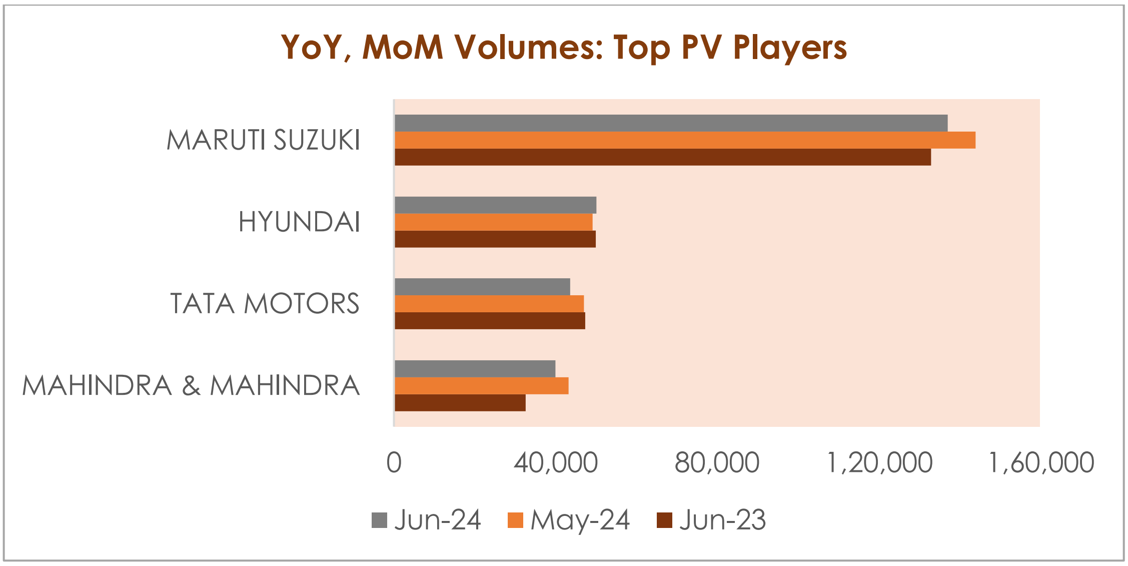
PV sales in the slow lane, rural demand revives 2W sector

July 12, 2024

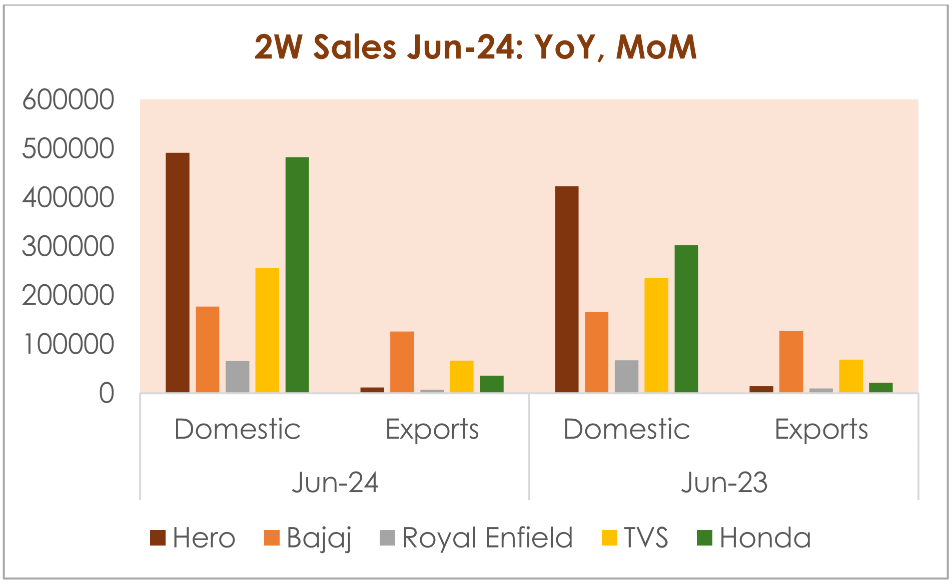
PV Segment:



- The sales of passenger vehicles (PVs) has been lacklustre in the first quarter of FY25 with a modest volume growth of 3.3% across the top 13 OEMs of the country. While the volumes for Jun-24 grew by 3.8% YoY, on a sequential basis, it slipped by 2.8% compared to May-24.
- The data from FADA on the dealer level sales has been particularly disappointing with annualized drop of 6.8% and a sequential reduction of 7.2% in Jun-24. While the first quarter is typically slow for the automobile industry, there may also have been an additional impact of the intense summer heat and the general elections.
- The divergent figures of wholesale and dealer sales indicate that the inventory buildup at the later level has been significant during the first quarter of year, reportedly at 67 days which is unusually high as per FADA.
- Despite the overall weak sentiments in the PV segment, Mahindra and Toyota have seen a healthy growth in the first quarter on account of the success of new models such as the Toyota Innova Hycross and the Mahindra XUV 3XO, a new compact SUV.

With the erstwhile supply chain challenges largely addressed, the production of SUVs by the major OEMs had increased in the first quarter while demand remained muted owing to several factors which include higher interest rates on car loans, oppressive weather conditions and lower purchases by govt bodies before the general elections. This has led to a very substantial stock build up with the dealers which may translate into higher discounts in the second quarter or a slowdown in production. We expect a moderate volume growth of 5%-6% in PV sales in FY25 which will be largely driven by a recovery in rural demand in the second half of the year.

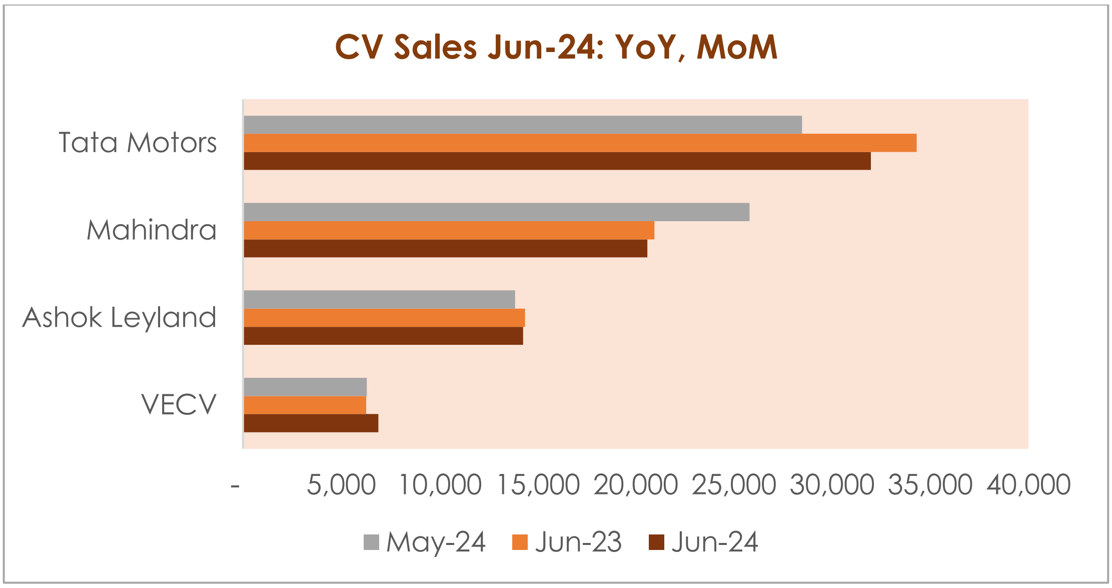
2W Segment:



- The two-wheeler industry has seen a significant recovery in demand in the first quarter of the year both from the domestic and the export markets. Domestic OEM sales of the top five players surged by 31.4% YoY while export volumes rose by 22.9% YoY in Q1FY25. The factors that have driven the recovery in the 2W market include a healthy revival in rural demand and the consistently increasing penetration of e-commerce/q-commerce in the country that in turn, has fuelled the demand for 2Ws.
- In the month of June, domestic sales were 23.3% higher YoY while export growth was relatively muted. Sequentially, the growth was meagre at 1.4% for domestic sales while it was -9.2% for exports.
- The demand recovery in 2W has also been noted in dealer sales (FADA data) with 5.0% YoY growth in Jun-24 albeit there has been a sequential contraction in volume.
- The recovery, however, has not been broad based across the players with Honda driving market growth and surpassing the market leader, Hero Motors in quarterly sales (Q1FY25) at 15.53 Lakh units against 15.35 Lakh units in the former.
- While Honda's volumes grew at a sharp 122% in Q1, the volumes of Hero, TVS and Bajaj grew by 13.5%, 15.0% and 6.9% respectively. Royal Enfield's volumes slipped by 3.6% YoY in the quarter.
- The emergence of Honda as the largest player in the 2W segment with higher market share in both the scooter and bike segments, highlights the success of its models – Activa and CB Shine.

It's encouraging to witness a revival of growth in the 2W industry with consolidated volume (both domestic and export) growth at 30.0% in the first quarter of the fiscal. While the growth print has been particularly high due to the low base of the previous year, a growth of 15%-20% can be sustained in FY25 if there is a strong recovery in rural demand through the year.

CV Segment:



- In the first quarter of the year, CV volumes of the top 4 players showed a moderate growth of 4.5% YoY. However, Jun-24 was a relatively weak month where volume dropped by 2.9% and 0.9% on a YoY and MoM basis respectively.
- FADA also reported weak dealer level sales in Jun-24 with an annualized and sequential slippage of 4.7% and 12.4% respectively.
- The loss in momentum in CV sales particularly in Jun-24 can be attributed to factors like a slowdown in infrastructure projects due to intense summer as well as the general elections.
- Except for VECV which is primarily into buses and which showed a healthy growth in Jun-24, all other OEMs – Tata, Leyland and Mahindra reported negative growth on an annualized basis.
- Nevertheless, the scenario on a quarterly basis has been less gloomy; in Q1FY25 vs Q1FY24, Tata Motors and Ashok Leyland have registered a healthy set of numbers with a growth of 6.7% and 6.3% respectively.

We expect a moderate growth in CVs in the current year backed by expectation of a favourable monsoon, continuing high spending on infrastructure projects, a step-up in private sector investments, revival in exports and continuing penetration of e-commerce. Given the strong fundamentals and the healthy macroeconomic environment, volume growth is likely to be 5%-6% in the current year.

Overall Comments – Auto Sales:

There are divergent trends in the Indian auto sector after the end of the first quarter of the fiscal. A slowdown is evident in the passenger car segment from the rising inventory levels with the dealers which may be partly on account of higher interest rates and some saturation in urban demand for SUVs apart from the weather and the election factor that had an adverse impact on overall vehicle sales in Q1.

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 inconsistent in the first quarter but is likely to pickup with a pickup in the pace of infrastructure projects 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, Acuité Ratings & Research Limited**

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Media Contact:

Sahban Kohari
Ph: + 91-9890318722
sahban@eminencestrategy.com

Analytical Contacts:

Suman Chowdhury Chief Economist & Head of Research Ph: + 91-9930831560 suman.chowdhury@acuite.in	Prosenjit Ghosh Group Chief Business Officer Ph: +91-9920656299 prosenjit.ghosh@acuite.in