Auto Newscast

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Auto sales continue to decline in October 2019; register a fall of 13.8% y-o-y in FY20 (Apr-Oct) due to slowdown in economy and curtailed financing, industry hopeful for revival in H2 FY20

In October 2019, auto industry sales (including PVs, CVs and two & three wheelers) registered a y-o-y decline of about 10.7% in overall sales vis-à-vis a growth of 16.3% registered a year ago. However, on m-o-m basis, the sales of all segments i.e., passenger vehicles, commercial vehicles and two & three wheelers have witnessed improvements of about 17.8%, 9.2% and 4.5% respectively during October mainly led by festival demand and the recent policy measures announced by the government.

During FY20 (April – October), sales witnessed a decline of about 13.8% y-o-y on account of weak demand for commercial vehicles, passenger vehicles as well as two & three wheelers that registered declines of 24.8%, 16.2% and 13.1% 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 starting April 1, 2019, and higher insurance costs led to pile up of inventory at retail (dealers) level causing slow wholesale movement**.

Overall demand for exports increased marginally by about 1.5% y-o-y during FY20 (April – October) vis-à-vis a double-digit growth of over 24% during the corresponding period of previous year on back of slowdown in the global economies.

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	1,975,981	8.0	432,108	9.6	11,901,366	2.0
FY17	2,210,600	11.9	465,277	7.7	13,229,365	11.2
FY18	2,328,118	5.3	471,043	1.2	14,378,941	8.7
FY19	2,433,354	4.5	634,716	34.7	16,384,605	13.9
FY20	2,038,764	-16.2	477,569	-24.8	14,242,497	-13.1

Source: CMIE

- Passenger vehicles segment witnessed a decline of 16.2% y-o-y in sales during FY20 (April – October) with highest being in the vans segment by over 35% y-o-y followed by about 21% decline in the passenger cars segment. Multi-Utility Vehicles (MUV) segment sales witnessed a marginal increase of about 0.4% y-o-y during the period. Quadricycles, with a very low base, witnessed an increase of about 43% y-o-y. While the industry witnessed positive sales during the August, September and October on a m-o-m basis, 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) sales declining by about 39.5% y-o-y and Light Commercial Vehicles (LCVs) by over 15% 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. However, on a m-o-m basis, sales of LCVs has been registering a double digit growth of about 20% and 14% during September and October 2019.
- In case of Two & Three Wheelers, sales of two wheelers declined by about 13.3% followed by passenger and goods carriers (three-wheelers) that witnessed decline of about 8.7% y-o-y in FY20 (April – October). 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. During August, September and October 2019, sales of two & three wheelers witnessed positive growth on a m-o-m on back of marginally improved sentiments led by festival season.

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	377,477	6.0	58,917	-21.2	1,820,311	12.7
FY17	435,884	15.5	66,227	12.4	1,546,356	-15.0
FY18	416,235	-4.5	47,650	-28.1	1,795,456	16.1
FY19	404,689	-2.8	60,330	26.6	2,338,848	30.3
FY20	419,583	3.7	35,316	-41.5	2,390,819	2.2

Source: CMIE

- Overall exports of auto showed a marginal increase by registering a growth of 1.5% y-o-y during FY20 (April – October). Passenger vehicles segment witnessed a growth of about 3.7% y-o-y with higher dispatches to various geographies such as Latin America and Africa followed by 2.2% 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 41.5% during the period.
- Commercial vehicle exports declined sharply on back of security concerns in countries such as Sri Lanka, slowdown in economy due to geo-political tensions in Middle East during Q4 FY19 and H1 FY20. 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 4.2% and MUVs segment grew only marginally by about 1.9% and that of quadricycles with a small base witnessed a y-o-y growth of about 21.5% during the period. On the other hand, exports of vans registered a decline of 25.5% y-o-y during FY20 (April – October).
- In case of two & three wheelers, while two wheelers segment exports witnessed a growth of about 4.6% during the period, exports of three wheelers declined by about 11.9% y-o-y

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	2,023,137	10.6	432,705	10.1	11,829,071	1.93
FY17	2,191,316	8.3	461,500	6.7	13,158,255	11.2
FY18	2,293,150	4.6	449,336	-2.6	14,369,150	9.2
FY19	2,450,662	6.9	667,649	48.6	16,449,047	14.5
FY20	2,043,882	-16.6	468,110	-29.9	14,071,595	-14.5

Source: CMIE

- Overall auto production witnessed a decline of about 15.2% y-o-y during FY20 (April – October) vis-à-vis a growth of about 14.4% witnessed during the corresponding period previous year. While inventory levels for passenger vehicles have come down to the normal levels of around 25-30 days, inventory days for commercial vehicles and two & three wheeler segments is still high at over 50-60 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. While for PVs, with subdued demand in the country, major OEMs have continued production cuts even during October 2019 and November 2019 to adjust the existing inventories.
- 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-September) (in Numbers)

	Sales	Growth rate (%)	Exports	Growth rate (%)
FY16	288,503	-17.1%	39,515	10.0%
FY17	338,731	17.4%	39,268	-0.6%
FY18	403,688	19.2%	40,617	3.4%
FY19	457,671	13.4%	49,180	21.1%
FY20	396,752	-13.3%	38,190	-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: Negative

Table 5: Growth in sales

Vehicle Category	FY20*
Passenger Vehicles	(5-8)%
Commercial Vehicles	(13-15)%
Two & Three Wheelers	(3-4)%
Overall Auto	**(7-9)%**
Tractors	(5-7)%

*P – Projected (Bracket denotes negative growth)

- In FY20 (April – October), automobile sales witnessed the sharpest decline of 13.8% 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 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 have extended plant shut downs during October and November 2019.
- This decline is expected to put pressure on the overall sales for the year and restrict the growth going forward.
- Going forward, we expect demand to pick up in Q3 FY20 on back of festival demand (Navratri, Dussehra and Diwali) and continue in 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.
- 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 in H1FY20 and inventory levels at higher than historical averages, 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.

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