

Looking Back at 2014

As we start off on the exciting automotive journey of 2015, it is time to reflect at the major happenings of 2014. These events shaped the automotive year 2014 and will influence 2015 as well.

Excise Duty Cuts and Hanging on a Wire: In Feb 2014, the previous government slashed excise duties on small cars from 12% to 8%. This was done to support the automotive industry considering sales were on a downward spiral at the time – 2013 had ended with a 7.5% drop in passenger vehicle sales. The immediate impact was little as sales continued to fall.

However, somewhere in the middle of the year, things had started to improve. Perhaps it was the lower excise duty, coupled with the optimism from the formation of a new government, that was doing the trick.

The real impact of lower duties was seen in December as carmakers realised that the government may not continue with the excise duty cuts. Advertising ensured that customers became aware of impending price increases in January. As a result, December passenger vehicle dispatches were up more than 16% over last year.

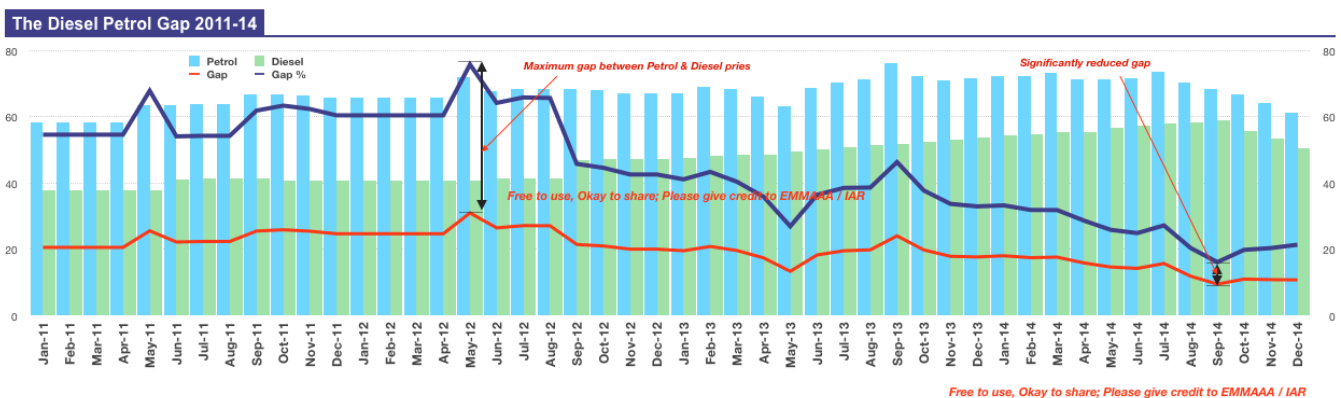
As a result, January dispatches may fail to sizzle as price increases kick in.

Safety Norms – Will They, Won't They: Through parts of 2014, several testing agencies picked up random Indian cars and subjected them to collision tests. The impact was catastrophic and it shattered the cars and our confidence in them, beyond oblivion. Nearly all cars – Maruti Alto800, Tata Nano, Datsun Go and Volkswagen Polo – failed the tests miserably. As a result, the clamour for safety norms reached cacophonous levels as pressure groups, think tanks, automotive experts,

and lobbyists all collectively buying for airbags. We threw in our two pence into the mix as well.

In 2015, from the indications that we are getting, the much awaited safety norms would be enforced. This would be good news for the long-term sustainability of the industry, even though carmakers may struggle to bear the burden in the short term.

Diesel Deregulation and the Resulting Massacre: Diesel passenger car sales saw a huge jump as the price gap between diesel and petrol prices soared between 2011-12. This was because the government had deregulated Petrol prices and they were moving in-line with soaring global crude prices. At the same time, diesel prices were still controlled. As the gap between diesel and petrol increased, customers migrated towards diesel powered cars. This fuelled a demand that saw waiting lists for diesel models stretching into months.



All that is changing now as diesel is also deregulated. Even before that, the government had been systematically correcting diesel prices by increasing pump prices by INR 0.5 every month. Now, after deregulation, the gap between diesel and petrol has been shrinking and customers have been moving back to Petrol cars. This is a nightmare scenario for any carmaker who had invested heavily in diesel engine production capacity recently.

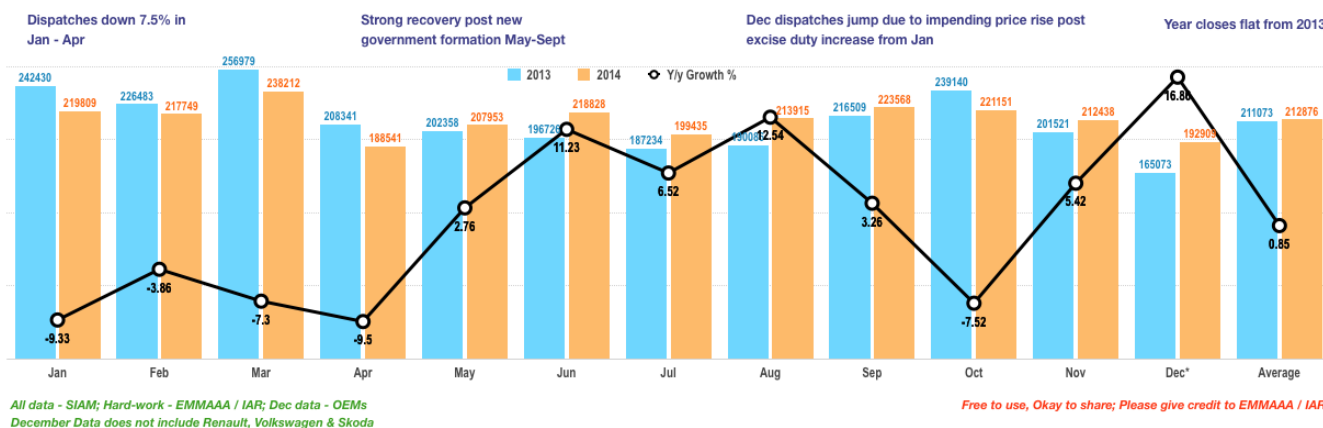
Global Crude Prices Collapse, Indian Pump Prices Decline:

During the last quarter of 2014, global crude prices corrected by nearly 50%. Indian pump prices fell as well but not really in-line with the fall in global crude prices as the Indian government decided to raise the duty on fuel to make merry while the sun shines.

Interest Rates Continue to Stay High: While most of us waited eagerly through 2014, the Reserve Bank of India declined politely and kept the lending rates constant. As a result, car loan rates stayed high – double digit rates in most cases. Now, with inflation under control over the last few months, we expect interest rates to be cut by 25 to 50 basis points in the first half of 2015. This should give a boost to car sales.

Optimism Clouds Reality for a Few Months: With the formation of a new government at the centre, car sales bounced up. There was a sudden optimism in the market and this was evident in the improvement in passenger car dispatches during May-Sept 2014. However, October proved to be a dampener and we have been cautious since.

How 2014 Panned Out - Monthly Sales Data Analysis



New Vehicle Launches Drive Sales: Passenger vehicle sales in 2014 are expected to end at the same level as 2013. This is in sharp contrast to the trend last year when sales had dipped by 7.5%. Most of the recovery was driven by the launch of new car models by Hyundai, Honda and Maruti-Suzuki. While Honda rolled out the New City, Amaze and Mobilio to improve its market

share, Hyundai consolidated its grasp on the market with the i10 Grand, i20 Elite and Xcent. Maruti-Suzuki too had two important car launches – the Celerio in the Compact segment and the Ciaz in the Executive segment. Both worked and the company gained marketshare as a result.