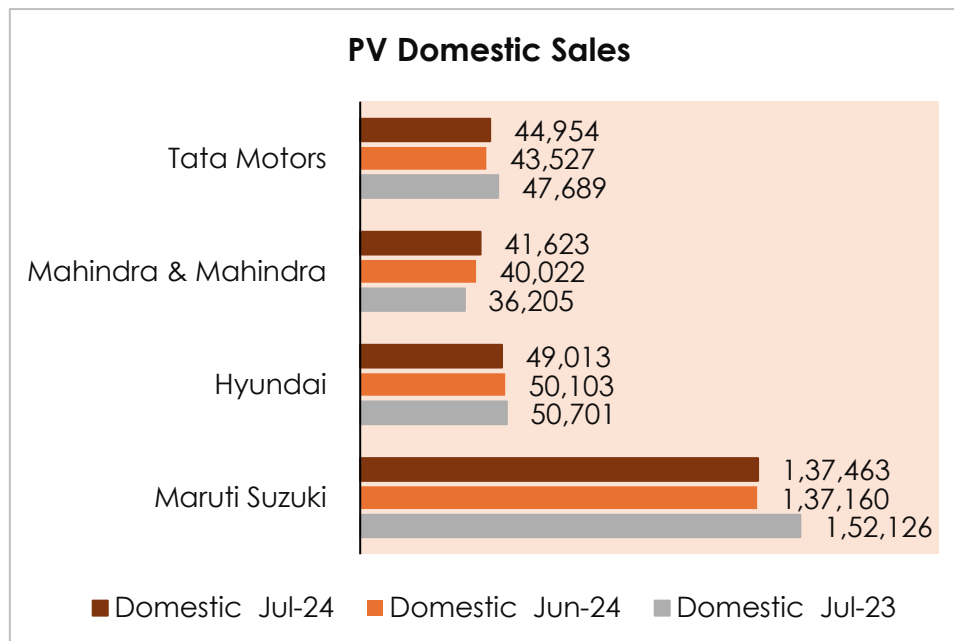


Pickup in Two-Wheeler, Stock Concerns for Passenger Vehicle



August 17, 2024

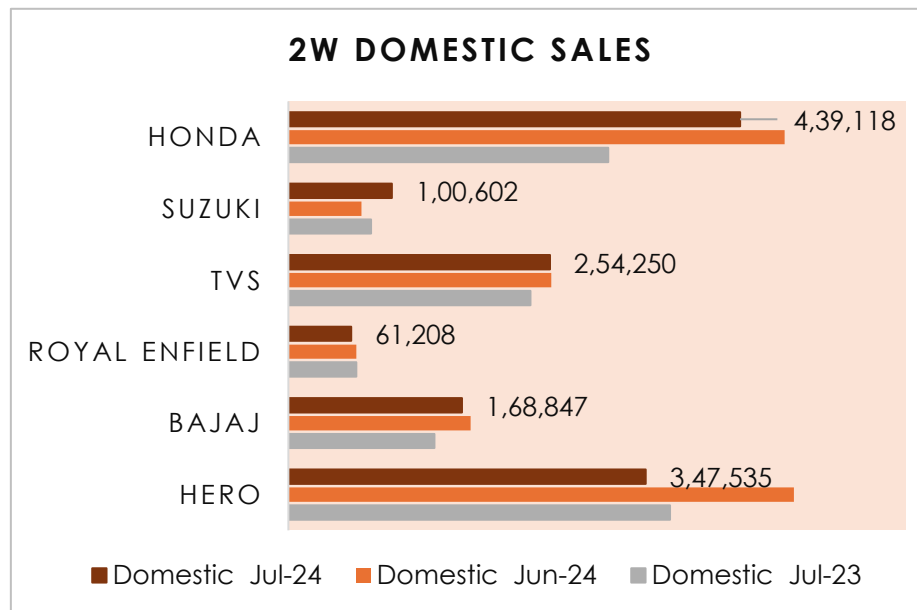
PV Segment:



- Sale volumes of passenger vehicles (PVs) across the top 13 OEMs in the country were down 2.5% in July'24 compared to July'23 though it showed a modest MoM increase of 1.1% (Source: Company Data)
- Mahindra saw a significant 15.0% YoY increase and a 4.0% MoM rise, driven by strong demand for new models such as the XUV 700, Mahindra Thar ROXX, XUV 500, and Bolero. On the other hand, Tata Motors faced a 5.7% YoY drop in sales to 44,954 units from 47,689 units although MoM sales rose by 3.3%, supported by new launches like the Altroz Racer and Nexon CNG. Toyota experienced a solid 42.3% YoY increase, with sales rising to 29,533 units from 20,759 units, driven by strong demand for new models such as the Urban Cruiser and the Innova Hycross (which also has a hybrid version).
- At the retail level, Passenger vehicle sales grew significantly by 13.7% (MoM) and 10.2% (YoY), fuelled by new model introductions and attractive pricing strategies. Dealers highlighted advantages such as improved product availability, better pricing offers, and an expanded product lineup. (Source: FADA). Nevertheless, dealership inventory remained at ~70 days, estimated to be Rs 730 bn, raising concerns about interest costs and profitability at the dealer level. Rising inventory funding may increase the risk of NPAs at the dealer level.

Growth in PV sales is expected to witness a moderation in FY25 after a strong growth in FY24. While the industry expects a strong festive season, overall volume growth in PV segment is unlikely to exceed 4.0% in the current year. OEMs may need to cut back on their production levels and support the rationalization of inventory at the dealer level.

2W Segment:

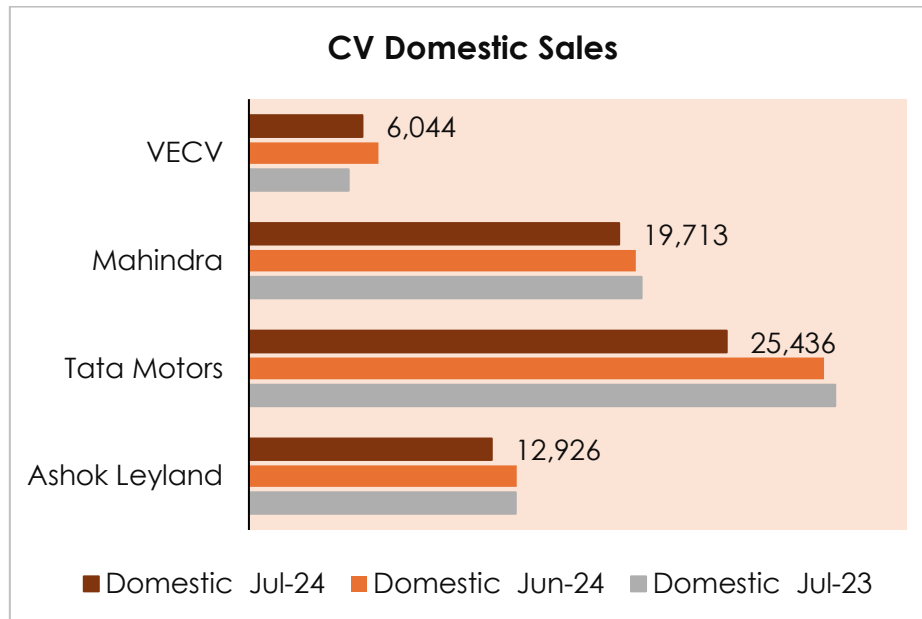


Source: Wholesale Numbers – Data sheet

- In July 2024, 2W sales showed mixed results. The aggregate volumes of the top six OEMs grew by a strong 12.3% YoY but saw a sequential drop of 7.5%. At the retail levels, the growth is more strongly visible at 17.2% YoY and 4.9% MoM respectively.
- Hero witnessed a 5.4% YoY decline possibly due to reduced showroom traffic and supply chain issues. Except for Hero and Royal Enfield, all the others however posted healthy annualized growth. Bajaj experienced a 10.7% (YoY) increase, driven by higher motorcycle and scooter sales and the launch of CNG motorcycle. TVS also reported steady improvement with an 8.8% overall growth and a 5.4% sequential increase. Suzuki also saw a similar trend with an 8.2% (YoY) and a notable 32.2% (MoM) growth. What is noteworthy is the emergence of Honda with the largest domestic market share in the current year (Apr-July) with a 42.8% YoY growth in July. Honda has continually adapted to the diverse needs of its customers by providing a broad selection of motorcycles and scooters that blend advanced technology with exceptional performance. (% include export numbers) (Source: Company Nos)
- Operational costs are also putting pressure on customers, leading them to seek more affordable options. As a result, there is a noticeable trend towards CNG vehicles. CNG options are now available across a wider range of variants, including mid and top-end models, increasing their demand.

The 2W segment has seen a recovery in the current fiscal, driven by a recovery in rural demand, favourable monsoon conditions, expected pickup in agricultural growth and government initiatives boosting rural incomes. The sales momentum is likely to pick up further with the upcoming onset of the festive season. While we expect a strong double digit (10%-12%) volume growth in the two-wheeler segment, it may be difficult to surpass the high of 21 million units reached in FY 2019.

CV Segment:



- In July 2024, the CV volume trends have been disappointing. The volumes of the top four players declined by 11.1% YoY and 11.3% MoM.
- Ashok Leyland's sales fell 7.6% YoY and 6.8% MoM due to increased competition and rising costs. Tata Motors experienced a 17.9% YoY and 15.4% MoM drop, reflecting supply chain issues and market saturation. Mahindra & Mahindra's sales declined 9.4% YoY to 21,228 units. Only VECV saw a 12.3% increase, reaching 6,444 units. (Source : Company data)
- CV retail sales experienced a 5.9% YoY growth and 10.0% (MoM) growth, though dealer feedback was mixed. Positive elements included expansion in the construction and mining sectors, while challenges such as persistent rainfall, weak rural market sentiment, limited finance availability, and high vehicle prices were also noted. (Source: FADA)
- Elevated freight costs reduce affordability and demand for transporters, especially in price-sensitive markets. Competitive pressures and increased operational costs may cause businesses to delay fleet investments, impacting CV demand.
- LCVs may encounter more challenges than MHCVs due to financing challenges. For LCVs, the availability of finance is more critical than factors like interest rates and loan tenure.

CV sales have been lacklustre in the first four months of the current year primarily due to a slowdown in construction activity during the general election period. With the expected step up in government expenditure and infrastructure development activity from second quarter, a pickup in demand is likely in the remaining period of the fiscal. However, volume growth in FY25 will be moderate at around 3%-5%.

Tractors

In July 2024, tractor sales data reveals varied performance among major brands. Mahindra & Mahindra saw an 8.1% increase on YoY basis to 27,209 (Domestic + Exports), suggesting a remarkable growth. Escorts Kubota's sales grew by 3.6% on YoY basis to 5,769 (Domestic + Exports) but fell sharply by 39.9% (MoM). VST Tillers & Tractors showed a slight 0.7% YoY increase to 5,543 (Domestic + Exports) and a notable 49.4% surge from June, indicating strong recent performance. Eicher Motors faced a 1.6% YoY decline to 5,420 (Domestic + Exports) but saw a 17.2% increase from June, reflecting a potential short-term recovery. In the retail sector, the tractor segment experienced a 12.6% increase MoM, but also faced a 11.9% decrease YoY.

Further, ongoing kharif sowing is progressing considerably across India uplifting farmer sentiments. Higher crop prices for wheat and potato and increase in MSP for all major kharif crops will further elevate farmers sentiments.

Outlook: - Rainfall progress remains a key monitorable for the coming months. With budget allocations supporting agriculture and rural economy and favourable terms of trade for the farmers, the tractor industry is set to show a healthy volume recovery in the current year.

Overall Comments – Auto Sales:

The divergent trends in the auto sector has continued in the month of July.

While there has been some inventory clearance for passenger cars at the dealer level during the month due to attractive discounts, the inventory levels continue to be very high. Despite the interest generated from the launch of a few new models, higher interest rates and a saturation in urban demand is set to slow down PV growth in the current year.

The strong recovery in 2W sales reflect not only a healthy revival in rural demand from the lows seen in FY24 but also better than expected export sales.

CV volumes have been weak in the first four months of the year but is likely to pick up with a step up in infrastructure projects and higher government spending from the third quarter.

Overall, the auto sector should regain strength in the second half of FY25 on the back of a favourable monsoon, improved agricultural incomes and higher rural demand in addition to the support from the infrastructure sector.

- Suman Chowdhury, Chief Economist & Head - Research, Acuite Ratings & Research

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