

# Automobile sales in August 2021 and expectations for the upcoming festive season

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## Automobile sales in August 2021

The automobile domestic sales in August 2021 came in as a mixed bag. When compared with the previous month, the two wheelers demand grew modestly, while three wheelers grew by nearly one-third over a low base. The tractors demand was lower due to the seasonality factor at play. The passenger vehicles industry was at a disadvantage due to the ongoing chips shortage, which led to reduced output by many OEMs. The commercial vehicles domestic sales declined in August 2021 by 7.4% m-o-m. Medium and heavy commercial vehicles are gaining pace in specific geographies where the Government is rolling out infrastructure projects. The acquisition cost post BS-6 implementation, along with financiers keeping away from the segment and high fuel cost continues to restrict recovery in commercial vehicles demand.

	Units	Change (%)		
		MoM	YoY	Aug 2021 / Aug 2019
Passenger vehicles	2,32,224	-12.2%	7.6%	22.8%
Two wheelers	13,31,436	6.2%	-14.6%	-12.1%
Three wheelers	23,210	29.8%	59.7%	-60.5%
Tractors	53,721	-17.6%	-17.0%	45.0%
Commercial vehicles*	49,991	-7.4%	17.7%	1.0%

Source: SIAM, TMA, CARE Ratings, CMIE

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 on a YoY basis, the automobile segments that performed better in August 2021 were three wheelers which grew by 59.7%, commercial vehicles (for five players) by 17.7% and passenger vehicles by 7.6%. Tractors and two wheelers domestic sales de-grew by 17% and 14.6% YoY.

Comparison with August 2019, which was a pre-Covid period, shows that the two and three wheeler industries have performed below normal levels. Commercial vehicle sales are back to pre-Covid period now, but there is no growth in demand. The passenger vehicles demand is strong with upside of 22.8% in domestic sales, while tractors is the best performing segment with 45% jump.

## Challenges for the passenger vehicles industry for upcoming festive season

A semi-conductor is a critical component used in the manufacturing of automobiles (mainly passenger vehicles). These chips form a part of the various electronics that are used in vehicles like navigation control, infotainment systems, collision detection systems, etc. The usage of such chips in these vehicles has risen considerably over past few years owing to the ongoing global trend of electrification. The semi-conductor shortage has been a unique and ongoing challenge for not just the Indian passenger vehicle industry, but for global players. For nearly 10 months now, the passenger vehicle manufacturers across all nations are facing this hurdle and hence their production levels are being adversely hit.

To counter this issue, the Indian passenger vehicle OEMs may decide to manufacture the lower-end variants of vehicles which require lesser number of chips. This is until the supply of such chips is restored to normal levels. Taking this step will be crucial as India approaches the festive season this month onwards. However, the production volumes of passenger vehicles are likely to deteriorate and would lead to longer waiting period for higher end variants of passenger vehicles. Presently, the average inventory for passenger vehicles ranges from 25-30 days.

### Concluding remarks and outlook

The semi-conductor shortage is ongoing since November 2020, but has become a full blown crisis today, especially for the passenger vehicles segment. While until last year, when demand was a challenge, supply is becoming a bigger problem today due to the chips shortage, albeit a high demand for passenger vehicles. For the upcoming festive season ranging across 4 months (September to December 2021), CARE Research expects total domestic wholesales of 8-9 lakh units of passenger vehicles. This is compared with ~11 lakh units in same period of FY21 and 9.6 lakh units of FY20 (pre-Covid period).

OEMs across the automobile industry face the challenge of shortage of containers and higher metal prices. Due to this, customers are likely to not witness lucrative discount schemes during this festive season, which may create a cap on the demand. The frequent vehicle price increases and elevated fuel prices shall dampen consumer sentiments.

Two wheeler demand may witness an upside in coming months due to the gradual reopening of educational institutions. However, India entering the third Covid-19 wave may potentially act as a speed-breaker for the industry.

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