ICRA

INDIAN AUTOMOBILE DEALERSHIP INDUSTRY

Demand environment to remain favourable in FY2024 amid improving supply

MARCH 2023

Highlights

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ICRA's sample of auto dealerships is estimated to post a healthy revenue growth of 27-30% in FY2023 and 11-13% in FY2024 on the back of volume growth across segments and elevated realisations.

Operating margins shall remain higher than pre-Covid levels, despite some moderation on a sequential basis.

Notwithstanding higher interest costs and increased debt levels owing to higher inventory holding, credit metrics of ICRA's sample set are expected to remain moderate.

- The domestic automobile volumes witnessed a healthy revival in FY2023, aided by pent-up demand, improved economic activity, increased mobility, and relatively lesser supply-related challenges etc. Passenger vehicle (PV) and commercial vehicle (CV) segments recorded strong growth, while two-wheeler volumes are yet to reach pre-Covid peak levels despite a recovery in FY2023. ICRA expects overall volume growth across the PV, 2W, and CV segments to be healthy at 12-15% in FY2023 and 6-9% in FY2024.

- Recently, ICRA conducted a survey of auto dealers, which received 22 responses from dealers across PV, CV, 2W segments with presence in rural, semi-urban, and metro areas. Over 70% of PV and CV dealer respondents indicated that demand was better than pre-Covid levels, while most of the 2W dealer respondents (57%) indicated that demand was largely in line with last year. Moreover, 87% of the respondents pointed out that supply constraints, which was a major challenge last year, had started to ease out.

- The survey also indicated reduced waiting periods and improved sales conversion ratio while discounts remain low, especially in the PV and CV segments. Around 43% of the respondents indicated that discounts offered by dealers to customers reduced compared to last year. Discounts in the CV segment were also lower compared to last year on account of continued recovery in demand. Discounts remained minimal in PV segment; however, overall demand has witnessed some moderation, even as it remains relatively strong for select models.

- ICRA's sample of 24 auto dealerships is set to record a revenue growth of 27-30% in FY2023 aided by a strong uptick in volume and better realisations. Revenue growth is expected to remain healthy at 11-13% in FY2024 aided by increase in price of vehicles, healthy demand in CV sector and high demand for select PV models even as overall PV demand moderates.

Highlights

ICRA's survey of 22 dealers indicates improving supply, reducing waiting periods, and normalising inventory levels. Demand for CV remains strong; overall demand for PVs witnessed some moderation while demand for select PV models remains high. Recovery in 2W demand remains sluggish. High cost of ownership and increased borrowing costs are major headwinds.

- After recording higher-than-average operating margins in FY2021 and FY2022 of 4.8% and 4.6%, respectively, on account of lower discounts given the strong pent-up demand, ICRA expects operating margins of auto dealerships to moderate marginally by ~30-50 bps, going forward, as improved supply on the back of easing semiconductor shortage could weigh on the margins.
- Notwithstanding the benefit of operating leverage from increased scale, net margins of auto dealerships are expected to moderate by 30-40 bps to ~1.7-2.0% going forward, given the increased interest rates and higher debt levels with normalisation of inventory leading to higher interest costs.
- As per the survey, the dealer inventory levels are rising. Around 50% of PV dealers indicated that inventory holding improved to 4-8 weeks currently against less than a month's inventory last year. On the other hand, CV dealers indicate that current inventory holding is for less than a month (2-4 weeks). 80% of 2W dealer respondents reported that they have around 4-8 weeks of inventory.
- Inventory levels dipped sharply in H2 FY2022 as semiconductor shortage impacted vehicle production, especially in the PV segment. However, with semiconductor availability improving sequentially, inventory levels increased over the past couple of quarters. We expect inventory holding to normalise gradually, going forward.
- Credit metrics of ICRA's sample improved significantly over the past two years supported by lower debt (on account of low inventory), favourable interest rates, and higher margins. ICRA expects debt metrics of ICRA's sample to remain moderate in the near term.

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Thank You!