

# Auto Newscast

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## Auto sales continue to remain sluggish in January 2019 on back of high interest rates, price hikes and weak consumer sentiments

In January 2019, auto industry sales (including PVs, CVs and two & three wheelers) registered a y-o-y decline of about 3.9% in overall sales vis-à-vis a double-digit growth of over 31% registered a year ago. The sales growth was largely restricted on account of subdued performance of the passenger vehicles as well as two & three wheelers segment. Commercial vehicle segment sales remained largely stable during the month according to the latest data of the industry body SIAM. Passenger vehicle sales dipped by 4.4% y-o-y, two & three wheelers sales witnessed about 4% y-o-y decline while commercial vehicles sales registered negligible decline of 0.2% y-o-y during the month. Overall exports however, remained largely stable with just about 1.2% y-o-y increase in January 2019 on back of muted demand in the international markets.

**Chart 1: Auto Sales (January) (in Numbers)**

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
Jan-15	275,732	4.4	59,583	6.8	1,581,296	1.8
Jan-16	274,041	-0.6	71,106	19.3	1,631,511	3.2
Jan-17	314,057	14.6	69,452	-2.3	1,492,023	-8.5
Jan-18	342,170	9.0	94,936	36.7	2,021,820	35.5
Jan-19	327,082	-4.4	94,746	-0.2	1,941,958	-4.0

Source: Companies, CMIE

- Passenger vehicles segment witnessed a decline of 4.4% y-o-y in sales during January 2019. While the Van segment sales registered a double-digit growth of over 16%, Passenger cars segment and Multi-Utility Vehicles (MUV) segment witnessed y-o-y drop of 4.6% and 7.1% respectively despite various new launches and facelifts in the previous months, restricting the overall growth during the month. Quadricycles as well, registered 6.5% y-o-y decline after 13 months of sharp growth in sales. High insurance costs, interest costs and volatility in fuel prices along with the liquidity crunch in the market has had an impact, keeping the buyers away from the automobiles sector during the month.
- Commercial vehicles sales remained largely stable during the month with a negligible decline of about 0.2% with Medium and Heavy Commercial Vehicles (M&HCVs) sales declining by about 1% and Light Commercial Vehicles (LCVs) sales increasing by 1% during the month.
- In case of Two & Three Wheelers, sales of passenger and goods carriers (three-wheelers) registered a decline of about 4% during the month. While sales of two wheelers declined by 4%, sales of three wheelers segment registered a marginal growth of about 1.5% on a y-o-y basis. Demand remained under pressure on back of volatility in fuel prices, high interest rates and changes in the insurance rules that led to slower movement in the segment sales.

**Table 2: Auto Exports (January) (in Numbers)**

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
Jan-15	45,114	11.3	7,102	19.0	214,168	5.7
Jan-16	42,124	-6.6	9,423	32.7	224,970	5.0
Jan-17	48,668	15.5	8,147	-13.5	198,538	-11.7
Jan-18	56,703	16.5	9,242	13.4	274,516	38.3
Jan-19	46,957	-17.2	7,155	-22.6	290,343	5.8

Source: Companies, CMIE

- Total exports registered a marginal growth of about 1.2% y-o-y in January 2019. Two & Three wheelers segment witnessed a lower growth of about 5.8% in exports during the month. However, commercial vehicles segment was hit the most with exports declining by 22.6% y-o-y followed by passenger vehicles segment that witnessed about 17.2% y-o-y decline in exports restricting the overall growth in exports during the month.

**Table 3: Auto Sales (April-January) (in Numbers)**

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY15	2,652,641	4.3	566,700	-2.5	16,371,556	11.6
FY16	2,831,234	6.7	627,811	10.8	16,571,073	1.2
FY17	3,135,692	10.8	651,194	3.7	17,366,677	4.8
FY18	3,327,959	6.1	737,724	13.3	19,899,204	14.6
FY19	3,374,458	1.4	893,603	21.1	21,924,813	10.2

Source: Companies, CMIE

**Table 4: Tractor sales & exports (April-December) (in Numbers)**

	Sales	Growth rate (%)	Exports	Growth rate (%)
FY15	509,931	-5.9	55,668	19.7
FY16	447,677	-12.2	58,808	5.6
FY17	523,097	16.8	58,926	0.2
FY18	603,222	15.3	62,591	6.2
FY19	696,021	15.4	70,476	12.6

Source: Companies, CMIE

## CARE Ratings View:

**Table 5: Growth in sales**

Vehicle Category	FY19P*
Passenger Vehicles	6-8%
Commercial Vehicles	25-30%
Two & Three Wheelers	15-17%
Tractors	15-17%

\*P – Projected

Note: CARE Ratings has revised its outlook for passenger vehicles and two & three wheelers for FY19

- In FY19 we expect the auto industry to continue to witness y-o-y healthy demand. Demand is expected to improve specially for tractors and commercial vehicles on back of various initiatives taken by the government for the Agriculture and Infrastructure sectors.
- With pick up in construction and mining activities along with increased inter-state movement of goods with the streamlining of e-commerce and FMCG post GST implementation, demand for commercial vehicles segment has seen a significant growth during April 2018 – January 2019 period. However, with most of the demand already being met, the additional demand here could be limited going forward. Also, the recent policy revision by the government (increasing the load carrying capacity for heavy vehicles) could weigh on CVs demand and the high growth witnessed in 9M FY19 is expected to slightly moderate going forward.
- Also, 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 started 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.
- 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 H2 FY19.
- However, with RBI bringing down the repo rate to 6.25% from 6.50% in February 2019, the lower interest cost is expected to provide some stimulus to the auto demand.

### Main drivers for these growth rates:

- GDP growth to be higher at about 7.4% in FY19 vis-à-vis 6.7% in FY18
- Good monsoon and improved farm activities
- Increased infrastructure and industrial activities

Segment	Principal Drivers
Passenger vehicles	Higher growth in GDP, income levels and stable prices, IIP
Two and three wheelers	Higher GDP growth, good monsoon, higher disposable income, higher farm incomes
Commercial vehicles	Pick up in industrial production, higher GDP growth
Tractors	Good monsoon, higher farm incomes

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