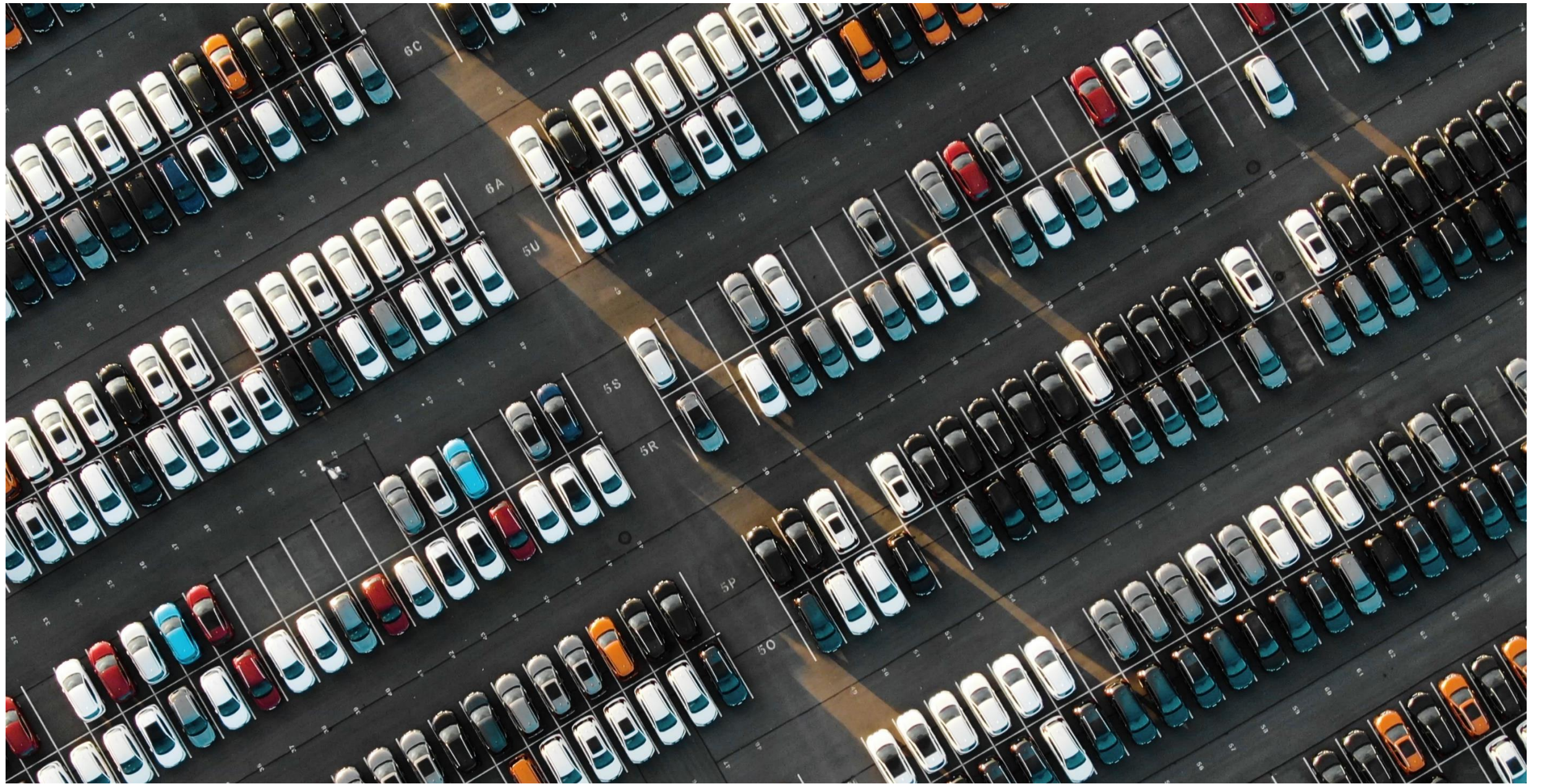


Auto dealers upbeat despite second wave



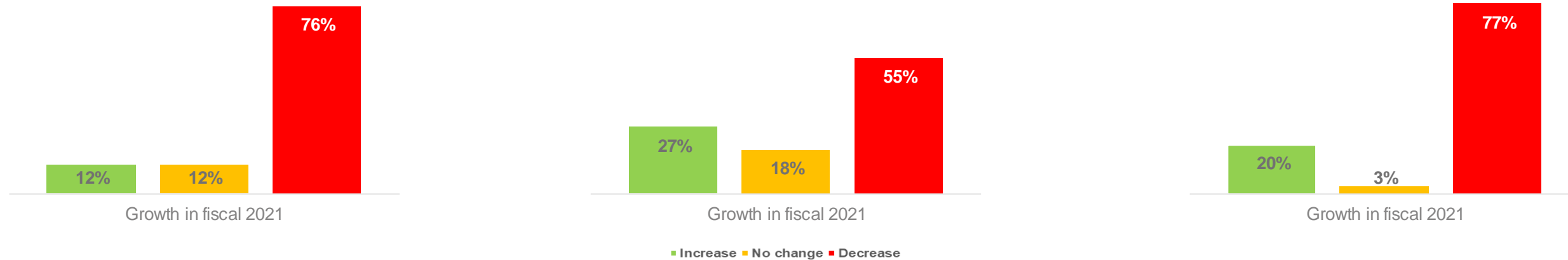
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Key takeaways from the survey of auto dealers

- The demand uptick seen during the festival season last fiscal has failed to sustain; most of the dealers said sales are not yet at fiscal 2020 levels. Deal conversion cycle has doubled as consumers are deferring purchase
- Two-wheeler dealers had hoped for quick demand revival; however, those expectations were belied as rural demand declined with the rapid spread of Covid-19 afflictions to hinterlands during the second wave
- Regional disparity in sales growth; dealers in the north have been the most impacted across segments
- The government's tweaks in law permitted auto dealerships to register as MSMEs, which would help them get easy access to more credit avenues and various schemes; however, their awareness about the schemes is low
- Lower inventory at dealerships across segments will quicken recovery and reduce inventory holding costs
- Most of the dealers have introduced employee welfare measures such as insurance and vaccination drives supported by original equipment manufacturers (OEMs)
- A majority are optimistic that sales will increase in fiscal 2022 on lower base; however, they are merely likely to hit fiscal 2020 levels
- The factors that could derail the auto sector's growth are a possible third wave, fuel price and supply constraints of OEMs

Demand uptick seen in the last festival season did not sustain

Two-wheeler dealers were most impacted as 78% saw a decline in sales last fiscal



Percentages indicate respondents

- Around 60% of the two-wheeler and passenger vehicle dealers expected demand revival by October-December in fiscal 2021. Lifting of the restrictions resulted in an initial surge in sales due to pent-up demand and festival season boost. However for most of the dealers, sales have not reached pre-lockdown levels yet
- Sales of more than 75% of commercial vehicle and two-wheeler dealers declined. Two-wheeler dealers had more optimistic sales expectations; however, rural demand declined as the second wave saw rapid spread of Covid-19 afflictions in the hinterlands

>50%

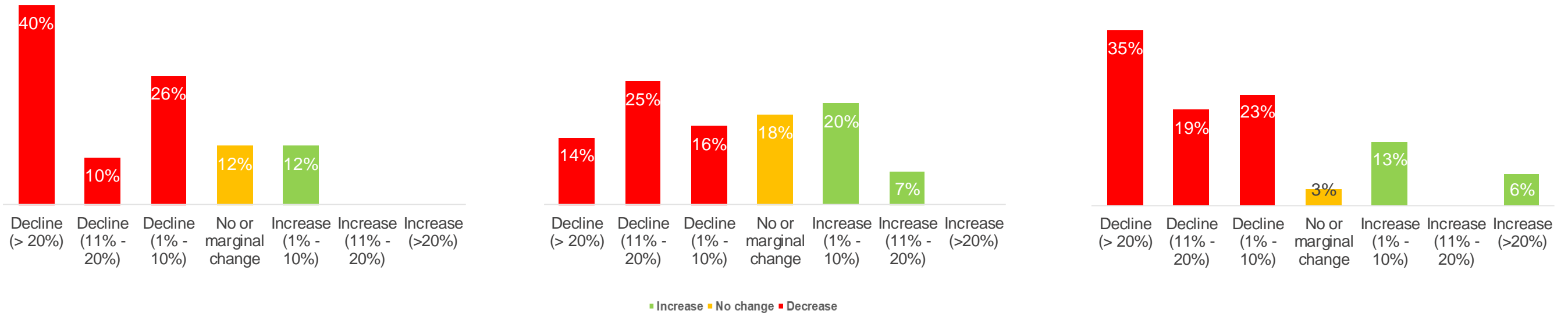
Decline in the enquiry conversion across all segments from the pre-pandemic level, as customers defer their purchase decisions

~10%

Share of digital sales and marketing techniques in **total sales, up from 2-3% pre-pandemic; the share is expected to further increase gradually**

Sales growth varied across regions; dealers in north most impacted

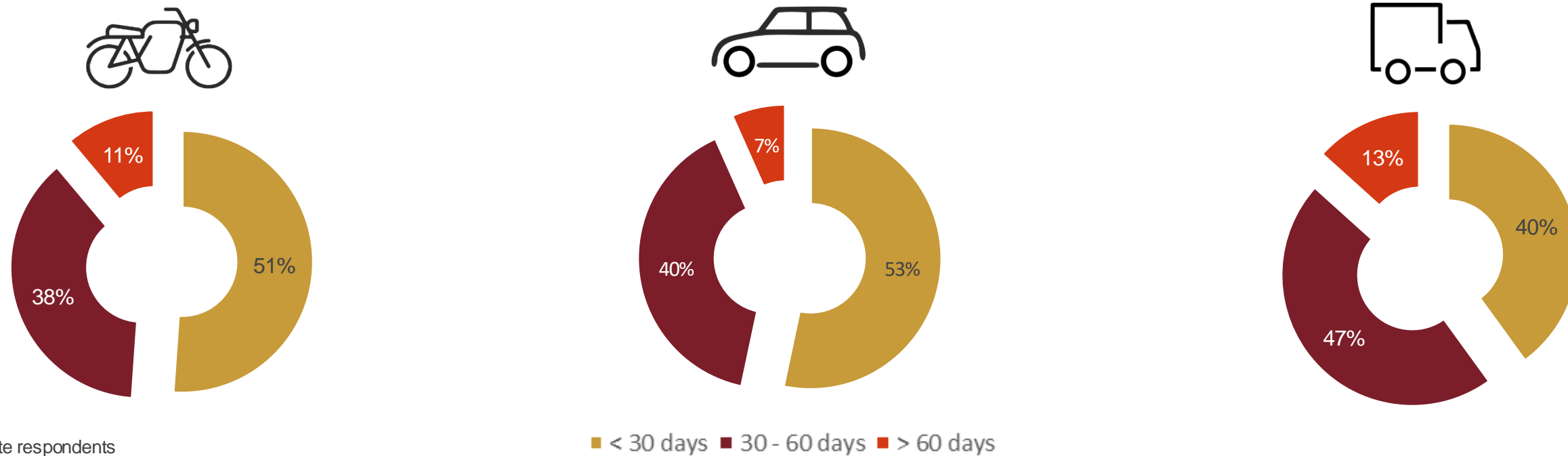
Sales growth in fiscal 2021 (All India)



Percentages indicate respondents

- More than 60% of the two-wheeler dealers in the North and South reported greater than 20% decline in sales
- Passenger vehicle sales were in line with expectations across regions, supported by new model launches and lower financing costs. Over 40% of dealers in the south saw improvement
- Around 45% in the north and 67% in the west witnessed greater than 20% decline in commercial vehicle sales

Lower inventory, cost control limit second-wave blow to financials



- 75% of the dealers reported vehicle inventory of <45 days due to better inventory management during the second wave. Also, lockdowns started from April, whereas they had liquidated inventory in March
- Overall dealers expect employee welfare and hygiene and sanitisation costs to increase by around 5% primarily driven by Covid-19 safety measures, resulting in reduction of margins by 0.20-0.25 bps



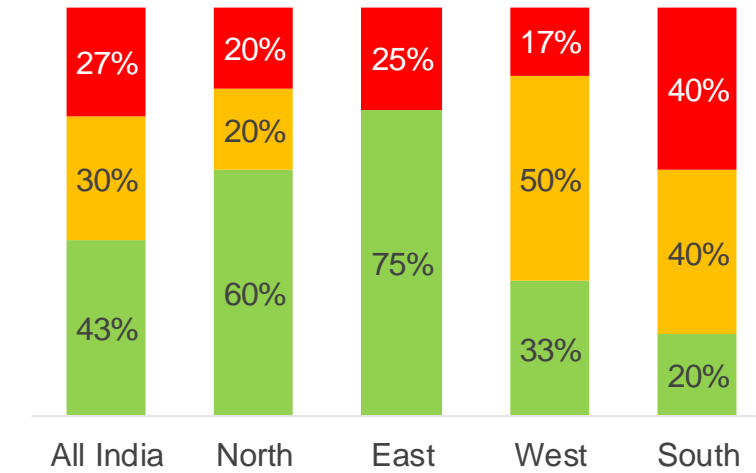
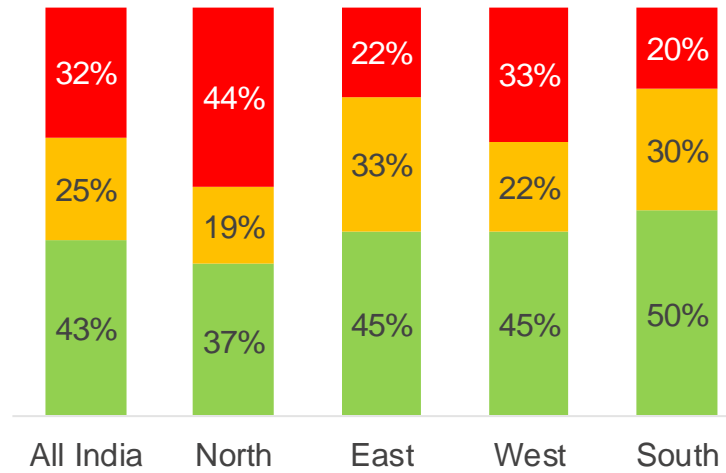
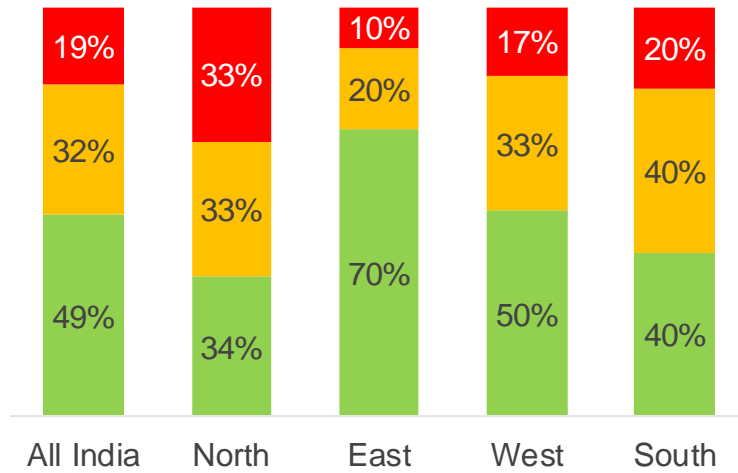
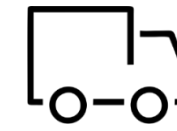
Lower inventory will help quicken recovery and lead to lower holding costs

Employee welfare measures initiated by dealers include insurance coverage and vaccination drives. OEMs have also extended support on vaccination drive

Staff rationalisation and cost control measures initiated in fiscal 2021 have helped cushion impact on financials of dealers. Lower retrenchment of staff and dealership exits expected during fiscal 2022

93% of dealers do not plan to exit automobile dealerships operational within their group

Majority of the dealers are optimistic about sales this fiscal



Percentages indicate respondents

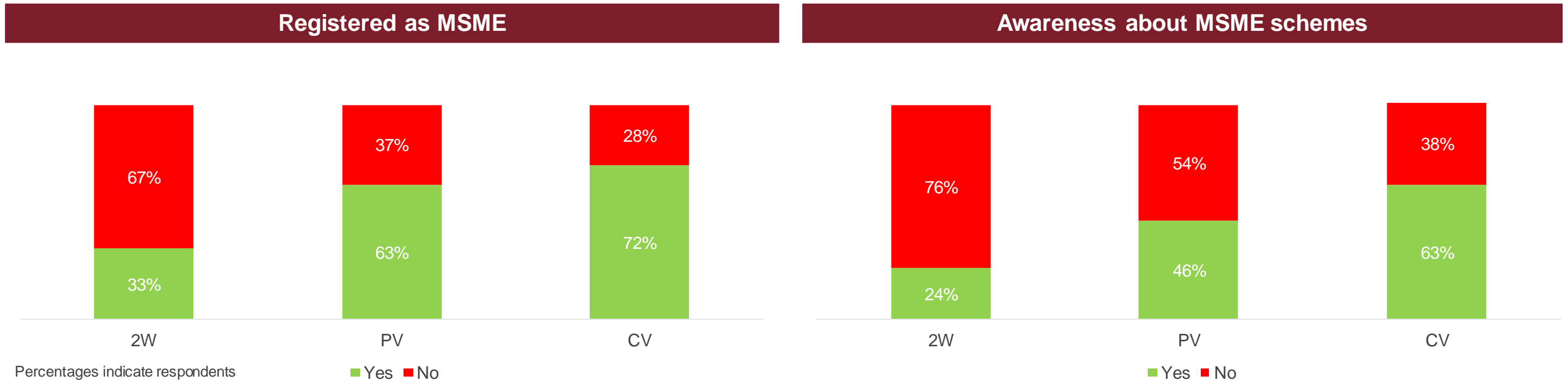
■ Increase ■ No change ■ Decrease

- More than 40% of dealers across segments expect sales to improve this fiscal on likely new model launches, pent-up demand and festival season sales. The expected range of sales growth is 10-15%. On a lower base of fiscal 2021, the sales will reach fiscal 2020 levels
- Most of the passenger and commercial vehicle dealers are upbeat about sales improving across regions, the exception is north for passenger vehicles and south for commercial vehicle dealers
- Two-wheeler dealers are optimistic about sales. Those in the east and west expect higher sales, while those in north and south are not so optimistic as their sales decline in fiscal 2021 was steeper and hence expect recovery would be slow, too

Key monitorables

- A possible third wave
- Rising fuel prices
- Supply constraints due to raw material shortages and longer waiting period

Dealers lack awareness about MSME schemes they can avail of



- The government tweaked the laws in the budget, recognising auto dealerships as MSMEs. While a large number of commercial and passenger vehicles dealers have registered themselves as MSMEs since then, two-wheeler dealers are yet to take steps in this direction
- Most of the dealers are not aware of the various credit schemes available for MSMEs and have only availed moratorium extension until now. They have to be made aware of various schemes to enable them to access additional credit facilities
- Most of them expected the government to cut GST rates and take policy measures to boost consumption; however neither happened, nor were there any specific measures for the auto industry's revival in the Union Budget for 2021-22. The introduction of the scrappage policy was a positive move, especially for the passenger and commercial vehicle segments. However, it has not boosted demand due to lack of clarity on its implementation and limited incentives

Thank you

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