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Automobiles Update – April – August 2017

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Auto sales register strong growth in April – August 2017:

April-August period has been quite positive for the auto manufacturers. Players started off with strong sales while the growth was restricted by the GST implementation and ambiguity with the cess rate to be charged to the different categories of passenger vehicles. Commercial vehicle sales were affected sharply during the period on account of slower manufacturing and economic activities on account of uncertainties surrounding the GST implementation and rates for various products.

However, the sales numbers in August 2017 are clearly positive, signalling that the automobile industry is almost out of the difficult times. During August 2017, commercial vehicles and two & three wheeler vehicles saw a robust double digit growth. Passenger vehicle sales recorded positive growth, but the growth was restricted due to the uncertainty revolving around the cess rate.

For the commercial vehicles segment, infrastructure development and construction activity have fuelled growth during the month. Additionally, the rural demand for commercial vehicles and two wheelers has also picked up on back of good monsoon. Interest rates have been declining making available easy access to financing. These reasons have spiked the demand in the market. *With festive season round the corner, the industry is set to get a further leg up when usually the manufacturers look at good 20%+ growth in sales during the period.*

Table 1: Auto sales (Apr-Aug) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
2012-13	1,263,652	-	36,298	-	950,002	-
2013-14	1,234,181	-2.3	28,407	-21.7	954,940	0.5
2014-15	1,278,678	3.6	33,085	16.5	1,211,057	26.8
2015-16	1,358,690	6.3	42,873	29.6	1,320,733	9.1
2016-17	1,512,777	11.3	46,587	8.7	1,100,360	-16.7
2017-18	1,625,563	7.5	31,174	-33.1	1,256,624	14.2

Source: Companies, CMIE

Table 2: Auto sales - August (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
2012-13	218,670	-	73,526	-	1,291,108	-
2013-14	249,997	14.3	58,049	-21.0	1,393,431	7.9
2014-15	266,990	6.8	55,616	-4.2	1,670,790	19.9
2015-16	281,188	5.3	61,660	10.9	1,644,211	-1.6
2016-17	334,301	18.9	63,164	2.4	1,922,544	16.9
2017-18	351,239	5.1	72,602	14.9	2,210,808	15.0

Source: Companies, CMIE

Exports though continue to post negative sales with some key exporters facing a drop in volumes on account of rupee appreciation as compared to many other currencies. However, two & three wheeler exports recorded a strong double-digit growth during August 2017.

Table 3: Auto Exports - August (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
2012-13	36,749	-	6,759	-	187,771	-
2013-14	59,911	63.0	6,705	-0.8	222,259	18.4
2014-15	53,052	-11.4	7,098	5.9	272,734	22.7
2015-16	59,445	12.1	9,462	33.3	292,820	7.4
2016-17	75,579	27.1	10,168	7.5	223,468	-23.7
2017-18	56,904	-24.7	7,292	-28.3	268,337	20.1

Source: Companies, CMIE

GST cess hike on mid-sized cars, large luxury cars and SUVs:

In its meeting held on September 9, 2017, the GST Council voted in favour of having multiple tax levels for different vehicle segments taking the automotive industry back to pre-GST tax conditions. The council decided to hike cess on mid-sized cars by 2%, 5% hike on the large cars and 7% hike on the SUVs segment. These will be added to the 15% cess charged on such vehicles over and above the GST of 28%.

Notification regarding this increase in the effective rates of the Compensation Cess on specified motor vehicles will be issued on September 11, 2017, effective from 00 hours the same day," the Central Board of Excise and Customs (CBEC) tweeted.

GST incidence (post increase in cess):

(Rates in %)	Pre GST					Post GST (post increase in cess)			Change in rate
Vehicle type	VAT[1]	Excise Duty	CST	Infrastructure + Luxury cess	Total	GST	Cess	Total	
Small Cars* (Petrol/Diesel)	14.5	12.5	2	0+1	30.0	28.0	1.0/3.0	29/31	-1/1
Mid-sized Cars@	14.5	24.0	2	4+0	44.5	28.0	17.0	45	0.5
Large Cars# (Luxury Cars)	14.5	27.0	2	4+1	48.5	28.0	20.0	48	0.5
SUV/MUV (Luxury Cars)	14.5	30.0	2	4+1	51.5	28.0	22.0	50	-1.5
Buses	14.5	12.5	2	-	29.0	28.0	-	28	-1
Trucks	14.5	12.5	2	-	29.0	28.0	-	28	-1
Two-wheelers	14.5	12.5	2	-	29.0	28.0	3.0	31	2
Three-wheelers	14.5	12.5	2	-	29.0	28.0	-	28	-1

Note: VAT rates may vary across states, luxury cess of 1% is collected at source for vehicles whose ex-showroom cost is more than Rs.10 lakhs, Octroi & Green Cess is charged in select states, CST charges wherever applicable
**Indicates cars which have engine capacity less than 1,500 cc in case of diesel and 1,200cc in case of petrol and length less than 4 meters.*
@' Indicates cars which have engine capacity less than 1,500cc in case of diesel and 1,200cc in case of petrol and length more than 4 meters
#indicates cars having engine capacity more than 1,500cc in case of diesel and 1,200cc in case of petrol and length exceeding 4 meters.
Definition of SUV as per central excise department is a vehicle with engine capacity greater than 1,500cc, length exceeding 4000mm and ground clearance 170 mm and above

Post amendment impact:

In real terms the final tax on mid-size sedans will be 45% (28% GST + 17% cess), on large luxury cars it will be 48% (28% GST + 20% cess) and on SUVs will be 50% (28% GST + 22% cess). The finance ministry did not fiddle with the cess on small, electric and hybrid cars and their rates will remain unaffected. The ministry also, however, did not define 'luxury vehicles'.

While the luxury car/SUV/MUV segment was expected to be the key beneficiary post implementation of GST, the amendment to raise the cess on luxury automobiles from current 15% to 17%, 20% and 22% on mid-sized, large luxury cars and SUVs respectively, will take the total tax incidence to almost the pre-GST level. Therefore, ***post the initial interruptions and marginal price adjustments, we expect the impact to be limited given the inelastic nature of demand for luxury cars.***

Car prices had dropped by up to Rs 3 lakh as the tax rates fixed under the Goods and Services Tax (GST), which came into effect from July 1, were lower than the combined central and state taxes in pre-GST days. To fix this variance, the Council has raised the cess.

CARE's View:

The demand for automobiles usually starts picking up in Q2 and gains momentum in Q3 during the festival season. Also, demand remains strong in February and March. ***In FY18, CARE Ratings expects automobiles to witness pickup in demand post the initial interruptions caused by GST implementation and marginal price adjustments***. Also, demand is expected to improve on back of various initiatives taken by the government in the Union Budget 2018. Reduction in tax burden for individuals with income below Rs 5 lakhs is likely to have positive impact on the two-wheelers and cars demand. Also, improved consumer sentiments post the normal monsoon and Seventh Pay Commission is expected to boost the demand.

Main drivers for these growth rates:

- GDP growth to be higher at above 7.5%
- Repo rate decreased in 3rd Bi-monthly monetary policy of this fiscal year (6.25% to 6%) and hence rates to be stable
- Good monsoon and higher farm income
- Higher income levels and consequently higher disposable income

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