

2nd covid wave pushes auto industry in the slow lane

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The second covid wave has once again pushed the Indian auto industry in the slow lane, as sales for the month of May 2021 fell to significantly low levels. During the month, factory dispatches of passenger vehicles and two wheelers contracted to 1/3rd level of previous month, while three wheelers made negligible sales of just about 1,200 units. Cumulative sales of five players in the commercial vehicles industry was nearly half levels of previous month. However, tractor sales were better off than other segments with 12% sequential decline.

	Units	Change		
		MoM	YoY	May 2021/ May 2019
Passenger vehicles	88,045	-66.3%	162.7%	-61.3%
Two wheelers	3,52,717	-64.6%	26.1%	-79.6%
Three wheelers	1,251	-90.9%	-48.7%	-97.6%
Tractors	55,609	-12.3%	-8%	-4.3%
Commercial vehicles*	20,869	-46.9%	151.3%	-68%

Source: SIAM, TMA, CARE Ratings, CMIE, Company press releases
 Note: Commercial vehicles includes data for Tata Motors Ltd., Mahindra & Mahindra Ltd., Ashok Leyland Ltd., Maruti Suzuki India Ltd. and V E Commercial Vehicles Ltd.

When compared with May 2020, passenger vehicles and commercial vehicles sales volumes were 2.5 times higher, while two wheelers improved by 26%. Three wheelers, though was competing on a low base, managed to clock about half of last year's sales. Tractors, which made a stellar performance in May 2020, is showcasing strong numbers even in the ongoing financial year as it marked 90% of May 2020's sales volumes.

The fall in automobile sales volumes in May 2021 are a reflection of the closure of dealer showrooms due to localized lockdowns in various parts of the country, amidst the ongoing second wave of covid. It also reflects the decline in production levels, as OEMs shut their factories for nearly a fortnight for safety concerns and preponed their maintenance schedules.

Key monitors: pace in growth of Covid-19 cases and pick in vaccination drive

Lately, the country is reporting a steady decline in covid cases. The vaccination drive is successfully gaining pace and as of 14th June 2021, 3.6% of India's population is fully vaccinated (2 doses). States like Maharashtra, Uttar Pradesh, Tamil Nadu, Karnataka and West Bengal contribute the highest auto retail sales volumes in India of nearly 40 to 50% for two-wheelers and commercial vehicles and 31-41% for passenger vehicles. These states, currently, contribute 52% of India's total active covid cases. While this number is alarming, it is heart-warming to know that nearly 2-4% population of each of these states (except Uttar Pradesh) are fully vaccinated and this number is expected to only rise henceforth. A higher vaccinated population gives confidence to state governments to gradually withdraw restrictions in movement and hence improve mobility of individuals. Opening up of automobile dealer showrooms will be possible only if covid cases continue to decline and higher vaccines are administered.

	2 wheeler	Commercial vehicle	Passenger vehicle	% of population fully vaccinated*
Maharashtra	8-10%	14-16%	9-11%	4.2%
Uttar Pradesh	14-16%	9-11%	7-9%	1.7%
Tamil Nadu	8-10%	7-9%	6-8%	2.8%
Karnataka	5-7%	6-8%	6-8%	4.6%
West Bengal	6-8%	4-6%	3-5%	4.2%
Total	41 – 51%	40 – 50%	31 – 41%	

Source: FADA, CARE Ratings, www.covid19india.org

*fully vaccinated = 2 doses

Data as on 14th June 2021

Outlook

CARE Ratings assumes three scenarios for FY22, which are as below. All of these will have a distinct impact on automobiles sales volumes during the year.

1. Normal –

The first scenario represents the current environment, where vaccinations are given at the same speed as present. Going by the current pace of vaccination (25 lakh individuals per day), India will take 336 days to vaccinate 60% of its population with 1st dose. In this scenario, assumption is that covid cases have peaked in May 2021 and expected to move in a downward trajectory henceforth. However, third wave of covid is expected with limited fatalities and preparedness in

healthcare sector. In this scenario, state/zone wise lockdowns shall persist till cases reach a comfortable level. Supply side constraints remain and automobile dealers will not serve customers at full capacity until at least June 2021-end. Normal monsoons in CY2021 will help grow demand for tractors and two wheelers. Schools and colleges to continue being shut until at least September 2021. Consumers prefer to save cash and avoid discretionary spends on items like automobiles.

Given the CARE Ratings GDP growth expectation of 9.2% for FY22, domestic wholesales in FY22 are expected at:

- 0-2% YoY growth to ~25 lakh units for passenger vehicles,
- 1-3% YoY growth to ~155 lakh units for two wheelers,
- 15-17% YoY growth to ~2.5 lakh units for three wheelers,
- 10-12% YoY decline to ~8 lakh units for tractors,
- 21-23% YoY growth to ~7 lakh units for commercial vehicles.

2. Deterioration –

Second scenario is of shortage in availability of vaccinations, along with a lethal 3rd wave of covid in India. Assuming the pace of vaccinations slows to 18-20 lakh individuals per day, India will require 14-15 months to vaccinate 60% of its current population with 1st dose. This scenario assumes a further fall in GDP as economic environment deteriorates and consumers further fear job and income loss. In such a scenario, higher savings are being shelled out for paying medical expenses and mobility has further reduced. Chances of a national lockdown cannot be ruled out. The spread of covid-19 cases shall rise further in rural areas, impacting their spending power for agricultural machinery like tractors. FY21 presents an exceptional high base and hence volumes for FY22 shall taper. With these assumptions, the domestic wholesales in FY22 are expected at:

- 19-21% YoY decline to ~20 lakh units for passenger vehicles,
- 6-8% YoY decline to ~140 lakh units for two wheelers,
- 2-4% YoY growth to ~2.2 lakh units for three wheelers,
- 17-19% YoY decline to ~7.4 lakh units for tractors,
- 9-11% YoY growth to ~6.2 lakh units for commercial vehicles.

3. Optimistic –

Third scenario is of strong improvement in number of inoculations and quick decline in new covid cases, along with no new covid waves in the country. Assuming India's vaccination drives improves to 30 lakh individuals per day, then the country shall be able to vaccinate 60% of its population in 9 months with 1st dose. This scenario also assumes an improvement in bank financing, along with recovery in consumption and private investment. Infrastructural activities shall grow and boost sales of commercial vehicles. The discretionary spends by consumers shall improve and lockdowns shall be lifted. Unemployment rates shall simultaneously fall. Gradual improvement in supply and demand is expected. Adequate and timely monsoons in CY2021 shall lead to improvement in rural farm incomes and help boost tractor and two wheeler demand. Schools, colleges, offices to reopen by September 2021 giving a fillip to sales of three wheelers, buses, passenger vehicles and two wheelers. With these assumptions, the domestic wholesales in FY22 are expected at:

- 9-11% YoY growth to ~27.5 lakh units for passenger vehicles,
- 10-12% YoY growth to ~168 lakh units for two wheelers,
- 35-37% YoY growth to ~2.9 lakh units for three wheelers,
- 0-2% YoY decline to ~8.8 lakh units for tractors,
- 36-38% YoY growth to ~7.8 lakh units for commercial vehicles.

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