

Update on Automobile OEMs for August 2020

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The upcoming festive and wedding season brings hope for the automobiles OEMs and hence August 2020 witnessed a rise in production and domestic wholesales (sales from OEMs to dealers). Domestic wholesales for three of five segments of automobiles noted a positive growth - tractors, passenger vehicle and 2-wheeler segments grew by 74.7%, 14.2% and 3% YoY respectively. On a sequential basis as well, these three segments witnessed positive growth of 2.5%, 18.1% and 21.7% respectively in August 2020.

Such high growth numbers in domestic wholesales do hint at a potential recovery in consumer demand for automobiles, but retail sales data released by FADA (which refers to sales made by dealers to consumers) for August 2020 depict a differing picture. Retail sales rose marginally by 3.5% m-o-m which means that consumer demand is still soft and not shown many signs of improvement. On the contrary, domestic wholesales by automobile OEMs rose by 21.5% m-o-m in August 2020.

Table 1: Domestic sales in August 2020

	Wholesale	Retail
Passenger vehicle	2,15,916	1,78,513
Commercial vehicle*	42,479	23,578
2-wheeler	15,59,665	8,98,775
3-wheeler	14,534	16,857
Tractor	64,729	67,406
Total	18,97,323	11,85,129
Note: wholesales are OEMs to dealers, while retail sales are dealers to consumers		
Source: FADA, CMIE, TMA, CARE Ratings		
* data for 5 players		

Overall retail as well as wholesale domestic sales has improved in Q2-FY21 (till Aug-20), when compared with the prior quarter as consumer demand which could not be fulfilled in large portion of Q1-FY21 due to various states and nationwide lockdown is being spilled over to the successive months. July 2020 onwards the country unlocked in various phases and nearly all dealers across the country re-opened their showrooms. Hence, Q2-FY21 has shown much better performance than the prior quarter.

Automobiles OEMs have now pinned their hopes on the upcoming festive season which starts October 2020 onwards and hence along with dealers, are building on inventories to support the forthcoming expected rise in consumer demand.

The below table depicts domestic sales of automobiles in August 2020 as well as their yearly and sequential growth. It also shows the high level of concentration in each industry, where the top 3 players of each segment hold more than 3/4th market share and this share has marginally increased in August 2020 when compared with same month in the previous year.

Analysis of domestic sales for 5M-FY21 shows sharp decline in YoY growth of all segments of automobiles, except tractors which noted positive growth of 7%. The highest fall was witnessed in the commercial vehicles segment of 71.8% YoY during 5M-FY21.

Table 2: Domestic sales of automobile OEMs in August 2020

	Aug-20			5M-FY21		Market share of top 3 players	
	Units	M-o-M	Y-o-Y	Units	Y-o-Y	Aug-19	Aug-20
Passenger vehicles	2,15,916	18.1%	14.2%	5,37,831	-49.2%	74%	82.2%
Two wheelers	15,59,665	21.7%	3%	41,34,132	-48.6%	77%	78%
Three wheelers	14,534	14.2%	-75.3%	40,022	-84.9%	91%	NA
Commercial vehicles*	42,479	NC	-14%	85,117 #	-71.8%	86.2%	89.4%
Tractors	64,729	2.5%	74.7%	2,93,022	7%	NA	NA



Source: CMIE, TMA, CARE Ratings
 * data for 5 players
 # - one of the players declared numbers for only Aug-20 in FY21
 NC - not comparable as one of the players did not declare numbers for July-20
 NA - not available as on 11th Sept, 2020

Concluding remarks:

- Though domestic wholesale of automobile OEMs has risen in August 2020, retail sales are yet to gain momentum. With dealers restocking in anticipation of better sales in the festive season, production and wholesale volume are expected to remain high in Q3-FY21.
- The last 4 months of 2020 include various auspicious occasions such as Navratri, Dussehra, Diwali, etc. and additionally marks the wedding season. Hence, consumer's discretionary purchases rise in such months. We expect consumer demand to show increasing trend to at least January 2020 (except for September which includes the Shraadh period).
- The Covid induced lockdown is being gradually eased with an effort to bring things back to normal. In August, the government allowed up to 30% staff to operate from their office work stations. There is likelihood for this ratio to increase in the following months, which is expected to increase the need for personal mobility solutions as public transport is operating at lower capacity and in phased manner. Hence, consumer demand for automobiles is bound to go up in the last three months of 2020.
- The demand from rural segment is on a rise for at least entry level vehicles. Recent data on good monsoon and crop sowing in the current Kharif season suggests a bumper harvest and expectations of a bountiful output in the subsequent Rabi season. These factors though give us optimism for a buoyant agricultural produce this year, however the surplus output needs to be efficiently managed, if not the crop prices could decline in the peak marketing season which shall prove to be counterproductive for the rural economy and thus affect 2-wheeler demand.

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