

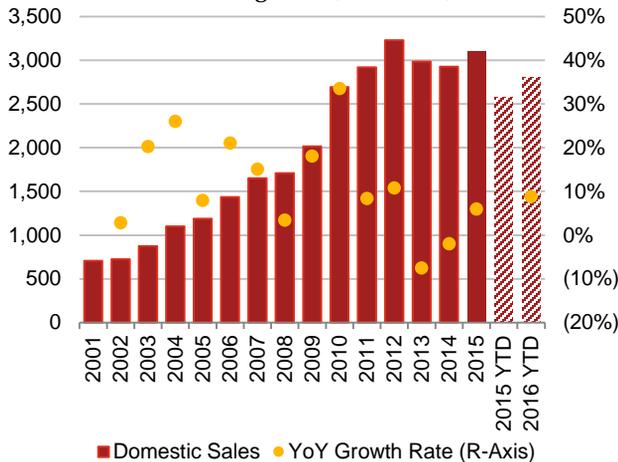
India: Cash Freeze before the Big Bang?

Latest developments and their impact on growth perspectives

Just as India's automotive market seemed to be back on track, the demonetisation of several rupee notes affected sales. However, recently announced reforms are expected to bring forth some of India's economic potential.

India: Light Vehicle Sales

2001 – 2016 YTD through Oct (thousands)



Source: Autofacts Analysis, SIAM

Only hope or realistic target?

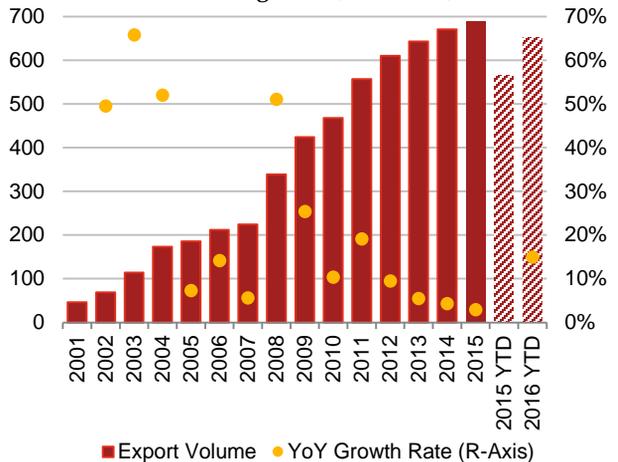
The global economy has recently shown relatively slow growth. However, India's economy is expected to remain strong, begging the question if India will be able to follow in China's footsteps of continuous and strong growth. Nevertheless, there are still challenges to mirroring China's success.

India is a densely populated country with the second largest workforce in the world. India surpassed China's GDP growth rate in 2015, and is expected to continue to have higher GDP growth rates than China in the upcoming years.

The Indian government, led by Prime Minister Modi, is aiming to further increase economic growth. However, uncertainty regarding the impact of demonetisation is a leading factor of the uncertainty concerning India's growth perspectives. The fallout of the demonetisation of the 500 and 1,000 rupee notes had an impact on sales, as the propensity to

India: Light Vehicle Exports

2001 – 2016 YTD through Oct (thousands)



pay cash is high in several regions.

A large pipeline of economic reforms is expected to minimize this uncertainty in the upcoming years. One of the most important reforms include the recently announced common Goods and Services Tax (GST), which will be implemented by April 2017. The reform is expected to spark some of India's economic potential.

Creating a free trade zone

The GST will create a consistent domestic market which has not existed in the past due to various different indirect taxes on the sale of goods and services in the different regions of India. These variations lead to onerous customs procedures and created massive impediments to trade and distribution of labour within India. A unified domestic market is expected to increase trade significantly within the country. This should stimulate the economy as well as spur economic

development. Still, there are a few challenges to the growth of the Indian economy.

One of the major challenges is the low average disposable income of Indian households. In 2016, disposable income averaged \$1,500, which is only a quarter of the disposable income available to Chinese households. Poverty is still a critical issue in India.

Another challenge is the condition of public infrastructure in India, a long-time impediment to economic growth. Streets are often clogged by traffic jams, electricity networks in many parts of the country are unreliable, and the railway network is slow and operating at levels beyond its capacity.

Currently, India's service-led growth model is experiencing some constraint as it accounts for almost 60% of GDP, but for only 28% of total employment. Therefore, there is a desire to rebalance the economy in favor of manufacturing.

The development of the automotive industry

Since the turn of the millennium, India experienced an incredible growth within its automotive market, with a sales record of more than 3.2m units in 2012, which was more than four times the sales footprint of 2001. 2016 is expected to be a new record year, although the first quarter was rather weak.

Nevertheless, light vehicle sales are expected to increase by more than 8.5% to 3.4m units in 2016, indicating that India might soon overtake Germany as the world's fourth largest automotive market.

Passenger cars have the highest volumes of all segments and account for more than 60% of sales. However, utility vehicles (+29.8% YTD through October) and light commercial vehicles (+12.2% YTD through October) are driving the current sales

increase. From an export perspective, the development is even more impressive.

As the Indian market has attempted to fill local production capacity since 2001, exports have increased almost fifteen times and are expected to reach another record level this year. Inline with these developments, production volumes are also expected to reach another record this year, surpassing 4.0m units for the first time. Maruti Suzuki, the absolute market leader in India, is expected to account for around 37% of the overall production, followed by Hyundai, which is expected to account for approximately 16%.

The positive economic outlook and the tremendous workforce will be important growth drivers in the long-term. Additionally, India still has a very low car density. For every 1,000 people in India, there are currently only around 20 light vehicles. In China, this figure is six times higher.

Therefore, Indian automotive production is expected to increase to slightly more than 6.4 million units by 2022, driven by domestic demand as well as further growing exports.

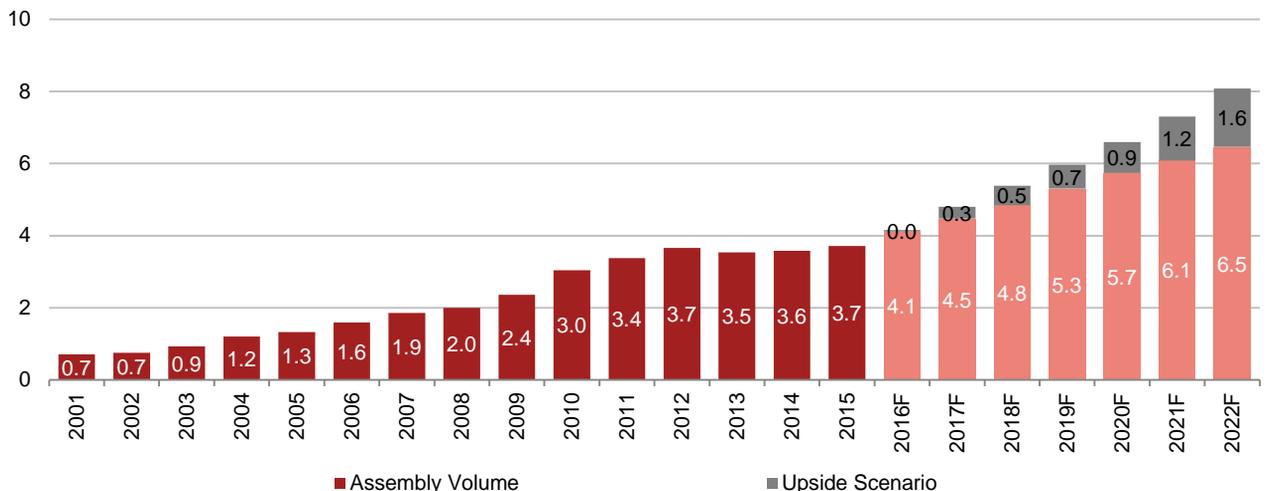
Conclusion

Although the Modi administration concentrates on improving investment climate and manufacturing productivity, annual industrial production growth averaged just around 2% in recent years. Thus, India fares poorly in one very important parameter that characterized Chinese development. Nevertheless, there is still huge potential inherent in the country and India is expected to write its own success story in the future.

For additional information on PwC's automotive capabilities, please visit pwc.com/auto.

India: Light Vehicle Assembly Outlook

2001 – 2022F (millions)



Source: Autofacts 2016 Q4 Forecast Release, Oxford Economics

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