Two-wheeler Sales Set to Grow 6-8% in FY24, EVs will Lead the Way

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Synopsis

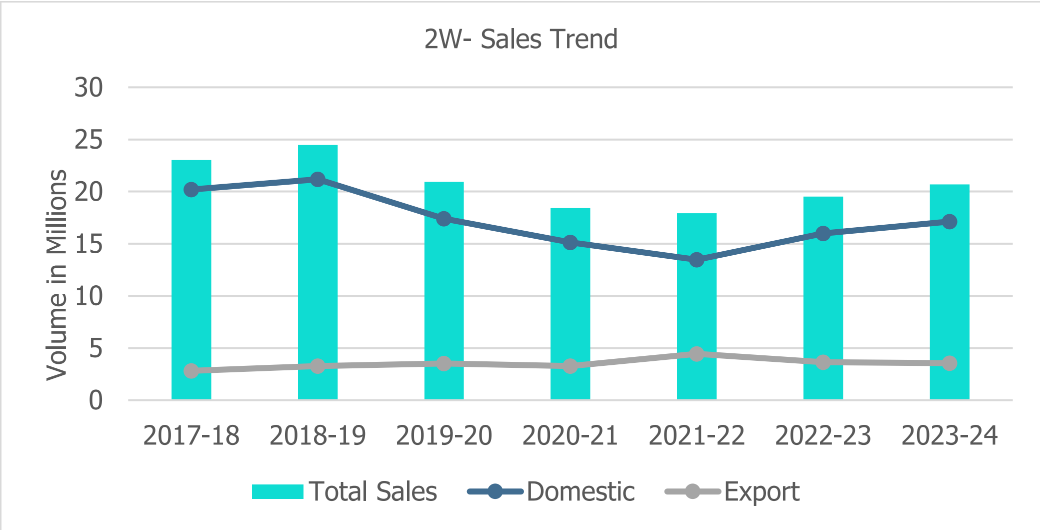
The volume sales of two-wheelers are projected to experience a growth rate of 6-8% in the fiscal year 2024 compared to the previous year, but they are expected to remain lower than the pre-Covid levels of 24.46 million units recorded in FY19. Domestic growth is anticipated to be moderate, around 7-10%, while exports are likely to continue declining by approximately 3-5%.

- Several significant challenges are impacting the demand for two-wheelers. These include a reduction in the FAME II subsidy, which restricts the growth of electric vehicle (EV) two-wheelers as the cost gap between internal combustion engine (ICE) and EV variants diminishes. Additionally, higher vehicle ownership costs, resulting from vehicle price hikes and increased interest rates, coupled with inflationary pressure, are affecting disposable income. Furthermore, the global recessionary trend is negatively impacting exports. An additional uncertainty to monitor is the adverse impact of El-Nino on rural consumer sentiment, which could further weaken demand.
- It is expected that EV two-wheeler volume sales will surpass 1.5 million units in FY24, following significant volume growth at 215% in FY23 (primarily due to a lower base effect). However, the demand for EVs might experience a slowdown due to the reduction in the FAME II subsidy, which will decrease from the current 40% to 15% starting from June 1st, 2023, resulting in increased ownership costs.
- Motorcycle sales are estimated to grow by 6-8%, particularly in the premium segment, while scooters are expected to achieve a growth rate of 4-5% in FY24.

Recent Trends in Two-Wheeler Segment

Following the subsiding impact of Covid, the demand for two-wheelers experienced a resurgence, although it remained below pre-Covid levels in FY23. The overall volume growth in FY23 reached a healthy 9%, encompassing both domestic and export markets, with total volume sales amounting to approximately 19.51 million units. The domestic two-wheeler industry witnessed total sales of 15.99 million units, reflecting a growth rate of 19%, while the volume of exports experienced a decline of 18%.

In the first half of FY23, there was a year-on-year growth of 19.3%; however, the second half of FY23, despite encompassing the festive and marriage season, remained lacklustre. This was primarily attributed to factors such as increasing prices, an inflationary trend, rising interest rates, and weak demand in the export market. During this period, wholesale prices of motorcycles and scooters rose by 4.8% and 7.3%, respectively. Industry players implemented multiple price hikes to offset the surge in input prices following the Ukraine-Russia war.

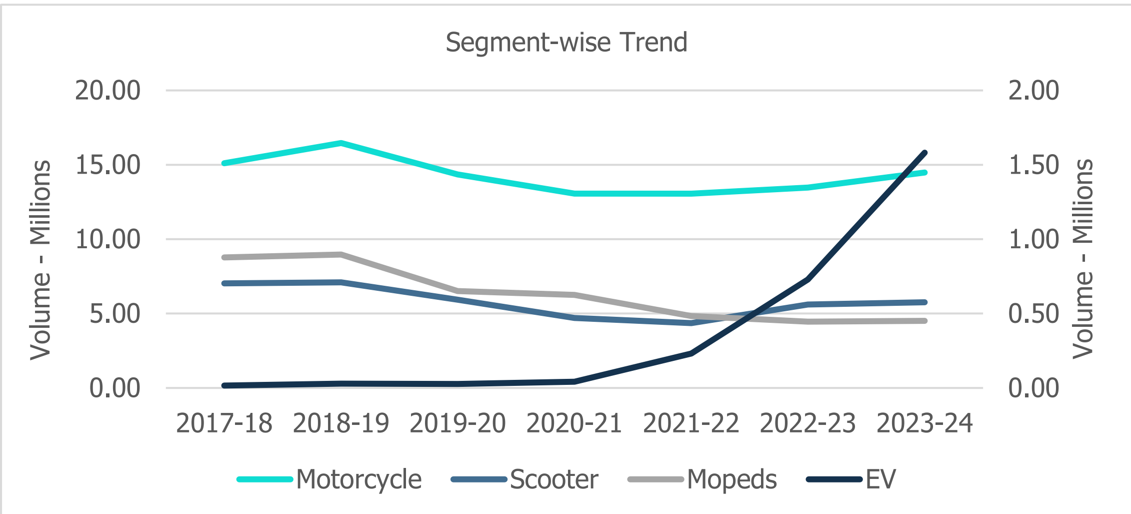


Source: CMIE, CareEdge Ratings

The demand for two-wheelers, particularly in the rural segment, has remained subdued over the past four years due to significant increases in vehicle and fuel prices, as well as the impact of Covid and the semiconductor shortage. The moderation in exports can be attributed to a slowdown in demand from African and Asian countries.

The overall volume growth in FY23 has also been supported by the increasing demand for electric vehicles (EVs). In FY23, EV sales reached approximately 0.73 million units, accounting for 3.7% of total two-wheeler sales (compared to 1.3% in the previous year), reflecting a remarkable year-on-year growth of 215% due to a low base. The demand for EVs is driven by a shift in consumer preferences towards options that offer lower fuel costs, reduced maintenance, and lower servicing requirements compared to internal combustion engine (ICE) models. Additionally, subsidised prices provided through the FAME II program have resulted in a lower ownership cost for EVs.

Segment-wise Trend – EV will Lead the Way



Source: CMIE, CARE

Motorcycles account for approximately 69-70% of the total two-wheeler volume sales, while scooters contribute around 29-30%. In FY23, motorcycles recorded a sales volume growth of 3%. The rural market and semi-urban market, known for their price sensitivity, drive nearly 50% of motorcycle sales. However, the aftermath of COVID and the increasing cost of ownership resulted in a slower recovery for motorcycles. Scooters, which faced challenges in the previous three years (FY20 to FY22), experienced a significant recovery in FY23, primarily due to a low base effect, achieving a growth rate of approximately 29%. Scooters primarily cater to urban areas, with 65-70% of sales coming from urban cities. The demand for scooters had been impacted by the rise of low-cost entry-level motorcycles and their lower cost of ownership compared to scooters. However, the introduction of electric vehicle (EV) models has substantially improved the demand for scooters in FY23.Looking ahead to FY24, CareEdge Ratings expects a healthy volume growth of 6-8% for motorcycles, driven by a better product mix with new launches and a shift towards premium bikes. However, the demand for entry-level segments has been adversely affected by significant price hikes of about 50% over the last three fiscal years. On the other hand, scooters are expected to experience some moderation in growth, around 3-6%, influenced by the reduction in the recently announced FAME II subsidy.

Subsidy Reduction to Disrupt E2W Growth Plans

The Ministry of Heavy Industries recently announced a reduction in the FAME II subsidy for electric two-wheelers, effective from June 1, 2023. The subsidy has been reduced from 40% to 15%. This reduction will lead to a 25% increase in the cost of EV variants and is expected to impact the demand for electric two-wheelers. The two-wheeler market is highly sensitive to prices, and in order to sustain the momentum of EV adoption, either EV prices need to be adjusted or subsidies may need to be extended to support the growth trajectory. The FAME II scheme, with a total outlay of Rs 10,000 crore, of which Rs 2,000 crore was allocated for two-wheelers, was launched on April 1, 2019, and will continue until March 31, 2024. Previously, with a 40% subsidy, the demand for electric two-wheelers was acceptable in the price range of Rs 1.3 to 1.5 lakh. However, with the reduction in subsidy, the vehicle cost will now exceed Rs 1.5 lakh. This reduction in the price difference between electric two-wheelers and internal combustion engine (ICE) vehicles may result in a shift in demand towards ICE variants, thereby impacting the demand for electric two-wheelers.

CareEdge Ratings believes that a timely resolution of FAME II policies with extended subsidies while maintaining an attractive price range, is crucial to support the adoption of electric vehicles, which is still in its early stages. In addition, improvements in the EV ecosystem, including the availability of charging stations and advancements in battery capacity, will further facilitate the transition to electric two-wheelers. CareEdge expects electric two-wheeler volumes to surpass 1.5 million units in FY24 with the necessary support and advancements.

Way Forward

"CareEdge Ratings anticipates a moderate overall volume growth of approximately 6-8% for the two-wheeler industry in FY24, taking into account both domestic and export markets. Domestic growth is expected to remain at a moderate level of around 7-10%, while exports are projected to continue experiencing weakness," said Arti Roy, Associate Director.

Several significant challenges are impacting the demand for two-wheelers. The reduction in FAME II subsidy is restricting the growth of electric two-wheelers as the price difference between internal combustion engine (ICE) and electric vehicle variants diminishes. Additionally, the higher cost of vehicle ownership, resulting from vehicle price hikes and increased interest rates, combined with inflationary pressures affecting disposable income, are impacting demand. Moreover, the global recessionary trend continues to dent exports. Uncertainties such as the adverse impact of El Nino on rural consumer sentiment will remain important factors to monitor.

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