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Automobile Industry on Fast-Track!

Review FY18 & Outlook FY19

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Overview

India's annual production of automobiles stood at 29.08 mn vehicles (including passenger vehicles, commercial vehicles, three wheelers, two wheelers and quadricycles) in FY18 as against 25.33 mn in FY17, registering a growth of sharp growth of 14.8% y-o-y vis-à-vis a growth of 5.5% during the same period last year.

The industry is valued at around 7.1% of the country's Gross Domestic Product (GDP). The Two Wheelers segment leads the Indian Automobiles market with 80% market share owing to a growing middle class and a young population. Moreover, the companies growing interest in exploring the rural markets further aided the growth of the sector. This is followed by the Passenger Vehicle (PV) segment with 14% market share.

India, being a prominent auto exporter, the exports stood at about 14% of the automobiles produced annually. After declining by about 4.5% in FY17, exports witnessed a sharp growth of over 16% in FY18. Exports of two & three wheelers registered a sharp growth of over 22% y-o-y on back of gradual recovery in overseas demand. On the other hand, commercial vehicles exports declined by about 10% and that of passenger vehicles remained largely stable.

Outlook FY19:

Table 1: Growth in sales

Category	FY19 P*
CVs	25-30%
PVs	8-10%
Two & Three wheelers	17-19%
Tractors	15-17%

P – Projected
Source: CARE Ratings

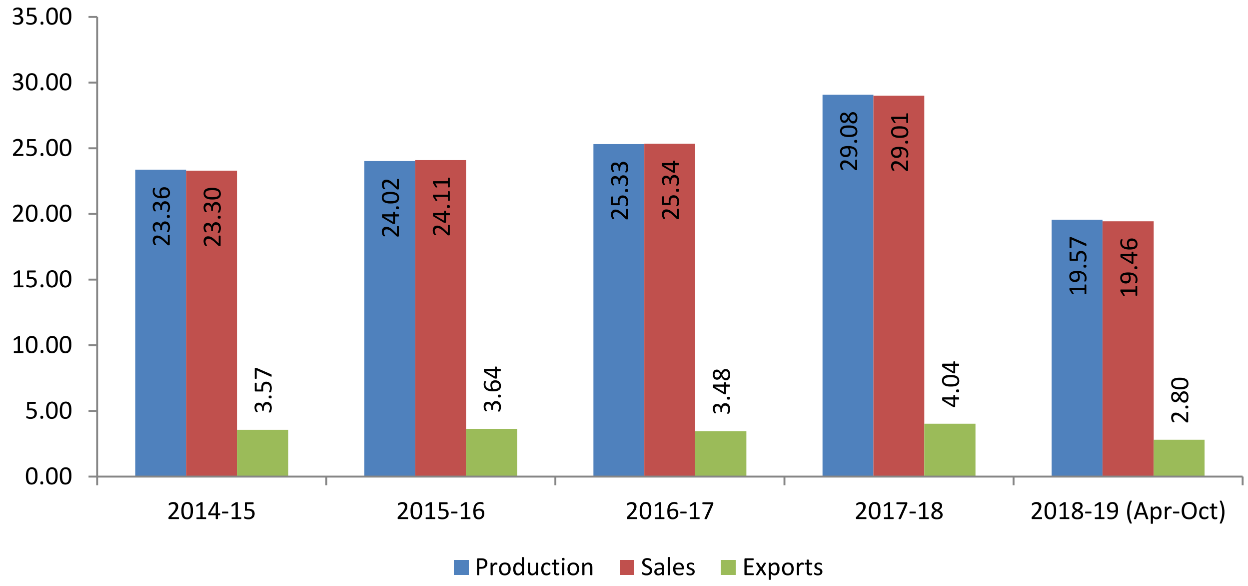
FY18 and FY19 have been significant years for the automobile industry:

- Demonetization announced in November 2016
- Supreme court's BS-III vehicle ban came into effect on April 1, 2017
- Goods and Services Tax (GST) implementation on July 1, 2017
- Cess increase in September 2017
- Continued ban on 10-year old diesel cars by National Green Tribunal (NGT), September 2017
- Increase in maximum load carrying capacity by significant 20-25%, July 2018

Performance review:

Trends in Automobile industry:

Chart 1: Production, Sales and Exports of Automobiles (Million units)



Source: CMIE

Performance of the industry in FY19 (April – October) vis-à-vis previous years

Table 2: Automobiles Sales (April – October) (in numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
2014-15	1,829,814	-	394,230	-	11,671,254	-
2015-16	1,975,981	8.0	432,108	9.6	11,901,366	2.0
2016-17	2,210,600	11.9	465,277	7.7	13,229,365	11.2
2017-18	2,328,118	5.3	471,043	1.2	14,378,941	8.7
2018-19	2,433,381	4.5	634,780	34.8	16,387,177	14.0

Source: CMIE

Passenger Vehicles:

- The passenger vehicle segment sales increased by a slower rate of 4.5% y-o-y. While new launches and improvement in the economic scenario boosted the industry demand, higher crude oil prices and interest rates restricted this growth. *Crude oil prices witnessed a sharp increase of over 45% y-o-y during FY19 (Apr-Oct).*
- Vans registered a strong sales growth of about 14% y-o-y. This was followed by the multi utility vehicles (MUVs) segment that grew by around 5.5% during April - October. Passenger cars segment, however, registered only a marginal growth of about 3.9% during the period.
- Quadricycles sales with a low base grew sharply by over 200% during the year.

Two & Three Wheelers:

- Of all the auto OEM categories, TW is a high-volume vehicle segment which is largely driven by extent of disposable income available, which in turn is a function of the state of economic turnaround especially in the rural areas that contribute to over 50% of the overall TW demand. On account of near normal monsoon in most parts of the country for 2018, the two & three wheeler segment sales witnessed a sharp double-digit growth of 14%.
- This growth was supported by over 40% y-o-y higher sales of three wheelers and about 13% y-o-y growth in sales of two wheelers. Also, exports of three wheeler segment witnessed an increase of about 60% and about 26% growth in two wheelers segment led by overall improvement in global economies.
- Within two wheeler segment, sales grew by about 12.8% with motorcycles growing at a rate of 15.7% y-o-y. Scooters and mopeds segment registered a growth of about 7.5% each during the period.
- In case of three wheelers segment, a growth of about 43% y-o-y in sales was registered supported by a sharp double-digit growth of over 48% in passenger carriers segment during the period. Goods carrier segment witnesses a growth of about 13.5% y-o-y during FY19 (Apr-Oct).

Commercial Vehicles:

- Commercial vehicles segment sales witnessed a sharp double-digit growth of about 34.8% y-o-y post release of pent up demand led by uncertainty revolving around the migration of CV manufacturers to Bharat Stage (BS) IV emission norms from April 2017 by the government. Also, with near normal monsoon in FY18 and FY19, improved farm activities have led to higher disposable income in the hands of rural populace
- Demand for CVs improved on back of increased construction and infrastructure activities along with streamlining the logistics, e-commerce and FMCG industry post the GST implementation with increased inter-state and intra-state movement of goods. Also, restrictions on the age of CVs and the load carrying capacities have supported the demand.

Table 3: Automobiles Exports (April – October) (in numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
2014-15	356,247	-	48,736	-	1,726,771	-
2015-16	377,477	6.0	58,917	20.9	1,820,311	5.4
2016-17	435,884	15.5	66,227	12.4	1,546,356	-15.0
2017-18	416,235	-4.5	47,650	-28.1	1,795,456	16.1
2018-19	404,689	-2.8	60,317	26.6	2,338,851	30.3

Source: CMIE

Table 4: Tractor sales and exports (April – September) (in numbers)

	Sales	Growth rate (%)	Exports	Growth rate (%)
2014-15	348,034		35,918	
2015-16	288,503	-17.1	39,515	10.0
2016-17	338,731	17.4	39,268	-0.6
2017-18	403,688	19.2	40,617	3.4
2018-19	457,671	13.4	49,180	21.1

Source: CMIE

Outlook FY19:

- Going forward in FY19, CARE Ratings expects the auto industry to continue to witness healthy demand as the disruptions caused by various policy implementations (demonetization, ban on BS-III vehicles, GST, rate revisions for) have almost moderated. Also, demand is expected to improve specially for **tractors and commercial vehicles** on back of various initiatives taken by the government in the Union Budget 2019 for the **Agriculture and Infrastructure sectors.**

- With pick up in construction and mining activities along with increased inter-state movement of goods with the streamlining of e-commerce and FMCG post GST implementation, demand for commercial vehicles segment has seen a significant growth during April-October 2018 period. However, with most of the demand already being met in H1 FY19, the additional demand here could be limited going forward. Also, the recent policy revision by the government (increasing the load carrying capacity for heavy vehicles) could weigh on CVs demand and the high growth witnessed in H1 FY19 is expected to slightly moderate going forward.

- Improved consumer sentiments post the Seventh Pay Commission implementation by the Centre as well as pay commission by various States and higher farm incomes supported by increased MSPs for certain kharif crops is expected to boost rural disposable income. This is expected to give fillip to the demand for passenger vehicles and two-wheelers especially passenger cars and motor cycles. However, some kharif crops have been selling at lower than MSPs in the market and it needs to be seen whether these higher stipulated MSPs have translated into higher rural incomes.

- Also, the government has announced to totally skip Bharat Stage (BS)-V norms and adopt *BS-VI norms by April 2020* for cars for fighting pollution, poses a challenge to the domestic manufacturers. Many manufacturers have already started setting up plants for production of BS-VI complaint vehicles. However, the availability of higher grade fuel for these vehicles is of high concern as using BS-VI fuel in the current BS-IV engines or running BS-VI engines on the current-grade fuel, may be not be effective in curbing vehicular pollution, and may wreck the engine in the long run.

- Rising crude oil and commodity prices especially petrol and diesel and frequent policy changes continue to remain key concerns for the growth of the industry. If crude oil prices remain stable in the range of less than $ 70/barrel, this risk will reduce.

- Also, recently, with the liquidity crisis in NBFCs and resultant slowdown in credit financing, disbursements for automobile industry is expected to remain under pressure during H2 FY19. Also, with RBI increasing repo rate from 6.25% to 6.50% in August 2018, the rise in interest cost is expected to further pressurize the auto demand. It is unlikely that the RBI will lower rates this financial year.

Table 4: Growth in sales

Category	FY19 P*
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P - Projected

Main drivers for these growth rates:

- GDP growth to be higher at about 7.5% in FY19 vis-à-vis 6.68% in FY18
- Good monsoon and higher farm income
- Increased infrastructure and industrial activities

Segment	Drivers
Passenger vehicles	Higher growth in GDP, income levels and stable prices, IIP
Two and three wheelers	Higher GDP growth, good monsoon, higher disposable income, higher farm incomes
Commercial vehicles	Pick up in industrial production, higher GDP growth
Tractors	Good monsoon, higher farm incomes