

Indian Two-Wheeler Industry

BS-VI price differentials, headwind coming up

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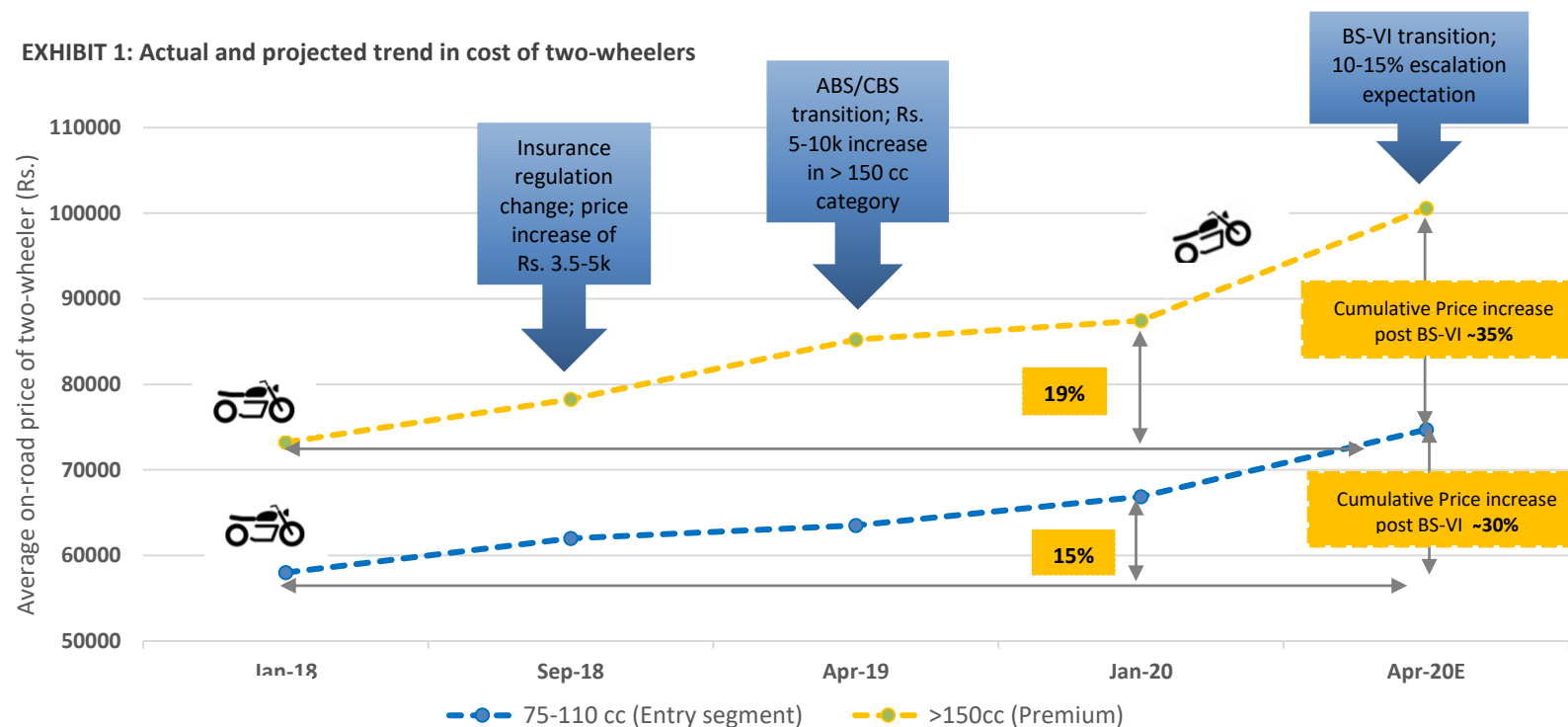
Economic slowdown, weak rural cash-flows, rising cost of vehicle ownership, liquidity constraints and one-off factors impact 2W industry performance in YTD FY2020

Significant increase in ownership cost over past 18 months due to tightening of safety norms & insurance requirements

Industry in year-long slowdown amidst multiple headwinds

- In line with the broader trends in the automobile industry, the domestic two-wheeler industry has also witnessed sharp contraction in demand during the YTD FY2020 triggered by confluence of factors. Besides weak macro trends, steady rise in cost of ownership because of sharp hike in vehicle insurance (from September 2018) and implementation of new safety norms largely pertaining to braking systems (i.e. ABS/CBS) has been one of the key demand deterrents. As a result of new developments and other cost pressures, the prices of entry level motorcycles (i.e. 75-110cc) has increased by almost Rs. 8,500-10,000 (or nearly 15%) over the past 18 months.
- Moreover, the scooter segment, which had emerged as the key growth driver for the industry has also witnessed lackluster demand as penetration in urban markets appears to have reach saturation levels. That apart, the demand from rural region has also been weak because of subdued agri cash flows.

EXHIBIT 1: Actual and projected trend in cost of two-wheelers



Implementation of BS-VI emission norms likely to force a further 10-12% increase in ownership cost

Shift to EFI engine technology constitute the major cost under BS-VI; benefits from localization to percolate over medium term

- ICRA expects that the demand for two wheelers is likely to remain weak in the near-term, especially in view of impending transition to BS-VI emission norms, which will result in further increase in vehicle costs by almost 10-12% across segments.
- Over the past couple of months, 2W OEMs have started introducing BS-VI compliant variants in the market and our analysis of new launches suggest that prices of two-wheelers have risen by 10-12% (on ex-showroom basis). This sharp increase in prices in the two-wheeler segment is primarily because of significant shift in the technology required to adhere to BS-VI requirements.

EXHIBIT 2: Preliminary trend in BS-VI prices

Displacement category	BS-VI variant Price (ex-showroom)	BS-IV variant Price (ex-showroom)	Price differential	Prices disclosed in	Available in market currently
Scooters					
125 cc	68,400	60,600	13%	Oct-19	Yes
Motorcycles					
100 cc	55,925	50,700	10%	Jan-20	Yes
110 cc	64,900	56,300	15%	Dec-19	Yes
125 cc (Drum)	71,140	63,800	11%	Dec-19	Yes
125 cc (Disk)	75,340	67,650	11%	Dec-19	Yes
350 cc	165,025	145,975	13%	Jan-20	No

Source: ICRA Research; Data is based on actual prices taken from Dealers (ex-showroom, Gurgaon)

- Our channel check with two-wheeler dealers suggest that financiers have started offering loans with higher maturity (i.e. four years instead of three years) to offset the impact of higher initial cost on EMIs. In addition, there is also a trend towards downtrading with customers opting for 125 cc bikes compared to 150 cc, especially post launch of select models. We believe that the continuity of this trends remains to be seen.
- The shift from BS IV to BS VI emission norms mandate a change from using carburetor system to Electronic Fuel Injection (EFI) system. In addition, modifications would be required in the after-treatment systems and fuel storage systems.
- Based on ICRA's interaction with market participants, cost of EFI unit currently varies from Rs. 4,000 to Rs. 6,000+ depending on the model and displacement category.
- None of the domestic players are currently manufacturing the EFI system and the same is being imported. Prominent suppliers include Bosch GmbH (Germany), Keihin Corporation (Japan), Magneti Marelli (Italy), Delphi Automotive (U.K.) and Mikuni (Japan).
- At the current levels of localization, the cost differential of about 10-15% have emerged in the EFI (BS-VI) Vs carburettor variants of the 2W. However, given the size of the Indian 2W market, auto ancillaries are expected to undertake phased localization of critical parts in the EFI system, which would subsequently bring down the cost of EFI systems as BS-VI gets implemented.

Earnings likely to come under pressure however strong credit profiles of 2W OEMs support 'Stable' outlook for the industry

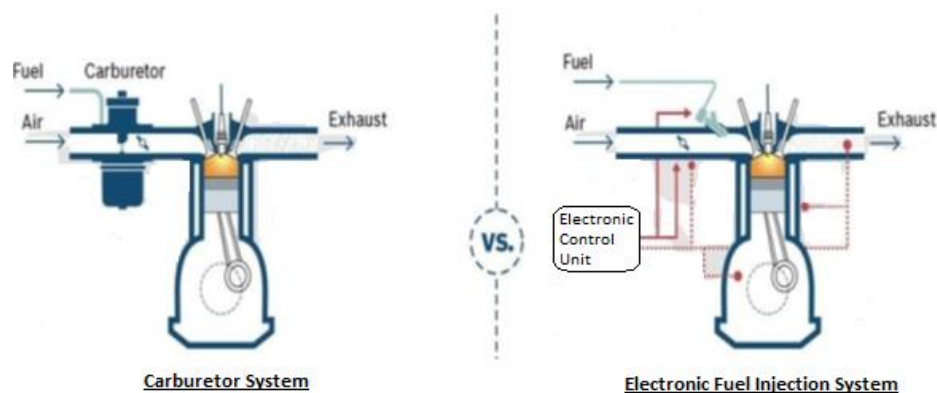
Outlook

ICRA expects industry volumes to contract by 8-10% in FY2020, with some moderation in decline in H2 due to pre-buying before the BS-VI transition in April 2020. Despite the ongoing slowdown and near-term volatility anticipated due to forthcoming BS-VI transition, ICRA maintains a stable outlook for the two-wheeler industry for next 12-18 months. This is supported by our expectation that credit profile of two-wheeler OEMs will continue to remain strong, supported by healthy accruals and financial flexibility from sizable cash and liquid investments on the books. The OEMs are expected to continue to invest towards new product development, technologies (like Electric Vehicles) and enhancement of domestic and overseas sales network. Furthermore, the demand weakness in the domestic market are expected to be partially offset by healthy growth in exports (up 7% in 9M FY2020).

ANNEXURE

*How EFI is different from
Carburetor technology*

The functionality of the EFI system and carburettor is the same – air-fuel mixture management. The carburettor is a mechanical device, which mixes air and fuel in a pre-determined ratio. This ratio can be changed manually by means of a screw. On the other hand, in an EFI system, the ratio of air to fuel that is to be mixed is determined according to the environmental and riding conditions, with the help of an Electronic Control Unit (ECU) located in the system. This allows for more precise and dynamic air-fuel mixture management leading to better mileage, higher power output and lower emissions.

EXHIBIT 3: Carburetor vs. EFI System

Source: ICRA research

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