Grant Thornton

Reforms

Revenue Growth

Consolidation

Auto Track

Q1 FY 21

August 2020

Contents

Foreword	03
Key highlights	04
Industry overview	05
Grant Thornton survey on personal mobility experience post COVID-19	08
Domestic sales trend	20
How is the industry 'unlocking'	22
Story of the quarter	24
Coverage	28
Auto M&A deals	29
Regulatory updates	30
Key headlines of the quarter	32
Conclusion	33

Foreword

India is slowly reopening the economy even as the pandemic refuses to slowdown. The already distressed automobile industry faces the highest degree of risk from both the supply and demand side.

With disturbances in automotive supply chains and vehicle production, turbulent and distressed financial markets, extremely weakened sales in the automobile industry are expected throughout 2020. A macroeconomic impact is likely to be felt on both supply and demand side for a prolonged period. Vehicle sales have suffered deeply due to nationwide lockdown and the demand in the auto sector plummeted historically. Nearly 18% year-on-year drop is estimated in the overall annual sales of automotive.

As the nation returns to normalcy slowly, weak income growth, low consumer sentiments and huge slowdown in credit are vital factors that will drag down the overall demand in the sector. As is also evident from the Grant Thornton survey on personal mobility experience post COVID-19, a U-shape recovery is expected with a delayed cure for the industry where a surge may happen with buoyed sales incentives and packages for the consumers during the festive seasons. The pandemic is expected to create a contactless environment with an increased thrust on online assessment and purchase of vehicles. There is a huge shift as the purchase of vehicle is a strong-involvement and a high-investment decision, with deep-rooted human behaviour regarding touch and feel. Thus, consumer clearly is a critical element in assessing market realities and demand.

Nevertheless, the outlook appears dim as annual projections are revised to reflect the negative market sentiment. The industry and the people behind the execution should adopt an optimistic viewpoint as with identified vulnerabilities, the already challenged automobile industry with weak growth rates is severely impacted with highly uncertain and dynamic future ahead.

Saket Mehra
Partner
Grant Thornton India LLP

Key highlights

Industry overview

Exposure to supply and demand effects are analysed as many OEMs are fighting to survive. India's real GDP with monthly consumer spending illustrates few expectations along with a rise seen in oil prices in May 2020.

Grant Thornton survey on personal mobility experience post COVID-19

To understand consumer expectations and preferences for a safer mobility experience post the COVID-19 pandemic, we conducted a survey on personal mobility experience. The key themes spanned across consumer sentiment towards vehicle purchase, their preferences to various mobility categories and buying channels and features expected by them in a new vehicle in the current and post COVID-19 scenario.

Domestic sales trend: Quarterly (April-June 2020)

India's manufacturing crumbled in April as the country's economic activity sank to its lowest in about 15 years.

Auto industry reactions post lockdown

India enters Unlock 1.0 and attempts to kick-start its economy.

Story of the quarter

Facilitating global OEMs- intending to set up manufacturing base in India
India, in global auto sector, has made its presence felt in recent years. The country offers scope for the manufacturing of low-cost vehicles with its highly skilled but inexpensive manufacturing base and labour-intensive components in the developing economy.

Government of India (GoI) is committed to welcoming investments and has dedicated mechanisms, authorities and agencies to facilitate the investor at each stage of the investment grounding process and accelerate their market entry into India.

Coverage

Recognising essential nature of clean energy sector
India has shown a commitment to shift to clean energy. However to better address the scale of sustainability challenges, the government should increase the shift of public resources from fossil fuels to clean energy.

M&A in auto

More industrial consolidation is expected to result from vehicle manufacturers and major suppliers looking for greater supply chain security, especially after recent experiences of supply chain breaks. The larger OEMs may utilise their financial clout and market presence to stimulate M&A activity that brings them supply-side solutions at acceptable cost.

Regulatory updates

End of Life Policies and Initiatives
The industry has been engaging with the GOI requesting for an incentive-based scrappage policy with monetary incentives in the form of 50% rebate in GST, road tax and registration charges

Industry overview

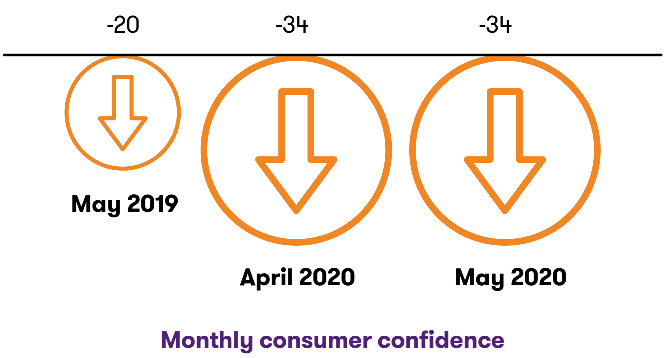
COVID-19 has shocked the world and sent auto companies spinning. Many OEMs are fighting to survive and bracing for the post-pandemic market.

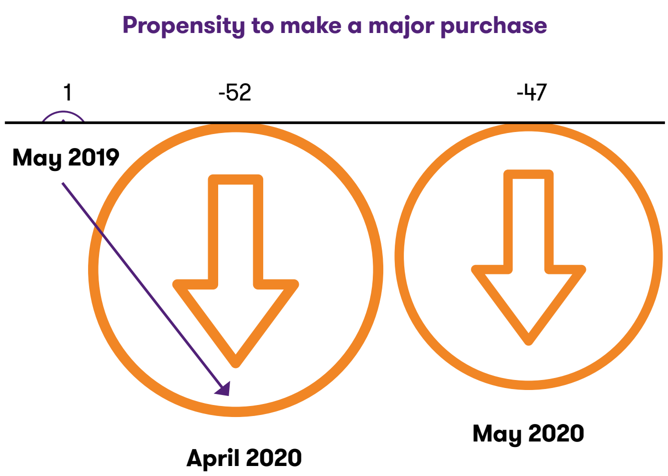
COVID-19 effect/exposure to demand and supply

	Exposure to supply effects	Exposure to demand effects	Overall risk
Automotive/ Vehicles	Global supply chains have made industry vulnerable to shocks	• Extreme high exposure to the demand of the consumer • Economic downturn leading to postponement in vehicles' purchase • Industry growth highly dependent on the demand in China	Very high
Components/Parts	Supply chains have become highly complexed High dependence on Chinese products	• Higher lead time means lower impact of shocks on near-term demand • Industry was able to adjust the cost structures • High sensitisation of Make in India • Global opportunities are splurred • Regulatory environment beneficial in crisis	High
Logistics	Low exposure from outside the industry specifically to non-oil supply shocks (aviation sector being an exception)	• Highly cyclical and huge exposure to demand • Logistics sector can overshoot the economic cycle	Very high

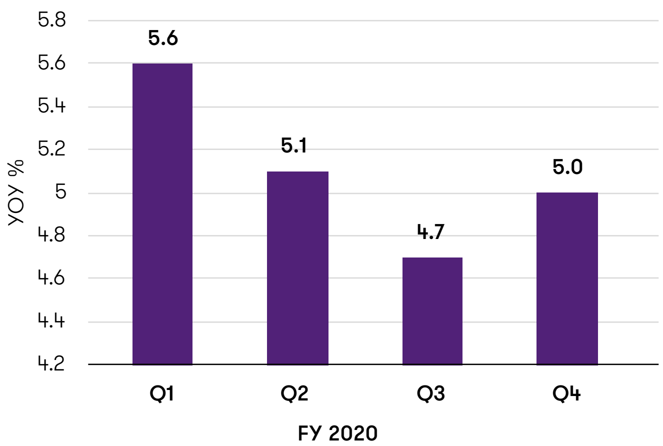
Monthly consumer confidence remained at -34 in May; the same as April and 14 points lower than May 2019.

Consumers still unwilling to spend despite lockdown easing





India's Real GDP



Source: Ministry of Statistics and Implementation

Production runs are expected to be **10-15%** of capacity on average.

If India's GDP grows by ~3%, the automotive industry can plummet **15-25%.** However, if the GDP is only 1%, then the decline can dive further to 25-35%.

Society of Indian Automobile Manufacturers (SIAM)

India's oil demand picked up in May 2020

Fuel demand recovery gained momentum

PETROL

Sales in May were up to 1.59 million tonnes (April 2020: 9,73,000 tonne)

DIESEL

Sales in May were up to 4.81 million tonnes (April 2020: 3.25 million tonne)

ATF

With most airlines grounded, Jet fuel (ATF) sales fell by 85%

HT Auto Revving Up

Two-wheeler makers ramping up capacity to **60-70%** of pre-covid levels

Cumulative production could reach **0.75 -1m units** in June

Two- wheeler makers to be prime gainer as demand for private transport picks up in post-Covid world

Grant Thornton survey on personal mobility experience post COVID-19

Objective

To understand consumer expectations and preferences for a safer mobility experience post the COVID-19 pandemic

Key themes covered

Consumer sentiment towards vehicle purchase, their preferences to various mobility categories and buying channels and features expected by them in a new vehicle in the current and post COVID-19 scenario

Key survey findings

The trends signified that consumer behavior towards purchasing a vehicle has not changed much due to the pandemic and purchases will be made only out of necessity.

Consumer sentiments

55% respondents preferred not to buy a new vehicle in the current scenario. Those who have postponed their buying plans, 56% believed it makes better financial sense to stick to their current car

Mobility solutions

While not using a personal vehicle, 66% respondents most preferred to use 'pay-as-you go' options to travel. 'Lease rental' option was least preferred, with 60% respondents opting against it

Ease of buying

68% respondents preferred the traditional concept of visiting showrooms to buy a new car. However, 25% respondents showed interest and are open to exploring online channels 68% respondents preferred the traditional concept of visiting showrooms to buy a new car. However, 25% respondents showed interest and are open to exploring online channels

Priorities

Most respondents preferred cars to have hygienic air filters and mobile in-car offices considering the current crisis. Post COVID-19, most respondents expect a new car to have 'all technology in the most pocket-friendly manner'

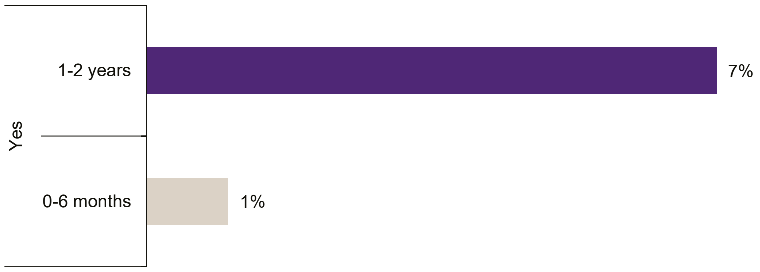
Consumer sentiments

In the post-COVID-19 era, the survey report suggests that there could be a hike in demand and preference for a passenger vehicle (PV) for daily commute.

The increase in metros for PVs in a mid-segment is found to be most preferred amongst prospective consumers. If it turns into reality, the same could be attributed to non-metro resident location as well, as 55% of those surveyed in these areas preferred to utilise PVs in the same segment.

How long do you think you would postpone buying a vehicle?

Preferred duration for postponing vehicle purchase (by respondents, %)



Unwillingness to buy a new vehicle was across metro (54.9%) and non-metro respondents (55%)*. These trends signify that consumer behaviour towards purchasing a vehicle has not changed much due to COVID-19 and purchases will be made only out of necessity.

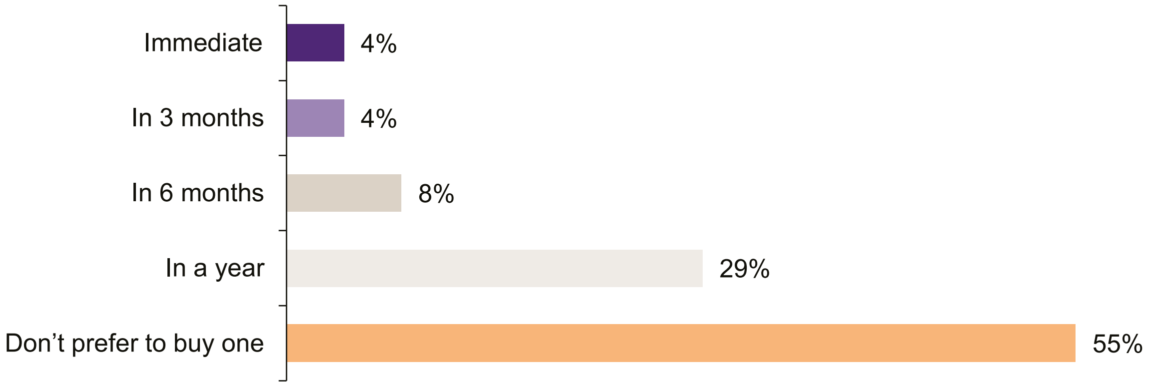
***Appendix 1**

	Metro	Non-metro	Grand Total
Don't prefer to buy one	54.9%	55.0%	54.9%
Immediate	4.2%	4.6%	4.3%
In 3 months	3.5%	6.0%	4.1%
In 6 months	9.1%	4.6%	7.9%
In a year	28.3%	29.8%	28.7%
Grand Total	100.00%	100.00%	100.00%

How soon are you planning to buy a new vehicle?

A significant finding from the survey was that nearly 29% of respondents said that they plan to purchase a new vehicle in 12 months. However, only 8% said that they planned to purchase within six months of the end of the lockdown. The prospective demand is encouraging for manufacturers and could help the automobile sector to predict demand in the post-COVID-19 era.

Vehicle purchases will be made only out of necessity



Were you planning to buy a vehicle before COVID-19 impact?

Of the 55% respondents who did not prefer to buy a vehicle, most have indicated (92%) that they had no plans of purchasing a new vehicle even before the pandemic and others (8%) now plan to postpone buying majorly in one to two years.

Drivers for postponing vehicle purchase

56%

believe it makes better financial sense to keep their current vehicle

28%

do not see any requirement for a vehicle for themselves

32%

have been unable to afford a new vehicle

Drivers for new vehicle purchase

57%

would buy a new vehicle to avoid use of public transport

40%

would buy a new vehicle to upgrade from their existing vehicles

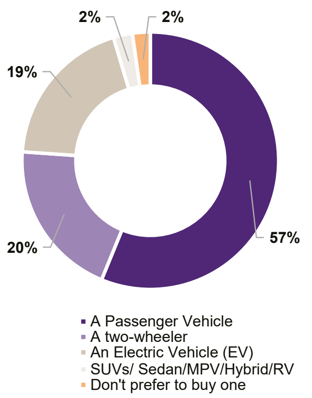
20%

wanted to buy to own a vehicle for the first time

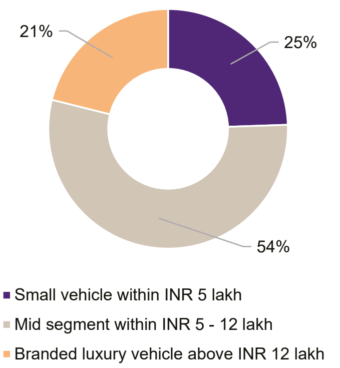
Preferences to vehicle types

When enquired about the type of vehicle to buy, more than half (57%) of the total respondents preferred to purchase a passenger vehicle (PV).

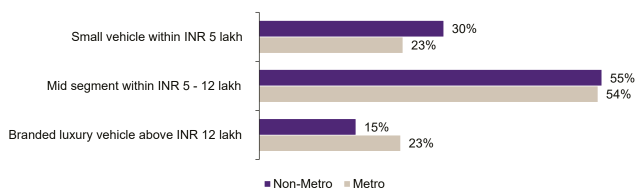
Preferred types of vehicles for new vehicle purchases



Share of preferences for passenger vehicles, by segment (%)



Share of preferences for different PV segments, by resident location (%)

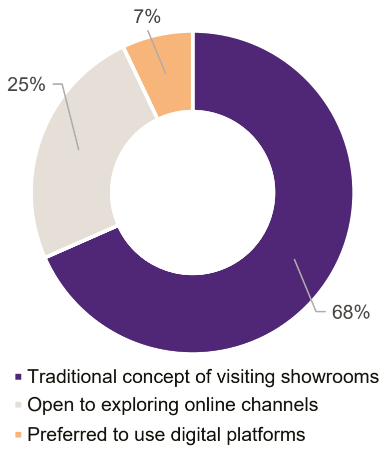


In the post-COVID-19 world, OEMs would continue to market e-mobility as the prospects of EVs cannot be ruled out completely with the environmental benefits of the vehicle.

Ease of buying and priorities

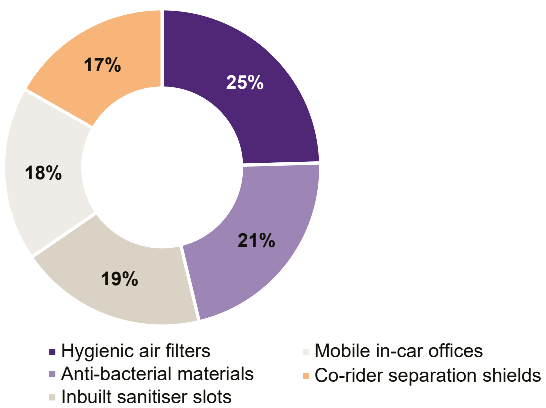
Preferences towards buying channels

Overall, 68% of total respondents preferred to stick to the traditional concept of visiting showrooms.
While 25% of total respondents showed interest towards exploring online channels, only 7% of total respondents preferred to use digital platforms.



Preferences towards features

Towards the contemporary scenario, when enquired to rank preferences for features the respondents would prefer in vehicles today, 'hygienic air filters' was the primary choice and 'mobile in-vehicle offices' and co-rider separation shields were ranked the lowest.



average count* (%)

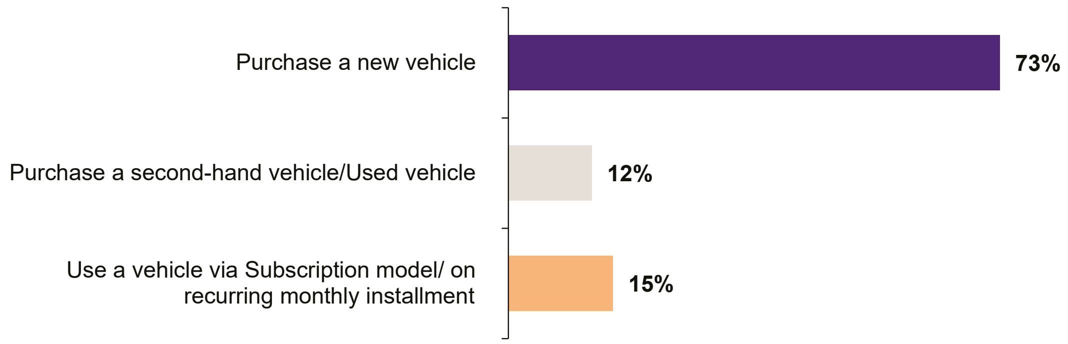
Mobility solutions

Preferences to mobility categories

The consumer sentiment seemed stronger about new vehicle, as 73% of the respondents showed their willingness to go ahead with new vehicle purchase after the lockdown.

Overall , the market seems to be open about the options of used vehicle and subscription models available in the sector and enquirers are keen to use the options towards not only a vehicle ownership experience but safety too.

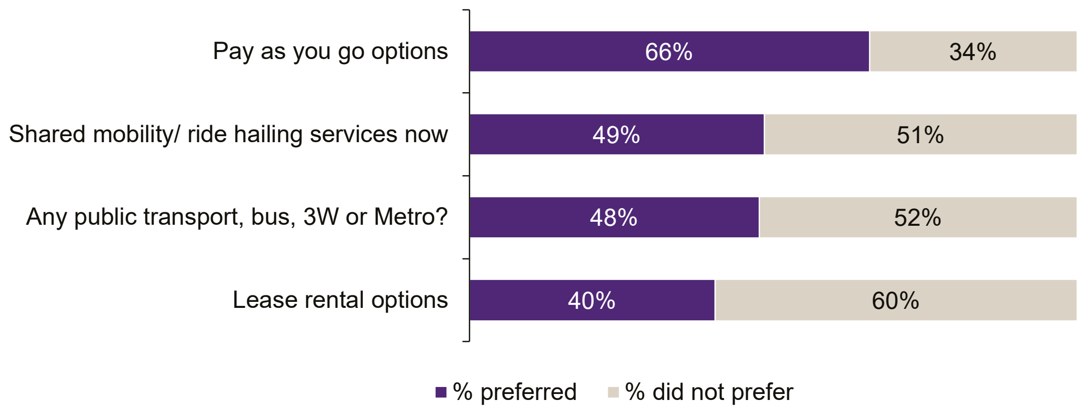
Preferred use of vehicles, by category (%)



Preferences to alternate mobility options

As many as 66% of the respondents favoured pay-as-you-go options, when enquired about preferences to modes of travel other than personal vehicles. This was followed by preferences for shared mobility/ride hailing services (49% respondents), and public transport options including metro, bus, and three wheelers (48%).

Preferences for other modes of travel, by respondents (%)



Grant Thornton-SIAM webinar highlights: Personal mobility experience post COVID-19

The distinguished panellists shared their insights on changing trends of the Indian consumer and personal mobility preferences in a post COVID-19 world.

Rajesh Menon

Director General
Society of Indian utomobile Manufacturers (SIAM)

On personal mobility front, there are two trends visible in terms of consumer preference. First, a positive trend of increased preference of personal mobility solutions over public and shared transportation. Second, negative consumer sentiments, in the background of expected contraction in GDP, reduced economic activity and therefore, possible job losses and pay cuts as apprehensions.

Both the trends simultaneously have a divergent impact on purchase decisions of consumers. In some cases, purchases have been postponed or the choices for the consumers have been altered. Some new consumers who earlier were not considering buying vehicles have also become potential buyers with the necessity that pandemic has posed. Similarly, increasing preference of consumers to engage in online platforms for vehicle purchase and servicing with added features for safety and sanitisation in the vehicles.

Aniruddha Haldar

Vice President
Marketing, TVS Motor

Two-wheelers have become a need for many customers during the COVID-19. There is an increase in retail month-on-month basis. There are six key takeaways:

1. **Need:** The desired needs have shifted to actual needs for the customers. Customers are now focused on fulfilling the immediate needs than the desires. During the pandemic, a third of demand has been need coupled with immediate solution.
2. **Value:** Today, customer is focused on the value of their purchase. They have purview of long-term requirement and therefore, measuring need versus value.
3. **Solution:** Fear is not the driving action. It means the auto manufacturers should be able to identify and generate opportunity with solution over panic.
4. **Trust:** The customers are looking for the trust factor while spending. It is the trust on brand they show and therefore, moving beyond regular dealership practices is what makes the customer curious and long to know more. For example: The staff explains the features of the vehicle via zoom call or any other mode of video calls and then asks the customer to pick the delivery.
5. **Choice:** Customers have choice of brands and look for solutions.
6. **Readiness:** The pace of market is unpredictable, dealership needs to be more innovative and should be solution oriented.

Recently, the demands have been divided into two: First, pent-up demand; Second, demand due to the pandemic.

Puneet Anand

Senior General Manager and Group Head
Corporate Affairs, Hyundai Motor India

On subscription model

India constitutes the highest population of millennials, the generation pace of choices is dynamic, and growing globalisation has picked up the need for subscription model. It would be wrong to quote all the car manufacturers as auto manufacturers, rather they should be coined as mobility solution providers. The subscription model has given freedom to own the vehicle while subscribing it for the span of required time. The owner can swap the models as per the requirement and can enjoy different cars at different point, if needed. To increase the awareness, various modes of communications and platforms are used. However, the driving force to grow the concept requires government as well as channel support.

Yashpal Sachar

General Manager
Honda Cars

On used cars

From an industry standpoint, the used cars have been highest trade-in the last financial year. Now, it is quite low in comparison with last year. However, with digitalisation, used cars are being displayed online and new innovations are being made to give huge impetus to this segment.

On demand forecasting

This year is a year of survival. How to invest, may be seen from both OEMs and dealers' side. Thus, in bad times, the service should be able to sail through OEMs. There is scope for improvement where each customer is important. We need to have economic and swift solutions.

Sanjeev Handa

Vice President
Head Corporate Communication, Maruti Suzuki India

On four-wheeler sales revival

From the four-wheeler perspective, the revival of demand in the last two months are some early signs that are good. It could be pent up demand of the pre-covid levels as the lockdown happened suddenly and the people with vehicle bookings waited for their vehicles to be delivered. We also saw some positive retail trend in May and June 2020 as retails reflect consumer demand to a great extent. So, things may be looking up but its too early to predict. There is recovery on the rural markets' demand.
There is a huge traction towards entry level cars looking at the current satiation of requirement towards mobility. We are trying to spread the confidence among the consumers without any compromise on health and safety of consumers, which would pick up demand. We are tying with banks and NBFCs across country to allow consumers to have easy access to finance.

On contactless buying

Today our business partners are open to innovation and digitalisation. Digital is not limited to sell a vehicle; it embodies the entire cycle. Consumer today landing in showrooms has nearly pre-decided on the business as the process is 80% digital. So, the dealers are cognizant of the fact that this is an important concept.

Domestic sales trend

April 2020

For the first time ever, India reported zero automotive sales

India's automobile industry witnessed a historic fall-off in April, as the COVID-19 pandemic led factories to shut down operations to comply with government regulations. It was the worst month ever for the industry as it zero units across the country due to the shutdown of showrooms and manufacturing facilities.

Several automakers have pursued through a different route by launching online sales platforms for the ease of customers' purchase as they apparently cannot go to showrooms.

May 2020

Automakers adjust to new normal as they prepare to reopen

Customers showed continued weakness in consumer sentiment with sales figures remaining in red across all segments. The decrease in sales remained 92.73% passenger vehicles (PVs) at 33,536 units in May 2020, from 461,128 units in the same period last year. Three- wheelers (3W) were down by 97.49% and two-wheelers (2W) by 91.69%

Industry estimates released by key auto companies showed that 37,000 units of vehicles were sold in in May, a year-on-year dip of 85%.

While the nationwide lockdown had gradually relaxed, at the end of May, out of 26,500 outlets about 60 percent showrooms and 80 percent workshops were operational across the country.

June 2020

The month of June 2020 witnessed a 51% drop in total domestic sales at 1,094,363 units as against 2,253,407 units in the same period last year. This includes the production of PVs, 3Ws, 2Ws and quadricycles.

Following the historic month of zero sales in April and partial resumption of operations in May and June 2020, Q1 FY 21 reported 75.5% decline in auto sales at 6,084,478 units as against 1,491,216 units in April- June 2019.

Segment	April- June 2020 sales	April- June 2019 sales	% change
Passenger Vehicles	153,734	712,684	**-78.43**
Commercial Vehicles	31,636	208,310	**-84.81**
Two-wheelers	1,293,113	5,013,067	**-74.21**
Three-wheelers	12,760	149,797	**-91.48**
Total	14,91,216	60,84,478	**- 75.49**

Following the historic month of zero sales in April and partial resumption of operations in May and June 2020, Q1 FY 21 reported 75.5% decline in auto sales at 6,084,478 units as against 1,491,216 units in April- June 2019.

How is the industry ‘unlocking’

From launching new models and implementing social distancing norms in factories to going digital to enable hassle-free purchase, auto companies have been trying to mitigate the effects of COVID-19.

Effects	Key questions	Reasons for slowdown
Supply • **OEM production slowdown** • **Disruptions in global supply chains**	How soon would OEMs be able to manufacture vehicles safely with a functioning supply chain?	Commercial credit: NPAs in banks and NBFCs along with collapse in shadow banking lending
Demand • **Consumer confidence** • **Inventory sell offs**	When can OEMs expect customer demand to normalise and how would the same be translated to suppliers?	Weak domestic demand: Major contraction in the industry Volatile fuel prices and economic sentiment: Huge contraction in automotive
Innovation • **Financial crunch and distress** • **Delayed or no investments** • **Major delay in product cycles and launches**	How would demand impact sales of new vehicles?	**Global factors:** Trade wars and slowdown in the overall growth of trading partners, specifically China

OEMs have issued guidelines and safety protocols for dealers, customers and employees as they resumes operations.

Reduction in inventories by OEMs and distributors may further delay demand to pick up again.

Post-lockdown, the demand for small cars witnessed a rise as people are now more concerned about their safety during travel. Instead of cabs and public transport, people are now more inclined towards travelling in self-owned vehicles.

Spending shifts online

The pandemic has brought the opportunity for rapid adoption of digitalisation in the passenger vehicles segment to the forefront, with focus on being contactless.

Change in customer behaviour, the impact of COVID-19 on consumer income and finance penetration and greater emphasis on online sales by manufacturers is expected to hit sales.

The proportion spent online soared to the highest on record in April 2020 at 30.7%, compared with 19.1% year-on-year. All store types reached record proportions of online spending in March 2020.

Technology-led digital transformation is a key pillar for the auto industry in the future. OEMs have pioneered this process with seamless, end-to-end digitalisation of the sales process aligned with dealer partners.

Story of the quarter

Facilitating global OEMs intending to set up manufacturing base in India

A wake-up call for the Indian automotive industry to formulate action plans for a domestic production system and to take Made in India global.

The growing presence of global automobile OEMs in the Indian manufacturing landscape has significantly increased the localisation of their components in the country. India has become the preferred designing and manufacturing base for most global auto OEMs for local sourcing and exports. Instead of limiting imports from one region, they can be directed to multiple vendors worldwide to facilitate the creation of a base in India.

India witnessed a 257% growth in GDP between 2004-05 and 2018-19. As the sixth largest consumer market and fourth largest automobile market globally, and with 49% workforce participation, the country is likely to boost global economic growth for the foreseeable future.

Manufacturing seedbed

India is among the
top 10 countries
with the highest industrial output

Continuous pro-investor reforms

India has jumped
79 ranks
in the World Bank's Ease of Doing Business rankings during 2015-20 (2015: Rank 142; 2020: Rank 63)

Further, the impact of COVID-19 on domestic and international businesses is severe, across countries and sectors. OEMs have invited expression of interest from global OEMs to leverage its facilities as well as capabilities and to shift their production base to India amid the COVID-19 pandemic. Several OEMs have shown interest in shifting their manufacturing base from China to other countries after the COVID-19 outbreak.

Relief from Chinese imports

While China is back into full-scale manufacturing and exports on the back of timely multimillion dollar stimulus packages and export subsidies, demand driving countries, such as the US, the UK, the Middle East and Europe, are succumbing to the impact of the deadly virus.

As global growth dips to negligible levels, every export-oriented country or surplus inventory holding country will be on the lookout for a demand centre like India, which has been a major importer of several commodities and finished products. It would be important to note that China-manufactured products, either directly from China or through ASEAN countries, would soon flooding in many demand-driving countries, including India, at slashed prices.

Investor facilitation mechanism

With proactive and progressive leadership that has been successfully guiding the nation during the COVID-19 pandemic, India is prepared to emerge as the most viable location for business continuity plans.

Automobile

35 million
employment generated

40%
share in global R&D

Auto components

14.5%
industry growth rate

1 million +
hybrid and EV sale

While globalisation has brought enabled robust supply chains, it is critical for industries to assess dependence on a single market. Sectors that depend on a single market for raw materials, spares and finished products would need to revaluate their procurement strategies. The government should also focus on creating a policy to empower domestic trade and industry to maintain continuity in the supply chain.

- Global manufacturers have initiated talks with Indian firms to explore the possibility of shifting a part of their supply chains from China as they seek to diversify their operations
- Companies are interested in sourcing automobile components and electronic products from India
- The government is yet to announce new measures to woo firms planning to move operations from China

Investment opportunities in India

	Projects	Opportunity	Promoter	District	Private projects	Government projects
Automobiles	3	USD 31.51 million	2	2	1	1
Auto components	7	USD 73.5 million	6	6	5	2

Incentives snapshot

India follows a federal structure, wherein both state and centre governments frame laws, policies and incentives to regulate and support industries in their areas of jurisdiction. Incentive schemes designed by the centre and states have objectives such as:

- Attract new/support expansion of manufacturing units
- Attract new/support expansion of services companies and start-ups
- Encourage exports from India
- Drive higher value addition in India, etc.

The country has undertaken a slew of historic tax reforms in the last 12 months. These include reduction of corporate income tax to 17.16% for new manufacturing units and 25.17% for existing businesses and abolition of taxes such as dividend distribution tax (DDT) and minimum alternate tax (MAT).

Overall, central and state governments in the country are committed to welcoming investments and have dedicated mechanisms, authorities and agencies to facilitate the investor at each stage of the investment grounding process and accelerate their entry into the Indian market.

Coverage

Recognising the need for an action plan for clean energy

While the duration of the COVID-19 pandemic is unknown, India should reset its energy policies and increase focus on clean energy transition. The country's renewable energy sector is poised for growth but needs to be handled tactfully. Thus, the automobile industry anticipates a shift towards addressing economic issues post the pandemic, which includes addressing concerns of the energy sector.

In FY 2019, subsidies for oil, gas and coal amounted to USD 12.4 billion, compared with USD 1.7 billion for renewables and electric mobility. The major subsidies in energy were INR 1.74 trillion, higher than the initial economic package of INR 1.7 trillion that the government announced for tackling COVID-19. Thus, the GoI needs to reassess the outlay on this large subsidy.

Before the 2015 Paris Climate Agreement in December 2015, India had promised to unconditionally reduce the emission intensity of its GDP by 30-35% (from 2005 level) by 2030 and achieve 40% of its installed power capacity from renewables. The country is committed to shifting to clean energy, however, the measures taken are still insufficient to address the scale of sustainability challenges. Therefore, the government should increase the shift of public resources from fossil fuels to clean energy.

Moreover, the support for coal power is majorly constant and there exists associated cost for coal power. The net costs of coal are much higher than the revenues in comparison with total revenues from coal taxes and total costs from coal-related subsidies, air pollution and greenhouse gas (GHG) emissions. Coal subsidies are estimated to be at INR 154.56 billion in FY2019 and may increase significantly for FY2020, given non-compliance with deadlines to install air pollution control technology.

The Ministry of Petroleum and Natural Gas & Steel is working towards achieving 20% ethanol blending in petrol and 5% bio-diesel in diesel by 2030. The steps are in line with the new National Biofuel Policy, which promotes energy sustainability, focuses on waste-to-wealth creation and targets to generate various types of biofuels from agricultural residue and municipal waste.

Distributed renewable energy (DRE) sources, including solar pumps and rooftop solar, too provide huge opportunities for growth. India has announced several schemes including KUSUM (to promote solar pumps) and the rooftop solar programme.

The lockdown has led to clean air and clear skies in cities, highlighting how much vehicles contribute to air quality. Electrification of transport is yet to take off as the GoI's electric vehicle (EV) policy has been inconsistent. India's EV trajectory need not replicate the rest of the world as most of the potential lies with 2Ws and 3Ws, which make up a sizeable chunk of transportation in cities.

EV sales in India

Segment	FY20*	FY19*
2Ws	1.52 Lakh	1.26 lakh
Cars	3400	3600
Buses	600	**400**

*The figures do not include e-rickshaws, with a reported sale of around 90,000 units being largely in unorganised sector

Source: Society of Manufacturers of Electric Vehicles (SMEV)

Overall, there remains the opportunity for India to rethink its approach towards fossil fuel that provides it with a co-benefit of reducing the social cost of fossil fuel usage through cleaner air.

Auto M&A deals

Supplier consolidation, including the technology interconnectedness, has further drove M&A activity in the present situation, and will continue to push it as we move forward in the 2020's. The start of this decade would also witness a pivotal shift in deals as vehicle manufacturers and suppliers would team up in order to share costs and push their technological bets into the automobile market.

Date	Particulars
18 June 2020	Hero MotoCorp's Pawan Munjal invests in start-up GoMechanic
12 June 2020	Tata AutoComp Systems partners with Tellus Power Green for EV infrastructure in India
27 May 2020	Ola Electric buys Amsterdam-based electric scooter manufacturer Etergo
18 April 2020	TVS Motor acquires sporting motorcycle brand Norton of UK in an all-cash deal

The Competition Commission of India (CCI) on 4 June 2020 approved the merger of leading French automaker Groupe PSA with its Italian counterpart Fiat Chrysler Automobiles (FCA).

In India, FCA operates its Jeep brand and has a manufacturing plant at Ranjangaon, Pune, in a 50-50 venture with Tata Motors. PSA meanwhile plans to re-enter India with its Citroen brand later this year. The company had earlier exited India in the mid-90s, when it used to sell vehicles under the Peugeot brand.

Thus, restructuring and the acquisition of manufacturing assets is a way for auto companies to reduce future supply risk or potentially improve their competitive position through a greater scale or the ability to spread investment overheads across more business units.

Regulatory updates

End of life policies and initiatives

Given the country's battle against the pandemic and slump faced by the automobile industry, among the revolutionary ideas whose time has come to be implemented in India, vehicle scrappage is one to be accorded top priority.

The vehicle scrappage policy aims to put a cap on the life of vehicles in terms of years run with eliminating the fleet of old polluting vehicles and boost demand in the auto sector. However, the proposed policy awaits clearance from the finance ministry and requires support from both central and state governments.

The road ministry issued draft guidelines in October 2019 to set up vehicle scrapping centres. These centres will protect the environment and promote a legal dismantling and scrapping industry.

A well-defined vehicle scrappage policy can help create an industry of its own with a business opportunity of USD 6 billion a year. Whereas, the incentive-based mechanism would make the scheme lucrative and encourage people to scrap their old vehicles and replace them with new one. The government expects recycling of metals, such as steel, copper and aluminium, from the scrapped vehicles to help reduce their imports and suffice the intent of self-reliance. The steel industry imports about 6 million tonnes of steel scrap annually, which can be met locally if old vehicles are recycled. (HDFC Bank report)

Steps taken

August 2019	October 2019	March 31, 2020	May 7, 2020
Fresh push to end of life policy	Draft guidelines issued by Ministry of Road and Transport and Highways	SC relaxed registration of BS VI vehicles (amid nationwide lockdown)	PMO and finance ministry is working on a comprehensive package for all industries including MSMEs

- **Curb air pollution**
- **Reduce fuel consumption**
- **Curtain fatalities in road accidents**
- **Generate demand for new vehicles**
- **Generate fresh employment and trigger economic growth**

According to SIAM, the industry has been continuously engaging with the GoI, requesting for an incentive-based scrappage policy with monetary incentives in the form of 50% rebate in GST, road tax and registration charges.

Relief packages for automobile industry

The government needs to address deeper issues plaguing the automobile industry as Covid 19 pandemic has caused a widespread disturbance and has hobbled value chains of most of the industries and automotive industry is no exception. Thus, Indian auto seeks special relief packages to rescue industry from the persistent crisis.

The entire automobile value chain including auto component manufactures/ suppliers, auto dealers, OEMs are faced with myriad of challenges; majorly to maintain liquidity. They may succumb to deteriorating market conditions causing widespread disruption across the entire manufacturing ecosystem.

The government, cognizant of the liquidity concerns stepped in to provide support to avoid significant disruptions to businesses. As a first relief measure, on 27 March 2020, Reserve Bank of India (RBI) announced loan moratorium for a period of 3 months which was further extended by another 3 months on 22 May 2020. On 12 May 2020, the government announced INR 20 lakhs package for the purpose of infusion of money against fighting this pandemic. This package mainly consisted of:

Special package for MSME – which includes INR 3 lakh crore collateral free loans, INR 20,000 crores as subordinate debt, INR 50,000 crore equity infusion into MSME through funds. Further, to bring more businesses within MSME's ambit, MSME definition has been changed where maximum amount of investment and turnover have been increased.

To support Agriculture and allied sectors INR 1.62 lakh crore packages was allocated.

For the purpose of liquidity infusion government announced INR. 30,000 crores special liquidity scheme for NBFC, INR. 45,000 crore Credit guarantee schemes for NBFC.

Employees' Provident Fund (EPF) support by decreasing the EPF package for each employee to 10% each month comparing to 12%.

Though above steps were supportive of business wherein the expansion of the MSME definition is highly welcomed which would help 350 component makers to be included under the MSME Act. The loan moratoriums coupled with decrease in interest rate may sway the prospective buyers towards a buying decision.

On the contrary, Society of Indian Automobile Manufacturers (SIAM) had urged the government to provide immediate stimulus for the industry in the form of reduction in GST rates by 10% across all vehicles categories and Incentive-based scrappage policy which would help customers acquire new trucks at lower prices. This would support in not only creating demand but also help in reducing pollution and combatting climate change.

The relief measures though are expected to immediately benefit agri sector along with benefits made available to MSME and NBFC will benefit the auto sector indirectly in the medium term as it will help infuse liquidity in the economy and thus helping to boost demand. However, there are no provisions to directly support automakers or the peripheral industries around them. Thus, OEMs want a focussed package to revive the auto industry.

Arun Tandon

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Key headlines of the quarter

MG Motor India, Tata Power join hands to deploy superfast chargers for EVs at select locations

IBEF: June 09, 2020

MG Motor India entered in partnership with Tata Power to set up superfast chargers for electric vehicles (EV) at select MG dealerships and offer end-to-end charging solutions. Under this association, Tata Power will deploy 50KW DC superfast chargers at select MG dealerships besides offering end-to-end electric vehicle charging solutions, the company said in a statement.

With this, MG Motor plans to lay a specific focus on the key target cities they will be venturing into as a part of their future EV expansion plans.

Fiat Chrysler Automobiles India launches online retailing for Jeep

IBEF: May 04, 2020

Fiat Chrysler Automobiles (FCA) India launched an online 'touch-free' Jeep retail experience in response to continued movement restrictions and social distancing due to the coronavirus pandemic. The potential customers can book and own a Jeep online without having to physically visit a showroom and will enjoy the accessibility of a test drive and sanitized vehicle delivery at their doorstep, the company said.

Electric vehicle sales in India up 20 per cent in 2019-20

IBEF: April 23, 2020

Electric vehicles sales, excluding e-rickshaws, in India witnessed a growth by 20 per cent at 1.56 lakh units in 2019-20 driven by two-wheelers, said Society of Manufacturers of Electric Vehicles (SMEV).

According to SMEV's statement, in 2018-19, total EV sales in India stood at 1.3 lakh units. Out of the total sales in FY20, 1.52 lakh units were two-wheelers, 3,400 cars and 600 buses. The corresponding sale for the 2018-19 was 1.26 two-wheelers, 3,600 cars and around 400 buses.

Conclusion

As the pandemic has intensified hardships for the automobile industry with steep decline in sales and major disruption in supply chain, labour availability; the industry is expected to realign its approach and methodology to have a profound effect on people, both within the nation and worldwide, who are stakeholders and consumers of automotive business. A lot is to be decided and put to implication by the government in terms of major incentives, relief packages and regulations to meet the challenges from the financial front of the entire automotive fraternity in the value chain.

Revival of demand for vehicles is a major area of concern in the automobile industry where specific suggestions on reduction in the cost of vehicle and generating positive consumer sentiments for consumers to return to the market is being made.

As per SIAM, it is estimated that the demand would degrow in a range of -26 to 45% across various industry segments across FY21. Under any plausible scenario, OEMs need to deploy tactical measures depending on companies' relative financial position where companies may interconnect among tiers to be able to persist and manage the crisis with strategic considerations.

Overall, the automobile industry has been resilient in the present times and is weathering the storm with confidence of a resurgence.

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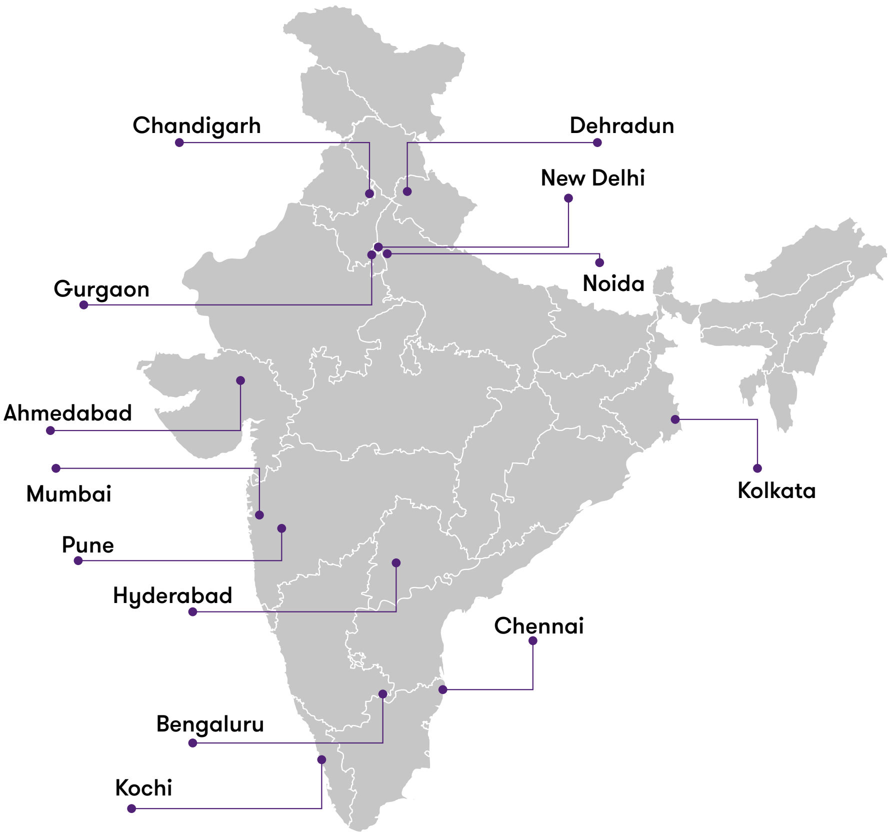

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