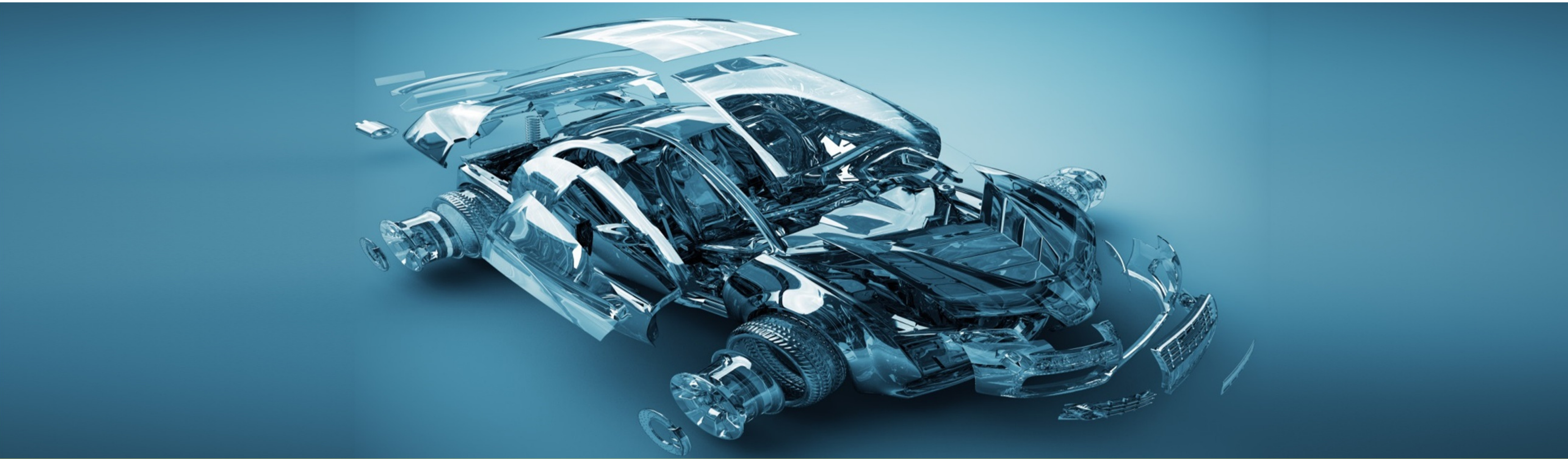


FROST & SULLIVAN

VIII. AFTERMARKET KONFERANSI
VIIIth AFTERMARKET CONFERENCE

SEKTÖRDEKİ YENİLİKLERİ TAKİP ETMEK İÇİN DOĞRU ADRES!
RIGHT ADDRESS FOR THE LATEST NEWS ON THE SECTOR!

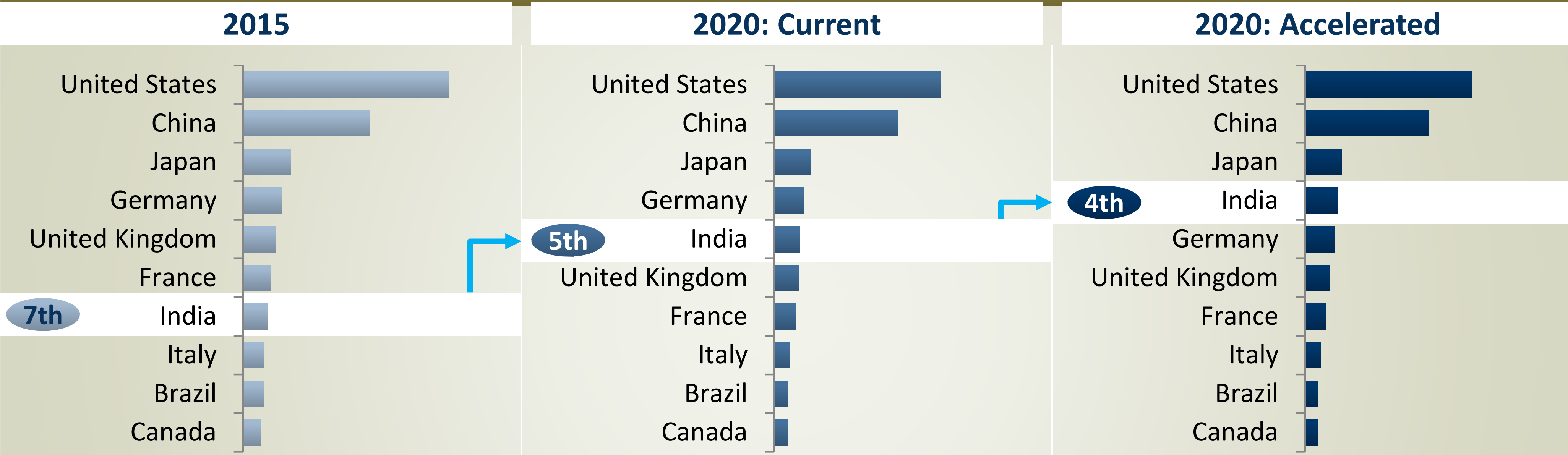
Indian Automotive Aftermarket – Key Insights 2017

Mega Trends in India

India’s Race to Superpower: 4th Largest by 2020 if Growth Accelerates

India could displace Germany to become the fourth largest economy in terms of nominal GDP by 2020.

Top 10 countries by Unadjusted Nominal GDP, Globally, 2015 and 2020



India's economy is 7th largest and about half of Japan's in terms of absolute unadjusted dollars (nominal GDP).

India, growing at 7.5%, will become the 5th largest economy, overtaking the United Kingdom and France

If India fulfills its vision to become a manufacturing hub, it could displace Germany and become the 4th largest by 2020.

Source: IMF; Frost & Sullivan

Mobile Economy: Growth in Mobile-based Industries in India

Key mobile-based industries in India are expected to be worth a consolidated $9 billion by 2020.

Potential in Key Mobile-based Industries, India, 2020

Potential of Industries in India

mHealth

Size = $500 million

mHealth has shown to reduce default rates in treatments to almost 1% in diseases such as tuberculosis in India.

mBanking

Size = $5–$6 billion

mBanking in India could cover 142 million people by 2020 who are currently unbanked and don’t have access to financial services.

mGovernance

Size = $1.0–$1.5 billion

mGovernance facility will help a large rural population, as it does not require a PC or knowledge of English, which is the case, as opposed to eGovernance.

mCommerce

Size = $1.3 billion

With close to 900 million wireless subscribers and 150 million mobile Internet users in India, mCommerce presents itself with a huge potential.

mEntertainment

Size = $3.6–$4.0 million

There are nearly 300 million subscribers for premium content services such as mobile gaming, images, video downloads, and so on in India already.

= market size in terms of fee revenue (value added revenue) in 2020

Source: GSMA; TRAI; RBI; Frost & Sullivan

Factors and Trends Impacting the Indian Aftermarket Towards 2020

The Top Three Factors that are likely to Impact Aftermarket Evolution Going Forward

1 OEMs exploring to enter Multi-brand Service Business

- Increasing use of higher technologies and electronic components driving demand for aftermarket service toward organized multi-brand outlets and authorized dealers who can invest in expensive garage equipment
- Multi-brand outlets will look for tie-ups with component manufactures to get better pricing

2 Online e-Retailing is the new global trend

- Time-saving, convenience, freedom, multi-selection, and 24/7 service
- Consumers can compare market price online
- Automotive parts sales online is currently dominated by accessories sales; this is bound to change going forward with DIY products being sold on the Internet

3 Goods and Services Tax (GST) stakeholders in the automotive value chain will reap the benefits of improved operating economics

- Current pre-GST Scenario: End-consumer price bears the brunt of cascading effect of multiple taxation along the automotive value chain
- Post GST: There would also be a move to procure higher tonnage trucks to carry additional cargo. Average trip distance per day is set to increase to about 300 km from the current 220 km

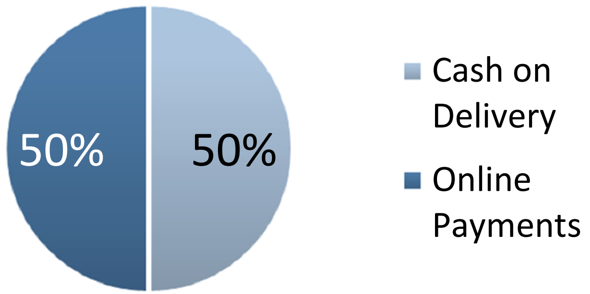
New Business Models Driving the Aftermarket – Organized Service chains and Parts e-Commerce

Online Hypermarkets See Cash-on-Delivery Trump Online Payments

CoD accounts for 50% to 75% of orders placed with online retailers; remaining opt for credit card or Internet banking options.

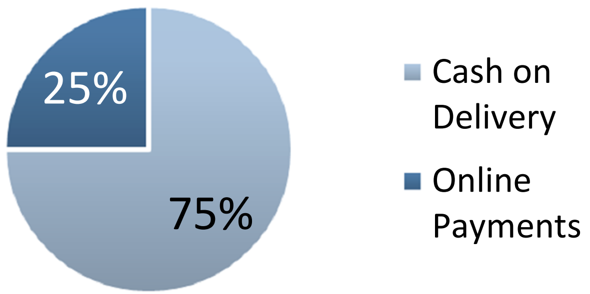
Percent Breakdown of Number of Transactions by Payment Method, India, 2014

Minimum



India Post delivered transactions worth INR 300 Crores ($44.3 million) under the CoD option for firms like Flipkart, Snapdeal, and Amazon.

Maximum



The distribution, delivery or logistics market is expected to be driven highly by this trend which will touch about $9 billion by 2021.

Source: Frost & Sullivan

Multi Brand Service Outlets: Future Service Models

Some OEMs are exploring possibilities of entering multi-brand service chain businesses like Mahindra First Choice

Factors influencing growth of Multi-brand service chains

- Increasing electronic components and technological complexities, driving the need for organized players to service
- Unorganized garages lack training and diagnostic capabilities

- Perception among customers that Authorized Service Centers (ASC) go for parts replacement instead of repair

- Overflow of cars in ASC leads to long waiting periods for service

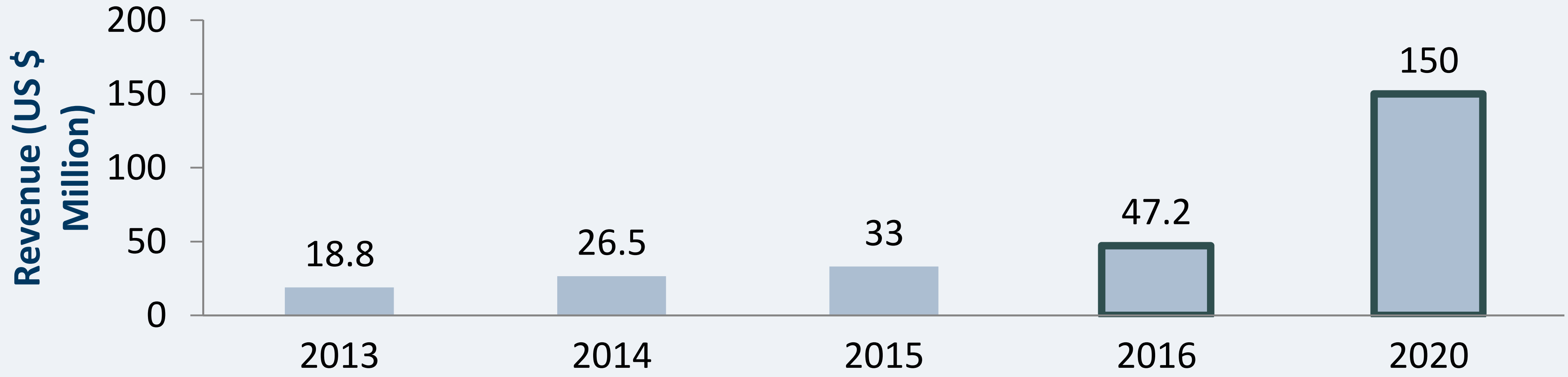
Business Model:
Multi-brand service chains would follow a combination of Company-owned Company-Operated (COCO) and Franchisee operations

- ✓ Strategic tie-ups to be established with Insurance agencies to reduce the increasing preference toward multi-brand workshops
- ✓ Centralized price negotiation with parts suppliers
- ✓ USP would be authorized service quality at lesser price

Parts e-Commerce: B2C Aftermarket Opportunity

e-Retailing in India is at a very nascent stage with lower customer awareness, little initiative from OEMs and suppliers

e-Retail Aftermarket Retail Opportunity, India, 2013-2016



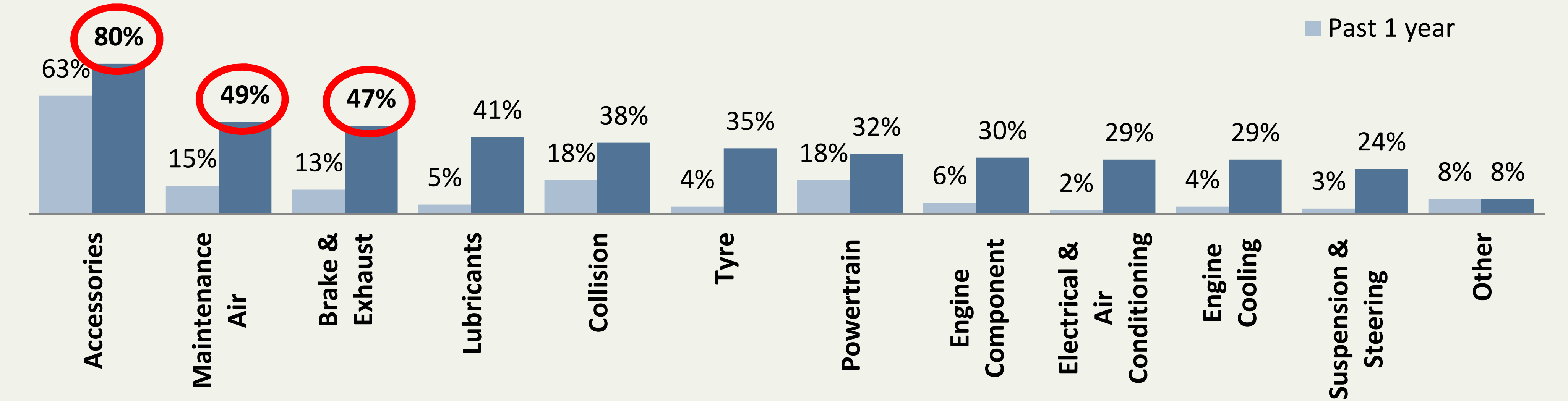
- **In the DIY market, online B2C accounts for less than 1% of sales**
- Huge opportunities in the B2B space due to proliferation of organized independent workshops and customer inclination toward using them

B2C—Business-to-consumer

Source: Frost & Sullivan

B2C – Consumer Automotive Online Purchase Behavior

Type of Parts and Accessories to be Purchased Online



- Repair shops and mechanic recommendation are key sources of information
- Search engines websites are majorly considered to find replacement parts
- About 64% have purchased accessories and it has the highest potential for future purchase (80%)

Note: Based on 1400 respondents who have purchased something online in the past one year
B2C—Business-to-consumer; B2B - Business to Business

Source: Frost & Sullivan

e-Retailing for Auto Components – India Scenario

Trust issues and fitment are key current restraints on auto components e-Retail

1 Awareness Levels

- **Customer awareness levels are still low**
- **Trust issues associated with buying parts online**

What is the warranty on the part?
Returns in case of product failure?
Is the product genuine?

2 Fitment

- **Do-It-Yourself (DIY) market in its infancy in India**
- **Customers depend on local fitters for fitting components**
- **Local fitters shy away from fitting components purchased online owing to the risk the customers may blame them for part failure**

B2C—Business-to-consumer; B2B - Business to Business

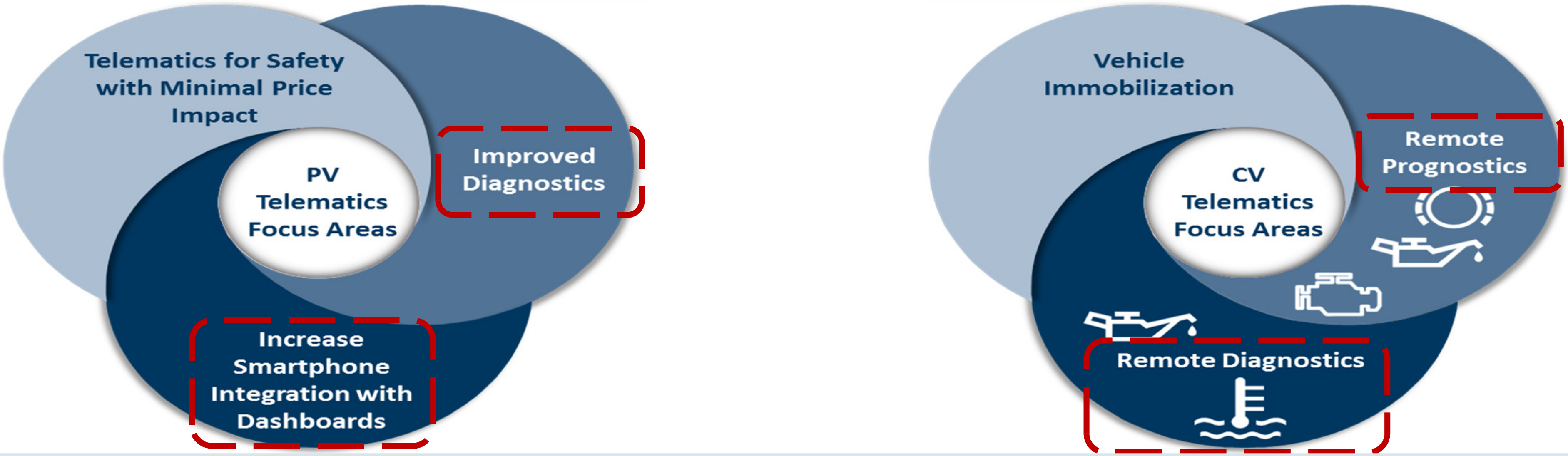
Source: Frost & Sullivan

Technology Trends Impacting the Component Aftermarket in India

Vehicle Telematics – Significant Growth Opportunities

The nascent stage of telematics in India makes it the ideal time to test business models involving Telematics

Telematics Focus Areas in PVs and CVs



- **Telematics systems could be incorporated with comprehensive catalogues of aftermarket products**
- **Generate awareness and enhance brand recall of aftermarket brands**
- Make recommendations for parts replacement based on error codes generated by telematics systems
- Provide customers with choices of aftermarket brands

Source: Frost & Sullivan

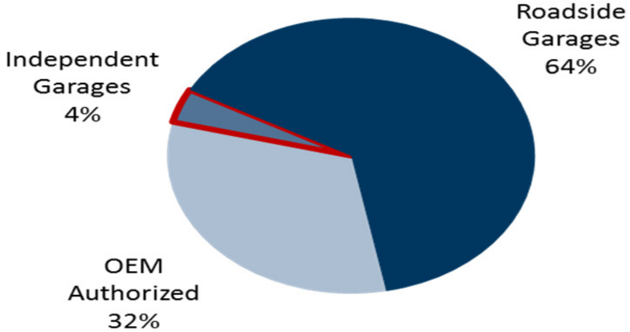
Vehicle Servicing – Independent Garages stepping up

Organized independent garages to be important influencers of the demand for IAM branded components

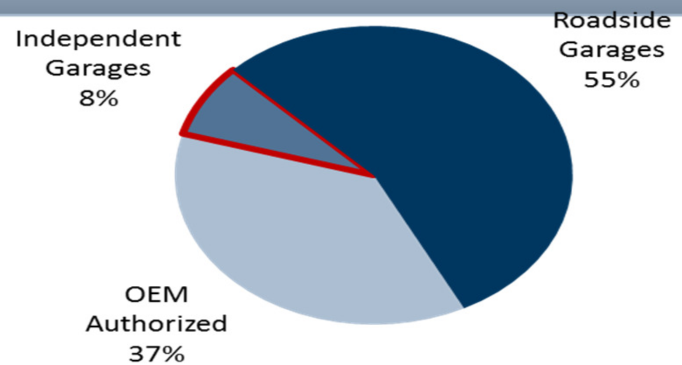
Growth Drivers of Organized Independent Garages

- Falling customer confidence in the capability of local mechanics
- Lack of tooling with local mechanics
- Flexibility to use different aftermarket brands of components
- Competitive service cost with comparable service quality compared to the OE Service Channel

Share of Service, 2015-16



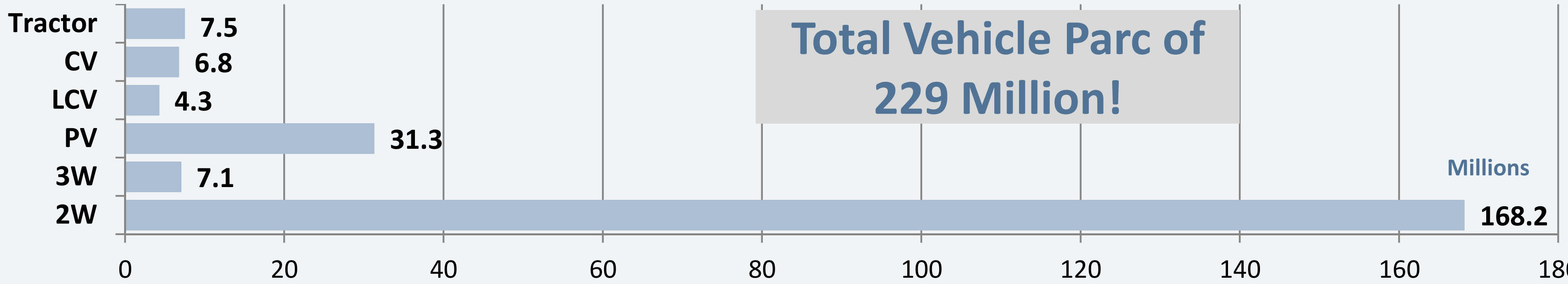
Share of Service, 2019-20



2W – Two Wheeler; BS – Bharat Stage; OBD - On-Board Diagnostics

Source: Frost & Sullivan

India Vehicle Parc Analysis 2016: Key Findings



1. **The North and South zones account for 29% and 30% of the total national vehicle Parc**

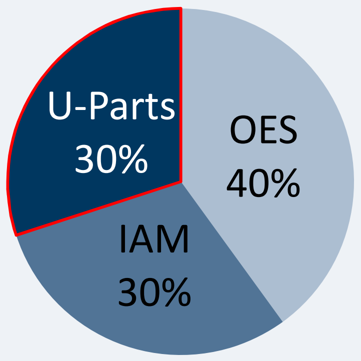
2. Research indicates an average difference of 13% between the estimated vehicle registration gathered compared to sales of the last 15 years as released by SIAM

3. All potential calculations in this study will be based on the total registered vehicle population estimated from the gathered data

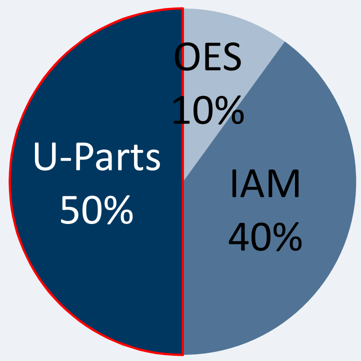
Source: Frost & Sullivan

Estimated OES, IAM and Unorganized Parts (U-Parts) Share by Segment

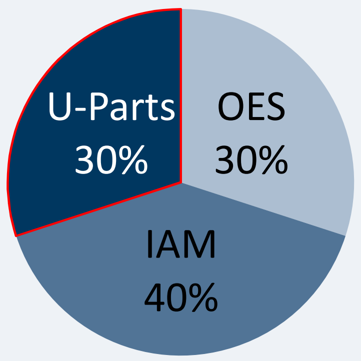
PV



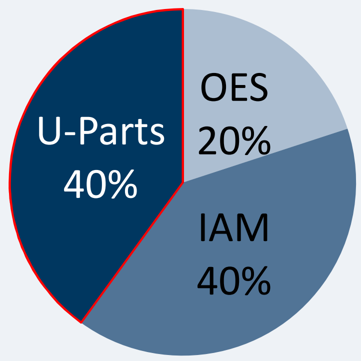
CV



2/3 Wheelers



Tractors



Source: Frost & Sullivan

Customer Choice of Spares – Key Influencers

Two wheelers

- Mechanics recommendations
- Price
- Confidence in OE component quality
- Changing customer behaviour – younger owners making vehicle maintenance a priority

Three wheelers

- Mechanics recommendations
- Price
- Confidence in OE quality (particularly in metered fare markets)

Passenger Cars

- Changing customer behaviour in favour of better vehicle maintenance
- Longer loyalty to the OE service channel
- Mechanic recommendations
- Price

Commercial Vehicles

- Component criticality
- Price
- Availability
- Mechanic and retailer recommendation

Tractors

- Mechanic and retailer recommendations
- Price
- Component criticality
- Availability

Source: Frost & Sullivan

So What?

Potential

- To grow from INR. 56,098 Cr. In 2016-17 to INR. 75,705 Cr. By 2019-20 at a CAGR of 10.5%
- Focus shifting from "product" to "service" across the value chain

Customers

- Customers will remain value conscious and price conscious, and will gravitate to sales and service channels that best meet their price and value needs

Influencers

- Mechanics remain Key Influencers, and a critical part of the overall auto component ecosystem – need to integrate them into the digital ecosystem

Source: Frost & Sullivan

Thank You

FROST & SULLIVAN

Kaushik Madhavan
Director, Automotive & Transportation Practice

+91 44 6681 4513   +91 44 4230 0369

kaushik.madhavan@frost.com