

Auto sales decline marginally in December 2018 on back of high base and dull festive demand

In December 2018, auto industry sales (including PVs, CVs and two & three wheelers) registered a marginal y-o-y decline of about 2% in overall sales vis-à-vis a double-digit growth of about 33.6% registered a year ago. The sales growth was largely restricted on account of subdued performance of the commercial vehicles segment followed by passenger vehicles segment. Two & three wheelers segment sales remained largely steady according to the latest data of the industry body SIAM. Commercial vehicles sales dipped by 10.5% y-o-y, passenger vehicles sales witnessed over 6% y-o-y decline while two & three wheelers sales registered only marginal decline of 0.7% y-o-y during the month. Also, exports increased only marginally by about 2.6% y-o-y in December 2018 on back of muted demand in the international markets.

Table 1: Auto Sales (December) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
Dec-14	278,442	16.8	57,852	10.2	1,504,828	5.3
Dec-15	292,535	5.1	65,694	13.6	1,455,098	-3.3
Dec-16	305,172	4.3	61,965	-5.7	1,156,125	-20.5
Dec-17	318,414	4.3	93,012	50.1	1,623,387	40.4
Dec-18	299,062	-6.1	83,239	-10.5	1,612,527	-0.7

Source: Companies, CMIE

- Passenger vehicles segment witnessed a decline of over 6% y-o-y in sales during December 2018. While the Van segment sales registered a double-digit growth of over 27%, Passenger cars segment and Multi-Utility Vehicles (MUV) segment witnessed y-o-y drop of 9.3% and 3.7% respectively despite various launches in the previous months, restricting the overall growth during the month. Quadricycles with a low base registered a sharp growth of about 250% y-o-y during the month. The new policy rules introduced by IRDAI in October 2018 have said to slow down demand for passenger vehicles despite deep discounts and offers by various players. 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 – i. upfront payment of insurance premium and ii. increase in compulsory personal accident cover for owner under motor insurance policies from Rs 2 lakh to Rs 15 lakh.
- Commercial vehicles witnessed a 10.5% y-o-y decline in sales during the month with Medium and Heavy Commercial Vehicles (M&HCVs) sales declining by 20% while and Light Commercial Vehicles (LCVs) sales declining by 2% during the month. Demand fell during the month on back of liquidity crunch at non-banking financial institutions (NBFCs) along with increase in official maximum load carrying capacity of heavy vehicles that crimped orders from fleet owners across the country.
- In case of Two & Three Wheelers, sales of passenger and goods carriers (three-wheelers) registered a decline of over 13% during the month. Demand remained under pressure on back of higher fuel prices and changes in the insurance rules that led to slower movement in the segment sales.

Auto Newscast

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Table 2: Auto Exports (December) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
Dec-14	69,356	32.1	6,853	19.8	259,969	12.9
Dec-15	61,576	-11.2	8,854	29.2	240,583	-7.5
Dec-16	77,349	25.6	7,999	-9.7	215,945	-10.2
Dec-17	78,691	1.7	10,603	32.6	278,641	29.0
Dec-18	60,366	-23.3	7,255	-31.6	309,851	11.2

Source: Companies, CMIE

- Total exports registered a marginal growth of about 2.6% y-o-y in December 2018. Two & Three wheelers segment witnessed a growth of over 11% in exports during the month. However, commercial vehicles segment was hit the most with exports declining by 31.6% y-o-y followed by passenger vehicles segment that witnessed about 23.3% y-o-y decline in exports restricting the overall growth in exports during the month.

Table 3: Auto Sales (April-December) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY15	2,376,909	4.2	507,117	-3.5	14,790,260	12.8
FY16	2,557,193	7.6	556,705	9.8	14,939,562	1.0
FY17	2,821,032	10.3	581,742	4.5	15,874,654	6.3
FY18	2,985,789	5.8	642,788	10.5	17,877,384	12.6
FY19	3,047,376	2.1	798,857	24.3	19,996,178	11.9

Source: Companies, CMIE

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

	Sales	Growth rate (%)	Exports	Growth rate (%)
FY15	509,931	-5.9	55,668	19.7
FY16	447,677	-12.2	58,808	5.6
FY17	523,097	16.8	58,926	0.2
FY18	603,222	15.3	62,591	6.2
FY19	696,021	15.4	70,476	12.6

Source: Companies, CMIE

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Table 5: Auto Sales (Q4) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY14	821,487	-5.3	184,491	-21.2	4,607,334	12.7
FY15	844,912	2.9	193,897	5.1	4,582,191	-0.5
FY16	885,335	4.8	232,123	19.7	4,941,874	7.8
FY17	984,939	11.3	240,613	3.7	4,839,134	-2.1
FY18	1,051,715	6.8	310,875	29.2	6,152,492	27.1

Source: CMIE

With various policy disruptions during the year, release of pent up demand usually takes place in the last quarter as witnessed during Q4 FY18. On similar lines, we expect demand to pick up during Q4 FY19 after GST rates and various regulatory norms being finalized during the year. Also, many new launches by leading players will further provide fillip to the automobiles demand.

Table 6: Growth in sales

Vehicle Category	FY19P*
Passenger Vehicles	8-10%
Commercial Vehicles	25-30%
Two & Three Wheelers	17-19%
Tractors	15-17%

*P – Projected

- In FY19 we expect the auto industry to continue to witness healthy demand. Also, demand is expected to improve specially for tractors and commercial vehicles on back of various initiatives taken by the government in the Union Budget 2019 for the Agriculture and Infrastructure sectors.
- With pick up in construction and mining activities along with increased inter-state movement of goods with the streamlining of e-commerce and FMCG post GST implementation, demand for commercial vehicles segment has seen a significant growth during April-October 2018 period. However, with most of the demand already being met in H1 FY19, the additional demand here could be limited going forward. Also, the recent policy revision by the government (increasing the load carrying capacity for heavy vehicles) could weigh on CVs demand and the high growth witnessed in H1 FY19 is expected to slightly moderate going forward.
- Improved consumer sentiments post the Seventh Pay Commission implementation by the Centre as well as pay commission by various States is a positive. This is expected to give fillip to the demand for passenger vehicles and two-wheelers especially passenger cars and motor cycles. However, some kharif crops have been selling at lower than MSPs in the market which has affected rural demand.

- Also, the government has announced to totally skip Bharat Stage (BS)-V norms and adopt BS-VI norms by April 2020 for cars for fighting pollution, poses a challenge to the domestic manufacturers. Many manufacturers have already started setting up plants for production of BS-VI complaint vehicles. However, the availability of higher grade fuel for these vehicles is of high concern as using BS-VI fuel in the current BS-IV engines or running BS-VI engines on the current-grade fuel, may be not be effective in curbing vehicular pollution, and may wreck the engine in the long run.
- Also, recently, with the liquidity crisis in NBFCs and resultant slowdown in credit financing, disbursements for automobile industry is expected to remain under pressure during H2 FY19. Also, with RBI increasing repo rate from 6.25% to 6.50% in August 2018, the rise in interest cost is expected to further pressurize the auto demand.

Main drivers for these growth rates:

- GDP growth to be higher at about 7.4% in FY19 vis-à-vis 6.7% in FY18
- Good monsoon and improved farm activities
- Increased infrastructure and industrial activities

Segment	Principal Drivers
Passenger vehicles	Higher growth in GDP, income levels and stable prices, IIP
Two and three wheelers	Higher GDP growth, good monsoon, higher disposable income, higher farm incomes
Commercial vehicles	Pick up in industrial production, higher GDP growth
Tractors	Good monsoon, higher farm incomes

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