

## Auto Sector

23 November 2020

### Optimistic about the Auto industry with caution

We hosted an investor call with Mr. Hormazd Sorabjee (Senior Editor and Auto Journalist at Autocar India) to get his views about the current state of affairs in the Auto industry in India. Given below are the key takeaways from the interaction with Mr. Sorabjee.

#### View on current state of sector:

- It has come as a surprise that the industry has bounced back with a V-shaped recovery and swelled up in the run-up to the festive season spread over October to November. Recovery also looks better because of a low base.
- Post opening up of the lockdown, there has been some revenge buying. People have saved money during the lockdown and want to spend now on products like cars.
- A large part of this recovery has been led by pent-up demand. Demand for Personal Mobility has also increased. One car family is becoming a two-car family. People are hopping on 2Ws. Above normal monsoon and good farm income have led to strong demand recovery from rural and tier 2-3 cities.
- **Supply side challenges:** While the majority of the supply side challenges, which affected volume during the opening up of the lockdown, have been addressed some issues still persist.
- **Inventory & discounts:** Due to production constraints, oversupply of stock was restricted and hence dealers were carrying lower-than-normal channel inventory. This led to lower discounts and though festive demand was strong on MoM basis, lower discounts had a slightly dampening impact on festive sales.
- **Auto Ancillaries:** Suppliers' fortunes are linked to OEMs. However, suppliers with exposure to export-oriented OEMs are better off because they can operate at a much larger scale. Suppliers are banking more on order book.
- **On down-trading:** He believes that demand will shift to lower end of the segment as people will be more conservative going forward. SUVs are booming currently because that's where most of the new launches are happening. Within SUVs as well, sub-10Lac SUVs will get more traction.
- **On diesel vs. CNG:** CNG only has the advantage of lower running costs vs. lower running costs and better performance for diesel engines. Although the CNG network is expanding, its penetration is still very low.
- **Demand outlook:** A lot will depend on the pandemic going forward. The macro-economic situation remains weak but demand for personal mobility has increased. He is cautiously optimistic about demand going forward.

#### Passenger Vehicles

##### On Maruti Suzuki India

- Maruti is well placed and will come out of this downturn much stronger.
- One of the biggest advantages that Maruti has is its service network. Its servicing and resale value will all play in its favour.
- It needs diesel in models like Ertiga and Toyota-centred MPV.
- Maruti's pipeline - next big one will be the next generation Celerio, which he believes will be a huge volume driver. Not too many models are coming up but they are sustaining their existing products.

##### On Tata Motors (TaMo)

- TaMo has been the big surprise. The turnaround has been quite surprising.
- New CEO at JLR has a very strong focus on cost and will be interesting to see JLR's EV journey under the new CEO.
- The domestic CV business is struggling but there are early signs of a turnaround in the CV cycle.
- The domestic PV business has turned around on the back of very good products. Soft factors like the anti-China and pro-nationalist sentiments have also worked for TaMo - MG lost some sales to Tata Harrier because of that.
- The new management under Shailesh Chandra has focused on dealer viability and rationalising prices, which have helped TaMo. It has streamlined dealer costs. Dealers are a lot happier now and are thus pushing products more.
- It has delayed some of the new products like the Gravitas, which also worked for TaMo as existing products are not getting cannibalized.
- There are some concerns about the long term decisions. Cutting of capex could affect new product development. It doesn't have enough petrol engine range and has some product gaps in the sub-4metre segment.
- It has still done an outstanding job and if this performance is sustained it could change the heart at the board level. Short to medium term prospects are looking good.

##### On Mahindra & Mahindra (M&M)

- Newly launched Thar has been received very well and has led to a lot of footfalls. But, it will not be a volume product.
- Near term launch pipeline - Bolero Neo and XUV500.

##### Two Wheelers

- Focus will be on the commuter segment for some time, which should benefit Hero MotoCorp. Even the adventure segment could see some demand.

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## Royal Enfield:

- Meteor is a very good product. Like Thar, it has been made completely from grounds up and is reasonably priced.
- Royal Enfield has a very good heritage and is more of a brand story, which is lacking in the Me-too launches that have happened recently.
- This customer segment has some emotional connect. He believes that once the macro-economic situation settles down, this biking segment is poised to grow.
- Product-wise, a lot of work is being done by RE. A completely new platform is in the offing. He believes that RE will come back sharper out of this situation.

## Other Points

- **EVs:** EVs are for rich people and our market is skewed towards affordability. Even for 2Ws, it is not practical. Most people park on roads, charging infra is not in place. So, market dynamics will decide the path. For instance, for 3Ws, EVs have worked well.
- **Hybrids:** Hybrid cars have not worked in India because from taxation point of view there is no benefit for hybrids. Within city limits, it is okay but if you move out of town, it will have a disadvantage because charging won't be available and also one has to carry extra battery weight. But, hybrids will be looked upon to meet CAFE norms.
- **Threats from new entrants:** New Chinese players won't be a threat for some time because of the current situation. Intent is still there based on MG's early success. If the LAC situation wasn't there, then it would have been a threat because the Chinese players want to find a new market for its ICE products and India is a big market outside China. For MG supply from China is a huge issue. They are facing logistical constraints but not demand constraints. So, the Chinese players are and will be a threat. So, once GWM Cherry and all enter the Indian market they'll look into what played for MG and work based on that. PSA is very conservative. Companies like PSA, which has other battles to fight, won't commit long-term capital unless there is a clear path to generate returns.
- **CAFE norms:** RDE, which comes in, will see huge amount of cost increases, especially in smaller diesels but not that much in larger diesels. More and more demand for electronics will be the next big thing and that will further lead to higher costs.
- **NCAP testing:** NCAP testing is not the ultimate test of safety. The car with a higher NCAP rating much safer than other cars. So, it is a question of safe vs safer. It is more an emotional issue.

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