

AUTOMOBILES

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GST rate-cut impetus visible; conflict concerns on fleet demand

- Demand across segments (PV, CV & E-2W) remains structurally strong, led by small cars that jumped 3x post GST rate rationalization
- Supply constraints are currently capping dispatches; dealer inventory down from 35 days to ~15-17 days in 4W segment
- EV adoption is progressing steadily (especially E-2Ws), but remains constrained by range anxiety, followed by charging infra concerns

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We hosted the management of Popular Vehicles & Services Ltd (PVSL), part of the Kuttukaran Group. PVSL operates the dealership associated with various OEMs:

- Maruti Suzuki, Jaguar, Land Rover, Audi on PV side
- Ather on the 2W side
- Tata Motors and Bharat Benz on the CV side

Along with this, PVSL also operates used car dealerships, service centres and accessories distributions.

Key Takeaways:

Strong demand continues; supply limits hit volume; inventory levels drop:

Demand across segments (2W/4W/CVs) continues to be robust across segments, with urban and rural markets holding up well. Most business segments recorded peak sales volumes in March, with Maruti Suzuki being an exception as supply chain constraints, particularly in small cars, limited growth. In Q4, supply was ~2/3 of the requirement, leading to a loss in retail sales volume. Effectively, inventory levels fell sharply to ~17–20 days vs normal average of ~35 days.

Robust small car demand revival post GST cuts: Demand (bookings and enquiries) for entry-level cars (e.g., Wagon-R, Celerio etc.) has increased ~3x post GST rate rationalisation, marking sharp recovery after a consistent phase of slowdown. Growth was driven by first-time buyers and improved affordability. However, demand-supply mismatch persists, constraining deliveries.

Limited impact of West Asia war situation on retail demand, fleet segment affected:

Despite geopolitical tensions, retail demand has not been dampened across PVs and E2Ws, as no broad-based demand slowdown is observed. The impact is concentrated in the taxi/fleet segment given the lower flight traffic, on account of fall in air travel impacting airport taxi demand and uncertainty around CNG availability. Export and import linked regions (e.g., Tirupur) have seen logistics disruptions, impacting the CV demand sentiment.



CVs: Supply-side disruptions impacting near term volume: Tata Motors' CV segment faced supply chain constraints (especially HCVs) in March. LCV demand remains healthy, but HCV retail conversion has been delayed. Deceleration in exports is weighing on the freight demand and utilisation..

PV trends remain stable with no major mix change; SUV demand stays steady: No significant shift in variant mix from the past (pre-GST phase):

- Mid variants: ~30–35%
- Entry: ~10–15%
- Premium: ~15–20%

Compact SUV demand continues to be steady and is not seeing any disproportionate acceleration. Regional trend (southern) is in line with the national trend. The guest observed some overlap in demand across new launches (e.g. Victoris and Grand Vitara) in the initial period, however the momentum has picked up with increased customer visits to showrooms.

EV ecosystem: Healthy traction, but structural concerns persist: Metro cities (e.g., Bengaluru, Hyderabad) typically have a higher EV penetration. There are concerns regarding road tax being applicable on EVs are still uncertain as the defining factor remains the total cost of purchase and not the taxation. Ather Energy demand remains robust despite E2W subsidy reduction (~Rs 5,000 impact negligible).

Key concerns limiting faster EV adoption: a) Range anxiety (top concern) b) Charging time and emergency usability c) Weak resale values (significant depreciation in early adopters). Battery-as-a-Service (BaaS) model is yet to gain traction due to low customer awareness and the lack of training and understanding at the dealership level.

Electric 2W demand broad-based and not subsidy-dependent: Electric 2W demand is driven by a diverse customer base: a) First-time buyers b) Gig workers c) ICE-to-EV switchers. Importantly, the removal/reduction of subsidies has not materially impacted demand, indicating the improving underlying acceptance.

Pricing, fuel and financing: Limited demand sensitivity: Fuel price hikes have minimal real impact on PV demand. The impact of incremental annual cost is relatively small for small cars like Wagon R and Celerio (~Rs 3,000/year for avg usage). Interest rates remain steady at the current level and no signs of loans getting expensive are visible, supporting affordability.

Customer sentiment healthy, underpinning demand: Currently, the waiting period is ~1.5 months across models. Discounts have reduced significantly post GST cuts (~1/3 of the earlier levels). Accessory penetration has increased modestly across the segments.

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Note: Recommendation structure changed with effect from 21 June 2021

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