Automobile industry performance in FY21

April 14, 2021

Sales growth

The automobile industry witnessed a catastrophic effect in FY21 as sales volumes were pushed back by multiple years. For passenger vehicles, sales volumes were lowest since FY16, for two wheelers - lowest since FY15, for commercial vehicles – lowest since FY11 and three wheelers – lowest since FY03. Evidently, FY21 was an unpleasant year for the automobile industry including ancillaries. Industries which consider automobiles as their large end user also were impacted – which includes glass, metals, rubber, paints, electronics, etc.

Q1-FY21 witnessed the transition from BS-4 to BS-6, the various covid-19 induced nation-wide and non-uniform state lockdowns. The restriction on movement of people created labor shortages and closure of factories led to manufacturing levels dropping to significantly low levels. Alongside, the automobile dealerships suffered due to various zone wise (red, yellow, green) closures across the country. In addition to the disruption in supply chains, consumer sentiments further descended due to the fear of job losses and fall in income levels. Hence, the spread of Covid-19 added to woes of this industry, that was already grappling under the slowdown effects faced by Indian economy since FY20.

Q2-FY21 onwards as government restrictions eased, production gained pace and supply chains gradually restored. During the quarter, demand for vehicles still remained on the lowered side due to the closure of schools and colleges, reopening of limited number of offices and reduced infrastructural and mining activities. All of these impacted domestic sales of two and three wheelers, passenger vehicles and commercial vehicles.

Q3-FY21 witnessed a turnaround in the industry as its wholesales as well as retail volumes started gaining momentum, owing to the pent up demand, festive and wedding season. Just as the industry was on the path to recovery, it faced a new impediment in the form of shortages in semi-conductors, a critical part used in vehicle manufacturing. Simultaneously, the shortage of containers and high freight charges affected transportation of components. This took a toll on the Q4-FY21 wholesale volumes. Demand during the same quarter was affected by high fuel prices and price hikes by automobile OEMs.

However, it is noteworthy that by the end of the year, the automobiles industry made a comeback. Tractors sales were unaffected through the year and in fact, FY21 was one of the best years for this segment. The passenger vehicles domestic wholesales reached nearly same levels as last year (-2.3% YoY), while two wheelers managed to clock ~85% sales of last year. The commercial vehicles segment, which was the first to be affected by lockdowns saw Q1-FY21 as a complete washout by witnessing just 30,000 units of domestic sales. However, as the economy opened up, their sales grew and in the last quarter it clocked 2.1 lakh units of sales, the highest since Q4-FY19. On a cumulative basis, commercial vehicles segment reached ~80% of last year's volumes. The three-wheelers segment did not see much green shoots due to the minimal demand from the passenger carrier and goods carrier segments.

Table 1: Domestic sales of automobiles

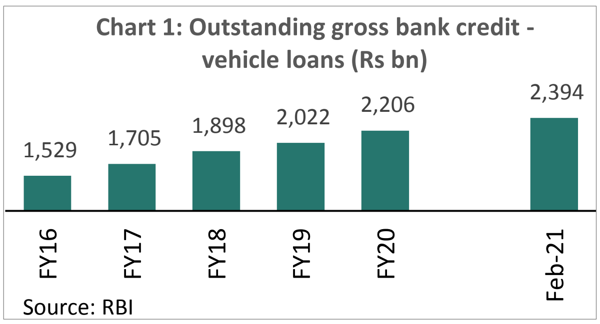
Wholesales	March 2021		FY21	
	Units	Y-o-Y	Units	Y-o-Y
Two-wheeler	14,96,806	72.7%	1,51,19,387	-13.2%
Three-wheeler	31,930	15.7%	2,16,197	-66.1%
Passenger vehicle	2,90,946	115.4%	27,11,445	-2.3%
Tractor	85,076	172.4%	8,99,407	23.9%
Commercial vehicle			5,68,559	-20.8%
Retail sales				
Two-wheeler	11,95,445	-35.3%	1,10,69,282	-34.0%
Three-wheeler	38,034	-50.7%	2,46,616	-65.7%
Passenger vehicle	2,79,745	28.4%	23,16,296	-12.0%
Tractor	69,082	29.2%	6,30,593	
Commercial vehicle	67,372	-42.2%	4,26,923	-51.0%

Source: SIAM, CMIE, FADA, CARE Ratings
Note: Tractor retail sales not available for Apr-19, hence YoY comparison for FY21 not possible
Note: Retail sales do not include figures from AP, MP, LD & TS as they are not yet on Vahan 4
Note: Data for wholesales of commercial vehicles are released quarterly and hence not available for the month of March 2021

Retail sales or sales by dealers were significantly lower in FY21 compared with the previous year. Passenger vehicles retail sales were better off than the other segments with a de-growth of 12% YoY, while three wheelers stood out as the worst affected with de-growth of 65.7% YoY. The commercial vehicle retail sales fell 51% YoY affected by escalated vehicle prices due to BS-6 migration, restricted finance availability, etc. States where government infrastructural spending gained pace, the demand for medium and commercial vehicles grew, while healthy demand from E-commerce industry benefitted the light commercial vehicle segment. The bus segment suffered due to social distancing norms, closure of schools and offices.

Exports

Exports suffered due to closure of international borders and many nations restricting their imports to essential items. During FY21, passenger vehicle exports fell sharply by 38.9% YoY to 4.1 lakh units, while two wheeler exports were lower by 6.9% YoY to 32.8 lakh units and three wheeler exports declined 21.7% YoY to 3.9 lakh units. Within the medium and heavy commercial vehicle segment, exports of trucks and buses descended 6.7% and 48.6% YoY respectively. Within the light commercial vehicle segment, exports of goods carriers fell 7.7%, while passenger carriers nosedived by 61.8% YoY.



Credit growth

Chart 1 depicts the outstanding gross bank credit for vehicle loans. Analysis of this chart shows that incremental credit growth has remained strong over the past five years. In FY17, the incremental credit growth was Rs. 176 bn, which further grew by Rs. 193 bn in FY18. In FY19, it grew by Rs. 124 bn, while in FY20 it grew by Rs. 184 bn. FY21 witnessed a healthy growth which is reflective in the outstanding gross bank credit for vehicle loans of Rs. 2,394 bn in Feb-21.

Outlook

- Going ahead, headwinds for the industry will be in the form of semi-conductor shortage and high input costs, among others. Any new hike in vehicle prices in near future may further upset the consumers' sentiments. The imposition of strict state wise lockdowns in April and/or May which marks various festivities like Ugadi, Gudi Padwa, Baisakhi, Poila Boishakh, Eid, etc. will seriously dampen the industry's growth as production levels would deteriorate and closure of dealer showrooms will lead to fall in retail sales. The unsold inventory may pile up and affect cash flows of the players.

- CARE Ratings' outlook for FY22 domestic wholesales of automobiles is depicted in table 2. Given the rapid surge in covid-19 cases across the country, Q1-FY22 sales volumes for all segments are expected be on the lower side. Maharashtra which accounts for a significant proportion of auto sales in India has announced stricter social distancing guidelines to be followed for a fortnight starting 14th April, 2021. We can expect this to be further extended up to at least mid-May if covid-19 cases do not suppress, vaccine supply shortages are not restored at the earliest and adequate healthcare facilities continue to be unavailable.

  In all various automobile segments, sales volumes in Q1-FY22 would be higher than Q1-FY21, due to the favorable base effect, but significantly lower or just touching Q1-FY20 levels. Tractors will be better off compared with other segments, as it remains least impacted due to lockdowns and expectation of a normal monsoon in 2021. However, a significantly high base of FY21, leads to an expectation of comparatively lower sales volume in FY22 for tractors. The worst affected segment would be MHCVs and three wheelers which is expected to de-grow by 33% and 55% in Q1-FY22, compared with Q1-FY20.

Table 2: CARE Ratings' outlook for automobile domestic wholesales for FY22

	Units (in lakhs)	YoY growth
Two-wheeler	162 to 170	7 to 12%
Three-wheeler	3.58 to 3.7	65 to 70%
Passenger vehicle	23.5 to 25	-5 to 0%
Tractor	8 to 9	-10 to 0%
Commercial vehicle	6.63 to 7.2	17 to 27%
- **MHCV**	1.93 to 2.1	20 to 30%
- **LCV**	4.7 to 5.1	15 to 25%

CARE Ratings expects H1-FY22 to be softer and sales to gain pace October onwards, with festivities, wedding season, assuming the reopening of schools, colleges, offices and rise in infrastructural and mining activities.

Contact:

Madan Sabnavis	Chief Economist	madan.sabnavis@careratings.com	+91-22-6837 4433
Vahishta Unwalla	Research Analyst – Industry Research	vahishta.unwalla@careratings.com	+91-22-6837 4408
Guided by: Sudarshan Shreenivas	DGM – Corporate Ratings	sudarshan.shreenivas@careratings.com	-
Mradul Mishra	(Media Contact)	mradul.mishra@careratings.com	+91-22-6754 3573

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CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East) Mumbai - 400 022
Tel. : +91-22-6754 3456 I CIN: L67190MH1993PLC071691

Connect: