FACTORIES NOT WORKING AT FULL CAPACITY

Auto Demand Back on Track But Supply Staggers

Uptick in personal mobility seen after dealerships reopen, but industry needs to ramp up production

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Mumbai:

When showrooms reopened after 50 days of lockdown, auto makers wondered whether anyone would want to buy cars in the post-Covid age. But now they are concerned about getting enough supplies to meet demand and using this opportunity to recover from one of the worst years for auto sales.

The uptick in personal mobility has been strong seven weeks into the reopening of dealerships. Stock has been slashed by 100,000 units and auto makers have generated bookings for more than 200,000 vehicles. The industry is worried about keeping up as factories can’t work at full capacity due to shop-floor rules on distancing and other health and safety protocols. The current shortage is pegged at 40% by people in the know, based on bookings and sales. Demand has outstripped supply of used cars as well, they said.

Passenger vehicle production will be boosted by 25-30% this month to 160,000-170,000 units from June, said people with knowledge of the matter.

‘Flexible Cos will Gain’

The post-lockdown bounceback was unexpectedly sharp, said Shashank Srivastava, executive director, sales and marketing, Maruti Suzuki. With bookings at 85% of what they were before the pandemic bore down, all vehicle makers are trying to boost output.

“In June, dispatches were less than 50% of pre-Covid levels, so naturally the pending bookings have gone up,” Srivastava said. “I think all car makers realise that it is important to swiftly ramp up production so that the spike in demand can be addressed and opportunity for retail is not lost. The nimble and flexible manufacturers will obviously gain in these unusual times.”
To be sure, the industry is still expected to suffer a decline of more than 25% in volume with almost a quarter of sales lost during the lockdown. While the current surge is good news, automakers are not certain whether this is due to pent-up demand that will peter out or there’s a more fundamental requirement for personal mobility, driven by the need to avoid public transport amid fear of infection. Auto sales tumbled to their worst in 20 years in FY20, down 18%, amid a broader slowdown.

Srivastava said long-term, steady state demand depends on the revival of the economy, which will be the deciding factor for the auto industry’s recovery.

Two parameters look promising, experts said. The booking cancellations having declined and the time between enquiries and sales shrinking to less than 10 days from as much as three weeks for brands such as Hyundai Motor India. “The booking levels are very healthy, the recovery has been strong,” said Tarun Garg, director, sales and marketing, Hyundai Motor India.

“What is interesting is that post opening up of the market, buyers walking into the showroom are more assured than pre-lockdown. Our enquiry to retail sales cycle has come down to single-digit days as against the normal of 15-20 days.”

MORE SHIFTS

Hyundai Motor India is operating two shifts. During the Chennai lockdown, the company obtained permission to ensure supplies to meet strong demand for the new Creta, which has generated close to 40,000 bookings.

Toyota Kirloskar started a second shift at its Bidadi factory after sustained traction in the marketplace. Enquiry levels are fast approaching pre-Covid levels and bookings have hit 70-75% of what they used to be at dealerships that have opened.

“Because of the increased demand, we took a call to start the second shift,” said Naveen Soni, senior vice president, sales and service, Toyota Kirloskar. “The Glanza hatchback is witnessing an increased share of business. And, there is also a shift towards demand for lower-priced variants of the Innova and Fortuner.”

‘MANY VARIABLES AT PLAY’

Against despatches of 116,000, passenger vehicle makers retailed close to 170,000 units in June. Production schedules for July are higher but disruptions have occurred due to Covid-19 outbreaks, worker shortages at vendors and lockdowns of containment zones throwing supplies into disarray — uncertainties that all manufacturers have to live with.

“No one can deliver close to 100% of what is planned right now as there are many variables at play,” said a senior executive at a top-five car maker. “No single day is the same as the last — the health of your own employees, containment zones, availability of workforce... Hence, the disruption in supply chain is likely to affect efficiency for a short while.”