

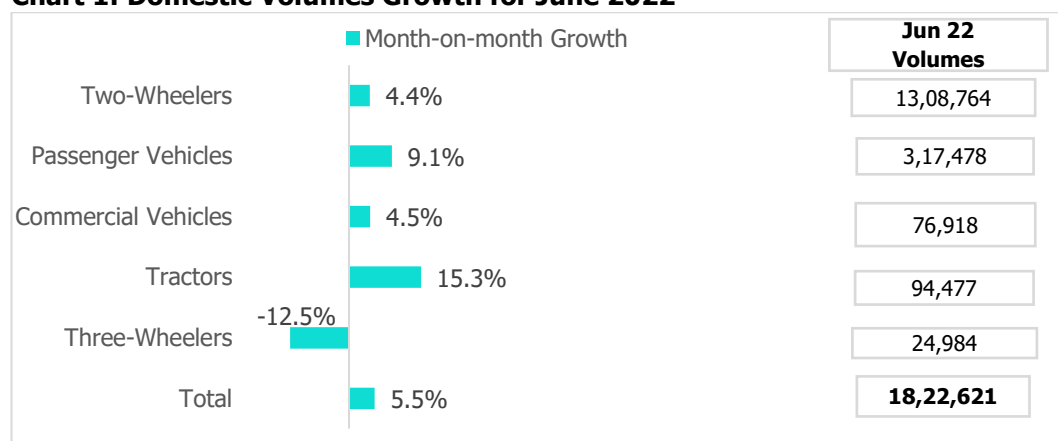
Auto Update: Domestic Sales in Recovery Mode, Low Base Aids

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June Sees Gradual Sequential Improvement in Sales

The automobile industry's domestic sales grew 5.5% in June 2022 on a m-o-m basis, supported by improvement in rural as well as urban sentiments, decent monsoons across the country and new launches mostly in the Passenger Vehicle (PV) segment. In addition, there has been traction in the tractors segment, which is led by the government's push toward the agricultural and infrastructure sectors.

Chart 1: Domestic Volumes Growth for June 2022



Source: CareEdge Research, SIAM (Society of Indian Automobile Manufacturers), TMA (Tractors Manufacturers Association)

Reflecting Strong Recovery on a Y-o-Y Basis, Aided by Low Base

In Q1FY23, the overall automobile domestic sales volumes grew 52% on a y-o-y basis primarily due to the low base of Q1FY22, which was marred by lockdown restrictions triggered by the second wave of the Covid-19 pandemic. The volumes in Q1FY23 are still around 17% lower than that of Q1FY20 (the pre-pandemic year). The growth in post-pandemic volumes has been driven by PV and tractors segments, while the Two-Wheelers (2W) segment and Three-Wheelers (3W) segment continue to clock numbers significantly lower than that of Q1FY20. The slower post-pandemic ramp-up for 2W and 3W segments is also on account of the transition towards Electric Vehicles (EV). EVs have seen maximum penetration in 3W followed by 2W over the last two-three years. For the purpose of this release, we have not included EV sales volumes.

The healthy demand trend and growth in sales volumes across segments has been driven by economic recovery, and ease in availability of chips. The domestic sales during Q1FY23 across segments have been depicted in the table below:

Domestic Sales			
Categories	Q1FY23	Q1FY22	% change
Two-Wheelers	37,24,533	24,13,608	54.3%
Passenger Vehicles	9,10,431	6,46,272	40.9%
Commercial Vehicles	2,24,512	1,05,800	112.2%
Tractors	2,65,618	2,29,430	15.8%
Three-Wheelers	72,013	23,823	202.3%
Total	51,97,107	34,18,933	52.0%

Source: CareEdge Research, SIAM (Society of Indian Automobile Manufacturers), TMA (Tractors Manufacturers Association)

*Note: Commercial Vehicle monthly data includes data for Tata Motors Ltd., Mahindra & Mahindra Ltd., Ashok Leyland Ltd., Maruti Suzuki India Ltd. & Eicher Motors Ltd.; Sales data does not include electric vehicle data; BMW, Mercedes, and Volvo Auto data is not available.

Trend Watch

Two-Wheelers:

The domestic sales in the two-wheeler segment registered a growth of 23.4% y-o-y and 4.4% m-o-m in June 2022 on account of improvement in consumers sentiments both in rural as well as urban areas along with increasing farm activity led by decent monsoon. The scooters subsegment, which is a key mode of personal mobility for different family members in urban & semi-urban areas, grew significantly by 70.2% y-o-y, helped by the opening of schools and offices, while the motorcycles subsegment grew 9.4% y-o-y. The exports for two-wheelers also grew by 13.9% on a y-o-y basis, reflecting strong demand in key export markets.

In Q1FY23, the domestic sales in the two-wheeler segment registered a growth of 54.3% y-o-y on account of the low base effect, the timely arrival of monsoon and hike in minimum support prices of crops which improved the farm income further leading to some recovery of the sector. While improving consumer sentiments and a decent monsoon have led to a recovery in recent months, the two-wheeler volumes are still around 26% lower than their pre-Covid sales volumes owing to the high cost of ownership as well as the transition to Electric two-wheelers.

Passenger Vehicles:

The PV segment showed improvement in domestic sales with a growth of 9.1% on m-o-m basis and 24.5% on a y-o-y basis during June 2022. This was driven by easing semi-conductors supplies as well as new launches by various OEMs. For June 2022, the utility vehicle (UV) subsegment (within the PV segment) witnessed significant growth of 32.1% y-o-y while the passenger cars and vans subsegments grew at 9% and 9.2% y-o-y, respectively. This reflects the changing preference toward UVs which now constitute almost half of the total PV domestic sales for June 2022. The UV preference has been supported by technological advancements, the inclusion of safety features, innovative designs and higher flexibility offered in this sub-segment by OEMs. Further, this changing consumer preference has also led to long waiting periods for most models in the UV sub-segment across OEMs - leading to the creation of a strong demand pipeline for PVs overall and UVs in particular.

In Q1FY23, the domestic sales in the passenger vehicle segment grew by 40.9% y-o-y aided by a low base in Q1FY22 that witnessed disruption amid the second wave of Covid-19 along with the improvement in semi-conductor supplies. The PV sales volumes in Q1FY23 have grown around 28% over Q1FY20 – reflecting a strong bounce-back after the pandemic for the segment. This robust post-pandemic demand for PVs has been driven by a strong preference for personal mobility and further fuelled in recent months by the new launches across OEMs. Also, with the improving availability of semi-conductor chips, this recovery has been faster. The export sales for the segment grew 26.1% in Q1FY23 y-o-y due to robust demand from regions such as Latin America, ASEAN, Africa and the Middle East.

Commercial Vehicles:

The sharp increase in y-o-y growth was driven by increasing sales in the Medium and Heavy Commercial Vehicle and Light Commercial Vehicle subsegments domestic sales, led by improved activity in road construction and mining along with growth in agriculture and e-commerce activities. The commercial vehicle domestic sales improved by 4.5% m-o-m in June 2022 on account of traction in LCVs and bus segment which were driven by an increase in last mile distribution and opening of schools and replacement of staff buses. Exports for this segment also grew by 55.9% m-o-m and 23.9% on a y-o-y basis, indicating strong demand in the overseas market.

In Q1FY23, the commercial vehicle domestic sales increased by 112.2% y-o-y on account of the low base effect, improved fleet utilisation and increased last mile connectivity. The Medium and Heavy Commercial Vehicle subsegment growth was driven by a surge in demand for tippers and tractor trailers due to increased construction and mining activities. The Light Commercial Vehicle subsegment growth was led by a boom in the e-commerce industry which is seeing a surge in demand from both urban as well as Tier 2-3 cities and increased logistics deliveries across the country.

Tractors:

Though the domestic tractor sales declined by 14.4% y-o-y in June 2022 due to the high base last year, on m-o-m basis, sales increased by 15.3% due to good Rabi crop output and the advancement of the southwest monsoon across the country. The exports were also up 28% y-o-y in June 2022 and grew 10.9% on a m-o-m basis, reflecting strong demand in the overseas market.

In Q1FY23, the domestic tractor sales grew by 15.8% y-o-y and exports were also up by 31.8% y-o-y. Kharif sowing is lagging in the first fortnight of the season than last year due to deficient rainfall in key Kharif states, but normal monsoons across the country are expected to develop positive sentiments and further boost the tractor demands in the coming months. Tractors sales have seen a strong post-pandemic bounce back growing around 39% in Q1FY23 compared to Q1FY20.

Three-Wheelers:

On a y-o-y basis, domestic 3W sales grew by 172.3% on account of a low base last year and an improvement in economic activity. Although on m-o-m basis, there was a decline in growth owing to price increases. The 3W exports declined by 27.3% y-o-y due to the financial crisis in Nepal and Sri Lanka, which are the key exports market.

In Q1FY23, the three-wheeler segment domestic sales grew robustly by 202.3% y-o-y primarily due to the low base of last year. Also, the reopening of schools and offices improved the demand for passenger carriers and increased last-mile distribution improved the demand for goods carriers. The domestic 3W sales volumes in Q1FY23 are still less than half of Q1FY20 (pre-pandemic year) on account of the transition to Electric three-wheelers.

CareEdge Outlook:

CareEdge Research expects the commercial vehicle segment to further benefit from the economic revival as well as continued high infrastructure spending. A decent monsoon and improved rural liquidity will drive the demand in the two-wheeler segment. CareEdge Research also expects a further fillip in the PV segment sales, driven by strong growth in the UV sub-segment that is by multiple new launches and a strong booking pipeline across OEMs. The upcoming festival season will support the overall auto demand too. However, continued high rates of inflation coupled with increasing interest rates in the economy can potentially dampen consumer sentiments on account of the increased cost of ownership. Also, commodity prices, which continue to be high despite the recent softening, will likely exert pressure on OEM's operating profit margins.

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