Auto industry continues to face headwinds

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CareEdge RESEARCH

Automobile Sales continued to face headwinds in November 2021

The Indian automobile industry is facing headwinds like semi-conductor shortage, fear of spread of 3rd wave of Covid-19 and steep increase in commodity prices. The domestic automobile industry continued to grapple during November 2021 with the decline in sales by 30.6% on a year-on-year (YoY) basis led by two-wheelers.

One of the main reasons that the industry continues to face headwinds is the global shortage of semi-conductors that has crippled the supply chain. This in conjunction with the floods in southern parts of the country, rise in input as well as fuel costs and relentless rains across various parts of the country have further restricted the recovery in growth during this period.

Table 1: Automobile Domestic Sales in November 2021

Categories	Nov'21 Units	Nov'20 Units	Change (%)	
			MoM	YoY
Passenger Vehicles	215,672	264,898	-4.7%	-18.6%
Two-Wheelers	1,050,616	1,600,379	-31.8%	-34.4%
Three-Wheelers	22,471	24,071	-29.3%	-6.6%
Tractors	63,783	82,330	-44.8%	-22.5%
Commercial Vehicles*	59,113	61,243	-9.1%	-3.5%
MHCVs	14,111	13,209	-20.5%	6.8%
LCVs	45,002	48,034	-4.7%	-6.3%

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

FY2021-22 started with the onset of the second wave of Covid-19 pandemic due to which lockdowns were imposed in various states by the respective state governments, thereby impacting vehicle sales. During April to June 2021, many OEMs had shut their manufacturing plants and augmented oxygen supply for medical purposes supporting country's health care facilities.

Lately, with the easing of the lockdown restrictions, there has been a sharp growth in sales led by resumption of operations in a phased manner. The industry benefitted due to high pent up demand which was witnessed after reopening of several states during the festive season but the sales growth on a YoY basis has remained sluggish. Rise in commodity prices along with higher fuel prices have dampened consumer sentiments. The OEMs have also increased the vehicle prices during the year to offset the higher raw material prices (commodity costs) which increased the purchase price for end-users, further restricting growth. In addition, the semi-conductor shortage has been a key dampener for production and volumes in this fiscal.

Segment-wise Trends:

Passenger Vehicles: Despite new launches during the month, the passenger vehicle segment was at a disadvantage with decline in sales by 18.6% when compared on a YoY basis in November 2021. Due to the chip shortage, the production of vehicles was affected which has further led to increase in waiting period by 1-2 months, lowering the customer sentiments during the month.

On the Year till date basis, the passenger vehicles segment grew marginally supported by new launches made by the OEMs and customers preferring personal mobility due to the fear of the spread of follow-on waves of the Covid-19 global pandemic. The semi-conductor shortage has impacted production as well as overall sales volumes for passenger vehicles in the recent months.

Two-Wheelers: The sales in two-wheeler segment declined by 34.4% on YoY basis in November 2021. Despite the expectation of pick-up in sales due to marriage as well as festive season, it was heavily impacted due to lower rural demand. There has also been no increase in the inquiry levels which is causing more concern. Entry level segments are witnessing marginal growth in trend but premium segment demand have not shown much improvement. The inventory days have increased to 40-50 days led by chip shortage. Increase in product and fuel prices along with financial stress are further restricting recovery in this segment.

The two-wheelers segment showed a decline in sales on a year till date (YTD) basis as well. Demand will continue to remain weak due to rural distress in retails coupled with frequent price hikes of vehicles due to higher input costs and increasing fuel prices.

Three-Wheelers: The three-wheeler segment saw a decline of 6.6% on a yearly basis in November 2021. The demand for E-rickshaws are affecting the three wheelers sales. The three-wheelers segment witnessed a severe degrowth last fiscal and is showing signs of recovery with opening up of offices and educational institutions in recent months.

Tractors: The tractors sales declined by 22.5% compared on yearly basis led by seasonality affect and high base last year. This segment showed a sequential decline due to delayed harvest of Kharif crops led by irregular monsoons, floods in southern parts of the country, localized lockdowns in certain states due to fear of spread of Covid-19 that further led to supply side challenges. Going forward, higher Kharif sowing, adequate availability of retail finance and positive rural sentiments will aid tractors demand.
On a YTD basis, the tractor segment grew by 3.5% led by gradual pick up in sowing operations and normal monsoon across the country.

Commercial vehicles: The commercial vehicle segment showed a decline of 3.5% compared on YoY basis in November 2021, driven by the degrowth Light Commercial Vehicles (LCVs). LCVs segment saw a decline of 6.3% on a year on year basis. Passenger carriers and buses segment demand were impacted due to closing down of offices and schools because of Omicron threat. Diesel being the lifeline of commercial vehicle industry also hit record high prices during the month. Fuel cost is estimated to be around 30-40% of total operational cost of CVs. In addition to that, most of the OEMs increased the price of their vehicles in order to offset the rising commodity prices which also affected the demand.

On the other hand, Medium and Heavy Commercial Vehicles (MHCVs) sales bucked the trend and grew at 6.8% compared on a yearly basis in November 2021. This increase in sales was on the back of growing investment in construction and infrastructure segment. Government's focus on infrastructure spending and the overall resumption in economic activity this fiscal compared to last year are expected to continue to augur well for the industry.

Overall on a YTD basis, the commercial vehicle segment has gained momentum. Post unlocking, there has been an increase in logistics movement across the country coupled with improved freight availability, increased infrastructure spending are key drivers leading to revival in demand in this segment.

PLI Scheme for Semi-Conductors

The global automobile industry is facing supply chain disruptions amidst severe semiconductor shortage. On December 15, 2021, the Government of India has proposed to provide incentives of Rs. 760 billion for the development of semiconductors and display manufacturing ecosystem. This scheme will provide globally competitive incentive package to the companies for setting up plants in India in order to manufacture high quality semiconductor chips over the next 6-10 years. The government would extend upto 50% of project's cost to eligible display and semiconductors fabricators and is expecting to establish two greenfield semiconductor fabs and two display fabs and at least fifteen units of compound semiconductors packaging by facilitating capital support and technological collaborations. This initiative will further help to strengthen the domestic semiconductor manufacturing capacity and support the automobile industry over the medium to long term.

Outlook dampened by Semi-conductor shortage and Omicron threat

Amidst the rising threat of new variant of Covid-19 (Omicron), the overall demand for automobile industry is expected to remain impacted going ahead. The government has been aggressively driving the vaccination process, although threat of the third wave of the pandemic remains.

The elevated fuel and input costs are continuing to dampen the customer sentiment which might restrict the improvement in rural demand. OEMs across the automobile industry are facing challenge of high raw material prices along with chip shortage. Chip shortage issues are expected to ease off gradually over the next fiscal. This in turn is expected to reduce the waiting period – leading to an increase in production volumes of vehicles. Also, softening in commodity prices and year end festive and discount schemes are likely to potentially lead to increase in demand in automobile segment going ahead.

Contact

Swati Singh	Analyst	swati.singh@careedge.in	+91 - 22 – 6837 4400
Kanmaani S	Associate Director	kanmaani.s@careedge.in	+91 - 22 – 6837 4423
Tushar Shah	Director	tushar.shah@careedge.in	+91 - 22 – 6837 4470
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Advisory Research & Training Ltd
(Wholly-owned subsidiary of CARE Ratings Ltd.)
A-Wing, 1102-1103, Kanakia Wall Street, Chakala, Andheri-Kurla Road, Andheri East, Mumbai- 400093
Phone: +91-22-68374400

Connect :

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