

The BS-IV blow nears

Covid-19 aggravates inventory pain for OEMs and dealers, especially of two-wheelers

CRISIL Impact Note | March 23, 2020



Analytical contacts

Hetal Gandhi

Director, CRISIL Research
hetal.gandhi@crsil.com

Pushan Sharma

Associate Director, CRISIL Research
pushan.sharma@crsil.com

The Indian automobile industry appears to be caught in a cleft stick over emission guidelines as the deadline draws near amid the havoc wreaked by the Novel Coronavirus disease (Covid-2019).

Original equipment manufacturers (OEMs) and dealers are required to liquidate their Bharat Stage (BS) IV inventory by March 31 and shift to the BS VI regime from April 1. However, with footfalls drying up due to the pandemic, they are looking at huge unsold inventory.

CRISIL Research's interaction with dealers across India indicates the situation is more worrying for two-wheelers than for passenger vehicles (PV), light commercial vehicles (LCVs), and medium and heavy commercial vehicles (MHCVs).

Inventory piles up

The automobile industry was saddled with sizeable inventory after one of its worst years in two decades last fiscal. Volumes logged double-digit decline across segments as headwinds – insurance norms, safety regulations, price hikes, new axle load norms, and liquidity crisis, to name some – in the second half of the fiscal resulted in higher-than-normal inventory.

To make matters worse, demand took a beating as the economy faltered.

In fiscal 2020 many OEMs took multiple production cuts to correct BS IV inventory at the dealer end, to ensure a smooth transition to BS VI.

Pre-buying in the last quarter was expected to help liquidate the remaining BS IV inventory. However, the rapid rise in Covid-19 cases in India over the past few days has dealt a death blow to retail sentiment.

With just a few days to go in fiscal 2020, two-wheeler dealers are anxious as they are saddled with huge BS IV inventory, and are offering higher than normal discounts – around twice the festive season discounts – to encourage pre-buying. Interestingly, OEMs that transitioned to BS VI models in the third quarter this fiscal are impacted less by the BS IV inventory pile-up.

Dealers of PVs and MHCVs are more comfortable with the transition as they have manageable BS IV inventory. PV dealers are not offering discounts, though their CV counterparts – especially those dealing in LCVs – are expected to offer high discounts to liquidate the remaining BS IV vehicles.

	PV	LCV	MHCV	Two-wheeler
Current BS IV inventory (as on March 20, 2020)	2-5 days	4-8 days	0-4 days	12-16 days

**Inventory days are calculated on the basis of past 12-month average sales.*

The Covid-19 effect

To be sure, most OEMs in the PV segment had rationalised their BS IV inventory by February-end and synchronised the launch of BS VI variants. Larger ones also offloaded sound wholesale BS VI inventory at the beginning of March to meet year-end targets, expecting higher retail volumes in March.

Then the Covid-19 rage intensified, drying up enquiries and footfalls, and resulting in lower-than-anticipated retail offtake. In its wake, dealers in certain regions have been asked to stay shut or operate with minimum employees.

The registration front throws up some interesting nuances, too.

Some regional transport offices (RTOs) are advocating quicker BS-IV registration process in anticipation of early closure if Covid-19 cases surge. This has severely hit the planned offtake of the remaining BS IV inventory as well as sale of new BS VI inventory.

Theoretically, it is possible to process same-day registration from RTOs through the online portal VAHAN.

However, market interactions indicate the RTOs have informed about assured registration of BS IV models only if the registration process is initiated by March 25.

CV dealers – especially MHCV dealers – have reserved BS IV registration tokens for make-to-order BS IV deliveries (February-approved orders) to avoid registration issues.

However, financiers are hesitant to process loans after March 21 without dealer assurance of registration before March 31.

To boot, the Covid-19 impact is severe in Maharashtra, Karnataka, Odisha and Kerala, which have seen 40-50% drop in footfalls, enquiries and deliveries; moderate in Gujarat, West Bengal, NCR and Punjab; and nominal in Rajasthan, Chhattisgarh and Bihar.

The lone silver lining is that the offloaded BS VI inventory can be sold in subsequent months.

Our take

We expect Covid-19 to land a double whammy on the sector.

First, earlier-than-anticipated closure of RTOs could lead to unsold BS IV inventory.

And second, lower-than-anticipated retail sales would result in higher-than-normal BS VI inventory for large PV OEMs at the start of fiscal.

Overall, the dynamics around Covid-19 remain the key monitorable. While BS VI inventory has piled up with dealers because of low footfalls, plant shutdowns by leading OEMs such as Maruti, Hyundai and Bajaj will have an offsetting impact.

However, despite the low base forming, we do not expect a recovery across the automobile sector, including components, in fiscal 2021.

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

CRISIL Privacy

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.