

Car makers on road to pre-Covid profit as festival sales soar

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The festival season, which started on Monday with Navratri and ends with Diwali on October 24, is expected to bring cheer for passenger-vehicle (PV) makers in more ways than one. Not only is it expected to be a record in terms of volumes, it will also see a swift recovery in the profitability of PV makers and take it closer to pre-Covid levels as the overall sales mix gets a boost from higher sales of top-end trims and a softening of commodity prices.

“This festival season may see a record year for PV retails and even the margins are expected to see sharp year-on-year improvement and inch closer to the comparable pre-Covid level because PV makers are likely to benefit from a richer product mix, price hikes and a softening of raw material prices,” said Hemal Thakkar, director, CRISIL Research.

SPEEDING UP

650,000 to 700,000

Expected PV retail sales in the next 2 months

► Sharp increase in average selling price to boost YoY margins of companies and take them closer to pre-Covid levels

Source: Crisil Research

ORDER BOOK

57,000

Bookings for Maruti's Vitara

130,000

Bookings for Brezza

► Around 43% bookings have come for top-end trims

► Over 100,000: Booking clocked by Mahindra for Scorpio N

► Wait for model extends from 70 to 90 weeks



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Source: Companies/dealers

The fear is that what's happening in Europe could lead to a bigger problem, which is more financial in nature," said Andrew Holland, CEO of Avendus Capital Alternate Strategies.

Car makers...

He expects cumulative retail sales in October and November to touch a record 650,000-700,000 units and dispatches to dealers to cross a million units in the September quarter.

On average, the festival period contributes close to 27 per cent of the annual sales of PV makers. The bookings of some of the recently launched models underscore up-trading trends. Maruti Suzuki India has an order book of 130,000 units of the Brezza and 43 per cent of the bookings are for the top-end variant.

The Grand Vitara, another offer from the company going on sale on Monday with prices in the range ₹10.45-17.05 lakh (ex-showroom, Delhi), has got bookings of 57,000 units, 42-43 per cent of which are for the top-end trim, according to Shashank Srivastava, executive director, Maruti Suzuki.

The volumes the industry clocks this season will depend on the ability of companies to address the demand, he said.

Maruti is operating at 95 per cent of its production capacity.

"Even as the average selling price of our models has gone up to ₹7,12,000 from ₹6,00,000 three years back, it's not proportionate to the increase in commodity prices," said Srivastava.

While the current trend is likely to bump up the company's margins by 200 basis points year-on-year to 10 per cent, they will still be way off the 14.5 per cent margin it had in the pre-Covid phase, said an analyst at a domestic brokerage. Similarly, Mahindra, which started deliveries of the Scorpio N on Monday, has got bookings of 100,000 units. Of those, close to 45 per cent are for the top-

end trim, according to dealer sources.

Depending on the variant one has chosen, the wait is 70 to 90 weeks said Veejay Nakra, president (automotive sector), Mahindra and Mahindra. The company is working on increasing capacity as a result of which it would be able to reduce the waiting period, he said..

"We are buoyant on the number of bookings we have. A lot will depend on the ability to manage supply chains. The company's plans of being able to deliver 7,000 units this festive season are on track," Nakra said. With the sales of expensive models having risen sharply over the past couple of years, Mahindra claims to be the market leader in revenue terms.

While strong demand for top-end trims and negligible discounts on select models are set to boost the overall margins of PV makers, retailers of auto companies too are expected to laugh all the way to the bank as robust demand means they would not have to spend on market activation, promotion, etc. Therefore, dealer margins will remain intact -- for the first time in four years, said Manish Raj Singhania, president, Federation of Auto Dealers Association (FADA). "People are spending. We expect the year to be a record one for PV retails. Earlier, we were cautiously optimistic, now we are optimistic," said Singhania.

Top 5 states...

This is most visible in the share of formal jobs created.

Of the 12.2 million jobs India added in the formal sector in 2021-22, according to the Employee Provident Fund Organisation (EPFO) data, 40 per cent, or 5 million, were in the wealthiest five states with the highest per capita income: Delhi, Karnataka, Haryana, Telangana and Gujarat. The net addition for the poorest five --