

Automobile Sales Estimate – June 2020

30 June 2020

Faster than expected recovery likely

Automobile sales in June 2020 are likely to witness a sharp improvement over May on the back of pent-up demand, strong rural sentiments and rise in preference for personal mobility to follow social distancing norms. Dispatches from OEMs are likely to improve sequentially on gradual ramp up in plant utilization levels on the back of recovery in supply chain and labour issues but are expected to be lower on YoY basis. Our interaction with dealers suggests that retail sales are expected to be better than wholesales as OEM dispatches have been relatively lower. According to FADA, over 80% of dealerships have opened across India with Tier 2 & 3 and rural markets doing far better than Urban market amid higher demand at the lower end of the segments. We expect Passenger Vehicle (PV) dispatches to improve sequentially but are likely to remain substantially lower on YoY basis. According to commentary from some PV OEMs, industry is operating at around 40% level in June. Our channel checks suggest that urban demand lagged significantly than demand from smaller towns and rural India. Most dealers sounded positive given the better than expected recovery in inquiries and bookings and were hopeful of higher dispatches from OEMs as retail demand was higher than dispatches. To boost demand, PV OEMs have tied up with financiers to offer attractive schemes and discounts were also marginally higher sequentially. Two Wheeler (2W) dispatches are expected to see sharper recovery on the back of pent-up demand, thriving rural sentiments and rise in personal mobility needs on account of Covid-19. Retail demand is expected to witness higher demand, especially in tier 2-3 towns and rural area. We expect Tractor dispatches to outperform other segments given the strong rural sentiments on the back of good Rabi procurement, early monsoon leading to better kharif sowing and farm labour shortage. Government's stimulus package and recent increase in MSPs for Kharif crop 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.

In the PV segment, we expect Maruti to witness ~58% YoY decline in sales volume on gradual ramp up of operations. For M&M, we expect tractor sales to see a marginal ~3% YoY decline, as demand continues to remain strong on strong rural sentiments. M&M's Automotive segment sales are likely to decline by ~66% YoY due to gradual recovery, especially in rural portfolio amid supply constraints. Ashok Leyland and VECV are likely to post sharp decline as demand continues to remain weak. In the 2W space, we expect Bajaj Auto's motorcycle sales to decline by ~39% YoY with faster recovery in export volume (given good export order book) than in domestic volume. Bajaj Auto's 3W sales are expected to decline by ~60% YoY, supported by export volume as domestic volume is likely to be very minimal. We expect Hero MotoCorp to post ~37% YoY decline in volume. Hero is expected to witness faster recovery on the back of good rural demand. TVS Motor's 2W sales are expected to decline by 40% YoY. Its 3W sales are likely decline sharply as export volume is likely to be affected by Covid-19 and fall in crude oil. RE sales are also expected to see ~40% YoY decline on gradual ramp up of operations amid supply constraints. RE's management stated there has been strong initial customer interest and its order book has reached pre-covid level.

Exhibit 1: Automobile sales estimate

	Jun-20E	Jun-19	YoY (%)	May-20	MoM (%)	Comments
Maruti Suzuki India						
Domestic sales	48,502	114,861	(57.8)	13,888	249.2	Expect Maruti to witness ~58% YoY decline in sales volume on gradual ramp up of operations. Retail sales are expected to be much higher than wholesales.
Exports	5,416	9,847	(45.0)	4,651	16.4	
Total sales	53,918	124,708	(56.8)	18,539	190.8	
Mahindra & Mahindra						
Automotive	14,417	42,547	(66.1)	9,560	50.8	Expect tractor sales to see a marginal YoY decline, as demand continues to remain strong on strong rural sentiments. Automotive sales are likely to witness gradual recovery, especially in rural portfolio amid supply constraints.
Farm Equipment	32,000	33,094	(3.3)	24,341	31.5	
Total Sales	46,417	75,641	(38.6)	33,901	36.9	
Bajaj Auto						
Motorcycle	213,633	351,291	(39.2)	112,798	89.4	Expect motorcycle sales to decline by ~39% YoY with higher decline in domestic market than in export volume on the back of export order book. 3W sales are expected to decline by ~60% YoY, supported by export volume as domestic volume is likely to be very minimal.
Three-wheeler	21,218	53,333	(60.2)	14,330	48.1	
Total	234,851	404,624	(42.0)	127,128	84.7	
Exports out of the above	129,204	175,399	(26.3)	87,054	48.4	
Hero MotoCorp						
Motorcycle/scooter	388,411	616,526	(37.0)	112,682	244.7	Expect relatively faster recovery on the back of strong rural demand.
TVS Motor Company						
Two-wheeler	170,077	283,461	(40.0)	56,218	202.5	2W sales are expected to decline by 40% YoY. 3W sales are likely to decline sharply as export volume is likely to be affected by Covid-19 and fall in crude oil.
Three-wheeler	5,184	13,641	(62.0)	2,688	92.8	
Total	175,260	297,102	(41.0)	58,906	197.5	
Ashok Leyland						
MHCV	843	8,427	(90.0)	266	216.8	Dispatches are likely to witness sharp decline due to weak demand amid economic slowdown, excess capacity and limited driver availability.
LCV	1,753	4,383	(60.0)	1,154	51.9	
Total sales	2,596	12,810	(79.7)	1,420	82.8	
Eicher Motors						
VECV	1,801	4,502	(60.0)	686	162.5	Expect RE's dispatches to be lower by 40% YoY due to gradual ramp up of operations amid supply constraints. Its order book has reached pre-covid levels.
Royal Enfield (RE)	35,003	58,339	(40.0)	19,113	83.1	

Source: Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

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