

# AUTOMOBILES: DOWNSHIFT AND UPSHIFT

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## ABSTRACT

*Auto industry marketers have their jobs cut out for them in 2014. In 2013, for the first time since 2002, passenger vehicle sales numbers actually dropped, close to 10 per cent, from those of the previous year. Year-on-year drop in commercial vehicle sales was seen for the second year running. Three-wheelers were down close to 6 per cent. Among two-wheelers, mopeds sales were down and motorcycles held flat. Only scooter sales significantly bucked the trend and grew about 20 per cent. Overall volumes have grown by a marginal 1 per cent, but the greater skew towards two-wheelers has ensured that in financial terms the market has shrunk.*

*So, how do marketers keep the cars and buses and trucks and motorcycles and so on, moving out of the showrooms?*

**KEYWORDS:** *auto industry, vehicles, sales*

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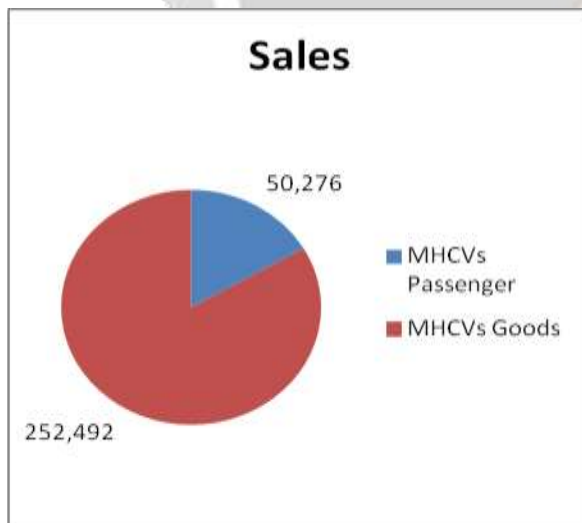
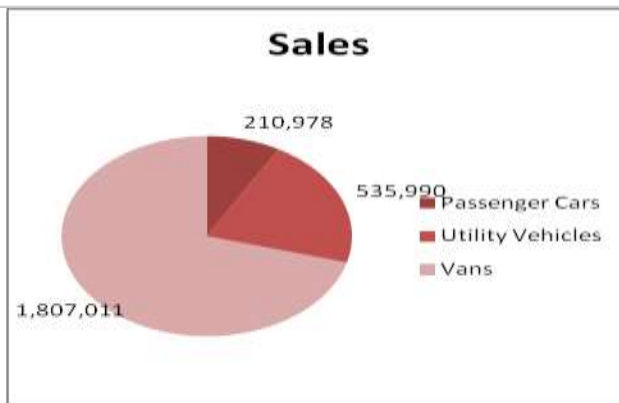
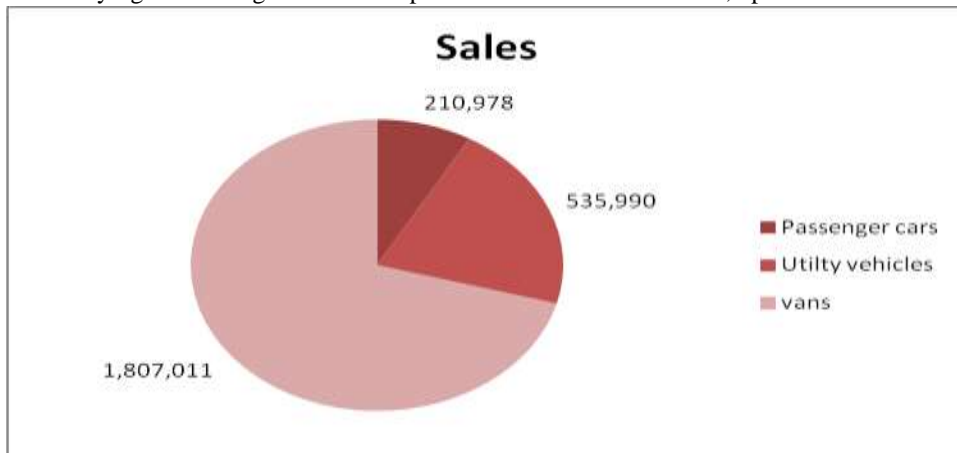
## SURGE AND SLUMP

After a quiet period during the global financial crisis of 2008, around July-August 2010, automotive sales started racing up all of a sudden and kept growing at 25 to 30 per cent year-on-year every month till it suddenly went off a cliff in April 2012. The good times went as suddenly as they had come and took automakers by surprise both times. If making enough cars from July 2010 was a problem, selling them after April 2012 was an even bigger one. Now, after nearly two years of continuous contraction, companies have cut back on production and reduced the number of contractual labourers working in the plants (there have been no official layoffs from the rolls yet, although Tata Motors has instituted a voluntary retirement scheme, or VRS) to keep inventory in check.

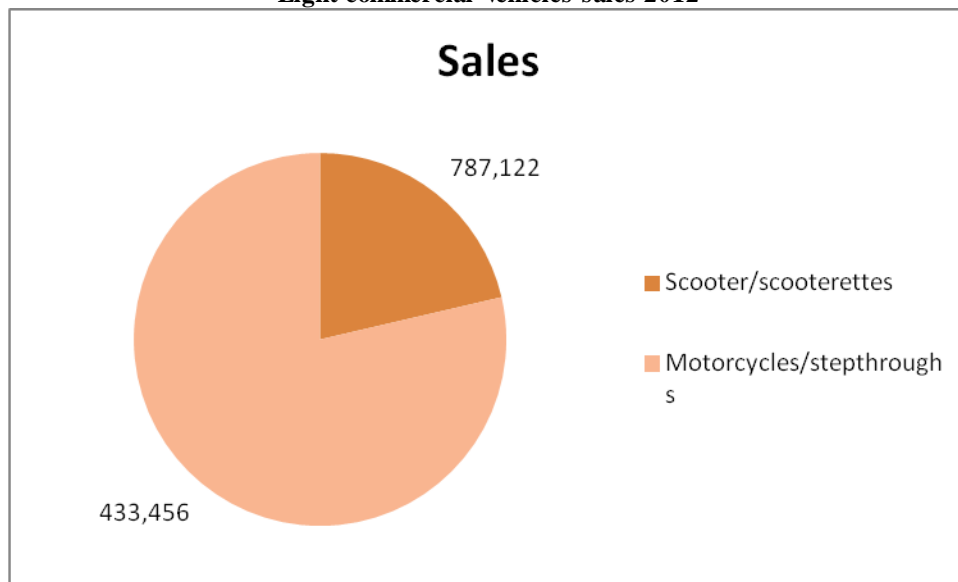
## THE ECONOMY OF GROWTH

The blame for this long period of downturn has been laid squarely at the doors of high interest rates and high inflation particularly of food items. Then, there has been the framing of laws with retrospective effect (it has made investors, especially foreign ones, very jittery) and delays in project clearances. The Supreme Court has also imposed bans on specific mining activities, a few of which it has eased. Everything put together has resulted in economic growth slowing down to under 5 per cent in the first three quarters of 2013-14. Consumers have been hammered from both sides as a result. High interest rates and inflation have pushed up expenses, while slow growth has not allowed incomes — be it from salary, bonds, stocks, gold or real estate—to grow fast enough to beat inflation. That means in real terms the consumer is poorer now and feeling every bit of it. Reports of sporadic layoffs are adding to the uncertainty. With sentiments this low, the consumer is wary of taking on any long-term

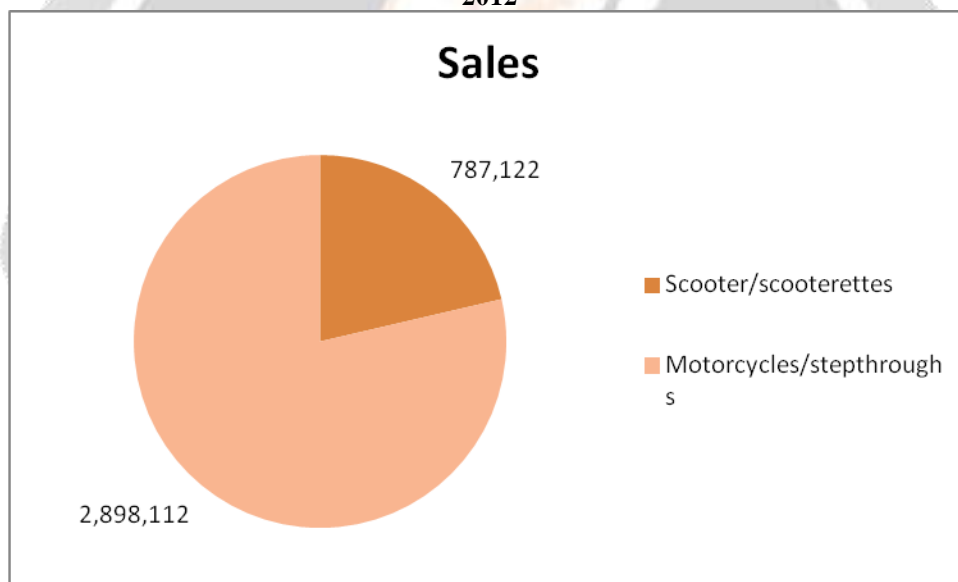
liability, such as a car loan. Even when forced to buy one, people are going for cheaper options — the size of the used car market is varying in the range of 120-130 per cent of new car sales now, up



source: SIAM  
**Light commercial vehicles sales 2012**



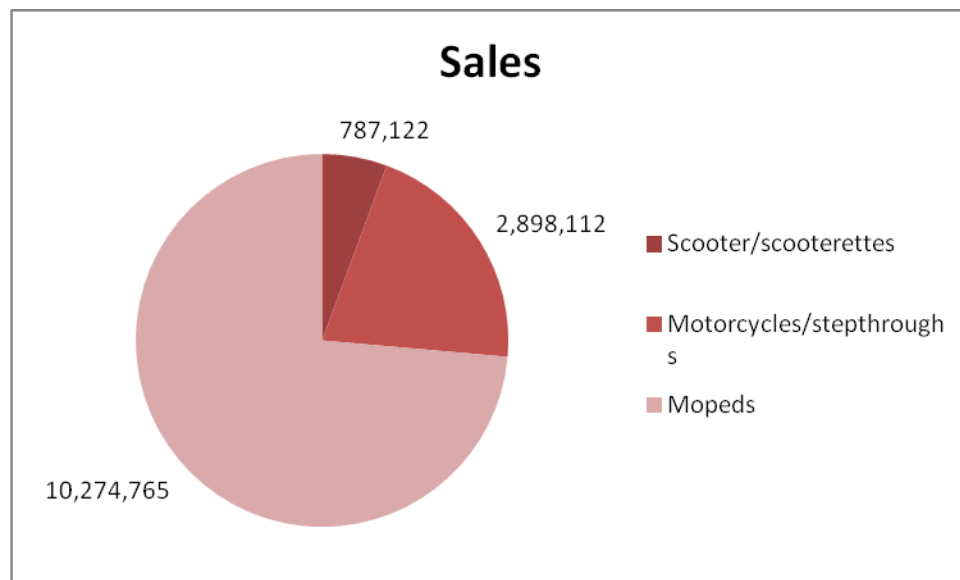
2012



from 70-80 per cent a couple of years ago. That has been the story of the MI I>,i 11 buyer, who accounts for about one-quarter of new car sales in the country.

Medium and heavy goods vehicle sales have gone down by close to a third of the previous year's numbers, which were about a third less than the volumes of the previous year. So, in two years, the market for medium and big trucks has come down to less than half its size. Mining, which is one of the biggest users of heavy

**Three-wheeler sales 2012**



vehicles, has almost seen no action because of the Supreme Court ban. The infrastructure industry, another big user of heavy vehicles, has not been finding enough use for them with projects stuck in the absence of government clearances. Prospects for these two sectors are such that the Reserve Bank of India in its most recent *Financial Stability Report* included mining and infrastructure as sectors that could cause major MI. re;ise in bad loans on the books of IMikes. Finally, with the consumer paying less, transportation of goods in general has slowed down.

For big passenger vehicles or buses, even grants the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), which was expected to result in the Litre of 10,000 buses during FY2014, have not been able to hold up the numbers and sales volumes have fallen 15.45 per cent in the first nine months and the trend should continue. While the JNNURM was surprised to have ended in 2012, with projects not completed, it was extended to March 2014 and further allocations made in Union Budgets. Meanwhile, light commercial vehicles typically used for intra-city movement of goods and people, have fared better than heavy CVs, but sales numbers are still down over 2012.

For commercial vehicles, more than the transporters themselves, their lenders are becoming cautious. For instance, Shriram Transport Finance company, the biggest commercial vehicle finance company in the country, has been reducing its loans-to-assets value to keep bad debts at bay. BESIDES, with the increase in the price of diesel and interest rates, transporters margins are getting squeezed. So, demand here remains weak.

**The three-wheeler market, driven** nearly by commercial vehicles, has gone down too. Part of the reason of course is the introduction of very light four-wheeled vehicles (Tata Ace, Tata Magic, Mahindra Gio, and so on) that are being preferred over three-wheelers for their stability. The other is that demand, which is a derived one, is down.

In all this carnage, two-wheelers, overall, have managed to expand, although growth has been tardy. Looking at the split, it is evident that this is being sustained by scooters, which have made a very strong come back, and smaller capacity commuter motorcycles (100-125 cc). While sales of 125-150 cc motorcycles has held flat, 150-200 cc is down. The 200-plus cc segment, a very small one, is up.

#### **OUTLOOK: 2014 AND BEYOND**

Even though there is optimism that the national elections in mid-2014 and the new government taking charge will spell some positive change for the economy, the outlook for the auto sector generally remains bleak. It is unlikely that companies will start taking major investment decisions before the end of 2014. So, one can expect another tough year in general and a pick-up in investment activity in the second half in the best scenario. Even a company like Maruti Suzuki, which commands around-40 per cent of the passenger vehicle market, had deferred its Rs 4,000-crore investment in a new plant in Gujarat and is now going ahead with it as its parent, Suzuki Motor Company, Japan, is funding it with its idle reserves. If the new government cannot send out the right signals, the slump should drag on longer—how much longer is anybody's guess. In short, we are yet to see the bottom of this down cycle. Automotive sales growth, however, could pick up somewhere towards the end of 2014, should inflation come down and the RBI reduce interest rates in response. The low base of the last year would help too. In all this bleakness, there are still some pockets of hope.

**SMALL TOWN MARKET**

If, globally, emerging markets are turning out to be the drivers of growth of the automotive industry, that is true within India too. One of the pockets of hope is in rural India as well as in tier-II and tier-III towns, which account for about a fourth of vehicle sales. Robust sales growth of tough, lower-capacity motorcycles, which are sold mostly in non-metro, non-tier-I towns, as well as tractors (close on 20 per cent) indicates the emerging money power of that market. To shore up numbers, OEMs will have to target those buyers with budget models. In fact, Maruti Suzuki India has already been doing so and has been able to go through the shrinking market phase without significant loss of numbers. Its target is to reach 100,000 villages by March 2014. Apart from their aspiration levels, these markets are also less affected by the swings that affect urban India. So, in future, OEMs would do well to target them with robust products to hold their sales steady.

**SUV SKEW**

India is proving to be a growing market for urban SUVs and crossovers. Part of the reason why overall growth numbers did not go down in 2012 was the significant growth of SUV sales. However, deteriorating sentiment and additional excise duty in Union Budget 2013 nearly killed that market. Nevertheless, three of the five or six models that have showed strong sales even in this falling period- SUVs and crossovers, namely Toyota Fortuner, Renault Duster and Ford Ecosport. And the trend will get stronger.

**FUTURE is AUTOMATIC**

Automatic transmissions make driving easier in the now common traffic jams, but price and fuel-efficiency issues kept buyers away. Now, the 'automatic manual' (it automatically shifts the gears in a manual gearbox) that Maruti has put in its new Celerio hatchback is both cheap and fuel-efficient. Tata Motors is planning use it in the Nano too. Meanwhile, Hyundai is prepping an automatic Grand i10 diesel. As automatics are catching on, marketers could push any decent automatics they have.

**The Narrowing Gap**

If the government continues to free up fuel prices, the petrol-diesel price difference could come down to just Rs 10 (Contd.)

Date	Prices (Rs/litre)		Price Difference (Rs/litre)
	Petrol	Diesel	
1-Oct-11	66.84	40.91	25.93
4-Nov-11	68.64	40.91	27.73
16-Nov-11	66.42	40.91	25.51
1-Dec-11	65.64	40.91	24.73
24-May-12	73.18	40.91	32.27
29-May-12	71.92	40.91	31.01
3-Jun-12	71.16	40.91	30.25
18-Jun-12	70.24	41.28	28.96
29-Jun-12	67.78	41.28	26.50
24-Jul-12	68.48	41.28	27.20
25-Jul-12	68.48	41.29	27.19
1-Aug-12	68.46	41.32	27.14
14-Sep-12	68.46	46.95	21.51
9-Oct-12	67.9	46.95	20.95
27-Oct-12	68.19	47.15	21.04
16-Nov-12	67.24	47.15	20.09
16-Jan-13	67.56	47.15	20.41
18-Jan-13	67.26	47.65	19.61
16-Feb-13	69.06	48.16	20.90

2-Mar-13	70.74	48.16	22.58
16-Mar-13	68.34	48.16	20.18
23-Mar-13	68.34	48.67	19.67
1-Apr-13	68.34	48.63	19.71
2-Apr-13	67.29	48.63	18.66
16-Apr-13	66.09	48.63	17.46
1-May-13	63.09	48.63	14.46
11-May-13	63.09	49.69	13.40
1-Jun-13	63.99	50.25	13.74
16-Jun-13	66.39	50.25	16.14
29-Jun-13	68.58	50.25	18.33
2-Jul-13	68.58	50.84	17.74
15-Jul-13	70.44	50.84	19.60
1-Aug-13	71.28	51.40	19.88
1-Sep-13	74.10	51.97	22.13
14-Sep-13	76.06	51.97	24.09
1-Oct-13	72.40	52.54	19.86
1-Nov-13	71.02	53.10	17.92
1-Dec-13	71.02	53.67	17.35
21-Dec-13	71.52	53.78	17.74
4-Jan-14	72.43	54.34	18.09

Note: All prices Delhi **Source:** mypetrolprice.com

#### OWNERSHIP EXPERIENCE

The depressed market has also showed that quality products with the right value proposition can still be sold. Apart from the SUVs mentioned above, the Toyota Innova and the Honda Amaze are still in demand. So is the Hyundai Grand il 0. Circumspect buyers have ditched the models that have shortcomings on some aspect, be it quality, after sales service, fit and finish, or whatever else, and gone for those in which they perceive value. In 2014, OEMs will have to address the all-round ownership experience to Pacific, Eastern Europe and Latin America) crossed those in developed markets for the first time ever in 2011 and that trend grew stronger over the next two years. And this is while sales in developed markets (North America, Western Europe and Japan) have been flat. Per capita ownership of cars in the BRIC countries (Brazil, Russia, India and China) are still much lower than those in the developed countries. So, future growth of the automotive industry is expected to come from the developing markets. India is emerging as one of the bigger car markets among the emerging ones. So, it has strong growth possibilities for both domestic sales as well as exports.

#### PERFORMANCE PUSH

Two-wheeler manufacturers, meanwhile, seem to have got their game right and more of the same could be enough to sustain sales. However, it would need to sell more of the 125cc-plus machines in smaller towns if it wants margins.

#### CONCLUSION:

The demand for commercial vehicles is a function of a pick-up in industrial and mining activity. With the opening up of bits of mining, some vehicles are moving. But it will take a lot to get sales back up to their peak levels, and it is doubtful whether that will happen in 2014. And with government finances under strain, it is doubtful.

#### REFERENCES/SOURCES:

1. [www.mypetrolprice.com](http://www.mypetrolprice.com)
2. SIAM