

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

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The second wave of covid-19 has once again pushed the Indian automotive sector into a state of turmoil. Since April 2021, the incremental number of positive cases and fatalities in the country have reached all-time high and the new variant of this virus is proving to be much more fatal, creating a severe shortage of quality medical treatment in the country. Due to the sudden spike in oxygen requirements for treatment of covid-19 patients, the central government decided to divert the oxygen used for industrial purposes to the healthcare sector. With this, most automobile OEMs shut their factories for up to two weeks to make oxygen available for medical needs and used this shutdown period for bi-annual maintenances.

	Units	M-o-M
Two-wheeler	9,95,097	-33.5%
Three-wheeler	13,728	-57%
Passenger vehicle	2,61,633	-10.1%
M&HCV*	8,925	-57.4%
LCV*	14,743	-58%

Source: SIAM, CMIE, CARE Ratings
 Note: SIAM releases quarterly data for CVs
 Note: YoY comparison not possible as April 2020 witnessed nil sales
 *- M&HCV refers to data for Tata Motors and Ashok Leyland.
 *- LCV refers to data for Tata Motors, Ashok Leyland and Maruti Suzuki India

Since the central government has ruled out the option of imposing another nation-wide lockdown, various state governments led by Maharashtra and Delhi announced lockdown-like measures to control the spread of this lethal virus. The automobile sales in April 2021 are reflective of the various disruptions caused during this month. The factory dispatches of two-wheelers, three-wheelers, passenger vehicles, medium and heavy commercial vehicles and light commercial vehicles declined by 33.5%, 57%, 10.1%, 57.4% and 58% respectively sequentially.

Due to the various region wise lockdowns, automobile dealers temporarily shut their showrooms, as a part of the non-essential services category. Sales made by dealers or automobile registrations (as gathered by FADA from 1,289 out of 1,493 RTOs) contracted by nearly 1/3rd M-o-M, while Y-o-Y comparison was irrelevant as April 2020 witnessed nil sales. Such contractions in sales have put brakes on the automotive sector's recovery.

May 2021 is expected to witness a further sluggishness over April 2021. The closure of dealer showrooms shall lower dealers' cash flows and the retail sales of this industry. Additionally, the ongoing rally in metal prices could lead to another round of price hikes of vehicles, which could either be of second or third price hikes in past few months of CY2021. Furthermore, the rise in fuel prices shall not only dampen consumer sentiments, but also make logistics and supply chain expensive for the automobile OEMs. 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 since 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. Also, the need for personal mobility arises in a miniscule proportion of vehicle purchasers who wish to avoid public transport and hence may not add to a substantial increment in automobile sales in the country.

Concluding remarks and outlook

- It would be safe to surmise 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. The shutdown of automobile manufacturing factories in the ongoing quarter shall deteriorate the production levels, but relieve the dealers of picking additional stocks and building unwanted inventories. Recovery in domestic wholesales can be expected Q2-FY22 onwards, contingent to a faster vaccination drive and no new waves of covid-19 in the

country.

- Commercial vehicles (particularly M&HCVs) sales volumes shall decline in Q1-FY22 due to lockdowns, while Q2-FY22 would be impacted by monsoons which lowers construction and mining activities and hence lowers demand for trucks and trailers. Additionally, demand for buses would not recover until schools and offices resume. Demand for light commercial vehicles could be better off with stable demand from E-commerce segment. Three wheelers would continue to stay low in volumes of sales, while passenger vehicles demand is expected to be healthy through the year.
- 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.

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