Auto Newscast

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Auto sales continue to decline in September 2019; register a decline of 14.4% y-o-y in H1 FY20 amidst weak consumer sentiments and inventory correction by OEMs, industry hopeful for revival in H2 FY20

In September 2019, auto industry sales (including PVs, CVs and two & three wheelers) registered a y-o-y decline of about 19.2% in overall sales vis-à-vis a growth of 5.4% registered a year ago. However, on m-o-m basis, the sales of all segments i.e., passenger vehicles, commercial vehicles and three wheelers have witnessed growth of about 6.7%, 12.9% and 8% during the month.

During H1 FY20, sales witnessed a decline of about 14.4% y-o-y on account of weak demand for commercial vehicles, passenger vehicles as well as two & three wheelers that registered a double-digit decline of 24.8%, 18.8% and 13.3% y-o-y respectively according to the latest data of SIAM. Price hikes in passenger vehicles and two wheeler segments due to new safety norms starting April 1, 2019, higher insurance costs and high inventories at retail (dealers) level causing slow wholesale movement led to the overall decline of sales during H1 FY20.

Demand for exports remained largely muted during H1 FY20. Overall exports registered only a marginal growth of about 1.3% vis-à-vis double-digit growth of over 24.3% during the corresponding period of previous year on back of slowdown in the global economies.

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	1,648,062	5.7	365,344	9.1	9,970,801	0.6
FY17	1,862,253	13.0	389,482	6.6	11,161,738	11.9
FY18	1,993,599	7.1	393,603	1.1	12,314,015	10.3
FY19	2,097,126	5.2	539,638	37.1	13,936,080	13.2
FY20	1,702,795	-18.8	406,044	-24.8	12,077,789	-13.3

Source: CMIE

- Passenger vehicles segment witnessed a decline of 18.8% y-o-y in sales during H1 FY20 with highest decline of 35.3% y-o-y in vans segment followed by about 23.5% decline in the passenger cars. Multi-Utility Vehicles (MUV) sales witnessed a marginal decline of about 3% y-o-y during the period. Quadricycles, with a very low base, witnessed a decline of about 47% y-o-y. Increased insurance cost, high ownership cost and price hikes due to new safety norms starting April 1, 2019 along with the liquidity crunch in the market continue to weigh down on the industry
- Commercial vehicles sales declined by about 24.8% during the period with Medium and Heavy Commercial Vehicles (M&HCVs) declining by about 37.7% y-o-y and Light Commercial Vehicles (LCVs) declining by over 16% y-o-y. Due to upward revision in axle load norms for M&HCVs by 20-25% and curtailed lending by NBFCs, fleet owners have deferred their purchases. Also, the turnaround time for CVs has significantly come down post implementation of GST along with the volatility in freight rates and increase in fuel prices that has further impacted demand.

- In case of Two & Three Wheelers, sales of two wheelers declined by about 13.6% followed by passenger and goods carriers (three-wheelers) that witnessed decline of about 8.9% y-o-y in H1 FY20. Demand remained under pressure on back of high ownership costs, higher outlay in insurance cost and price hike on back of new safety norms starting April 1, 2019 that led to slower movement in the segment sales.

Table 2: Auto Exports (April - September) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	318,188	3.4	50,749	-21.2	1,598,425	12.7
FY17	368,214	15.7	56,001	10.3	1,333,972	-16.5
FY18	361,593	-1.8	40,026	-28.5	1,543,325	15.7
FY19	352,759	-2.4	52,319	30.7	2,013,303	30.5
FY20	368,728	4.5	30,564	-41.6	2,050,360	1.8

Source: CMIE

- Overall exports of auto showed a largely stable scene registering a negligible growth of 1.3% y-o-y during H1 FY20. Passenger vehicles segment witnessed a growth of about 4.5% followed by 1.8% y-o-y growth in the two & three wheeler segment. Commercial vehicles segment with the lowest base in total auto exports, witnessed the sharpest decline of over 41% during the period.
- Commercial vehicle exports declined sharply during the period on back of security concerns in countries such as Sri Lanka, slowdown in economy due to geo-political tensions in Middle East. Also, inventory pile up in Bangladesh during the Q4 FY19 period due to elections in the country, led to decline in orders for CVs from India in the last few months
- Within PVs, exports of passenger cars witnessed a y-o-y growth of about 5.6% and MUVs segment grew only marginally by about 0.8% and that of quadricycles with a small base witnessed a y-o-y growth of about 22.7% during the period. On the other hand, exports of vans registered a decline of over 27% y-o-y in H1 FY20.
- In case of two & three wheelers, while two wheelers segment exports witnessed a growth of about 4.1% during H1 FY20, those of three wheelers declined by about 11.6% y-o-y

Table 3: Auto Production (April – September) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	1,712,671	8.0	371,742	9.7	9,907,771	-0.02
FY17	1,865,224	8.9	394,549	6.1	11,181,747	12.9
FY18	1,971,711	5.7	373,648	-5.3	12,344,790	10.4
FY19	2,108,927	7.0	559,514	49.7	13,976,889	13.2
FY20	1,774,378	-15.9	409,153	-26.9	12,244,193	-12.4

Source: CMIE

- Overall auto production witnessed a decline of about 13.3% y-o-y in H1 FY20 vis-à-vis about 13.3% witnessed during H1 FY19. While inventory levels for passenger vehicles have come down to the normal levels of around 30 days, inventory days for commercial vehicles and two & three wheelers are still high at over 60 days as per the latest numbers by the Federation of Auto Dealers Association of India (FADA). This has forced many major manufacturers (OEMs) to continue production cuts even in September 2019 and October 2019. Also, with government's deadline for all existing PVs and two wheeler models to comply with new safety norms starting April 1, 2019, the overall industry production has slowed down.

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

	Sales	Growth rate (%)	Exports	Growth rate (%)
FY16	236,284	-13.6%	32,385	8.8%
FY17	264,158	11.8%	32,056	-1.0%
FY18	294,280	11.4%	32,437	1.2%
FY19	359,778	22.3%	40,107	23.6%
FY20	305,080	-15.2%	31,154	-22.3%

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

CARE Ratings View:

Table 5: Growth in sales

Vehicle Category	FY20*
Passenger Vehicles	2-4%
Commercial Vehicles	4-6%
Two & Three Wheelers	5-7%
Overall Auto	**3-5%**
Tractors	6-8%

*P – Projected

- In H1 FY20, automobile sales witnessed the sharpest decline of 14.4% y-o-y in the last 5 years on back of price hikes in passenger vehicles and two wheeler segments due to new safety norms starting April 1, 2019, higher insurance costs, higher ownership costs, liquidity crisis in the NBFC sector, higher turnaround time and increased load carrying capacity for CVs led to high inventories at retail (dealers) level causing slow movement in wholesale movement of vehicles.
- With inventory levels as high as 30-60 days (20 - 30 days considered normal) for major OEMs, most of the players had announced plant shut downs between 5-20 days during May – September 2019. It is to be noted here that de-stocking is considered to be a normal phenomenon in the auto industry in case of weak demand.
- This decline is expected to put pressure on the overall sales for the year and restrict the growth going forward. We have therefore revised our outlook for overall auto sales (excluding tractors) to 3-5% for FY20
- Going forward, we expect demand to pick up in October 2019 on back of festival demand (Navratri, Dussehra and Diwali) and continue in November and December 2019 and Q4 FY20 with various planned product launches, festival demand and pre-buying of automobiles before the implementation of BS-VI norms on April 1, 2020. Also farm income is expected to be marginally higher and encourage rural spending.
- 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, the OEMs will not be able to pass on the total cost burden immediately on account of subdued market conditions.
- Also, demand for automobile industry is expected to increase on back of various initiatives taken by the government such as corporate rate cut, immediate recapitalization to public sector banks to ease liquidity crisis and thereby boost consumption. Also, festive season during FY20 is expected to comparatively better than FY19.
- 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 segment. However, the policy revision by the government (increasing the load carrying capacity from 16.5 tonnes to 18.2 tonnes for heavy vehicles) could weigh on CVs demand and the high growth witnessed in FY19 could 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 invested in R&D facilities and 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 not be effective in curbing vehicular pollution, and may impact the engine in the long run. OEMS have already launched few electric vehicles (EVs) in the passenger vehicle and two & three wheelers segments and many EVs are planned for launches (mostly in passenger cars and two & three wheelers segment) in the coming months as well during FY20.
- 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 Q3 FY20.
- However, with RBI bringing down the repo rate to 5.15% from 5.40% in October 2019, the lower interest cost is expected to provide the much needed stimulus to the auto demand.

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