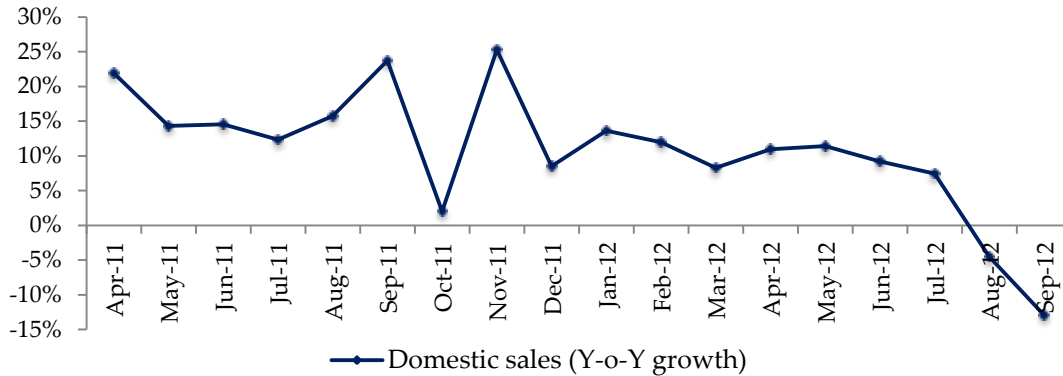


## “Two Wheeler sales await Diwali bonus”

**Indian Two Wheelers (TW) Industry joins the rest of auto sector in slowdown chorus....**

Since the second half of FY12, automotive sector is under strain owing to the constantly shrinking demand that has been impacted due to combination of factors like high interest rates, high fuel prices, below normal monsoon this year. While automotive sector was clamouring about economic woes, TW industry was cheering through tough times with a growth of 14.2 per cent in FY12. Among all the brouhaha TW was the only industry in automotive sector which was untouched by the negative sentiment until second quarter of FY13. In August 2012 TW observed a decline of 5 per cent on Y-o-Y basis followed by a decline of 13 per cent Y-o-Y in the month of September.

**Chart: TW industry monthly domestic sales Growth**



**Source: SIAM & CARE Research**

### **TW giant Hero MotoCorp (HMCL) witnessed biggest drop among all TW manufacturers in September 2012**

HMCL observed a decline of 11 per cent in August 2012 on Y-o-Y basis followed by drop of 26 per cent in September 2012. While Hero’s volume drop was viewed as one of the reasons that pulled down industry’s growth, CARE Research believes that the drop in sales of Hero MotoCorp is only an effect and not the cause. The cause, however, remains declining rural purchasing power which is a major market for HMCL that has been majorly affected due to below normal monsoon coupled with spiralling inflation and fuel prices. Some portion of the decline can also be attributed to the delay in purchases due to festive season approaching. Traditionally sales weaken during the second quarter of financial year as some people avoid purchasing during the inauspicious perceived period of ‘SHRAD’ and some delay purchase until the festive season around the month of November.

***Both high efficiency as well as high power bikes displayed a lacklustre performance***

High efficiency bikes which are popular in rural markets displayed poor show as rural economy is under strain due to below normal monsoon coupled with high inflation. Demand for high power bikes primarily comes from urban areas and are more dependent on financing options. While inflation is leaving a hole in buyer's pocket at the same time sky high cost of borrowing is leaving buyers devoid of liquidity. Furthermore, challenging economic environment has also led to delay in replacement purchases.

While less than 110cc and 125-150cc sub-segments in motorcycles dropped by 3 percent and 42 per cent respectively in FY13 (Apr-Sep), the 110-125cc sub-segment has been able to maintain growth of around 31 per cent in the same period. This indicates that rather than high efficiency or power, the buyers are opting for value segment which offers a combination of both power and efficiency.

***Scooters growth continues unabated irrespective of gloomy economic scenario***

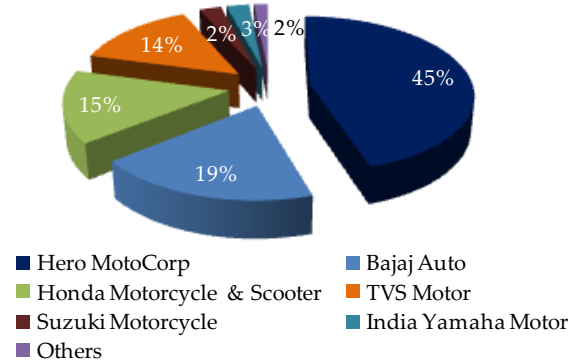
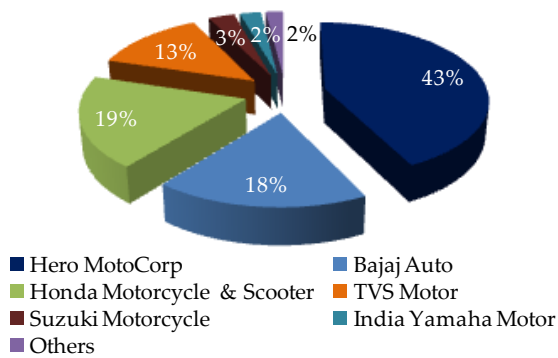
At a time when motorcycle sales are trembling, scooter sales show a ray of hope for TW industry as it witnessed a rise of around 20 per cent during Apr-Sep FY13 period. The push in the sales for scooters is mainly due to rising demand from female buyers combined with its growing preference among the urban male buyers owing to improved styling to suit their requirements, greater riding comfort and easy manoeuvrability.

***HMCL to observe divide in its brand loyalty post discontinuation of its tie-up with Honda***

Divide of brand "Hero Honda" resulted in divide of brand loyalists into two. CARE Research observed that there is a section of buyers especially from rural areas who favours "Hero" due to its extensive and reliable network support, while another section especially urban buyers favours "Honda" due to its technological supremacy. This divide is resulting in cannibalisation of Hero's market by Honda. CARE Research further observed that, this divide has pulled down HMCL's market share to 42.7 % in FY13 (Apr-Sep) from 45.2% in FY12, while at the same time Honda's market share has swelled from 14.9% to 19.0%. CARE Research believes, cannibalisation by Honda coupled with increasing competition from other OEMs in less than 110cc segment will deter Hero Splendour to maintain same kind of dominance as observed in the past.

**Chart: Player-wise market share FY13(Apr-Sept)**

**Chart: Player-wise market share FY12**



**Source: SIAM & CARE Research**

**Source: SIAM & CARE Research**

***Inventory piling up at dealerships, festive season a hope of revival...***

CARE Research estimates that Industry witnessed a production cut of around 10 per cent and 6 per cent in August and September 2012 respectively in order to curtail rising inventory levels. The festive season in the month of October and November would also help in clearing the inventories at the dealer level. Furthermore, along with the festive demand pull, sales will be pushed by both OEMs as well as dealers

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