# Auto dealers check update - July 2021

**Sector: Automobile**

**31st July 2021**

SMIFS LIMITED
LEGACY | TRUST | GROWTH

## Seasonaly weak month - PV remain the shining star; CV worst hit

## Summarized comments:

- **Passenger vehicles** continue to remain the shining star in the automobile sector and all dealers are indicating reasonably good growth from August till festivals. No impact of price increases, discounts have come down. The upward trend of SUV and CNG continues.

- **Tractor sales** are on average, dealers are optimistic, but uncertainty remains w.r.t. the 3rd wave, erratic monsoon and crop prices. So far, looking at the positives/negatives and a high base of last year, we expect FY22 to report a very small growth. And this will depend on some positivity in demand environment.

- **Two wheelers'** inquiries/sales remain low, which is hurt mainly due to 1) back-to-back price increase, 2) hit on low salaried class people, 3) muted demand from students/teachers' community and 4) people are excited to ride e-2Ws.

  Demand is very good for premium motorcycle players, but, supply issues continued. The majority of dealers indicated positivity for the coming months, as we move towards festive season and expect YoY growth for Aug-Oct period.

- **Commercial vehicles** demand negatively hit 360 degrees and fleet owners are concerned about 1) back-to-back price increase, 2) rising diesel rates, 3) no increase in freight rates, 4) financiers continue to remain strict in lending, 5) seasonal monsoon hit demand further, 6) not ready to take the risk of additional EMIs due to the 3rd wave uncertainty.

  In our opinion, the economy needs to show 3-4 normal months without any hiccups to increase the market load or truck utilization levels. Post that only, some confidence will be back among fleet owners and financiers. MoM growth should continue and post monsoon, Infra/Construction/Mining activities should pick up and support growth.

**Overall, we recommend to allocate funds more towards Eicher Motors as** 1) the demand/bookings for Royal Enfield remains pretty high, customers are excited for the upcoming launches especially for new Classic 350cc, and 2) its VECV business is getting ready for an upcycle. Hence, its dual businesses should perform better in the coming quarters. Valuation wise too the stock has corrected about 17% from its highs and we maintain a **target price of Rs 2,965 per share on SOTP basis**.

**We also suggest adding TVS Motor** due to its clear phenomenal performance in margin improvement. The company is committed & confident to lead the EV tech development with multiple launches in the next 2 years and has been consistent in all angles. Its demand & margin are trending in the right direction. **Our target price is Rs 675 per share.**

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## Passenger vehicles – shining star segment

- Positive momentum continues with the expectation of substantial YoY growth due to base effect and 20-25% MoM growth in July 2021. There is no impact of price increases on customers' demand and discount is only coming down.

- 1st time buyers remain the majority purchaser and reasons for buying is due to pandemic, travelling & poor public transportation. Additional car purchase is happening for family members & the reason remains the same.

- One more price revision is possible from 1st September as dual airbags are getting compulsory, but nothing to worry as these days customers are mostly buying cars with dual airbags installed. One airbag costs Rs 7,500 approx.

- The demand for CNG vehicles is high majorly due to rising fuel prices. WagonR, Alto, Ertiga, Aura, etc have 2 -4 months of waiting. Creta has 4-6 months of waiting, Thar 11-12 months. For other models, waiting period ranges from 1 week to 2 months. Trend towards SUV models continued.

- Dealers are confident of strong retails during the festival period, but on the other side there could be a possibility of vehicle shortages due to semi-conductor issue and CNG constraints.

- **Other highlights:**

  ⇒ Alcazar model's 3rd row seats are compact and have less leg space, as per customers review. Rest everything is good.

  ⇒ overall supplies improved a little as compared to previous months.

## Tractors – *seasonally weak month – better YoY due to base effect*

- Retails are doing average, while it can report YoY growth in mid-high single digit, as last year there were supply constraints, but MoM retails would be lower by ~10% due to seasonality effect.

- **Farmers are concerned about:**

  ⇒ rising tractor prices, as it increased twice in YTDFY22,

  ⇒ rising fuel price,

  ⇒ crop prices, which is so far stable, but uncertainty remains on farmer's overall income as monsoons are not well distributed so far and there is a little delay in agricultural activities.

  ⇒ Some areas witnessed floods & some less than required monsoon,

  ⇒ Overall financial conditions of buyers are not that good post hit by the 2$^{nd}$ wave

- Going forward, there is a possibility of some strictness from financiers, as the capability of farmers paying loans is decreased from 95% to 85% now. So far, no strictness in lending and farmers are getting the required disbursements.

- **Other highlights:**

  ⇒ sales below 45HP tractors contributes significant chunk and the trend is likely to remain the same.

  ⇒ Sonalika, Tafe & Eicher usually plays the pricing game to get market share. Their tractor prices are 10% below its peers.

  ⇒ M&M, Swaraj, Escorts, John Deere, Kubota compete on quality.

  ⇒ no issues in getting inventory and dealers have about one month of stock with them.

**By looking at the on-ground situation and based on positives & negatives, in our opinion, the tractor industry to report a flattish trend in FY22e as compared to FY21. Further downside risk is 3$^{rd}$ wave and decrease in crop prices.**

## *Two wheelers – slowdown continues; positivity ahead – strong EV inquiries*

- Monsoon months are seasonally weak for two-wheelers and July is generally the slowest one. In rural too, farmers wait for crop cutting, which generally starts in the last weeks of August.
- Inquiries in July dropped to 50% of normal months (incl. premium motorcycles) and mostly need based buying is happening. YoY sales would be better due to base effect, while MoM retails in July will be flat to degrowth.
- **Possible reason for slow sales are:**
  - ⇒ back-to-back price increase – *major reason*,
  - ⇒ muted demand from students/teachers' community – *used to contribute 15-25% of volumes*,
  - ⇒ low salaried class people remain the most vulnerable during pandemic times,
  - ⇒ uncertainty w.r.t. to the 3rd wave and
  - ⇒ WFH impact -– *major hit witnessed in metro cities*.
- Despite subdued demand, there is no major offers/discounts from OEMs. Dealers are giving discounts from their own pocket. Hero is giving cash discounts on scooters and exchange loyalty scheme.
- 50% of customer inquiries for e-vehicles and chances of its launch. Existing dealers are ready to install charging points or in fact ready to buy a separate place for it, if the company allows & provides the good deal/policy. Demand for e2Ws is good, people understand TCOs and rising fuel price is one of the major reasons. Charging infrastructure is the only concern.
- TVS Motor dealers are better off as compared to its peers as there is a pickup noticed in urban/scooters, while conditions for Royal Enfield dealers are bad as supply issues worsened & waiting period for its popular models increased.
- A few RE customers cancelled their bookings due to substantial increase in motorcycle prices in April & July 2021. The delay in deliveries is from the company side and if in between motorcycle price increased, then customers will have to bear the burnt. Hence, some cancellations.
- However, RE customers are excited for its upcoming new Classic 350cc motorcycle. Hence, expect a substantial increase in footfalls once any new model gets launched, which is possible in the next month.
- Except RE, no other 2W dealer is facing any major supply issues and they have sufficient inventory of 25-45 days range. The majority of dealers indicated positivity for the coming months, as we move towards festive season and expect YoY growth for Aug-Oct period.
- Top selling models are Apache 160cc, Jupiter, Moped, Meteor, Himalayan, Classic, Bullet in rural, Platina, Pulsar 125cc, Super Splendor, HF Deluxe, Glamour, Passion, Destini, Pleasure, Maestro, Activa 110cc, Shine, Unicorn, among others.

## Commercial vehicles – *worst impacted segment – to witness MoM improvement*

- The demand is not good, but MoM it's better on a low base. The sales are 50% lower than Q4FY21 average. Monsoon months are seasonally weak, where all infrastructure, construction and mining activities move slow.
- Recent lockdown changed the situation completely as demand hit severely and fleet owners are unable to pay their EMIs. The sales for all sub-segments are less.
- Market load/utilization rate is 60%, while 40% truckers are on standby. In our opinion, the economy needs consistent normalization at least for 3-4 months to absorb the standby trucks, then only the demand for new trucks and replacement orders will increase. A few months of normalization in the economic activities will bring also bring back the confidence among fleet owners and financiers.
- Discounts continue to remain at elevated levels. Post recent price increase, the dealers compel to sell at older rates due to low demand.
- As per our checks, Ashok Leyland's discounts are comparatively higher than Tata Motors. Dealers given hints of one more price increase in this financial year.
- **<u>Fleet owners are impacted from all angles:</u>**
    - ⇒ rising diesel rates,
    - ⇒ back-to-back vehicle price increase,
    - ⇒ low to stable freight rates,
    - ⇒ not taking the risk of additional loans due to uncertainty w.r.t. the 3$^{rd}$ wave,
- Financiers are lending selectively with more clauses and low LTV. More checks in place, like clear CIBIL score, no past default, orders in hand, etc. Required loan is 90-95%, but financiers are ready to disburse 75-80%.
- We understand that on one hand vehicle & diesel prices are rising with no increase in freight rates, and on the other hand LTVs have come down. Hence, the operating metrics of fleet owners are getting disturbed.
- Overall, the situation is bad, however dealers seeing light at the end of the tunnel, as retail inquiries starting showing some traction towards the end of July.
- **Other highlights:**
    - ⇒ VECV trucks are better in quality, but customers still prefer Tata Motors followed by Ashok Leyland (AL) due to a) higher vehicle prices of VECV, b) better resale value of Tata and AL vehicles, c) higher service centres & parts availability.

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