

## FY16 highlights changing customer preferences

### Past heroes (compact sedan, 100cc executive motorcycle) under pressure

- SUVs are now vying for customers of compact cars, with launches like M&M KUV100.
- Compact sedans witnessing pressure from premium hatchbacks and compact SUVs.
- Up-trading in PVs continues, with share of PVs priced above INR500k rising by ~300bp in FY16 to ~64% (share doubling in last five years).
- Scooterization continues at a strong pace – share up 240bp in FY16 to ~31%.

We took a deep dive into granular data on the Indian 2W and PV industry. While FY16 witnessed several new trends (like SUVs coming down the price points, acceptance of Maruti's premium products, differentiated products gaining acceptance, etc), we saw continuance of bigger trends in FY16 (like up-trading in PVs, scooterization, value migration from 100cc executive segment, etc).

### SUVs moving down price curve, entering into price zone of compact cars

FY16 witnessed further decline in price points for SUVs, with the launch of M&M KUV100 at ~INR501k (on-road Delhi). The cheapest SUV last year was Ford Ecosport priced at ~INR771k. Five years ago, the cheapest SUV was M&M Scorpio priced at ~INR1m. KUV100 pricing slots it directly in competition with compact cars (~30% of industry volumes) like Grand i10 (~INR527k) and Swift (~INR522k).

### Compact sedans under pressure from premium hatchbacks, compact SUVs

The compact sedan segment, which grew at ~50% CAGR between FY12-15 (share increased from 4% to 15%), is showing first signs of slowdown. The segment posted ~3% growth in FY16 (share declined by ~60bp), driven by demand from the taxi segment. While it may be too early to conclude, our assessment indicates dual pressure from compact SUVs (share going up 2x in FY16 to ~7%) and premium hatchbacks (share increased 250bp in FY16 to ~7%).

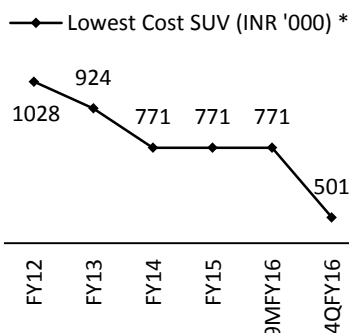
### Differentiated product, even from weaker player, can disrupt markets

FY16's biggest success was Renault Kwid, driven by exciting product design and excellent combination of features at reasonable price. Despite Renault's limited brand equity and weaker distribution (~208 dealers v/s ~2,000 dealers for MSIL), it has garnered ~100k bookings and has a waiting period of over six months! Since launch in October 2015, Kwid's 2HFY16 market share of in the Mini segment was ~19%, hurting MSIL (-13pp market share loss over 1HFY16 to ~74%). The success of Kwid shows how a differentiated product can disrupt even a mature segment.

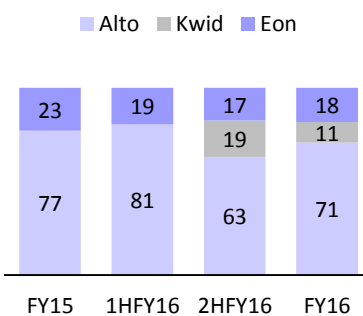
### Year of defenders (market leaders) turning into challengers

FY16 saw market leaders in cars (MSIL) and UVs (M&M) entering new segments and challenging segment leaders. MSIL launched several products in new segments – Baleno (challenging i20), S-Cross (challenging Duster/Scorpio) and Brezza (challenging Ford EcoSport), gaining ~180bp market share in FY16 to 46.8% (new launches contributing ~270bp market share). M&M entered the compact SUV segment with TUV300 (challenging Ford EcoSport) and KUV100 (creating a new segment targeting compact cars), but still lost ~80bp market share in domestic PVs. Its new product launches, though, contributed ~150bp market share gain.

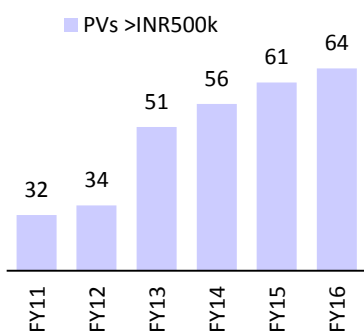
### SUVs coming down the price curve



### Kwid success shows what differentiated product can do



**Share of PV priced >INR500k doubled in 5 years**



**Up-trading in PVs continues**

The trend of up-trading continued in FY16, with the share of PVs priced above INR500k rising by ~300bp to ~64%, driven by models like i20, Baleno, Creta, KUV100, etc. The share of PVs priced above INR500k has doubled in the last five years.

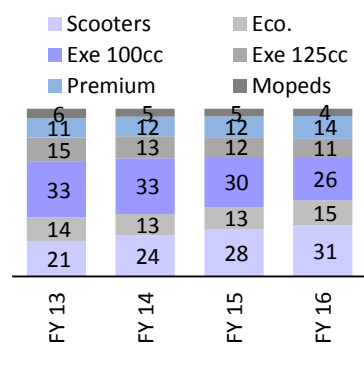
**Maruti's foray in premium segment satisfactory**

MSIL's premium products (Ciaz, S-Cross and Brezza) contributed over 11% to domestic volumes (in March 2016) v/s under 3% in FY15. Despite moderate success for S-Cross, it has garnered ~15% market share of similar priced UVs, whereas Ciaz sustained its initial momentum in FY16 (sustaining monthly run-rate of ~5,000) and Brezza has started on very strong footing.

**Scooterization continues at strong pace – share up 240bp to ~31%**

Scooterization continued in FY16, with scooters growing ~12% (v/s 15.5% CAGR over FY12-15) as against marginal decline of 0.4% in domestic motorcycle volumes.

**Executive 100cc under pressure**



**100cc executive motorcycles seeing 3-way outward value migration?**

The 100cc executive motorcycle segment has been under pressure (~2% CAGR decline since FY13). While it might be too early to conclude, we believe there is value migrating from 100cc executive segment towards scooters, 100cc economy segment (rural markets, driven by aggressive pricing of CT100, which is at 22-31% discount to Splendor) and premium segment (up-trading to 150cc & above). The share of 100cc executive segment has reduced from 33% in FY14 to ~26% in FY16.

**Valuation & view**

While we estimate good recovery in volumes for 2Ws (~10% growth in FY17) and 4Ws (~12% growth in FY17), severe competitive intensity would restrict pricing power. We prefer the CV segment, where recovery is expected to remain strong, with ~25% growth in FY17, given relatively better pricing power with OEMs. Our top picks are **TTMT** and **BOS** among large caps, and **AL** and **BHFC** among midcaps.

**Exhibit 1: Autos - Valuation summary**

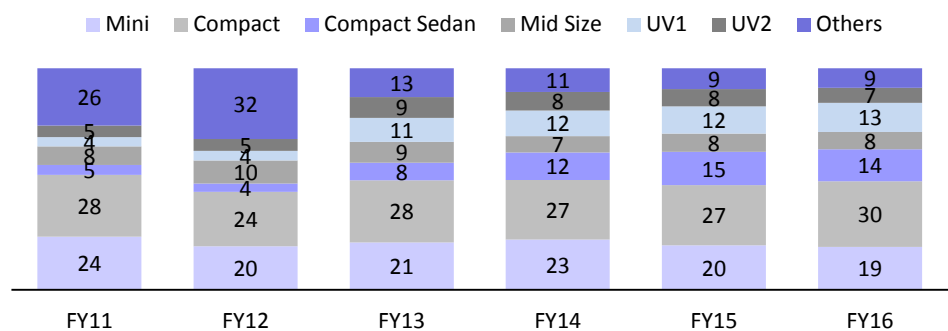
	CMP (INR)*	Rating	TP (INR)	P/E (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)		EPS CAGR (%)
				FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E-18E
<b>Auto OEM's</b>												
Bajaj Auto	2,543	Buy	2,759	20.2	17.3	13.1	11.7	32.0	33.0	45.6	44.2	14.7
Hero MotoCorp	2,967	Buy	3,418	18.8	16.3	12.1	10.5	43.4	41.0	60.5	56.3	18.1
TVS Motor	323	Buy	365	35.1	21.7	20.7	13.6	24.3	31.7	23.1	31.0	39.1
M&M	1,327	Neutral	1,473	23.2	17.9	17.3	14.3	14.5	15.4	15.9	17.2	18.7
Maruti Suzuki	3,734	Buy	4,407	23.5	19.2	11.1	9.9	17.3	18.7	23.9	25.0	24.7
Tata Motors	411	Buy	498	11.5	9.9	4.2	3.8	18.4	17.1	16.3	15.6	24.7
Ashok Leyland	106	Buy	121	28.1	15.9	13.9	8.8	19.5	28.7	20.0	30.0	50.2
Eicher Motors	19,939	Buy	21,544	42.0	34.5	22.4	19.5	34.6	42.9	38.2	48.4	29.6
<b>Auto Ancillaries</b>												
Bharat Forge	796	Buy	967	24.0	19.7	12.6	11.1	20.9	22.1	21.9	23.7	27.2
Exide Industries	144	Buy	162	21.7	18.1	12.7	11.0	12.8	13.9	17.5	17.9	18.0
Amara Raja Batteries	929	Buy	1,052	31.0	23.7	18.4	14.7	25.6	24.8	35.7	32.8	25.0
BOSCH	19,837	Buy	23,996	52.6	37.5	33.7	24.5	15.2	18.7	22.4	26.4	34.9

Source: Company, MOSL

## New Launches drive Passenger vehicle sales in FY16

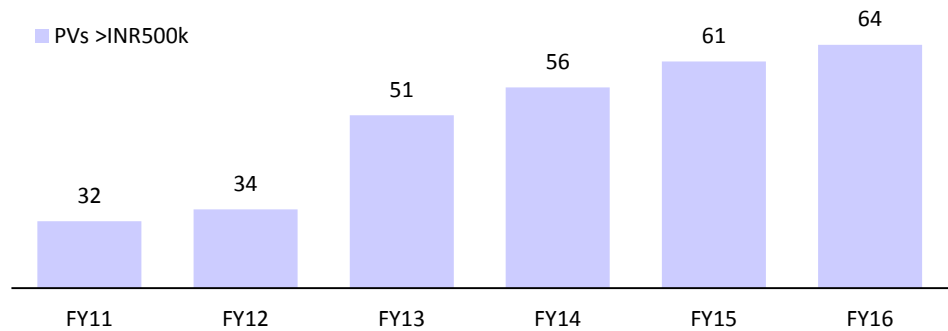
- FY16 domestic PV volumes grew by ~7.3 to 2.79m units, driven by ~12.5% growth in UVs and ~6% growth in cars. Compact cars grew 17%YoY and UV1 grew 16%YoY.
- Share of Mini segment declined while share of compact segment is rising.
- Dominance of Compact UV's in the UV segment on the rise, with contribution of 33% to overall UVs.
- Compact sedan growth in FY16 (+3% YoY) was contributed primarily by Maruti Suzuki's Dzire Tour (+ 105% YoY). Other players record a decline in sales.
- PVs witnessed continuance of up-trading, with share of PVs priced >INR500k increased by ~300bp to ~64%.

**Exhibit 2: Share of compact and UV segments on the rise (% of domestic PVs)**



Source: MOSL, Company

**Exhibit 3: Share of Premium vehicles on the rise (% of domestic PV industry)**

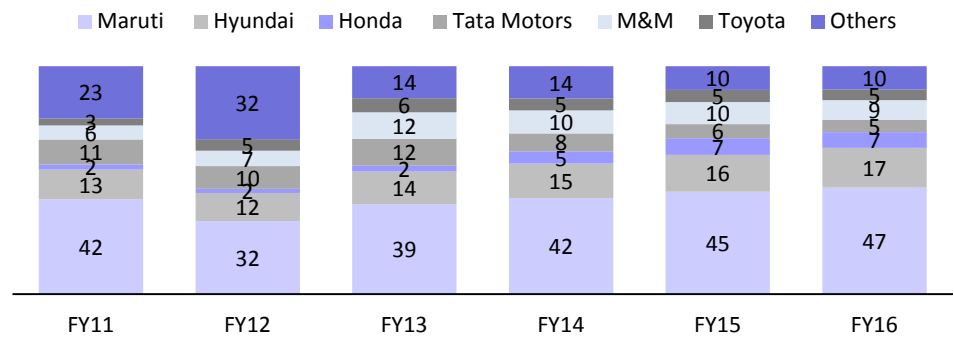


Source: MOSL, Company

## Best ever product lifecycle driven MSIL share further up to ~47%

- Maruti Suzuki gained further market share (+180bp) to ~46.8%, driven by best ever product lifecycle with 3 launches and full benefit of previous year launches (Ciaz and Celerio). New launches drove market ~270bp market share for MSIL.
- Despite several new launches, M&M lost ~80bp market share to ~8.8% of the domestic PV industry. In UVs, it lost ~90bp market share to ~39.4%.
- Hyundai gained ~120bp market share to 15%, driven by compact cars (Grand i10 and i20) and compact UV (Creta) segment.
- In spite of new launches by Tata Motor, its market share remained under pressure with decline of ~80bp to 5.4%.
- Renault's Kwid recorded robust sales, thus increasing the competitive intensity in a rather consolidated mini segment. This helped Renault to gained ~90bp market share to ~2.6% of domestic PV.

**Exhibit 4: Maruti and Hyundai continues to gain market share on back of new launches**

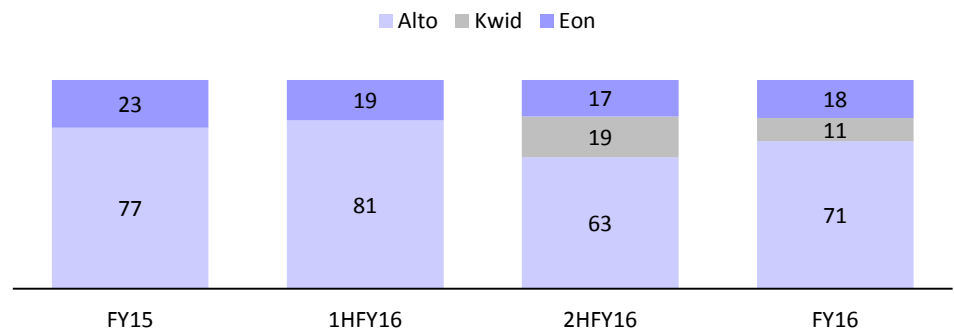


Source: MOSL, Company

**Mini Segment – Disrupted by Renault Kwid**

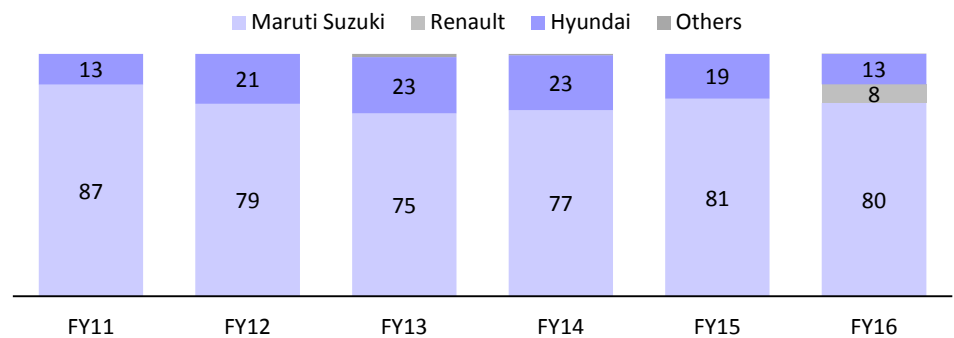
- Share of mini segment in the overall PV mix has been declining over the past 2 years (23% in FY14 to 19% in FY16). Primary reasons leading to decline in the segment were weak monsoons affecting rural demand, no new launches in the past 3 years and consumer preferences shifting towards premium hatchbacks.
- Renault’s Kwid launched in H2FY16 made significant headway in the mini segment by capturing share from Maruti’s Alto.
- Since launch in Oct-15, Kwid’s 2HFY16 market share of Mini segment stood at ~19% hurting MSIL (-13pp market share loss over 1HFY16 to ~74%).

**Exhibit 5: Renaults's Kwid challenges the dominance of Alto in the mini segment (market share - %)**



Source: MOSL, Company

**Exhibit 6: Renault’s entry heats up competitive intensity (market share - %)**



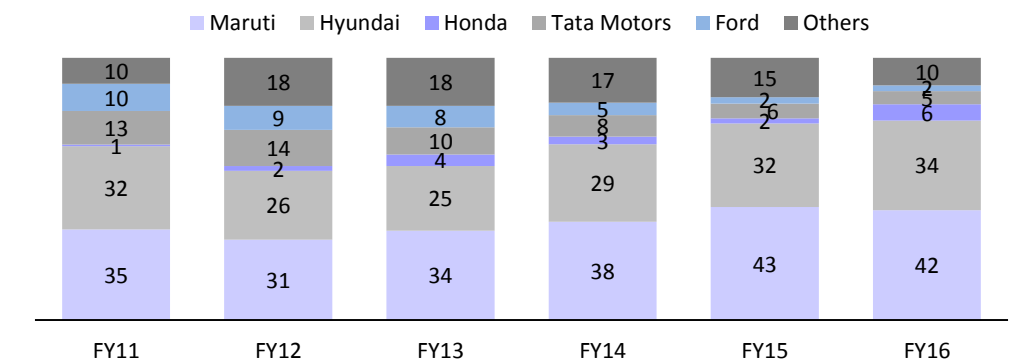
Source: MOSL, Company

**Compact Segment – Hyundai gains market share**

- This segment witnessed the highest growth (+17%YoY) in FY16 driven primarily by Hyundai’s Grand i10 (+27%) and i20 (+45%), and Maruti’s Celerio (+30%) and Baleno launch.

- Maruti remains the market leader with a 42% share (-110bp) in FY 16, however Hyundai gained 230bp market share to 34.2%.

**Exhibit 7: Compact segment market share (%) - Hyundai catching up**

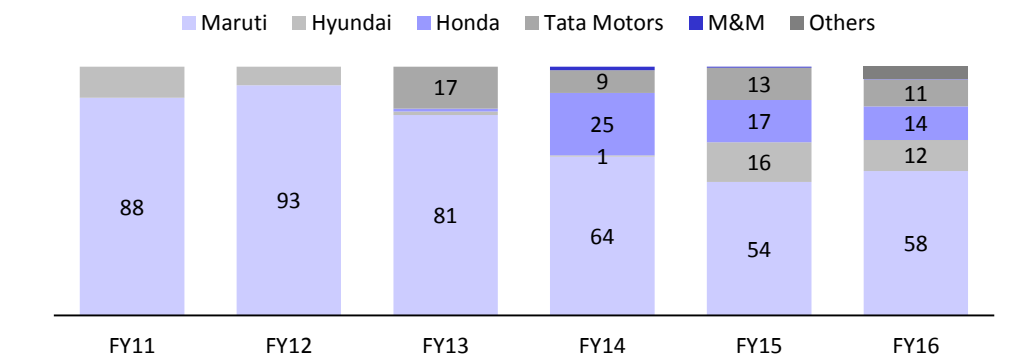


Source: MOSL, Company

**Compact Sedan segment – Taxi segment demand drives growth**

- Compact sedan segment grew 3% YoY in FY16, driven by Maruti Suzuki (+11% YoY), while sales volumes of players like Honda, Hyundai and Tata Motors declined.
- Demand from taxi segment was key driver of growth in this segment. Else, segment would have witnessed decline.
- Maruti Suzuki’s offering in the compact sedan Dzire Tour doubled due to increased demand for inter-city tourist vehicles.

**Exhibit 8: Compact Sedan - Surge in Dzire Tour volumes helps Maruti (market share - %)**

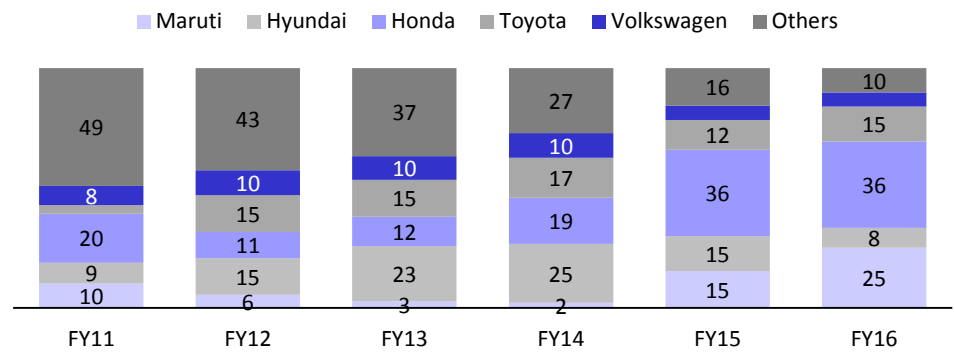


Source: MOSL, Company

**Mid-Size Sedan – Ciaz gains #2 spot and 25% market share**

- Mid-size sedan segment volumes were flat in FY16.
- The launch of ‘Ciaz’ in mid FY15 proved to be a big winner for Maruti which marked its entry in the premium sedan segment. Ciaz sustained initial momentum, and is now clocking ~5,000 units/month. Maruti’s market share in mid-size sedans segment expanded by ~10pp to ~25%.
- Honda continues to be the market leader with a 36% share in FY16.
- Hyundai’s share plummeted to single digits (8% in FY16 vis a vis 15% in FY15) as Verna faced stiffed competition from Maruti’s Ciaz and Honda’s City

**Exhibit 9: Competition increases post the launch of Ciaz (market share - %)**

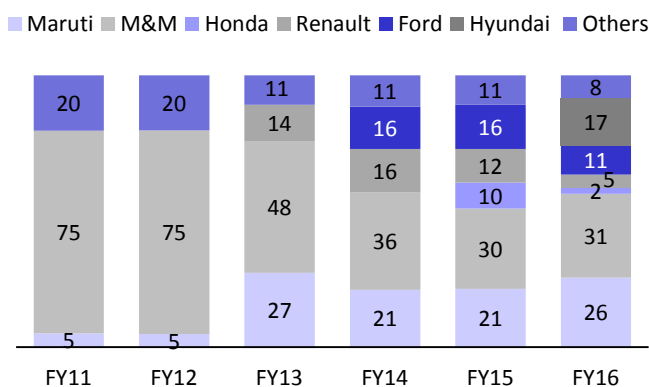


Source: MOSL, Company

**UV1 segment – Creta drives Hyundai’s ~17% market share on debut**

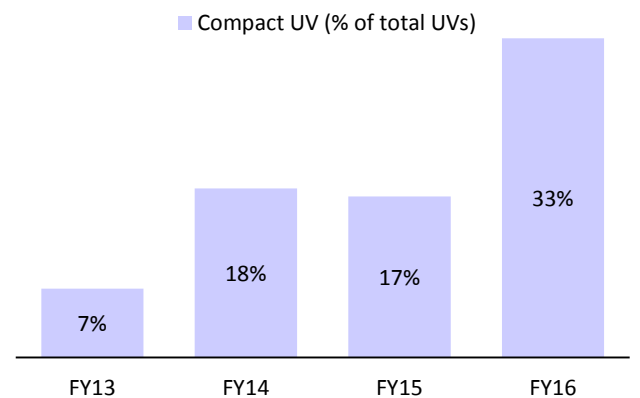
- UV1 segment witnessed highest action in FY16 with major OEM’s launching new models (Creta, S-Cross, TUV300, KUV100 and Brezza). As a result, this segment grew by ~16% YoY in FY16.
- Hyundai’s Creta turned out to be the blockbuster launch of FY16 (average volumes of ~7500 units/month) and has waiting period of upto 10 months!
- M&M continued to be the market leader with a 31% share (increase of 120 bps) in FY16, driven by TUV300. Launch of KUV100 (in Jan-16) is likely to further push market share
- Maruti Suzuki’s market share increased to 26% in FY16 driven by S-Cross. Though S-Cross was not a runaway success, it helped Maruti to gain incremental volumes of 24,000 in FY16 and ~15% market share in similar priced SUVs.
- Ford and Renault lost market share due to new model launches by peers in the compact UV space.

**Exhibit 10: Hyundai and Maruti benefit from new launches in the UV1 segment (market share - %)**



Source: MOSL, Company

**Exhibit 11: Changing consumer preferences towards Compact UVs**

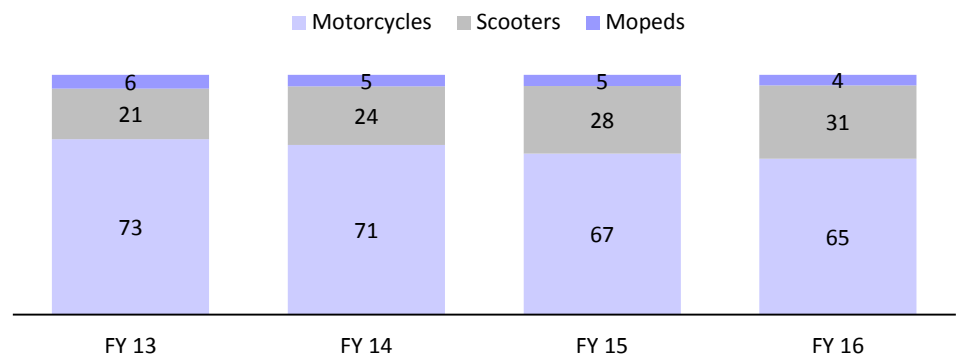


Source: MOSL, Company

## Two wheeler sales growth hits roadblock in FY16; Signs of gradual recovery seen

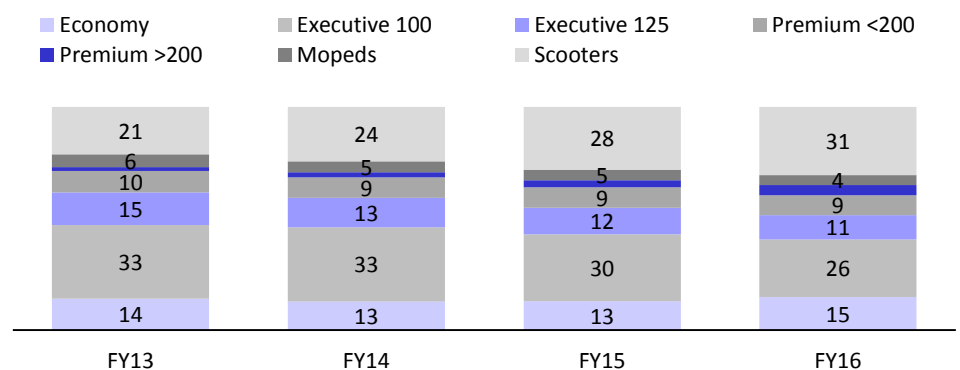
- Domestic Two wheeler sales grew marginally by 2.8% YoY in FY16; Motorcycle sales were flat while fast growing scooter segment too entering the slow lane.
- Motorcycle sales volumes were flat (-0.4% YoY) in FY16 as repercussions of second consecutive year of failed monsoon affected rural demand. While sales in 9MFY16 declined by 2.7%, recovery was seen during the last 3 months of FY16 with a 7 % growth in motorcycle sales volumes.
- Scooter segment, which grew ~24% CAGR over FY13-15, too witnessed moderation with 11.7% growth in FY16.
- The share scooters in the 2-wheeler mix rose from 28% in FY15 to 31% in FY16.
- Moped sales too declined by 4.2% YoY in FY16 mirroring rural distress.

**Exhibit 12: Share of Scooters growing at a rapid pace (% of total 2Ws)**



Source: MOSL, Company

**Exhibit 13: Executive 100cc segment witnessing outward value migration in the two-wheeler mix**



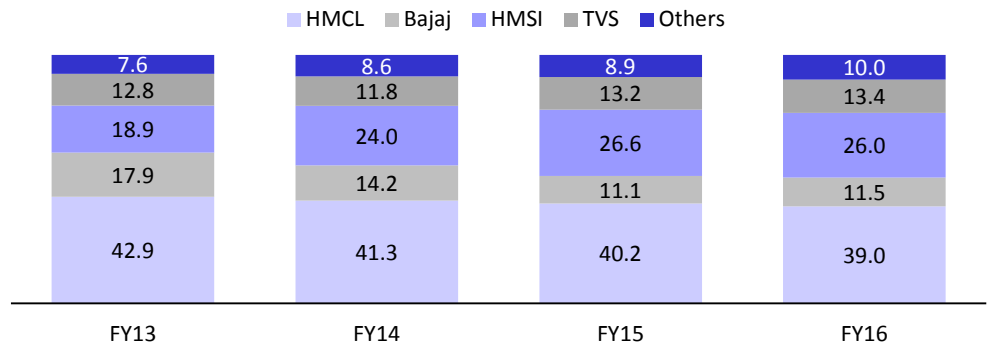
### Stable 2W market shares in FY16

- HMCL continues to be the market leader in the 2 wheeler industry with a 39% share (-120bp) in FY16.
- Bajaj Auto’s market share was stable at ~11.5% (+40bp), as benefit of new model launches was off-set by lack of presence in fast growing scooters. However, its market share in the motorcycle segment improved by 120bps to 18% in FY16 as new product launches (CY100, Avenger and V15) diluted impact

of continued weakness in Discover. Full benefit of Avenger and V15 will be realized in FY17.

- HMSI’s market share declined by ~60bp to ~26%, despite it maintaining its stronghold in scooter (stable at ~55.4% market share) while motorcycle was a drag (-240bp to ~14%).
- TVS Motor market share were stable at ~13.4% (+20bp), with ~15.4% market share in scooters (+20bp) and ~6.7% market share in motorcycle (+50bps).

**Exhibit 14: Hero remains the market leader ; Competition between TVS and Bajaj heats up in the domestic 2 wheeler industry**

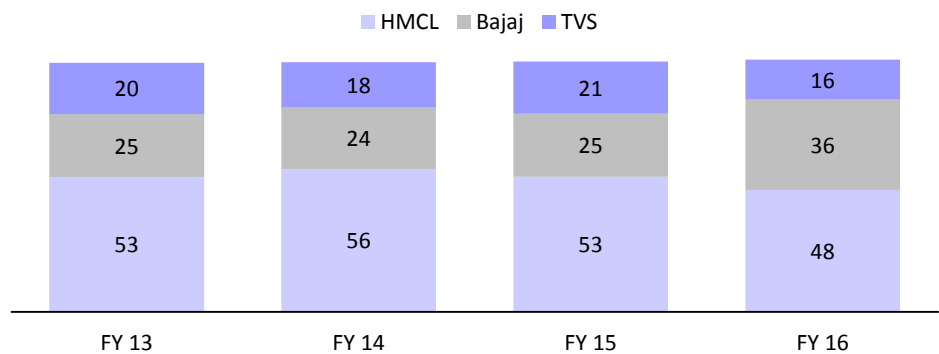


Source: MOSL, Company

**Economy Segment – Bajaj’s CT100 creates disruption**

- The launch of Bajaj’s CT 100 helped Economy segment to register growth of ~17%, resulting in increase in share by ~175bp to 15% in FY16.
- Bajaj’s CT100 with aggressive pricing drove market share gain of ~11pp to 36% in FY16. It took market share from both Hero and TVS while also adding incremental volumes to the segment  
Hero lost ~500bp market share to 48% share in FY16.
- Average volumes for Bajaj’s Platina have been at ~28,000units/month till November 2015. However since the past 4 months (Dec-Mar 2016) volumes have averaged only ~17,000 units/month

**Exhibit 15: Launch of CT 100 a game changer for Bajaj; Traction seen in volumes of TVS**



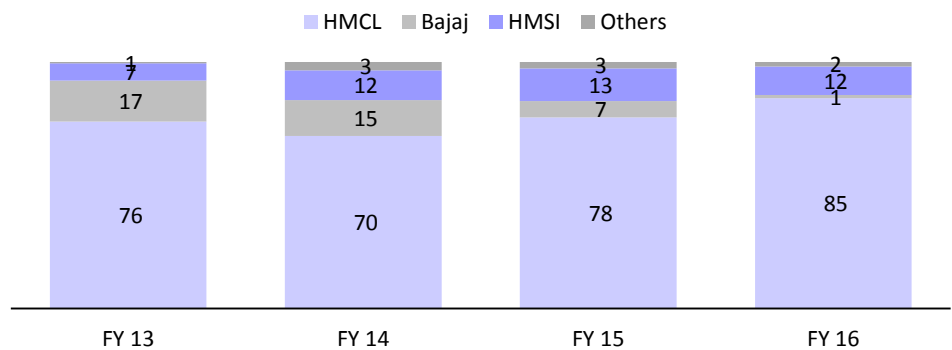
Source: MOSL, Company



**Executive 100 – Declines 11%, but HMCL gains market share**

- The segment was the worst performer with a 11% decline YoY in FY16 (accounted for ~ 25% of sales volumes in FY16 vis a vis a 30% share a year ago)
- Apart from scooterization, new launches in the economy segment at competitive prices and additional features have likely impacted demand for Executive 100cc segment, especially in rural markets.
- Though the share of Hero in the Executive 100 has gone up from 78% in FY15 to 85% in FY 16, HMCL sales in this segment declined by 6% YoY in FY16. Sales volumes of HMSI and Discover declined at a faster pace thus helping HMCL consolidate its market share.

**Exhibit 16: Strong brand image helps Hero consolidate its position in the shrinking segment**

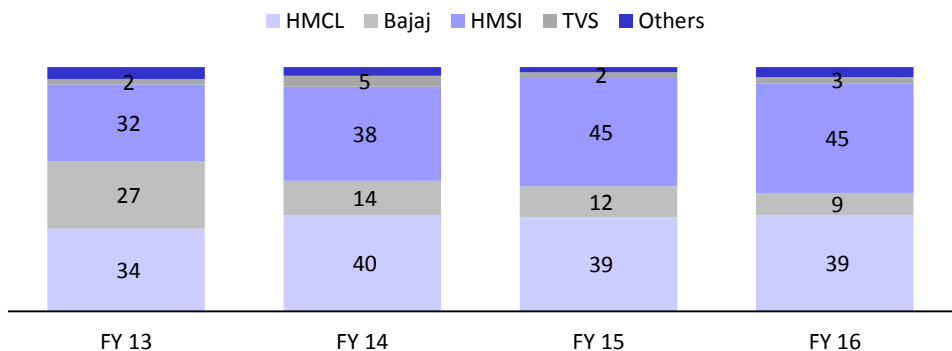


Source: Company, MOSL

**Executive 125 – Remains under pressure**

- The segment declined by 5% YoY in FY16 and ~4% CAGR decline since FY13.
- Honda remained the market leader with a 44% share in FY16 (flat). HMSI 's sales of Shine declined by 6% YoY in FY16
- HMCL's Executive 125cc segment declined ~3%, driving ~60bp market share gain to 39% in FY16.
- TVS was the outperformer with robust sales of Phoenix (+31% YoY) in FY 16, driving market share gain of ~80bp to ~2.7%.

**Exhibit 17: Market leader consolidating their position (market share - %)**

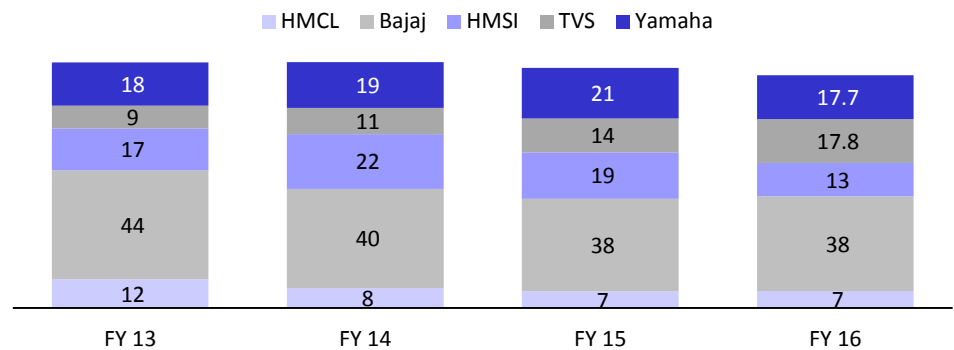


Source: MOSL, Company

**Premium <200 – TVS gains on back of Apache, Bajaj on new Pulsars**

- This segment marginally declined by 1% YoY in FY16. However the competition in this segment continued to increase with TVS inching towards Yamaha, both fighting for the 2nd spot with equal share of 18% (TVS gained 400 bps while Yamaha lost 300 bps in FY16).
- TVS outperformed the market with a 30 % YoY growth in FY16, in its premium offering Apache.
- Bajaj continued to be the market leader with its Pulsar series, with ~90bp market share gain to ~38.4%.
- HMSI was the biggest loser in the segment (-540bp to ~13.5%), as its sales declined due to transition from Unicorn 150 to Unicorn 160.

**Exhibit 18: TVS continues to outperform with Apache; Weak product portfolio pulls down HMSI's share**

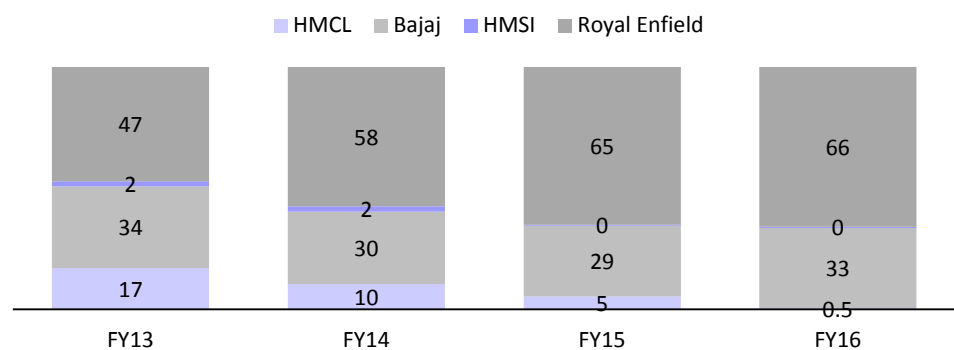


Source: MOSL, Company

**Premium >200 – leisure segment drives strong growth**

- Growth in this segment was primarily driven by leisure segment viz Royal Enfield (+54% YoY) and Bajaj’s Avenger (+227%) in FY16. Sports segment volumes declined by ~13%. Contribution of this segment improved by ~150bp to 4.6% of total 2W industry.
- Outperformance by Royal Enfield led to ~80bp market share gain for RE to ~66% of Premium >200cc segment.
- Bajaj too gained market share by ~380bp to ~33%, driven by Avenger in FY16.
- HMCL lost ~470bp market share to 0.5%, as Karizma volumes declined ~86%.

**Exhibit 19: Royal Enfield's dominance continues**

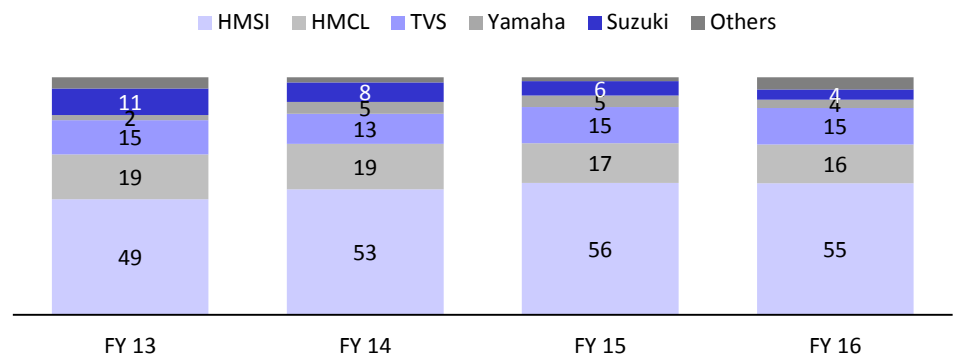


Source: MOSL, Company

**Scooters – Outperformance continues, share gain continues**

- Scooter segment, which grew ~24% CAGR over FY13-15, too witnessed moderation with 11.7% growth in FY16.
- The share scooters in the 2-wheeler mix rose from 28% in FY15 to 31% in FY16.
- Competitive intensity in the fastest growing scooter segment increased with Hero launching 2 products in FY16.
- Honda continues to be the market leader with stable market share at ~55.4%.
- Market shares of HMCL (at ~16.3%) and TVS (at ~15.4%) also witnessed stable market share.

**Exhibit 20: Competition heats up between Hero and TVS**



Source: MOSL, Company

## Valuation and view

- After prolonged period of muted demand for 2Ws and 4Ws, we are witnessing conducive environment for recovery led by a) possibility of normal monsoon after 2 deficient ones, b) governments boost for rural markets, c) benefit of 7th Pay Commission payouts, and d) potential economic recovery from 2HFY17.
- While we estimate good recovery in volumes for 2Ws (~10% growth in FY17) and 4Ws (~12% growth in FY17), severe competitive intensity would restrict pricing power for OEMs in an environment of commodity price inflation and adverse Fx movement.
- We prefer CV segment, where recovery is expected to remain strong with ~25% growth in FY17 with relatively better pricing power with OEMS.
- Hence, our top picks are **TTMT** and **BOS** among large caps, and **AL** and **BHFC** among midcaps.

**Exhibit 21: Autos - Valuation summary**

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M&M	1,327	Neutral	1,473	23.2	17.9	17.3	14.3	14.5	15.4	15.9	17.2	18.7
Maruti Suzuki	3,734	Buy	4,407	23.5	19.2	11.1	9.9	17.3	18.7	23.9	25.0	24.7
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Eicher Motors	19,939	Buy	21,544	42.0	34.5	22.4	19.5	34.6	42.9	38.2	48.4	29.6
<b>Auto Ancillaries</b>												
Bharat Forge	796	Buy	967	24.0	19.7	12.6	11.1	20.9	22.1	21.9	23.7	27.2
Exide Industries	144	Buy	162	21.7	18.1	12.7	11.0	12.8	13.9	17.5	17.9	18.0
Amara Raja Batteries	929	Buy	1,052	31.0	23.7	18.4	14.7	25.6	24.8	35.7	32.8	25.0
BOSCH	19,837	Buy	23,996	52.6	37.5	33.7	24.5	15.2	18.7	22.4	26.4	34.9

Source: Company, MOSL



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