Two-wheelers' FY23 Sales Volume to Rise, Margins to Stay Under Pressure

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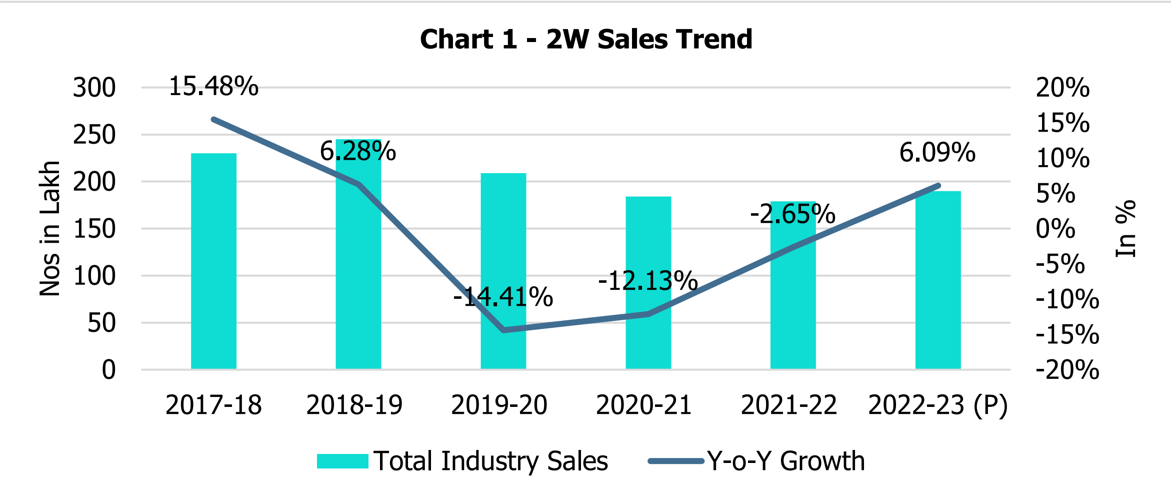
Overview

- After three years of consecutive decline, two-wheeler manufacturers are likely to see a sales volume growth of 6-6.5% in FY23 as rural and personal mobility demand grows.
- The recovery in demand could have been higher, but supply-chain disruptions and high inflation (wholesale price increase of over 20%) hurt consumer sentiment.
- Higher commodity costs and transition to BS-VI norms (announced in April 2020) led to slow demand in the past three fiscals.
- The PBIDLT margins could remain under pressure in FY23 unless a reversal in the input cost with the softening of commodity prices along with price hikes offers some cushion. CareEdge believes overall margins are expected to decline by 50-70 bps.

Bumpy Road Ahead amid Improving Macros

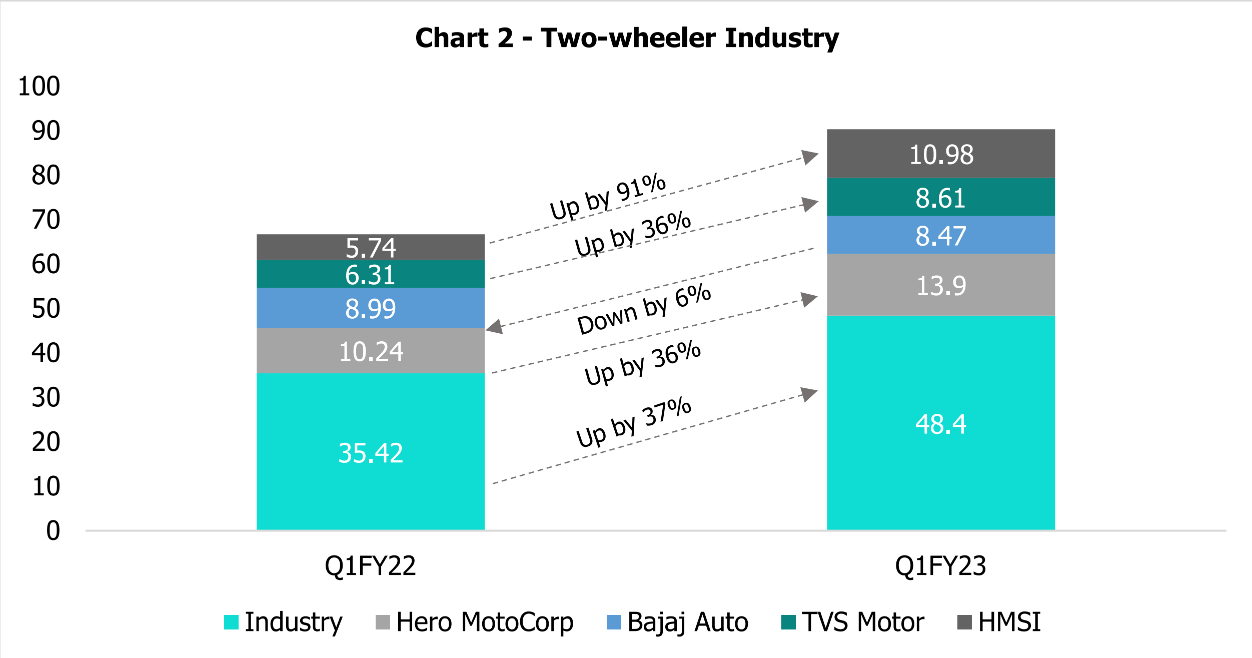
Two-wheelers sales fell by a compounded annual growth rate (CAGR) of 10% from FY19 to FY22 as lower rural demand amid Covid-19 induced economic slowdown, restricted mobility, and higher vehicle and fuel costs hurt. The transition to BS-VI in FY21, which led to a consequent price hike, also dampened demand sentiment.



Source: CMIE, CareEdge

Though the Covid-led restrictions eased in FY22, two-wheeler sales fell 2.65% y-o-y to 179 lakh units on account of extended work-from-home trend and slower ramp-up in the rural economy. The month-on-month volume moved in tandem with Covid cycles as reflected in April 2020 (Covid 1.0) and Q1FY22 (Covid 2.0). There was some respite in Q2FY22 and Q3FY22 as the pandemic waned and the festive season brought some cheer but from December 2021, commodity inflation again slowed demand.

In Q1FY23, the improving rural demand supported m-o-m volumes and led to a 37% jump, with the top four players, who hold over 85% market share, registering an average growth of 39% against Q1FY22.



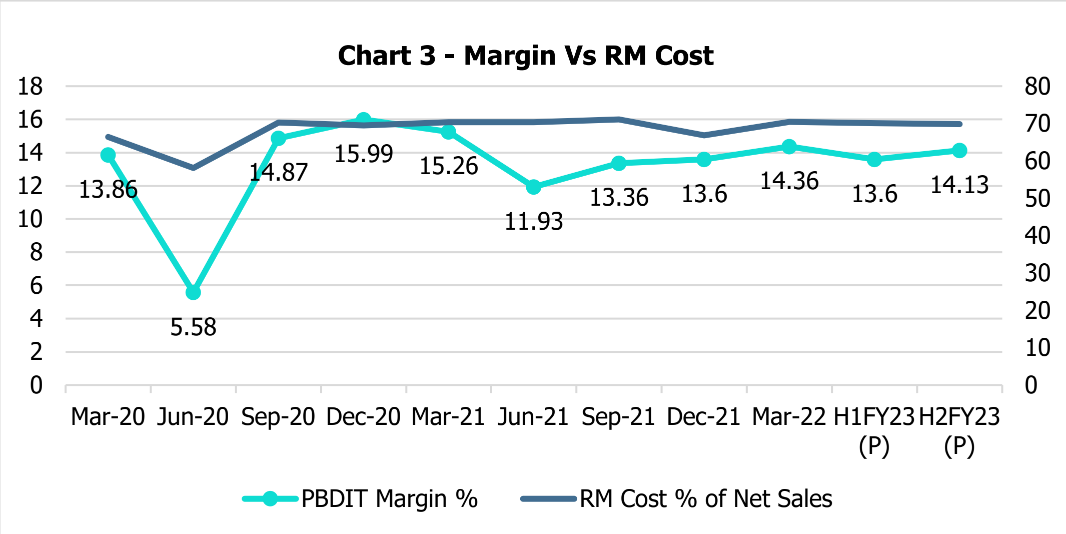
Source: CMIE, Company, CareEdge

Electric Vehicle Traction to Drive Overall Volumes

Although the electric vehicle (EV) two-wheeler sales recorded a sharp growth of 61% in FY22, they accounted for only 1.3% of the total two-wheeler sales during the period. The recent surge in the demand for electric two-wheelers will support the overall sales of two-wheelers in FY23. The cost of an entry-level commuter Internal Combustion Engine (ICE) two-wheeler ranges between ₹50,000 and ₹65,000, while a high-speed EV two-wheeler costs anywhere between ₹90,000 and ₹100,000, restraining a large-scale shift towards EVs. However, in the short run, low fuel and ownership costs, low maintenance, along with the improving charging infrastructure, are likely to ensure a speedy transition towards EVs, along with extended subsidies maintaining the price band.

PBILDT Margin to Remain Under Pressure

The prices of inputs used in manufacturing two-wheelers have risen sharply since the start of the Russia-Ukraine war in Q4FY22. The prices of raw materials like steel and aluminium were around 20.61% and 52% higher, respectively, in March 2022, on a y-o-y basis. Besides, the prices of other commodities used in the manufacturing of two-wheelers, such as rubber, paint, and plastic have also increased resulting in higher raw material costs for two-wheeler manufacturers. Also, despite the price hike taken by original equipment manufacturers (OEMs), the margins were impacted in Q4FY22, which reported a y-o-y decline by 90 basis points (bps).



Source: CMIE, CareEdge, includes three-wheelers

Conclusion

CareEdge expects the volume growth for the two-wheeler industry to be in the range of 6%-6.5%, with an increase of 1.12 lakh units in FY23, including exports, driven by improved mobility, pent-up demand, and improving consumer sentiments. The improvement in the rural demand, supported by a normal monsoon and the softening in input costs, is likely to drive healthy volume growth for domestic two-wheeler companies in FY23, as visible from Q1FY23. Despite volume growth, the margins are expected to remain under cost pressure due to the high commodity prices. CareEdge expects the PBIDLT margin to decline in H1FY23 by 76 bps on account of the higher raw material costs. The H2FY23 margins are expected to revive moderately by 53 bps as compared with H1FY23 with the expectation of the continued softening of input costs and the expected price hikes by the original equipment manufacturers.

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