Auto Newscast

January 20, 2019

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-68374433

Darshini Kansara
Deputy Manager – Industry Research
darshini.kansara@careratings.com
91-22-68374345

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-68374424

Auto sales decline continue in December 2019; register a decline of 12.8% y-o-y in FY20 (Apr-Dec) due to continued slowdown in economy and lower farm wage led by uneven rainfall, industry foresees revival only by Q2 FY21

In December 2019, auto industry sales (including PVs, CVs and two & three wheelers) registered a y-o-y decline of about 9% in overall sales vis-à-vis a decline of about 2% registered a year ago largely led by commercial vehicles and two wheeler vehicles. Passenger vehicles and three wheelers witnessed a growth of 1% and 14.2% y-o-y during the month. The decline in sales moderated to single digit mainly led the recent policy measures announced by the government.

During FY20 (April – December), sales witnessed a decline of about 12.8% 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 22.8%, 12.6% and 12.5% y-o-y respectively according to the latest data of the industry body SIAM. **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** led to the overall decline of automobiles during FY20 (April – December).

Overall demand for exports increased marginally by about 3.9% y-o-y during FY20 (April – December) vis-à-vis a double-digit growth of over 18.5% during the corresponding period of previous year on back of slowdown in the global economies.

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	25,57,193	7.6	5,56,705	9.8	1,49,39,562	1.0
FY17	28,21,032	10.3	5,81,742	4.5	1,58,74,654	6.3
FY18	29,85,789	5.8	6,42,788	10.5	1,78,77,384	12.6
FY19	30,47,410	2.1	7,98,870	24.3	1,99,89,245	11.8
FY20	26,63,609	-12.6	6,17,022	-22.8	1,74,98,279	-12.5

Source: CMIE

- In FY20 (Apr-Dec), passenger vehicles segment witnessed a decline of 12.6% y-o-y in sales with maximum decline of about 37% y-o-y in the vans segment followed by about 18.4% decline in the passenger cars segment. Multi-Utility Vehicles (MUV) segment sales witnessed an increase of about 7.1% y-o-y during the period. Quadricycles, with a very low base, continued to witness a double-digit growth of about 40% y-o-y. Increased insurance cost, high ownership cost and price hikes due to new safety norms along with the prolonged lending impediment in the market continue to weigh down on the industry
- Commercial vehicles sales declined by about 22.8% during the period with Medium and Heavy Commercial Vehicles (M&HCVs) sales declining by about 38.4% y-o-y and Light Commercial Vehicles (LCVs) sales declining by about 12.5% 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 post GST implementation has significantly come down reducing the additional requirement for CVs. Volatility in freight rates and increase in fuel prices has further impacted demand. Sales were further impacted due to delay in framing the vehicle scrappage policy along with the implementation of newer emission norms from April 2020.

- In case of Two & Three Wheelers, sales of two wheelers declined by about 12.8% followed by passenger and goods carriers (three-wheelers) that witnessed decline of about 5.5% y-o-y in FY20 (Apr –Dec). Demand remained under pressure on back of high ownership costs, higher outlay in insurance cost and price hike on back of new safety norms that led to slower movement in the segment sales.

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	4,91,066	1.9	74,908	19.0	22,78,015	0.9
FY17	5,77,510	17.6	83,158	11.0	19,74,557	-13.3
FY18	5,58,743	-3.2	68,110	-18.1	23,52,288	19.1
FY19	5,13,977	-8.0	75,608	11.0	29,41,647	25.1
FY20	5,44,818	6.0	46,320	-38.7	30,76,549	4.6

Source: CMIE

- Overall exports of auto showed an increase by registering a growth of 3.9% y-o-y during FY20 (Apr- Dec). Passenger vehicles segment witnessed a growth of about 6% y-o-y with higher dispatches to various geographies such as Gulf, Latin America and South Africa followed by 4.6% y-o-y growth in the two & three wheeler segment. Also, few OEMs are increasing exports of existing and new variants to Nepal and Bhutan. Commercial vehicles segment with the lowest base in total auto exports, witnessed the sharpest decline of 38.7% during the period.
- Within PVs, exports of passenger cars witnessed a y-o-y growth of about 4.4% and MUVs segment grew by over 11% and that of quadricycles with a small base witnessed a y-o-y growth of about 20.8% during the period. On the other hand, exports of vans registered a decline of 17.4% y-o-y during FY20 (Apr- Dec).
- In case of two & three wheelers, while two wheelers segment exports witnessed a growth of about 6.9% during the period, exports of three wheelers declined by about 8.8% y-o-y

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	25,43,616	8.0	5,57,509	10.6	1,48,24,834	0.2
FY17	27,87,166	9.6	5,82,810	4.5	1,58,77,376	7.1
FY18	29,47,261	5.7	6,03,461	3.5	1,78,81,308	12.6
FY19	29,97,223	1.7	8,18,234	35.6	2,00,38,313	12.1
FY20	25,93,657	-13.5	5,98,591	-26.8	1,75,44,162	-12.4

Source: CMIE

- Overall auto production witnessed a decline of about 13.1% y-o-y during FY20 (Apr-Dec) vis-à-vis a growth of about 11.3% witnessed during the corresponding period previous year. In terms of inventory levels, PV inventory is at reasonable levels while that of commercial vehicles has reduced but continues to be above comfortable levels heading into the BS VI implementation as per the latest numbers by the Federation of Auto Dealers Association of India (FADA).

- With government's deadline for all existing PVs and two wheeler models to comply with new safety norms starting April 1, 2019 and overall subdued demand, the overall industry production had slowed down.

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

	Sales	Growth rate (%)	Exports	Growth rate (%)
FY16	4,47,677	-12.2%	58,808	5.6%
FY17	5,23,097	16.8%	58,926	0.2%
FY18	6,03,222	15.3%	62,591	6.2%
FY19	6,96,021	15.4%	70,476	12.6%
FY20	6,21,545	-10.7%	58,856	-16.5%

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: Stable to Negative

Table 5: Growth in sales

Vehicle Category	FY20*
Passenger Vehicles	(10-12)%
Commercial Vehicles	(15-17)%
Two & Three Wheelers	(7-9)%
Overall Auto	**(10-12)%**
Tractors	(7-9)%

*P – Projected

- In FY20 (April – December), automobile sales witnessed the sharpest decline of 12.8% y-o-y during the last 5 years on back of price hikes in passenger vehicles and two wheeler segments due to new safety norms, higher insurance costs, higher ownership costs, liquidity crisis in the NBFC sector, reduced turnaround time and increased load carrying capacity for CVs led to high inventories and slow movement in segment sales. Also, lower farm wage growth led by uneven rainfall during 2019 has affected the rural spending.
- This decline is expected to put pressure on the overall sales for the year and restrict the growth going forward. We are credit negative on commercial vehicle segment while retaining stable outlook on passenger and two-wheeler segment.
- Going forward, we expect demand to marginally improve on m-o-m basis in Q4 FY20 with various planned product launches and pre-buying of automobiles before the implementation of BS-VI norms on April 1, 2020. Also, most of the OEMs in PV segment have announced price hikes from January 2020 to cover the increasing input costs thereby exerting pressure on sales in Q4 FY20.
- 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 any further cost burden immediately on account of subdued market conditions.
- 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 CV segment. However, faced with an intense slowdown during April – December 2019, the segment is expected to report decline in y-o-y growth for the fiscal FY20. Recovery could take longer if the economic slowdown continues.
- Meanwhile, consumer affordability needs to improve for a strong revival in demand in PV and 2&3W segment. Slowing debt driven consumption and falling household savings are key risks to the demand returning in these segments.

www.careratings.com
Follow us on /company/CARE Ratings
/company/CARE Ratings

CORPORATE OFFICE:
CARE Ratings Ltd.
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457 I E-mail: care@careratings.com