Impact of Coronavirus on Indian Automobile Industry

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Abstract

The outbreak of Coronavirus is having a severe impact on people, economy and business and one of affected industry is Automobile Industry world over and India is also very affected. This industry has always plays a very vital role in economic growth of the nation and gives employment both direct and indirect to many people.

Key Words – Coronavirus, Automobile.

Over View of India Economy

India has emerged as the fastest growing major economy in the world and is expected to be one of the top three economic powers of the world over the next 10-15 years, backed by its strong democracy and partnerships. India's nominal GDP growth rate is estimated at 12 per cent in 2019-20. The estimate for 2018-19 was 11.5 per cent. During Q2 of 2019-20, GDP (at constant 2011-12 prices), GDP stood at Rs 33.16 lakh crore (US$ 474.46 billion) showing a growth rate of 4.3 percent over the corresponding quarter of previous year.

India has retained its position as the third largest startup base in the world with over 8,900-9,300 startups, with about 1,300 new start-ups being founded in 2019, according to a report by NASSCOM. India also witnessed the addition of 7 unicorns in 2019 till August, taking the total tally up to 24.

India's labour force is expected to touch 160-170 million by 2020, based on rate of population growth, increased labour force participation, and higher education enrolment, among other factors, according to a study by ASSOCHAM and Thought Arbitrage Research Institute.

India's foreign exchange reserves were Rs 33.98 lakh crore (US$ 476.09 billion) in the week up to February 14, 2020, according to data from the RBI.

Impact of Coronavirus On Indian Economy

The outbreak of the Covid-19 pandemic is an unprecedented shock to the Indian economy. The economy was already in a parlous state before Covid-19 struck. With the prolonged country-wide lockdown, global economic downturn and associated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown. The magnitude of the economic impact will depend upon the duration and severity of the health crisis, the duration of the lockdown and the manner in which the situation unfolds once the lockdown is lifted.

We are in the middle of a global Covid-19 pandemic, which is inflicting two kinds of shocks on countries: a health shock and an economic shock. Given the nature of the disease which is highly contagious, the ways to contain the spread include policy actions such as imposition of social distancing, self-isolation at home, closure of institutions, and public facilities, restrictions on mobility and even lockdown of an entire country.

These actions can potentially lead to dire consequences for economies around the world. In other words, effective containment of the disease requires the economy of a country to stop its normal functioning. This has triggered fears of a deep and prolonged global recession

With COVID-19 coming into the picture, the Indian economy is going through a major slowdown, which was evident over the recent quarters even before the crisis struck. In the third quarter of the current financial year, the economy grew at a six-year low rate of 4.7%. With all these problems hitting the world of work from multiple directions, companies are finding it difficult to sustain in this environment. They are forced to take tough decisions such as cutting down the salaries, giving pink slips to employees and opting for other cost-cutting measures. Nearly 162 countries are steadily going into lockdown, and businesses across the globe are operating in fear of an impending collapse of global financial markets. This situation, clubbed with sluggish economic growth in the previous year, especially in a developing country like India, is leading to extremely volatile market conditions. Let's understand how the coronavirus is impacting business and subsequent tax reforms in India.

With rising unemployment, interest rates, and fiscal deficit, the economy in India has seen better days. Adding fuel to this fire is the novel Coronavirus that is sending tremors down Indian trade markets dependent on China for imports. The Indian economy has been experiencing significant slowdown over the past few quarters. In the third quarter of the current fiscal, the economy grew at a six-year low rate of 4.7%. Investment and consumption demand had been languishing and a number of stimulus measures have been taken to bring back the economy on a growth path. There was a strong hope of recovery in the last quarter of the current fiscal. However, the new coronavirus epidemic has made the recovery extremely difficult in the near to medium term. The outbreak has presented fresh challenges for the Indian economy now, causing severe disruptive impact on both demand and supply side elements which has the potential to derail India's growth story.

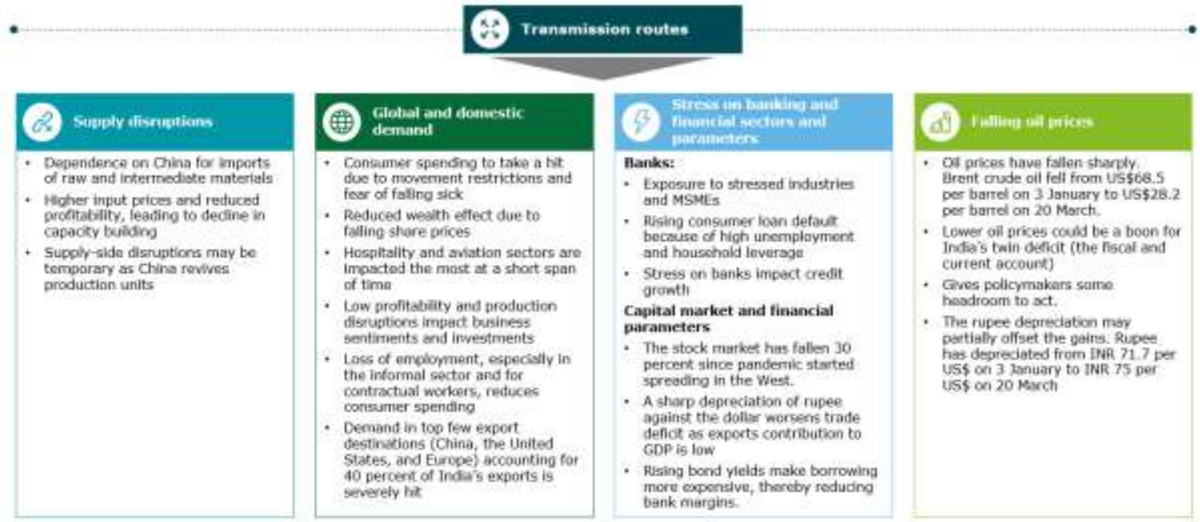
Demand Side Impact - Tourism, Hospitality and Aviation are among the worst affected sectors that are facing the maximum brunt of the present crisis. Closing of cinema theatres and declining footfall in shopping complexes has affected the retail sector by impacting consumption of both essential and discretionary items. Consumption is also getting impacted due to job losses and decline in income levels of people particularly the daily wage earners due to slowing activity in several sectors including retail, construction, entertainment, etc. With widespread fear and panic now increasing among people, overall confidence level of consumers has dropped significantly, leading to postponement of their purchasing decisions. Travel restrictions have severely impacted the transport sector. Hotels are seeing large scale cancellations not only from leisure travellers but even business travellers as conferences, seminars and workshops are getting cancelled on a large scale.

Impact on Financial Market - Greater uncertainty about the future course and repercussion of Covid-19 has also made the financial market extremely volatile, leading to huge crashes and wealth erosion, which in turn is impacting consumption levels. One of the major slides in the domestic equity markets was seen on March 12, when following the trend of the global equity markets, both the BSE Sensex and NSE Nifty crashed by more than 8% in a single day. The BSE Sensex dropped over 2,919 points – its biggest one-day fall in absolute terms while the NSE Nifty dropped by 868 points. An estimated Rs 10 lakh crore of market cap was reportedly wiped off due to this single day fall. The fall has continued till date as investors resorted to relentless selling amid rising cases of coronavirus. On March 19, Indian equity markets again plunged to new low. Sensex closed 581 points lower at 28,288 and Nifty fell 205 points to end at 8,263. With equity markets likely to remain volatile in future as well, further wealth erosion of investors is expected.

Supply Side Impact - On the supply side, shutdown of factories and the resulting delay in supply of goods from China has affected many Indian manufacturing sectors which source their intermediate and final product requirements from China. Some sectors like automobiles, pharmaceuticals, electronics, chemical products etc. are facing an imminent raw material and component shortage. This is hampering business sentiment and affecting investment and production schedules of companies. Besides having a negative impact on imports of important raw materials, the slowdown in manufacturing activity in China and other markets of Asia, Europe and the US is impacting India's exports to these countries as well.

Impact on International Trade - China has been a major market for many Indian products like sea food, petrochemicals, gems and jewellery etc. The outbreak of coronavirus has adversely impacted exports of these items to China. For instance, the fisheries sector is anticipated to incur a loss of more than Rs 1,300 crore due to fall in exports. Similarly, India exports 36% of its diamonds to China. The cancellation of four major trade events between February and April is likely to cause an estimated loss of Rs 8,000-10,000 crore in terms of business opportunity for Jaipur alone.1 India also exports 34% of its petrochemicals to China. Due to exports restrictions to China, petrochemical products are expected to see a price reduction.

The Pandemic is going to impact Indian Economy in following way -



Source: CMIE; Deloitte analysis

Indian Automobile Industry Industry

India became the fourth largest auto market in 2018 with sales increasing 8.3 per cent year-on-year to 3.99 million units. It was the seventh largest manufacturer of commercial vehicles in 2018.

The Two Wheelers segment dominates the market in terms of volume owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector.

India is also a prominent auto exporter and has strong export growth expectations for the near future. Automobile exports grew 14.50 per cent during FY19. It is expected to grow at a CAGR of 3.05 per cent during 2016-2026. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the two-wheeler and four-wheeler market in the world by 2020.

Overall domestic automobiles sales increased at 6.71 per cent CAGR between FY13-19 with 26.27 million vehicles getting sold in FY19. Domestic automobile production increased at 6.96 per cent CAGR between FY13-19 with 30.92 million vehicles manufactured in the country in FY19.

In FY19, year-on-year growth in domestic sales among all the categories was recorded in commercial vehicles at 17.55 per cent followed by 10.27 per cent year-on-year growth in the sales of three-wheelers.

Automobile exports grew 14.50 per cent year-on-year during FY19, while during April-December 2019, overall export increased by 3.9 per cent.

Premium motorbike sales in India recorded seven-fold jump in domestic sales reaching 13,982 units during April-September 2019. The sale of luxury cars stood between 15,000 to 17,000 in first six months of 2019.

Sales of electric two-wheelers are estimated to have crossed 55,000 vehicles in 2017-18

In order to keep up with the growing demand, several auto makers have started investing heavily in various segments of the industry during the last few months. The industry has attracted Foreign Direct Investment (FDI) worth US$ 23.89 billion during the period April 2000 to December 2019, according to data released by Department for Promotion of Industry and Internal Trade (DPIIT).

Some of the recent/planned investments and developments in the automobile sector in India are as follows:

- In January 2020, Tata AutoComp Systems, the auto-component arm of the Tata Group entered a joint venture with Beijing-based Prestolite Electric to enter the electric vehicle (EV) components market.
- In December 2019, Force Motors planned to invest Rs 600 crore (US$ 85.85 million) in order to develop two new models over the next two years.

- In December 2019, Morris Garages (MG), a British automobile brand announced plans to invest Rs 3,000 crore (US$ 429.25 million) more into India.
- Audi India plans to launch nine all-new models including Sedans and SUVs along with futuristic e-tron electric vehicle (EV) by the end to 2019.
- MG Motor India to launch MG ZS EV electric SUV in early 2020 and plans to launch affordable EV in next 3-4 years.
- BYD-Olectra, Tata Motors, Ashok Leyland to supply 5,500 electric buses for different state departments.
- Premium motorbike sales in India recorded seven-fold jump in domestic sales reaching 13,982 units during April-September 2019. The sale of luxury cars stood between 15,000 to 17,000 in first six months of 2019.
- In H1 2019, automobile manufacturers invested US$ 501 million in India's auto-tech companies start-ups, according to Venture intelligence
- For self-driving and robotic technology start-ups, Toyota plans to invest US$100 million.
- In India, 7 Series face lift launched by BMW and the new X7 SUV has been introduced at Rs 98.90 lakh (US$ 0.14 million).

- Ashok Leyland has planned a capital expenditure of Rs 1,000 crore (US$ 155.20 million) to launch 20-25 new models across various commercial vehicle categories in 2018-19.
- Hyundai is planning to invest US$ 1 billion in India by 2020. SAIC Motor has also announced to invest US$ 310 million in India.
- Mercedes Benz has increased the manufacturing capacity of its Chakan Plant to 20,000 units per year, highest for any luxury car manufacturing in India.
- As of October 2018, Honda Motors Company is planning to set up its third factory in India for launching hybrid and electric vehicles with the cost of Rs 9,200 crore (US$ 1.31 billion), its largest investment in India so far.
- In November 2018, Mahindra Electric Mobility opened its electric technology manufacturing hub in Bangalore with an investment of Rs 100 crore (US$ 14.25 million) which will increase its annual manufacturing capacity to 25,000 units.

Impact of Coronavirus on Indian Automobile Industry

The impact of the coronavirus pandemic and the lockdown it triggered is clearly visible in financial markets. But there is still no clarity on the deeper impact that it is having across businesses and industrial sectors. Based on assessments made by different analysts and industry body Ficci, here is an impact analysis of the auto sector.
China accounts for 27 per cent of India's automotive part imports and major global auto part makers such as Robert Bosch GmbH, Valeo AS and ZF Friedrichshafen AG have factories located in the Hubei province. Owing to the closure of the factories of these companies, there has reportedly been a delay in the production and delivery of vehicles like Bharat Stage Four (BS-IV) compliant models.
In March 2020, all OEMs witnessed a sharp drop in wholesales due to COVID-19 related lockdown and BSVI transition. COVID-19 led to supply chain disruptions and production halt in the latter half of March 2020. In case of PVs, OEMs like MSIL, Hyundai and Toyota outperformed its peers, driven by early shift to BSVI and low BSIV inventory. While MSIL dispatched c.77,000 units in the domestic market with sales declining 48% YoY, sales of Toyota/Hyundai declined 45%/41%, respectively. In 2Ws, OEMs faced issues over existing BSIV inventory with the dealers, which was exacerbated by COVID-19 related lockdown and a limited relief from SC on sale of BSIV inventory. MHCV sales were impacted the most, due to the planned BSVI transition in the latter half of March and early April. Tractors' sales remained the only outperformer in the industry. Market leader M&M's tractor sales declined 27% YoY against >40% decline across PVs/2Ws and MHCVs.
As per the ET Auto report, the Indian auto sector earns gross revenue of around ₹ 2,000 crore each day and shutting down the production by the manufacturers for the next 10 days will result in a revenue loss of up to 15,000 per day wherein the annual business of the sector stands at ₹ 7.8 lakh crore. Additionally, the industry

also contributes around 7.5 per cent to India's overall GDP, which accounts for 49 per cent of its manufacturing sector.
COVID-19 will significantly change customer preferences. Focus will shift to a safe mode of travelling, and ride-sharing might take a backseat, will promote demand in the used car segment as more customers will switch to a personal way of transport. Not only under current condition, but many companies will extend work from home flexibility to minimise travelling to avoid contamination. While demand for safe contamination-free travel might fuel demand for cars and two-wheelers, there will be an overall decline in travel needs by users.

According to the Society of India Automobile Manufacturers (SIAM), passenger vehicle sales declined 51% to 143,014 units in March 2020 in India. Also, sales of commercial vehicles declined 88% to 13,027 units, those of two-wheelers fell 40% to 866,849 units. The COVID outbreak has crashed the automotive industry tremendously. U.S. is anticipated to witness a decline of 27% in automobile sales in 2020. Different automakers have reported sharp decline in their sales and in the production owing to the COVID-19. Fiat Chrysler reported that its first-quarter sales in the U.S. fell by 10% even though sales were up the first two months of the quarter. Similarly, General Motors reported 7% decline in its sales in the first quarter due to the COVID-19. IN U.S., Honda reported 19% decline in first quarter, whereas Hyundai reported 11

Road ahead for Automobile Industry

- Protect and take care of employees: Follow the most conservative guidelines available among leading global and local health authorities (e.g., CDC, WHO). Support any impacted employees per health guidance.
- Create a contingency plan: model cash flows and debt levels, identify critical operations and employees. Create pragmatic, trigger-based contingency plans.
- Ensure a simple but well managed operating discipline, make sure that remote working is possible.
- Establish a team to focus on supply chain assessment and risk management. Conduct a value chain assessment of other risk factors that may escalate costs and impact service capabilities, take proactive action to address anticipated shortages.
- Develop supply chain support programs.
- Forecast global wave effects in production and sales and conduct scenario planning on how to redirect portions of supply to other sites based on sourcing strategies, potentially even rethink JIT models.
- Rethink the definition of safety and be aware that the protected customer does not only ask for virtual safety with cyber but also takes hygiene requirements (especially in car-sharing offerings) for granted.
- As personal travel has been reduced dramatically, think about changing modes of transportation, e.g., pre-booking air freight or rail capacity (potential switch of airplanes from passenger to cargo freight). Create a crisis response team to facilitate the open and consistent flow of accurate information between key stakeholders, maintaining stakeholder confidence and informing customers who will be impacted.
- Work with governments to explore potential tax benefits or to suspend tax payments.
- Engage with customers and the dealer network (virtual gamified training for sales staff; relevant DIY videos on social media for customers)
- Manage the liquidity crunch in the system (financial support to network with quicker incentives disbursal and temporary relief from interest burden)
- Actively contribute to fighting the pandemic (support contract workers in the automotive ecosystem; production of sanitizers, masks, PPEs in manufacturing plants)
- Plan well for the post-COVID-19 situation (efficient warranty and dealer claims disbursal; planning for short-term demand skew for spare parts.
- Plan initiatives to capitalise the potential aversion to shared mobility and public transport (‘push’ marketing for 2W, entry level 4Ws and pre-owned cars, ‘in-market’ demo cars to boost test-drives)
- Prepare for the spike in after-sales (service-on-wheels and service camps for scheduled maintenance)
- Re-assess upcoming launches and financing offerings (financing schemes to tackle liquidity crunch)

- Assess and de-risk supply chain dependencies (indigenisation of major components; trigger-based contingency plans for the entire network)
- Prepare for an omnichannel sales experience (virtual sales consultants; online sales and digital documentation)
- Adopt hygiene-centric process and design changes (sanitization/fumigation of the vehicle as part of workshop services and test-drive; design no-contact customer journeys)
- Explore alternate revenue options (prioritize allied products and services – accessories, concierge services)
- Capture opportunity to consolidate operations (partnership/acquisitions to realise synergies; new sources of funding.

Conclusion

The Indian automotive industry has definitely been affected by this virus outbreak, from the dealership front, right up to supporting ancillaries. Various industry bodies have also reached out to the Central Government is aiding them with loan interest holidays and other methods to help them pass this difficult situation. The mass shutting of factories has put a strain on the workforce, which requires financial aid to support their families during this difficult scenario.

The industry has already seen difficult past few quarters and this pandemic led lockdown couldn't have been more ill-timed. However, a planned and concerted response, both immediate and medium to long term will ensure a V shape recovery. As critical as industry action will be the support needed from government and regulators to catalyze this revival. After all, the current situation is a call for action by one and all in these troubled times.

Nevertheless, industries, citizens and the government should work together on the combination of path to quick recovery, contained contagion and stimulus packages, to minimize this damage and avert its sustained worsening in future. We have illustrated that all the packages announced so far can substantially reduce the damage, but we need many more to come to completely nullify the damages over time

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