Industry Pulse: Automobile

June 2024

Table of Contents

Auto Industry Snapshot: June 2024

CATEGORY	RETAIL*	WHOLESALE #
	**2 Wheelers** • Sales: 13,75,889 • MoM: -10.4% • YoY: 4.7%	**2 Wheelers** • Sales: 16,14,154 • MoM: -0.4% • YoY: 21.3%
	**3 Wheelers** • Sales: 94,321 • MoM: -4.0% • YoY: 5.1%	**3 Wheelers** • Sales: 59,544 • MoM: 6.3% • YoY: 12.3%
	**Passenger Vehicle** • Sales: 2,81,566 • MoM: -7.2% • YoY: -6.8%	**Passenger Vehicle** • Sales: 3,37,757 • MoM: -2.9% • YoY: 3.1%
	**Commercial Vehicle** • Sales: 72,747 • MoM: -12.4% • YoY: -4.7%	**Commercial Vehicle** • Sales: 77,425* • MoM: -2.0% • YoY: 14%

* Estimated figures

Executive Summary

Wholesale Volumes

- SIAM data highlights that the first quarter of the current fiscal year (Apr-Jun'24) has been a mixed experience for the auto sector. While the domestic demand was muted for passenger cars and commercial vehicles, it witnessed an improvement for two and three wheelers.

- The volume growth for PV and CV in Q1FY25 was 2.9% and 3.5% YoY respectively. On the other hand, 2W/3W saw a strong double-digit growth revival at 20.2% YoY. Within the 2W segment, scooters showed even higher growth at 28.2% and motorcycles at 16.8% YoY, driven by signs of recovery in entry-level 2W vehicles. With a positive outlook on the monsoon and upcoming festive season, the 2W segment is expected to maintain the growth revival trend in the remaining three quarters.

- Although PV demand was encouraging in the initial part of the quarter, it petered out in the month of June. A higher base of the previous year may act as a growth constraint in the current year with some saturation in the urban markets. Nevertheless, PV sales reached their highest ever volumes in the first quarter, surpassing 1 million units for the first time.

- CV volumes have been lacklustre in Q1 presumably due to a slowdown in construction activity during the general elections.

Retail Volumes

- Given the revival in rural demand, 2W dealer sales saw a growth of 12.6% during the quarter. But as in wholesale trend, growth moderated in PV and CV segments.

- June has historically been a challenging month for India's retail auto sales. This year, intense heatwave in northern parts of India impacted customer visits to dealers. Further, the delayed onset of the monsoon also hit consumer sentiments in some parts of the country. While the 2W and 3W segments saw positive YoY growth of 4.7% and 5.1% in June, the other segments i.e. PV, Tractors, and CV experienced declines of 6.8%, 28.3%, and 4.7% YoY respectively. Adverse weather conditions played an important role in the broader sequential volume contraction (Jun'24 vs May'24).

Monthly Segmental Analysis: Two-Wheelers

- Total 2W sales reached 1.81 million units in Jun'24, a 19.3% increase from 1.52 million units in Jun'23. However, this figure represents a 1.6% decline compared to May 2024, when sales were 1.83 million units. Honda led the monthly volumes with 0.52 million units sold in June 2024, marking a significant 60.1% YoY growth from 0.32 million units in June 2023. While Hero MotoCorp had the highest volumes in May'24, it slipped behind Honda in Jun'24. (Source : Company Wise Wholesale Numbers)

- Most of the major OEMs in the 2W industry saw a healthy growth in domestic sales albeit it was partly driven by an aggressive push to dealers. Only Royal Enfield among the top six saw a drop of 2.0% YoY.

- Global slowdown continues to have an adverse impact on 2W exports. Most of the OEMs have recorded an annualized contraction in export volumes except Honda which saw a sharp rise YoY. Overall, export volumes grew moderately by 5.9% due to higher despatches by Honda and Yamaha.

- Despite factors such as extreme heat leading fewer walk-ins, stalled monsoons, and election-related market slowdown, Jun'24 retail sales were 4.7% higher on a YoY basis and reflected a revival in rural demand. However, sales dropped by 10.4% MoM compared to May'24.

Outlook

The two-wheeler segment is poised for healthy growth for FY25 driven by increasing domestic consumer demand for affordable and fuel-efficient transportation options. Factors such as urbanization, rising disposable incomes in rural areas, and the need for personal mobility solutions will contribute to the sector's expansion. Technological advancements, including the adoption of electric two-wheelers, are expected to play a significant role in shaping the market dynamics, with manufacturers focusing on enhancing battery life and charging infrastructure to address consumer concerns. We expect the 2W market to grow at a strong rate of 12% in the current year.

Monthly Segmental Analysis: Passenger Vehicles

- The overall scenario in the PV sector in June has been disappointing. Inventory levels have risen, putting pressure on many dealers. Although discounting is gradually increasing, conversion rates across OEMs remain low. This slowdown is partly due to the monsoon in some regions, which is affecting customer urgency as buyers wait for further discounts. Additionally, the automobile industry experienced a slowdown last month also due to extreme heat in some parts of the country, which kept people indoors, and factors such as vacation travel and state elections. Mahindra and Toyota are seeing high demand thanks to their newer SUV models and competitive pricing. Q1 volumes under the retail segment in Jun'24 increased by 2.5%(approx.) YoY, whereas, under the wholesale segment, it was 3.0% YoY growth. Traditionally, Q1 is a slower period with an expectation of a revival before the festive season.

- Inventory levels have surged to an all-time high, ranging from 62 to 67 days. Even with better product availability and substantial discounts to drive demand, market sentiment has remained low.

- Maruti maintained its leadership position despite a 4.75% MoM drop in sales, falling from 144,002 units in May to 137,160 units in June. Hyundai experienced a 1.94% MoM increase in sales, rising from 49,151 units in May to 50,103 units in June. Tata saw a 6.79% decrease MoM, with sales falling from 46,697 units in May to 43,524 units in June. Mahindra's sales dropped significantly by 7.40%, from 43,218 units in May to 40,022 units in June. Toyota reported notable growth, with a 7.48% increase in sales from 23,959 units in May to 25,752 units in June. Kia also showed strong performance with a 9.23% rise in sales, increasing from 19,500 units in May to 21,300 units in June.

Outlook

In passenger vehicle market, the demand is expected to be driven by new model launches, improving consumer sentiment, and a shift towards electric and hybrid vehicles. Automakers will focus on enhancing production capabilities, optimizing supply chains, and addressing sustainability concerns through eco-friendly vehicle designs and efficient manufacturing processes. Digitalization and connectivity features will continue to be key differentiators, influencing consumer preferences and purchasing decisions in an increasingly competitive market environment. We expect the PV market to grow at moderate rate of 5% in the current fiscal.

Monthly Segmental Analysis: Commercial Vehicles

- Q1 retail volumes under CV increased by a meagre 0.7% YoY and the wholesale volumes also saw a modest 3.30% YoY growth. The industry faced challenges given the adverse weather and its impact on agriculture apart from the temporary slowdown in infrastructural projects in the backdrop of the elections.

- Sales decreased from 76,364 units in June 2023 to 72,747 units, reflecting a 4.7% YoY decline. The sequential decline was higher at 12.4% from 83,059 units in May 2024 (Source: FADA). Among the segments, only the Medium and Heavy Commercial Vehicles (MCV) segment experienced growth, showing positive YoY and MoM increases. In contrast, the Light Commercial Vehicles (LCV) and Heavy Commercial Vehicles (HCV) segments faced significant declines.

Outlook

The commercial vehicle sector is expected to witness gradual recovery and stabilization in the rest of FY25, given the expected resumption in government and private sector spending in new projects. Demand for CVs is likely to be driven by infrastructure development projects, e-commerce logistics, and revival in industrial activities. The introduction of advanced features, such as driver assistance systems and cockpit integration platform, is expected to boost demand, as customers are increasingly seeking value-added advancements in their vehicles. Manufacturers will focus on fleet modernization, including the adoption of cleaner fuel technologies and digital solutions for fleet management and logistics optimization. We expect the CV volumes to record a moderate growth rate of 6% in the current year.

- The recent decline in sales is linked to the transition from the FAME 2 subsidy to the new Electric Mobility Promotion Scheme (EMPS) 2024. Effective from April 1 to July 31, 2024, EMPS has allocated Rs 500 Cr to facilitate the purchase of two-wheelers and three-wheelers (L5 category). Under EMPS 2024, the subsidy for electric two-wheelers has decreased to Rs 10,000 per vehicle from Rs 22,500, and for electric three-wheelers, it has dropped to Rs 50,000 from Rs 111,505, with additional incentives based on kWh. Industry leaders believe that without an extension of EMPS 2024 or the introduction of FAME's third phase, the sales of EVs in the dominant segments of electric two- and three-wheelers, which together constitute 94% of total EV sales, will be adversely impacted.

- Overall volumes in the EV market in Q1FY25 grew by a moderate 6.2% primarily due to a healthy growth in the electric 3W vehicles – both passenger and commercial carriers. E-carts which transport goods for short distances saw a 65% growth in volumes buoyed by the continuous growth in e-commerce. However, the overall growth was constrained due to the stagnation in the 2W EV segments where quarterly growth was only 1.6%. PV-EVs grew by a modest 3.4%, reflecting the limited progress in expanding charging infrastructure.

Outlook

High battery costs continued to impact affordability in the EV market particularly in the backdrop of lower subsidy coverage. Further, limited charging infrastructure and regulatory uncertainties are limiting the adoption of the EV’s. The industry is also facing several key challenges, including persistent supply chain disruptions affecting critical components like batteries and semiconductors. Other challenges like consumer perceptions and awareness issues, along with increased market competition and technological hurdles, added to the sector's difficulties.

Monthly Segmental Analysis: Tractors

- Tractor sales have seen a notable YoY decline of 28.3%, dropping from 99,148 units last year to 71,029 units in June 2024. Despite this significant decrease, there was a marginal MoM increase of 1.38%, with sales rising from 70,065 units in May 2024.

- Several factors are contributing to the underperformance in tractor sales. Delayed monsoon rains in some parts of the country have impacted agricultural activities, causing farmers to delay purchasing new tractors until weather conditions improve. Further, severe heatwaves have negatively affected crop yields, further discouraging investment in new machinery. Economic pressures, such as high inflation and interest rates, are constraining farmers' purchasing power, while difficulties in securing financing are causing further delays. High inventory levels along with rural economic conditions are exacerbating the slowdown. Climate change is also playing a role, disrupting traditional farming cycles and influencing investment decisions in agricultural equipment.

Outlook

Domestic tractor volumes are expected to bounce back with a modest growth of 3-5% in the current fiscal. This recovery is anticipated to be fuelled by expectations of a normal monsoon enhancing rural sentiment, increased farm incomes, and strong replacement demand. Furthermore, increased government spending on agricultural activities and infrastructure in the union budget could contribute to some extent in a positive uptick in tractor sales.

Overall Outlook

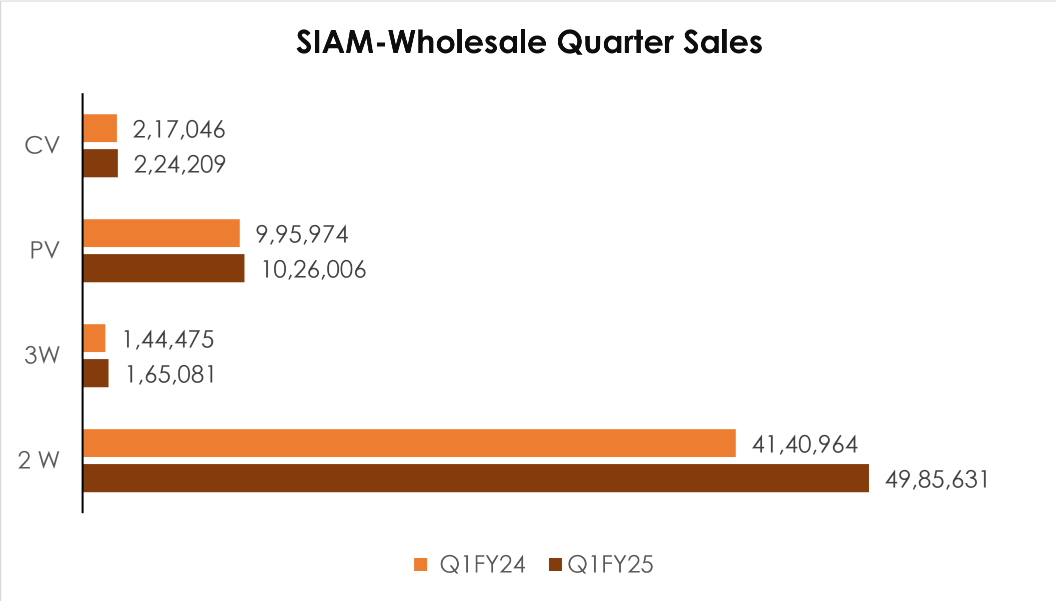
The outlook for the automobile industry in FY25 is cautiously optimistic, driven by several key factors. Better monsoon rainfall and agricultural growth along with a pickup in both government and private sector investments will boost consumer spending and positively impact automobile sales.

The employment linked incentives (ELI) announced in the Union Budget July 2024 will lead to higher employment generation in the private sector albeit the impact will be seen only gradually. Further, the positive impact of the Production Linked Incentive (PLI) programme in some emerging sectors will also translate into higher employment. The push in infrastructure projects will continue to drive demand for CVs.

We expect the major growth in the automotive sector in FY25 to accrue from the 2W sector where a revival in rural demand will drive volumes. The growth in the PV sector will be relatively moderate given the increasing saturation in the urban markets and the uncertainty on the demand for entry level vehicles in the rural areas. While CV demand is likely to pick up, the impact is likely to be visible after the monsoon in the second half of the year.

Annexure: Charts

Chart 1:



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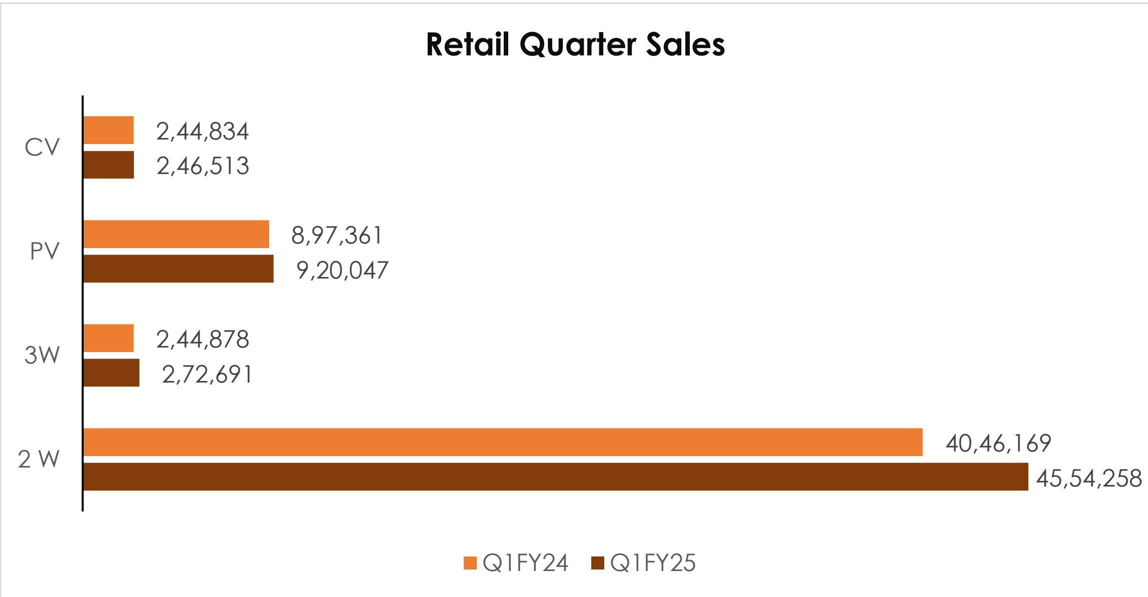

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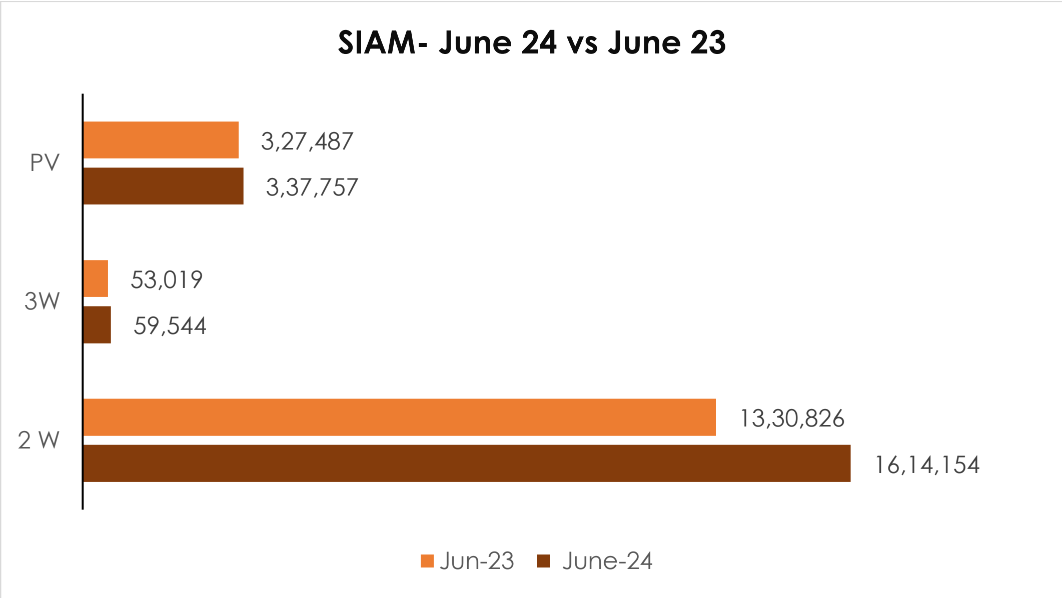

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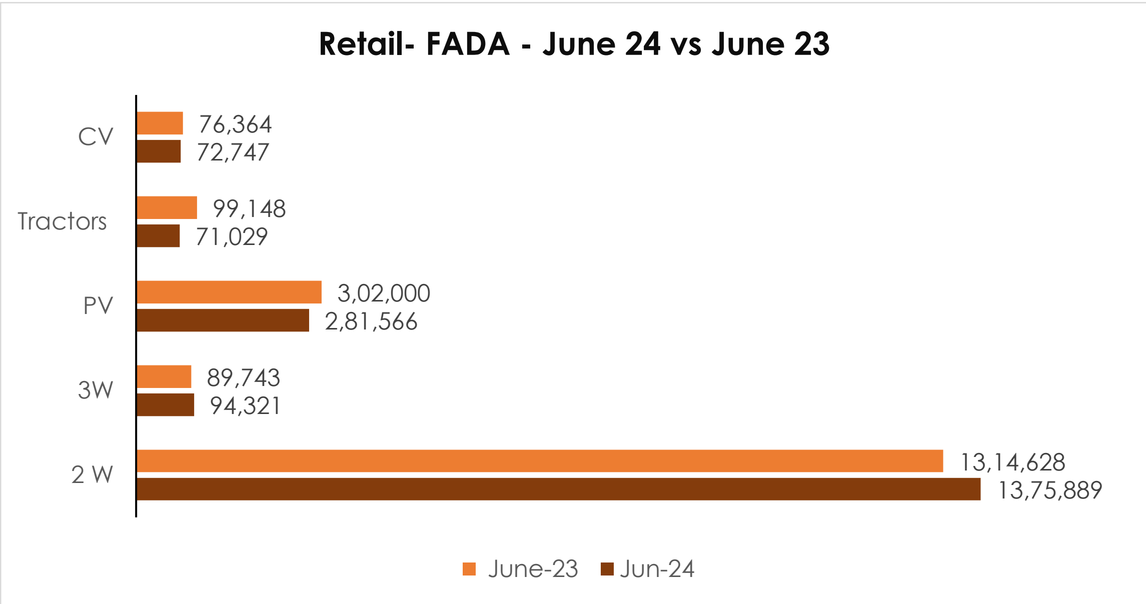

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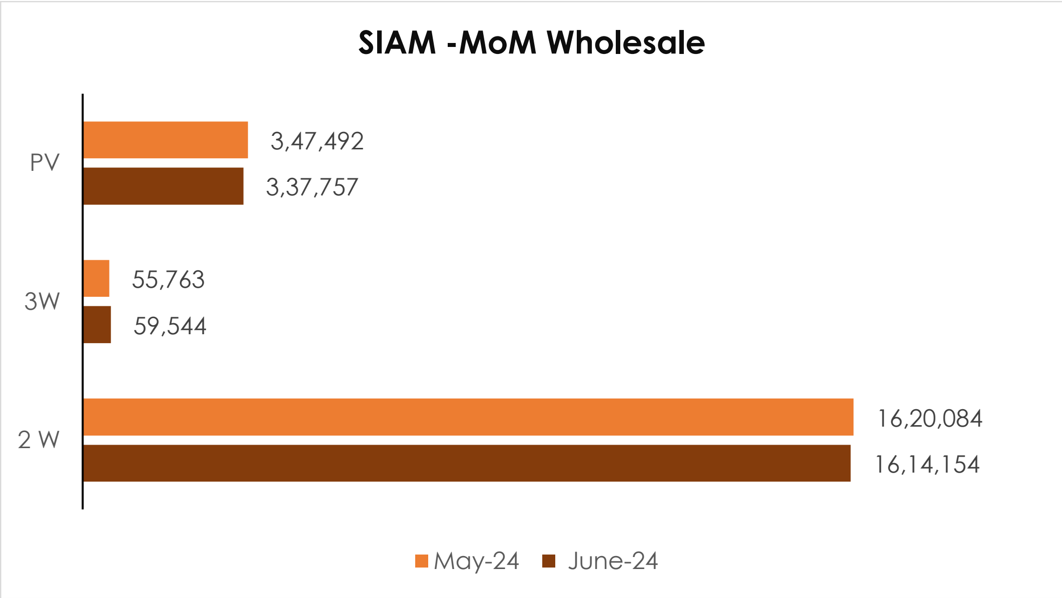

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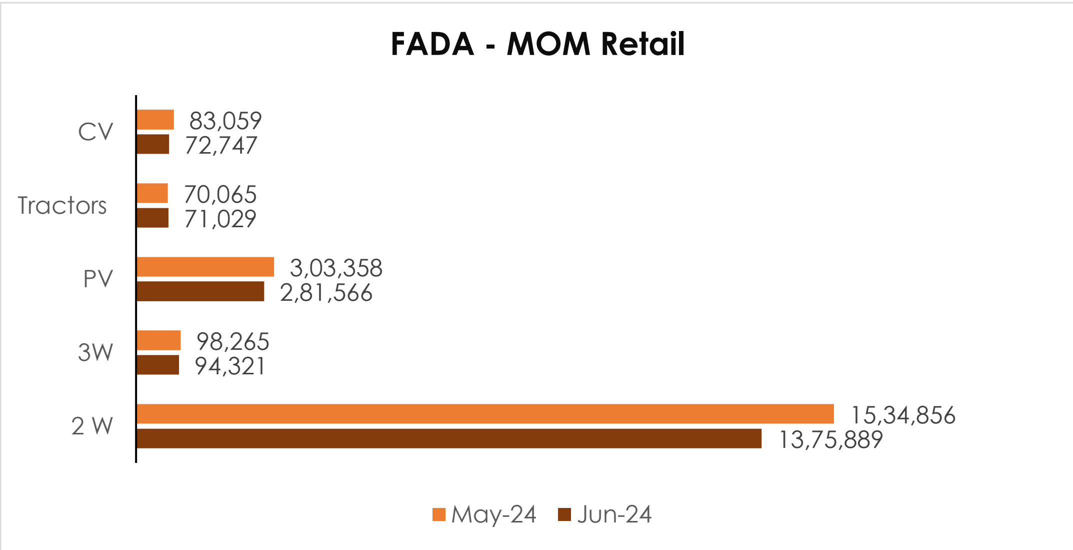

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