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INDIAN TWO-WHEELER INDUSTRY

Rise in ownership cost dampens demand; sustainable recovery likely beyond FY2022 – ICRA dealer Survey

SEPTEMBER 2021

Highlights

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Frequent price hikes to overcome inflationary pressures, rising fuel cost and uneven monsoons have adversely impacted demand sentiments; supply chain constraints may prove to be a further dampener

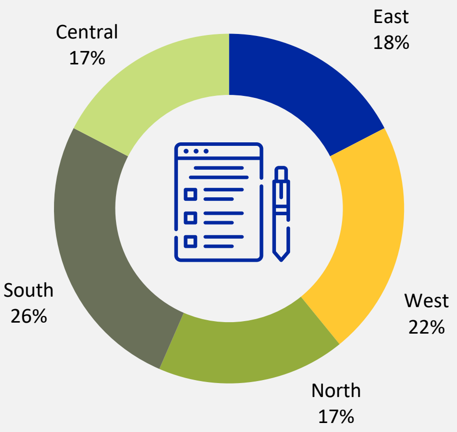
Dealerships remain cautiously optimistic regarding the festive season

ICRA moderates domestic volume growth estimates to 6-8% for FY2022

- ICRA's Survey of 2W dealers, undertaken in Sep 2021, indicates a subdued demand expectation for H2 FY2022, with sustainable demand returning only beyond FY2022.
- Demand continues to be sluggish, impacted by sharp increase in the cost of ownership and lower disposable incomes. Monsoon precipitation has been subpar and uneven till now; healthy precipitation in September thus remains key for improving rural sentiments, post the 2nd wave.
- Offtake in Q2 FY2022 has largely been due to the pent-up demand from the lockdown period (after the 2nd wave of pandemic in May-Jun 2021) and is unlikely to sustain going forward.
- Production issues due to semi-conductor shortages have been leading to delays in delivery of select models (mostly in the premium or 150cc+ segments); the challenges are likely to continue into September-October, impacting festive season offtake.
- Inventory levels have been inching-up; lower-than-expected sales could pose serious concern to dealership health and impact wholesale dispatches, post the festive season.
- Our channel check also reveals that the financing environment too has become tighter owing to rising delinquency levels (partly attributable to the poor collection efficiency due to the 2nd wave of infections and restrictions). This could impact 2W demand in the festive period and beyond
- ICRA has revised its estimates for the domestic 2W volume growth in FY2022 to 6-8% YoY from 10-12% YoY growth projected earlier. Overall 2W industry is expected to witness a 10-12% YoY growth (revised from 12-14%), supported by robust exports.

Industry Outlook I Stable

EXHIBIT: Geographic-mix of Survey Respondents



To assess the on-ground sentiments, ICRA conducted a survey of 23 two-wheelers dealers, spread across the country, in early September 2021.

Key findings of the Survey suggest:

- Nearly 60% of the dealers surveyed reported that increased averseness to public transport, amid Covid-19 pandemic (2nd wave) prompted buyers to purchase a 2W in YTD FY2022.
- Most dealers (39%) expect lower sales (>5% lower on YoY) in the upcoming festive season owing to the higher ownership costs. Another, 26% of the survey participants indicated expectation of a flattish YoY performance during the season.
- Over half of the dealers reported delays in delivery of high-end motorcycles form OEMs due to supply-chain issues.
- For fiscal 2022, majority of the dealers expect muted 5-7% YoY growth in retail sales, indicating subdued sentiments would linger post the festive season.
- Over half of the dealers surveyed believe that sustainable recovery in demand is unlikely before FY2023.
- Most respondents (65%) indicated that financiers have become more cautious since the onset of pandemic and rejection rates of loan applications have increased. This could be another deterrent for retail demand, already impacted by the increasing cost of ownership and income uncertainties.

Accordingly, owing to increasing cost of ownership, fuel inflation, uneven monsoons and supply chain issues, which are likely to keep demand (and supply) impacted in the near term, ICRA has revised its estimates for domestic 2W volume growth for FY2022 to 6-8% (from 10-12%). Pace of vaccine administration and its efficacy in limiting the impact of a possible third (or more) wave of infections could further impact these growth projections and remain a key sensitivity.

Despite the above, ICRA continues to maintain a stable outlook for the 2W industry as volumes and margins are expected to remain above the lower thresholds of 20 million units and 11%, respectively* over the next four quarters.

For details regarding sector outlook designation and thresholds', click here.

Pent-up demand and averseness to public transport have been driving 2W sales

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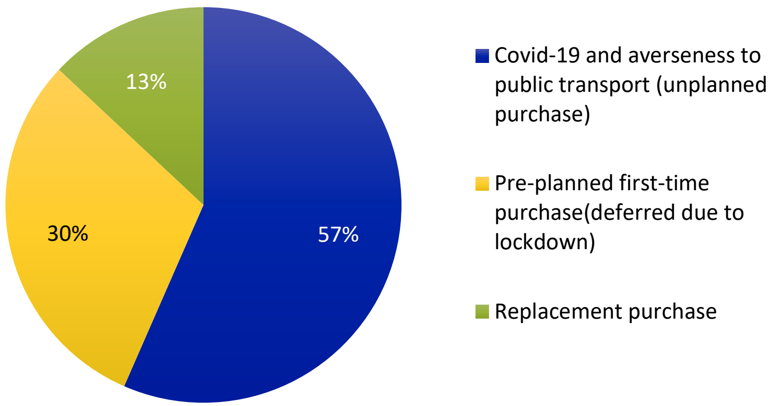
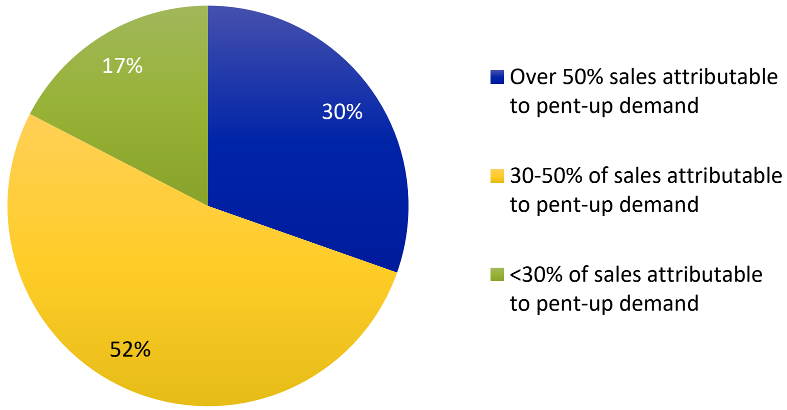
EXHIBIT: Reason for 2W purchase in Q2 FY2022



Source: ICRA Research

EXHIBIT: Percentage of pent-up demand in July-Aug 2021 sales



Source: ICRA Research

- The responses indicate that, like Q1 FY2022, the increased averseness to public transport in the wake of the second wave of pandemic was the main reason for 2W purchase in the last few months. 57% of the respondents cited that the pandemic led to an unplanned purchase of 2W (as against 59% in June 2021 Survey)
- However, averseness to public transport could only be a short-term demand driver. For organic demand recovery, easing of restrictions, work-from-home policies by corporates, reopening of schools and general improvement in sentiments, are necessary factors.
- Since most of the dealerships had to be closed in late April/May 2021 due to localised lockdowns, the pent-up demand from this period materialised in Q2.

Increased cost of ownership emerged as the main reason for muted sentiments

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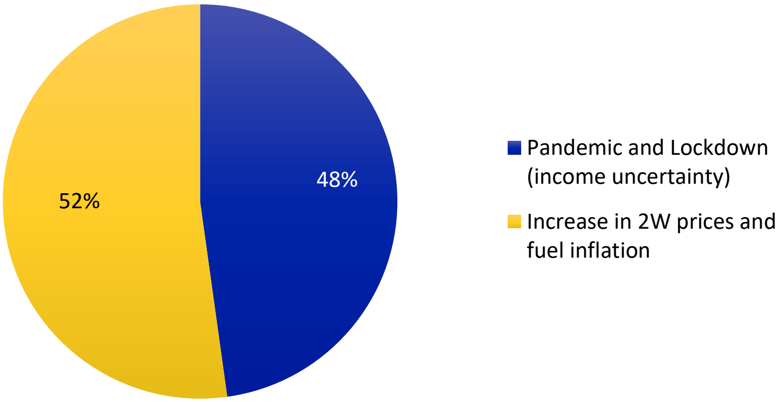
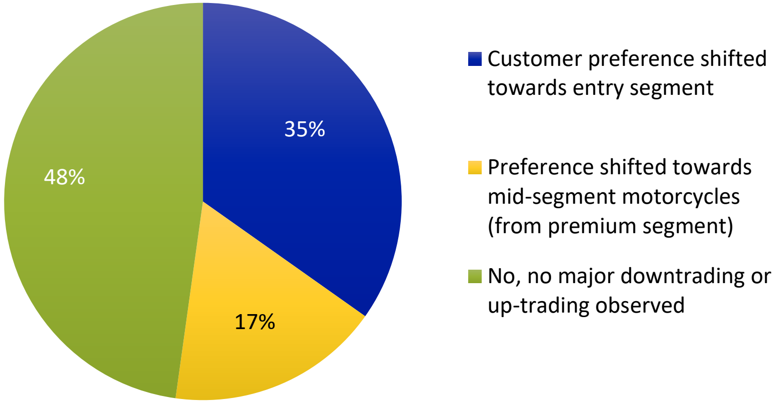
EXHIBIT: Dominant reason for muted demand in Q2 FY2022



Source: ICRA Research

EXHIBIT: Trend in downtrading in Q2 FY2022

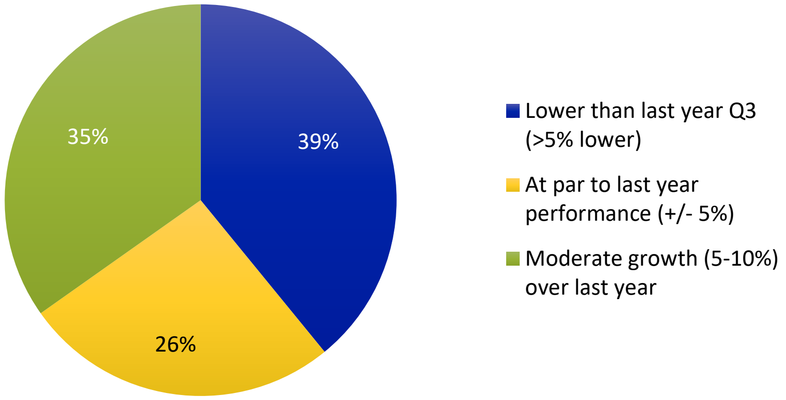


Source: ICRA Research

- Over half of the respondents indicated that the increased cost of vehicle ownership – driven by multiple price hikes by OEMs and escalating petrol prices – have led to purchase deferrals by the customers. As per ICRA Research, the prices for entry level motorcycles and scooters (<110cc) have increased by 18-25% since January 2020. Retail petrol prices have soared by 10-12% in YTD FY2022 and have been higher by 22-24% on YoY basis in August 2021.
- While most of the responses indicated no downtrading trend, a sizeable proportion believes that the demand has shifted towards entry segment products, possibly due to the income uncertainty caused by the pandemic and the need to conserve savings to meet any unforeseen medical expense requirements.

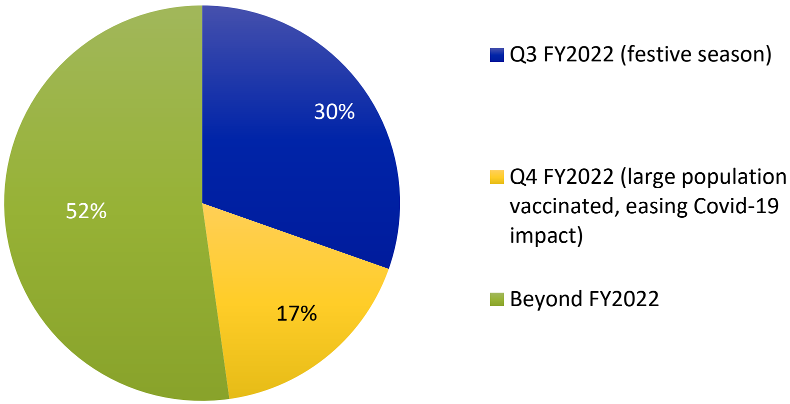
Expectation of recovery in FY2022 appears remote

EXHIBIT: Expectation regarding festive season offtake



Source: ICRA Research

EXHIBIT: Expectation on start of sustainable recovery



Source: ICRA Research

- While wholesale dispatches picked up to an extent in July-Aug 2021 in anticipation of a good festive season, dealers remain skeptical of a third wave severely impacting demand.
- Monsoon precipitation has been subpar till now; healthy precipitation in September remains key for improving rural sentiments, post the 2nd wave.
- While festive sales may support sales in Q3, most of the dealers surveyed believe that a sustainable recovery in demand would be seen only in FY2022.

Supply issues in higher-end models; overall inventory levels still inching-up

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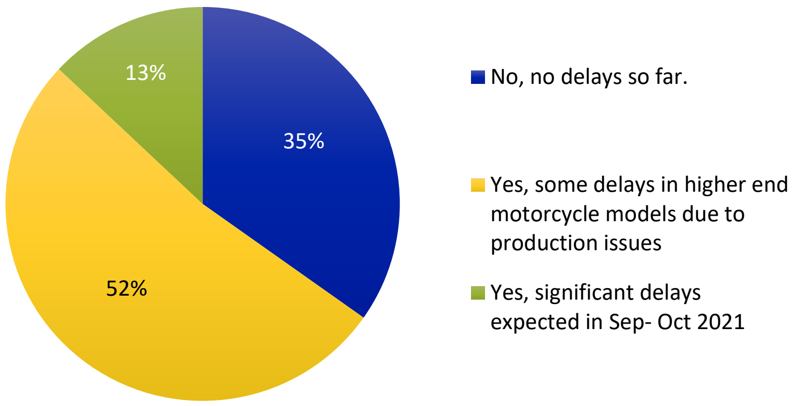
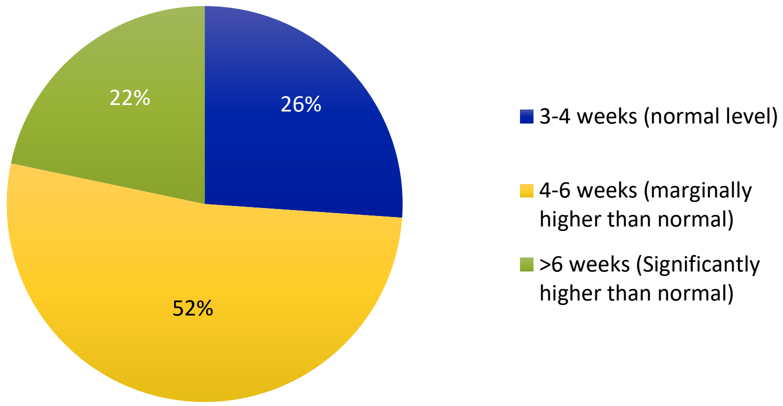
EXHIBIT: Expectation regarding delays in deliveries from OEMs



Source: ICRA Research

EXHIBIT: Dealer Inventory Levels as of Aug end 2021

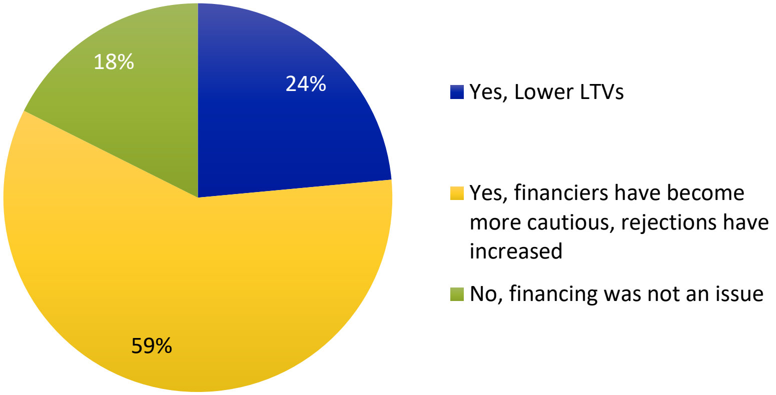


Source: ICRA Research

- As per the respondents, production issues (semi-conductor chip shortages) have already been leading to delays in deliveries of high-end motorcycles. These are expected to continue over the next 1-2 months, impacting availability of models during the festive season.
- Majority of the dealers (~75%) reported marginal to significantly higher inventory levels as of Aug-end. The inventory was likely to have been built-up in anticipation of the festive season – Ganesh Chaturthi, and pre-bookings for Navratri's/ Durga Pooja.
- A lower-than-expected offtake could exert pressure on dealership health and curtail wholesale dispatches, post the festive season.

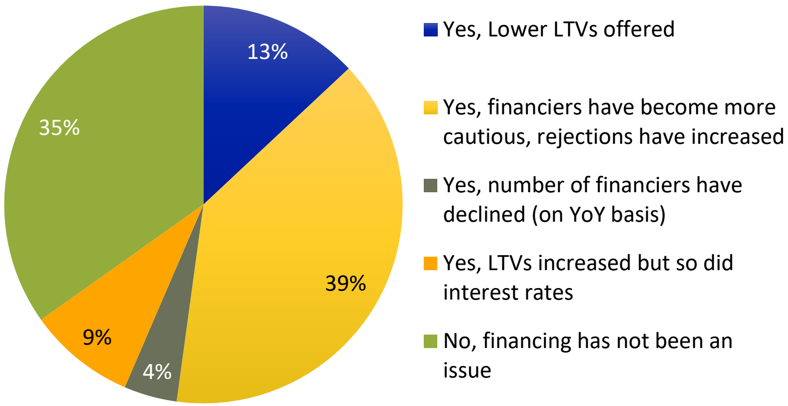
Financiers continue to remain cautious owing to elevated delinquency levels

EXHIBIT: Issues in Financing availability in Q1FY2022 (Jun 2021 survey)



Source: ICRA Research

EXHIBIT: Issues in Financing availability in Q2FY2022 (Sep 2021 survey)

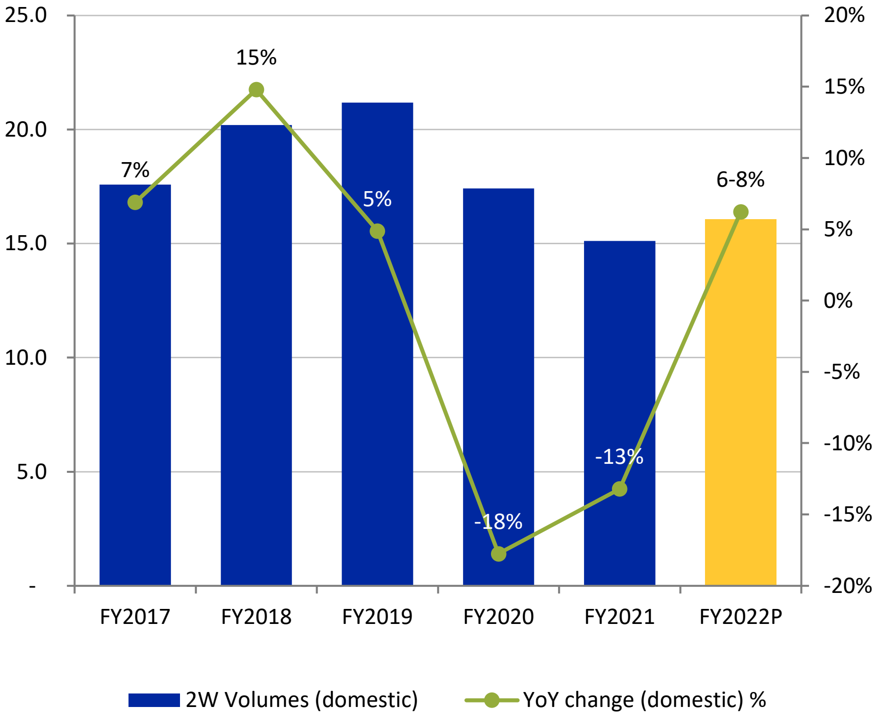


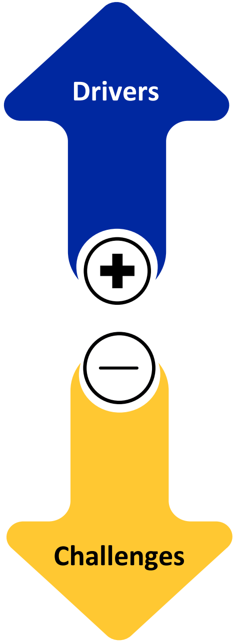
Source: ICRA Research

- With the steep increase in ownership cost over the past three years, dependence on financing in 2W has increased. However, a larger percentage of dealers surveyed indicated, that following the pandemic, multiple forms of caution measures are being exercised by the financier – such as - lower LTV, higher rejection rates, insistence of CIBIL report, higher interest rates etc.
- Faced with increasing delinquency levels (partly attributable to the poor collection efficiency due to the 2nd wave of infections and restrictions), retail financiers have tightened their customer scrutiny; this could impact 2W demand in the festive period and beyond.

ICRA expects domestic 2W volumes to grow by 6-8% YoY in FY2022

EXHIBIT: 2W Industry Growth Prospects (Domestic)





- Increase in pace and extent of vaccination programme and macroeconomic recovery
- Preference for personal mobility due to the pandemic
- Gradual opening of schools, colleges and easing of work-from-home policies
- Decent monsoons and steady agri cash flows aiding rural sentiments

- Rising cost of 2W ownership with upfront price esclations and fuel inflation
- Sub-par and uneven monsoons; could impact rural sentiments
- Possible financing constraints due to rising delinquency levels
- Supply issues for select high-end motorcycle segment due to semiconductor chip shortages

Source: SIAM Data, ICRA Research

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Thank You!