

Subdued trend for 2Wheelers continue, PV demand good, tractors witness a stable trend

- 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 an industry expert who was the top notch personnel at FADA (Federation of Automobile Dealer Association) to gauge the current trends in the various segments.
- Our discussions suggest weakness in two wheeler sales except for the EVs, while for PVs the demand remains strong but production constraints still remain on the automatic version and higher variants of SUVs. While tractors are performing stable and strong.
- 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	ACE
	Suzuki Motors	

Two wheelers – Demand remains in slow lane



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RANJEET MOTORS

- Since the pandemic weakened last year, rural demand was expected to post a strong recovery. However, dealers mentioned that rural demand for two wheelers has only slightly grown.
- Urban demand is much better than rural demand mainly driven by scooterization and opening up of schools, colleges and offices.
- The festive season in Q3 was nothing meaningful to lift up the two wheeler performance.
- Hero dealers mentioned that supply of vehicles is not an issue at all, however demand is concentrated over Splendor and Glamour. The higher segment new launches of X-Treme and X-Pulse and their variants are also fetching some demand, but it has reduced since their launches
- Reduction in Hero volumes is led by lower demand for the mass segment models such as CD Dawn and CD Deluxe. Also presence of fewer scooters in Hero's portfolio is hurting demand.
- Demand in February is down by 5-10% yoy at most of the dealerships of Hero. Higher cost of acquisition ever since the BS VI norms were implemented and higher cost of operations in line with sky rocketing fuel costs has impacted the 2W segment, especially the price sensitive mass segment and rural markets.
- Apart from this, the inventory days for Hero have been close to 55-60 days which indicates lesser retail demand as compared to wholesale demand. This is leading to financial stress at some small dealership.
- Discounting is minimal from the company's side, however price hikes have been taken at regular intervals to the tune of 1-2%.



- Except for few supply issues in Pulsar’s higher end bikes, Dominar 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 at normal levels of 40-45 days for Bajaj and TVS.
- Customer footfalls/enquiries are subdued for Hero and Bajaj. Conversion rate is low at 10-15%
- Models which are having some kind of demand are Splendor & Glamour (Hero), Pulsar 125cc and Chetak EV (Bajaj), Activa (Honda), Raider 125 cc, NTorq and IQube EV scooter (TVS).
- EV has gained a super strong and rapid hold on the markets with all the scooter launches in EV fetching solid demand. Customers are ready to bear the one-time high cost in EVs rather than incurring the recurring high operational costs led by rising fuel costs.
- 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 all in the upcoming months may trigger a bit of demand push.
- Dealers are yet to see any meaningful demand during the on-going marriage season. They are hopeful for the coming months when it gets thicker.
- 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.



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- Dealers across India are witnessing a strong surge in PV demand ever since the pandemic has subsided.
- Enquiries/footfalls are increasing month on month. Footfall conversion rate has also increased.
- However, the major concern is still 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 quite a lot.
- 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
- On the other hand, the young customers are not favouring the entry level or small hatchbacks like Wagon R, Alto models and are ready to wait till the SUVs are available.
- Demand/enquiries/footfalls are high for Brezza, Ertiga, Grand Vitarra and Baleno models of MSIL.
- Demand for CNG variants of Eco and Ertiga has increased significantly, as they are used for commercial purpose which is the price sensitive segment. Dual versions (Petrol & CNG) are fetching highest demand.
- CNG variants demand has risen to about 40% now for MSIL from 12-15% couple of years ago.



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- Hyundai dealers are also facing similar problems as the company is unable to cater to full demand for its top sellers Creta and Venue.
- Inventory levels in MSIL, TaMo and Hyundai are as low as 15-20 days.
- Waiting period for most of the high demand vehicles is about more than 4-5 months. MSIL's Ertiga CNG has a waiting period of 6 months (10 months in Mumbai region), while Cretta's top end variant is also having waiting period of about 8-9 months in Metros.
- Among EVs, TaMo's Nexon EV is one of the top performers and has 20-25 days waiting period. EV enquiries are rising day by day. EV contribution of TaMo now stands just above 15% of the total portfolio which was about 5%, year ago. Tiago EV has a waiting period of 2 months.
- For TaMo, EV versions of Nexon and Tiago remain the top sellers followed by Punch and Altroz. Even Harrier and newly launched Safari have picked up very well.
- As far as M&M is concerned, chip shortage remains an issue as their entire portfolio is of SUVs where this issue is prevalent, leading to a huge order book.
- M&M dealers mentioned that the demand for M&M is robust, mainly for the Scorpio Classic and the top versions of all the XUV variants. However, they are running with huge waiting periods of upto a year.

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TRACTORS

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- 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.
- Discounting in low demand, readily available small hatchbacks like Alto, Wagon R segment is quite high in the range of Rs40K-50K. Apart from that there is hardly any discount given by any of the players.

Tractor demand remains robust, February to see a short term blip



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Yogesh Tractors

- Tractor demand has remained robust throughout the year following its seasonal patterns. Similarly, February has observed a similar pattern.
- Demand has been strong in most parts of the country on the back of above normal monsoon, good Khariff output, full reservoirs and is expected to do good in the following months on bumper Rabi crop.
- Farmers and dealers both are upbeat further because of absence of any unseasonal rains unlike last year when February rains spoiled the crops.
- Demand is also getting impacted positively due to farmers getting higher than MSPs. There is no issue related with any of the crops. Cash crops like mustard, wheat, rice, potato, cotton, sugarcane, groundnut etc are have given plenty of output and are finding solid off-take pan India.
- Dealers expect a strong Q1 of FY24 as seasonally Q1 is strongest.
- 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 days.
- Demand is high in >45 HP tonnage segment. M&M's Yuvo range of tractors are attracting highest demand among the new launches.



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Yogesh Tractors

- Demand situation for SUVs, big cars, MPVs and CVs remains robust, while 2Ws and small cars are facing issues on demand front.
- Supply of smart conductors still remains an issue in 4Ws, in spite of which TaMo has been managing 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 Tiago EV variants. Punch, Harrier and new Safari are also getting a very strong response
- MSIL vehicles are finding demand at the upper end of the spectrum where availability is an issue due to chip problem. While at the lower end of the spectrum the vehicles are readily available but there is very low demand.
- 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. Among the latest launches, Scorpio variants are fantastically performing.
- Supply constraints easing will still take some time. Production of chips in India soon shall solve the issue.
- Demand in 2 wheelers is down due to affordability and high fuel costs.
- Inventory levels are more than 2.5 months for 2Ws. 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.



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- Shift towards 2W EV demand is happening at a great pace, but due to very low capacities in EVs the waiting period is 2-3 months. EVs are now 15-20% of total 2W sales and this contribution is expected to move up with new launches coming up and expansion in various cities take place (Vida of Hero and Chetak of Bajaj).
- Tractors are on a strong wicket 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 top 2 OEMs.
- On low base of last year, a strong 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, demand wise, the best placed is PVs, followed by CVs, then tractors with 2Ws at the bottom.



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- 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 impacted the demand across the country. The lower end is suffering to the maximum.
- EV scooters have captured a great portion of the 2W pie as customers are attracted to the operation cost saving vehicle. Bajaj's Chetak and TVS's iQube are the front runners in this segment.
- We prefer Bajaj Auto among the 2Ws as exports seemed to have bottomed out and can see only upside from current levels.
- 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 are also witnessing a strong order book thus offering a good visibility to their volumes. Their SUV portfolio lends them a good comfort.
- Tractors are also well placed to take advantage of the expected improvement in the rural economy though growing at a low pace 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 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.

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