

Impact of rural markets on Automotive and Manufacturing industry

'India lives in villages' were the golden words of the father of the nation many decades ago. Ironically after almost 50 years, the data does not seem to disagree. Of the 121 crore Indians, 83.3 crore live in rural areas while only 37.7 crore reside in the urban areas. Though there has been significant migration from rural to urban areas in the country, yet 68 % of total population still continues to live in the rural areas.

There is a considerable gap between the income levels of the rural and urban areas. The cost of living is also higher in the urban areas. Government has taken a number of measures to increase the purchasing power of the rural population by investing in the development of agriculture, which is the primary occupation of the rural people.

Impact of schemes

A number of schemes such as Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), Pradhan Mantri Gram Sadak Yojana (PMGSY), and National Social Assistance Programme (NSAP) have been launched for the development of rural markets. The statistics of the Census report reveals that the country's rural population is steadily declining since 1991 widening the rural and urban divide. Thus, vision of today is highly urban centric. Cities are tipped to be the catalysts of growth in the future

and thus, there is a need to visit the existing ground realities.

Rural demands to a large extent depend upon minimum support price and employment guarantee scheme such as MGNREGA. With monsoons playing a major role, demand can be seasonal depending upon when the crops are realised, for which Original Equipment Manufacturers (OEMs) feel nimble and react accordingly.

Endeavours of OEMs

'Rural' means a different track for each OEM. For Maruti and Hero MotoCorp, it is any town or village whose population is below 10,000. For Hyundai, it is geographies beyond the top 110 cities and towns. For Mahindra & Mahindra, it is beyond the top 250. Elsewhere, Honda, Toyota and Tata Motors do not express volumes of rural yet. However, the demand can be ascertained for tier-III and tier-IV towns.

More and more OEMs are witnessed to dive deeper into the rural markets and pull new levers: hosting car fairs, setting up dealerships, sending travelling salesmen and tailoring financing options. While the Two wheeler companies (2W) have already traced the rural sector, becoming the major contributor of automobile sales in this area, Four-Wheeler (4W) companies are still testing waters.

Why Rural India Matters



	Maruti	Hyundai	M&M	Hero
Rural Definition	Population below 10,000	Towns beyond top 110 cities	Places beyond top 250 cities	Population below 10,000

And What Companies are doing



Going to more villages: employing locals to become sub-dealers and sell vehicles



Tailoring financing options to village needs- for example, cash EMIs and tie-ups with intermediaries



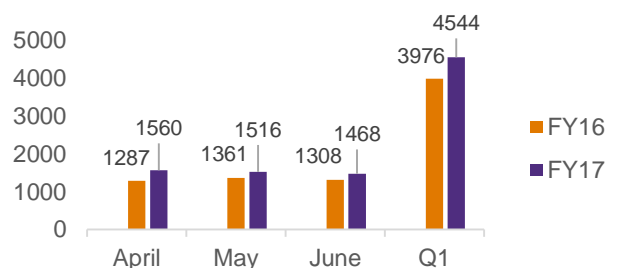
Hold car melas, be it riding piggyback on village fairs or by themselves

Hyundai and Maruti market their vehicles on attributes like low cost of acquisition and ownership, and resale value. Mahindra markets utility, as its utility vehicles are more suited for poor roads and heavier loads. Mahindra with a vehicle portfolio and tractor presence is more in rural areas than Maruti or Hyundai.

Number of cars which have proven their mettle in the rural conditions include Mahindra Bolero and Mahindra Commander. Tata Nano, although small, has surely made the biggest impact on the lives of the rural population and is considered a perfect rural family hatchback. Chevrolet Tavera is also spotted in even the most remote parts of India. Maruti's deep rural penetration is quite evident and continues to lure the rough terrains.

Several initiatives by the Government and the major automobile players in the market are expected to make the country a leader in the 2W and 4W market in the world by 2020

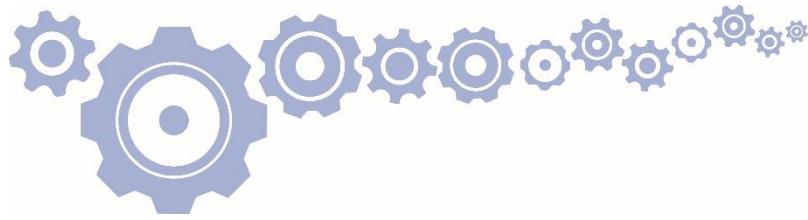
Two wheeler sales '000s



2ws – Trends

2W= Scooters + Motorcycle + Mopeds

14% in Q1 F17 over Q1 F16 | 1% in Q1 F16 over Q1 F15



Trend of Passenger Vehicles in Rural Markets

In FY'17, 2W sales witnessed 14.2 % growth owing to a low base, and the onset of monsoon in various parts of the country that helped improve buyer sentiment especially in rural and semi-urban areas. According to Society of Indian Automobile Manufacturers (SIAM), the motorcycle sales would increase because of higher urban incomes on the backdrop of recovering domestic economy. It is expected that the rural market, which contributes around 50 % of the total rural auto segment sales, can pick up with a normal monsoon.

Light commercial vehicles (LCVs) witnessed an 11.9 % growth on a low base, driven by replacement demand and are likely to witness growth, with demand from rural India driven by an uptick in monsoon, pre-buying ahead of BS IV implementation, pick-up in consumption-driven sectors and some replacement-led demand. Scooter sales are expected to be driven by strengthening urban consumption, and increasing acceptability in rural areas as well.

Thus, the need for a car to have a stronger suspension than air conditioning cannot be ignored for the OEMs to mark their presence and be successful in rural suburbs.

Prerequisites for Rural Auto Sales

To boost rural auto sales, one of the prerequisites is availability of after-market services and spare parts. It is essential to provide services like mobile workshops for which home-grown brands stand firm and strong. However, selling foreign cars to rural India remains tough.

It is very unlikely to find a foreign maker having a share more than six % in country's passenger vehicle market except South Korea's Honda Motor Co. with a share of 15 %. Japan's Honda entered nearly two decades ago but has only 170 dealerships till March 2017, compared to market-leading Maruti with 1300 dealerships currently. Of the 60 sales outlets Honda plans to open in the fiscal year that starts in April 2017, 43 will be in small towns. However, General Motors (GM) has been having trouble selling its vehicles in the country which has resulted in many of its dealers surrendering their dealerships. GM lost 60 dealerships in India in November 2015-16.

Currently, Hyundai has 400 dealerships and over 270 rural sales outlets supported by over 1,000 service centers across India. Thus, smaller towns and rural areas are a gold mine that foreign automakers are yet to tap efficiently.

Rural Markets future may positively unfold

SIAM expects passenger vehicle sales to witness 6-9 % growth in FY17, on the back of new launches, implementation of 7th pay commission, low fuel prices, stable though high rate of interest, expectation of good monsoon and a likely scrappage policy.

The growing interest of companies in exploring the rural markets would aid the growth of the automobile industry accounting for as much as 7.1 % of the country's gross domestic product (GDP). Good monsoon a year creates hopes amongst OEMs that sales would lead to a recovery in rural demand. Still, the underlying weakness in the economy does not allow the car market to grow at a very fast rate. Tepid demand for automobiles from rural areas hurt prospects of the vehicle industry and may lead into a languished growth in the passenger vehicle industry in single digits in the coming years.

Government estimates however appear rosier. It expects the passenger vehicle market to triple to 9.4 million units by 2026 if the economy grows at an average rate of 5.8% a year, according to Auto Mission Plan 2016-26. If the economy grows at an average yearly pace of 7.5 %, the size of the market is forecast to rise to 13.4 million units, making it the world's second largest after China.

Budget Contribution towards Rural markets

It is imperative to recognise that infrastructure is a major driver of growth for auto industry. Union Budget 2017-18 greatly emphasised on the rural population, the underprivileged, infrastructure development and digital economy. Allocation of INR 3.9 lakh crore towards infrastructure and INR 64,000 crores for further development of National Highways and overall a record INR 1,87,200 crore for rural sector, up 24 % from the previous year is significant to give boost to economy especially rural with focus on infrastructure creating a robust business environment and thus, helping auto industry to contribute positively towards National GDP.

Critically, demand creation is needed in the auto sector and it has been the main focus of the budget by another major announcement of lowering of tax on income lesser than INR 5 lakh. Reduced income tax on earnings upto INR 5 lakh to 5 % from 10 % previously and the reduction of income tax for companies below INR 50 crores will also boost the auto sector.

Plans to launch a digital literacy mission for rural India covering around 6 crore additional households will help in rural development.

The government strives to bridge the gap between rural and urban India to help with long term development of auto sector in India. While auto industry recognises the hidden potential of the rural market in next 5-15 years, continuous research and development and effective implementation of government policies can pave the way for auto sector boom in India. It is anticipated that economic prosperity would spread across demographics, where mobility will no longer be a luxury, but necessity.

Sources:

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