

Passenger cars slowdown - the hidden perspective....

March 21, 2012

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Passenger cars witnessed worst phase in a decade

After witnessing a high growth scenario of around 25 per cent and 27 per cent in FY10 and FY11 respectively, the passenger car industry faced a road block during FY12 as it witnessed the worst ever slowdown in growth levels during the last decade. The PC industry bore the brunt of economic slowdown during FY12 on account of high interest rates coupled with spiraling fuel prices and inflation eating up the disposable income of the consumers significantly.

In order to compensate for the increased cost to customers, OEMs offered various discounts and freebies. However, sales refused to revive until January 2012. The beginning of CY12 saw most of the OEM's increasing their vehicle prices by up

to 3 per cent due to rise in input cost. However the sales in January 2012 witnessed a healthy growth of 7 per cent followed by healthy growth of 13 per cent February 2012, irrespective of the price hike and negative fundamentals.

CARE Research observed, the two major changes industry witnessed post December 2012 i.e. MSIL's restoration of production and the increased demand on back of probable hike expected in excise duty as well as extra tax likely to be imposed on diesel cars in the budget. Being the market leader in the industry and commanding close to 50 per cent of the sales till FY11, any disruption in the production of MSIL, affects the overall industry supply. Further, supply constraints faced by HSCIL and TKML production during second quarter of FY12 on account to floods in Thailand also added to drop in industry's production levels.

Chart: Growth in passenger car segment

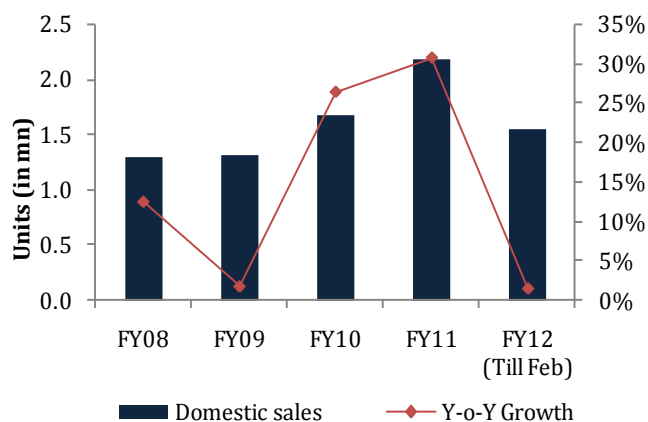
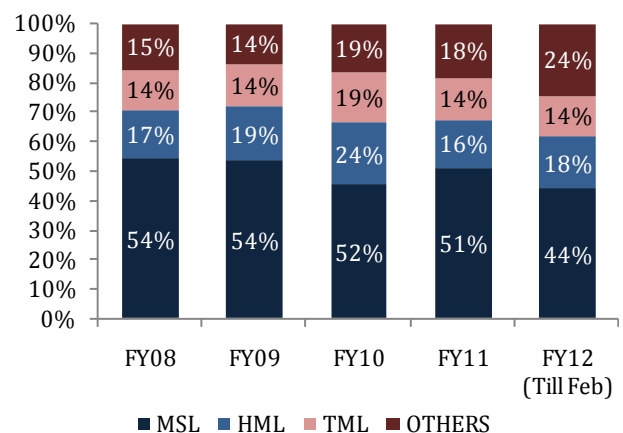


Chart: Trend in Market Share in passenger car

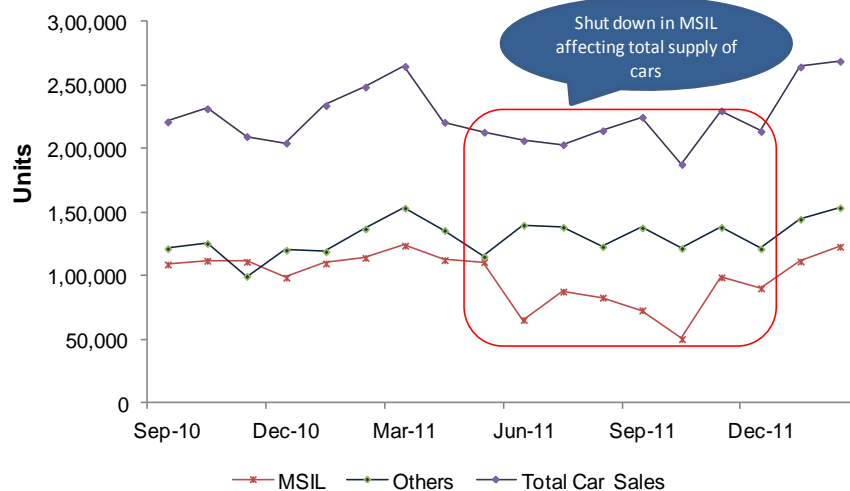


Source: SIAM and CARE Research

MSIL's production stoppage pulled down industry growth

The labour unrest broke down at MSIL's plant at Manesar, Haryana in the month of June 2011 forcing Maruti to shut the plant for more than four months. The shutdown at Manesar plant resulted in production losses for the top selling models like Swift, Dzire, A-star and SX4. The firms overall production from the four plants dropped to around 80 thousand units per month from 102 thousand units per month resulting in a decline of around 16 per cent in FY12(April- Dec). MSIL witnessed a decline in market share from 51 per cent in FY11 to around 44 per cent in FY12 (till Feb). The labor unrest at MSIL ended in the month of October 2011; however, the normal production only could be restored from December 2011.

Chart: Car Sales Chasing Production



Source: SIAM and CARE Research

Did drop in MSIL's production really pulled down the industry growth levels...

MSIL's portfolio accounts for around half of the cars manufactured in India, any disruption in MSIL's production has significant impact on the overall production of the passenger car industry. Though MSIL's cars were substituted with the cars by new entrants like Toyota Kirloskar, Ford Motors, Volkswagen, Nissan to some extent, most of the customers still preferred to either delay purchase until the supply of MSIL cars was restored to normal or accepted long waiting periods. This can be established from the current waiting period for the Swift and Swift Dzire models that is approximate 4-6 months and was close to 8-9 months during the time when the production was disrupted.

...The growth levels gradually got restored with the revival in MSIL's production

The car sales witnessed a sharp slide in growth levels following the production disruption in MSIL's manufacturing units. However, with the production restoration at MSIL, the sales once again started witnessing northward trend. This signifies the fact that the drop in sales growth was not solely linked to economic down turn, but also got aggravated due to production disruption from MSIL.

Passenger car demand deferred due to market preference for MSIL Vehicles

Post January FY12 sales figures of the passenger car industry imply that once the production at MSIL was back to normal, the MSIL started growing again where as the other players growth moderated from previous high levels. MSIL also started regaining its market share from December 2011.

Chart: Maruti Driving industry post shutdown

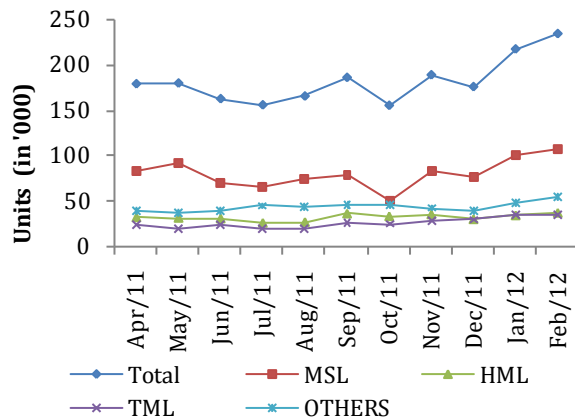
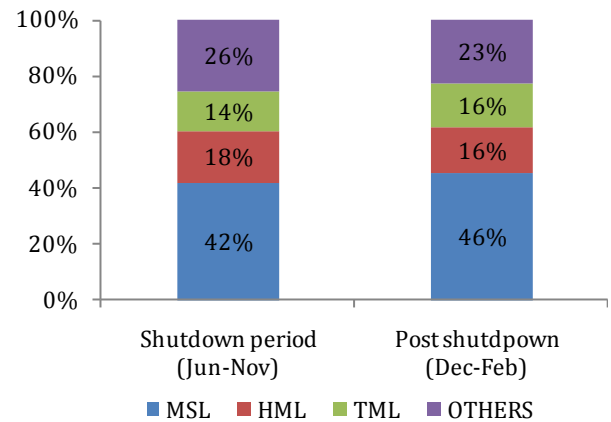


Chart: Maruti regaining market share



Source: SIAM and CARE Research

CARE Research foresees with the restoration in MSIL's production the growth levels in passenger cars sales will revive gradually. Although rise in excise duty might dent the sales to some extent as most of the major players are expected to increase the price, CARE Research believes it would be a short term phenomenon and healthy growth levels would be restored in medium term period. Any positive changes in fundamental drivers such as Interest rate, income level etc will further boost the industry growth to the levels observed previous to the slowdown of FY12.

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