook FY20

Sector Outlook: STABLE
(FY19: STABLE)

Rating Outlook: STABLE
(FY19: STABLE)

Domestic Sales Volume Growth YoY (%)

Vehicle category	FY18	10MFY19	FY20 expectation
Cars	3	4	
UVs	21	2	
Total PVs	**8**	**4**	**Moderate growth**
MHCVs	12	22	
LCVs	25	24	
Total CVs	**20**	**23**	**High single-low double digit**
Scooters	20	3	
Motorcycles	14	11	
Total 2Ws	**15**	**8**	**Steady double digit**
Total industry	**14**	**8**	

Source: SIAM, Ind-Ra

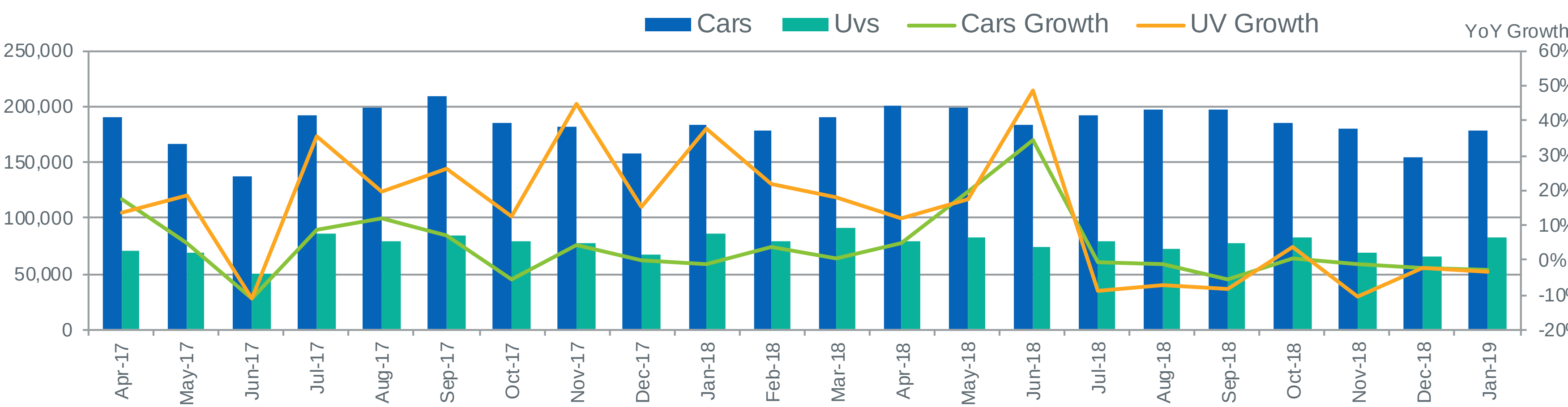
What to Watch
- Implementation of BS–VI from April 2020
- Ongoing regulatory changes
- Liquidity conditions among NBFCs
- Capex related to R&D, regulatory compliance, EV and new product launches

Potential Disruptions to Sector
- Commodity prices and FX rates
- Govt's EV push
- Shared mobility

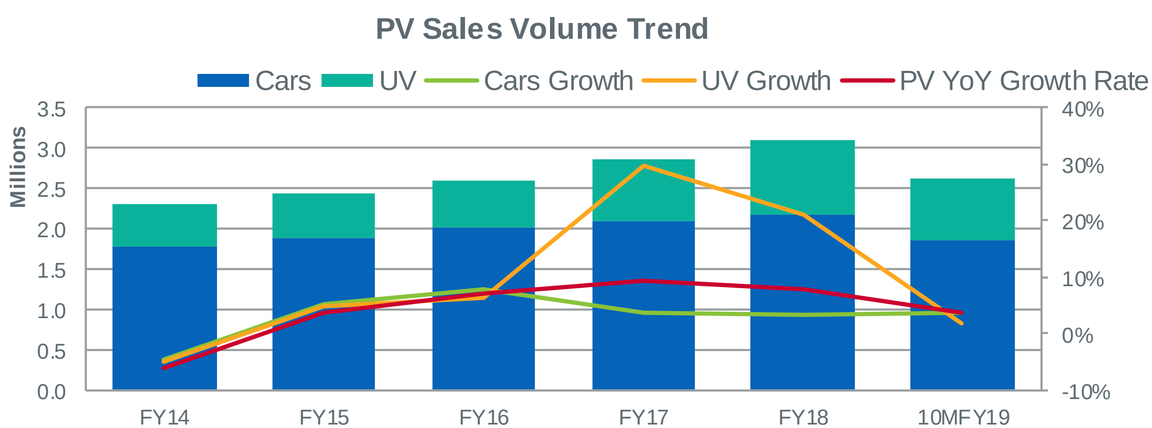
2 Key Volume Growth Drivers under Industry Sub-Segments

PV – Consumer Sentiments to Improve in FY20

Cars outpaced UV growth in FY19, UVs likely to bounce back driven by new launches



Weak consumer sentiments impacted growth in FY19



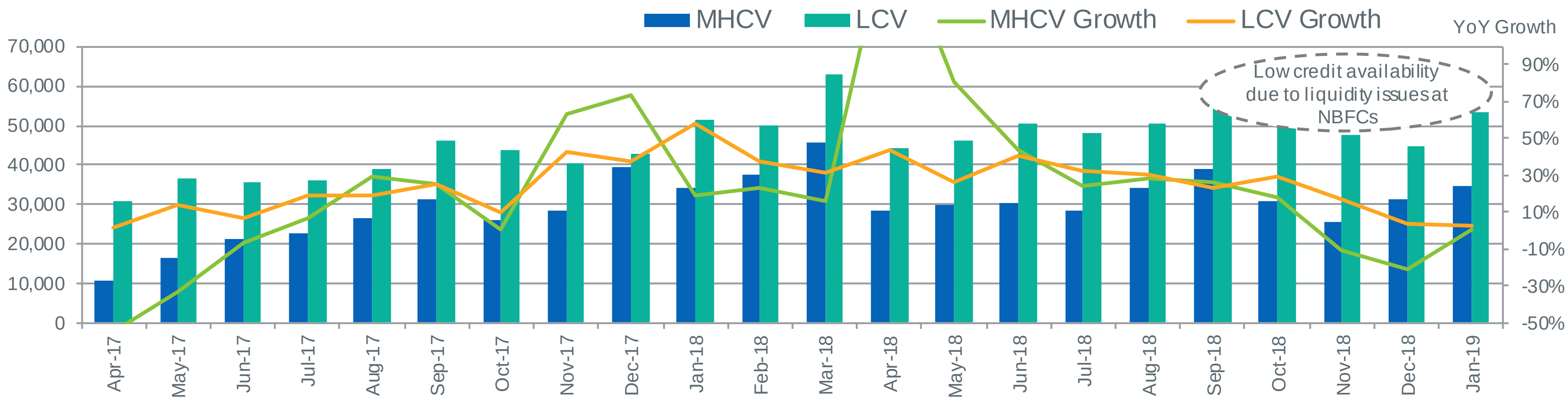
PV Key Drivers:

- New model/variant launches
- Increase in deposable income
- Improvement in consumer sentiments
- Preponement of buying expected as price to rise in FY21due to BS-VI
- Further interest rate hike unlikely
- Price rise
- Volatile RM prices and FX

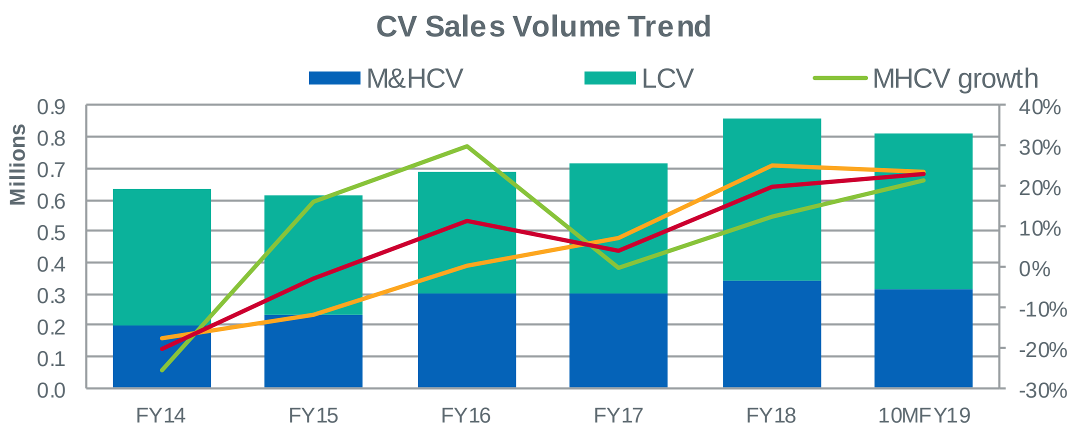
Source: SIAM, Ind-Ra

CV - Growth to Slow Down Compared to Last Year

New Axle Load Norms Could Contain MHCV Growth in FY20; LCV to Benefit from Robust Rural Demand



Growth rate to moderate in FY20

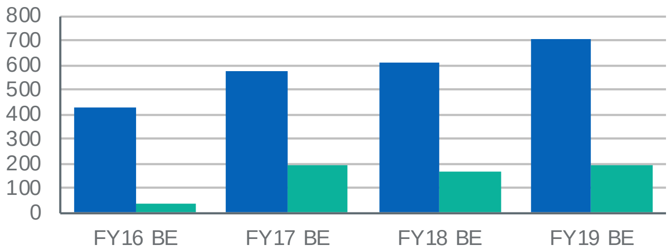


CV Key Drivers:

- Continued uptick in industrial activity
- Road/Infrastructure development
- NBFC liquidity likely to improve
- Unlikely further rise in interest rates
- Constant regulatory changes - New axle norms
- Rise in freight rates lower than fuel price hike

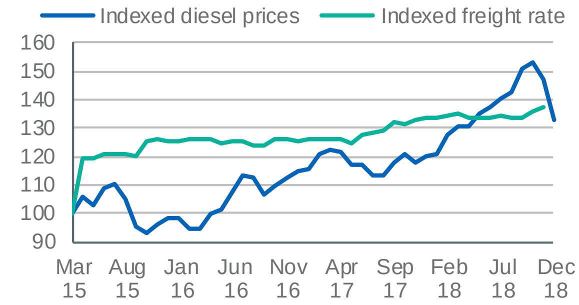
Robust Demand Fundamentals Pertain for CV Amid Certain Challenges

Allocation in Union Budget for Roads & Bridges



Note: BE denotes budgeted estimates
Source: Ind-Ra, Union Budget documents

Diesel Prices vis a vis Freight Rates

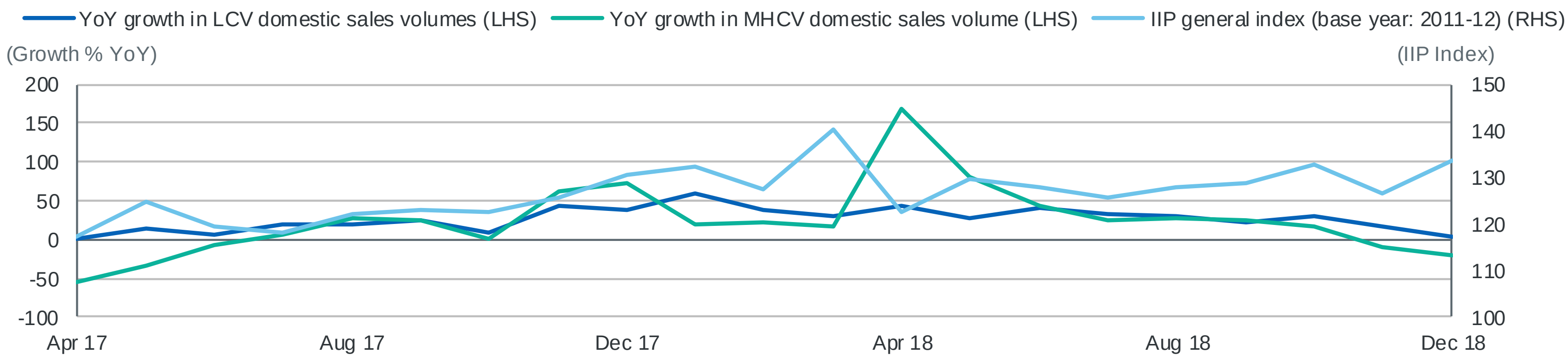


Note: Base (March 2015) = 100, Source: Bloomberg, Ind-Ra

Repo rate Trend

Feb-19	6.25%
Aug-18	6.50%
Jun-18	6.25%
Aug-17	6.00%
Oct-16	6.25%
Apr-16	6.50%
Sep-15	6.75%

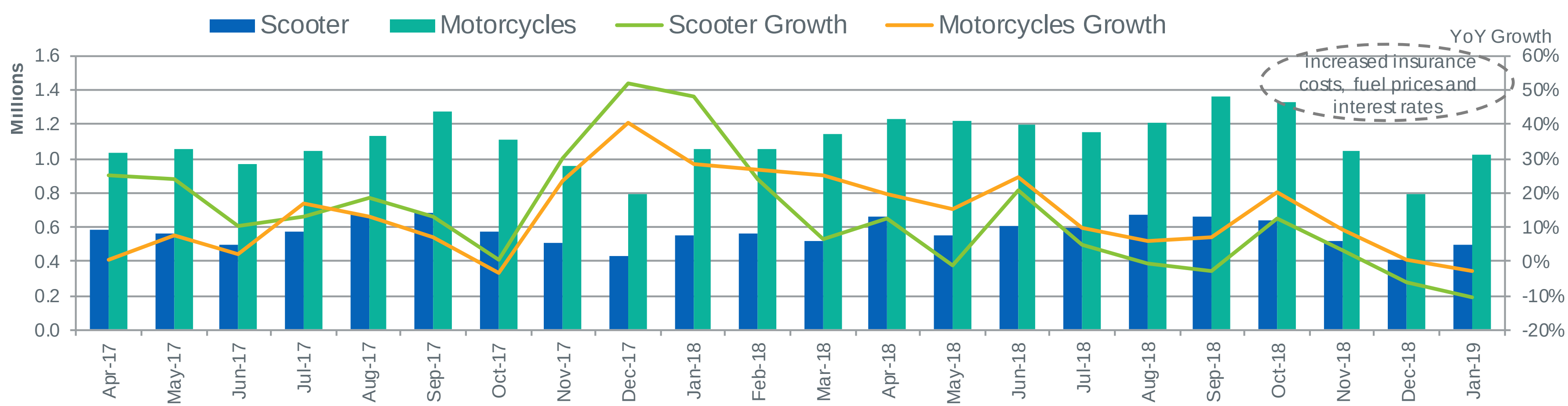
Growth in MHCVs and LCVs Linked to Industrial Activity



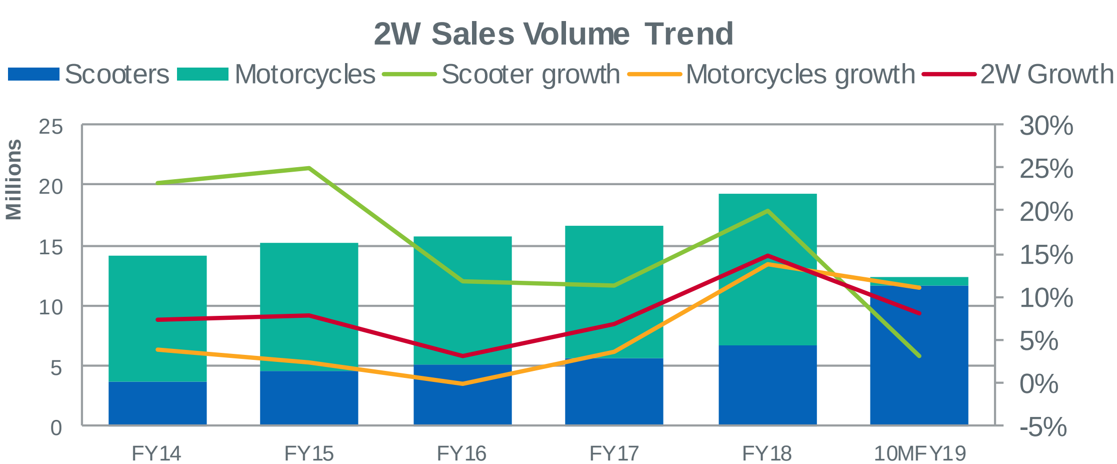
[a] November 2018 IIP is a quick estimate
Source: SIAM, Ministry of Statistics and Programme Implementation, Ind-Ra

2W – Steady Rural Demand Expected

Rural Demand to Continue to Support Steady 2W volumes



Motorcycles Outpaced Scooter Growth in FY19

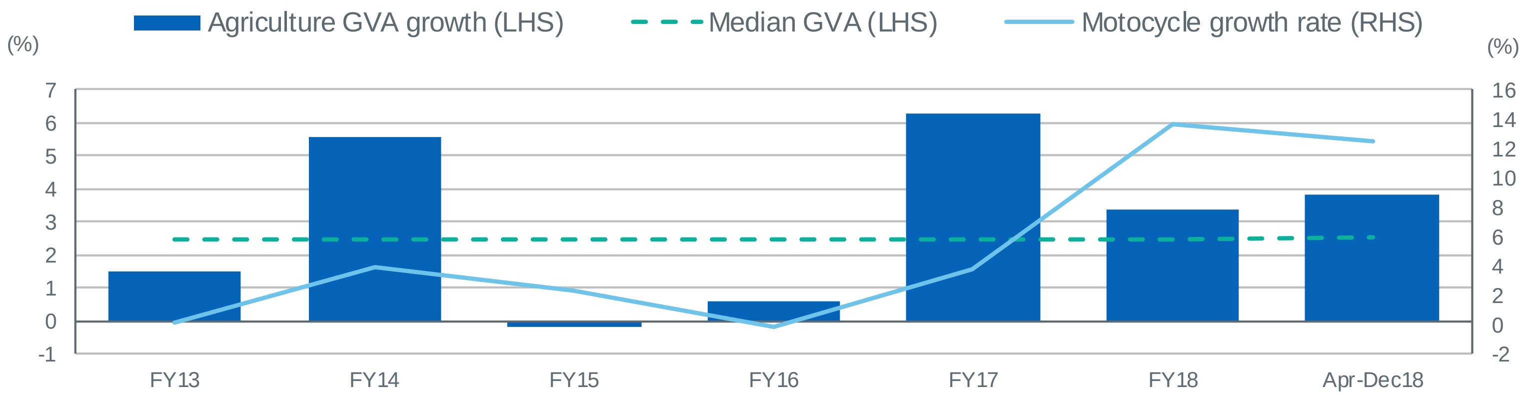


2W Key Drivers:

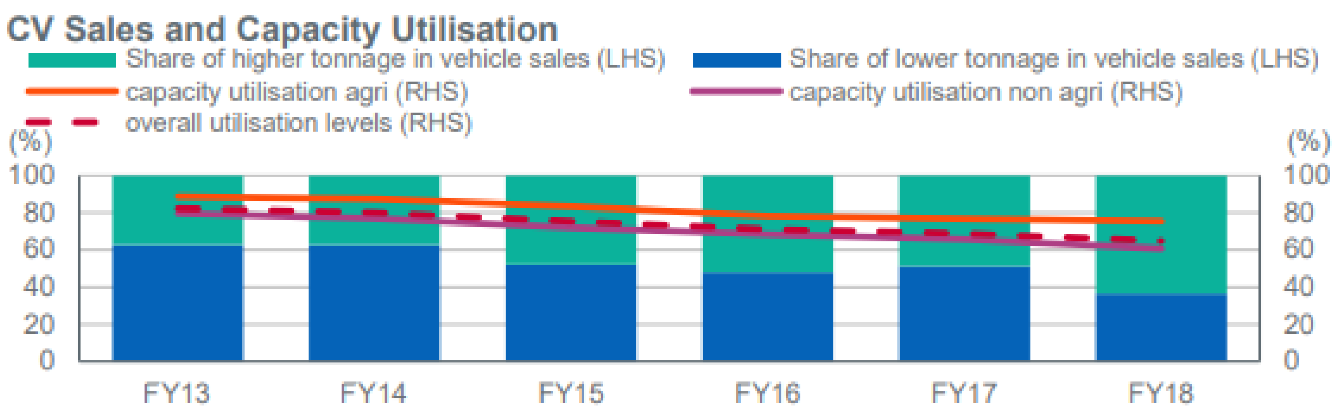
- Rise in rural income
- Growing middle-class population
- Increasing disposable income
- Inadequate public transport
- Young population with preference towards premium products
- Scattered Monsoon
- Constant regulatory changes – compulsory licence, insurance cost

LCVs and Motorcycles to Continue to Witness Robust Rural Demand

Motorcycles Growth to Benefit from Growing Agri GVA



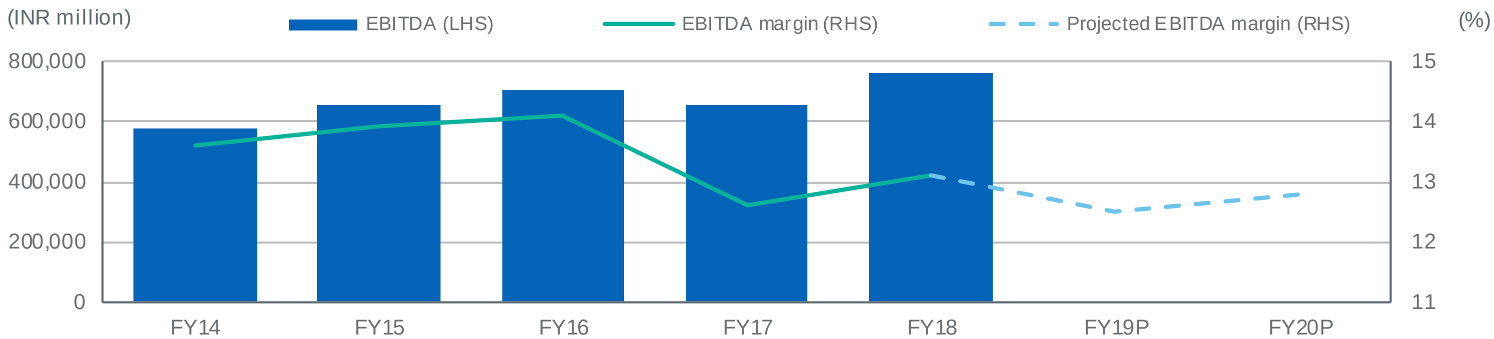
Higher Tonnage CVs Facing Moderation in Utilisation, but Lower Tonnage Remains Adequately Utilised



Source: SIAM, Ind-Ra

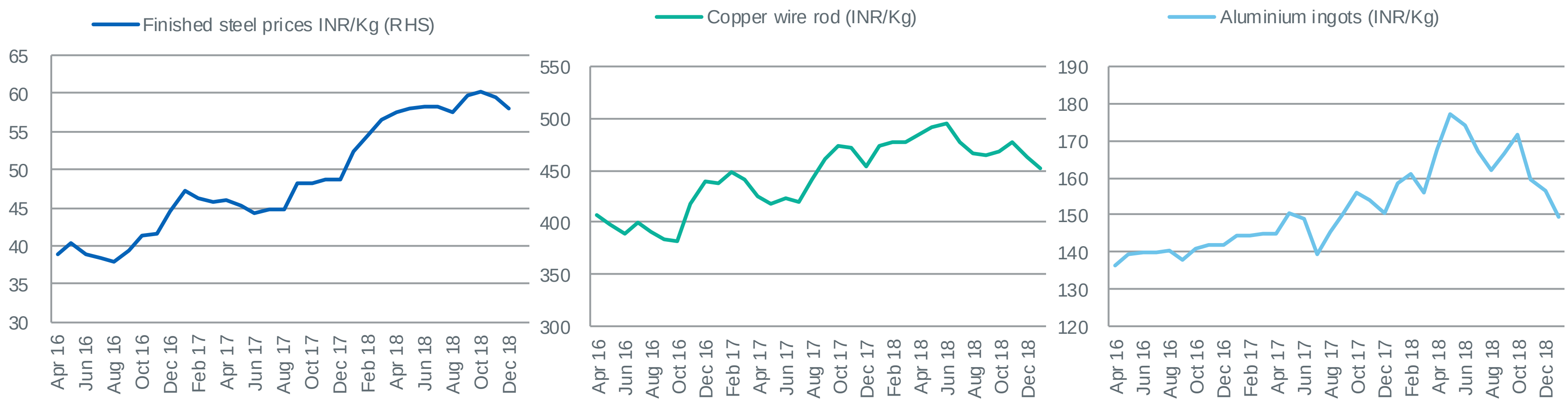
Auto sector margins to remain range-bound in FY20

Trend in EBITDA Margins of OEMs



Source: Ace Equity, Ind-Ra

Commodity prices and forex rates are unlikely to increase in the near term



Note: Source CMIE

- The average finished steel prices are based on the prices of hot-rolled coils (3.15mm) and cold-rolled coils (0.63mm)
- Copper wire rod and Aluminium ingots are wholesale Mumbai prices

3 Auto Ancillary Sector and Rating Outlook FY20: Stable

Auto Ancillary – Outlook FY20

Sector Outlook: STABLE
(FY19: STABLE)

Rating Outlook: STABLE
(FY19: STABLE)

What to Watch

- Implementation of BS–VI from April 2020
- High capex in the tyre sector
- The FAME-II policy could be passed in 2019
- Inorganic growth

Potential Disruptions to Sector

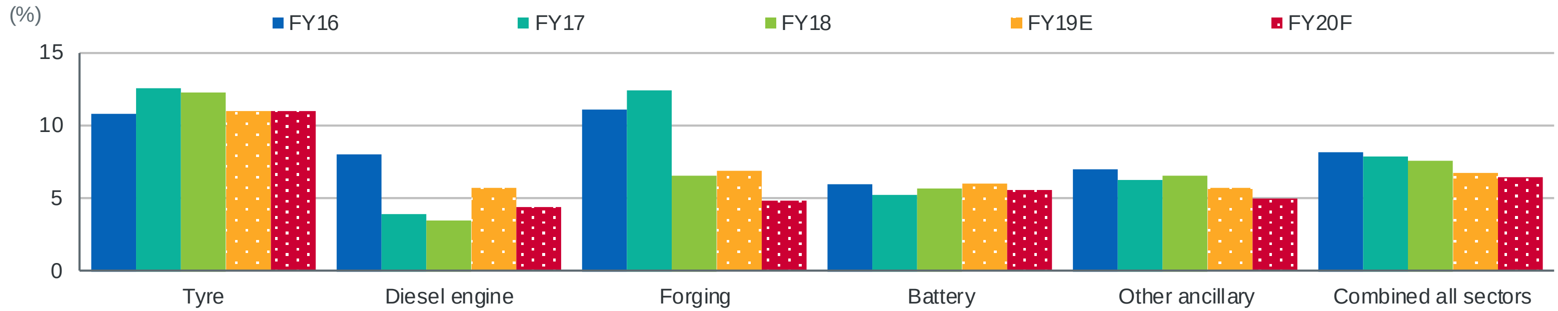
- Commodity prices or FX rates
- Govt's EV push could be disruptive for ICE vehicles in long term

Sub-sectors	Key highlights - FY20
Tyre	Credit metrics to deteriorate over FY19-FY21, amid high expansionary capex, though sufficient replacement demand over the next five years to absorb new capacities.
Forging	Revenue growth to normalise in line with slower growth in domestic commercial vehicles and US truck sales.
Battery	Players eyeing to capture lithium-ion opportunity. New product development, technology upgradation and capacity addition capex likely over the next two to three years
Diesel Engine	Capex will come down in FY20 as Bharat Stage VI (BS-VI) related capex will peak out. Companies will continue to diversify in other fuel agnostic products.

Source: Ind-Ra

Capex Likely Towards New Technologies and to Meet Regulatory Changes

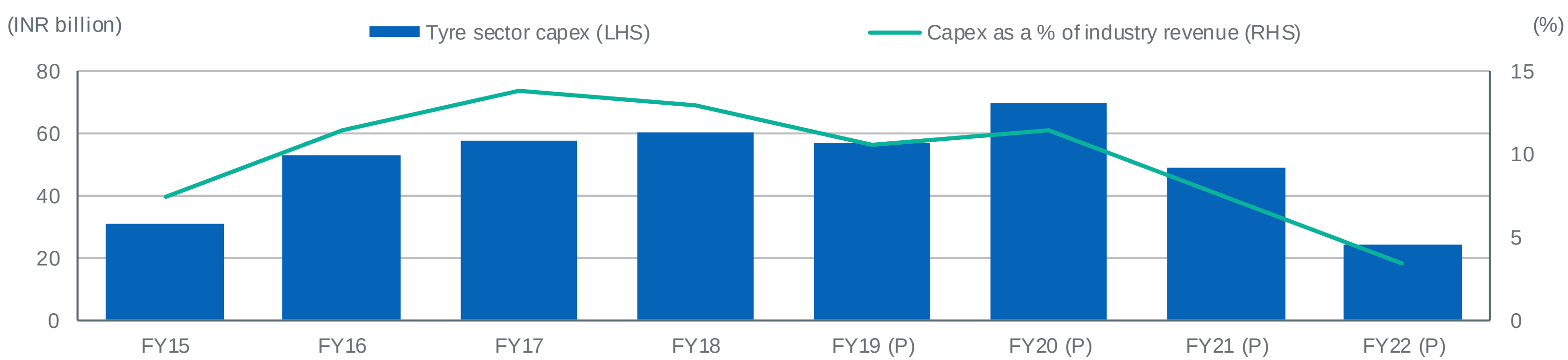
Ancillary - Capex as % of Revenue



Source: Ind-Ra, Ace Equity and Bloomberg

Capacity Additions in Tyre sector to Impact Credit Metrics

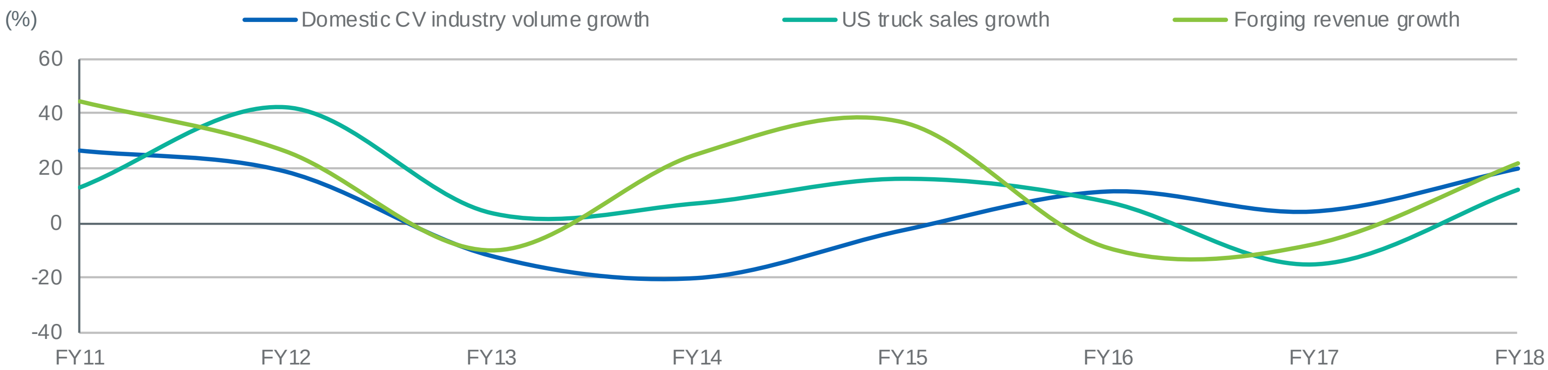
Tyre Sector Capex to Stay High in FY20



Source: Ind-Ra, Company fillings

Forging Sector's Revenue Growth to Normalise

Forging Revenue Growth to Normalise in Line with Domestic and US CV Sales

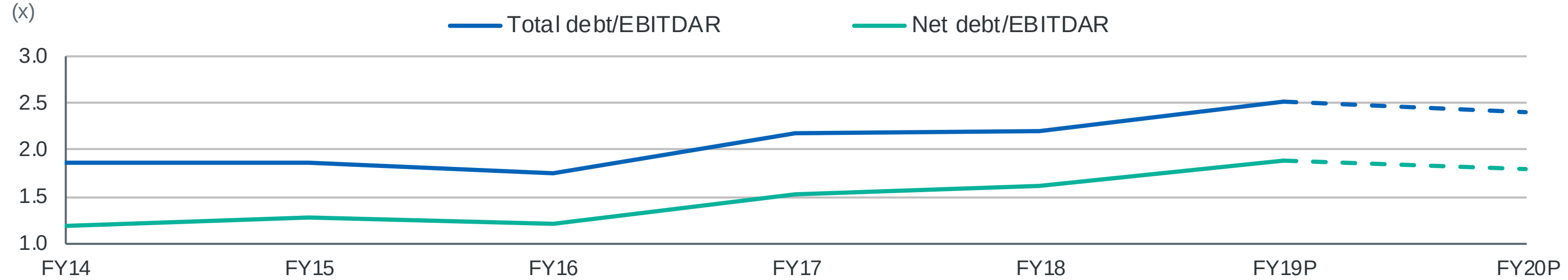


Source: Ind-Ra, Ace Equity and US Bureau of Economic Analysis

- The sector's exports performance is highly dependent on the trends in the US heavy truck demand, which have been falling since November 2018, after showing consistent growth since January 2017.
- Domestic CV volume growth is also likely to grow at a slower rate than FY19's

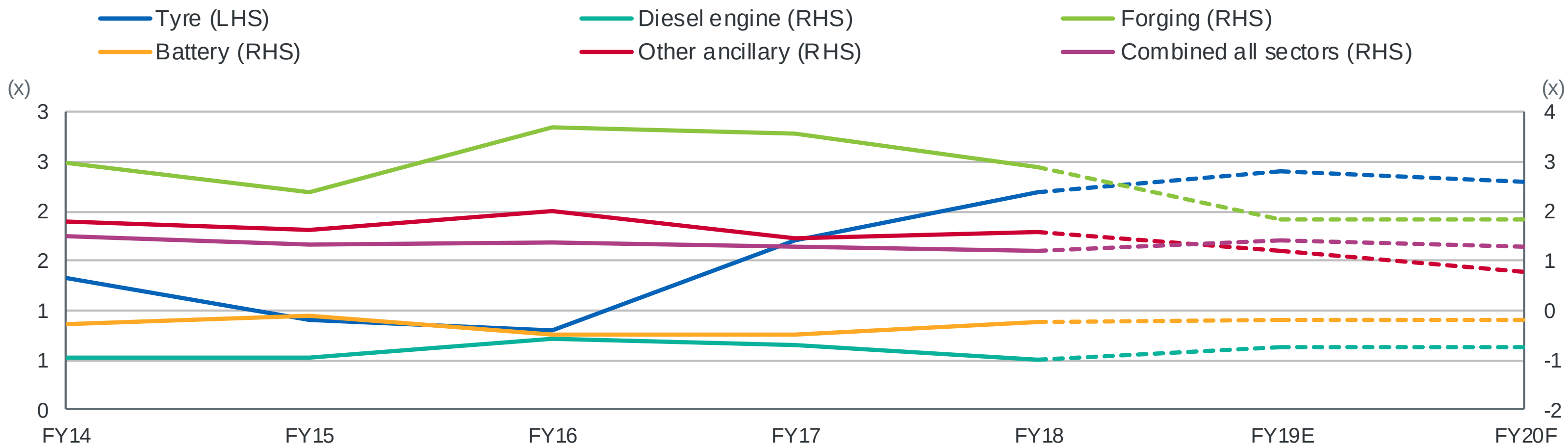
Credit Metrics to Stay Comfortable

OEM Leverage Likely To Remain Moderate in FY19-FY20



Note: Ind-Ra's sample set includes consolidated financials and projections for top 10 companies in the Auto Sector
P - Projections; Net Debt = Gross adjusted debt less Cash and cash equivalents
Source: Ace Equity, Ind-Ra

Ancillary Credit Metrics (Net Leverage)



Source: Ind-Ra, Ace Equity

Thank You

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