

## Automobile Industry Update: April - August 2019

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**Auto sales continue to fall in August 2019; register a decline of 13.3% y-o-y during April – August period amidst weak consumer sentiments and rising ownership costs**

During April – August 2019, auto industry sales (including PVs, CVs and two & three wheelers) registered a y-o-y decline of about 13.3% in overall sales vis-à-vis a double-digit growth of 14.5% registered a year ago. However, in August 2019, the sales of passenger cars (led by MUVs) and three wheelers have witnessed growth of about 1.8% and 9% respectively on m-o-m basis, while the decline in sales of commercial vehicles and two wheelers have narrowed down to 7.4% and 0.3% m-o-m respectively vis-à-vis a decline of 17.5% and 6.6% during the previous month.

The sales growth during the period was largely restricted on account of weak demand for commercial vehicles and passenger vehicles registering a double-digit decline of 21.5% and 18.8% y-o-y while decline in sales of two & three wheelers segment was restricted to 12.2% during the month according to the latest data of the industry body SIAM. **Price hikes of about 10-15% in passenger vehicles and two wheeler segments due to new safety norms starting April 1, 2019, higher insurance costs, increased fuel costs and unsold inventories at retail (dealers) level causing slow movement in wholesale movement** led to the overall decline of automobile sales during April - August 2019.

Demand for exports remained largely muted during the period with overall exports registering a marginal growth of about 1.4% vis-à-vis a double-digit growth of over 26% during the corresponding period of previous year on back of slowdown in the global economies.

### Outlook FY20

In April-August 2019, automobile sales witnessed the sharpest decline of 13.3% y-o-y. Such double-digit drop was witnessed during the same period in FY93, when sales declined by over 21% y-o-y. The decline in sales in FY20 was led by **price hikes due to new safety norms starting April 1, 2019, higher insurance costs and ownership costs, liquidity crisis in the NBFC sector, increased load carrying capacity for M&HCVs that led to high inventories causing slow movement in movement of vehicles. We have therefore revised our outlook for overall auto sales (excluding tractors) to 5-7% 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.

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Table 1: Auto Production (April - August) (in Numbers)

Year	Commercial Vehicles	Growth rate (%)	Passenger Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)	Total (CV+PV+2&3W)	Growth rate (%)
FY93	43,126	-24.0%	74,973	-14.8%	593,700	-23.5%	711,799	-22.7%
FY94	40,350	-6.4%	98,470	31.3%	685,589	15.5%	824,409	15.8%
FY95	70,794	75.4%	114,142	15.9%	902,570	31.6%	1,087,506	31.9%
FY96	97,492	37.7%	157,080	37.6%	1,091,882	21.0%	1,346,454	23.8%
FY97	98,273	0.8%	211,904	34.9%	1,352,147	23.8%	1,662,324	23.5%
FY98	77,725	-20.9%	223,928	5.7%	1,275,015	-5.7%	1,576,668	-5.2%
FY99	45,728	-41.2%	207,773	-7.2%	1,432,139	12.3%	1,685,640	6.9%
FY00	62,352	36.4%	273,137	31.5%	1,544,986	7.9%	1,880,475	11.6%
FY01	62,631	0.4%	267,042	-2.2%	1,653,950	7.1%	1,983,623	5.5%
FY02	54,779	-12.5%	276,276	3.5%	1,712,518	3.5%	2,043,573	3.0%
FY03	72,302	32.0%	266,434	-3.6%	2,153,538	25.8%	2,492,274	22.0%
FY04	91,465	26.5%	369,017	38.5%	2,317,768	7.6%	2,778,250	11.5%
FY05	129,520	41.6%	473,349	28.3%	2,611,667	12.7%	3,214,536	15.7%
FY06	144,373	11.5%	515,661	8.9%	3,023,697	15.8%	3,683,731	14.6%
FY07	196,294	36.0%	617,165	19.7%	3,576,720	18.3%	4,390,179	19.2%
FY08	199,207	1.5%	696,248	12.8%	3,374,249	-5.7%	4,269,704	-2.7%
FY09	217,128	9.0%	780,317	12.1%	3,795,157	12.5%	4,792,602	12.2%
FY10	189,609	-12.7%	869,054	11.4%	4,276,611	12.7%	5,335,274	11.3%
FY11	283,065	49.3%	1,152,737	32.6%	5,637,163	31.8%	7,072,965	32.6%
FY12	353,073	24.7%	1,243,230	7.9%	6,578,280	16.7%	8,174,583	15.6%
FY13	338,232	-4.2%	1,289,891	3.8%	6,913,739	5.1%	8,541,862	4.5%
FY14	311,502	-7.9%	1,270,832	-1.5%	6,890,380	-0.3%	8,472,714	-0.8%
FY15	278,399	-10.6%	1,300,363	2.3%	8,029,313	16.5%	9,608,075	13.4%
FY16	299,658	7.6%	1,420,151	9.2%	8,080,388	0.6%	9,800,197	2.0%
FY17	331,920	10.8%	1,520,238	7.0%	9,066,992	12.2%	10,919,150	11.4%
FY18	301,255	-9.2%	1,627,981	7.1%	10,033,719	10.7%	11,962,955	9.6%
FY19	457,826	52.0%	1766998	8.5%	11475100	14.4%	13,699,924	14.5%
FY20	354,575	-22.6%	1494309	-15.4%	10172200	-11.4%	12,021,084	-12.3%

Source: CMIE

- Overall auto production witnessed a decline of about 12.3% y-o-y during April – August 2019 period vis-à-vis a growth of about 14.5% during the corresponding period previous year. Many major manufacturers (OEMs) have continued to slash the production during April – August 2019 period owing to declining sales and large inventories of roughly about 30-45 days with dealers and wholesalers, along with the upcoming shift to the new BS-VI standards from April 1, 2020 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 decelerated. Cost of manufacturing has increased due to new safety norms and higher component costs for manufacturing electric vehicles and BS VI complaint vehicles

- It is to be noted that such a double-digit decline in production was last observed during FY93, where production had witnessed a decline of about 22.7% y-o-y.

**Table 2: Auto Sales (April - August) (in Numbers)**

Year	Commercial Vehicles	Growth rate (%)	Passenger Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)	Total (CV+PV+2&3W)	Growth rate (%)
FY93	37,936	-28.5%	75,202	-11.8%	595,859	-21.8%	708,997	-21.2%
FY94	46,272	22.0%	99,647	32.5%	693,666	16.4%	839,585	18.4%
FY95	62,500	35.1%	116,044	16.5%	868,930	25.3%	1,047,474	24.8%
FY96	93,571	49.7%	153,676	32.4%	1,075,009	23.7%	1,322,256	26.2%
FY97	92,740	-0.9%	209,222	36.1%	1,301,516	21.1%	1,603,478	21.3%
FY98	63,670	-31.3%	227,175	8.6%	1,267,742	-2.6%	1,558,587	-2.8%
FY99	45,265	-28.9%	208,458	-8.2%	1,423,879	12.3%	1,677,602	7.6%
FY00	55,054	21.6%	285,230	36.8%	1,496,142	5.1%	1,836,426	9.5%
FY01	53,437	-2.9%	291,013	2.0%	1,628,623	8.9%	1,973,073	7.4%
FY02	53,746	0.6%	287,949	-1.1%	1,704,288	4.6%	2,045,983	3.7%
FY03	71,310	32.7%	296,333	2.9%	2,121,893	24.5%	2,489,536	21.7%
FY04	90,967	27.6%	384,349	29.7%	2,294,456	8.1%	2,769,772	11.3%
FY05	123,021	35.2%	469,110	22.1%	2,629,391	14.6%	3,221,522	16.3%
FY06	133,363	8.4%	505,443	7.7%	3,027,666	15.1%	3,666,472	13.8%
FY07	185,914	39.4%	604,646	19.6%	3,531,502	16.6%	4,322,062	17.9%
FY08	192,031	3.3%	677,480	12.0%	3,336,695	-5.5%	4,206,206	-2.7%
FY09	201,823	5.1%	765,556	13.0%	3,722,337	11.6%	4,689,716	11.5%
FY10	188,685	-6.5%	890,359	16.3%	4,267,920	14.7%	5,346,964	14.0%
FY11	280,676	48.8%	1,139,759	28.0%	5,588,098	30.9%	7,008,533	31.1%
FY12	334,911	19.3%	1,198,088	5.1%	6,571,681	17.6%	8,104,680	15.6%
FY13	351,290	4.9%	1,263,652	5.5%	6,861,130	4.4%	8,476,072	4.6%
FY14	303,396	-13.6%	1,232,671	-2.5%	6,899,230	0.6%	8,435,297	-0.5%
FY15	270,523	-10.8%	1,278,299	3.7%	8,030,965	16.4%	9,579,787	13.6%
FY16	294,623	8.9%	1,358,690	6.3%	8,106,481	0.9%	9,759,794	1.9%
FY17	318,447	8.1%	1,512,777	11.3%	9,004,555	11.1%	10,835,779	11.0%
FY18	307,356	-3.5%	1,625,075	7.4%	9,923,332	10.2%	11,855,763	9.4%
FY19	433,747	41.1%	1,745,948	7.4%	11,394,659	14.8%	13,574,354	14.5%
FY20	340,563	-21.5%	1,417,695	-18.8%	10,006,206	-12.2%	11,764,464	-13.3%

Source: CMIE

- Passenger vehicles segment witnessed a decline of 18.8% y-o-y in sales during April-August 2019 with maximum decline of 33.8% y-o-y in the vans segment followed by about 22.7% decline in the passenger car segment. Decline in Multi-Utility Vehicles (MUV) segment sales was restricted to about 5.9% y-o-y during the period. Quadricycles, with a very low base, witnessed a sharp growth of over 56% y-o-y. Increased insurance cost, high ownership cost, high fuel costs 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. Excise duty and road and infrastructure cess on petrol and diesel was increased by Rs 1 each in July 2019 taking petrol and diesel price up by Rs 2 per litre effectively.

- Commercial vehicles sales declined by about 21.5% during the period with Medium and Heavy Commercial Vehicles (M&HCVs) sales declining by about 32% and Light Commercial Vehicles (LCVs) sales by about 14.6% y-o-y. Due to upward revision in axle load norms for M&HCVs by 20-25% and curtailed lending by NBFCs, fleet owners deferred their purchases. Also, volatility in freight rates and increase in fuel prices impacted demand.
- In case of Two & Three Wheelers, overall sales witnessed declined by about 12.2% y-o-y during April-August 2019 led by decline in sales of two wheelers by about 12.3% followed by about 9.6% in two wheelers. Demand remained under pressure on back of high ownership costs, higher outlay in insurance cost, increased fuel costs and price hike on back of new safety norms starting April 1, 2019 that led to slower movement in the segment sales.

**Table 3: Auto Exports (April - August) (in Numbers)**

Year	Commercial Vehicles	Growth rate (%)	Passenger Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)	Total (CV+PV+2&3W)	Growth rate (%)
FY96	4,764	-8.6%	9,695	141.3%	46,268	-8.0%	60,727	2.1%
FY97	4,558	-4.3%	13,748	41.8%	55,511	20.0%	73,817	21.6%
FY98	3,629	-20.4%	10,957	-20.3%	52,472	-5.5%	67,058	-9.2%
FY99	3,299	-9.1%	8,353	-23.8%	53,039	1.1%	64,691	-3.5%
FY00	2,508	-24.0%	9,403	12.6%	37,466	-29.4%	49,377	-23.7%
FY01	5,276	110.4%	9,903	5.3%	59,484	58.8%	74,663	51.2%
FY02	3,591	-31.9%	19,056	92.4%	44,372	-25.4%	67,019	-10.2%
FY03	4,398	22.5%	26,585	39.5%	78,192	76.2%	109,175	62.9%
FY04	5,060	15.1%	46,556	75.1%	132,760	69.8%	184,376	68.9%
FY05	10,031	98.2%	64,521	38.6%	176,027	32.6%	250,579	35.9%
FY06	14,545	45.0%	74,327	15.2%	246,221	39.9%	335,093	33.7%
FY07	18,671	28.4%	84,739	14.0%	325,926	32.4%	429,336	28.1%
FY08	22,013	17.9%	87,347	3.1%	401,788	23.3%	511,148	19.1%
FY09	22,073	0.3%	125,547	43.7%	487,625	21.4%	635,245	24.3%
FY10	13,629	-38.3%	172,653	37.5%	468,958	-3.8%	655,240	3.1%
FY11	26,080	91.4%	179,970	4.2%	764,913	63.1%	970,963	48.2%
FY12	33,675	29.1%	220,695	22.6%	1,027,024	34.3%	1,281,394	32.0%
FY13	36,298	7.8%	223,754	1.4%	950,002	-7.5%	1,210,054	-5.6%
FY14	28,407	-21.7%	247,926	10.8%	954,940	0.5%	1,231,273	1.8%
FY15	33,085	16.5%	249,858	0.8%	1,211,057	26.8%	1,494,000	21.3%
FY16	42,873	29.6%	260,986	4.5%	1,320,733	9.1%	1,624,592	8.7%
FY17	46,587	8.7%	297,166	13.9%	1,100,360	-16.7%	1,444,113	-11.1%
FY18	31,174	-33.1%	303,110	2.0%	1,256,611	14.2%	1,590,895	10.2%
FY19	42,298	35.7%	294,262	-2.9%	1,667,393	32.7%	2,003,953	26.0%
FY20	23,502	-44.4%	307,005	4.3%	1,701,913	2.1%	2,032,420	1.4%

Source: CMIE

- Overall exports of auto showed a largely stable scenario registering a marginal growth of 1.4% y-o-y during April-August 2019. Commercial vehicles segment with the lowest base in total auto exports, witnessed the sharpest decline of over 44% while exports of passenger vehicles increased by about 4.3% y-o-y and that of two & three wheelers segment increased by over 2% y-o-y 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.

**Table 4: Deployment of gross bank credit (Rs Billion)**

Sector	Jul-17	Mar-18	Jul-18	Mar-19	Jul-19	July	July	July	July
						2018/ July 2017 (%)	2019 /July 2018 (%)	2018/ March, 2018 (%)	2019/ March, 2019 (%)
<b>Deployment of Gross Bank Credit by Major Sectors</b>									
Vehicle Loans	1,726	1,898	1,918	2,022	2,013	11.2	4.9	1.1	-0.4
<b>Industry-wise Deployment of Gross Bank Credit</b>									
Vehicles, Vehicle Parts & Transport Equipment	708	787	751	799	827	6.0	10.2	-4.7	3.6

Source: Reserve Bank of India (RBI)

- As can be seen, vehicle loans to individuals have witnessed marginal decline of about 0.4% in July 2019 over March 2019. Also, on a y-o-y basis, vehicle loans to individuals have increased by only 4.9% in July 2019 vis-à-vis a growth of over 11% during July 2018. Vehicle loans accounts for about 7% share in the overall Industry loans given by banks to individuals
- However, in terms of finance to the industry, bank loans to the industry have increased by over 10% on a y-o-y in July 2019. Also, compared with March 2019, bank loans to companies have increased by about 3.6% in July 2019 vis-à-vis a decline of about 4.7% in July 2018 as compared with March 2018.

Table 5: Tractor production, sales &amp; exports (April-July) (in Numbers)

Year	Total Production	Growth rate (%)	Total Sales	Growth rate (%)	Total Exports	Growth rate (%)
FY96	59,520	16.9%	60,555	15.3%	-	-
FY97	68,756	15.5%	69,386	14.6%	-	-
FY98	83,020	20.7%	81,768	17.8%	-	-
FY99	78,742	-5.2%	82,036	0.3%	-	-
FY00	91,031	15.6%	87,095	6.2%	-	-
FY01	65,545	-28.0%	71,972	-17.4%	-	-
FY02	61,256	-6.5%	66,369	-7.8%	-	-
FY03	53,177	-13.2%	55,937	-15.7%	-	-
FY04	50,611	-4.8%	50,545	-9.6%	-	-
FY05	77,194	52.5%	71,977	42.4%	5,330	-
FY06	89,348	15.7%	84,415	17.3%	10,172	90.8%
FY07	111,065	24.3%	111,144	31.7%	10,599	4.2%
FY08	107,827	-2.9%	109,625	-1.4%	13,231	24.8%
FY09	126,021	16.9%	121,327	10.7%	14,113	6.7%
FY10	137,863	9.4%	134,007	10.5%	8,268	-41.4%
FY11	151,015	9.5%	167,163	24.7%	18,136	119.4%
FY12	205,040	35.8%	192,423	15.1%	20,190	11.3%
FY13	194,984	-4.9%	196,509	2.1%	21,695	7.5%
FY14	236,985	21.5%	235,592	19.9%	20,219	-6.8%
FY15	242,789	2.4%	234,461	-0.5%	23,651	17.0%
FY16	215,720	-11.1%	204,112	-12.9%	26,287	11.1%
FY17	230,584	6.9%	227,223	11.3%	25,440	-3.2%
FY18	265,931	15.3%	247,092	8.7%	26,014	2.3%
FY19	309,169	16.3%	306,618	24.1%	31,337	20.5%
FY20	257,275	-16.8%	261,050	-14.9%	24,174	-22.9%

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%
- 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

#### CARE Ratings View:

**Table 6: Growth in sales**

Vehicle Category	FY20*
Passenger Vehicles	2-4%
Commercial Vehicles	6-8%
Two & Three Wheelers	7-9%
<b>Overall Auto</b>	<b>5-7%</b>
Tractors	7-9%

\*P – Projected

- In April-August 2019, automobile sales witnessed the sharpest decline of 13.3% y-o-y. Such double-digit drop was witnessed during the same period in FY93, when sales declined by over 21% y-o-y.
- The decline in sales in FY20 was led by **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 norms 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 5-25 days during May – August 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 5-7% for FY20**
- **Going forward, we expect demand to continue to subdued 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. Major OEMs have increased their ad spends by about 10-20% for FY20 in order to attract customers along with various deals and discounts on offer. Also, with higher MSPs announced for FY20 and normal monsoon, 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.
- However, with clarity on the government, demand is expected to increase on back of various initiatives taken to boost consumption in the automobile sector along with increased disposable income in the hands of rural populace led by normal monsoon. 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 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 at 6.4-6.5% in FY20
- 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	GDP, lower interest rates, higher disposable income
Two and three wheelers	GDP, normal monsoon, higher disposable income, higher farm incomes
Commercial vehicles	Pick up in industrial production, GDP
Tractors	Normal monsoon, higher farm incomes

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