Auto Newscast

March 13, 2019

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Auto sales continue to remain sluggish in February 2019 on back of increased cost of ownership and weak consumer sentiments

In February 2019, auto industry sales (including PVs, CVs and two & three wheelers) registered a y-o-y decline of about 2.6% in overall sales vis-à-vis a double-digit growth of over 23% registered a year ago. However, on a m-o-m basis, the decline has moderated vis-à-vis a decline of about 4% in January 2019. The sales growth during the month was largely restricted on account of subdued performance of the passenger vehicles that witnessed a decline of about 4% y-o-y while the two & three wheelers segment and commercial vehicle segment sales declined by 2.3% each during the month according to the latest data of the industry body SIAM. Overall exports witnessed a y-o-y growth of just about 4% in February 2019 vis-à-vis a double-digit growth of over 26% during the corresponding period of previous year on back of slowdown in the global economies.

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
Feb-15	277,192	4.2	59,426	6.7	1,440,515	-2.1
Feb-16	292,211	5.4	70,609	18.8	1,595,944	10.8
Feb-17	316,613	8.4	74,659	5.7	1,612,571	1.0
Feb-18	336,997	6.4	96,358	29.1	2,037,507	26.4
Feb-19	323,543	-4.0	94,114	-2.3	1,990,090	-2.3

Source: Companies, CMIE

- Passenger vehicles segment witnessed a decline of 4% y-o-y in sales during February 2019. While the Van segment sales registered a double-digit growth of 12.6% and Multi-Utility Vehicles (MUV) segment grew by about 3.7%, Passenger cars segment sales declined by 8.4% y-o-y despite various new launches and facelifts in the previous months, restricting the overall growth during the month. Quadricycles, with a very low base, however, grew by a sharp 190% y-o-y growth in sales. An increased insurance cost, interest costs along with the liquidity crunch in the market has had an impact keeping the buyers away from the automobiles during the month.
- Commercial vehicles sales declined by about 2.3% during the month with Medium and Heavy Commercial Vehicles (M&HCVs) sales declining by 8.6% y-o-y. Light Commercial Vehicles (LCVs) sales however, posted a 2.3% increase during the month.
- In case of Two & Three Wheelers, despite a growth of over 12% in sales of passenger and goods carriers (three-wheelers), a decline of about 3% in two wheelers sales restricted the overall segment sales. Demand remained under pressure on back of high interest rates and higher outlay in insurance cost that led to slower movement in the segment sales.

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
Feb-15	46,911	-3.0	7,428	-3.8	198,399	-7.3
Feb-16	58,057	23.8	8,250	11.1	188,769	-4.9
Feb-17	61,143	5.3	7,722	-6.4	215,172	14.0
Feb-18	61,651	0.8	8,543	10.6	288,864	34.2
Feb-19	51,157	-17.0	6,678	-21.8	315,144	9.1

Source: Companies, CMIE

- Total exports registered a marginal growth of about 3.9% y-o-y in February 2019. Commercial vehicles and passenger vehicles segment witnessed a decline of 21.8% and 17% respectively while two & three wheelers segment witnessed a lower growth of about 9.1% in exports during the month on back of slowdown in global economies.

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY15	2,929,833	4.2	626,126	-1.7	17,812,071	-
FY16	3,123,535	6.6	698,420	11.5	18,166,975	2.0
FY17	3,452,305	10.5	725,853	3.9	18,979,248	4.5
FY18	3,664,940	6.2	834,080	14.9	21,936,711	15.6
FY19	3,698,011	0.9	985,117	18.1	23,914,903	9.0

Source: Companies, CMIE

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

	Sales	Growth rate (%)	Exports	Growth rate (%)
FY15	585,803	-8.9	68,160	10.8
FY16	526,212	-10.2	71,119	4.3
FY17	606,053	15.2	71,369	0.4
FY18	713,759	17.8	75,568	5.9
FY19	807,790	13.2	83,724	10.8

Source: Companies, CMIE

CARE Ratings' View:

Table 5: Growth in sales

Vehicle Category	FY19P*
Passenger Vehicles	3-5%
Commercial Vehicles	20-25%
Two & Three Wheelers	12-15%
Tractors	15-17%

*P – Projected

Note: CARE Ratings has revised its outlook for FY19

- In FY19 (Apr-Feb), with a high base of FY18 post demonetization and GST, the auto industry witnessed a growth of over 8.4% in sales (including PVs, CVs and two & three wheelers) vis-à-vis a double-digit growth of 14.2% during FY18. Demand is expected to marginally improve during March with various discounts and schemes being announced by major players to clear the inventory. Also, demand has been picking up on a m-o-m basis specially for tractors and two & three wheelers on back of various initiatives taken by the government for the Agriculture and Infrastructure sectors along with increased disposable income in the hands of rural populace.

- Pickup in construction and mining activities along with increased inter-state movement of goods with the streamlining of e-commerce and FMCG post GST implementation has improved demand for commercial vehicles segment significantly during April 2018 – February 2019 period. However, with most of the demand already being met, 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 9M FY19 is expected to slightly moderate going forward.

- 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 auto components and 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.

- Over the past few months with the liquidity crisis in NBFCs and resultant slowdown in credit financing, disbursements for automobile industry is expected to remain slightly under pressure during March 2019.

- However, with RBI bringing down the repo rate to 6.25% from 6.50% in February 2019, the lower interest cost is expected to provide some stimulus to the auto demand.

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Main drivers for these growth rates:

- Good monsoon and improved farm activities
- Lower interest rates
- Increased infrastructure and industrial activities

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

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