Auto Newscast

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Auto sales continue to skid in May 2019; register a decline of 7.4% y-o-y amidst rising inventory

In May 2019, auto industry sales (including PVs, CVs and two & three wheelers) registered a y-o-y decline of about 7.4% in overall sales vis-à-vis a double-digit growth of over 13% registered a year ago. However, on a m-o-m basis, the sales of commercial vehicles and two & three wheelers have witnessed marginal growth of about 1.3% and 4.3% respectively while sales of passenger cars have witnessed only a marginal decline of about 2%. The sales growth during the month was largely restricted on account of weak demand for commercial vehicles and passenger vehicles that declined by over 17% and 14% y-o-y while decline in sales of two & three wheelers segment was restricted to about 5.6% during the month according to the latest data of the industry body SIAM. Demand for exports remained largely muted during May 2019 with overall exports registering a marginal decline of about 0.5% vis-à-vis a double-digit growth of over 21% during the corresponding period of previous year on back of slowdown in the global economies.

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

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
May-15	269,260	5.2	57,544	7.9	1,668,763	-0.8
May-16	283,682	5.4	66,239	15.1	1,800,256	7.9
May-17	316,481	11.6	60,092	-9.3	1,987,957	10.4
May-18	361,156	14.1	84,572	40.7	2,236,323	12.5
May-19	299,403	-17.1	72,428	-14.4	2,111,360	-5.6

Source: Companies, CMIE

- Passenger vehicles segment witnessed a decline of over 17% y-o-y in sales during May 2019 with maximum decline of over 27% y-o-y in the Vans segment followed by about 20% decline in passenger car segment. Multi-Utility Vehicles (MUV) segment sales declined by 8.4% y-o-y restricting the overall growth during the month. Quadricycles, with a very low base, however, grew by over 90% y-o-y. Increased insurance cost, high ownership cost and interest costs along with the liquidity crunch in the market continue to weigh down on the industry
- Commercial vehicles sales declined by over 14% during the month with Medium and Heavy Commercial Vehicles (M&HCVs) sales declining by about 25%% y-o-y and Light Commercial Vehicles (LCVs) sales declining by about 7.6% during the month.
- In case of Two & Three Wheelers, sales of passenger and goods carriers (three-wheelers) declined by about 10% followed by decline of about 5.4% in two wheelers sales. Demand remained under pressure on back of high interest rates and higher outlay in insurance cost that led to slower movement in the segment sales.

Table 2: Auto Exports (May) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
May-15	51,276	6.8	8,703	37.2	251,325	2.9
May-16	52,042	1.5	9,150	5.1	238,221	-5.2
May-17	64,839	24.6	6,635	-27.5	257,594	8.1
May-18	59,918	-7.6	8,055	21.4	330,816	28.4
May-19	59,748	-0.3	3,581	-55.5	333,504	0.8

Source: Companies, CMIE

- Total exports registered a marginal decline of about 0.5% y-o-y in May 2019. Commercial vehicles segment witnessed the sharpest decline of over 50% while exports of passenger vehicles and two & three wheelers segment remained range bound during the month.

Table 3: 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: Companies, CMIE

Table 4: Auto Sales (April – May) (in Numbers)

	Passenger Vehicles	Growth rate (%)	Commercial Vehicles	Growth rate (%)	Two & Three Wheelers	Growth rate (%)
FY16	537,575	4.2	110,430	-1.7	3,221,512	-
FY17	579,590	7.8	126,955	15.0	3,590,362	11.4
FY18	647,818	11.8	105,638	-16.8	3,954,213	10.1
FY19	710,767	9.7	163,795	55.1	4,588,638	16.0
FY20	605,060	-14.9	143,928	-12.1	4,135,955	-9.9

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:

- The Insurance Regulatory and Development Authority of India (IRDAI) hiked third party insurance premium for passenger cars and two wheelers, June 2019

CARE Ratings View:

Table 5: Growth in sales

Vehicle Category	FY20*
Passenger Vehicles	4-6%
Commercial Vehicles	12-13%
Two & Three Wheelers	10-12%
Tractors	11-13%

*P – Projected

- With inventory levels as high as 40-50 days (20 - 30 days considered normal) for major OEMs, most of the major players have 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. We expect demand to continue to remain muted during Q2 FY20 and pick up only by Q3 FY20 on back of near normal monsoon and festival demand.

- Going forward in FY20, demand is expected to pick up with various **planned product launches** in the passenger vehicle and two wheeler segments along with expected **pre-buying in H2 FY20 on account of BS VI emission norms** to be implemented 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.

- 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 further boost demand 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 slightly 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 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. Manufacturers have set up units for manufacturing electric vehicles (EVs) and many EVs are planned for launches (mostly in 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 7.2% in FY20 vis-à-vis 6.8% in FY19
- Normal monsoon and improved farm activities
- Lower interest rates
- Increased infrastructure and industrial activities

Segment	Principal Drivers
Passenger vehicles	Higher growth in GDP, 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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