

Twin blow for two-wheeler sales this festive season

Cost of ownership up 25% after hike in insurance cost



Navratri began yesterday, heralding the festival season, but two-wheeler manufacturers are far from celebrating.

The festival season, intervening Navratri and Diwali, is considered highly auspicious for purchases in India and accounts for a chunk of sales for automobile manufacturers. Indeed, in the last ten years, around 30% of two-wheeler sales (~20 million sold annually) has come in the festive months.

But this year is expected to be different following two major pronouncements – first, the Supreme Court’s decision to increase the period of third party cover from one year to five years effective September 1, and second, the decision of the Insurance Regulatory and Development Authority (IRDA) to increase the personal accident cover from Rs 1 lakh to Rs 15 lakh effective October 3.

These two developments have pushed up the insurance cost, and thereby the cost of ownership, for buyers. Predictably, the industry is worried sales would be impacted.

How this impacts sales of two-wheelers

In order to understand the impact of these announcements, we have taken an example of Hero Deluxe, which accounts for ~55% of sales in the economy segment. The economy segment has entry level motorcycles given its affordability (Rs 40,000-45,000) and low maintenance requirement.

Impact on entry-level motorcycles

	Before September 2018	Current (October 2018)
Change in insurance	Third-party premium duration 1 year + personal accident cover Rs 1 lakh	Third-party premium duration 5 years + personal accident cover Rs 15 lakh
Vehicle cost (ex-showroom Mumbai) in Rs	48,900	48,900
Insurance cost* in Rs	1,600-1,800	9,000-9,500
Total cost in Rs	50,000-51,000	58,000-59,000
Insurance as percentage of vehicle price	3-4	18-19
Percentage increase in cost of ownership	-	25**
Impact on sales	-	High

Note:

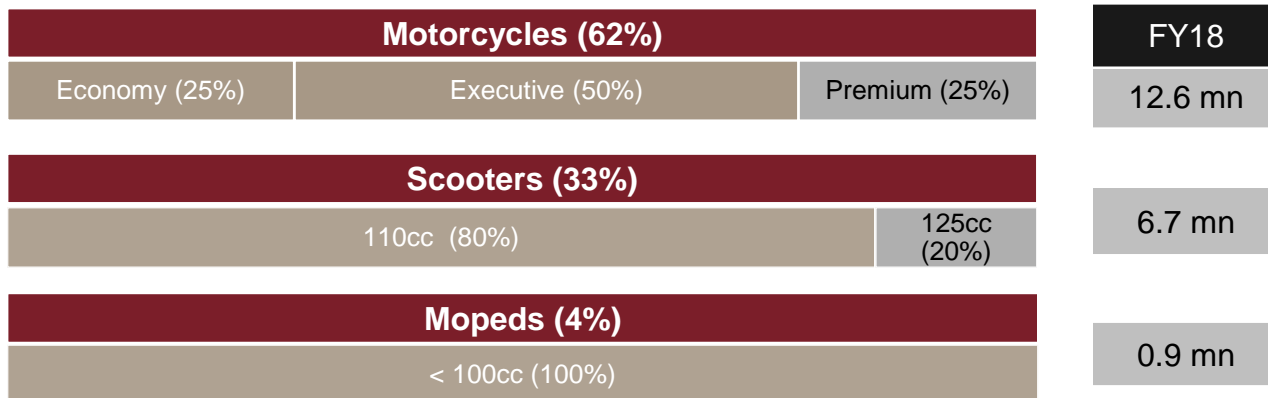
* Insurance cost has three components: own damage (OD), personal accident cover (PAC) and third party premium

**25% increase in cost of ownership includes fuel, equated monthly investment and maintenance, in addition to hike in insurance cost

Source: CRISIL Research

Similar to the steep increase in cost seen in this case, other segments such as scooters and mopeds are also seeing a sharp uptick in price, which is impacting retail sales.

Impact on different two-wheeler segments



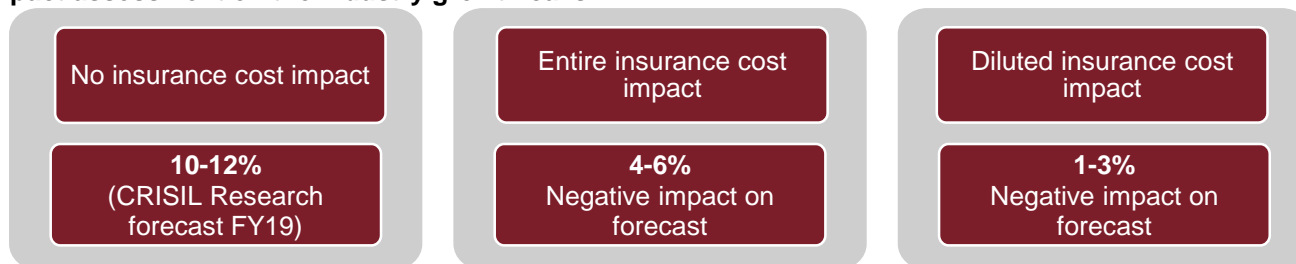
Note:

Size of the coloured bar indicates sub-segment's contribution to segment sales – Light red indicates high impact and grey low impact ■ Numbers in brackets indicate segment and sub-segment share ■ Numbers in box indicate sales volumes for fiscal 2018 in million units Source: CRISIL Research

What this means for the industry

- Prior to the increase in insurance cost in September, CRISIL Research had estimated two-wheeler sales to grow **10-12%** in fiscal 2019. But post the steep increase, the cost of ownership of an economy motorcycle is expected to increase by ~25% in fiscal 2019. Rising petrol prices and interest rates have only exacerbated this increase in the cost of ownership, which is expected to impact sales.
- Based on interactions with dealers as well as key original equipment manufacturers (OEMs) in different regions, CRISIL Research estimates that one in 10 buyers will not purchase a vehicle due to the steep price hike. This will shave of **4-6%** from our original forecast of **10-12%**, assuming insurance costs remain at current levels.
- Given the impact on retail sales in the run-up to the festive season, OEMs have begun offering aggressive discounts and schemes to attract customers. The offers include free insurance cost for 5 years (on the OD insurance component), low down-payments, free services and warranties.
- Additionally, as per market interactions, intensive efforts are being made by associations and OEMs to renegotiate/ dilute the terms of the insurance price hike, which could provide some respite to two-wheeler buyers. The results of these efforts would be known in the next few days. Should the insurance hike be diluted, CRISIL Research expects sales to be impacted by **1-3%** this fiscal instead of **4-6%**.

Impact assessment on the industry growth calls



Source: CRISIL Research

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