

Festive Season Boosts Near-term Demand Momentum for Auto Sector

October 27, 2022 | Industry Insights

Synopsis

- The domestic automobile sales in September 2022 grew 14% on a month-on-month (m-o-m) basis and 23% on a year-on-year (y-o-y) basis. This was largely on account of robust consumer sentiment post-pandemic coupled with a festive season boost, ease in availability of semiconductors, and new model launches by the OEMs. The overall automobile domestic sales in Q2FY23 increased by 18% over Q2FY22.
- During H1FY23, domestic automobile sales grew by 31% y-o-y as robust consumer sentiment in the festive season, a low base, and an improvement in supply chain constraints aided.
- The passenger vehicle (PV) segment has shown the highest growth, led by increasing demand for utility vehicles followed by the commercial vehicle segment (CV), which benefitted due to the structural upcycle. The two-wheelers (2W) segment lagged due to uneven monsoons across various states. However, we expect the 2W segment to show some revival in the near term.
- CareEdge Research expects the growth momentum to continue in October with two major festivals Dussehra and Diwali. However, consistently high inflation, rising interest rates, and geopolitical factors might dampen the sentiment, thereby impacting the sales of automobiles in the medium term. The exports might also be impacted in the near term due to global economic conditions, foreign exchange fluctuations, and fears of a recession in the global markets.

Automobile Industry Domestic Sales								
Categories	Monthly Domestic Sales			Change (%)		Quarterly Domestic Sales		
	Sep-22 units	Aug-22 units	Sep-21 Units	m-o-m	y-o-y	Q2FY23	Q2FY22	Growth (% change)
Two-Wheelers (2W)	17,35,199	15,57,429	15,37,604	11.4%	12.9%	46,73,931	41,36,484	13.0%
Passenger Vehicles (PV)	3,51,388	3,24,531	1,84,864	8.3%	90.1%	11,57,112	8,22,671	40.7%
Commercial Vehicles* (CV)	79,641	72,007	57,043	10.6%	39.6%	2,31,880	1,66,251	39.5%
Tractors	1,13,686	52,691	92,465	115.8%	23.0%	2,21,588	2,11,402	4.8%
Three-Wheelers (3W)	47,340	36,112	27,968	31.1%	69.3%	1,12,542	68,529	64.2%
Total	23,27,254	20,42,770	18,99,944	13.9%	22.5%	63,97,053	54,05,337	18.3%

Source: CareEdge, SIAM (Society of Indian Automobile Manufacturers), TMA (Tractors Manufacturers Association)

* Note: Commercial Vehicle monthly data includes data for Tata Motors Ltd., Mahindra & Mahindra Ltd., Ashok Leyland Ltd., Maruti Suzuki India Ltd. & Eicher Motors Ltd.; Sales data does not include electric vehicle data; BMW, Mercedes, and Volvo Auto data is not available.

Auto Industry in the Driver's Seat in H1FY23

During H1FY23, domestic automobile sales grew by 31% year-till-date (YTD). Growth across the segments has been aided by a gradual improvement in festive season demand, the low base of last year, and an improvement in semiconductor supplies. The PV segment has recorded higher sales in H1FY23 with a growth of 40% YTD. This

was led by increasing demand for premium vehicles and new model launches. However, entry-level PV and 2W segments have been a matter of concern as the rural demand has not picked up.

The 2W segment, which has been under stress since the Covid-19 outbreak, now appears to be on a recovery path and has shown a growth of 28%. The commercial vehicle segment is also exhibiting better market demand with structural upcycle and it grew by 68%. There has been a recovery in the Medium and Heavy Commercial Vehicle (MHCV) segment led by a pick-up in road construction projects and strong demand for Light Commercial Vehicles (LCV) led by increasing last-mile mobility.

The tractor sales also picked up in H1FY23 owing to the festive season boost. The 3W sales grew robustly by 100% owing to a low base of last year along with a recovery in demand in the passenger carrier subsegment with increased public transportation and rickshaw services.

Half-Yearly Automobile Industry Sales			
Categories	H1FY23	H1FY22	YTD % change
Two-Wheelers	83,98,464	65,50,092	28.2%
Passenger Vehicles	19,36,740	13,87,714	39.6%
Commercial Vehicles	4,56,199	2,72,051	67.7%
Tractors	4,87,206	4,40,832	10.5%
Three-Wheelers	1,84,555	92,352	99.8%
Total	1,14,63,164	87,43,041	31.1%

Source: CareEdge, SIAM (Society of Indian Automobile Manufacturers), TMA (Tractors Manufacturers Association)

* Note: Commercial Vehicle monthly data includes data for Tata Motors Ltd., Mahindra & Mahindra Ltd., Ashok Leyland Ltd., Maruti Suzuki India Ltd. & Eicher Motors Ltd.; Sales data does not include electric vehicle data; BMW, Mercedes, and Volvo Auto data is not available.

Trend Watch

Two-Wheelers:

The 2W segment registered a growth of 11% (m-o-m) in September 2022, with the motorcycles and scooters subsegments growing by 10% and 14%, respectively. The demand sentiment has improved with the ongoing festive season as dealerships are witnessing a rise in walk-ins and customer inquiries. On a y-o-y basis, the 2W segment grew by 13% with 18% and 9% growth in the motorcycles and scooters subsegments, respectively.

However, with the increased interest rates and inflation, the entry-level 2W segment has been impacted the most since the rural demand has not yet picked up. The exports for two-wheelers fell 3% on an m-o-m basis due to the evolving geopolitical tensions but grew by 11% on a y-o-y basis due to the low base of last year. In Q2FY23, the 2W segment domestic sales grew by 13% on account of gradual recovery due to festive season demand. The exports declined by 14% due to the challenges of economic slowdown and higher inflation.

Passenger Vehicles:

With the ease in availability of semiconductors, domestic sales in the PV segment grew by 8% on an m-o-m basis in September 2022. The festive season, new launches by the OEMs, and the low base of last year have further fuelled the demand momentum in this segment leading to a growth of 90% on a y-o-y basis. The demand for

premium vehicles has been gaining momentum and the waiting period continues to range between 3 months to 24 months, especially for SUVs and compact SUVs. The exports declined by 4% on a y-o-y basis which was attributed to decreasing demand in the passenger cars sub-segment, which showed a decline in sales by 12% (y-o-y) in the export market. Exports also declined by 6% on an m-o-m basis amid a fall of 17% in the utility vehicle sub-segment.¹ In Q2FY23, the PV segment saw a growth of 41% over Q2FY22 led by the ease in availability of semi-conductors and the low base of last year. The exports also increased by 2% during the quarter.

Commercial Vehicles:

The CV segment grew by 11% (m-o-m) and 40% (y-o-y) led by a recovery in the MHCV segment due to a pick-up in road construction projects and strong demand for LCVs led by increasing last-mile mobility. The MHCV sub-segment grew by 26% (m-o-m) and 44% (y-o-y), which was led by a pick-up in road construction activities, improving fleet utilisation, and increase in cement consumption. The LCV sub-segments domestic sales grew by 4% (m-o-m) and 38% on a y-o-y basis, respectively, led by increasing last-miles connectivity. The exports for this segment declined by 3% on an m-o-m basis due to rising geopolitical tensions and high inflation across various exports market. However, exports grew by 13% on an m-o-m basis. In Q2FY23, the CV segment domestic sales grew by 40%, led by increasing sales in both the MHCV and LCV sub-segment. However, the exports marginally declined by 2% due to the economic situation in Sri Lanka and Nepal.²

Tractors:

Domestic tractor volumes increased by 116% (m-o-m) and 23% (y-o-y). Demand remained strong during the month owing to the festive season boost. The monsoons have also improved the reservoir levels, leading to the high moisture content in the soil which was positive for higher food grain production, and it is expected to benefit the upcoming Rabi season. With the start of Kharif crop harvesting and no further increase in crop prices, the sentiment is expected to remain positive. Tractor exports declined by 11% (y-o-y basis) and 7% (m-o-m basis), respectively, due to an increase in inflation. In Q2FY23, domestic sales grew by 5% due to better monsoons and higher farm income. The exports marginally declined by 1% during the quarter.

Three-Wheelers:

The domestic 3W sales grew 31% (m-o-m) and 69% (y-o-y) owing to a recovery in demand in the passenger carrier subsegment with increased public transportation and rickshaw services with the opening up of the economy. The passenger carrier sub-segment grew by 105% (m-o-m) and 35% (y-o-y) during the month. The goods carrier subsegment sales grew by 14% on an m-o-m basis with increasing e-commerce activities while it declined by 9% due to an increasing preference for electric three-wheelers and alternate fuel vehicles over ICE 3W vehicles. The export in the three-wheeler segment declined by 15% on a y-o-y basis and 26% on an m-o-m basis due to the ongoing geopolitical tensions across various key international markets. In Q2FY23, the 3W domestic sales grew by 64% with an increase in public transportation while the exports declined by 5% due to increasing inflation across various export markets.

¹ PV exports sales growth figure does not include Tata Motors Limited data.

² CV Q2FY23 sales volumes and growth figures includes data of overall industry from SIAM

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