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ICRA: Three-wheeler volumes face headwinds in current year after robust two year growth run in domestic and export markets

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The growth in the domestic three-wheeler industry has hit a roadblock after a dream run in FY2018 and H1 FY2019, due to the base effect catching up and the NBFC crisis impacting the financing avenues available to the segment. The industry had grown by 24% and 37% respectively during FY2018 and H1 FY2019, supported primarily by relaxation of the permit regime in certain key states in India. The country is one of the largest markets for three-wheelers globally with annual volumes of more than 6 lakh units.

According to **Ms. Sruthi Thomas, Senior Analyst, ICRA Ratings**, *"The abolition of permit regime in large three-wheeler markets like Maharashtra and Gujarat along with issuance of fresh permits in states like Delhi, Karnataka, Andhra Pradesh and Telangana had extended the much-needed impetus to the domestic three-wheeler volumes in FY2018 and H1 FY2019. However, the segment has declined since the latter half of FY2019, impacted primarily by the high base and the liquidity constraints in the economy, which has blocked potential financing avenues available for three-wheeler buyers."*

Among the various regions, the Western and Central states are the largest three-wheeler markets, followed by South and East. Maharashtra, which accounts for one-third of domestic three-wheeler sales, reported growth of over 150% in FY2018 driven by latent demand in in large cities like Mumbai, Nagpur, Pune and Thane, as the market opened up. During FY2019, Gujarat and Madhya Pradesh reported healthy growth, deriving demand primarily for passenger carriers in rural areas. In Delhi, sales continue to be driven by issue of fresh permits by the Govt of NCT, Delhi. After issuance of fresh permits in FY2018, whereby volumes expanded 17%, 3W volumes in the state contracted sharply by 28% during FY2019 as there were no fresh permits in the pipeline.

With release of fresh permits in states like Andhra Pradesh, Karnataka and Telangana during the year, the Southern region reported a robust 25% growth in volume during FY2019. With district transport authorities permitted to issue new permits in their respective jurisdictions from December 2018, the Kerala market also reported some opening up in Q4 FY2019. With many of these states working aggressively on their Electric Vehicle policy, of which electric three-wheelers are a prime focus area, and states like Karnataka proposing phase-out of two-stroke autos and ban on diesel vehicles in Bangalore, the Southern market is expected to witness significant changes going forward.

India is also a major exporter of three-wheelers, and over the years, the share of exports in the overall three-wheeler volume pie has expanded, driven by increasing penetration in African and Asian markets. Over the past decade, three-wheeler exports have grown at a healthy CAGR of 14%, and currently account for 45% of total industry-mix. For three-wheeler exports from India also, FY2018 and FY2019 were blockbuster years, with volumes expanding by 40% and 49% respectively. This was largely on the back of economic recovery in key export markets in Africa. However, with adverse legislative developments in Egypt, which is currently the second-largest market for three-wheeler exports from India, the volumes have come under pressure in the current fiscal, contracting by 13% during Q1 FY2020.

"3W export volumes from India have been volatile over the years, in line with the economic scenario and regulatory developments in key markets. For instance, economic downturn in African markets like Nigeria and adverse legislative developments in Sri Lanka impacted the export volumes significantly in FY2016 and FY2017. Subsequent economic recovery in Africa led the recovery in export volumes in FY2018 and FY2019. Likewise, adverse regulatory developments in Egypt have impacted exports in the current fiscal," **added Ms. Thomas**.

With annual sales of around 0.3 million units, Africa is the largest export market for Indian three-wheeler OEMs. However, the market remains exposed to fluctuations, with volatility in forex rates and economic downturns impacting the demand. Nigeria and Egypt are the two largest markets in the region, and as the Egyptian government has been contemplating licensing of 3Ws and banning free imports of 3Ws because of safety concerns and increasing crime rates, three-wheeler exports have been impacted during the current fiscal. Three-wheeler OEMs are expected to offset the impact of lower demand from Egypt through increased focus on markets in Asia and Latin America like Bangladesh, Cambodia, Peru and Iraq.

The three-wheeler market continues to be dominated by few large players, although unorganized players also co-exist. The industry is fairly consolidated with top three players accounting for more than 90% of sales. Bajaj Auto has been the industry pioneer and dominates the market with 57% market share in FY2019. The OEM is particularly strong in passenger carriers with dominant share in petrol and alternate fuel segments, while improving share in the large diesel segment. Piaggio is the second-largest player with market share of 24% in FY2019. Unlike Bajaj Auto which dominates the passenger carrier segment, Piaggio has presence in both passenger and goods carrier segments and is positioned as the second-largest player in the former and leading player in the latter.

Going forward, the increased focus of the Government on electrification of vehicles, especially commercial fleet in the country, would impact the dynamics in the domestic three-wheeler market over the medium term. Currently, although electric three-wheelers are priced at a significant premium as compared to their ICE counterparts (around 1.5x prior to subsidy and 1.1x post subsidy), they offer significant savings in terms of operating costs. As per estimates, the running cost for an electric three-wheeler is only Rs. 0.4/km as compared to Rs. 2.1-2.3/km for the conventional ICE-based three-wheelers. Hence, with the subsidy offered under the FAME scheme, which brings down the capital costs for buyers, and operational costs savings, electric three-wheelers are expected to breakeven in 8 months as against 9-10 months for diesel three-wheelers. Accordingly, ICRA expects incentives offered by the Government, coupled with the favorable operating economics of electric three-wheelers to be the key drivers for the mass adoption of electric 3Ws, besides the regulatory mandates.

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