

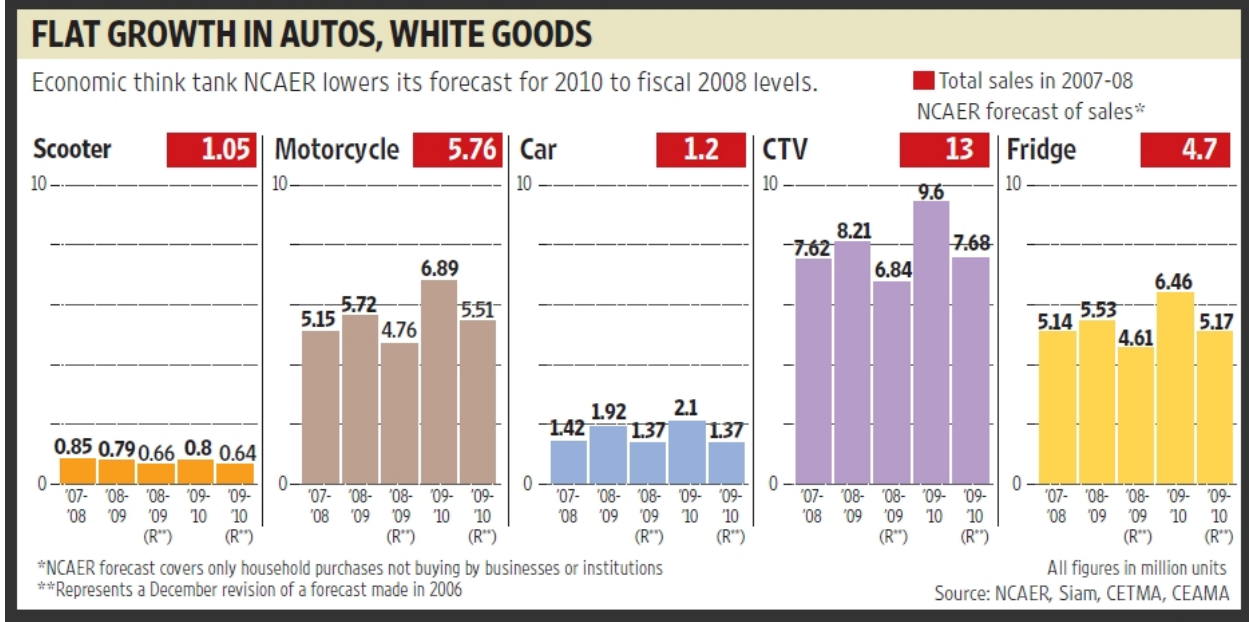
NCAER pares demand forecast for autos, white goods in 2010

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“Prediction of demand for cars in households has been recast flat at 1.37 million units this fiscal year and next”

Mumbai: The National Council of Applied Economic Research, or NCAER, has pared its demand forecasts for automobiles, refrigerators and television (TV) sets for this fiscal year and the next, signalling that a slowdown in demand for these products, which make up a quarter of India’s manufacturing output, may drag on longer than foreseen by industry executives.

The New Delhi-based think tank expects demand for cars and other passenger vehicles such as multi-utility vehicles to contract by 28.6% to 1.37 million units and two-wheelers by 16.67% to 5.42 million units this fiscal. Demand in fiscal 2010 is expected to remain static at 1.37 million units, equivalent to a contraction of 34.86% from NCAER’s earlier estimate.



Buying by businesses, institutions or government is not included in the forecasts. According to Rajesh Shukla, senior researcher at NCAER, such buying typically accounts for about 15% of annual sales by volume.

The new projections, made in December in the wake of an economic slowdown and credit crunch, are significantly lower than an earlier forecast—made in fiscal 2006—of 1.92 million cars and 6.51 million units of bikes and scooters. For goods such as TV sets and refrigerators, sales estimates for this fiscal have been cut by 16.67% and for 2009-10 by 20%.

It's the first time NCAER has revised its projections to such an extent, Shukla said. "We usually forecast demand for three to four years, not annually," he said. The Indian middle class, defined by NCAER as households with annual income of between Rs2.5 lakh and Rs5 lakh, has been driving the consumption of goods such as cars, refrigerators and colour TV sets.

According to 2007-08 data from NCAER, such consumers, accounting for about 12% of the country's households, owned 60% of all cars and air conditioners and 25% of all TV sets, refrigerators and motorcycles.

"Directionally," said Anil Dua, vice-president of sales and marketing at Hero Honda Motors Ltd, "NCAER's revised projections seem right." "Having said that, fundamentals of the two-wheeler industry like lower penetration, need for cost-effective mode of transportation, and growing aspirations, continue to be strong."

Starting September, sales of two-wheelers, cars and commercial vehicles have dropped significantly on the back of high borrowing costs and dearth of consumer finance, not sparing even market leaders Hero Honda and Maruti Suzuki India Ltd. Maruti's December sales in the domestic market shrank 10.9%, while Hero Honda, which so far had bucked downturn, also had domestic sales fall 10.2%.

The industry agrees the worst is not over yet. Dilip Chenoy, director general of the Society of Indian Automobile Manufacturers (Siam), said, "Although it's premature to make predictions for the next fiscal, if things continue the way they are, we expect sales of cars and two-wheelers to drop by 0% to -3% and commercial vehicles to see a negative growth of 15% to 25% by 2009-10." A revival in auto sales, added Dua, depends on emergence of cheap and easy financing options.

The outlook for the so-called white goods industry that includes refrigerators, washing machines and consumer electronics, is uncertain. V. Ramachandran, director of sales and marketing at LG Electronics India Pvt. Ltd, said the outlook for fiscal 2010 is still uncertain as it will largely depend on how the economy performs and consumers respond.

"The last four to five months, LG's growth of about 20% has been in line with the industry standards, but we have to wait and watch for the next fiscal," he said.

Shukla of NCAER is, however, bullish on untapped potential in rural areas and believes demand in the countryside will continue to clock double-digit growth. Auto makers such as Hero Honda and Maruti have set up dedicated teams to tap rural demand. "With rural incomes rising, even the demand for cars will grow in villages to the point the countryside will account for 11% of all cars by the end of the decade," Shukla added.