

SPEEDS & BUMPS – AUTOS

New product cycle— The fuel cars need to rev up

India Equity Research | Automobiles

The 6% average annual expansion in domestic passenger vehicles (PVs) over FY14–19 was largely driven by market leader Maruti Suzuki (MSIL), which zoomed off at a CAGR 10%. Ex-MSIL, industry growth sagged around 3%. The success of new products helped MSIL improve market share by about 9% to 51% over the period. With the tailwind of a strong product cycle behind (refer to [Supreme franchise but rich valuations](#)), the pace of MSIL's outperformance lost steam in FY19. This dragged industry growth, including MSIL, to 2.4%. Given MSIL's product cycle has now converged with industry trend, the PV growth is likely to stay muted. The growth trend can swerve if: 1) macros turn supportive and/or 2) new launches by industry (ex-MSIL) are successful, considering not many launches ex-MSIL have tasted success. We believe launch activity will now accelerate only after the implementation of BSVI norms, which take effect from 1 April, 2020.

- **MSIL's slowing pace dragging industry:** Over FY14–19, MSIL's volumes jumped 10%, outpacing the industry's 6% CAGR, on the back of *Celerio, Baleno, Vitara Brezza, Ciaz* and *DZire*. Over the same period, its market share grew by 9% to 51%. However, the company's ability to spearhead industry growth and its pace of market share spurt have been waning lately (gain of <1% in FY19; refer to figures 1 and 2). Hence, rivals' success at new launches is critical for industry growth.
- **Is competition catching up?** Competitive intensity intensified in the recent past with M&M, TTMT and Honda upping their launch activity and their new offerings finding some favour among consumers. Their sustained success and prospective launches by competition will be critical to replace the strong model cycle that the domestic PV industry posted during FY14-19 due to MSIL.
- **BSVI transition could fuel further competition:** After the transition, car launch/major upgrade activity in the industry is likely to pick up as most players waiting on the sidelines will try to gain market share.
- **Is MSIL's market share under threat?** MSIL's solid moat will help it maintain or marginally gain market share till it identifies white spaces and launches new products. The company's strong distribution reach, customer connect, efficient & established vendor base, and cost-efficient operations will sustain its dominance over market share. That said, MSIL's margin could remain under pressure during the transition to BS VI. In case MSIL decides to pull the plug on certain models (Omni, diesel variants in certain brands), its market share can come under pressure in the near term.

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Automobiles

Chart 1: PV industry growth – including and excluding MSIL

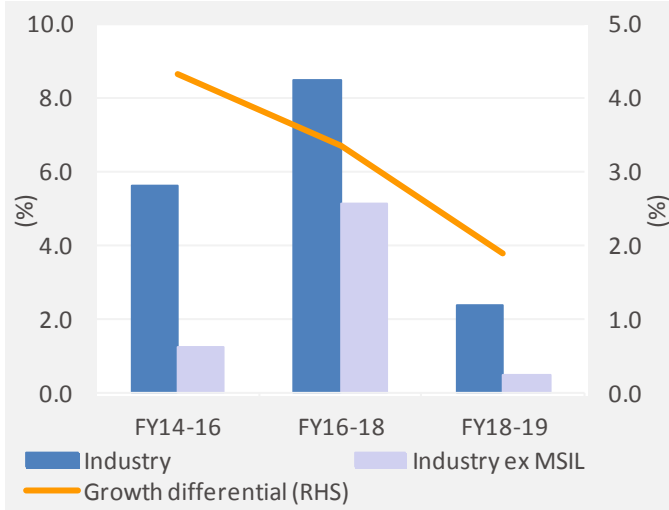
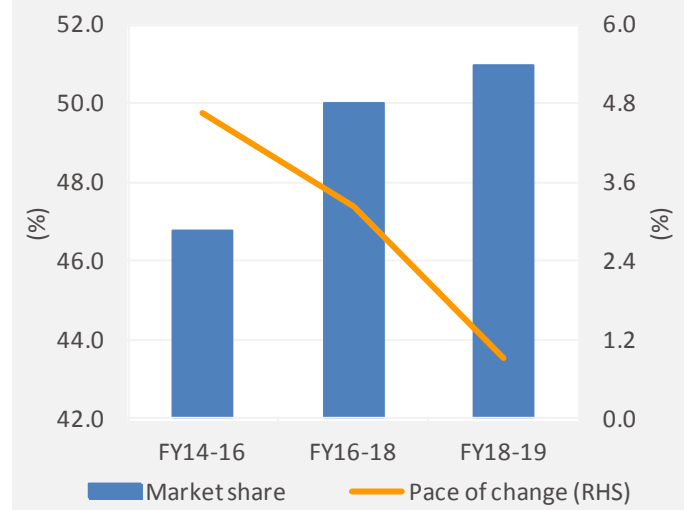
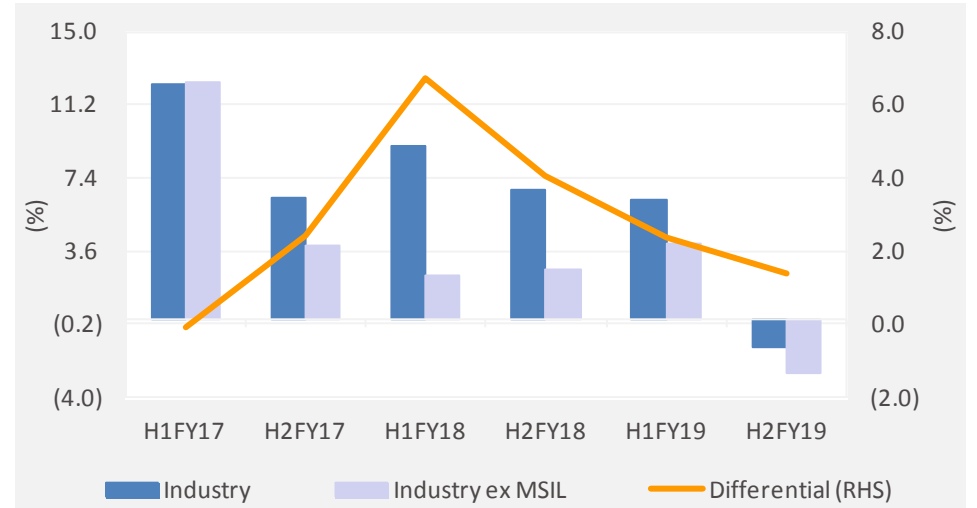


Chart 2: MSIL market share change*



*Market share at end of the period

Chart 3: Semi-annual PV industry growth – including and excluding MSIL



Source: SIAM, Edelweiss research

Table 1: Model launches – Maruti and select OEMs

Year	Total Launches	Maruti	Hyundai	Mahindra	Tata	Honda
FY14	10	Celerio	Grand i10, Xcent	Vibe	NA	NA
FY15	7	Ciaz	NA	NA	Zest	Mobilio
FY16	14	Baleno, S-cross, Brezza	Creta	KUV100 & Supro	Tiago	Jazz
FY17	15	Ignis	Tuscon	NA	Hexa	Accord, WR-V, BR-V
FY18	8	Dzire upgrade	NA	Supro V2	Nexon	NA
FY19	15	NA	Santro	XUV300, Marazzo, TUV300 Plus, Alturas G4	Harrier, Magic Expres	Amaze upgrade, New Civic

Source: SIAM, Edelweiss research

Table 2: Recent and upcoming model launches of select OEMs

OEM	Model	Category
Datsun	Cross	Compact SUV
Ford	Kuga	Compact SUV
Honda	HR-V	SUV
Hyundai	Venue	SUV
Hyundai	Kona	Hatchback
Jeep	Renegade	Crossover SUV
Kia	Rio	Hatchback
Mahindra	eKUV100	SUV
Mahindra	e20 NXT	Compact SUV
MG	Hector	SUV
Renault	New Duster	Compact SUV
Tata	Altroz	Premium hatchback
Toyota	Glanza	Hatchback
Volkswagen	New Polo	Hatchback

Source: Edelweiss research

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Recent Research

Date	Company	Title	Price (INR)	Recos
21-May-19	Tata Motors	Volume recovery critical to spur margin; <i>Result Update</i>	190	Hold
20-May-19	Eicher Motors	Patent infringement claim against Royal Enfield; <i>Edel Flash</i>	30,937	Buy
17-May-19	Bajaj Auto	Good show in tough environment; <i>Result Update</i>	3,047	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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