Auto NewsCast

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Auto sales in November 2018 skid on back of high base, liquidity concern and policy changes

In November 2018, auto industry sales (including PVs, CVs and two & three wheelers) registered a marginal growth of 4.2% y-o-y in overall sales vis-à-vis a double-digit growth of about 24% registered a year ago. The sales growth was largely restricted on account of subdued performance of the passenger vehicles segment while the commercial vehicles segment and two & three wheelers segment witnessed marginal growth of 2.7% and 6.3% y-o-y respectively during the month according to the latest data of the industry body SIAM. Passenger vehicles sales witnessed decline of 7.2% y-o-y during the month. Also, exports marginally declined by about 0.6% y-o-y in November 2018 on back of muted demand in the international markets.

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
Nov-13	246,483	-	49,890	-	1,483,519	-
Nov-14	268,651	9.0	55,035	10.3	1,614,178	8.8
Nov-15	288,435	7.4	58,903	7.0	1,583,098	-1.9
Nov-16	305,260	5.8	54,699	-7.1	1,489,164	-5.9
Nov-17	339,257	11.1	78,733	43.9	1,873,850	25.8
Nov-18	314,933	-7.2	80,835	2.7	1,991,400	6.3

Source: Companies, CMIE

- Passenger vehicles segment witnessed decline of 7.2% y-o-y in sales during November 2018. Multi-Utility Vehicles (MUV) segment and passenger car segment witnessed y-o-y drop of 14% and 5% respectively while van segment sales registered marginal growth of about 2%, restricting the overall growth during the month. Quadricycles with a low base registered a sharp growth of over 350% y-o-y during the month. Higher fuel prices and policy disruption along with higher interest rates led to this decline. 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 marginal growth of about 2.7% y-o-y during the month with Light Commercial Vehicles (LCVs) registering a growth of about 12% while and Medium and Heavy Vehicles (M&HCVs) sales declined by over 10% during the month. Demand fell during the month on back of liquidity crunch at non-banking financial institutions (NBFCs) that crimped orders from fleet owners across the country.
- In case of Two & Three Wheelers, two wheelers and passenger and goods carriers (three-wheelers) registered a growth of 6.3% and 5.9% respectively 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.

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
Nov-13	44,962		6,160		202,256	
Nov-14	56,214	25.0	7,349	19.3	270,989	34.0
Nov-15	51,771	-7.9	7,137	-2.9	217,121	-19.9
Nov-16	64,274	24.2	8,932	25.2	212,256	-2.2
Nov-17	63,817	-0.7	9,857	10.4	278,191	31.1
Nov-18	48,922	-23.3	8,023	-18.6	292,948	5.3

Source: Companies, CMIE

- Total exports registered a marginal decline of about 0.6% y-o-y in November 2018. Passenger vehicles segment was hit the most with exports declining by over 23% y-o-y followed by commercial vehicles segment that witnessed about 18.6% y-o-y decline in exports. Two & three wheelers segment registered a slower growth of about 5.3% during the month.

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
2014-15	2,098,467	-	449,265	-	13,285,432	-
2015-16	2,264,658	7.9	491,011	9.3	13,484,464	1.5
2016-17	2,515,860	11.1	519,976	5.9	14,718,529	9.2
2017-18	2,667,375	6.0	549,776	5.7	16,252,791	10.4
2018-19	2,748,314	3.0	715,618	30.2	18,378,577	13.1

Source: Companies, CMIE

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

	Sales	Growth rate (%)	Exports	Growth rate (%)
2014-15	474,538		48,220	
2015-16	412,093	-13.2	51,122	6.0
2016-17	486,200	18.0	52,067	1.8
2017-18	556,590	14.5	54,329	4.3
2018-19	647,153	16.3	63,404	16.7

Source: Companies, CMIE

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Table 5: 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.

- Rising crude oil prices can however slowdown demand.

- 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 higher farm income
- 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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