

Auto Bytes

March 2020



Impact of Coronavirus on the automobile industry in India

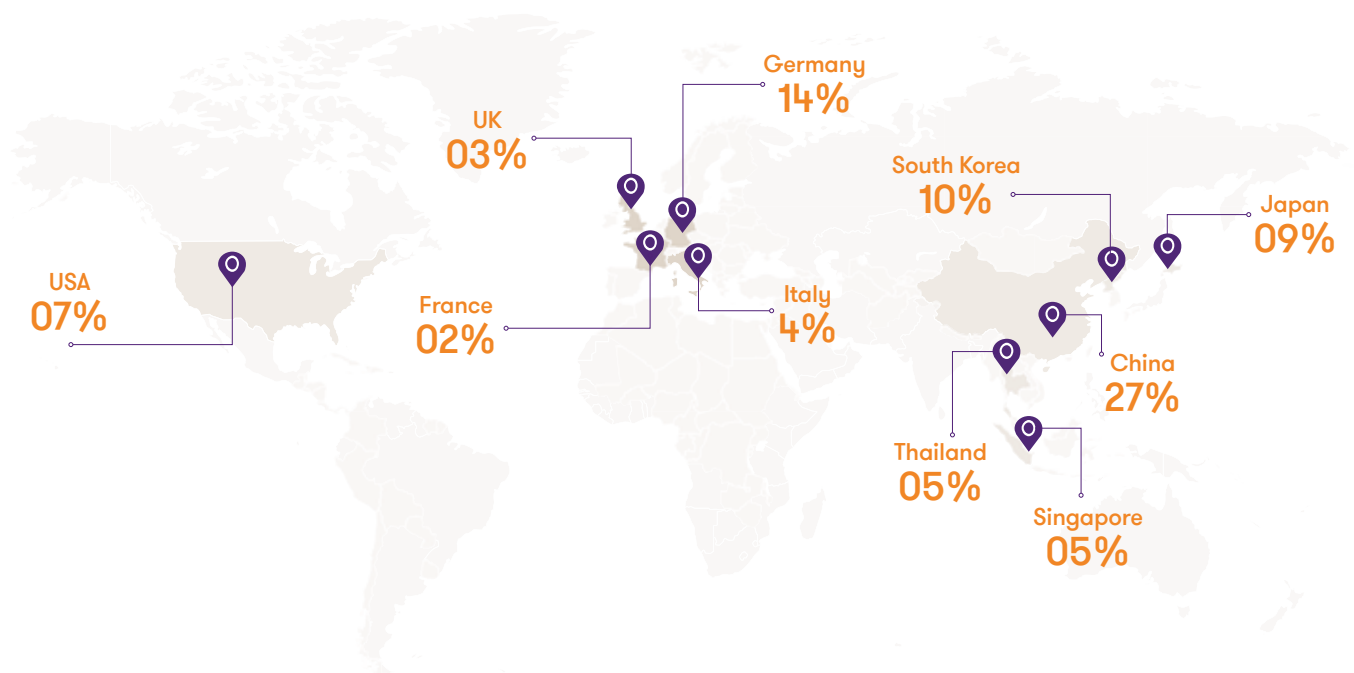
The World Health Organization has declared coronavirus (COVID-19) a 'pandemic'. As the virus pushes the world economy on the brink of a slowdown, auto is one of the worst hit sectors. Many auto factories in China, which were closed temporarily as part of a nationwide shutdown, are now opening gradually.

Wuhan, the epicentre of COVID-19, is also the manufacturing hub which supplies critical components for the Indian auto industry. Consequently, for many Indian firms, consignments from China have been delayed. At a time when the industry is gearing up to switch to the BS-VI norms and is battling its worst slump in two decades, COVID-19 crisis is likely to impact the sector negatively.



Origin of imports: Top 10 countries

Auto component industry (FY18-19)



Beyond China

Impact of COVID-19 can be felt around the world with production coming to a halt due to shortage of supplies

- Hyundai and KIA recently stopped several assembly lines in Korea
- Nissan announced it would suspend its auto production in Japan
- General Motors suggested production outages could affect plants in Michigan and Texas
- Jaguar Land Rover warned the virus could create problems at its assembly plants in Britain
- Fiat Chrysler Automobiles CEO Mike Manley said that production at one of the European plants may be suspended by the end of February

Source:

World Economic Forum



China's role in Indian automobile sector

China is one of the leading suppliers of auto components to India, accounting for 27% of the total auto imports. The slowdown in supply of components sourced from China could impact manufacturing in India. The problem has been aggravated by the Chinese government's suspension of shipments via sea. Only air shipments are allowed which won't be commercially viable even in the short term. As a result, the Indian original equipment manufacturers (OEMs) are unable to plan production beyond their inventory.

India's OEMs source critical components and sub-components including fuel injection pumps, EGR modules, electronic components and turbo chargers from the Chinese markets. OEMs sourcing electronic components, EGR modules, fuel injection pumps, turbo charger, meter sets, LEDs, magnets, airbag components, steering system components and electric vehicle parts will be affected the most. The impact will be more profound in the commercial vehicle (CV), passenger vehicle (PV) and two-wheeler (2W) segments.

If the crisis persists longer, the OEMs might have to halt their production. Perhaps they will need to hold on to their inventories for the next 30-60 days.

Supply deficit

Auto parts likely to fall short in India



Fuel injection
pumps



EGR
modules



Electronics
components/
sensors



Turbo
chargers



EV battery
pack and charging plugs



Looking for alternative markets

Even as companies look for alternative markets, the associated costs and time could be higher than predicted. The Indian manufacturers and exporters have also looked at the western markets as a replacement of sourcing components from China. Moreover, finding an alternative market seems cumbersome at this juncture for the OEMs as they receive almost 10-30% of the auto parts from Chinese firms and are currently in the process

of making a gradual switch to BS-VI. The supply disruption has forced companies to look within and source parts locally. Thus, it is an opportunity for the multinational suppliers to manufacture parts locally. They may also use Faster Adoption and Manufacturing of (Hybrid & Electric Vehicles in India (FAME) scheme and its incentives to join hands with the Indian OEMs.



Our view

Although situation could improve in the Indian auto sector as efforts to contain and eradicate COVID-19 yield results, there are some lessons to learn. A switch to alternative markets does not look feasible at the moment because the process could be costly and time-consuming. Given the situation, it is an opportunity for the local manufacturers to increase their production capacity and reduce the dependence on foreign

auto components. Under Make in India initiative, India could also invite more multinational companies to manufacture components in the country. The COVID-19 experience will surely accelerate industry consolidation and transformation for the Chinese industry. For India, it is an opportunity to tap into the potential of its existing production capacity.

Source:
ICRA, CRISIL, ETAuto, World Economic Forum,
Association of Indian Forging Industry

Contact us

To know more, please visit www.grantthornton.in or contact any of our offices as mentioned below:

NEW DELHI

National Office
Outer Circle
L 41 Connaught Circus
New Delhi 110001
T +91 11 4278 7070

NEW DELHI

6th floor
Worldmark 2
Aerocity
New Delhi 110037
T +91 11 4952 7400

AHMEDABAD

7th Floor,
Heritage Chambers,
Nr. Azad Society,
Nehru Nagar,
Ahmedabad - 380015

BENGALURU

5th Floor, 65/2, Block A,
Bagmane Tridib, Bagmane
Tech Park, C V Raman Nagar,
Bengaluru - 560093
T +91 80 4243 0700

CHANDIGARH

B-406A, 4th Floor
L&T Elante Office Building
Industrial Area Phase I
Chandigarh 160002
T +91 172 4338 000

CHENNAI

7th Floor,
Prestige Polygon
471, Anna Salai, Teynampet
Chennai - 600 018
T +91 44 4294 0000

DEHRADUN

Suite no. 2211, 2nd floor Building
2000, Michigan Avenue,
Doon Express Business Park
Subhash Nagar, Dehradun - 248002
T +91 135 2646 500

GURGAON

21st Floor, DLF Square
Jacaranda Marg
DLF Phase II
Gurgaon 122002
T +91 124 462 8000

HYDERABAD

7th Floor, Block III
White House
Kundan Bagh, Begumpet
Hyderabad 500016
T +91 40 6630 8200

KOCHI

6th Floor, Modayil Centre point
Warriam road junction
M. G. Road
Kochi 682016
T +91 484 406 4541

KOLKATA

10C Hungerford Street
5th Floor
Kolkata 700017
T +91 33 4050 8000

MUMBAI

16th Floor, Tower II
Indiabulls Finance Centre
SB Marg, Prabhadevi (W)
Mumbai 400013
T +91 22 6626 2600

MUMBAI

Kaledonia, 1st Floor,
C Wing (Opposite J&J office)
Sahar Road, Andheri East,
Mumbai - 400 069

NOIDA

Plot No. 19A,
7th Floor
Sector - 16A
Noida 201301
T +91 120 485 5900

PUNE

3rd Floor, Unit No 309 to 312
West Wing, Nyati Unitree
Nagar Road, Yerwada
Pune- 411006
T +91 20 6744 8800

For more information or for any queries, write to us at contact@in.gt.com



Follow us @GrantThorntonIN

© 2020 Grant Thornton India LLP. All rights reserved.

"Grant Thornton in India" means Grant Thornton India LLP, a member firm within Grant Thornton International Ltd, and those legal entities which are its related parties as defined by the Companies Act, 2013.

Grant Thornton India LLP is registered with limited liability with identity number AAA-7677 and has its registered office at L-41 Connaught Circus, New Delhi, 110001.

References to Grant Thornton are to Grant Thornton International Ltd (Grant Thornton International) or its member firms. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.