

Two Wheelers do Wheelies! – Indian Two Wheeler Forecast Update

EMMAAA is releasing the first update (Q2. 2014) of the Indian two-wheeler industry & market forecast early next week. Some of the numbers should bring cheer to the otherwise depressed industry

When we released our first forecast for the Indian two-wheeler market in Feb 2014, we went out on a limb to forecast that 2014 would see double-digit growth returning to the two-wheeler sector. We forecasted a 12.48% growth in the two-wheeler market and not many took us seriously considering that 2013 had just ended with only 3.69% growth. The market had already crossed 14 million units and probably we were getting close to saturation levels.

However, growth has returned with a bang to the sector with the first three months in 2014 delivering 13.09% increment to the market. Putting in seasonality factor, this extrapolates into annual sales of 16.26 million units.

However, the analysts at EMMAAA are slightly less optimistic and forecast 2014 to close with 16.19 million units. Deepesh Rathore, lead analyst for EMMAAA's Indian market two-wheeler forecast explains, "The first quarter of 2013 was exceptionally bad for the Indian two wheeler segment and we were actually down 0.57% year-on-year at the close of March 2013. Sales only recovered towards the second half of the year and we closed the year with low single digit gains."

Updated Forecast and Rationale

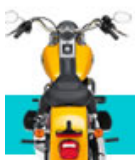
With a view of the first three months sales data, there are

two very contrasting ways of looking at it. The first is that the market, which started recovering in the second half of the year, is actually getting stronger and growth should only improve from here.

The other view is that growth has been strong in Q1, 2014 because we were against a low base and numbers may not be as impressive in the remainder of the year. The economy has not improved at all (it may have deteriorated in some aspects), political stability (or not) is still some time away and inflation is still quite high keeping the lending rates in two-digit zone.

Analysts at EMMAAA take a pragmatic view of things and forecast the year to end with 12.57% growth over 2013. This is slightly lower than 13.08% growth suggested by pure extrapolation, with seasonality adjustments, of the numbers of Q1 2014.

Significantly, EMMAAA's new forecast is slightly higher than the 12.48% growth that the consultancy had forecasted in the last round in Q1 2014 (14th Feb 2014).



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Long-term Growth

EMMAAA maintains a very optimistic view of the Indian two-wheeler market and industry. The resilience of the market to downturns, the quick rebounds from a slowdown and the sheer base of the market are factors that will drive the Indian two-wheeler market to greater heights in the coming decade.

EMMAAA now forecasts the Indian two-wheeler market to cross twenty million units in annual sales in CY 2017 and grow beyond thirty million units in annual sales by 2023. This

represents a CAGR of 7.69% over the forecast horizon.

Admittedly, this new forecast is significantly more optimistic over the last forecast in Feb 2014. The reasons for the new found increase in optimism is often-overlooked factors that are helping the market grow beyond what macroeconomics indicates.

Growth Drivers – Replacement Demand

The Indian two-wheeler parc is a self sustaining, self-driving, perpetually running monster. For two-wheelers to sell, all we need is babies to be born.

EMMAAA predicted the two-wheeler parc in India at close to 80 million units at the end of 2013. This is forecasted to increase to beyond 165 million units by 2023, a huge parc by any standards and a big potential for replacement sales.

At the same time, the average lifetime of a two-wheeler on Indian roads is declining and a two-wheeler, which earlier lasted for 7-10 years, now has a lifecycle reduced to 4-6 years. “New machines are being designed-to-cost and not designed-to-last”, comments Rathore as he points out that the two-wheeler now draws parallels with other similarly priced products like refrigerators, air-conditioners and smart phones.

“The previous generation of Indians treated a two-wheeler like a car, probably because cars were inaccessible to most at that time. With incomes, prosperity and disposable incomes improving significantly, cars are the two-wheelers of yore and two-wheeler have been relegated to much lower level in the value and longevity graph,” commented Rathore.

At times, two wheelers are replaced even when they are in perfect working condition because there is something better in the new offerings. Often the reasons for replacement are more

primitive like no self-respecting teenager will tolerate a hand-me-down from his elder kin.

The used two-wheeler prices are testimony to that. Most models lose up to 50% of their value within two years of their life. By the end of year five, they are worthless and more of a liability for the owner.

A senior journalist (anonymous, obviously) involved in performance testing of two wheelers also lamented on the inconsistent build quality of vehicles coming out of some factories. He pointed out that a 16-PS engine is often reduced to 10-12 PS within two years of the vehicle's life. While an engine losing some power over time is expected, losing 25% of peak output within two years is extreme. Because it happens gradually, not many owners complain and anyways the vehicle is beyond the warranty time frame.

This shortened life of two-wheelers may not be good news for customers but not many complain. Considerable affordability and consistent product improvements mean that the new crop of products is always more tempting to customers and they are happy to upgrade. Easily available finance is another sweetener.

This is a behavior similar to smart phones and refrigerators and is good news for manufacturers who can sell a larger number of machines because of the quick churn.

EMMAAA has changed the attributes for the vehicle parc calculations quite considerable keeping this shortened life of two wheelers. While the initial calculations were done keeping a 8-10 year life of two-wheelers, the new parc is calculated using a 5-7 year lifetime. This brings a greater number of two-wheelers as fit for replacement every year, improving sales.

Growth Drivers – Scooters

The surge in Scooters is continuing from where it left off in 2013, only it has become stronger. In Q1 2014, Scooter sales were up a whopping 33% on a year-on-year basis, as manufacturers dispatched nearly a million scooters in the first three months of the year. In comparison, motorcycles were up by a relatively modest 8.33% over previous year. However, the motorcycle base is much larger, moderating the overall two-wheeler market.

Mopeds (yes, they still exist), TVS Motor's cash cow on wheels shrank by nearly 2% in the first quarter of 2014.

OEM Analysis

Bajaj Auto has been a dismal performer in the first quarter of 2014 as the manufacturer witnessed an 11.34% drop in sales. Hero MotoCorp's sales in Q1 2014 were up 4.47% over previous year as the manufacturer maintains its market leadership still riding on the strength of the Splendor range.

However, the biggest gainer by far has been HMSI which saw a 51.6% jump in sales in the first three months of 2014. This strong growth helped Honda reduce the gap with Hero from 816000 units in Q1 2013 to 536,000 units in Q1 2014. EMMAAA expects a further narrowing of the gap in the near future even though HMSI may find it impossible to overtake Hero MotoCorp in sales in the next five years.

Big Bikes Blaze

Thanks to a small base, large interest and a huge pent up demand, the Indian Big Bike market (250cc segment and above) maintained its strong pace of growth. In Q1 2014, Big Bikes sales improved by 83.7% over Q1 2013. New model launches like the Suzuki Inazuma, Continental GT, Harley Street 750, the Indian range and the Triumph range have added enthusiasm to the market even though the Street 750 dispatches have not yet commenced.

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The Q2, 2014 update of the Indian Market Two wheeler Industry & Market Forecast would be available for download to the Forecast subscribers on Wednesday 14th May 2014. To know more about subscribing, click [here](#).