

Wholesales of Automobiles in December 2020

January 14, 2021

Automobile sales, one of the key indicators of economic recovery, witnessed a positive trend in December 2020 when compared on a YoY basis. However, the low base of December 2019 helped the sector clock such positive numbers this month. But the factory dispatches of all segments declined on a sequential basis, so as to keep a check on the inventory levels.

- Two wheelers: The two wheelers of automobiles grew 7.42% YoY to 11.27 lakh units, but volumes declined by nearly 1/3rd when compared with the previous month.
- Three wheelers: Domestic wholesales of three wheelers are still in the negative category and have not reached even half levels of the same month in previous year. For the second consecutive month it declined on a sequential basis as well.
- Passenger vehicles: Domestic wholesales of passenger vehicles grew 13.59% YoY, but declined for the second consecutive month by 4.49% m-o-m.
- Tractors: Demand for tractors was robust during the month as it grew 43.09% YoY, but lower by nearly a quarter when compared on a sequential basis.
- Commercial vehicles: Domestic wholesales of commercial vehicles in Q3-FY21 were at nearly same levels as the same quarter in previous year. However, when compared with Q2-FY21, factory dispatches are higher by 44.53%.

Table 1: Wholesales of automobiles (units)			
Category	December 2020	Change	
		Y-o-Y	M-o-M
Two-wheeler	11,27,917	7.42%	-29.52%
Three-wheeler	22,126	-58.87%	-6.35%
Passenger vehicle	2,52,998	13.59%	-4.49%
Tractor	61,249	43.09%	-25.61%
	Q3-FY21	YoY	QoQ
Commercial vehicles	1,93,034	-1.12%	44.53%

Source: SIAM, CARE Ratings, TMA, CMIE
 Note 1: Passenger vehicle is excluding Tata Motors
 Note 2: SIAM releases quarterly data for commercial vehicles

Concluding remarks:

The festival and wedding season demand, along with the low base effect of December 2019 helped the sector clock positive YoY growth in domestic wholesales of automobiles. Passenger vehicles, two wheelers and tractors have witnessed healthy growth, while commercial vehicle volumes have reached same levels as December 2019.

Outlook:

- Passenger vehicles: The pace of growth in domestic wholesales are expected to sequentially taper in Q4-FY21 as the pent-up demand and festivities have ended. Also, in January 2021, some OEMs have hiked prices for their models, to offset the rise in the input and commodity prices, which could negatively impact consumer demand. Domestic wholesales of passenger vehicles are expected to decline 9 to 14% YoY in FY21.
- Two wheelers: Since the festive season of Q3-FY21 did not bring much joy to the two-wheeler manufacturers, we expect a further sequential fall in domestic wholesales in the following quarter of Q4-FY21. Domestic wholesales of two wheelers are expected to decline 13 to 18% YoY in FY21.
- Three wheelers: The monthly domestic wholesales of three wheelers have not reached even half of last year's levels. Hence this industry is considered to be a laggard and recovery seems unlikely until atleast H2-FY22. The domestic wholesales of this industry is expected to decline 68 to 73% in FY21.

- Tractors: Tractors have undeniably been the best performing segment in FY21 (up to now). A resilient rural economy has spurred demand for this agricultural machinery this year. Domestic wholesales are expected to lower in January and February 2021 and pick pace March 2021 onwards. CARE Ratings expects domestic wholesales of tractors to grow in the range of 11 to 16% in FY21.
- Commercial vehicles: MHCV is typically the first segment to decline and last to recover when a country witnesses a downward trend, due to its high linkages with the country's economic activities. However, the segment also witnesses a sudden jump in demand as manufacturing and infrastructural activity picks up in the country. The MHCVs showed an impressive recovery mid-September 2020 onwards, as infrastructural and mining activities rose. However, a sustained demand for MHCVs will depend on implementation of the scrappage policy, reduction in GST, rationalization of infrastructural projects, quick auction of coal mines, rise in mining activities, among others. Additionally, domestic transportation of covid-19 vaccines could act as new demand drivers for CVs in near future.
- The LCV segment has performed relatively better than the MHCV industry in 8M-FY21 and is hence expected to reach pre-covid levels earlier. We expect domestic wholesales of LCVs to decline by 13 to 18% YoY, while MHCVs are expected to decline 50 to 55% YoY in FY21. The entire commercial vehicles industry is expected to contract 25 to 30% YoY in FY21.

Table 2: CARE Ratings' expectations for automobile domestic wholesales for FY21 (YoY growth)

Passenger vehicles	-9 to -14%
2-wheelers	-13 to -18%
3-wheelers	-68 to -73%
Tractors	11 to 16%
Total CV	-25 to -30%
MHCV	-50 to -55%
LCV	-13 to -18%

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