Auto Newscast

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Auto sales continue to remain sluggish in January 2020; register a decline of 12.5% y-o-y in FY20 (Apr-Jan) led by persistent weakness in economy and consumer sentiment. Inventory corrections by OEMS further led to the decline, industry foresees revival only by Q2 FY21

In January, auto industry sales (including PVs, CVs and two & three wheelers) registered a y-o-y decline of about 9.6% in overall sales vis-à-vis a decline of about 3.9% registered a year ago largely led by commercial vehicles, passenger vehicles and two wheeler vehicles. Three wheelers vehicle sales on the other hand, witnessed a growth of about 6% y-o-y during the month. The decline in sales moderated to single digit mainly led the recent policy measures announced by the government.

During FY20 (April – January), sales witnessed a decline of about 12.5% y-o-y on account of weak demand for commercial vehicles, two & three wheelers as well as passenger vehicles that registered a double-digit decline of 21.9%, 12.2% and 12% y-o-y respectively according to the latest data of the industry body SIAM. **Continued impact of increased cost of ownership in passenger vehicles and two wheeler segments due to new safety norms and higher insurance costs, increased axle norms and high base of previous year in case of commercial vehicles** led to the overall decline of automobiles during FY20 (April – January). Also, going forward, with implementation of BS VI norms from April 2020, the cost of ownership is further expected to increase by about 12-15%.

Overall demand for exports increased by about 4.9% y-o-y during FY20 (April – January) vis-à-vis a double-digit growth of over 16.8% during the corresponding period of previous year on back of slowdown in the global economies.

Chart 1: Auto Sales (April-January) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	28,31,234	6.7	6,27,811	10.8	1,65,71,073	1.2
FY17	31,35,692	10.8	6,51,194	3.7	1,73,66,677	4.8
FY18	33,27,959	6.1	7,37,724	13.3	1,98,99,204	14.6
FY19	33,74,397	1.4	8,93,616	21.1	2,19,31,617	10.2
FY20	29,70,256	-12.0	6,97,710	-21.9	1,92,47,771	-12.2

Source: CMIE

- In FY20 (Apr-Jan), passenger vehicles segment witnessed a decline of 12% y-o-y in sales with maximum decline of about 36% y-o-y in the vans segment followed by about 17.6% decline in the passenger cars segment. Multi-Utility Vehicles (MUV) segment sales witnessed an increase of about 7.1% y-o-y during the period. Quadricycles, with a very low base, continued to witness a double-digit growth of about 44% y-o-y. Increased insurance cost, high ownership cost and price hikes due to new safety norms and increased input costs along with the prolonged lending impediment in the market continue to weigh down on the industry. Also, many OEMs have launched BS VI as well as electric vehicles that have further increased the overall cost of ownership amidst the slowdown in the economy.
- Commercial vehicles sales declined by about 21.9% during the period with Medium and Heavy Commercial Vehicles (M&HCVs) sales declining by about 38% y-o-y and Light Commercial Vehicles (LCVs) sales declining by about 11.4% y-o-y. Due to upward revision in

axle load norms for M&HCVs by 20-25% and curtailed lending by NBFCs, fleet owners have continued to defer their purchases. Also, the turnaround time for CVs post GST implementation has come down and has supported the postponement of additional requirement for CVs. Volatility in freight rates and fuel prices has further impacted demand. Sales were further impacted due to delay in framing the vehicle scrappage policy that is expected to largely focus on the commercial vehicles.

- In case of Two & Three Wheelers, sales of two wheelers declined by about 12.6% followed by passenger and goods carriers (three-wheelers) that witnessed decline of about 4.4% y-o-y in FY20 (Apr – Jan). Demand remained under pressure on back of high ownership costs, higher outlay in insurance cost and price hike on back of new safety norms that led to slower movement in the segment sales.

Table 2: Auto Exports (April – January) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	5,33,190	1.2	84,331	20.4	25,02,985	1.3
FY17	6,26,291	17.5	91,305	8.3	21,73,095	-13.2
FY18	6,15,446	-1.7	77,352	-15.3	26,26,804	20.9
FY19	5,60,934	-8.9	82,763	7.0	32,32,448	23.1
FY20	5,88,539	4.9	51,719	-37.5	34,24,133	5.9

Source: CMIE

- Overall exports of auto showed an increase by registering a growth of 4.9% y-o-y during FY20 (Apr- Jan). Passenger vehicles segment witnessed a growth of about 5% y-o-y with higher dispatches to various overseas markets such as Gulf, Latin America and South Africa followed by 6% y-o-y growth in the two & three wheeler segment. Also, few OEMs are increasing exports of existing and new variants to Nepal and Bhutan. Commercial vehicles segment with the lowest base in total auto exports, witnessed the sharpest decline of 37.5% during the period.
- Within PVs, exports of passenger cars witnessed a y-o-y growth of about 2.2% and MUVs segment grew by over 13.8% and that of quadricycles with a small base witnessed a y-o-y growth of about 23.7% during the period. On the other hand, exports of vans registered a decline of 18.7% y-o-y during FY20 (Apr- Jan).
- In case of two & three wheelers, while two wheelers segment exports witnessed a growth of about 8.3% during the period, exports of three wheelers declined by about 8.2% y-o-y

Table 3: Auto Production (April – January) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	28,31,088	7.1	6,28,706	11.3	1,64,22,691	0.0
FY17	31,12,622	9.9	6,53,635	4.0	1,73,38,493	5.6
FY18	33,00,251	6.0	6,95,709	6.4	1,99,11,542	14.8
FY19	33,61,675	1.9	9,15,136	31.5	2,19,82,842	10.4
FY20	29,26,893	-12.9	6,78,990	-25.8	1,92,82,071	-12.3

Source: CMIE

- Overall auto production witnessed a decline of about 12.8% y-o-y during FY20 (Apr-Jan) vis-à-vis a growth of about 9.8% witnessed during the corresponding period previous year.
- On the inventory front, while there was slight reduction across all segments, the commercial vehicles and two wheeler inventories continue to be above comfortable levels as per the latest numbers by the Federation of Auto Dealers Association of India (FADA).
- PV inventory is at reasonable level (around 20 days) with OEMs reducing production to adjust the cycle as per FADA recommendations
- With government's deadline for all existing PVs and two wheeler models to comply with new safety norms starting April 1, 2019 and overall subdued demand, the overall industry production had slowed down during April – December 2019.

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

	Sales	Growth rate (%)	Exports	Growth rate (%)
FY16	4,47,677	-12.2%	58,808	5.6%
FY17	5,23,097	16.8%	58,926	0.2%
FY18	6,03,222	15.3%	62,591	6.2%
FY19	6,96,021	15.4%	70,476	12.6%
FY20	6,21,545	-10.7%	58,856	-16.5%

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%
- Additional income tax deduction of Rs 1.5 lakhs on interest paid on loan taken to purchase EVs
- 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
- To further promote electric mobility and manufacturing, auto parts (e-drive assembly, on-board charger, e-compressor, charging gun) for exclusive use in EVs have been exempted from customs duty bringing down the cost of EVs, thereby boosting EV sales in the

country.

- RBI allowed the scheduled commercial banks to deduct the equivalent of incremental credit disbursed by them as retail loans for automobiles over and above the outstanding level of credit to this segment as at the end of the fortnight ended January 31, 2020 and up to the fortnight ending July 31, 2020, from their net demand and time liabilities (NDTL) for maintenance of cash reserve ratio (CRR) for a period of five years from the date of origination of the loan or the tenure of the loan, whichever is earlier (Source: RBI)

CARE Ratings View:

Table 5: Growth in sales

Vehicle Category	FY20*
Passenger Vehicles	(10-12)%
Commercial Vehicles	(15-17)%
Two & Three Wheelers	(7-9)%
Overall Auto	**(10-12)%**
Tractors	(7-9)%

*P – Projected

CARE Rating Outlook: Stable to Negative

- In FY20 (April – January), automobile sales witnessed the sharpest decline of 12.5% y-o-y during the last 5 years on back of price hikes in passenger vehicles and two wheeler segments due to new safety norms, higher insurance costs, higher ownership costs, curtailed lending by the NBFC sector, reduced turnaround time and increased load carrying capacity for CVs led to high inventories and slow movement in segment sales.
- This decline is expected to put pressure on the overall sales for the year and restrict the growth going forward. We are credit negative on commercial vehicle segment while retaining stable outlook on passenger and two-wheeler segment.
- Going forward, we expect demand to marginally improve on m-o-m basis in Q4 FY20 with various planned product launches and pre-buying of automobiles before the implementation of BS-VI norms on April 1, 2020. However, most of the OEMs in PV segment have announced price hikes from January 2020 to cover the increasing input costs thereby exerting pressure on sales in Q4 FY20.
- 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 any further cost burden immediately on account of subdued market conditions.
- 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 CV segment. However, faced with an intense slowdown during FY20 (April – January), the segment is expected to report decline in y-o-y growth for the fiscal FY20. Recovery could take longer if the economic slowdown continues.
- Meanwhile, consumer affordability key for a strong revival in demand in PC and 2&3W segments. Slowing debt driven consumption and falling household savings are key risks to the demand returning in these segments.

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