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Second wave of COVID-19 puts breaks on automotive sector recovery

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- > CARE Ratings sees further sluggishness as the closure of dealer showrooms shall lower the retail sales of this industry.
- > Additionally, the ongoing rally in metal prices could lead to another round of price hikes of vehicles, it added.



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Indian automotive sector into a state of turmoil. Due to the various region-wise lockdowns, automobile dealers temporarily shut their showrooms, as a part of the non-essential services category which in turn has been affecting sales.

As per Federation of Automobile Dealers Associations of India (FADA) data, sales made by dealers or automobile registrations contracted by nearly one-third on a month-on-month basis, while Y-o-Y comparison was irrelevant as April 2020 witnessed nil sales due to nation-wide lockdown. Such contractions in sales have put brakes on the automotive sector's recovery.

In a recent note, CARE Rating said the automobile sales in April 2021 are reflective of the various disruptions caused due to the pandemic. The factory dispatches of two-wheelers, three-wheelers, passenger vehicles, medium and heavy commercial vehicles, and light commercial vehicles declined by 10-58 percent sequentially.

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Going ahead, it sees further sluggishness as the closure of dealer showrooms shall lower the retail sales of this industry.

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in the past few months of 2021, it noted.

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Another dampener is the rise in fuel prices which shall not only impact consumer sentiments but also make logistics and supply chain expensive for the automobile OEMs.

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"To make things worse, this year the infected cases have spiked even in smaller towns, which could potentially unrest the two-wheeler and tractor demand in rural India. H2-FY22 demand would also be dependent on the timely start and withdrawal of monsoons. The prolonging semi-conductor shortage for over 6 months now, will continue to decelerate production levels. Alongside, the consumer demand will be affected as buying power has weakened and looming fears of job losses continue," explained the rating agency.

It concluded that the automotive sector in FY22 would be stable or just marginally better than FY21. The first quarter would certainly be despairing, but not as bad as Q1-FY21.

Moving forward, the recovery in domestic wholesales can be expected from Q2-FY22 onwards, contingent on a faster vaccination drive and no new waves of COVID-19 in the country.

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The capex and new product launches by automobile OEMs are expected to be deferred until the sector witnesses some degree of normalcy, which may not be before September 2021, it added.

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