

Automobiles sector update for June 2020

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Due to multiple lockdowns imposed in various states of the country in April and May 2020, economic activity in the country came to a sudden standstill. However with gradual relaxations on restrictions in movement of people in June 2020, manufacturing activity witnessed an improvement during the month. With this, automobiles production, sales as well as exports sequentially rose in June 2020, after two consecutive months of decline.

Trends in June 2020

- Passenger vehicles: In June 2020, the passenger vehicles industry produced a total of 107,842 units (-57.6% YoY), while domestic sales declined sharply to 105,617 vehicles (-49.6% YoY) and exports declined to 24,965 vehicles (-56% YoY).
- Two wheelers: In June 2020, production of two wheelers stood at 952,386 units (-50.2% YoY), while domestic sales fell to 1,012,628 units (-38.6% YoY) and exports to 195,332 units (-34.2% YoY).
- Three wheelers: In June 2020, production of three wheelers stood at 32,815 units (-60.8% YoY), while domestic sales fell to 10,300 units (-80.2% YoY) and exports declined to 25,805 units (-35% YoY).

June 2020 was sequentially a better month than the preceding two. However it continued to face the main challenge of weak consumer demand. Due to fewer walk-in customers to the showrooms, the OEMs increased their efforts to reach out to customers using digital platforms, which to an extent helped increase the number of enquires for new car buying. Also, to enhance retail financing for consumers and ensure the credit availability at competitive interest rates with low down-payment requirements, the players established tie-ups with commercial banks, NBFCs and regional rural banks.

Trends in Q1-FY21

The automobiles sector was already grappling with soft consumer demand in FY20. Additionally, the strict enforcement of Government rules to adopt new emission standards - led to OEMs hiking their product prices and further deferred consumers' purchases. Against this backdrop of an existing slowdown environment, the outbreak of Covid-19 in mid-March 2020 added to the woes of this industry. The pandemic caused disruptions in supply chains and brought manufacturing activity to a halt for nearly 30 days. Due to multiple lockdowns in the country, various OEMs, ancillaries and dealers located in containment zones, witnessed near nil activity in April and few days of May 2020.

- Passenger Vehicles: In Q1-FY21, the passenger car industry produced a total of 145,291 vehicles (-83.9% YoY), while domestic sales declined to 139,136 vehicles (-79.3% YoY) and exports declined to 44,130 vehicles (-74.7% YoY).

- Two wheelers: In Q1-FY21, production of two wheelers stood at 1,248,332 units (-78.5% YoY), while domestic sales fell to 1,291,845 units (-74.2% YoY) and exports declined to 337,728 units (-61.8% YoY).
- Three wheelers: In Q1-FY21, production of three wheelers stood at 62,332 units (-76.7% YoY), while domestic sales fell to 12,760 units (-91.5% YoY) and exports declined to 50,631 units (-59.6% YoY).
- Commercial vehicles: In Q1-FY21, production of commercial vehicles stood at 28,939 units (-87.6% YoY), while domestic sales fell to 31,636 units (-84.8% YoY) and exports declined to 3,870 units (-66.7% YoY).

Concluding remarks and outlook

- Being capital as well as labour intensive, the automobile manufacturers incur high fixed as well as variable costs. Therefore, improvement in capacity utilisation is one of the important levers for growth in margins of OEMs. However, in April and May 2020, both sales volumes as well as capacity utilization fell much below the pre-Covid levels. These two factors, along with high sales promotion expenses negatively impacted the margins of automobile OEMs in Q1-FY21. Companies could partially off-set the impact by increasing cost reduction measures.
- Consumer sentiments have remained low since the past 4-5 quarters now, which is evident in the falling automobile sales numbers of commercial vehicles, passenger vehicles and 2 & 3 wheelers, where the latter performed marginally better than the former two.
- The on-going rise in fuel prices is expected to further delay the consumer's decision of purchasing an automobile. While the household expenditure is already dipped in the present times, the consumer may not wish to further elevate his expenses in such a scenario - which fears job losses and falling income. Therefore, rising fuel prices is expected to act as a key pain point for the automobile sector in the short term.
- Outlook for this sector continues to remain grim with no definite signs of improvement in near future. If another nation-wide lockdown gets imposed, automobiles sector will continue their downwards trajectory, which will seriously affect large workforce and OEMs may have to further delay their product launches and capex plans. In such a scenario, greater marketing initiatives such as discounts or bundling of offers for consumers could be expected.

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