

## 4W demand supply conundrum continues, 2Ws' pain does not mitigate, tractors expect green shoots

- We present an exhaustive Automobile Dealer Check conducted with the 2W, PV and tractor dealers across India covering all the geographic zones. Also we had a detailed discussion with the top notch personnel at FADA (Federation of Automobile Dealer Association) to gauge the current trends in the various segments.
- We wanted to gauge the demand and production scenario post third wave and in the midst of semi conductor shortage crisis respectively.
- Our discussions suggest exactly opposite trends in 2W and PVs demand and supply, while tractors are in slow lane, but expect green shoots shortly.
- The month of February has been seasonally weak for most of the dealers/OEMs.
- The dealerships of following companies were covered under our research-

Two Wheelers	Passenger Vehicles	Farm Equipments
Bajaj Auto	Maruti Suzuki	Escorts
Hero Moto	Hyundai Motors	Mahindra & Mahindra
TVS Motors	Tata Motors	Sonalika
	Suzuki Motors	ACE



SHIVANGH  
AUTOMOBILES

Aditya Motors



RANJEET MOTORS

- Post Wave #1 of the pandemic we witnessed a complete lockdown in April and May of 2020, after which we witnessed a gradual opening up of dealerships and demand.
- Tractor demand immediately zoomed up (27% up in FY21) followed by 2W and PVs. CV demand was last to follow suit.
- We saw a pent up demand in tractors, followed by 2Ws and PVs leading to a strongly revived H2 of FY21, while CVs started to revive in November, which grew well till March 2021, post which we witnessed the deeply penetrated intense and wide spread Wave#2 of the pandemic disturbing the entire industry.
- Therefore post April and May even though the market started opening up, the industry did not revive as expected or in line with the Wave #1.
- Post the peak of Wave #2, 2W demand started dipping month on month on higher acquisition cost, while PV supply started facing constraints related with the global semi-conductor chip shortage.
- CV demand started zooming up, while tractors started slowing down on high base.



- With the onset of Wave #2, the rural markets were impacted as the pandemic penetrated deeply across the nation, thus impacting the two wheeler sector to a great extent.
- Nine months post opening of the markets in June this year, the two wheeler sector has not yet got rid of the sluggishness in February, as per the dealers.
- Dealers mentioned that the demand is 25-30% below the pre-Covid levels.
- The demand is very subdued in both urban as well as rural markets and in both the categories of scooters as well as motorcycles.
- The festive season in Q3 also did not help the cause as some dealerships found them in distress as the festive season this year has posted flat to negative growth when compared yoy.
- Hero dealers mentioned that supply of vehicles is not an issue at all, however high end bikes like X-Pulse is facing some issues related with availability of semiconductor chips.
- Except for few supply issues in Pulsar's higher end bikes and electric version of Chetak , Bajaj as well as TVS dealers mentioned that there has been no impact of chip shortage on their products.
- Inventory in the dealer pipeline is quite huge at 2.5-3 months at the moment as compared to normal levels of 40-45 days for Hero. Bajaj and TVS have inventory levels of about 2 months.
- OEMs are more into dumping inventories at dealers' ends irrespective of retail demand in order to portray a rosy picture of wholesale market share growth. However, the ground situation in retail is quite grim.



- Customer footfalls/enquiries have reduced significantly as compared to pre-Covid.
- Among the 2Ws, models which are having some kind of demand are Splendor & Deluxe (Hero), Pulsar higher versions & Platina (Bajaj), Shine & Unicorn (Honda), Rider 125 cc & NTorq scooter (TVS).
- EV enquiries are rising but availability is a concern as production is very low currently due to chip shortage. Hero dealers voiced concerns that competition from Ola scooters is a big concern for Hero's upcoming EV scooter to be launched in March. Even Chetak from Bajaj will be a stiff competitor for Hero's new launch.
- All the dealers mentioned that pent-up demand witnessed last year has got exhausted.
- Scooter demand has dipped more than motorcycles, while it is expected to pick up shortly with offices and colleges opening up thus regaining normalcy. Top ends of Suzuki Access and Honda Activa are facing supply issues as well.
- There have been quite a few price hikes taken by all the OEMs in the last one and a half year which is making a low end 2W not affordable reflecting in low demand. Fuel price hike is another reason stated by most of the dealers.
- Covid fear is now out of the minds of customers but dealers fear affordability is a big issue which would have a bearing over sales in near term to mid-term as well.



- On the positive note certain regional festivals like Poila Baishakh in West Bengal, Assam and North East, Gudhi Padwa in Maharashtra, Ugadi in AP/Telangana and Karnataka and Ramzan Eid may trigger a bit of demand push.
- Dealers are also hopeful about the upcoming marriage season starting from March end till May end shall result in somewhat rise in 2W demand.
- Expectations of demand bounce back on the back of bumper Rabi harvest is bringing some hope to the dealers.
- Financing of vehicles has improved up to 45% now from 30% a year ago for Hero, but is as high as 60-65% in case of Bajaj.
- Buyers are mainly from service class (80%), while the buyer age group is between 20-45 years.



SHIVANGH  
AUTOMOBILES

Jattari  
Automobiles



- Dealers across India witnessed a strong surge in PV demand post Wave #2 similar to demand observed post Wave #1 and is still continuing post Wave#3.
- Enquiries/footfalls are increasing month on month. Footfall conversion rate has also increased.
- However, the major concern is on the supply side due to which dealers are not able to cater to this rising demand and are losing about 15-20% of their business owing to it.
- The semi conductor chips non-availability issue is still continuing but has eased up by 30-35% from the lows of Q3.
- This issue is more in the premium cars, sedans, UVS, MPVs and hatch back premiums especially the top end variants and AGS (Auto Gear Shipment variants) and AMT of all these models, which the customers prefer more than the low end models which do not have chip issue and are readily available. AGS and AMT versions of all the vehicles of MSIL are attracting high waiting periods of 4-6 months.
- Market leader MSIL is facing this issue more than others due to the higher scale of business, however Wagon R, Alto models are attracting highest demand as chip shortage is not there in them.
- Demand/enquiries/footfalls are high for Alto, Wagon R, Swift, Brezza, Ertiga and Baleno models of MSIL.
- Demand for CNG variants of Wagon R and Ertiga has increased significantly, however supply constraints in the form of non-availability of CNG kits are troubling CNG variants also.
- CNG variants demand has risen to about 30-35% now for MSIL from 12-15% a year ago.



SHIVANGH  
AUTOMOBILES

- MSIL dealers mentioned that their dealer margins are improved by the company considering the fall in their business they are facing due to supply issues. However, dealers of MSIL believe that it is an opportunity loss led by supply issues which MSIL is facing maximum due to its scale of operations.
- Hyundai dealers believe the current drop in supply is close to 20-25% as compared to regular times. However, demand is quite robust.
- Inventory levels in MSIL, TaMo and Hyundai are as low as 12 days.
- Waiting period for most of the high demand vehicles is about more than 3-4 months. MSIL's Ertiga CNG has a waiting period of 6 months (10 months in Mumbai region), while Creta's new variants are also having waiting period of about a year in Metros. Nexon's waiting period is 100 days.
- Among EVs, TaMo's Nexon EV is one of the top performers has 30 days waiting period. EV enquiries are rising day by day. EV contribution of TaMo now stands just above 10% of the total portfolio which was about 5%, 3-4 months ago.
- For TaMo, Nexon remains the top seller followed by Punch and Altroz. Even Harrier has picked up well post a slow start.
- About 80% of the sales comes from Financing while 20% comes from cash
- Replacement buyers across OEMs are close to 20-25%, rests are first time buyers.
- Salaried employees are 50-60% of the buyers across OEMs.
- There is zero discounting in CNG models, while in other models it has come down to just Rs5k-6k on an average.

ACE  
TRACTORS

SONALIKA  
LEADING AGRI EVOLUTION

Jattari  
Automobiles

FARMTRAC  
AN ESCORTS PRODUCT

- On an unusually high base of last year, tractor industry has been growing at a very slow pace. Dealers are staring at a 35-40% fall in tractor sales in the month of February.
- Demand has slowed down in most parts of the country due to delayed harvest of Khariff, however now that it is past, all eyes are on the bumper Rabi harvest which will be initiated by early March.
- Unseasonal rains in East India at the end of January and start of February impacted sales over there and has resulted into 60-65% of normal demand.
- Dealers mentioned that construction activities are yet to pick up resulting into low demand for non-agricultural usage of tractors.
- In western region (Gujarat and Rajasthan), delayed monsoon led to softening of demand. Dealers in west mentioned that 30% of tractors in west are sold in Q1, 40% in Q2 while 30% is sold in other quarters collectively. This year February is weaker than last year's in addition to a cyclical downturn.
- Demand is also getting impacted due to farmers getting lower than MSPs. Extra output of crops especially paddy is getting wasted due to lower rates offered to them.
- Going forward, with surplus water, good reservoir levels and a bumper Rabi crop harvest, dealers are upbeat for the upcoming demand in the months of March to June.
- Dealers are hopeful about this season to end on a positive note and believe that the current lull is temporary.
- There are no supply concerns in tractors as there is hardly any application of semi conductor chips in them.
- Inventory levels are close to the normal rate of 30-40 days.
- Covid third wave did not impact demand much in any geography.





SHIVANGH  
AUTOMOBILES

Yogesh Tractors

- Demand situation for 4Ws and CVs remains robust, while 2Ws are facing solid issues on demand front.
- Supply of smart conductors still remains a big issue in 4Ws, in spite of which TaMo has been tackling this issue very well with alternate sources, buying semi conductors at higher rates and making affordable EVs, CNGs and other vehicles. Therefore, TaMo has established itself as a very strong brand and is winning market share through its two star performers Nexon and Harrier. Punch is also getting a very strong response but it is too early to comment.
- MSIL lower end vehicles are selling very strongly as there are no constraints of supply, but there is an issue of procuring CNG kits required for CNG variants of Wagon R and Ertiga due to which these models are running with high waiting periods. As we climb up the ladder, supply issue of semi conductors becomes more and more intense.
- M&M's Thar and XUV 700 are performing exceedingly well, but the company is losing out business again due to chips issue. Even their top seller Bolero is facing supply issues. However, they are doing very strongly in the pick-up segment where use of chips is very less.
- Supply constraints are eased up by 20-25% from the lows of 3-6 months ago. It will still take at least a year to fully normalize; probably in CY 23.
- Inventory levels are close to just 10-12 days.
- Demand in 2 wheelers is down significantly due to affordability



SHIVANGH  
AUTOMOBILES

Yogesh Tractors

- Inventory levels are more than 2.5 months. Secondary dealership channels have even more inventories (50% of total dealerships) which are not stated by OEMs while counting inventories. Dealers and sub-dealers are therefore loaded with inventories and are finding it very difficult to pay their debt.
- Shift towards 2W EV demand is happening at a good pace, but due to very low capacities in EVs the waiting period is 2-3 months. EVs are now 4-5% of total 2W sales and this contribution is expected to move up with schools and colleges opening up and EV scooters shall find great demand.
- Tractors are now subdued but shall soon pick up with a good harvest expected in March-April, good monsoon last year, increase in acreage for harvesting, and constant agricultural commodity prices. Demand in North (35-40% of total Rabi output) and Central should drive the near term growth.
- CVs are the bright spot with huge demand and revival of the industry but it is plagued by heavy discounting, which is not helping the bottom-line although it is bolstering the topline. There is a very stifling competition to win market share among the OEMs.
- On the extremely low base of last year, double digit growth can be seen in CVs with government emphasizing on capex. Volume numbers are therefore expected to move up even more.
- 3W market is now completely focused on CNG or EVs which contribute more than 50% of the market and is rising fast. There is also an uncertainty about permits currently.
- To sum it up, FADA believes that demand wise, the best placed is CVs, followed by PVs, then tractors with 2Ws at the bottom. Supply wise it is absolutely opposite.



Hero



FORTPOINT  
A RELATIONSHIP OF TRUST



SHIVANGH  
AUTOMOBILES



ACE  
TRACTORS

- We believe that apart from 2Ws, things are not bad for the rest barring the supply issues for the PVs.
- 2W demand may remain soft in near-midterm as affordability and rise in fuel prices have killed the demand across the country. The lower end is suffering to the maximum. With offices and colleges opening up demand for EV scooters may see some pick up.
- Therefore Bajaj Auto is best pick among the 2Ws with more than 50% exposure to exports where there is a good demand especially in the developing markets of South East Asia, Africa and LatAm.
- As far as PVs are concerned, supply issue may take longer time to come back, however, it is difficult to project the timeframe. With demand expected to remain robust, we expect PVs to be the best placed segment in medium to long term and TaMo shall continue its excellent performance even better once the supply issue resolves. M&M and MSIL also shall see a good pick up in their numbers by then.
- Tractors are also well placed to take advantage of the expected improvement in the rural economy though growing at a low pace on high base currently. Therefore M&M is our favorite pick which is well poised to take advantage of the rural story along with its rejuvenated UV, EV and CV stories and focused capital allocation strategy.
- CVs are growing at a rapid pace and should continue to do so considering the higher thrust on Capex by the GOI. However, we see a cut throat competition in this sector which is resulting in lower profitability despite superb volumes. Therefore the player who sets its cost structure well in place to offset higher discounts shall be the winner. We like both TaMo and AL in this space.

## DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.