Automobile Industry Update: Outlook FY20

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Auto sales fall sharply in June 2019; register a decline of 10.4% y-o-y amidst rising inventory and weak consumer sentiments

In June 2019, auto industry sales (including PVs, CVs and two & three wheelers) registered a y-o-y decline of about 10.4% in overall sales vis-à-vis a double-digit growth of over 26% registered a year ago. However, on m-o-m basis, the sales of commercial vehicles and three wheelers have witnessed marginal growth of about 5% and 0.4% respectively while sales of passenger cars and two wheelers have witnessed a decline of about 5.6% and 3.6% respectively.

The sales growth during the month was largely restricted on account of weak demand for commercial vehicles and passenger vehicles registering a double-digit decline of 16.4% and 14.5% y-o-y while decline in sales of two & three wheelers segment was restricted to 9.5% during the month according to the latest data of the industry body 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 movement in wholesale movement** led to the overall decline of automobile sales during June 2019.

Demand for exports remained largely muted during June 2019 with overall exports registering only a marginal growth of about 1% vis-à-vis a double-digit growth of over 32% during the corresponding period of previous year on back of slowdown in the global economies.

Outlook FY20

In Q1 FY20, automobile sales witnessed the sharpest decline of 10.5% 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, increased load carrying capacity for M&HCVs that led to high inventories** at retail (dealers) level causing slow movement in wholesale movement of vehicles. **We have therefore revised our outlook for overall auto sales (excluding tractors) to 7 – 9% for FY20.**

Going forward, we expect demand to continue to remain muted during Q2 FY20 and pick up only by Q3 FY20 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, with higher MSPs announced for FY20, farm income is expected to be marginally higher and encourage rural spending.

Table 1: Auto Sales (June) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
Jun-15	257,613	-4.7	61,724	6.9	1,619,309	6.3
Jun-16	277,155	7.6	66,265	7.4	1,735,057	7.1
Jun-17	261,437	-5.7	63,489	-4.2	1,792,922	3.3
Jun-18	330,706	26.5	90,834	43.1	2,252,809	25.7
Jun-19	282,704	-14.5	75,978	-16.4	2,038,498	-9.5

Source: CMIE

- Passenger vehicles segment witnessed a decline of 14.5% y-o-y in sales during June 2019 with maximum decline of 20.8% y-o-y in the passenger cars segment followed by about 17% decline in the vans segment. Multi-Utility Vehicles (MUV) segment sales on the other hand, witnessed an increase of about 3.5% y-o-y during the month. Quadricycles, with a very low base, witnessed a decline of about 33% y-o-y. Increased insurance cost, high ownership cost and price hike 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 16.4% during the month with Medium and Heavy Commercial Vehicles (M&HCVs) sales declining by about 21.5% y-o-y and Light Commercial Vehicles (LCVs) sales by about 13% during the month. 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, volatility in freight rates and increase in fuel prices impacted demand.

- In case of Two & Three Wheelers, sales of passenger and goods carriers (three-wheelers) declined by about 12.6% followed by about 9.4% in two wheelers. 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 (June) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
Jun-15	39,993	-22.4	8,680	30.4	267,719	25.8
Jun-16	53,701	34.3	10,183	17.3	232,757	-13.1
Jun-17	62,401	16.2	6,599	-35.2	228,926	-1.6
Jun-18	56,958	-8.7	10,164	54.0	328,041	43.3
Jun-19	56,885	-0.1	5,207	-48.8	337,136	2.8

Source: CMIE

- Overall exports of auto showed a largely stable scenario registering a negligible growth of 1% y-o-y during June 2019. Commercial vehicles segment with the lowest base in total auto exports, witnessed the sharpest decline of about 49% while exports of two & three wheelers segment increased by about 3% y-o-y and that of passenger vehicles remained largely range bound during the month.

Table 3: Auto Production (Q1) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	817,574	7.3	176,598	6.9	4,761,466	0.6
FY17	851,383	4.1	205,612	16.4	5,374,943	12.9
FY18	930,744	9.3	162,114	-21.2	5,826,541	8.4
FY19	1,026,885	10.3	272,125	67.9	6,765,734	16.1
FY20	904,937	-11.9	232,759	-14.5	6,077,817	-10.2

Source: CMIE

- Overall auto production witnessed a decline of about 10.5% y-o-y in Q1 FY20 vis-à-vis a growth of about 16.6% during Q1 FY19. Large inventories of roughly about 30-45 days with dealers and wholesalers forced many major manufacturers (OEMs) to cut production during the months. 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: Auto Sales (Q1) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	795,188	5.1	172,154	7.7	4,840,821	1.9
FY17	856,748	7.7	193,220	12.2	5,325,601	10.0
FY18	909,255	6.1	169,127	-12.5	5,747,135	7.9
FY19	1,041,473	14.5	254,629	50.6	6,841,447	19.0
FY20	887,764	-14.8	219,906	-13.6	6,174,453	-9.7

Source: CMIE

Table 5: Tractor sales & exports (April-May) (in Numbers)

	Sales	Growth rate (%)	Exports	Growth rate (%)
FY16	98,456	-8.9	13,496	10.8
FY17	109,229	10.9	11,632	-13.8
FY18	124,943	14.4	12,428	6.8
FY19	151,106	20.9	16,100	29.5
FY20	127,011	-15.9	11,565	-28.2

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:

- 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

CARE Ratings View:

Table 6: Growth in sales

Vehicle Category	FY20*
Passenger Vehicles	3-5%
Commercial Vehicles	10-12%
Two & Three Wheelers	9-11%
Overall Auto	**7-9%**
Tractors	11-13%

*P – Projected

- In Q1 FY20, automobile sales witnessed the sharpest decline of 10.5% 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, increased load carrying capacity for M&HCVs that led to high inventories at retail (dealers) level causing slow movement in wholesale movement of vehicles.**

- With inventory levels as high as 30-45 days (20 - 30 days considered normal) for major OEMs, most of the major players had announced plant shut downs between 5-20 days during May – June 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 7 – 9% for FY20**

- **Going forward, we expect demand to continue to remain muted during Q2 FY20 and pick up only by Q3 FY20 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, with higher MSPs announced for FY20, 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.

- With clarity on the government now, demand is expected to increase on back of various initiatives taken by the government for the Agriculture and Infrastructure sectors along with increased disposable income in the hands of rural populace. Also, festive season during FY20 is expected to comparatively better than in 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 recent 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 be not be effective in curbing vehicular pollution, and may wreck the engine in the long run. Manufacturers have set up units for manufacturing electric vehicles (EVs) and many EVs are planned for launches (mostly in passenger cars and two & three wheelers segment) in the coming months 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 H1 FY20.

- However, with RBI bringing down the repo rate to 5.75% from 6.0% in June 2019, the lower interest cost is expected to provide the much needed stimulus to the auto demand.

Main drivers for these growth rates:

- GDP growth to be higher at 7.1-7.2% in FY20 vis-à-vis 6.8% in FY19
- Normal monsoon, higher MSPs and improved farm activities
- Lower interest rates
- Increased infrastructure and industrial activities
- Pre-buying – BS-VI norms

Segment	Principal Drivers
Passenger vehicles	Higher growth in GDP, lower interest rates, higher disposable income
Two and three wheelers	Higher GDP growth, normal monsoon, higher disposable income, higher farm incomes
Commercial vehicles	Pick up in industrial production, higher GDP growth
Tractors	Normal monsoon, higher farm incomes

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