

FADA urges banks not to overfund dealers with high inventory

RED FLAG. Stock of passenger vehicles touched an all-time high of 63-66 days in October

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To reduce the passenger vehicle inventory stocks, the Federation of Automobile Dealers Associations (FADA) will approach financiers urging them not to overfund automobile dealers.

Citing dealers not being able to make a profit with inventories going beyond 30 days, the body will ask financiers to check dealer inventories before releasing funds.

"We are approaching bankers who provide us inventory funding to not overfund us. If a dealer is carrying high inventory, why provide funds as they are not able to rotate the stock in 60 days? It is a high cost to the dealers. We are also in talks with the manufacturing body for inventory corrections," Manish Raj Singhania, President-FADA, told *businessline*.

HIGH PV INVENTORY

In October, the passenger vehicle inventory touched an all-time high of 63-66 days with dealerships signaling capacity concerns. The two-



PILE-UP. FADA plans to ask financiers to check dealer inventories before releasing funds

wheeler inventory is between 40 and 45 days. According to FADA data, the passenger vehicle inventory in October 2022 was between 35 and 40 days, while the two-wheeler inventory was 40-45 days.

FADA will also connect with the Society of Indian Automobile Manufacturers (SIAM) to devise a plan to bring down the inventory.

RED FLAG

businessline had earlier reported on FADA flagging off inventory build-up and had asked Original Equipment Manufacturers (OEMs) to monitor their increase in manufacturing across the

passenger vehicle segment.

"FADA has issued a red flag, urging OEMs to not only moderate vehicle dispatches but also to introduce more aggressive and attractive schemes promptly. This dual approach is essential to help dealers clear their inventory before year-end, averting the potential financial repercussions associated with excess unsold stock," FADA said in a statement.

"We urge the OEMs to recalibrate their demand and produce vehicles that are in demand," added Singhania.

BETTER DAYS AHEAD

According to analysts, auto dealers may find some cush-

ion due to the increase in sales volume in the remaining part of the year. According to CRISIL, automobile dealers will see revenue accelerate 8-10 per cent this fiscal, driven by a 5-7 per cent increase in sales volume, premiumisation and price hikes of 2-5 per cent by OEMs.

"Auto-dealers' overall sales volume will grow 5-7 per cent, driven by steady growth in all vehicle segments. PV sales will grow 6-8 per cent, led by improved semiconductor supplies and healthy domestic demand, especially in the fast-growing utility vehicles segment. CV sales volume will grow a moderate 4-6 per cent, supported by the government's infrastructure push, increased budgetary outlay and steady replacement demand. Despite a low base, tepid rural demand and increased competition from their electric versions, two-wheeler sales will also grow moderately at 5-6 per cent, supported by demand for executive and premium motorcycles," said Mohit Makhija, Senior Director, CRISIL Ratings.