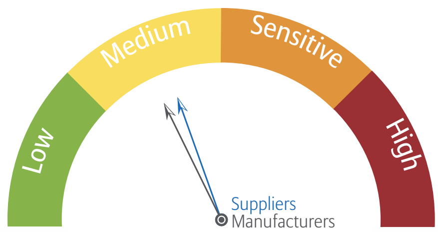
Automotive in India

Engines On!



Automotive Non-Payment Risk
(Q2 2017)

- **India's automotive market is the fastest growing, at +10.5% in 2017 and +13.5% in 2018**
- **Medium-term growth is supported by low penetration rate and young population**
- **Lack of energy and transport infrastructure hinder electric car sales**

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In July 2017, India launched its single, unified tax regime, where the Global Sales Tax (GST) removed the cascading effect of taxes. This impacts sourcing and distribution strategies of car companies, resulting in lower overall cost, while reducing the tax burden on vehicles. This effect of minimized taxation will lead to downward pricing in some car segments and therefore boost short-term sales. For 2017 and 2018, the car market is expected to expand by +10.5% and +13.5% respectively. Medium-growth prospects remain favorable and sustained by increasing FDI into the automotive sector, solid government support, and rising demand from a large and young population with growing disposable income.

An engine of profitability

In 2016, manufacturers earned an EBIT margin of 7.1%, well above the sample average. This is due to Tata Motors, India's largest manufacturer, with a margin of 7.9%. Suppliers, on the other hand, had a below average performance of 6.8%. Revenues and profitability are expected to grow due to the GST rollout. Nonetheless, total capital expenditure of Indian manufacturers and suppliers represents a fraction of what industry leaders such as Germany, Japan, and the US invest, although it has been growing rapidly in recent years (by 269% since 2007).

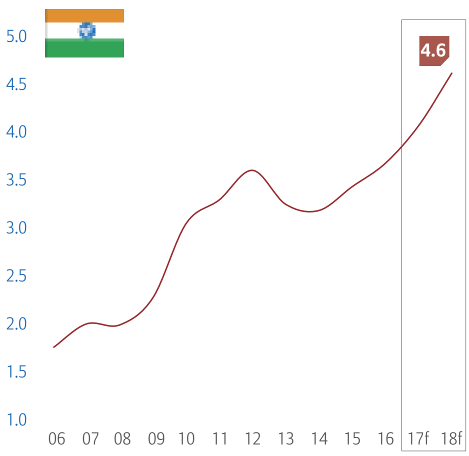
Large conglomerates lead R&D expenditure

With respect to technological innovation in the automotive sector, India does not fare well. To turn India into a leading and innovative manufacturing and export hub (official government target), R&D spending must increase substantially and a system of fiscal incentives for manufacturers and suppliers should be implemented. ICT M&A volume between 2012 and 2017 amounted to USD515mn (a mere tenth of China's M&A volumes). The lion's share is attributable to the acquisition of Lyft Inc. (USD510mn) by Tata Motors, India's largest automotive manufacturer, and a consortium of investors in 2017. The collaboration will extend to mobility services and self-driving cars.

Infrastructure deficiencies hinder greater EV adoption nationwide

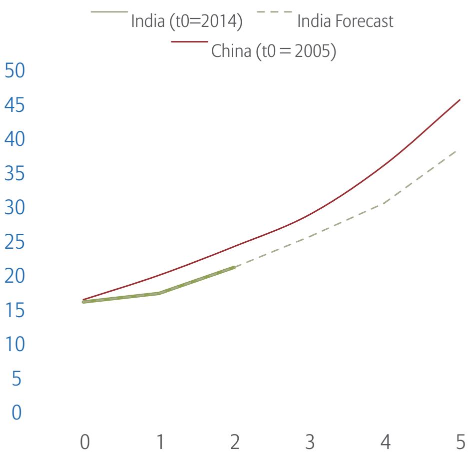
In 2015, the Indian government introduced the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) scheme focused on technology development, pilot projects and charging infrastructure. One of the main obstacles to electric vehicle penetration remains India's deficient energy and transport (and power-generating) infrastructure. The large unmet need for infrastructure investment remains the main concern. Meanwhile, government subsidies cannot compensate for the still relatively higher battery prices in the country. As a result, sales of electric cars continue to be subdued, with an overall EV fleet of 115,000 vehicles by the end of 2017 (a tenth of China's EV fleet). ■

Chart 1 New Vehicle Registrations
(in million)



Sources: OICA, IHS, Euler Hermes forecasts

Chart 2 Penetration Rate Over Time
(Vehicles per 1,000 Driving Population)



Sources: IHS, Euler Hermes

EULER HERMES