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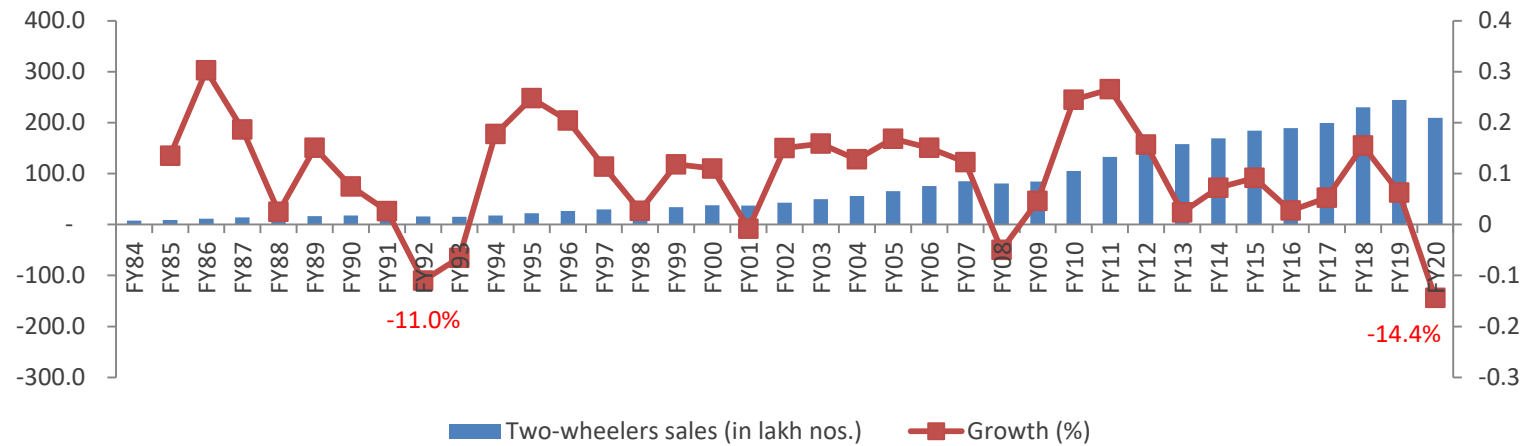
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Will personal mobility take the two wheelers on a long ride?

In FY20, the two wheeler segment sales witnessed a sharp decline of over 14% y-o-y vis-à-vis a growth of about 6.3% y-o-y registered in FY19. Demand remained under pressure on back of high ownership costs, higher outlay in insurance cost, increased fuel costs and price hike on back of new safety norms starting April 1, 2019 that led to slower movement in the segment sales. It is to be noted here that last such double digit decline in sales was witnessed about 3 decades ago in FY92, where two –wheeler segment sales witnessed a decline of about 11% y-o-y.

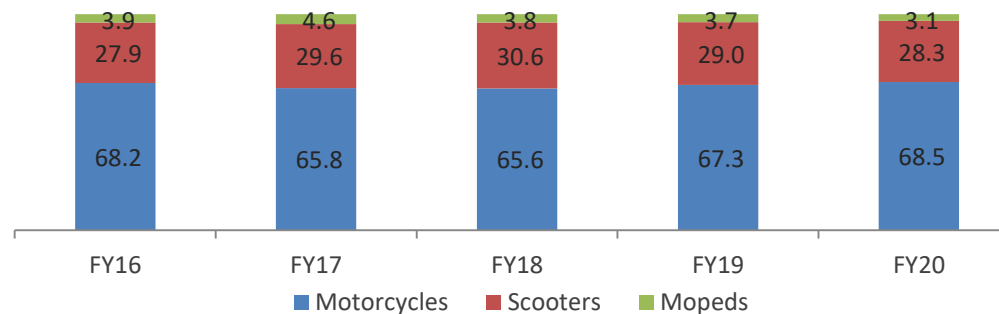
Chart 1: Two Wheeler annual sales and growth rate



Source: CMIE

Just as the market was under the grips of weak demand with such historic downfall, nationwide lockdown due to Covid-19 pandemic has put the brakes on production lines. In March 2020 alone, the two-wheeler segment sales witnessed a sharp decline of about 36% y-o-y followed by nil sales in the month of April 2020.

Chart 2: Category wise share in two wheeler sales



Source: CMIE

Till 9MFY20, the aggregate revenue of two-wheelers manufacturers in the country declined by about 6.3% y-o-y over a 14.2% growth during the corresponding period previous year. While the operating profit witnessed a decline of about 4.8% y-o-y over a growth of over 9% y-o-y during 9M FY19 period.

Table 1: Financials of Two wheeler players (Rs crore) – 9M

Rs crore	FY18	FY19	FY20	Growth (%)	
				FY19	FY20
Net Sales	54,291	61,979	58,092	14.2	-6.3
Operating Profit	9,673	10,551	10,049	9.1	-4.8
Operating profit margin(%)	17.8	17.0	17.3		
Net Profit	6,200	6,557	7,308	5.8	11.5
Net Profit Margin (%)	11.4	10.6	12.6		

Source: AceEquity

Note: Financial results of 4 listed two wheeler players has been considered

Caught on a slow lane

Even as nation-wide lockdown is being eased in a phased manner, the return of normal activities at factories could take longer. While major OEMs have announced restarting of their plants, the supply chain till the last mile component manufacturers will need to come on stream. Having faced with disruption, small scale component manufacturers may have their own challenges to reverse gear immediately. Fiscal needs and labourers are seen as immediate challenges which could limit their ability to ramp up quickly. Meanwhile, dealerships in red zones are not allowed to open shops as the lockdown continues. Health of these auto dealers post a challenging FY20 and continuing to be faced with unprecedented closure remains a concern. Arguably, the sector is caught in a slow lane and will take time to get things in order.

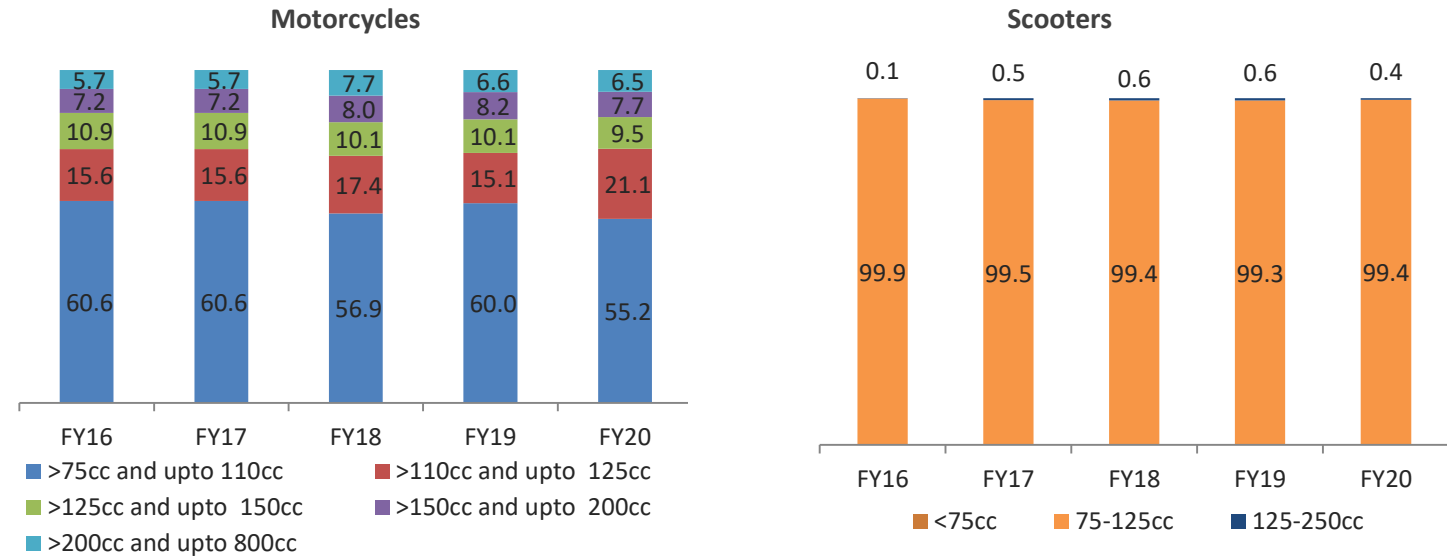
Light of hope

Back in FY19, industry sold over 2 million vehicles (two-wheeler) on an average every month. It had declined to an average of 1.7 million vehicles in FY20. While companies are bracing themselves for another year of fall in sales, will increasing tendency towards personal mobility offer any light of hope?

As the lockdown gets lifted in a phased manner, public transport is expected to be one of the last ones to be opened up. More than these restrictions, change in consumer behaviour towards owning his/her personal vehicle migrating away from public transport could likely generate some demand for entry level two wheelers as well as small passenger cars in the country.

The largest share in the motorcycle segment is held by the entry and mid-level category of 75 cc – 200 cc accounting for over 93% of the sales in the country. While in the scooters segment sales, around 99% share is held by the 75 cc – 125 cc category. Entry and mid-level segment in two wheelers remain largely dependent on the rural demand that account for about 50% share in overall volumes. While the farmer’s distress during the kharif season exerted pressure on the rural incomes, various industry as well as government estimates suggest a record crop production for rabi season which is expected to provide some relief and increase the disposable incomes in the hands of rural populace. However, it remains to be seen if this increased disposable income actually translates into demand for the automobile industry.

Chart 3: Category wise sales of Motorcycles & Scooters (% share)



Source: CMIE

What’s not in favour

In general in the backdrop of economic uncertainty, the consumer may most likely defer their purchase decision and hence demand for big-ticket items such as automobiles is expected to remain muted atleast during H1 FY21. With mandatory safety norms, higher third party insurance premium and BS-VI transition, the base level two wheelers costs somewhere between Rs 50,000 - 80,000 per unit.

The pandemic led economic slowdown could impact individual’s spending power. Besides, nearly 50% of two-wheeler vehicles sold is financed with NBFCs having predominant share. While the captive financing arm of two-wheeler OEMs continue to exhibit healthy liquidity, the general health of NBFC is still not at ease. The stressed ecosystem of NBFC does not bode well for the growth prospects of the industry.

Table 2: Deployment of Bank credit (Rs billion)

Sector	Mar-18	Mar-19	Mar-20	Mar 2019 / Mar 2018 (% growth)	Mar 2020 / Mar 2019 (% growth)
Deployment of Gross Bank Credit by Major Sectors					
Vehicle Loans	1,898	2,022	2,206	6.5	9.1
Industry-wise Deployment of Gross Bank Credit					
Vehicles, Vehicle Parts & Transport Equipment	787	799	826	1.4	3.4

Source: Reserve Bank of India

Industry needs a GST cut which presently at 28% is high. A lower interest rate scenario could also help the situation. As the lockdown gets lifted and the economy limps back, the recovery of society's earning during Jun-Aug period will be a critical determinant which should define the demand for the forthcoming months. Coincidentally Sep-Nov is generally the peak months of sales for automobiles being festive season and could well set the tone for future months. After all, in such unprecedented times the industry will look forward to possible game changer in consumer behaviour moving towards personal mobility.

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