

Domestic Sales Hit by Continued Chip Shortage, Fuel Inflation

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Automobile Domestic Sales Update

The automobile domestic sales volumes fell 16.2% year-on-year (y-o-y) in March 2022. This was largely on account of the adverse effects of the ongoing geopolitical tensions around Ukraine, increasing oil prices and continued impact of the pandemic. The new Covid-19 led lockdown in China has amplified the already severe semiconductor shortage faced by the industry on account of the global supply chain issues. The fuel prices in India have also undergone frequent increases over the past few weeks cumulatively accounting for around Rs. 10 a litre for both petrol and diesel. Furthermore, long waiting periods and continued delays in deliveries to the customers in March impacted the domestic sales volumes.

Table 1: Automobile Domestic Sales

Categories	March'22 Units	March'21 Units	Change (%)		FY22 Units	FY21 Units	Change (%)
			m-o-m	y-o-y			y-o-y
Two-Wheelers	1,184,210	1,496,806	14.1	-20.9	13,466,412	15,120,783	-10.9
Passenger Vehicles	279,501	290,939	6.3	-3.9	3,069,499	2,711,457	13.2
Commercial Vehicles*	94,544	79,054	24.2	19.6	697,821	555,629	25.6
MHCVs	35,162	26,838	49.0	31.0	200,529	139,333	43.9
LCVs	59,382	52,216	13.1	13.7	497,292	416,296	19.5
Tractors	72,888	85,076	40.3	-14.3	842,266	899,407	-6.4
Three-Wheelers	32,088	32,310	18.7	-0.7	260,995	219,446	18.9
Total	1,663,231	1,984,185	14.2	-16.2	18,336,993	19,506,722	-6.0

Source: CareEdge Research, SIAM, TMA, CMIE

*Note: Commercial Vehicle data includes data for Tata Motors Ltd., Mahindra & Mahindra Ltd., Ashok Leyland Ltd., Maruti Suzuki India Ltd. & V E Commercial Vehicles Ltd.

MHCVs - Medium and Heavy Commercial Vehicles

LCVs – Light Commercial Vehicles

FY22 Performance:

The overall automobile domestic sales volumes in FY22 declined by 6% y-o-y, marred by several headwinds like supply chain bottlenecks and semi-conductor shortages. The impact caused by the successive waves of the pandemic and the consequent lockdown restrictions by various states across the country adversely affected the rural as well as the urban markets.

The impact of the semi-conductor shortage was intensified with the geopolitical tensions around Ukraine. Russia is one of the largest producers of Palladium, which is essentially used for semi-conductors, and Ukraine is one of the biggest producers and exporters of neon gas, which is used in the manufacturing semiconductors. However, the industry has made efforts to ease up the supply chain issues, minimise costs, improve exports and make investments in new technologies to improve the overall demand sentiments.

Further, the domestic automobiles sales have also been affected on account of a tactical shift from internal combustion engine (ICE) vehicles to electric vehicles (EVs). The demand for EVs was driven by a push from the government policy framework, a significant increase in oil prices, the development of the EV charging infrastructure, the overall ecosystem and the availability of the right product at the right price with increased customer acceptance.

The overall EV sales volumes have increased from 133,831 units in FY21 to 429,342 units in FY22. The percentage share of EVs in overall vehicle sales increased from 0.87 in FY21 to 2.61 in FY22 with the highest growth in the two-wheeler EV segment.

Table 2: Electric Vehicle Sales in India

EV sales	FY19	FY20	FY21	FY22
2W	25,393	24,839	40,837	231,357
3W	118,944	140,683	88,378	177,874
4W	1,632	2,727	4,588	16,853
Goods Vehicle	517	50	28	1,017
Total	146,597	168,311	133,831	429,342

Source: Center for Energy Finance, CareEdge Research

Trend Watch

Passenger Vehicles:

The passenger vehicle industry domestic sales declined by 3.9% y-o-y in March 2022. This segment continues to face the effect of semi-conductor shortage. However, sales have improved on a month-on-month (m-o-m) basis showing a growth of 6.3% led by some new launches and a slight reduction in the waiting periods with an improvement in supply-side issues. The average inventory days for this segment stood at 15-20 days versus around 12-15 days during February 2022.

Two-Wheelers:

The domestic sales in the two-wheeler segment fell 20.9% y-o-y in March 2022. This was on account of subdued domestic demand, both in rural as well as in urban markets amidst higher fuel prices, a steep increase in the acquisition cost of the vehicle driven by higher commodity prices and insurance costs. However, on a m-o-m basis, the sales increased by 14.1% due to the pent-up demand with the opening up of offices and educational institutions, festivals and marriage season. The average inventory days for the segment stood in the range of 25-27 days for this segment similar to the February 2022 levels.

Three-Wheelers:

The three-wheeler segment saw a marginal decline in domestic sales of 0.7% on a y-o-y basis during March 2022. However, the sales grew by 18.7% on a m-o-m basis led by an increase in the demand for goods carriers as well as public transport with the opening up of offices and educational institutions, which further increased the sales in this segment.

Tractors:

The domestic tractors sales declined by 14.3% compared on a y-o-y basis due to the high base effect of last year along with subdued commercial demand for tractors. On a m-o-m basis, sales increased by 40.3% led by good reservoir levels and continued government focus on the agriculture sector.

Commercial Vehicles:

The commercial vehicle domestic sales improved by 19.6% y-o-y in March 2022. The MHCVs segment saw an improvement in domestic sales by 31% y-o-y during the month which was primarily led by increased construction and infrastructure activities across various parts of the country. There has been traction in sales in the HCV and tippers segment along with increasing replacement demand. The LCV segment sales also improved by 13.7% on a y-o-y basis during the month which benefitted from the rise in e-commerce and the increasing need for last-mile delivery.

Hike in Vehicle Insurance Premiums

The government has proposed to increase the third-party motor insurance premium rates from April 1, 2022. New car buyers have to compulsorily buy a three-year policy while new two-wheeler buyers will have to pay an upfront premium for 5 years. The two-wheeler insurance premium rates have been increased by 5% to 21% across various categories while four-wheeler insurance has been hiked between 1% to 7% across various categories. This increase in the insurance premium rates is likely to increase the price of vehicles by 2% to 20%.

A discount of 15% is also proposed for electric private cars, electric two-wheelers, electric goods-carrying commercial vehicles and electric passenger-carrying vehicles along with a discount of 7.5% on premium rates for hybrid electric vehicles that will be an incentive to promote EVs. This will add to the overall EV push by the Government which will further boost the share of EVs in the overall automobile sales.

CareEdge Outlook: Domestic Automobile Sales to see Muted Growth

CareEdge Research expects the domestic automobile sales to be impacted by the increased cost of ownership, driven by higher commodity prices (both raw material prices as well as oil prices) and increase in insurance costs, and global semi-conductor shortage, driven by supply chain issues & geopolitical tensions over the near term. This will be partially offset by the easing of the pandemic led restrictions, normal monsoons forecast and new launches by the OEMs. With crude oil prices moving on an upwards trajectory, fuel prices are expected to remain elevated. In addition to that, automobile OEMs are expected to increase the price of vehicles to provide a cushion against the impact of higher raw material prices.

For the commercial vehicle segment, CareEdge Research expects an improvement in sales with government's continued focus on improving infrastructure and construction activities. Also, as most of the corporates, schools and colleges open up, the demand for bus segment as well as two-wheelers and three-wheelers will improve. The tractors segment is expected to also show some improvement in the coming months due to increased budgetary allocation to rural and agriculture sectors. However, the passenger vehicle industry sales will continue to be impacted the most due to the global supply-side crunch and semi-conductor shortage in the near term.

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