Automobile & Auto Component Industry Update

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A. Automobiles

Auto sales continued to remain sluggish in February 2020; register a decline of 12.7% y-o-y in FY20 (Apr-Feb) led by persistent weakness in economy and consumer sentiment. Also, with Covid-19 outbreak, the supply chains in India have been impacted. Inventory corrections by OEMS further led to the decline, industry foresees revival only by H2 FY21

In February, auto industry sales (including PVs, CVs and two & three wheelers) registered a y-o-y decline of about 14.4% in overall sales vis-à-vis a decline of about 2.5% registered a year ago. All category sales witnessed the decline with the maximum decline of 32% y-o-y registered in the commercial vehicles segment. Two & Three wheelers vehicle sales witnessed a decline of over 15% y-o-y during the month. Passenger vehicle sales decline was restricted to about 5% y-o-y mainly led the recent policy measures announced by the government and increased sales of SUV/MUVs segment during the month.

During FY20 (April –February), sales witnessed a decline of about 12.7% y-o-y on account of weak demand for commercial vehicles, two & three wheelers as well as passenger vehicles that registered a double-digit decline of 22.9%, 12.5% and 11.4% y-o-y respectively according to the latest data of the industry body SIAM. **Continued impact of increased cost of ownership in passenger vehicles and two wheeler segments due to new safety norms and higher insurance costs, increased axle norms and high base of previous year in case of commercial vehicles led to the overall decline of automobiles during FY20 (April – February).** Also, going forward, with implementation of BS VI norms from April 2020, the cost of ownership is further expected to increase by about 12-15%.

Overall demand for exports increased by about 5.4% y-o-y during FY20 (April – February) vis-à-vis a double-digit growth of over 15.5% during the corresponding period of previous year on back of slowdown in the global economies as well as the outbreak of the Covid-19.

Chart 1: Auto Sales (April - February) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	31,23,535	6.6	6,98,420	11.5	1,81,66,975	2.0
FY17	34,52,305	10.5	7,25,853	3.9	1,89,79,248	4.5
FY18	36,64,940	6.2	8,34,080	14.9	2,19,36,711	15.6
FY19	36,97,899	0.9	9,87,730	18.4	2,39,22,589	9.1
FY20	32,78,052	-11.4	7,61,749	-22.9	2,09,38,047	-12.5

Source: CMIE

- In FY20 (Apr-Feb), passenger vehicles segment witnessed a decline of 11.4% y-o-y in sales with maximum decline of about 35.7% y-o-y in the vans segment followed by about 16.8% decline in the passenger cars segment. Multi-Utility Vehicles (MUV) segment sales witnessed an increase of about 7.1% y-o-y during the period. Quadricycles, with a very low base, continued to witness a double-digit growth of about 42% y-o-y. While increased insurance cost, high ownership cost and price hikes due to new safety norms and increased input costs along with the prolonged lending impediment in the market continue to weigh down on the industry, demand for SUV/MUV segment and new models continued to book higher sales during the months. However, many OEMs have launched BS VI as well as electric vehicles that have further increased the overall cost of ownership.
- Commercial vehicles sales declined by about 22.9% during the period with Medium and Heavy Commercial Vehicles (M&HCVs) sales declining by about 38% y-o-y and Light Commercial Vehicles (LCVs) sales declining by about 13% y-o-y. Due to upward revision in axle load norms for M&HCVs by 20-25% and continued curtailed lending by NBFCs, demand for CVs has seen a drastic decline during FY20 with fleet owners having deferred their purchases. Also, the turnaround time for CVs post GST implementation has come down and has supported the postponement of additional requirement for CVs in the current phase of economic slowdown. Volatility in freight rates and fuel prices has further impacted demand. Sales were further impacted due to delay in framing the vehicle scrappage policy that is expected to largely focus on the commercial vehicles.
- In case of Two & Three Wheelers, sales of two wheelers declined by about 12.8% followed by passenger and goods carriers (three-wheelers) that witnessed decline of about 5.9% y-o-y in FY20 (Apr – Feb). Demand remained under pressure on back of high ownership costs, higher outlay in insurance cost and price hike on back of new safety norms that led to slower movement in the segment sales.
- As per the latest FADA data, registrations of three wheelers, commercial vehicles and tractors have witnessed a double-digit growth of 20.7%, 13% and 13.5% respectively during February 2020 while two wheelers have witnessed a marginal growth of about 1.5% during the month. On the other hand, passenger vehicle registrations have declined by about 1.2% on a y-o-y basis in February 2020.

Table 2: Auto Exports (April – February) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	5,91,247	3.0	92,581	19.5	26,91,754	0.8
FY17	6,87,434	16.3	99,027	7.0	23,88,267	-11.3
FY18	6,77,081	-1.5	85,893	-13.3	29,15,668	22.1
FY19	6,12,091	-9.6	89,441	4.1	35,48,604	21.7
FY20	6,44,314	5.3	57,088	-36.2	37,78,318	6.5

Source: CMIE

- Overall exports of auto showed an increase by registering a growth of 5.4% y-o-y during FY20 (Apr- Feb). Passenger vehicles segment witnessed a growth of about 5.3% y-o-y with higher dispatches to various overseas markets such as Gulf, Latin America and South Africa followed by 6.5% y-o-y growth in the two & three wheeler segment. Also, few OEMs are increasing exports of existing and new variants to Nepal and Bhutan. Commercial vehicles segment with the lowest base in total auto exports, witnessed the sharpest decline of 36.2% during the period.
- Within PVs, exports of MUVs segment grew by over 16.9% and that of quadricycles with a small base witnessed a y-o-y growth of about 24.9% during the period. Passenger car exports witnessed a marginal growth of about 1.7% y-o-y. On the other hand, exports of vans registered a decline of 19.6% y-o-y during FY20 (Apr- Feb).
- In case of two & three wheelers, while two wheelers segment exports witnessed a growth of about 9% during the period, exports of three wheelers declined by about 8.2% y-o-y
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Table 3: Auto Production (April – February) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	31,38,147	7.0	7,04,251	12.1	1,80,27,395	0.7
FY17	34,43,186	9.7	7,25,539	3.0	1,89,09,395	4.9
FY18	36,55,621	6.2	7,89,702	8.8	2,19,75,787	16.2
FY19	36,98,115	1.2	10,06,930	27.5	2,40,29,626	9.3
FY20	32,32,461	-12.6	7,33,965	-27.1	2,09,48,410	-12.8

Source: CMIE

- Overall auto production witnessed a decline of about 13.3% y-o-y during FY20 (Apr-Feb) vis-à-vis a growth of about 8.8% witnessed during the corresponding period previous year.
  - On the inventory front, while there was slight reduction across all segments, two wheeler inventories of BS IV variants continue to be above comfortable levels as per the latest numbers by the Federation of Auto Dealers Association of India (FADA).
  - PV and CV inventory is at reasonable level (around 10 – 15 days) with OEMs reducing production to adjust the cycle as per FADA recommendations. However, the slow moving, old and non-popular models inventory continues to be high and a cause of concern for the dealers as well as the OEMS. Also, the request to consider the extension for sale application of BS IV vehicles made by FADA was rejected by the Supreme Court, making it difficult for the full liquidation of BS IV inventory with only one month left in hand.
  - With government's deadline for all existing PVs and two wheeler models to comply with new safety norms starting April 1, 2019 and overall subdued demand, the overall industry production had slowed down during April 2019 – February 2020.

Table 4: Tractor sales & exports (April-January) (in Numbers)

	Sales	Growth rate (%)	Exports	Growth rate (%)
FY16	4,87,908	-11.2%	64,911	5.6%
FY17	5,65,116	15.8%	64,924	0.0%
FY18	6,59,170	16.6%	68,786	5.9%
FY19	7,53,509	14.3%	77,003	11.9%
FY20	6,80,912	-9.6%	64,836	-15.8%

Source: CMIE

- Tractor sales FY20 (Apr – Jan) witnessed a decline of about 9.6% y-o-y vis-à-vis a double-digit growth of about 14.3% witnessed during the corresponding period previous year. Exports as well witnessed a double-digit decline of about 16% on a y-o-y basis over an increase of about 12% witnessed in FY19 (Apr – Jan) period.
- However, on a m-o-m basis, tractor sales witnessed a sharp growth of about 17% y-o-y in January 2020 showing an uptick in the rural demand from some states such as Bihar, Haryana, Himachal Pradesh, Jharkhand, Kerala, Maharashtra, Rajasthan, etc among others during the month.

Major policies announced:

FY19:

- Load carrying capacity of heavy vehicles (including trucks) raised by 20-25%
- The Insurance Regulatory and Development Authority of India (IRDAI) introduced two new sets of rules in October 2018 where the total outflow towards insurance has gone up in 2 ways –
  - upfront payment of insurance premium and
  - increase in compulsory personal accident cover for owner under motor insurance policies from Rs 2 lakh to Rs 15 lakh.
- FAME II scheme gets a Rs 10,000 crore clearance from the Union Cabinet

FY20:

- GST on EVs lowered to 5% from earlier 12%
- Additional income tax deduction of Rs 1.5 lakhs on interest paid on loan taken to purchase EVs
- The Insurance Regulatory and Development Authority of India (IRDAI) hiked the third party motor insurance premium for FY20 by 21% for bikes and 12% for private cars, June 2019
- An additional depreciation of 15% on all vehicles, increasing it to 30% acquired till March 30, 2020 – FM's announcements August 23, 2019
- To further promote electric mobility and manufacturing, auto parts (e-drive assembly, on-board charger, e-compressor, charging gun) for exclusive use in EVs have been exempted from customs duty bringing down the cost of EVs, thereby boosting EV sales in the country.
- RBI allowed the scheduled commercial banks to deduct the equivalent of incremental credit disbursed by them as retail loans for automobiles over and above the outstanding level of credit to this segment as at the end of the fortnight ended January 31, 2020 and up to the fortnight ending July 31, 2020, from their net demand and time liabilities (NDTL) for maintenance of cash reserve ratio (CRR) for a period of five years from the date of origination of the loan or the tenure of the loan, whichever is earlier (Source: RBI)

Financials

Table 5: Net sales & Margins

(Rs crore)	2&3 Wheelers		Passenger Cars		Trucks/LCVs		Tractors	
	9M FY19	9M FY20	9M FY19	9M FY20	9M FY19	9M FY20	9M FY19	9M FY20
Net Sales	**69,731**	**65,443**	**1,01,868**	**90,849**	**73,799**	**50,593**	**5,015**	**4,819**
Growth in sales (%)	13.6	-6.1	6.2	-10.8	23.1	-31.4	22.0	-3.9
Operating Profit	13,236	12,337	16,879	14,313	8,428	2,720	683	613
Operating Profit Margin (%)	**19.0**	**18.9**	**16.6**	**15.8**	**11.4**	**5.4**	**13.6**	**12.7**
Net Profit	8,173	8,915	9,655	8,191	3,350	-2,091	416	391
Net Profit Margin (%)	**11.7**	**13.6**	**9.5**	**9.0**	**4.5**	**-4.1**	**8.3**	**8.1**

Note: The industry revenue and margins are based on the financial results of 6 listed 2&3W companies, 3 PC companies (Maruti, Mahindra and Mahindra and Hindustan Motors), 4 Trucks/LCV companies and 3 Tractor companies

Source: AceEquity

CARE Ratings Outlook: Negative

Table 6: Growth in sales

Vehicle Category	FY20*
Passenger Vehicles	(10 - 12)%
Commercial Vehicles	(15 - 17)%
Two & Three Wheelers	(7 - 9)%
Overall Auto	**(10 - 12)%**
Tractors	(7 - 9)%

*P – Projected

- In FY20 (April – February), automobile sales witnessed the sharpest decline of 12.7% y-o-y during the last 5 years on back of price hikes in passenger vehicles and two wheeler segments due to new safety norms, higher insurance costs, higher ownership costs, curtailed lending by the NBFC sector, reduced turnaround time and increased load carrying capacity for CVs led to high inventories and slow movement in segment sales.
- With just one month left, the decline is expected to put pressure on the overall sales for the year and restrict the growth going forward. We are credit negative on commercial vehicle segment while retaining largely stable outlook on passenger and two-wheeler segment.
- Going forward, we expect demand to marginally improve on m-o-m basis in March 2020 with some pre-buying of automobiles expected to happen before the implementation of BS-VI norms on April 1, 2020. However, most of the OEMs in PV segment have announced price hikes from January 2020 to cover the increasing input costs thereby exerting further pressure on sales in Q4 FY20 amidst sluggish demand.
- Manufacturing cost is expected to increase by about 12-15% for passenger vehicles and about 15-20% for commercial vehicles to meet the new BS-VI emission norms along with the new safety norms. However, now with supply chain disruptions expected due to Covid-19 pandemic, the input cost is expected to be much higher than before.
- However, the OEMs will not be able to pass on any further cost burden immediately on account of current subdued market conditions.

- The pickup in construction and mining activities along with increased inter-state movement of goods with the streamlining of e-commerce and FMCG and pre-buying of commercial vehicles is expected to provide some cushion for the CV segment. However, faced with an intense slowdown during FY20 (April – February), the segment is expected to report a double-digit decline in y-o-y growth for the fiscal FY20. Recovery could take longer if the economic slowdown continues.
- Meanwhile, consumer affordability and willingness is the key for a strong revival in demand in PC and 2&3W segments. Slowing debt driven consumption and falling household savings are key risks to the demand returning in these segments.

B. Automobile components

The Indian auto industry is the fifth largest in the world only behind China, US, Japan and Germany and produces about 5.6% of passenger cars and about 4.4% of commercial vehicles globally. India is expected to become the fourth largest automobiles producer globally by 2020 after China, US and Japan (India is currently world's second largest two-wheeler manufacturer).

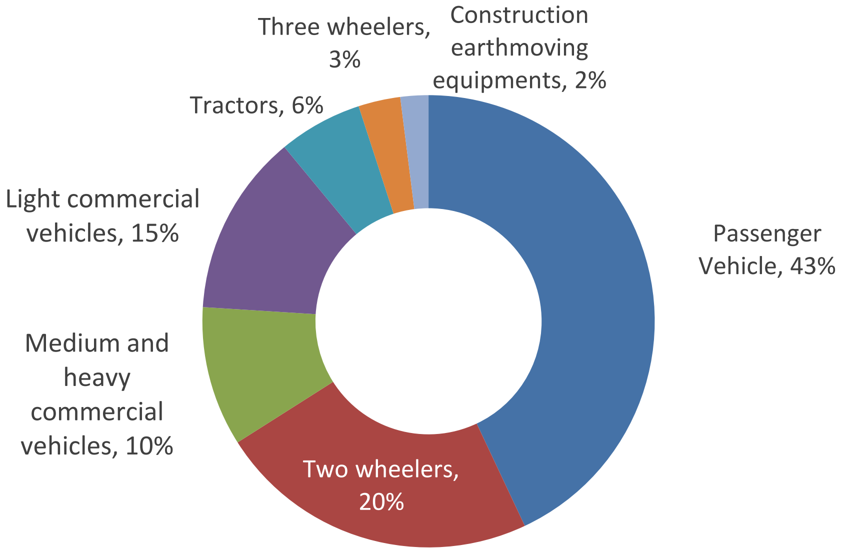
Market size

- The Indian auto-component industry stands at US$ 57 billion as of FY19, registering an expansion of about 11.3% y-o-y
- The India's automotive exports stood at US$ 15.16 billion in FY19 vis-à-vis US$ 13.4 billion in FY18, registering a y-o-y growth of over 13%
- The domestic aftermarket stood at US$ 10.1 billion, registering a y-o-y growth of 9.8% in FY19
- Industry accounts for about 2.3% of country's GDP and employs over 50 lakh people directly and indirectly

Advantage India

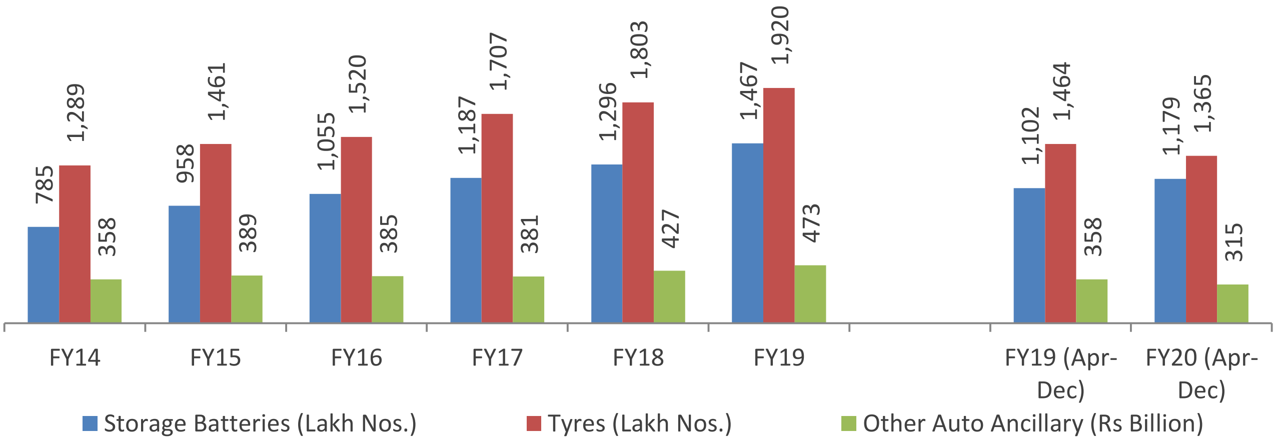
- 100% FDI is allowed under the automatic route for the auto comp industry
- Compared to operations in Europe and Latin America, India benefits by about 10-25% in terms of costs on back of cost-effective manufacturing base in the country
- Also, India is geographically closer to key automotive manufacturing markets such as Middle East and Europe

Chart 1: Auto Ancillary OEM Share



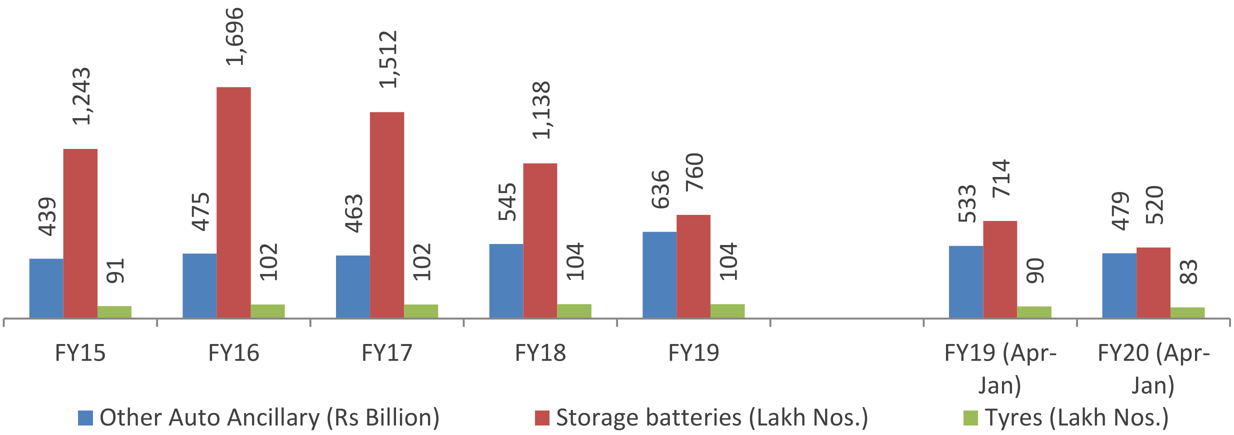
Source: ACMA

Chart 2: Auto Ancillary – Production



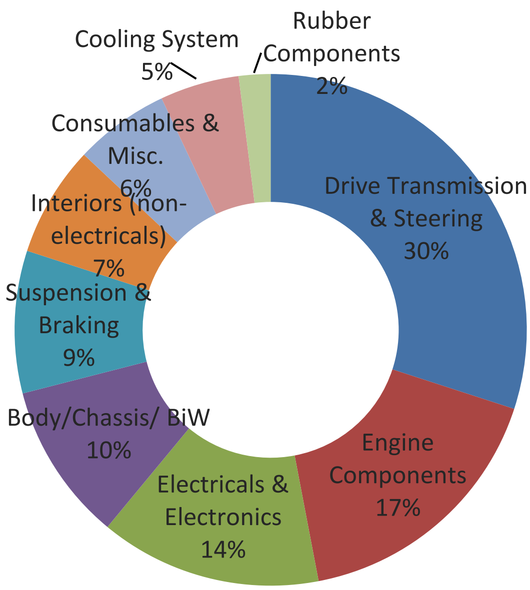
Source: CMIE

Chart 3A: Auto Component industry – Imports



Source: CMIE

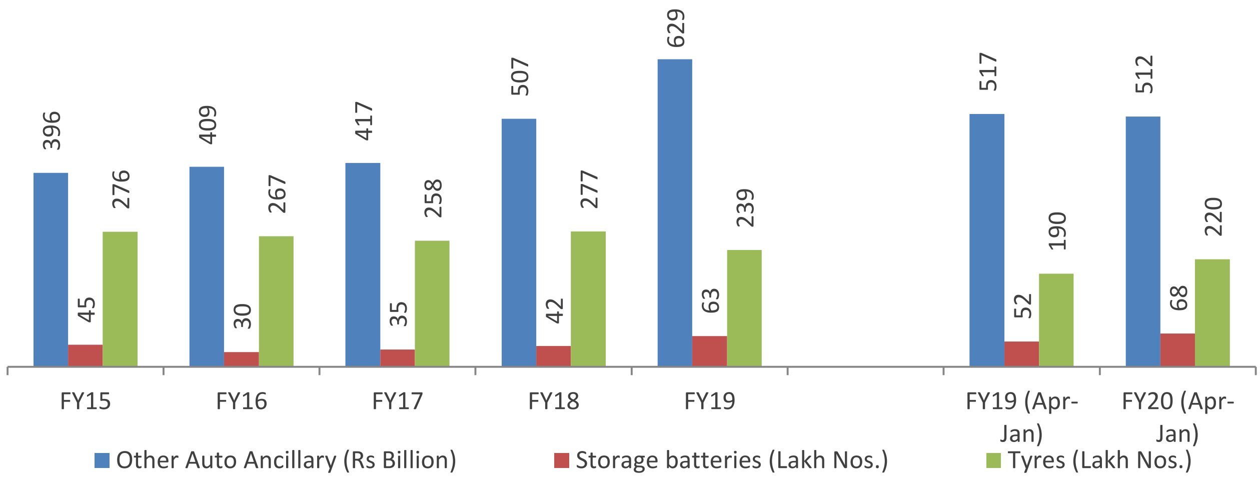
Chart 3B: Product wise Imports of Auto comps



Source: CMIE

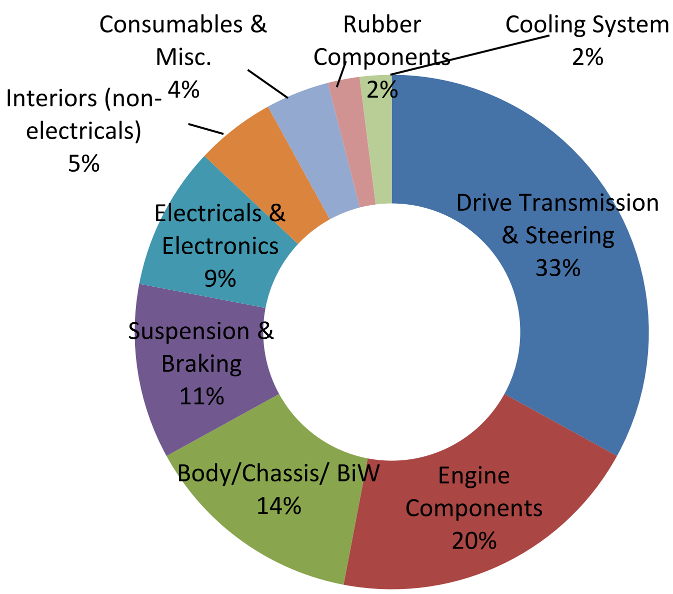
- Of the total imports of auto components in India, about 27% comes from China, followed by 14% from Germany, 10% from South Korea, 9% from Japan and 7% from the US.
- Thailand, Singapore, Italy, UK and France account for about 20% share of imports to India
- In terms of regions, Asia accounts for the largest share of over 61% followed by Europe at 29% and North America at 8%. Africa and Latin America account for a negligible share of 1% each.

Chart 4A: Auto Component industry – Exports



Source: CMIE

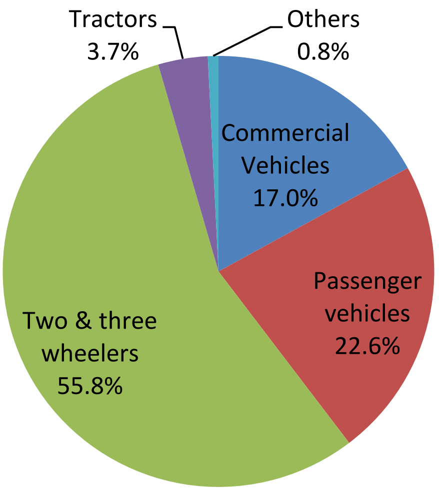
Chart 4B: Product wise Exports of Auto comps



Source: ACMA

- Drive transmission and steering and engine components account for a share of about 53% of the total exports of auto components from India.
- In FY19, Major Export destinations: Europe – 32%, North America – 29%, Asia – 25%, Latin America, Africa and CIS & Baltics - 14%

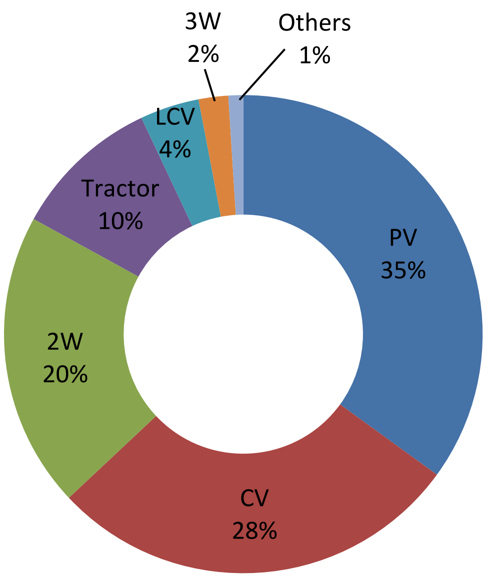
Chart 5: Tyre Industry OEM Share



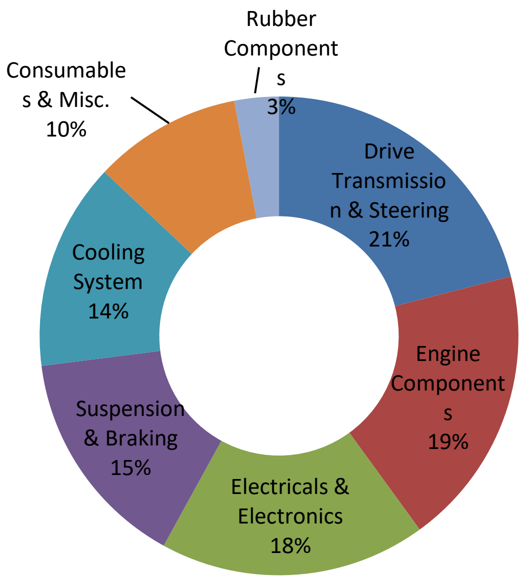
Source: CMIE

Chart 6: Aftermarket revenue

Segment wise



Product wise



Source: CMIE

Financials

Table 7: Net sales & Margins (9M)

Rs crore	FY18	FY19	FY20	Growth (%)	
				FY19	FY20
Net Sales	89,576	1,02,706	90,726	14.7	-11.7
Operating Profit	12,505	14,897	12,716	19.1	-14.6
Operating profit margin (%)	14.0	14.5	14.0		
Net Profit	4,333	6,114	4,755	41.1	-22.2
Net Profit Margin (%)	4.8	6.0	5.2		

Note: The industry revenue and margins are based on the financial results of 90 listed auto ancillary and tyre companies
Source: AceEquity

- Net sales of the players have witnessed a decline of about 11.7% on a y-o-y basis during 9M FY20 vis-à-vis a growth of about 14.7% y-o-y a year ago, on back of production cuts by the OEMs during the year in order to adjust the inventories amidst the weak demand
- Also, recent investments made for transition from BS IV to BS VI, liquidity crunch, lack of clarity on policy for electrification of vehicles, among others, have also had an adverse impact on the expansion plans of the auto component sector
- Operating profits witnessed a decline of over 14.6% led by higher input costs as well as decline in sales while the operating profit margins continued to remain stable at around 14%, registering a marginal decline of about 50 basis points.
- Similarly, in line with the operating margins, the net margins have also witnessed a marginal decline of about 80 basis points during the period.

Outlook - Negative

- On the back of slowdown in auto segment and weak near term outlook, growth challenges remain for auto component industry. Furthermore, as India imports about 30% of its total turnover of the industry largely from China, Germany, South Korea and Japan (~60% of total imports), with Covid-19 outbreak, the domestic manufacturing industry is expected to face disruptions in the supply chain with raw material shortage in the coming months in terms of increased costs as well as unavailability of such components. Also, the impact is expected to be higher in case of electric vehicle components as India relies on heavily on imported electronics and cells.
- With new stringent emission norms and electric vehicles production in the domestic market, a range of updated as well as new auto comps is expected to enter the market driving the demand. Compliance to BS VI will also help discover newer export markets for their components. At the same time, capex on technology advancement and product capabilities may continue to remain high exerting pressure on companies' cash flow.
- Component manufacturers supplying across segments and having diverse revenue source from aftermarkets, exports besides OEMs may weather the current slowdown better than players with concentrated product or geographic profile.

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