



Summary

The Indian two-wheeler (2W) industry reported a strong double-digit volume growth of 17.3%¹ in Q2, 2011-12 (YoY), even as several other automobile segments showed signs of a cyclical dip in growth during this period. While the northward movement in macro-economic variables including inflation, fuel prices and interest rates has been the nemesis of the automobile industry at large, the 2W industry has been relatively less impacted so far. ICRA believes that the resilience shown by the 2W industry volumes is likely to persist, a large base notwithstanding, with the industry looking on course to record yet another year of double-digit growth.

Overall, ICRA expects the 2W industry to report a volume growth of ~13% in 2011-12 and a volume CAGR of 10-12% over the next five years to reach a size of 21-23 million units by 2015-16. Our growth outlook is built on the strength of the various structural growth drivers associated with the 2W industry comprising of favourable demographic profile, moderate 2W penetration levels (in relation to several other emerging markets), under developed public transport system, growing urbanization and expected strong replacement demand, besides moderate share of financed purchases.

Table 1: Trend in Sales Volumes of Indian 2W Industry

	Volumes (Units, Nos.)				YoY Growth (%)			
	2009-10	2010-11	Q1, 2011-12	Q2, 2011-12	2009-10	2010-11	Q1, 2011-12	Q2, 2011-12
Domestic								
Motorcycles	7,341,122	9,019,090	2,464,143	2,558,515	25.9%	22.9%	17.5%	15.4%
Scooters	1,462,534	2,073,797	532,867	650,155	27.4%	41.8%	13.3%	29.0%
Mopeds	564,584	697,418	190,672	192,859	30.9%	23.5%	21.0%	7.0%
Total Domestic	9,368,240	11,790,305	3,187,682	3,401,529	26.0%	25.8%	17.0%	17.3%
Exports								
Motorcycles	1,102,978	1,480,983	482,566	492,408	13.6%	34.3%	27.1%	31.7%
Scooters	30,125	52,312	20,949	24,696	16.7%	73.6%	100.4%	88.5%
Mopeds	6,905	6,295	1,461	3,478	-5.4%	-8.8%	-44.0%	159.2%
Total Exports	1,140,008	1,539,590	504,976	520,582	13.5%	35.0%	28.6%	34.0%

Source: SIAM

¹ Refers to Domestic Sales Volumes

Corporate Ratings

Anjan Deb Ghosh
+91 22 3047 0006
anjan@icraindia.com

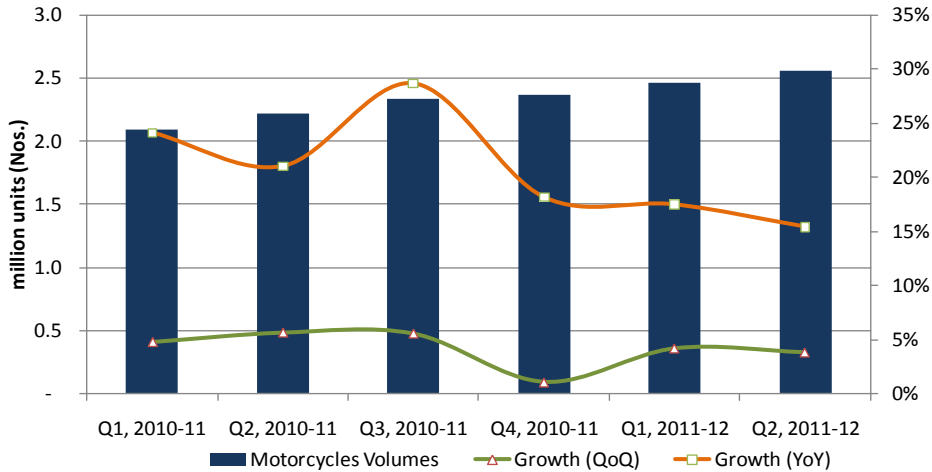
Analyst Contacts:

Subrata Ray
+91 22 3047 0027
subrata@icraindia.com

Jitin Makkar
+91 124 4545 368
jitinm@icraindia.com

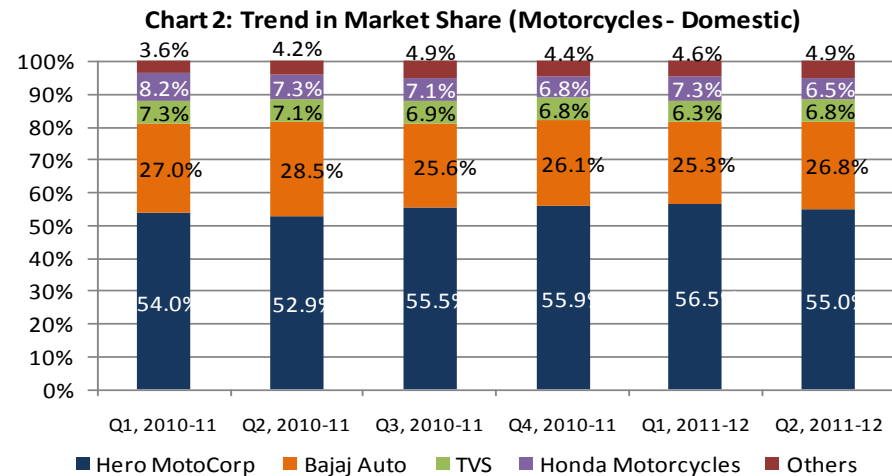
TREND IN QUARTERLY SALES VOLUMES AND MARKET SHARE IN MOTORCYCLES

Chart 1: Trend in Quarterly Sales Volumes of Motorcycles (Domestic)



Source: SIAM, ICRA's Estimates

Chart 2: Trend in Market Share in Motorcycles Segment (Domestic)



Source: SIAM, ICRA's Estimates

Segment-Wise Analysis - Motorcycles

- ✧ The strong double-digit volume growth of 17.3% recorded by the motorcycles segment in Q2, 2011-12 (Refer **Chart 1**) was not consistent across segments - Entry, Executive and Premium. The volume growth was a blend of:
 - The flattish growth (~3%) of the entry segment (*bikes having price less than Rs. 40,000*) which accounts for around 16% of the total domestic motorcycles sales volumes
 - The steady growth (~17%) of the executive segment (*bikes in the Rs. 40,000-50,000 price range*) which accounts for around 65% of the total domestic motorcycles sales volumes
 - The fast growing (~30%) premium segment (*bikes having price greater than Rs. 50,000*) which accounts for around 19% of total domestic motorcycles sales volumes

Market Share Trends

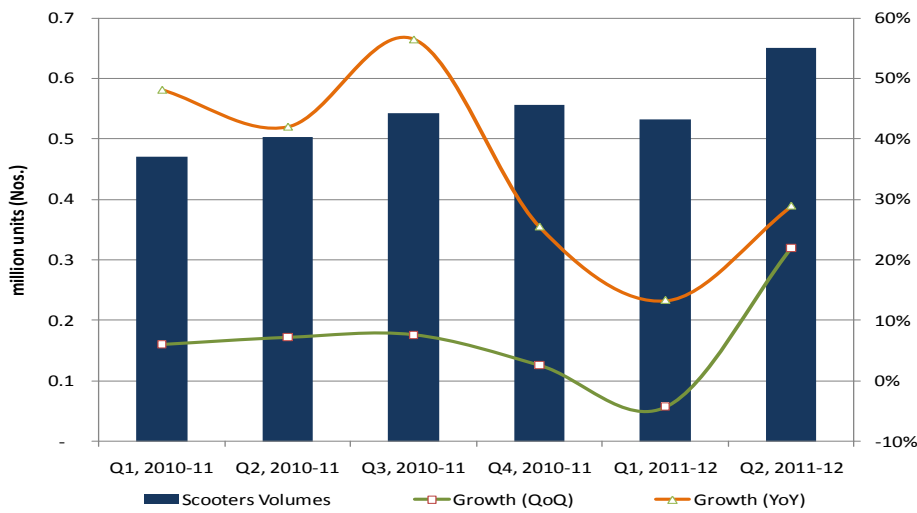
The Indian motorcycles segment continues to be dominated by Hero MotoCorp (erstwhile Hero Honda) which has maintained its market share at over 55% in the domestic motorcycles segment over the last four quarters (Refer **Chart 2**). The top three players accounted for 88.6% of the industry's volumes in Q2, 2011-12 (92.0% in 2007-08), with TVS reclaiming its spot as the third largest player, a position which it had lost out to Honda Motorcycles since Q1, 2010-11.

Short to Medium Term Outlook

- ✧ ICRA expects the entry segment volumes in the domestic market to grow at a much slower pace than the overall 2W industry and volume growth in this segment to be driven mainly by exports. This is because the segment is no longer a key focus area of OEMs due to limited scope for margin expansion and high interest-rate sensitivity.
- ✧ While the executive segment is expected to maintain its steady growth, competition is likely to intensify following aggressive model refurbishment and new model launch plans of most OEMs.
- ✧ The premium segment is expected to remain the fastest growing over the medium term, given the strong growth in purchasing power in the hands of middle-class urbanites, especially in the age group of 20-30 years. This should also translate into superior profit margins for players that are stronger in the premium segment.

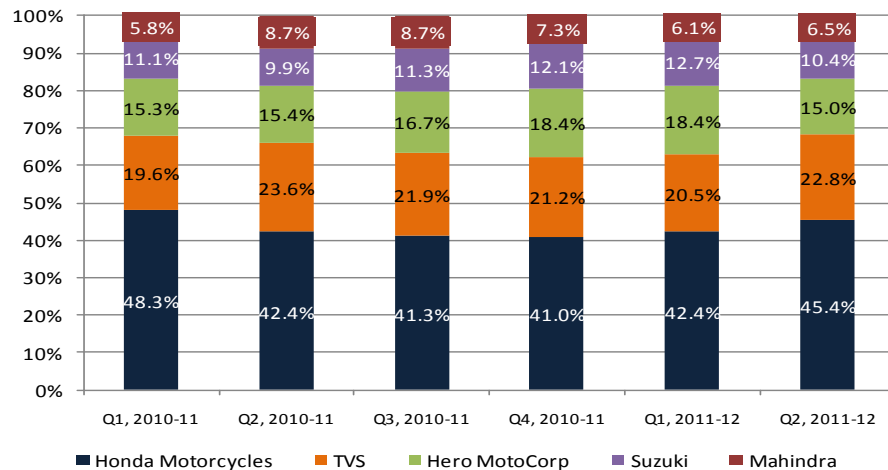
TREND IN QUARTERLY SALES VOLUMES AND MARKET SHARE IN SCOOTERS

Chart 3: Trend in Quarterly Sales Volumes of Scooters (Domestic)



Source: SIAM, ICRA's Estimates

Chart 4: Trend in Market Share in Scooters Segment (Domestic)



Source: SIAM, ICRA's Estimates

Sales Volumes Analysis - Scooters

Barring Q1, 2011-12, the growth in scooter segment's sales volumes has generally outperformed that of the motorcycles segment, partly due to the former's smaller base. In Q2, 2011-12 too, the sales volumes of the domestic scooters segment at ~650,000 units recorded a growth of 29.0% (YoY), higher than the 15.4% growth in motorcycle sales. With this, the share of the scooters segment in the total domestic two-wheeler volumes increased to 19.1% in Q2, 2011-12 from 17.6% in 2010-11.

Market Share Trends

Overall, Honda Motorcycles continues to maintain its leadership position in the scooters segment through its flagship brand Activa (besides Aviator and Dio) enjoying a market share of 45.4% in Q2, 2011-12. While capacity shortfall at the company's existing plant at Manesar (Haryana) had restricted its volume growth in the recent past, the company began commercial production at its new plant at Tapukara (Rajasthan) in July 2011. This allowed the company to consolidate its market position in Q2, 2011-12. However, Hero MotoCorp's demonstrated success in improving market share (through its sole brand *Pleasure*) coupled with new scooter models proposed to be launched by Hero MotoCorp, TVS and Yamaha over the short to medium could imply shrinkage of market share gap between the market leader and others over time.

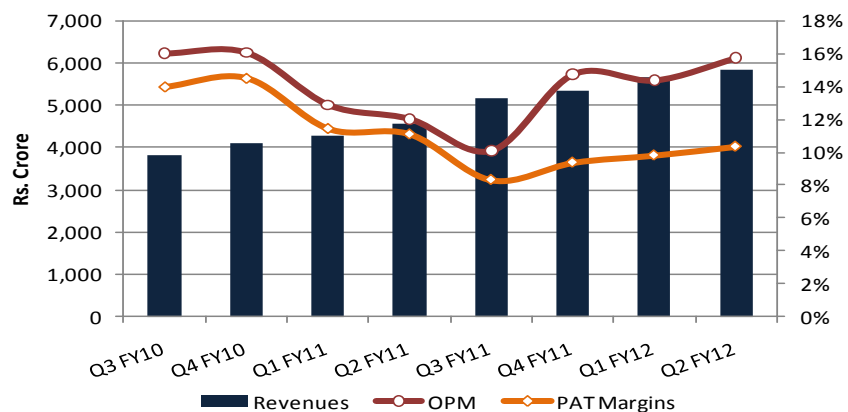
Short to Medium Term Outlook

ICRA expects the scooters segment to gradually increase its share in the domestic 2W market from 17.6% in 2010-11 to ~21% by 2014-15. With this, the domestic scooters market is estimated to nearly double in size by 2014-15. Thus, even as a multitude of brands already dot the segment's landscape and more are expected to follow, the likely expansion in the pie should offer sufficient volumes for the industry to grow profitably. For the new entrants, a faster gain in market share could hasten the process of profitability improvement.

FINANCIAL PERFORMANCE OF TWO-WHEELER OEMs

Hero MotoCorp

Chart 5: Trend in Financial Performance of Hero MotoCorp



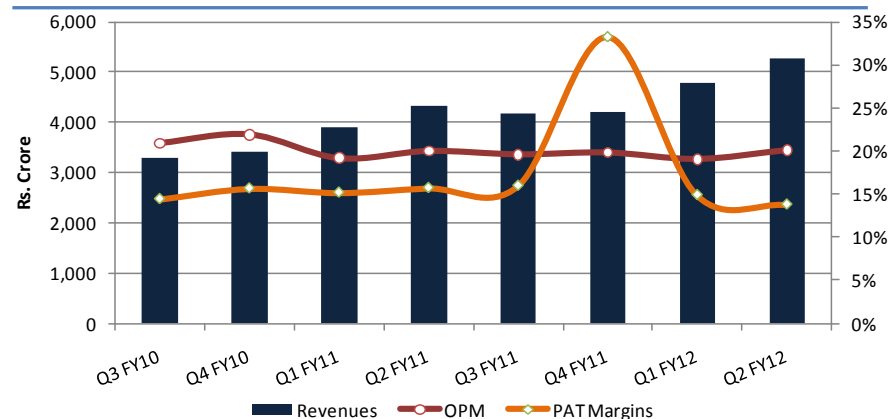
Revenues: In Q2, 2011-12, Hero MotoCorp's revenues at Rs. 5,829.3 Crore grew by 28.1% YoY and 2.6% QoQ, supported largely by strong growth in sales volumes and partially by increase in average realizations on account of price increases done in June 2011. Till 2010-11, exports accounted for 2.5% of the company's sales volumes. However, post cessation of Hero MotoCorp's JV agreement with its erstwhile partner HMC, the company is expected to get more aggressive on the exports front resulting in greater diversification of its revenue streams.

Operating Profit Margins (OPM): Hero MotoCorp's OPM improved to 15.8% in Q2, 2011-12, higher by 137 basis points (bps) QoQ in the wake of tempered commodity prices, benefits of price increases done in June 2011; and operating leverage benefits due to healthy volume growth. Further, the margins during the quarter were 374 bps higher on a YoY basis. However, excluding the company's estimated royalty payments to HMC till Q3, 2010-11, Hero MotoCorp's OPM in Q2, 2011-12 was more or less similar to what it was during the corresponding previous quarter.

Net Profits: Hero MotoCorp's Q2, 2011-12 PAT at Rs. 603.6 Crore grew by 8.2% QoQ and 19.4% YoY. Overall, the company's revenues and PAT touched a record high in Q2, 2011-12.

Bajaj Auto

Chart 6: Trend in Financial Performance of Bajaj Auto



Revenues: In Q2, 2011-12, Bajaj Auto's revenues at Rs. 5,267.3 Crore grew by 21.3% YoY (and 10.3% QoQ), led by continued strong exports growth in both the 2W as well the three-wheeler (3W) segments; increase in average realization due to both price increase as well as favourable change in product mix; and favourable currency movement on exports. The company management's outlook on exports (currently ~34% of 2W volumes) remains robust with a target to achieve export of 1.5 million units in FY12E, reflecting a growth of 25% over 2010-11.

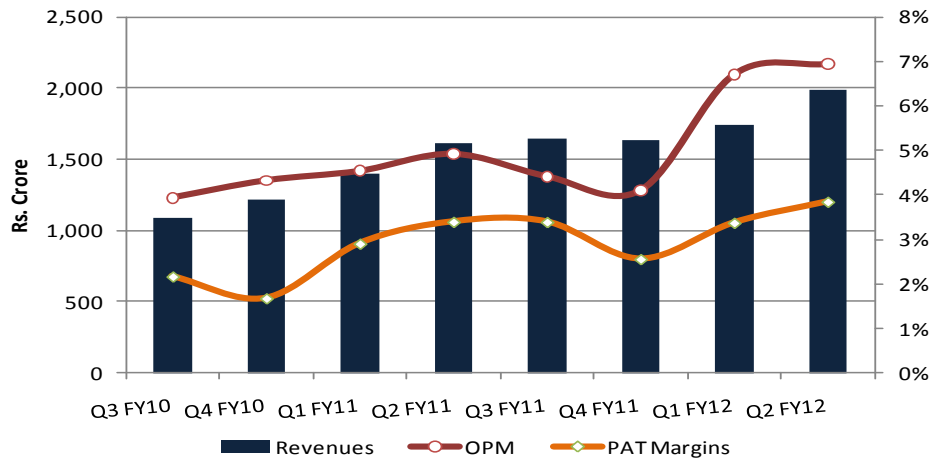
Operating Profit Margins (OPM): Bajaj Auto's OPM improved to 20.1% in Q2, 2011-12, higher by 101 bps QoQ and 10 bps YoY. The improvement in margins was supported by relatively higher realizations from exports, operating leverage benefits and rationalization of spends on sales promotion. The DEPB benefits were discontinued post September 2011; however, BAL has undertaken price increase of 3.5% on export models (besides price increase of ~1% on domestic models), which should allow the company to sustain its margins going forward.

Net Profits: In Q2, 2011-12, while Bajaj Auto's OPBITDA growth at 21.9% (YoY) and 16.1% (QoQ) remained strong, the company's PAT at Rs. 725.8 Crore grew relatively modestly at 6.4% (YoY) and 2.0% (QoQ). This was due to the exceptional MTM loss of Rs. 95 Crore recorded by the company in Q2, 2011-12 related to the valuation of forward exchange contracts. This is a notional loss and would get reversed on maturity of the underlying contracts (assuming the company's actual exports remain in line with its budgeted estimates during the term of the contracts).

FINANCIAL PERFORMANCE OF TWO-WHEELER OEMs

TVS Motor

Chart 7: Trend in Financial Performance of TVS



Revenues: In Q2, 2011-12, TVS' Net Sales at Rs. 1,991.8 Crore grew by 23.2% YoY and 14.1% QoQ, on the back of steady volume growth (up 15.1% YoY and 12.7% QoQ) and improvement in average realizations (up 1.5% QoQ) - a combination of price increases and better product mix (lower proportion of mopeds).

Operating Profit Margins (OPM): TVS' OPM at 6.9% in Q2, 2011-12 was 24 bps higher QoQ and 202 bps higher YoY. This was consequent to the company's strong volume growth during the quarter resulting in manifestation of operating leverage benefits.

Net Profits: The healthy OPBITDA growth recorded by TVS in Q2, 2011-12 also translated into a strong PAT growth which increased to Rs. 76.5 Crore, reflecting a growth of 39.7% YoY.

Analyst Contacts

Analysts	Contacts	
Mumbai		
Subrata Ray	subrata@icraindia.com 022 – 3047 0027	
Kinjal Shah	kinjal.shah@icraindia.com 022 – 3047 0027	
Delhi		
Anupama Arora	anupama@icraindia.com 0124 – 4545303	
Shamsher Dewan	shamsherd@icraindia.com 0124 – 4545328	
Jitin Makkar	jitinm@icraindia.com 0124 – 4545368	
Chennai		
Pavethra Ponniah	pavethrap@icraindia.com 044 – 45964314	

ICRA Limited

An Associate of Moody's Investors Service

CORPORATE OFFICE

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300; Fax: +91 124 4545350

Email: info@icraindia.com, Website: www.icra.in

REGISTERED OFFICE

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50; Fax: +91 11 23357014

Branches: **Mumbai**: Tel.: + (91 22) 24331046/53/62/74/86/87, Fax: + (91 22) 2433 1390 **Chennai**: Tel + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294, Fax + (91 44) 2434 3663 **Kolkata**: Tel + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008, Fax + (91 33) 2287 0728 **Bangalore**: Tel + (91 80) 2559 7401/4049 Fax + (91 80) 559 4065 **Ahmedabad**: Tel + (91 79) 2658 4924/5049/2008, Fax + (91 79) 2658 4924 **Hyderabad**: Tel +(91 40) 2373 5061/7251, Fax + (91 40) 2373 5152 **Pune**: Tel + (91 20) 2552 0194/95/96, Fax + (91 20) 553 9231

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