Automobile Channel Check Update

07 March, 2023

Mixed demand trends; Outlook positive

We interacted with various channel partners across PV/CV/2W/Tractor segments to ascertain retail demand, discounts, supplies, stock levels and any distinguishing trends in retails. We interacted with various dealers in the key regions of Central, Northern and Western India. Our interactions with the dealers indicate mixed demand trends across segments. The retails are expected to remain strong for PVs, driven by the high order backlog, but the discounts are back for some slow-moving models to clear up inventory. We also note that the waiting periods are declining with supply chain issues getting resolved to a large extent. Our interactions indicate 8-10% YoY growth in retails for PVs. However, 2W demand still continues to be affected by a delayed recovery in the rural markets and it is expected to decline by mid single digit. In CVs, demand remains robust for both cargo as well as passenger segments. Furthermore, freight availability also remains good, thus driving retail volume growth. Tractor sales witnessed strong mid single digit growth in retails in Feb'23.

PVs: Dealers across India continue to witness robust growth for PVs, especially SUVs, driven by strong customer preference. With an increase in enquiry levels, footfall conversion ratio has also increased. However, the semiconductor supply situation continues to remain a major concern. As a result, dealers are losing out on ~15-20% business. This issue is more prevalent for premium cars, UVs and MPVs. M&M dealers continue to be worst affected with waiting periods for Scorpio Classic and top variants for XUV extending upto a year. Similarly, Hyundai Creta and Venue are commanding a waiting period of ~8-9 months, down from 12 months in Nov'22. Market leader Maruti Suzuki India (MSIL) continues to be impacted by chip shortage with AMT and AGT versions having a wait period of ~4-6 months. Inventory levels for MSIL, Tata Motors (TAMO) and Hyundai continue to be as low as ~20-25 days. While discounting continues to remain negligible for SUVs and other top end variants, entry level cars are being offered at a discount of ~Rs40-50k. Going forward, demand outlook for entry level cars will continue to be sluggish due to weak rural demand amid higher financing cost. Overall, we continue to remain positive on the PV space on the back of: (a) Improving supply chain scenario (b) Lower booking-to-cancellation ratio and (c) Launch of new SUV models.

2Ws: 2W demand saw a mixed trend in Feb'23. While demand for entry level motorcycles (MC) continued to remain weak due to poor rural sales, premium MC sales and Scooter demand remained relatively better. Our interactions with the dealers suggest that channel partners are expecting flattish to single-digit growth in the upcoming festivals in Mar'23. Hero MotoCorp dealers indicated that demand is more concentrated towards X-Tec Splendor and Glamour. Higher cost of ownership amid elevated fuel costs and poor rural sentiments have dampened 2W recovery. While inventory across Hero MotoCorp dealers remain elevated at ~45-50 days, TVS Motor and Bajaj Auto have inventory levels of ~30-40 days. Strong Hunter350 momentum continues to drive sales for RE with negligible cannibalization for Classic and Meteor models. First-time buyers constitute ~15-20% of Hunter350 sales. To counter increasing costs ahead of the upcoming OBD 2 norms, TVS has hiked prices by Rs7k/unit for its Apache 310 model. Dealers indicated that they are yet to see meaningful demand in 2Ws despite the ongoing marriage season. On the EV side, while TVS' IQube is available across 200 touchpoints across India, the recently launched Hero Vida is available only with select dealers. Demand for IQube continues to be healthy with a waiting period of up to 30-40 days.

Tractors: Dealers across India indicated a strong uptick in retail sales of tractors, led by above-normal monsoon, healthy reservoir levels and expectations of a bumper Rabi harvest. Supply continues to remain above normal amid absence of application of chips. Inventory continues to be in the normal range of 30 days. We continue to remain upbeat on the tractor space in the near term, led by favorable farm sentiments and increase in realizations of certain crops.

CVs: For CVs, we interacted with the fleet operators along with dealers. Both cargo as well as passenger CV segment is seeing significant uptick in demand. Fleet operators' profitability continues to remain strong amid higher freight rates, led by sustained freight availability. The pick-up in infrastructure and construction sector has led to strong demand for MHCVs and Tippers. Larger fleet operators are adding new CVs besides replacing the older ones, thus driving replacement demand for CVs. The Bus segment is also seeing strong demand tailwinds. Going forward, we expect retail volume to increase by ~5-10%, led by price hikes of ~5-6% in view of the upcoming OBD 2 norms. In LCVs, we are seeing improvement in vehicle availability with the chip shortages abating. Discounts for Ashok Leyland (AL) and TAMO have declined by ~1-2% MoM. Channel inventory is expected to increase to 1.5 months in Mar'23 in view of the upcoming regulatory norms.

Top picks: MSIL remains our preferred pick in the PV segment, owing to: (a) Strong new model pipeline (b) Market share gains led by new models and plugging of product gaps (c) Margin recovery, led by improvement in the product mix, operating leverage benefits and moderation in commodity costs.

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