Auto Newscast
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CARE Ratings
Professional Risk Opinion

Auto sales continue to decline in July 2019 by 15.3% y-o-y on back of brakes in economy, weak consumer sentiments and unfavorable weather conditions

In July 2019, auto industry sales (including PVs, CVs and two & three wheelers) registered a y-o-y decline of about 15.3% in overall sales vis-à-vis a growth of about 10.4% registered a year ago. 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 over 26% y-o-y respectively while decline in sales of two & three wheelers segment was restricted to about 13% 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** continue to weigh on the overall automobile sales during July 2019.

Demand for exports witnessed a slower growth of about 4.2% y-o-y during July 2019 vis-à-vis a double-digit growth of over 26% y-o-y during July on back of slowdown in the global economies.

Chart 1: Auto Sales (July) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
Jul-15	282,314	10.7	60,809	10.5	1,621,449	0.7
Jul-16	321,783	14.0	62,058	2.1	1,755,195	8.2
Jul-17	364,488	13.3	65,587	5.7	1,964,776	11.9
Jul-18	355,533	-2.5	85,176	29.9	2,202,319	12.1
Jul-19	262,651	-26.1	62,660	-26.4	1,914,433	-13.1

Source: CMIE

- Passenger vehicles segment witnessed a decline of over 26% y-o-y in sales during July 2019 with maximum decline of about 45% y-o-y in the vans segment followed by about 28.6% decline in the passenger cars segment. Multi-Utility Vehicles (MUV) segment sales as well witnessed a decline of about 16% y-o-y during the month. Quadricycles, with a very low base, witnessed a increase of about 13.7% 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. Floods in various states such as Karnataka, Maharashtra and Kerala before the onset of festival season starting with Onam and Ganesh Chaturthi will further impact the fortunes of the automobile industry. However, the new launches in the SUVs and passenger cars segment have seen strong demand despite slowdown in the overall market.
- Commercial vehicles sales declined by about 26.4% during the month with Medium and Heavy Commercial Vehicles (M&HCVs) sales declining by about 39% y-o-y and Light Commercial Vehicles (LCVs) sales declining by about 18.7% during the month. Due to upward revision in axle load norms for M&HCVs by 20-25%, curtailed lending by NBFCs and lower rentals have forced the fleet owners to defer their purchases. Also, volatility in freight rates and increase in fuel prices further impacted demand.
- In case of Two & Three Wheelers, sales of two wheelers declined by about 13.2% followed by decline of about 9.6% in passenger and goods carriers (three-wheelers) sales. 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 (July) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
Jul-15	59,946	8.0	9,014	24.5	275,841	6.2
Jul-16	62,098	3.6	10,205	13.2	232,757	-15.6
Jul-17	65,422	5.4	6,586	-35.5	243,679	4.7
Jul-18	64,602	-1.3	8,631	31.1	324,572	33.2
Jul-19	61,780	-4.4	5,794	-32.9	347,022	6.9

Source: CMIE

- Overall exports of auto witnessed a marginal uptick registering a growth of 4.2% y-o-y during July 2019. Commercial vehicles segment with the lowest base in total auto exports, witnessed the sharpest decline of about 33% while exports of two & three wheelers segment increased by about 6.9% y-o-y and that of passenger vehicles declined by about 4.4% during the month.

Table 3: Auto Production (April - July) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	1,125,081	8.2	235,981	6.2	6,448,463	0.8
FY17	1,187,970	5.6	268,773	13.9	7,143,060	10.8
FY18	1,277,268	7.5	233,119	-13.3	7,815,505	9.4
FY19	1,399,119	9.5	363,128	55.8	9,121,490	16.7
FY20	1,215,867	-13.1	299,702	-17.5	8,208,804	-10.0

Source: CMIE

- Overall auto production witnessed a decline of about 10.7% y-o-y during FY20 (April-July) period vis-à-vis a growth of about 16.7% witnessed during corresponding period previous year. Large inventories of roughly about 30-45 days with dealers and wholesalers forced many major manufacturers (OEMs) to cut production during the months to adjust 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: Auto Sales (April - July) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	1,077,502	6.5	232,963	8.4	6,462,270	1.6
FY17	1,178,532	9.4	255,278	9.6	7,081,087	9.6
FY18	1,273,743	8.1	234,714	-8.1	7,711,911	8.9
FY19	1,397,006	9.7	339,805	44.8	9,043,766	17.3
FY20	1,150,415	-17.7	282,566	-16.8	8,088,886	-10.6

Source: CMIE

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

	Sales	Growth rate (%)	Exports	Growth rate (%)
FY16	162,415	-13.6	19,905	13.0
FY17	182,018	12.1	18,483	-7.1
FY18	196,582	8.0	19,259	4.2
FY19	247,586	25.9	24,768	28.6
FY20	209,075	-15.6	17,770	-28.3

Source: Companies, 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:

- In FY20 (April-July), automobile sales witnessed the sharpest decline of 11.7% 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.**

- **Going forward, we expect demand to continue to remain muted during Q2 FY20 and probably 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.**

- 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.

- Also, with higher MSPs announced for FY20, farm income is expected to be marginally better and could encourage rural spending, albeit marginally . 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.

- **On the other hand, unfavorable weather conditions led by floods in various states like Maharashtra, Karnataka and Kerala, rural incomes are expected to be impacted. Roughly around 15,000 jobs have been lost in the last 2-3 months on back of slump in the auto industry mostly in the temporary and casual job profiles thereby affecting the spending ability of the populace.**

- 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 5.40% from 5.75% in August 2019, the lower interest cost is expected to provide the much needed stimulus to the auto demand.

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