

Automobiles wholesales preview for October 2020

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Preview of automobile domestic wholesales in October 2020

A preview of the domestic automobile wholesales for October 2020 hints at a quick recovery in all segments, where two wheelers and passenger vehicle outshone all other segments. The automobile OEMs have pinned their hopes on the ongoing festive and wedding season for a bumper sale and a successful Q3, after witnessing two consecutive quarters of softness. The first quarter of this financial year was a complete washout due to multiple state and nation-wide lockdowns. The second quarter was better due to restoration of supply chains and re-opening of dealer showrooms. The anticipation of a near-normal festive season has led to rise in production and wholesales during the month. Hence, OEMs are building huge inventories and pushing to dealers, so that no dealer falls short of supply to end-consumers.

Few top players of the sector have indicated life-time high wholesales this month. However, it is essential to note that though the wholesales have picked up sharply this month, it is unlikely for retail demand to witness the same momentum. We expect retail sales to rise in October 2020, while the pace will be much lower than that of wholesales.

Domestic wholesales in October 2020:

- **Two wheelers:** Cumulative domestic wholesales 7 companies show a healthy growth of 11% sequentially and the segment outperformed the same month of last year by 16.9%.
- **Three wheelers:** Cumulative domestic wholesales of 3 players show an upsurge of 55.6% sequentially. However, the segment is nowhere close to pre-covid levels as YoY comparison still shows a lag of 62.7%.
- **Commercial Vehicles:** Cumulative domestic wholesales data of 5 manufacturers depict a sequential improvement of 13.4% m-o-m, while units are short of just 2.9% when compared with October 2019 levels.
- **Passenger vehicles:** Cumulative domestic wholesales data of 14 companies show a healthy growth in both sequential as well YoY basis of 22.8% and 17.3% respectively.

Table 1: Domestic Wholesales of automobiles in October 2020

Category	Units	No. of companies	Change	
			Y-o-Y	M-o-M
Two wheeler	20,45,866	7	16.9%	11%
Three wheeler	16,471	3	-62.7%	55.6%
Commercial vehicle	62,519	5	-2.9%	13.4%
Passenger vehicle	3,33,981	14	17.3%	22.8%

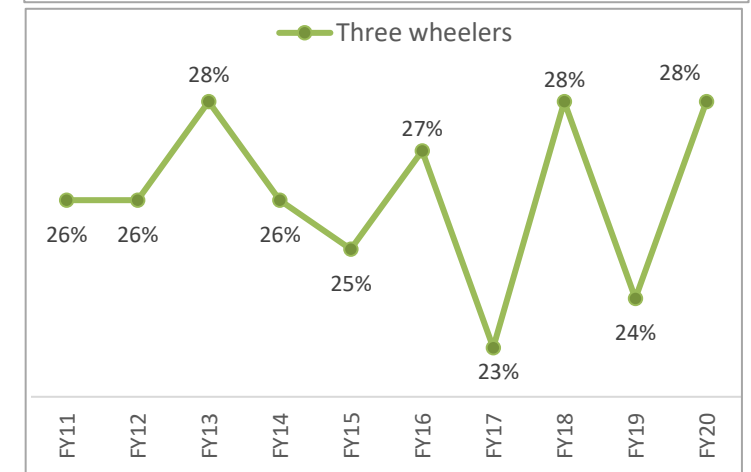
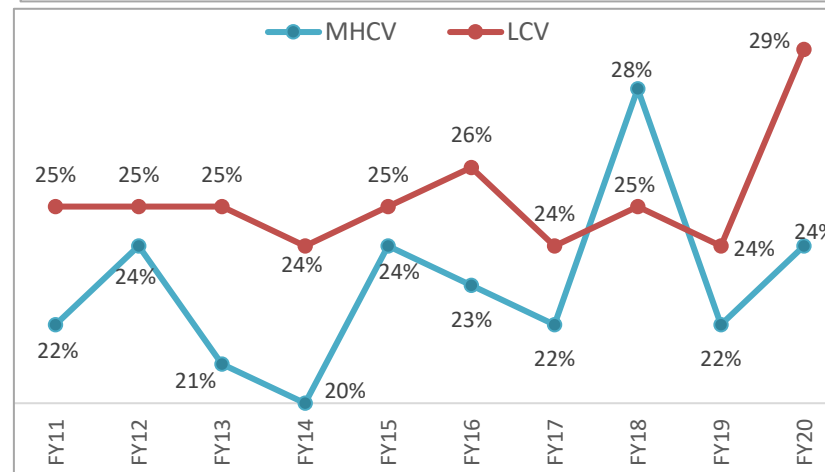
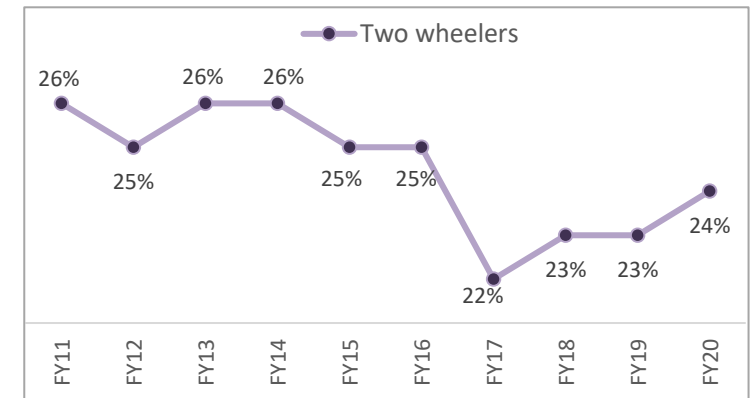
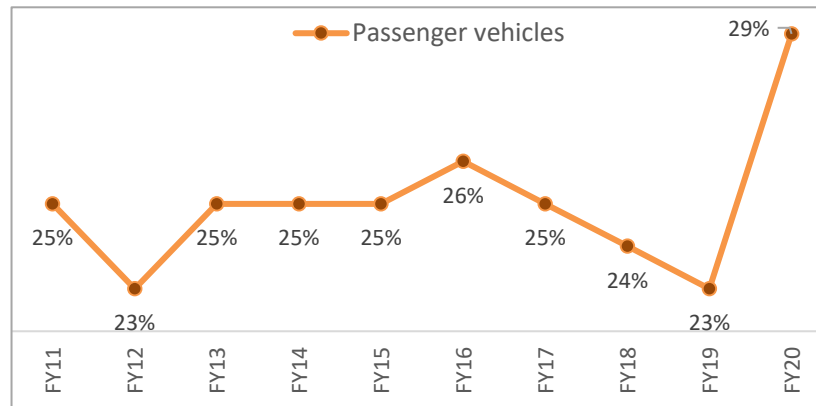
Source: CARE Ratings, Company reports, CMIE

Do festivities and wedding seasons contribute a major portion of full year's sales?

To have a deeper understanding on whether the festival and wedding seasons (primarily in Q3) account for a large portion of the entire year's automobile sales, the following charts depict Q3 sales of past 10 financial years. Analysis of the below charts show that Q3 contributes around 1/4th of the entire year's sales, differing in various segments.

- In the Passenger vehicle segment, Q3 contributed 23-25% of full year's sales between FY11-15. In the following year of FY16, it marginally grew to 26%, which consistently fell for next 4 years upto FY19, and rose sharply to 29% in FY20.
- The two wheelers segment shows lesser volatility, with Q3 contributing 22-26% of full year's sales in the past 10 years. Three wheelers segment has a similar trend, with Q3 contributing 23 – 28% of entire year's domestic wholesales.
- Within the commercial vehicle segment, in all years LCV sales in Q3 were 24-26% of full year's sales, except for FY20 which stood at 29%. The MHCV sales in Q3 remained quite volatile every year, with sharp ups and downs each year.

Charts: Domestic wholesales (units) in Q3 as a proportion of full year



Source: CMIE, CARE Ratings

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Concluding remarks and outlook

- Retail sales of all segments are currently much lower than wholesales, which means OEMs are building inventories and pushing them to dealers. For at least next 2-3 months, end user demand for automobiles is expected to improve m-o-m, as this is the time of the year when consumers usually make purchases of large ticket size.
- The demand for commercial vehicles is directly proportional to the performance of the economy. While wholesales of these vehicles have grown sequentially each month in FY21, but reaching pre-covid levels is unlikely this year as its performance is directly proportional to the economy, which has not fully recovered. The possibility of another lockdown in the country due to a global second wave of Covid-19, acts as a major threat and could seriously hamper the demand for commercial vehicles not only in the remaining months of FY21, but also in FY22.
- Passenger vehicles and two wheelers are expected to continue their growth trajectory in coming months, while three-wheeler segment may grow leisurely.

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