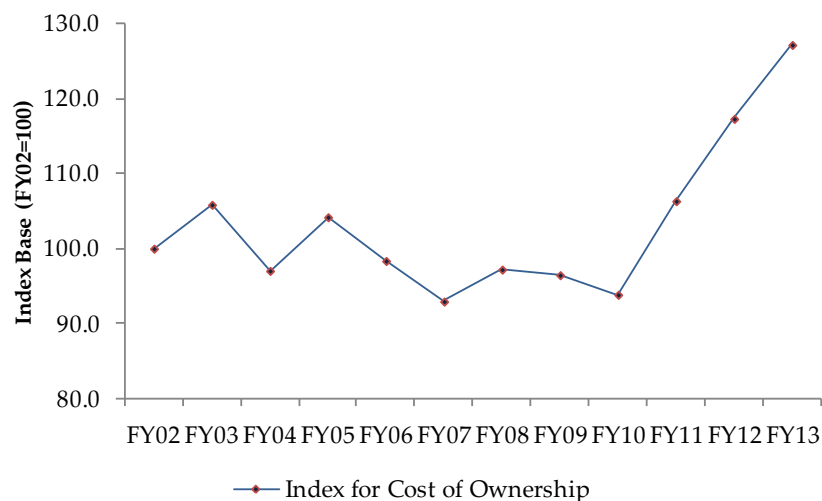


Impact note: Fuel price hike to impact demand for passenger vehicles

Sharpest petrol price hike would dent passenger vehicle demand growth

The passenger vehicle (PV) industry witnessed a modest growth of 4.7 per cent in FY12. The growth levels remained subdued last fiscal mainly due to negative sentiments arising due to economic uncertainties, spiralling fuel prices and interest cost coupled with escalating inflation levels prompted many customers to defer their purchase decision. The single largest hike in petrol prices of Rs 7.5/- litre or 11 per cent coupled with rupee depreciation would further enhance pressure on domestic sales growth. CARE Research observed that 10 upward revisions that have taken place in petrol prices post deregulations in June 2010 has led to significant increase in the cost of ownership for petrol PVs.

Chart: Index of target threshold income for purchasing a car



Source: CARE Research

Note: FY13 denotes period till May 2013

Although capital cost for diesel PVs are considerably higher than petrol counterparts...

Sudden spurt in demand for diesel PVs since last 2 years, combined with increase in overall duty structure for diesel PVs, gave OEMs the opportunity to spike up the price of diesel cars. It was observed that the price gap between a petrol and diesel models that was around Rs70,000 – Rs90,000 has currently swelled to around Rs1.2 – Rs1.5 lacs in compact and mid-size segment.

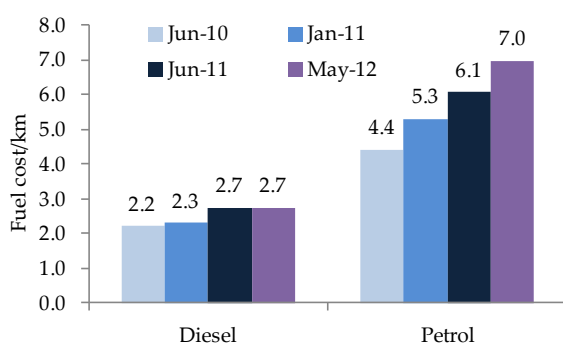
Comparison of capital cost between diesel and petrol car				
Particulars	May-10		May-12	
	Petrol	Diesel	Petrol	Diesel
On Road Mumbai Prices (Rs)	5,40,000	6,20,000	5,88,000	7,18,000
Down payment (%)	15.0%	15.0%	15.0%	15.0%
Down payment (Rs)	81,000	93,000	88,200	1,07,700
Loan Amount (Rs)	4,59,000	5,27,000	4,99,800	6,10,300
Interest Rates (%)	9.5	9.5	11.5	11.5
Loan Tenure (Years)	5	5	5	5
EMI	Rs. 9,639.85	Rs. 11,067.98	Rs. 10,991.91	Rs. 13,422.09
Difference		Rs. 1,428.13		Rs. 2,430.18

Source: CARE Research

...Diesel cars continue to remain economical as compared to their petrol version

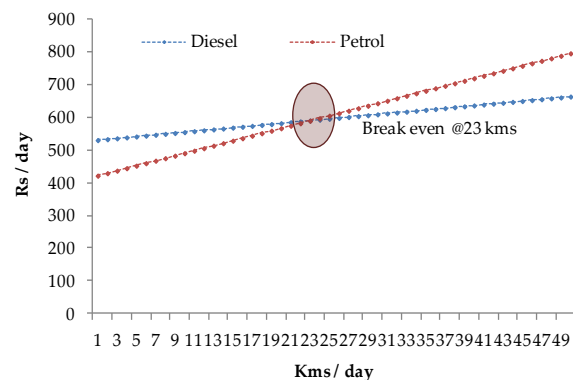
CARE Research studied that the average fuel cost per km for diesel driven vehicles came to around Rs 2.7 per km as compared to petrol driven vehicles, was around Rs 7.0 per km as on May 2012. CARE Research studied that when travelling distance is more than 23 kms per day, operating diesel driven vehicle becomes more economical than petrol driven vehicle even after factoring the higher EMI outflow. Therefore, if a person has a daily running of 50 km an approximate saving in diesel vehicles would be Rs 130 daily.

Chart: Cost Benefit Analysis



Source: CARE Research

Chart: Break Even Analysis between petrol and diesel vehicle



Source: CARE Research

Diesel vehicles will surpass market share of petrol vehicles in the short term

Rising awareness about the operating cost benefits of the diesel cars, have led to surge in the demand for diesel cars in a big way. Responding proactively, almost all major OEMs have launched diesel

variant of their key models during last 2 years and also enhance the manufacturing capacities for diesel engines. Further, inspite of the strong rise in the production of diesel cars, the demand has been able to surpass supply, resulting for higher waiting period for customers. It was observed that waiting period for popular diesel models are currently around 3months-6months.

Going forward, CARE Research foresees the share of diesel-driven vehicles to increase in the overall pie of the PV industry owing to better operating economics. The diesel PV sales were estimated to be around 43 per cent of the total PV sales in FY12, and that is estimated to constitute around half of the passenger vehicle market by FY13.

Contact:

Revati Kasture

Head - CARE Research

revati.kasture@careratings.com

Vishal Srivastav

Dy. Manager

vishal.srivastav@careratings.com

Kunal Maheshwari

Analyst

kunal.maheshwari@careratings.com

Disclaimer

This report is prepared by CARE Research, a division of Credit Analysis & REsearch Limited [CARE]. CARE Research has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Research operates independently of ratings division and this report does not contain any confidential information obtained by ratings division, which they may have obtained in the regular course of operations. The opinion expressed in this report cannot be compared to the rating assigned to the company within this industry by the ratings division. The opinion expressed is also not a recommendation to buy, sell or hold an instrument.

CARE Research is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE (including all divisions) has no financial liability whatsoever to the user of this report. This report is for the information of the intended recipients only and no part of this report may be published or reproduced in any form without prior written permission of CARE Research.

Credit Analysis and Research Limited proposes, subject to receipt of requisite approvals, market conditions and other considerations, to make an initial public offer of its equity shares and has filed a draft red herring prospectus ("DRHP") with the Securities and Exchange Board of India ("SEBI"). The DRHP is available on the website of SEBI at www.sebi.gov.in as well as on the websites of the Book Running Lead Managers at www.investmentbank.kotak.com, www.dspml.com, www.edelcap.com, www.icicisecurities.com, www.idbicapital.com, and www.sbcaps.com. Investors should note that investment in equity shares involves a high degree of risk and for details relating to the same, see the section titled "Risk Factors" of the DRHP.

This press release is not for publication or distribution to persons in the United States, and is not an offer for sale within the United States of any equity shares or any other security of Credit Analysis & Research Ltd. Securities of Credit Analysis & Research Ltd., including its equity shares, may not be offered or sold in the United States absent registration under U.S. securities laws or unless exempt from registration under such laws.