

# Auto Newscast

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## Deadline for BS IV vehicle sales in the country eased from March 31, 2020 to April 24, 2020 by the Supreme Court

The Supreme court on March 27, 2020 provided an extension of 10 days post the end of the lockdown period, given the unusual conditions prevailing in the country. The dealers can sell off their inventory of BS IV vehicles till April 24, 2020, under the current situation. Also, the Supreme court has made an exception to not sell BS IV vehicles in the Delhi-NCR region post the existing deadline and also mandated the registration of vehicles sold during the extension period within 10 days of the sale.

As per Federation of Automobile Dealers' Association (FADA), the industry is currently sitting on an inventory 15,000 passenger cars, 12,000 commercial vehicles and 7 lakh two wheelers firstly led by the overall slowdown in the economy followed by the cautious approach of consumers due to the pandemic COVID-19.

Currently, the two wheeler industry is left with BS IV inventory worth Rs 4,600 crore, while dealers are left with an approximate inventory of 835,000 units. Additionally, with the production in the country being halted due to the 21-day lockdown, the Society of Indian Automobile Manufacturers (SIAM) has already estimated a minimum loss of around Rs 2300 crore per day.

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

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.

**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

**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

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

	Sales	Growth rate (%)	Exports	Growth rate (%)
FY16	5,26,212	-10.2%	71,119	4.3%
FY17	6,06,053	15.2%	71,369	0.4%
FY18	7,13,759	17.8%	75,568	5.9%
FY19	8,07,790	13.2%	83,724	10.8%
FY20	7,45,849	-7.7%	72,063	-13.9%

Source: CMIE

## 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)

### CARE Ratings View: Negative

- While the industry players were looking for a 3 month extension, i.e., till June 30, 2020, the 10 day extension post the lockdown by the Supreme court is not expected to do any good to the industry given the current situation with the COVID-19 pandemic.
- The buying sentiment post the lockdown period is lifted is likely to be low and consumer will be cautious in spending particularly on luxury/big-ticket items thereby not meeting the desired objective to clear the BS IV inventory with the dealers.

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