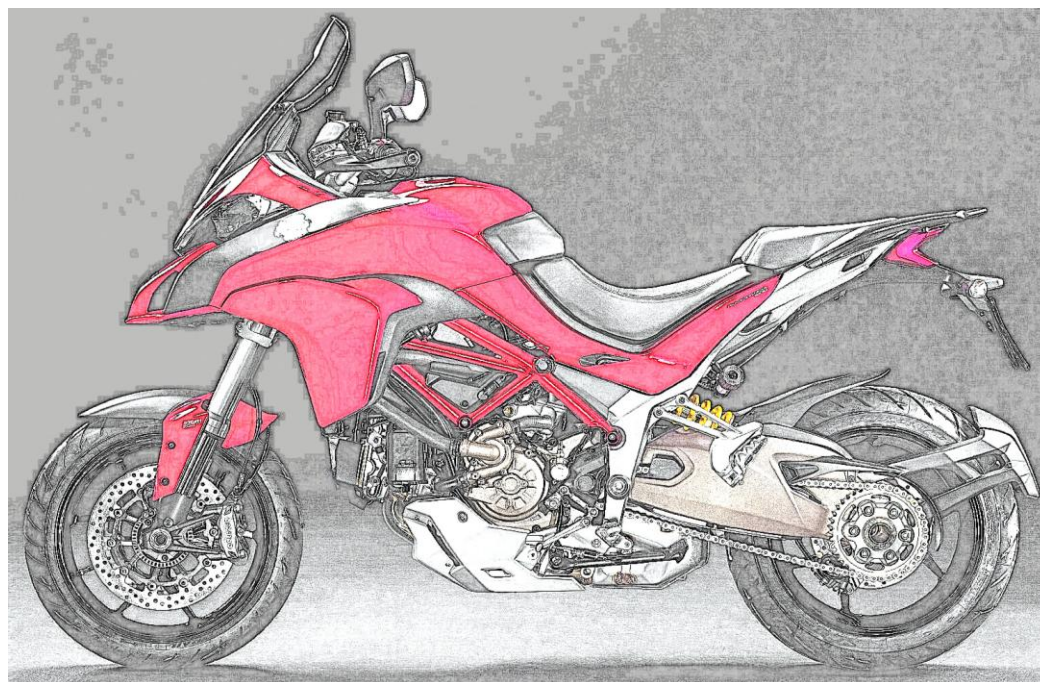




ICRA RESEARCH SERVICES

# Indian Two-Wheeler Industry



**Scooters drive 2W sales volume growth even as motorcycle segment performance remains sluggish**

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## WHAT'S INSIDE?

### 1. Overview

### 2. Segment-wise performance

- Scooter growth continues to outshine other segments; volume share inches up further

### 3. Motorcycles: Sub-segment mix remains largely unaffected

- Entry segment maintains its dominance; robust growth under premium / super-premium categories
- Bajaj continues to cede market share

### 4. Scooters: Driving overall 2W volume growth in the domestic market

- Maintaining the double-digit growth streak
- Honda expands market share; continues to maintain its leadership position
- New Model Launches: OEMs line up bevy of models, refreshed/upgraded variants across segments

### 5. Super-premium Motorcycles

- Super Premium Bikes: Racing ahead on strong demand; international majors line up for a piece of the action

### 6. Domestic Super-premium bike market

- Cruisers and Super Sport bikes outline the Indian super premium motorcycle space
- Key players and Models
- Super Premium Bikes: Cruisers - An overview
- Cruisers – Indicative model comparison
- Super Premium Bikes: Sports bikes – An overview
- Indicative model comparison - Sports bikes

### 7. Super Premium Bikes – Performance Review (Domestic Market)

- 250-500cc segment dominates the volume share
- Royal Enfield rules the lot; International brands strong in higher displacement bikes
- Evolving market dynamics with new players entering the fray
- Players set up local assembly units, expand dealership base as volume gain traction

### 8. Company Section

Hero Motocorp Limited

Bajaj Auto Limited

TVS Motor Company Limited

### OVERVIEW

*Scooters have reported healthy double digit growth rates (YoY) in all but one of the last 19 quarters*

*Motorcycle volumes pared growth witnessed early during the year; OEMs pin hopes on new model launches*

#### **Pace of 2W industry volume growth slows, weighed down by faltering motorcycle volume growth**

Notwithstanding the strong revival witnessed early in FY15, volume growth in the Indian two-wheeler (2W) industry has reported deceleration over the last few months dragged by declining volumes of motorcycles segment. The monthly growth - which averaged 16.3% YoY during H1 FY15 and peaked at 23.8% YoY in September 2014 has since seen substantial deceleration in the following months dragging the average monthly growth rate to 10.4% YoY during 10M FY15. This is largely attributed to de-growth in motorcycle volumes during Q3 FY15 and January 2015 even as scooters continued to cushion the overall volume growth of the 2W industry. Nevertheless, the volume growth during YTD current fiscal stood higher than that of the last two years supported by improved consumer sentiment and new model launches. During 10M FY15, the overall 2W industry grew by about 10% YoY to touch volumes of 13.5 million units.

#### **Scooters continue to uplift the overall 2W industry volumes; segment share improves**

Scooters segment – accounting for 27.7% of total 2W sales volumes in the domestic market in 10mFY15 – has been the primary driver of 2W industry growth over the last few years. More recently too, the volume growth of scooters segment for 10m FY15 stood at a healthy 27.4% YoY. Over the last few quarters, growth in scooter volumes has outpaced that of the industry by a healthy margin supported by improving penetration of scooters which continues to remain relatively low. This has also been supported by increasing number of model launches thereby making enhanced range of products available to customers in this segment. Encouraged by strong growth being witnessed by the scooter segment, several Original Equipment Manufacturers (OEMs) have lined up new models / refreshed variants for launch while also planning capacity expansions in the segment with a view to cater to increased demand. Relatively larger size of the addressable market, strong push factor from OEMs (by way of new model launches) and improved supply situation (with enhanced capacities coming on stream), scooter volumes are poised to sustain healthy growth trend over the next 12-18 month timeframe.

#### **Motorcycle volumes falter after a positive H1 FY15; OEMs line up new models to woo customers**

Accounting for over 65% of 2W industry volumes, performance of motorcycles has a significant bearing on the overall volumes of the 2W industry. Consequently, with sluggish volumes in the segment, the overall industry volume growth was also dragged down during the last four months despite continued strong performance of scooters. Though the segment grew by 11.6% YoY during H1 FY15, growth faltered during Q3 FY15 with motorcycle volumes posting a decline of 5.4% YoY and 6.0% YoY in January 2015. With a view to arrest the same, OEMs have lined up launches of several new model / refreshed variants which are expected to aid in spurring the demand for motorcycles. However, given current high levels of penetration in the addressable income segment; replacement demand (including product upgrades) and additional motorcycles per household would be key demand drivers for the segment. We expect this segment to continue to post moderate growth in the near term.

*Hero MotoCorp and Honda continue to maintain their market leadership position in motorcycles and scooter segments respectively*

### Hero MotoCorp continues to maintain stronghold in the motorcycles segment; Honda expands market share in the scooters segment

- **Hero MotoCorp Limited** (Hero MotoCorp) continues to remain the market leader with a share of 40.3% in 10m 2014-15, with a stronghold in the motorcycles segment where it enjoys a market share of over 50%. Hero MotoCorp's overall leading position in the motorcycles segment is primarily the outcome of its dominance in the 100cc segment (which accounts for about 64% of the motorcycles market) of bikes where it enjoys ~70% market share. On the scooters front, Hero MotoCorp has indicated of launching two new models in coming months. This, together with capacity expansion of about 240,000 units per annum to come on stream in Q4FY15, at its existing manufacturing plants could provide a leg up to its volume growth in the near term and hence aid market share gains in the scooter segment.
- While **Bajaj Auto Limited** (Bajaj) continues to enjoy strong market share in the 150cc with its Pulsar series, it has been losing overall market share over last two years owing to decline in sales in 100cc and 125 cc segment with increasing competitive intensity in these segments. Bajaj, however, plans to launch 6 new products in CY2015, with a new model to be positioned between Platina and Discover series along with new models under its flagship brand Pulsar to re-gain its lost market share in the domestic motorcycle market.
- Despite relative weakness of overall industry, **Honda Motorcycle and Scooter India** (Honda) has continued to grow well in FY14 and 10m FY15 on the back of market share gains across most of its addressable product segments. Honda continues to maintain its leadership position in the scooters segment through its flagship brand Activa (besides Aviator and Dio) - enjoying a market share of 54.9% in 10m FY15 (up from 52.8% in FY14).
- Riding on the success of two new launches (*new Wego in May 2014 and the Scooty Zest (110cc scooter) in August 2014*), **TVS Motor Company Limited** (TVS) has somewhat recouped its domestic market share in the scooters segment which recovered to 15.4% in 10m FY15 from 12.7% in FY14. TVS plans to launch two motorcycle models in the domestic market in H1FY16.

### Outlook

ICRA maintains its outlook on the domestic 2W industry with volumes estimated to grow by 8-9% in 2014-15 driven by increasing penetration of scooters even as the larger segment of motorcycles continues to post modest growth supported mainly by replacement demand. However, we expect 2W demand growth to decelerate from this level in 2015-16 to around 1-3% in view of limited flow of first-time buyers whose disposable incomes are unlikely to expand till India's economic growth turns more reassuring. Over the medium term, the 2W industry is expected to report a volume CAGR of 8-9% to reach a size of 22-23 million units (domestic + exports) by 2016-17, as we believe the various structural positives associated with the domestic 2W industry including favourable demographic profile, moderate 2W penetration levels (in relation to several other emerging markets), under developed public transport system, growing urbanization, strong replacement demand and moderate share of financed purchases remain intact; as also the large opportunity available to grow presence in overseas markets, mainly Africa and Latin America.

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