

Auto Sector Monthly Update
"The Sector continues to be positive"

May 2018

Monthly Sales (Domestic & Export in no of units)			
Company	April 2018	April 2017	YOY (%)
Passenger Vehicles			
Maruti Suzuki	1,72,512	1,36,962	26.0%
Hyundai	56,016	50,265	11.4%
Mahindra & Mahindra*	20,715	20,392	1.6%
Honda Cars India*	15,864	11,278	40.7%
Toyota Kirloskar	13,940	12,339	13.0%
Tata Motors*	17,489	10,855	61.1%
Commercial Vehicles			
Bajaj Auto Ltd	64,449	36,641	75.9%
Tata Motors *	36,806	23,606	55.9%
Mahindra & Mahindra*	18,748	16,261	15.3%
Ashok Leyland	13,659	9,075	50.5%
Two Wheelers			
Suzuki Motors	53,167	38,923	36.6%
Bajaj Auto	3,42,595	2,77,115	23.6%
TVS Motors	2,98,135	2,75,426	8.2%
Eicher Motors (Royal Enfield)	74,697	60,696	23.1%
Honda Motors	5,51,601	5,37,035	2.7%
Three Wheelers			
TVS Motors	11,730	6,581	78.2%
Mahindra & Mahindra*	4,355	4,057	7.3%
Atul Auto	3,983	3,184	25.1%

Outlook:

The second month of the financial year continues to be positive backed by growth across most of the CV and two-wheeler players, in spite of a slowdown in PV sales of a few key players. The overall sentiment in the rural market has been positive, coupled with the good monsoons forecast further boosted by the government infrastructure push; all of which have kept the momentum going.

In the passenger vehicles space, Maruti reported 26% jump in its total sales volumes, probably the highest May sales reported by Maruti for over a decade now. But there was a slight drop in the volumes when compared to the previous month.

The commercial vehicle space has been witnessing good growth backed by the infrastructure spur across the country. Tata Motors had yet another good month to report 61% y-o-y growth in the passenger vehicles segment. Its commercial vehicles segment sales increased a whopping 56% y-o-y due to investment in improved industrial activities, infrastructure development and robust demand in the private consumption-led sectors. M&M clocked 15% sales growth in the CV segment.

In the two wheelers space, Hero Motocorp has posted best ever sales figures for the month of May. Royal Enfield although reported 23% growth y-o-y in May 2018, it was tepid when compared with the base (May 2017) being lower and the performance hence not as per expectation. Eicher Motors clocked a decent growth of 23% for the month. Bajaj Auto recorded 30% growth led by domestic segment. The motorcycle sales increased 24%, while 3-wheeler sales shot up 76% and 3-wheeler exports grew by 69%. TVS Motors also had a good month with robust growth of 78.2% driven by motorcycle & scooter segment.

For the tractors, Escorts and M&M reported 20.9% and 14% growth respectively in the domestic space. Record production estimates for food grains & horticulture crops coupled with good monsoons is expected to drive positive sentiments and boost tractor demand.

Fuel prices have been on an uptrend, the full effect of which is yet to be felt. This could be one of the factors that may impact the growth of the industry if consumers start postponing the buying of vehicles. So, although at the macro level growth is on the cards, a word of caution for sure with regard to increase in commodity prices which could result in higher inflation.

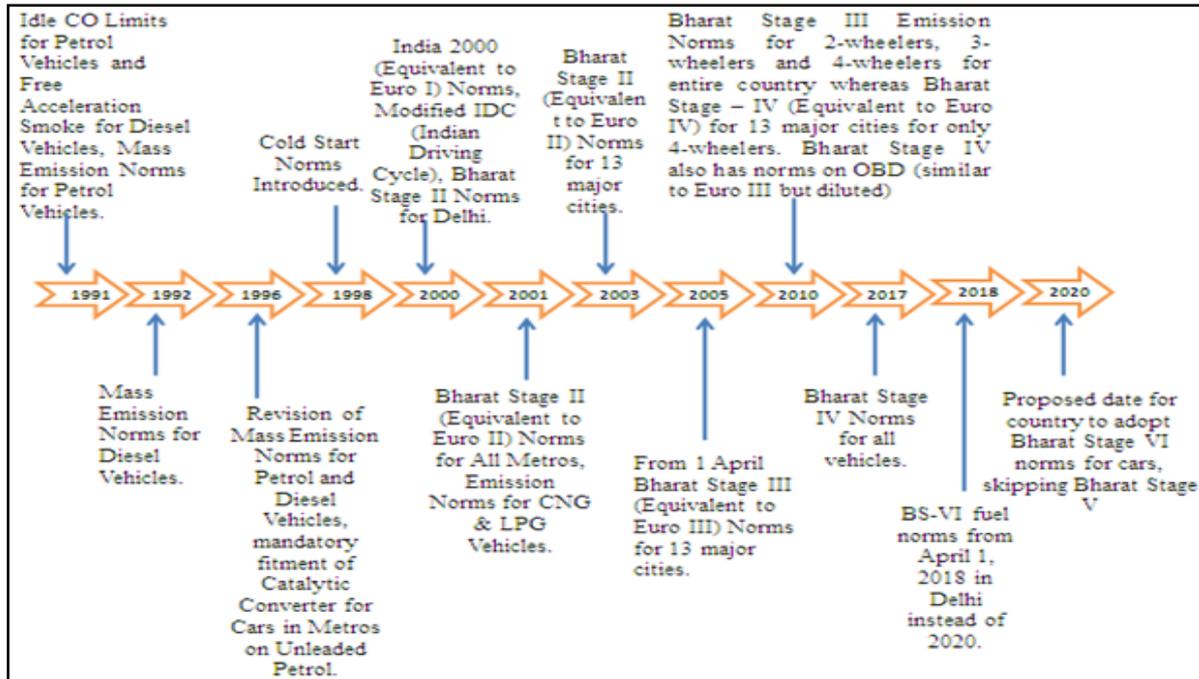
Source: Company Reports: Note : * Marked represents only Domestic Sales.

Company	Reco Price	Target Price	Comments
Alicon Castalloys Ltd	288	750	Manufacturer of aluminium castings for automotive & non-automotive
Harita Seating Systems Ltd	266	1150	Manufacturer of seating solutions for driver and cabin seating
The Hi-Tech Gears Ltd	298	600	Manufacturer of gears and transmission components
Munjal Showa Ltd	191	350	Manufacturer of shock absorbers and struts

BS-VI: Next on the cards:

Bharat Stage (BS) emission standards:

Bharat Stage (BS) emission standards are standards instituted by the Government of India to normalize the productivity of air pollutants from internal combustion engine equipment. The standards and the timeline for implementation are set by the Central Pollution Control Board under the Ministry of Environment & Forests and Climate Change. These norms are based on European regulations.



Source: Wikipedia

BS-III standards:

After being introduced in NCR and few other selected cities, BS-III emission standards were introduced nationwide by 2010. The electronic controls were introduced keeping in view vehicular emissions. Implementation of these emission norms helped significantly in bringing down the overall level of pollution across.

BS-IV standards:

BS-IV norms are being followed nationwide. In order to comply with the BS-IV norms, two and three-wheeler manufacturers were required to fit an evaporative emission control unit, which lowers the amount of fuel that is evaporated when the motorcycle is parked. BS-IV standards introduced several new requirements including tightened NO_x+HC emission limits, harmonization of the emission testing cycle and the definition of motorcycle classes with the UNECE Global Technical Regulation 2 (GTR-2). Comparison of the existing BS-III and BS-IV norms in India with the Euro 6 norms on which India's emission norms have been set is given below:

Petrol Emission Norms (All figures in g/km)

Emission	Norm	CO	HC	NO _x	HC +NO _x
BS-III	2.3	0.2	0.15	-	-
BS-IV	1	0.1	0.08	-	-
EURO 6	1	0.1	0.06	-	0.005

Source: Media reports

Diesel Emission Norms (All figures in g/km)

Emission	Norm	CO	HC	NO _x	HC +NO _x
BS-III	0.64	-	0.5	0.56	0.05
BS-IV	0.5	-	0.25	0.3	0.025
EURO 6	0.5	-	0.06	0.17	0.005

Source: Media reports

Abbreviations: CO: Carbon Monoxide emissions, HC Hydrocarbon emissions, NO_x: Nitrogen Oxide emissions

The latest requirement: BS-VI

In 2016, the Ministry of Road Transport and Highways (MoRTH) issued a draft notification of BS-VI emission standards. The standards as proposed are expected to be implemented throughout the country for all light-duty and heavy-duty vehicles as well as two and three wheelers manufactured on or after 1 Apr 2020.

Each Bharat Stage specifies a certain limit on the pollutants released, which is controlled by the type of fuel made by the oil companies and the up-gradations and modifications made by the automobile firms to their vehicles to control the pollutants released from the vehicle.

The Fuel Requirements:

- In the transition from BS-IV to BS-VI, fuel companies will have an important part to play. They will need to make the specified grade of fuel available before April 2020.
- The BS-III and BS-IV compliant vehicles were able to run on the fuel that was in circulation for the past 10-15 years. The requisite BS-IV compliant fuel that had to be 50ppm ultra-low Sulphur was not mandatory and the BS-IV vehicles could manage with BS-III compliant fuel as well. However, there is no such backward compatibility in case of BS-VI vehicles.
- According to some of the reports, many oil refineries are now equipped to produce BS-VI compliant fuel and will soon be able to give out samples for testing soon.

Challenges to be faced in shifting from BS-IV to BS-VI:

Taking a leap from BS-IV to BS-VI comes with immense technical challenges. (Europe took 9 years to completely implement the Euro 6 standards). As the deadline for implementing BS-VI norms has been set 2020, OEMs have a lot to execute. Although BS-VI is based on Euro 6, the OEMs cannot simply add the required component to the vehicles. For instance, fitting a Euro 6 complaint DPF (Diesel Particulate Filter) in a small diesel car in India will require bonnet size to increase, thereby going beyond 4 meters mark. This may lead to a loss in the excise benefit. Thereby, there is an uphill to take in the transition for the OEMs.

Additions needed to further curb emissions:

- To keep both PM and NOx level under check, the OEMs would require diverse technologies to work on.
- A DPF will be fitted in the automobile to expel particulate matters from the exhaust gas.
- Similarly, for NOx reduction, selective catalytic reduction (SCR) and exhaust gas recirculation (EGR) will be used.

In a nutshell, the engine will now have a purification plant built into them. These components and standards will have to be calibrated, tested and validated. The process will need extensive R&D and will also require revamping the automotive product development processes. The cost involved in the transition is going to be huge, which could lead to some of this cost being passed on to the end-users as well. Also the increase in weight resulting from the inclusion of different devices has also to be kept at its minimum so that it does not affect the fuel-efficiency of the engine which is one of the major deciding factors for all car buyers.

The Crux: Will it be a challenge or an untapped opportunity:

The shift to BS-VI is a huge turning point for OEMs and different auto part manufacturers. But for the Indian suppliers and product engineering companies; this is a great chance to move up the value chain. Work is already started on the same. It starts with building state-of-the-art test facilities, hiring more workforce for each of the vehicle platform followed with the development of the emission control equipment and tweaking the ECUs (Engine Control Unit). Also, the OEMs are not going to do the entire R&D on their own as it will not only increase the cost but also cause delay in their vehicles to get BS-VI compliant, arrangements for which need to be made. The Automotive Tier-1 suppliers along with automotive embedded solution providers have loads to contribute to this process with their expertise in the niche sectors. If all falls in place, with 2020 arriving, we will witness a complete revolution in the automobile industry.

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