

## Automobile Sales Estimate – July 2020

31 July 2020

### On ground checks: Regional lockdowns & tight financing restrict retail sales

Automobile sales in July 2020 are likely to witness a further improvement over June on the back of ramp up in supply chain, strong rural sentiments and rise in preference for personal mobility to follow social distancing norms. Dispatches from OEMs are likely to improve sequentially on further ramp up in plant utilization levels following the recovery in supply chain and labour issues. But, dispatches are expected to be lower on a YoY basis even on a low base. Our interactions with dealers (See page 2) suggest that retail sales have come off sequentially due to the imposition of strict local lockdowns across various states in July. However, wholesales are expected to be higher than retail sales as OEMs fill the channel inventory, which remains substantially lower than normal level. As per the commentaries from a few OEMs, semi-urban and rural markets are doing better but urban markets are catching up fast in July amid higher demand at the lower end of the segments. We expect Passenger Vehicle (PV) dispatches to improve sequentially but are likely to remain lower on a YoY basis. According to commentary from some PV OEMs, enquiries, bookings and retail operations have reached 85-90% of normal level in July. Our channel checks suggest that demand has been higher in the entry level segment. Most dealers we spoke with sounded positive given the better than expected recovery in demand and stated that enquiries have been much higher but conversion is getting affected due to local lockdowns and non-availability of models. However, they do not expect demand to fully recover by the festive period. Financiers have tightened the credit checks and to boost demand, PV OEMs have tied up with financiers to offer attractive schemes. Discounts were lower sequentially. Two Wheeler (2W) dispatches are expected to see further recovery on the back of further ramp up in supply chains, thriving rural sentiments and rise in personal mobility needs on account of Covid-19. Our interactions with dealers indicate that retail sales were affected in July (but were higher sequentially) due to erratic lockdowns and tighter financing. Further, there has been a lot of down-trading with higher demand in the 100-125cc segment. All the 2W OEMs have taken a price increase of about Rs1,500-2,000 over the last two months. We expect Tractor dispatches to outperform other segments given the strong rural sentiments on the back of good Rabi procurement, good monsoon leading to better kharif sowing and farm labour shortage. The government's stimulus package and increase in MSPs for Kharif crops have further boosted rural sentiments. We expect Commercial Vehicle (CV) dispatches to remain dull as CV remains the worst affected segment due to economic slowdown, excess capacity and limited driver availability.

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Exhibit 1: Automobile sales estimate

	Jul-20E	Jul-19	YoY (%)	Jun-20	MoM (%)	Comments
Maruti Suzuki India						
Domestic sales	88,057	100,006	(11.9)	53,139	65.7	Expect Maruti to witness ~13% YoY decline in sales volume on gradual ramp up of operations.
Exports	6,944	9,258	(25.0)	4,289	61.9	
Total sales	95,000	109,264	(13.1)	57,428	65.4	
Mahindra & Mahindra						
Automotive	27,562	40,142	(31.3)	19,358	42.4	Expect tractor sales to see a 20% YoY growth, as demand continues to remain strong on positive rural sentiments. Automotive sales are likely to witness gradual recovery, especially in rural portfolio amid supply constraints.
Farm Equipment	24,000	19,992	20.1	36,544	(34.3)	
Total Sales	51,562	60,134	(14.3)	55,902	(7.8)	
Bajaj Auto						
Motorcycle	273,879	322,210	(15.0)	255,122	7.4	Expect motorcycle sales to decline by ~15% YoY with similar recovery in both domestic and export volume (given good export order book. 3W sales are expected to decline by ~55% YoY, supported by export volume as domestic volume is likely to be very minimal.
Three-wheeler	26,204	58,563	(55.3)	22,975	14.1	
Total	300,082	380,773	(21.2)	278,097	7.9	
Exports out of the above	147,869	175,384	(15.7)	126,908	16.5	
Hero MotoCorp						
Motorcycle/scooter	482,229	535,810	(10.0)	450,744	7.0	Expect relatively faster recovery on the back of strong demand in entry level segment.
TVS Motor Company						
Two-wheeler	199,226	265,679	(25.0)	191,076	4.3	2W sales are expected to decline by 25% YoY. 3Ws are likely to improve sequentially on the back of recovery in export volume amid stability in crude prices and forex rates of export markets.
Three-wheeler	8,272	13,786	(40.0)	7,311	13.1	
Total	207,498	279,465	(25.8)	198,387	4.6	
Ashok Leyland						
MHCV	1,008	6,722	(85.0)	755	33.5	Dispatches are likely to witness sharp decline due to weak demand amid economic slowdown, excess capacity and limited driver availability.
LCV	2,103	4,205	(50.0)	1,639	28.3	
Total sales	3,111	10,927	(71.5)	2,394	29.9	
Eicher Motors						
VECV	1,600	4,001	(60.0)	1,321	21.1	Expect RE's dispatches to be lower by 25% YoY due to gradual ramp up of operations amid supply constraints. Its order book has reached pre-covid levels.
Royal Enfield (RE)	40,639	54,185	(25.0)	38,065	6.8	

Source: Nirmal Bang Institutional Equities Research

## Channel Checks Summary

### Two-Wheelers

- Most dealers had a good June depending on when the local lockdown was lifted. Demand has been largely driven by rural areas as farmers had cash in hand. Lack of public transport due to restrictions on carrying capacity also drove customers towards 2Ws. In cities, the only reason for demand is the shift towards personal mobility. In both the cases, demand is towards the lower end of the segment. There is not much demand-supply gap, except for RE, according to our checks. Most dealers are carrying 20-30 days of inventory and no OEM is pushing any stock. Currently, regional level lockdowns are affecting demand. Pune had a lockdown for 10 days until 24th July; a 10-day lockdown started in Bhopal from 26th July and Indore; many rural regions of Maharashtra and Bihar are under lockdown and restrictions. With spurt in cases in rural areas, demand has come down now.
- Hero is doing better than others but only fast moving products (HF and Splendor) are selling right now. The new Passion is getting good demand but supply is low. For HMSI, Deluxe model is doing well. Its SP 125 is getting good demand but supply is low. HMSI dealers from UP would have done better in the wedding season if supply of SP would have been better. For Bajaj, demand is mostly for CT, Platina and Pulsar 125. Pulsar 150 customers are converting to 125cc. Supply for KTM is very low. Overall, in rural regions, the demand is 80% of normal level and in urban regions it is at 50-60% of normal level.
- As per our checks, all OEMs have increased prices in the last couple of months. The increase has been in the range of Rs1500-2000 for Hero, TVS and HMSI. Prices of CT100 is up by Rs3,500 in the last few months. TVS and Hero have communicated that price increase is owing to move from Chinese to local vendors.
- Financiers are getting prudent by increasing filters and rejecting more applications. LTVs have come down from 85-95% level to 60-65% level. NBFCs are getting more strict as the moratorium rates are higher. At some Bajaj dealers, the share of finance by Bajaj Finance has come down from 80-90% level to 50-60% level. This has affected some sales. Finance penetration has come down at dealerships whose rural sales contribution has increased.
- There is a spurt in demand for used bikes. But, supply is the issue as exchange sales have reduced at dealerships, indicating higher first time buyers. Used vehicle players like CredR are out of stock and have increased their margins. Even local used bike brokers are out of stock.

In summary, erratic lockdowns and prudent financiers have affected demand in July. Demand is more towards the lower end of the products. No dealer could give guidance on the demand scenario for festivals. There are supply constraints, but they match with the demand, except for a few models. All dealerships are taking basic precautions like temperature checks at entrance, sanitizers and compulsory masks.

### Passenger Vehicles

- Retail demand declined sequentially. The first half of July witnessed good traction in terms of enquiries and bookings. But, closure of dealerships due to local lockdown in many markets affected sales and retail delivery in the second half. Tight financing also affected sales. OEMs have asked dealers to push the variants already in inventory as dispatches remained tight.
- Dealers indicated that overall enquiries remained strong and there is demand in the market but many customers are on wait and watch mode till the lockdown ends. Getting good share of enquiries from online channel/call based.
- Financing has tightened. There is increased scrutiny on customer's credit rating and the documentation requirements have also increased. Overall LTVs have been reduced by banks though some NBFCs offer as high as 95% financing based on credit score. Customers, who have opted for moratorium, are not getting financing. This also resulted in loss of retail sales.
- Dealers are also witnessing higher demand for entry level vehicles like Alto, S-Presso and Celerio. One of the reasons for higher demand for the entry level vehicles is reduced LTV. Venue and Nios have been top selling models for Hyundai; Bolero and XUV300 for M&M.
- For Maruti - dealers indicated that initially customers were reluctant to opt for petrol Brezza and were expecting Maruti to launch diesel Brezza, but customers eventually shifted to the petrol variant (as diesel is not an option). But, they also indicated some lost sales as customers preferred the diesel engine. Demand for CNG model also saw an uptick in June and July.
- Discounts were lower sequentially. Best-selling/new models like Venue, Creta, Brezza, Ertiga and Bolero did not have discounts.
- Overall inventory remained lower than normal. Inventory was available for only slow moving variants

In summary, enquiries remained high as there is demand in the market but retail sales were affected in July due to local lockdown, tight financing and tight dispatches. Discounts declined sequentially. Financing remained tight.

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