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Semiconductor shortage, commodity woes continue to haunt OEMs

By Anand JC, ET Online Last Updated: May 21, 2022, 11:30 AM IST

Synopsis
While earlier in 2022, auto original equipment manufacturers (OEMs) were expecting an improved demand scenario, the turn of events in the last five months means they would now need to temper their expectations. Geopolitical strifes, Covid-19 resurgence have prolonged semiconductor shortages and induced volatility in fuel prices, thereby hurting demand in the last quarter of the previous fiscal.


Agencies

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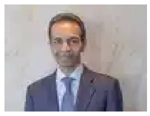
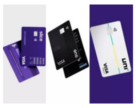
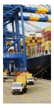
OEMs have been undertaking price hikes over the last few months owing to the continued input cost pressures.

Data shows that while domestic sales volume increased 15.7% on a year-on-year basis, it saw a drop of 5% on a monthly basis due to the multiple price hikes and semiconductor shortages.



Exports too fell 5.7% on an annual basis due to the uptick in oil prices and a supply-side crunch as China reels from a resurgence in Covid cases.





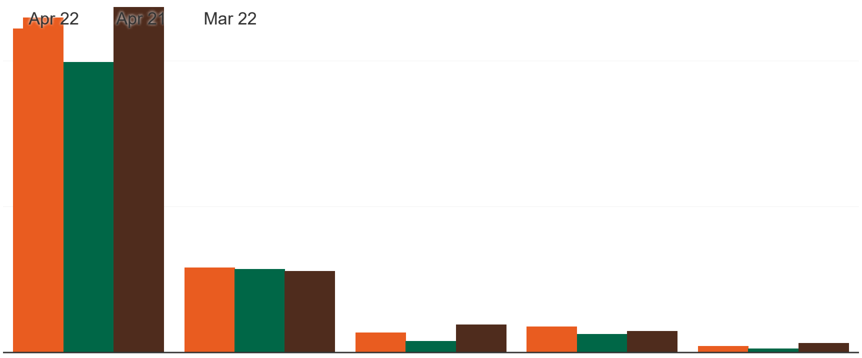
Pune-based auto component manufacturer Bharat Forge in its Q4 earnings update earlier this week said that supply chain issues continue to be widespread and are not restricted to semiconductors. "Additionally, local lockdowns/ geopolitical situation in certain geographies is negatively impacting internationally sourced materials and overall causing high inflation," it said.

Ratings firm CareEdge in a note said that it expects consumer sentiments to get dampened owing to price hikes by OEMs and fuel inflation.

"The RBI's decision to increase the repo rate by 40 bps will lead to more expensive auto loans and thus hurt demand further. In addition, concerns regarding global supply chain constraints due to the lockdown in China and the Russia-Ukraine war also persist," it said.

"RBI's move of increasing repo rate by 40 bps has clearly taken everyone off guard. This move will apply brakes and dampen the sentiments further," the Federation of Automobile Dealers Association had said earlier this month.

Auto industry domestic sales



Source: CareEdge, SIAM, TMA, CMIE • Get the data

Outlook for the fiscal

Factors including increased government spending on infrastructure, a normal southwest monsoon, new product launches by OEMs, and pent-up demand will support the growth of the sector in the ongoing fiscal.

CRISIL NSE 0.09 % Research has said that this fiscal, commercial vehicles (CVs) and passenger vehicles (PVs) volume could grow 18% and 12%, respectively, after rising 26% and 13% in the previous fiscal.

However, two-wheelers and tractors are expected to underperform once again, on a high base effect. The recovery and robust growth in the tractors segment hinge on the prediction of a normal monsoon coming true.

"CV demand growth, particularly for medium and heavy commercial vehicles (MHCVs), is expected to be backed by replacement demand because of improved utilisation and profitability of fleet operators, and government spending on infrastructure," Pushan Sharma, Director, CRISIL Research said.

While at present semiconductor issues still persist, analysts expect them to ease by the second half of FY23.

"Semiconductors supply constraints and container availability issues are expected to impact sales and production in the near term, which we believe would get resolved in H2FY23," as per Reliance NSE 0.02 % Securities.

Analysts expect the three-wheeler and M&HCV segments to witness a strong double-digit volume growth in the ongoing fiscal. "We believe the long-term fundamentals continue to remain intact for the automobile sector," Reliance Securities said.

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Tata Motors expects domestic passenger vehicle industry to surpass FY19 volumes this fiscal

Last Updated: May 22, 2022, 10:48 AM IST

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Synopsis
Tata Motors expects a better business environment this fiscal even as chip shortages continue to making it challenging to cater to the enhanced demand. The auto major also listed increase in commodity prices as a significant factor that could have a bearing on its profitability in the ongoing fiscal.

Tata Motors expects the domestic passenger vehicle industry to surpass the peak sales number of 34 lakh units achieved in FY2019 this fiscal on the back of robust demand and less COVID-related disruptions that were witnessed in the last two years, according to a top company official.

The company expects a better business environment this fiscal even as chip shortages continue to making it challenging to cater to the enhanced demand.

The auto major also listed increase in commodity prices as a significant factor that could have a bearing on its profitability in the ongoing fiscal.

"Talking about FY23, on the projections that we have seen from various agencies which are estimating volume, towards a possibility of the industry surpassing the peak that we've seen in FY19 of 3.4 million (units)," Tata Motors Managing Director Passenger Vehicle and Electric Vehicles Shailesh Chandra said in an analyst call.

The basis of the optimism is that in the first quarter of the last two financial years the industry lost volumes on account of massive COVID-related disruptions and so far the situation seems better in the current fiscal, he added.

"We are hoping that this year, there will be no disruption of that nature and also the semiconductor situation might start easing out and it is on the basis of that assumption," Chandra said.

Commenting on the current situation, he noted that the chip supply remains uncertain, and is restricting the auto major to tap its full demand potential.

"So as far as Tata Motors is concerned, certain electronic components will remain a challenge, but we are taking multiple actions to mitigate this risk in terms of creating alternatives, additional resources, close coordination with semiconductor suppliers and at times open market price also," he said.

Chandra said that the company is also taking significant steps to reduce cost structures across the organisation.

"We will continue to innovate, focus on value engineering and we have identified nine levers to improve our profitability in the next financial year,"