

Entering the slow lane

For automakers, festive season brings hardly any joy, facelifts provide little lift to sales

November 2018



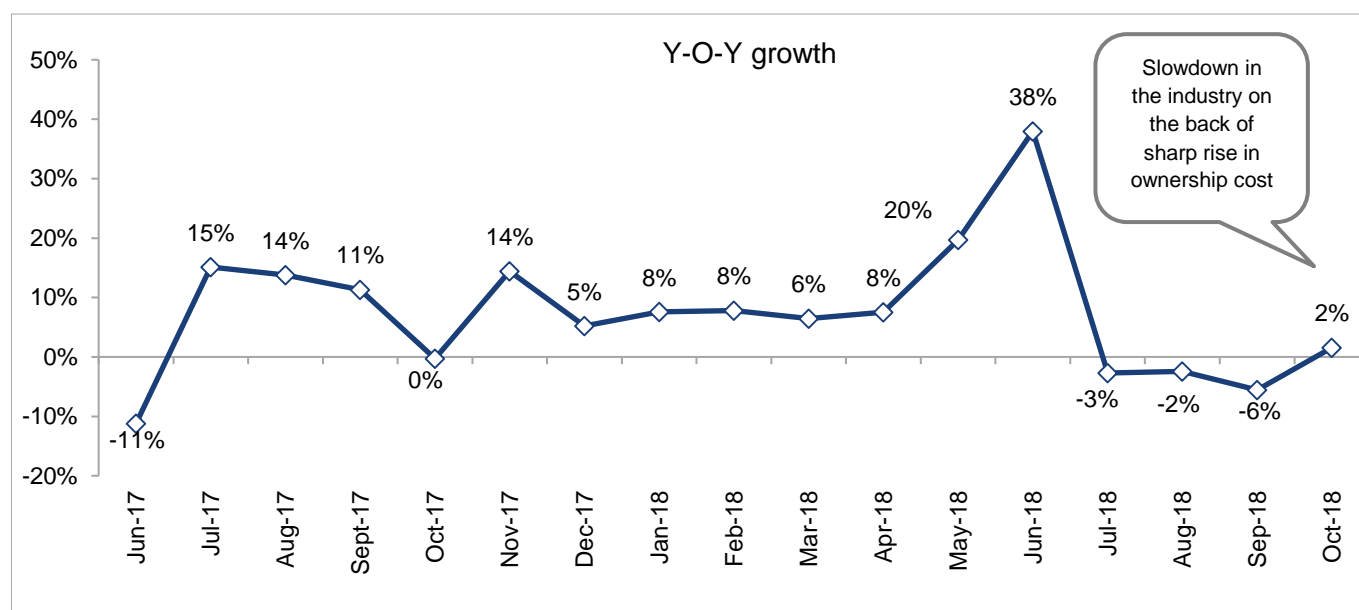
Dussehra and Diwali haven't exactly sparked for automobile makers or original equipment manufacturers (OEMs). Typically, this period – September and October/November – contribute a fifth of annual sales.

While sales increased only 1.6% in October, for September and October combined, they de-grew ~2%. Consequently, fiscal-to-date (April-October) growth is just 6%, which is a major worry for OEMs.

The waiting time for popular models has come down to just a couple of weeks, while face-lifts are outnumbering new model launches. Dealer inventory post Diwali stands at ~40 days unlike ~30-35 days in the festival seasons of the past couple of years.

Consequently, we are trimming 200 basis points (bps) from our earlier growth forecast of 9-11% for the passenger vehicles industry to 7-9%.

Stepping on the brake...

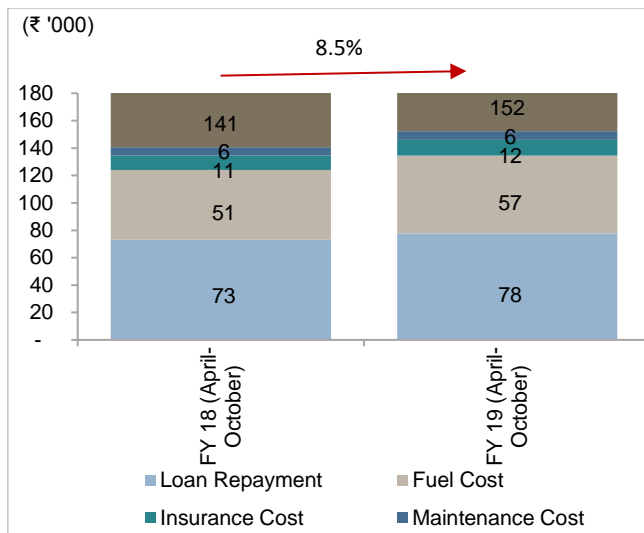


Source – SIAM, CRISIL Research

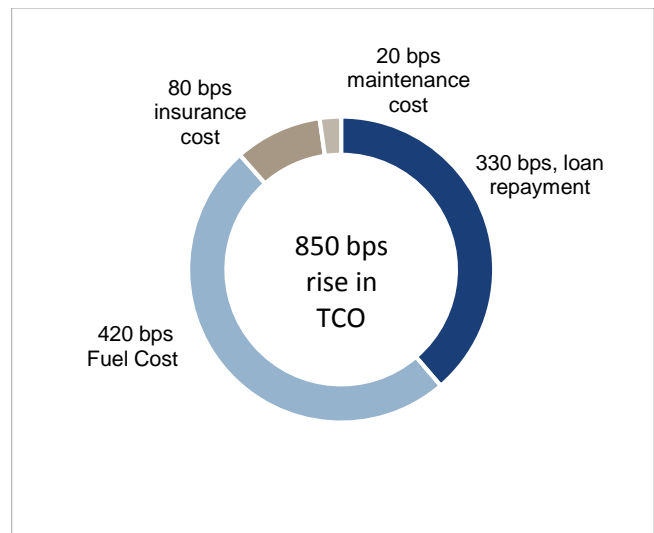
The factors causing lacklustre sales in the past few months are:

1. Sharp rise in fuel prices
2. Rising interest rates
3. Increase in insurance premiums
4. Lack of major model launches

Rising total cost of ownership (TCO)



Contribution of TCO parameters



NOTE: Total cost of ownership (TCO) includes annual amount payable towards fuel cost, loan repayment, maintenance and insurance costs considered for an entry level car (Maruti Alto) in the first year of purchase.

Source: CRISIL Research

Surge in fuel prices due to increase in crude oil prices

Petrol prices, which began moving northward sharply in the past couple of months, peaked in October (Rs 91.31 per litre), in line with Brent crude prices that, in turn, peaked at \$86.09 per barrel. Crude oil prices have fallen 28% from that peak and up to November 14, 2018, while petrol prices have declined just 10%. The full benefit of the fall is not being passed on to domestic fuel prices, which increases the impact cost of fuel prices.

In April-October, average petrol prices surged 11.3% on-year. The second quarter of this fiscal marked the eighth straight quarter of rise. The cost of fuel (based on average petrol price, estimated mileage of a small car and average daily driving distance (~40km)), which accounted for 36.2% of the total cost of ownership (TCO) in fiscal 2018, now accounts for 37.2%.

Interest rates surge on liquidity crunch faced by non-banks

CRISIL Research’s stakeholder interactions indicate interest rates for car buyers have risen 20-25 bps. A 10 bps increase in the interest rate results in an equal increase in TCO. With rates and vehicle prices heading northward (manufacturers are raising the tab to combat increase in input costs), TCO is also on the ascent.

Insurance premiums increasing, too

Regulations change such as mandatory upfront payment of three-year premium in the first year of purchase for third party liability and increase in personal accident cover (PAC) from Rs 2 lakh to Rs 15 lakh has led to a an increase of ~Rs 6,000 (Rs 4,500 if PAC is opted for one year) for an entry-level car such as the Maruti Alto.

All these higher cost have together increased the TCO for an entry-level car by ~8% on-year this fiscal.

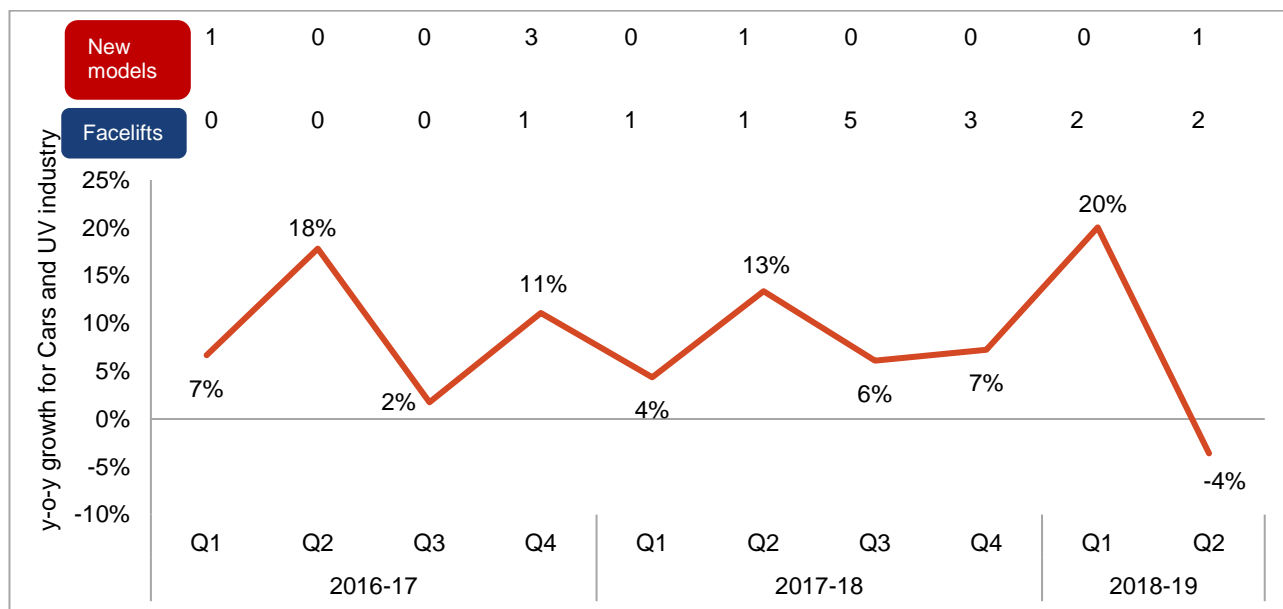
This is expected to be the fastest growth in TCO in the past five years. It is significantly higher than the 2-4% growth seen in the past five years.

Retail sentiment subdued with no new model launches, and just facelifts

While four major models were launched in fiscal 2017, fiscals 2018 and 2019 (year to date) have seen only one each. On the other hand, facelifts have been flooding the market over the past four quarters. Our channel interactions indicate the response to facelifts has not been as strong, weakening retail sentiment further.

Consequently, we believe the next five months of this fiscal will see OEMs pushing discounts, offers and schemes.

Soup-ups not selling



Note:

1. Models considered here contributed more than 1% to the sales of the quarter they were launched in
2. New model launches include Datsun Redi go+; Maruti Ignis; Tata Tigor and Nexon; Honda WR V; Mahindra Marazzo.
3. Facelifts include Maruti Dzire, Celerio X, Swift, Ertiga, S-Cross, Ciaz; Hyundai Verna, Creta, i20; Honda City, Amaze; Ford Ecosport; Mahindra KUV 100, Scorpio; Renault Duster,

Source: SIAM, CRISIL Research

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