"Supply shortfall makes dirty fuel preferred over the green fuel..."

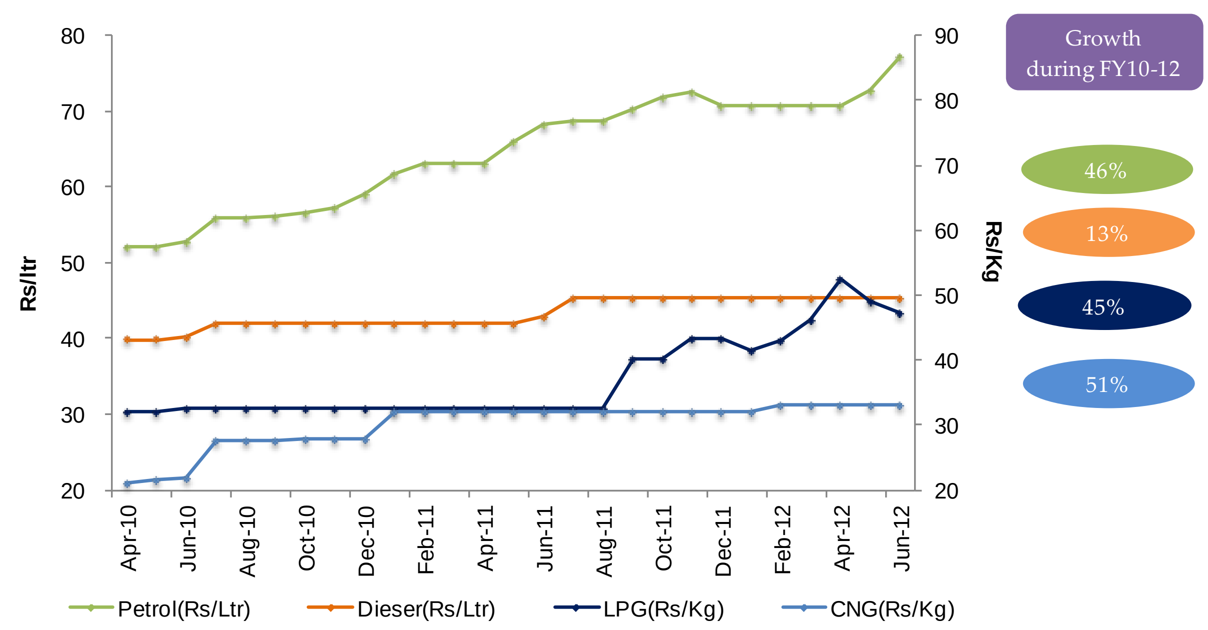
Macro-economic uncertainties combined with constant rise in petrol prices and firm interest rates have pulled domestic growth levels in PV industry

The PV industry after witnessing a high growth scenario of around 25 per cent and 27 per cent respectively during two consecutive years FY10 and FY11 faced a road block in FY12. The industry managed to post a growth of mere 4.7 per cent, abet by healthy growth witnessed during last quarter. This growth level was the lowest, domestic PV industry has witnessed during last one decade. Negative sentiments arising due to economic uncertainties, spiralling fuel prices and interest cost combined with high inflation levels prompted many customers to defer their purchase.

Spiralling petrol price post de-regularisation affected the demand for petrol vehicles significantly

De-regularization of petrol prices from the second quarter of FY11, has given autonomy to oil companies for setting petrol prices in tandem with global crude oil prices. During April 2010 – June 2012, there have been 10 upward revisions in petrol prices, resulting in 46 per cent rise in petrol prices during this period that consequently has inflated the operating cost of petrol vehicles. Rise in the operating cost of petrol vehicles, led to sharp rise in the demand for vehicles running on alternative fuels like diesel, CNG and LPG. Diesel vehicles in particular have witness strong spurt in demand as compared to other two gaseous fuels owing to stability in prices, easy availability and better mileage.

Change in fuel prices since April 2010



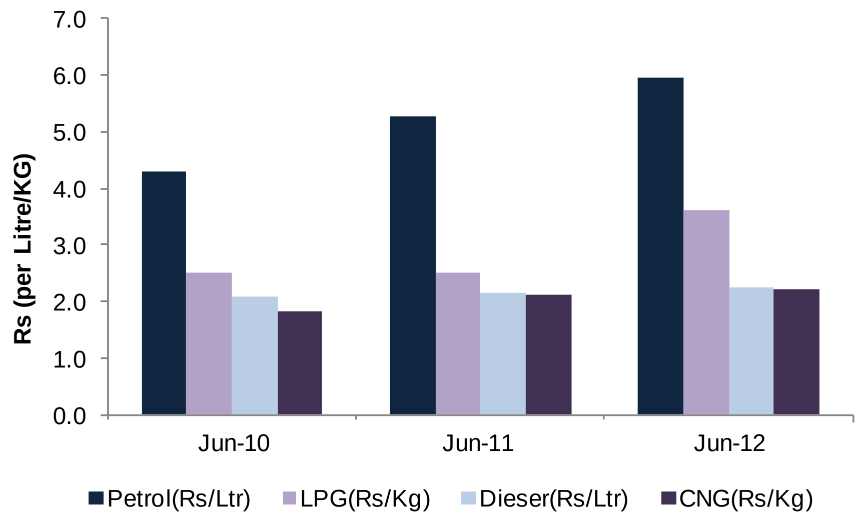
Source: CARE Research

Stability in prices has made diesel most preferred fuel off-late...

Because of easy availability and stability in price, diesel has become the most preferred fuel option for the passenger car buyers off-late. During the period (i.e. June 2010 – June 2012) when the price of petrol rose by around 46 per cent and the CNG and LPG prices escalated by around 51 per cent and 45 per cent respectively, the diesel price on the other hand rose by just 13 per cent.

CARE Research observed that, the average fuel cost per km for LPG vehicle increased from Rs 2.5 in June 2010 to around Rs 3.8 in June 2012, while that of CNG vehicle has increased from Rs 1.7 per km to Rs 2.2 during the same period. Owing to minimal increase in diesel prices, the fuel cost per km for diesel vehicle has merely increased from Rs 2.0 in June 2010 to around Rs 2.2 in June 2012. As diesel is the primary fuel used in the transportation sector and an upward revision in diesel prices pushes inflation northwards, hence complete de-regularisation in diesel prices is unlikely in short-term. During last 2-3 years the demand for diesel cars has risen like never before and buyers are ready to shell out the additional 15-20 per cent cost for buying diesel models in order to garner the benefits of lower fuel price and higher mileage.

Cost comparison across different fuels



Source: CARE Research

...though CNG still remains the cheapest option

CARE Research observed, that the key cost component involved for owning a vehicle are fuel cost, initial capital cost of vehicle, maintenance cost, insurance cost, and financing cost etc. which significantly influence the making purchase decision of a buyer. In order to estimate the total cost of operation of a vehicle, CARE Research considered initial cost of purchase and fuel cost as the proportion of other costs is miniscule. CARE Research observed that lower initial cost of vehicle combined with lesser fuel cost and higher mileage, the CNG vehicle needs minimum time to recover incremental cost over petrol vehicle followed by LPG and then diesel. For example, if vehicle is driven for around 10,000 kms per annum, it would take around 12 months to recover the additional cost paid over petrol vehicle. Further for LPG vehicle it would take around 22 months to recover the additional cost, while for diesel vehicle the period required for recovering additional cost is around three years.

Furthermore, CARE Research observed, inspite of diesel vehicles offering the lowest fuel cost per km, the incremental capital cost difference between diesel vehicle and CNG/LPG vehicle is considerably high. For example the initial capital cost difference between diesel and CNG vehicles is around Rs 75,000 – Rs 85,000, while there is difference of around Rs 90,000 – Rs 100,000 between diesel and LPG vehicles. This makes diesel vehicles lesser cost effective than CNG and LPG.

…supply constraints and safety concerns make gaseous fuel less preferred over diesel

CARE Research observed that, although gaseous fuels like CNG and LPG are more economical than diesel and petrol, their availability as well as security concerns arising due to mishaps caused by the bursting of gas cylinders have kept customers at bay. It was found that acceptability of CNG is much higher than LPG as a safer fuel. However because of limited presence of City Gas Distribution (CGD) network which is currently in 41 cities in India the supply of CNG is restricted only to those areas. In case of LPG, constant mishaps owing to high inflammable property of LPG and higher maintenance cost has led customers avoiding purchase of LPG powered vehicles. These constraints in gaseous fuel vehicles, has further aided in the growth of diesel powered vehicles.

Diesel vehicles will surpass market share of petrol vehicles in the short term...

Going forward, CARE Research expects the share of diesel-driven vehicles to increase in the overall pie of the Indian PV industry. With more than 90 per cent of new sales in the utility vehicle segment being diesel variants, the dieselisation trend is now catching up strongly in the passenger car segment also. The diesel car sales were estimated to be around 43 per cent of the total car sales in FY12 and for some of the models which have diesel as well as petrol option, sale from diesel variants was around 70 per cent of the total sales. The growth trend in the diesel vehicles sales has been even stronger during current fiscal owing to rising uncertainties about petrol prices.

...negating the uncertainties over government's plan to impose additional tax on diesel vehicles

The rising difference between petrol and diesel retail prices is encouraging more and more buyers to opt for diesel vehicles. The uncertainties over government's intension to impose additional tax on diesel vehicles may dent the demand to some extent as the recovery period of the incremental cost for diesel vehicle would extend. CARE Research believes, these concerns would fade away gradually, as cost benefits entailed over a life of a vehicle inspite of the imposition of additional tax would continue to drive consumers in favour of diesel vehicle. As per our estimates diesel vehicles would account for more than 1/2th of the new sales in the PV segment in FY13, from the current level of around 43 per cent.

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