

A photograph of an automobile manufacturing plant. In the upper half, a blue car body is suspended by a yellow overhead crane system. Below it, two workers in blue uniforms and caps are working on engine components mounted on a production line. The background shows the complex structure of the factory with various pipes, lights, and equipment.

# **AUTOMOBILE INDUSTRY**

**INDUSTRY ANALYSIS**

**SANMAY KUMAR**

# INDEX

## INDUSTRY ANALYSIS

1. Cover Page
2. Industry Overview
3. SWOT Analysis
4. PESTEL Analysis
5. PORTER's Five Forces
6. Market Size and Key Trends
7. Key Issues and Challenges

## COMPANY ANALYSIS

1. Maruti Suzuki- Company Overview
2. SWOT Analysis
3. PESTEL Analysis
4. BCG Matrix
5. Balance Sheet
6. P/E Ratio, Key Ratios
7. Future of Automobile Industry
8. Key Advice
9. What would i differently?

# COVER PAGE

The analysis takes a coverage on the **AUTOMOBILE INDUSTRY**, the highs and lows of the industry in the last 5 years and despite the lack of sales in the previous year, the automobile industry prepares to bounce back with BS IV commissioned cars.

The Project takes into account the top down approach analysing the industry and the biggest market player of India in Automobile Industry- **MARUTI SUZUKI**

Maruti Suzuki holds 51.5% of the market share in the current automobile industry. Despite the slump in the automobile industry, Maruti Suzuki is holding a grip over the automobile industry.

We would study the factors that will affect the current economic condition of Maruti Suzuki

# INDUSTRY OVERVIEW

India became the fourth largest auto market in 2018 with sales increasing 8.3 per cent year-on-year to 3.99 million units. It was the seventh largest manufacturer of commercial vehicles in 2018.

The Two Wheelers segment dominates the market in terms of volume owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector.

India is also a prominent auto exporter and has strong export growth expectations for the near future. Automobile exports grew 14.50 per cent during FY19. It is expected to grow at a CAGR of 3.05 per cent during 2016-2026. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the two-wheeler and four-wheeler market in the world by 2020.

## STRENGTHS



- Evolving industry
- Constant product innovation
- Facilities in developing nations

## WEAKNESSES



- Bargaining power of consumers
- Government regulations
- High employee turnover

# SWOT ANALYSIS OF THE AUTOMOTIVE INDUSTRY



## OPPORTUNITIES



- Fuel-efficient vehicles
- Changing lifestyle & customer groups
- Market expansion

## THREATS



- Rising competition
- Sluggish economy
- Volatility in the fuel prices

# PESTEL ANALYSIS

## POLITICAL-

1. Solid democratic setup
2. Corruption and scandals
3. Focus on State Elections 2016

## ECONOMIC-

1. Emergence as manufacturing hub of small cars.
2. Growing domestic car sales.
3. Weak Indian Rupee.
4. Increase in Interest rate.

## SOCIAL-CULTURE-

1. Burgeoning middle class
2. Urbanisation
3. Composition of population
4. Increasing aspiration level

## TECHNOLOGICAL-

1. Increasing R&D spend by car manufacturers
2. Large pool of semiskilled and skilled workers available
3. Lower cost advantage

## ENVIRONMENTAL-

1. Communal clashes
2. Terror attacks
3. Labour unrest

## LEGAL-

1. Value Added Tax to Goods and Services Tax regime
2. Outdated Labour laws
3. Recent amendments to Company Law
4. Undue delay in judicial system



# PORTER'S FIVE FORCES: AUTOMOBILE INDUSTRY

## 1. The threat of new entrants-

In most markets, the capital and expertise needed to setup an auto or parts manufacturing facility, would be a great enough barrier to entry to prevent many new entrants from setting up.

However, given India's incredible growth forecasts, infrastructure progress (especially new and better roads), and ever-expanding financing options to rural residents, the market is attractive. As such, we expect the threat of new entrants to be high.

Result: **Unfavorable**

## 2. The bargaining power of buyers/customers

Buyers in India have a wide variety of choice. There are more than 20 foreign manufacturers selling in India (including ultra high-end such as Rolls-Royce and Lamborghini). Of course there are also a plethora of incredibly cheap choices, like the famous Tata Nano.

Result: **Unfavorable**

## 3. The threat of substitute products-

India is famous for its two-wheelers (bikes and mopeds) and three-wheelers. These are very real and obvious threats to auto manufacturers.

Result: **Unfavorable**

#### 4. The amount of bargaining power suppliers have-

It is likely that the suppliers to the manufacturers have considerable bargaining power. They are not held ransom by one single manufacturer as they can market their products to any of the others in India.

Result: **Unfavorable**

#### 5. The amount of rivalry among competitors-

High. The industry is not yet in its shake-out phase and is still struggling to find the up-and-coming stars and possibly topple the leaders.

Result: **Unfavorable**



## Market Size

Number Of Automobiles Produced (In million)

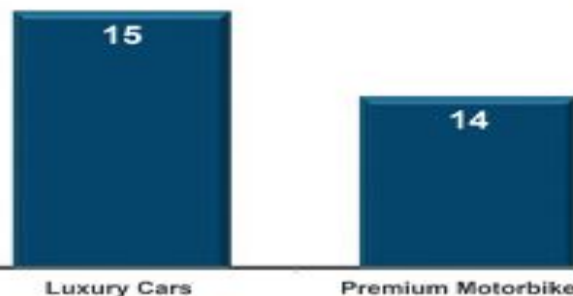


Number of automobiles sold in India (in million)

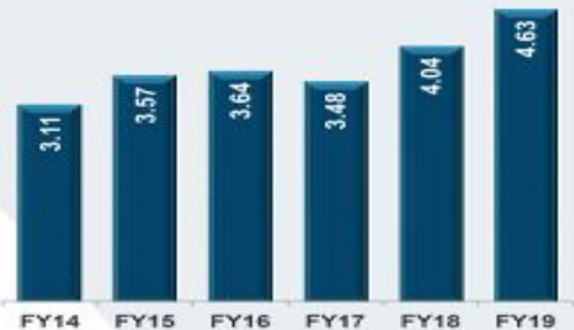


## Key Trends

Sales of Luxury Vehicles (\*000 units) during April to September 2019



Number Of Automobiles Exported (million)



# KEY ISSUES AND CHALLENGES

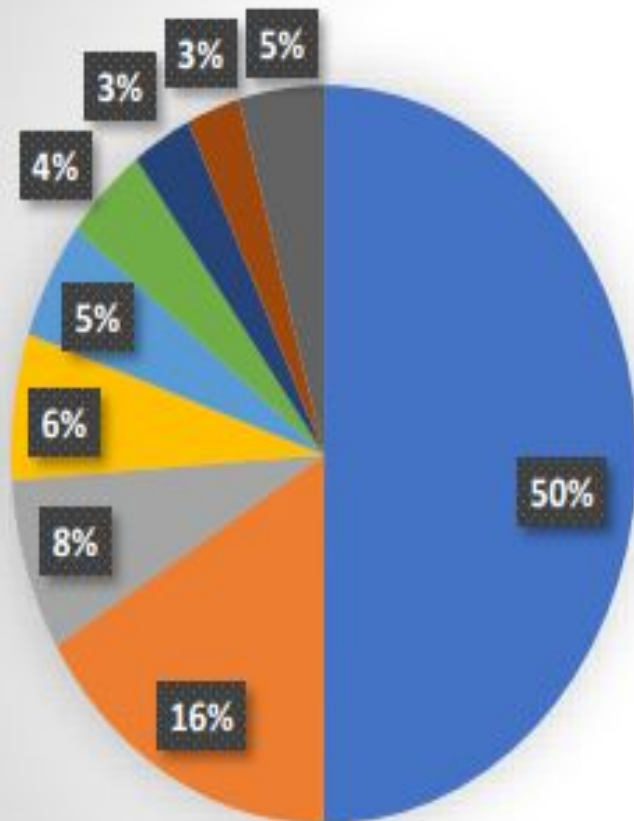
**Overcapacity.** Like all industries, automobile manufacturing experiences ups and downs. Overcapacity is the problem that occurs when a manufacturer has already invested the resources (such as payroll and materials) into building a certain quantity, only to discover later that they do not need to produce as much as they had planned for. The result is an over-expenditure that can damage cash flow and result in waste. The best way to avoid overcapacity is to invest in increased production floor responsiveness and better master production scheduling.

**Sustainability.** Consumers are increasingly concerned about sustainability. Manufacturers, therefore, must strive to create more eco-friendly cars and to be more efficient in production.

**Globalization.** Increased global competition means lower market prices for many vehicles: once again, most solutions call for increased efficiency in order to offset a lower margin of profit.

**Urbanization.** Modern consumers have a different set of criteria for their cars, many of which are related to urbanization. They include smaller vehicles, better maneuverability, and increased fuel mileage.

**Attracting talent.** As the automobile industry continues changing, manufacturers will need to continue attracting the best and the brightest talent in order to adapt to the times.



- Maruti Suzuki
- Hyundai Motor India
- M&M
- Tata Motors
- Honda Cars India
- Toyota
- Renault India
- Ford Motor India
- others (Nissan, FCA, VW, Skoda, Isuzu)

# MARUTI SUZUKI

## COMPANY OVERVIEW

A subsidiary of Suzuki- a Japanese automobile and motorbike manufacturer, Maruti Suzuki India Limited is an Indian automobile manufacturer. It is the most well-known and well-recognised automobile manufacturer in India.

This Indian automobile company is popularly known as Maruti, which used to be called Maruti Udyog Limited at the time of its inception. Maruti Udyog Limited was founded by the Government of India in 1981, only to merge with the Japanese automobile company Suzuki in October 1982.

The first manufacturing factory of Maruti was established in Gurgaon, Haryana, in the same year. Mr. R.C. Bhargava is the chairman of the company and Mr. Kenichi Ayukawa is the CEO and Managing Director.

# SWOT ANALYSIS

## STRENGTH-

1. Improved business performance and leading market presence.
2. Huge product portfolio and successful new product launches.
3. Japanese Management system
4. Diversification and R&D

## OPPORTUNITY-

1. Improving economic scenario in domestic market.
2. Other companies lack economy of scale.
3. Untapped rural market

## WEAKNESS-

1. Interior facility and features to improve to compete with foreign brands.
2. High dependence on Japanese counterpart
3. Poor man's brand. Inadequate command in premium section.

## THREAT-

1. Slowdown in economy.
2. Reduction in subsidies by the government,
3. Foreign players setting manufacturing units in India.

# PESTEL ANALYSIS

## POLITICAL-

1. Rise in protectionism measure for business opportunities.
2. Make in India initiative.

## ECONOMICAL-

1. Economic slowdown in domestic market.
2. BS IV automobiles could revive the industry.

## SOCIO-CULTURAL-

1. Share mobility and rise in car pooling.
2. Enhanced customer requirements.

## TECHNOLOGICAL-

1. Increase in embedded technologies for safe driving and green initiative.

## ENVIRONMENTAL-

1. Growing criticism towards environmental pollution.

## LEGAL-

1. Greater attention to initiative to reduce environmental impacts.
2. More legal compliance measures to increase passenger safety.

# BCG Matrix





## MARUTI SUZUKI Balance Sheet as on March 2019

No. of Mths Year Ending		12 Mar-18*	12 Mar-19*	% Change
Networth	Rs m	425,594	470,921	10.7
Current Liabilities	Rs m	154,485	141,605	-8.3
Long-term Debt	Rs m	1,108	1,496	35.0
Total Liabilities	Rs m	602,484	639,687	6.2
Current assets	Rs m	79,300	123,727	56.0
Fixed Assets	Rs m	155,209	170,442	9.8
Total Assets	Rs m	602,484	639,687	6.2

\* Results Consolidated

Interim results exclude extraordinary / exceptional items

Source: Company Reports, Regulatory Filings, Equitymaster

No. of Mths Year Ending		12 Mar-18*	12 Mar-19*
Sales per share (Unadj.)	Rs	2,642.0	2,849.2
TTM Earnings per share	Rs	260.9	253.3
Diluted earnings per share	Rs	260.9	253.3
Price to Cash Flow	x	16.4	16.3
TTM P/E ratio	x	25.0	25.0
Price / Book Value ratio	x	5.7	5.2
Market Cap	Rs m	1,739,981	1,739,981
Dividends per share (Unadj.)	Rs	80.0	80.0

\* Results Consolidated

Source: Company Reports, Regulatory Filings, Equitymaster

Interim results exclude extraordinary / exceptional items

### Key Ratio Analysis

No. of Mths Year Ending		12 Mar-18*	12 Mar-19*
Current ratio	x	0.5	0.9
Debtors' Days	Days	7	10
Interest coverage	x	33.3	141.0
Debt to equity ratio	x	0.0	0.0
Return on assets	%	13.7	12.1
Return on equity	%	18.5	16.2
Return on capital employed	%	27.0	22.6

\* Results Consolidated

Source: Company Reports, Regulatory Filings, Equitymaster

Interim results exclude extraordinary / exceptional items

# FUTURE OF AUTOMOBILE INDUSTRY

## FUTURE ADVANCEMENTS IN AUTOMOBILE INDUSTRY-

- **Electrification:** Most countries are now implementing legislation directed at manufacturing. They are for emissions-free vehicles. Some cities have already started actualizing this idea by illegalizing diesel-fueled automobiles. It is a drive to lessening the carbon footprint.
- **Shared:** Innovators believe that the future is going to have professionally managed fleets that will massively cut down on mobility costs.
- **Autonomous:** There will be the development of automobiles that will not require human interaction but purely use software for movement.
- **Connected:** This will happen in various ways between cars, traffic infrastructure, and automobile occupants.

The situation does look grim due to the onset of BS-VI vehicles. Despite the downtrend, companies went on to manufacture BS-IV vehicles. Consumers are looking to have an up to date version of their vehicle. Consumers are moving towards fleet cars and are refraining from buying vehicles due to increased governmental taxes and rising petroleum costs.

# KEY ADVICE

## **Fleet Management-**

The BS-IV vehicles should be partnered with cab services and supply chain industry. This allows the company to utilize the accumulated resources in order to bring BS-VI vehicles.

## **Leasing-**

Instead of selling, concept of leasing to customers can be introduced. Leasing would allow customers not to be attached to a vehicle and be well within their budget and low maintenance costs for them. This will allow for a car to be in rotation over the year on subscription basis.

## **Increased Safety-**

Vehicles need integrated disaster management system to avoid accidents.

## **Environmental factors-**

India should look forward to adopt electric vehicle as soon as possible as the pollution levels are on the rise in major cities. Electric and Hybrid Vehicles can be a solution.

# WHAT WOULD I DO DIFFERENTLY?

- The project would require a lot more model to model comparison with the competition.
- Consumer psychology.

# BIBLIOGRAPHY

<https://www.livemint.com/auto-news/maruti-suzuki-will-not-just-defend-market-share-but-also-charge-at-competition-says-ceo-kenichi-ayukawa-11581832751002.html>

<https://auto.economictimes.indiatimes.com/news/passenger-vehicle/cars/maruti-suzuki-regains-54-market-share-in-november/67047159>

<https://www.equitymaster.com/detail.asp?date=4/09/2007&story=2&title=Identifying-an-auto-stock-Dos-and-Donts>

<https://www.marutisuzuki.com/corporate/about-us>