

Automobile industry bounces back in July 2021

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The second Covid wave had slammed brakes on the Indian automobile industry in the first quarter of FY22. As India exits the second Covid wave, the automobile sales volumes in July 2021 signify a bounce back in the industry. The domestic wholesale volumes in July 2021 have been surpassed by a wide margin compared on a YoY as well on a sequential basis.

When compared with the previous month, factory dispatches of passenger vehicles and two wheelers grew 14.2% and 18.8% in July 2021, while three wheeler volumes have nearly doubled. Tractor sales were lower by 40.9% due to the seasonality factor at play. The cumulative sales of five players in the commercial vehicles industry grew 28.9% over previous month.

The growth in sales volumes during this month is a reflection of the opening up of dealer showrooms in various parts of the country, after the lockdowns eased. It also reflects the pent up demand which could not be fulfilled in most part of Q1-FY22, as Original Equipment Manufacturers (OEMs) shut their factories for few weeks and production levels declined.

When compared with July 2020, the domestic sales volumes of passenger vehicles, three wheelers and commercial vehicles witnessed strong growth of 44.7%, 40.5% and 61.6% respectively in July 2021. Tractors which is already competing on a high base, grew further by 3.3% YoY. The two wheelers sales volumes were at nearly same levels as last year, but 17.1% lower than July 2019 (pre-Covid period), which is a reflection of the current state of distress in rural India. The spread of Covid virus in smaller towns during the second wave has negatively affected the MSME industry and hence the two wheelers demand has been impacted to a large extent.

Growing vaccinated population: a key monitor

Lately, the country is reporting a steady decline in Covid cases. The vaccination drive is successfully gaining pace and as of 12th August 2021, 8.7% of India's population is fully vaccinated (2 doses). Five states: Maharashtra, Uttar Pradesh, Tamil Nadu, Karnataka and West Bengal contribute the highest auto retail sales volumes in India of 40 to 50% each for two-wheelers and commercial vehicles and 31-41% for passenger vehicles. These states, currently, account for 31% of India's total active Covid cases. There is a significant progress in the control of Covid cases now, as two months earlier (as on 14th June 2021), these five states accounted for 52% of India's total active Covid cases.

An increasing proportion of population in states such as Maharashtra (10.1%), Uttar Pradesh (3.9%), Tamil Nadu (6.3%), Karnataka (11.6%) and West Bengal (9.5%) are fully vaccinated today. A higher vaccinated population gives confidence to state governments to gradually withdraw restrictions in movement of people and hence improve mobility of individuals. Automobile dealer showrooms shall continue to remain open, only if Covid cases continue to decline and higher vaccines are administered.

Outlook

CARE Ratings has revised its outlook for FY22. There is an assumption of three scenarios for FY22, which are as below. All of these will have a varying impact on automobiles sales volumes during the year.

1. Normal –

The first scenario represents the current environment, where vaccinations are given at the same speed as present. Going by the current pace of vaccination (40-50 lakh individuals per day), India will take a total of 250 days to vaccinate 80% of its population with 1st dose. In this 'normal' scenario, the assumption is that Covid cases have already peaked and expected to move in a downward trajectory henceforth. It is with an expectation that the third wave of Covid is expected in India with limited fatalities and better preparedness of the healthcare sector. The manufacturing sectors will not be majorly disrupted and supply side challenges will not persist for long. The state/zone wise lockdowns shall gradually reduce and schools, colleges, offices shall reopen. Normal monsoons in CY2021 will help grow demand for tractors, while fall in Covid cases in smaller towns will improve two wheelers demand scenario. Schools and colleges are expected to function in full

Table 1: Automobiles sales in July 2021				
	Units	Change (%)		
		MoM	YoY	July 2021/ July 2019
Passenger vehicles	2,64,442	14.2	44.7	39
Two wheelers	12,53,937	18.8	-2.1	-17.1
Three wheelers	17,888	90.4	40.5	-67.9
Tractors	65,216	-40.9	3.3	43.1
Commercial vehicles*	53,990	28.9	61.6	0.3

Source: SIAM, TMA, CARE Ratings, CMIE, Company press releases

Note: Commercial vehicles includes data for Tata Motors Ltd., Mahindra & Mahindra Ltd., Ashok Leyland Ltd., Maruti Suzuki India Ltd. and V E Commercial Vehicles Ltd.

capacity October 2021 onwards, giving a push to the demand for two wheelers and bus segment of commercial vehicles. Consumers prefer to save cash for emergency healthcare expenditure and reduce discretionary spends on premium model offerings of automobiles.

The automobile domestic wholesales in FY22 are expected at:

- 12-14% YoY growth to ~28.2 lakh units for passenger vehicles,
- Upto 2% YoY decline to ~149 lakh units for two wheelers,
- 33-35% YoY growth to ~2.9 lakh units for three wheelers,
- 6-8% YoY decline to ~8.4 lakh units for tractors,
- 29-31% YoY growth to ~7.4 lakh units for commercial vehicles.

2. Deterioration –

Second scenario is of the shortage in availability of vaccinations, along with a lethal 3rd wave of Covid in India. Assuming the pace of vaccinations slows to 25 lakh individuals per day, India will require a total of 15 months to vaccinate 80% of its current population with 1st dose. The 'deterioration' scenario assumes a further fall in GDP as economic environment deteriorates and consumers fear job and income losses. In such a scenario, higher savings are being made for paying medical expenses. The mobility of individuals has reduced and chances of state-wise lockdowns cannot be ruled out. The spread of Covid cases shall rise further in rural areas, impacting their spending power for agricultural machinery like tractors and personal mobility vehicle - two wheelers. FY21 presents an exceptional high base for tractors and hence volumes for FY22 shall taper. With these assumptions, the domestic wholesales of automobiles in FY22 are expected at:

- 4-6% YoY growth to ~26 lakh units for passenger vehicles,
- 5-7% YoY decline to ~142 lakh units for two wheelers,
- 17-19% YoY growth to ~2.5 lakh units for three wheelers,
- 11-13% YoY decline to ~7.9 lakh units for tractors,
- 9-11% YoY growth to ~6.2 lakh units for commercial vehicles

3. Optimistic –

The third scenario is of strong improvement in number of inoculations and quick decline in new Covid cases, along with an expectation of no third wave of Covid in the country. Assuming India's vaccination drives improves to 60-70 lakh individuals per day, then the country shall be able to vaccinate 80% of its population in a total of 5-6 months with 1st dose. This scenario also assumes an improvement in bank financing, along with recovery in consumption and private investment. Infrastructural activities shall grow and boost sales of commercial vehicles. The discretionary spends by consumers shall improve and lockdowns shall be lifted. Unemployment rates shall simultaneously fall. Gradual improvement in supply and demand is expected. Adequate and timely monsoons in CY2021 shall lead to improvement in rural farm incomes and help boost tractor and two wheeler demand. Schools, colleges, offices to fully reopen September 2021 onwards, giving a fillip to sales of three wheelers, buses, passenger vehicles and two wheelers. With these assumptions, the domestic wholesales in FY22 are expected at:

- 15-17% YoY growth to ~29 lakh units for passenger vehicles,
- 1-3% YoY growth to ~153 lakh units for two wheelers,
- 48-50% YoY growth to ~3.2 lakh units for three wheelers,
- 0-2% YoY decline to ~9 lakh units for tractors,
- 36-38% YoY growth to ~7.8 lakh units for commercial vehicles.

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