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Automotive and Manufacturing

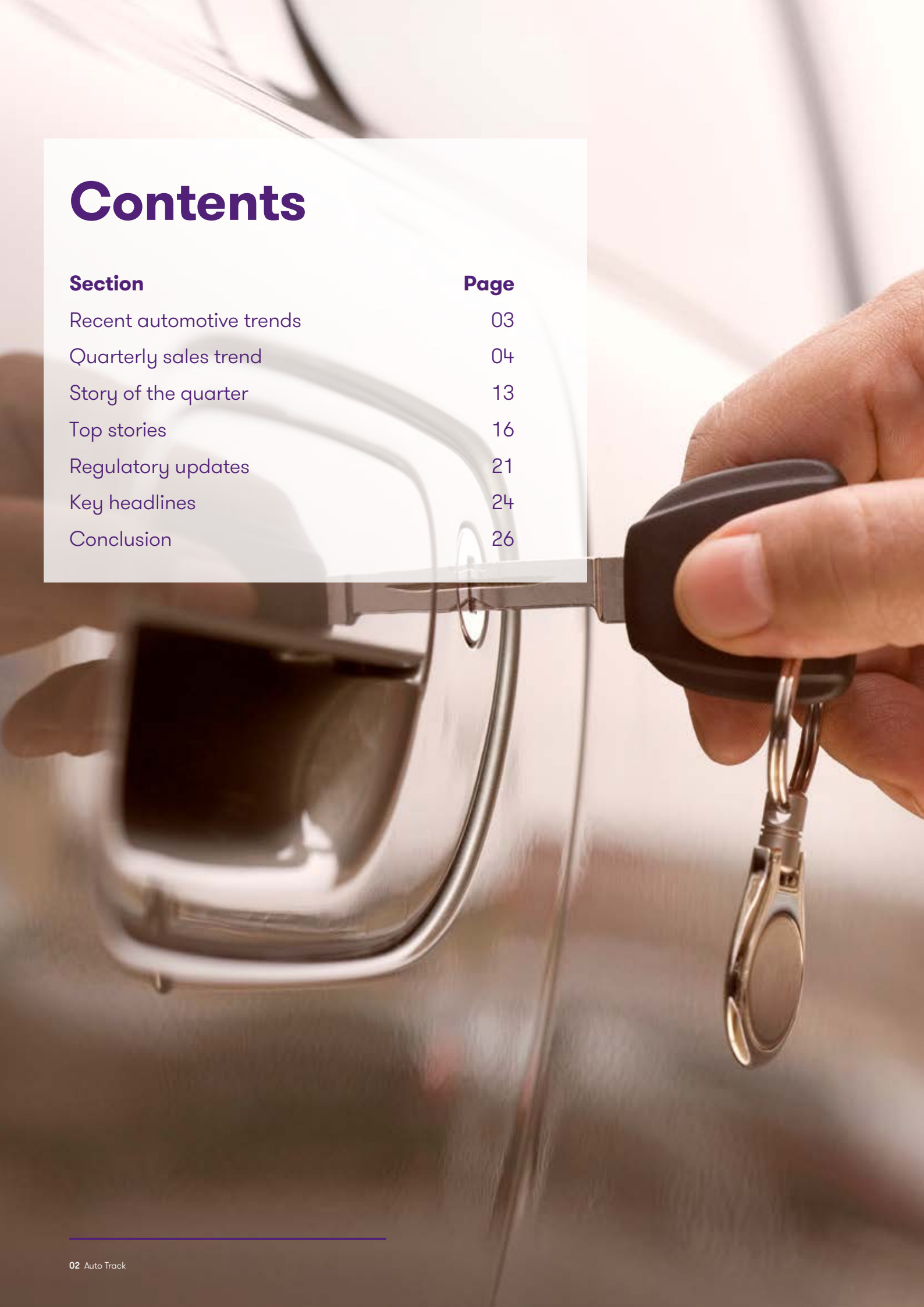
Brand visibility

Opportunity

Auto Track

April to June 2018

Contents



Recent automotive trends

The automotive industry is currently undergoing the most significant change. The industry has largely focused on enhancing manufacturing to become more efficient for mass scale in the past 100 years. Digital is driving the revolution now and the future is about redefining the role of the vehicle for passengers.

This is the most disruptive phase for the global automotive industry. Conventional regulatory policies in the sector so far have been incremental and gradual. However, recent decisions like switching to BS-VI emission norms, 100% electric vehicles by 2030, methanol economy and fuel efficiency norms are transformational and will have a fundamental impact on the entire automotive ecosystem.

The country is catching up with the world's automotive leaders in making mobility greener by promoting Electric Vehicles (EVs) and focusing on alternate cleaner fuels that would provide environmentally sound, seamless and convenient connectivity to urban and rural areas. This, in turn, will be pivotal in creating jobs, improving the lives of masses and, above all, protecting the environment.

Quarterly sales trend

Vehicle sales shows cautious upward trend

Automakers in India had plenty of reasons to cheer in FY2018 as the industry recorded a 14.23% Year on Year (YoY) growth across vehicle types. The total number of units sold almost touched the 25 million mark (2,49,72,788 units).

The total Passenger Vehicle (PV) sales of 32,87,965 units was the highest ever in a fiscal year – registering a growth of 7.89% in FY 2018, according to the Society of Indian Automobile Manufacturers (SIAM). However, the apex industry body had estimated a growth rate of 9-10%. The twists and turns in policy making have subdued the growth in sales, but the auto industry has shown resilience with a reasonable 8% growth.

In line with the global trend, the demand for Utility Vehicles (UVs) has outstripped that for cars, and the last fiscal saw 9,21,780 Sports Utility Vehicles (SUVs) owned by new buyers in India, up 20.97%. With the accelerating pace of demand, specifically for compact SUVs, volumes are likely to cross the 1 million mark in FY 2019. In comparison, passenger car sales grew by just 3.3% to 21,73,950 units. The increasing popularity of UVs is further reflected in the fact that in FY 2018, they accounted for 28% of total PV sales, compared to 25% in FY 2017.

Despite the government's push for EVs, motorists in India are yet to warm up to the concept of plugging into e-mobility. In FY 2018, barely 777 electric cars were sold, which accounted for 0.023% of overall PV sales.

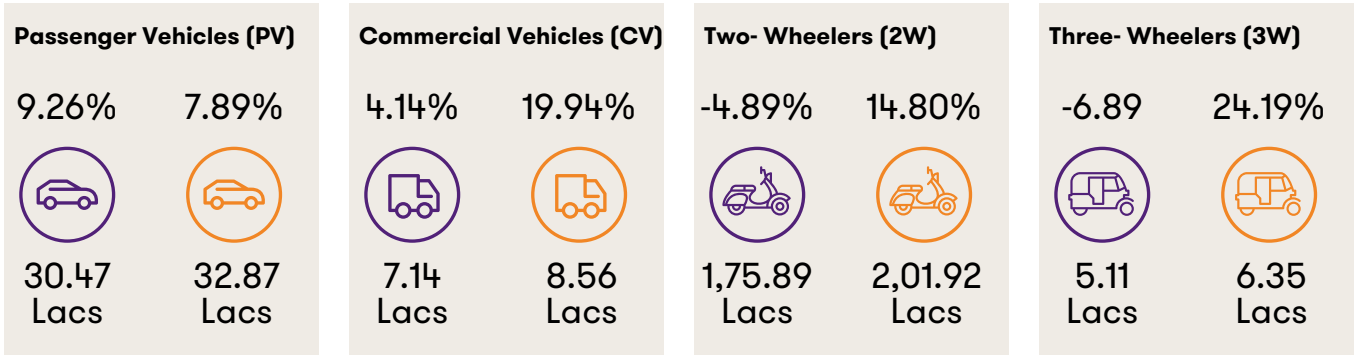
Luxury vehicle sales bounced back in the country in CY 2017. Volumes were estimated to have crossed 39,400 units, up around 19%, with most carmakers successfully countering the setback from the upward revision in GST rates.

25 million units
The total number of units sold in FY 2018

Passenger Vehicle
sales was the highest ever in the fiscal year

Sports Utility Vehicles
mostly owned by new buyers in India

YoY comparision of growth of domestic auto sales



The sale of PVs grew by 7.89% in April-March 2018 compared to the same period last year. Within the PV segment, passenger cars, UVs and vans grew by 3.33%, 20.97% and 5.78% respectively compared to the same period last year. PVs scaled a new high and crossed the 3 million unit mark for the second year running. This growth is backed by the continued surge in demand for UVs, releasing of new models and an unstable policy environment with challenges in the GST shift; capping the rise in sales.

The overall CV segment grew by 19.94% in April-March 2018 as compared to the same period last year. Medium and Heavy Commercial Vehicles (M&HCVs) grew by 12.48% and Light Commercial Vehicles (LCVs) grew by 25.42% over the same period last year.

Sales of 3Ws grew by 24.19% in April- March 2018 over the same period last year. Within 3Ws, the passenger carrier and goods carrier sales registered a growth of 28.65% and 7.83% respectively in April-March 2018 over April-March 2017.

Sales of 2Ws registered a growth at 14.80% in April-March 2018 over April-March 2017. Within the segment, sales of scooters and motorcycles grew by 19.90% and 13.69% respectively, while sales of Mopeds declined by (-) 3.48% in April-March 2018 over April-March 2017.

Quarterly sales trend

YoY sales comparison

Month	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18
PV (Units)	285,477	179,122	300,722	298,504	301,238	273,759
YoY	7.57%	7.7%	6.38%	7.5%	19.65%	37.54%
CV (Units)	85,660	87,777	1,08,243	72,993	76478	80,624
YoY	39.73%	31%	23.99%	75.95%	43.06%	41.72%
2W (Units)	1,684,066	1,685,184	1,741,649	1,958,241	1,850,093	1,867,884
YoY	33.43%	23.77%	18.57%	16.92%	9.19%	22.28%
3W (Units)	62,643	62,463	74,008	49,980	54,809	56,884
YoY	99.5%	77%	86.13%	54.17%	51.97%	55.89%

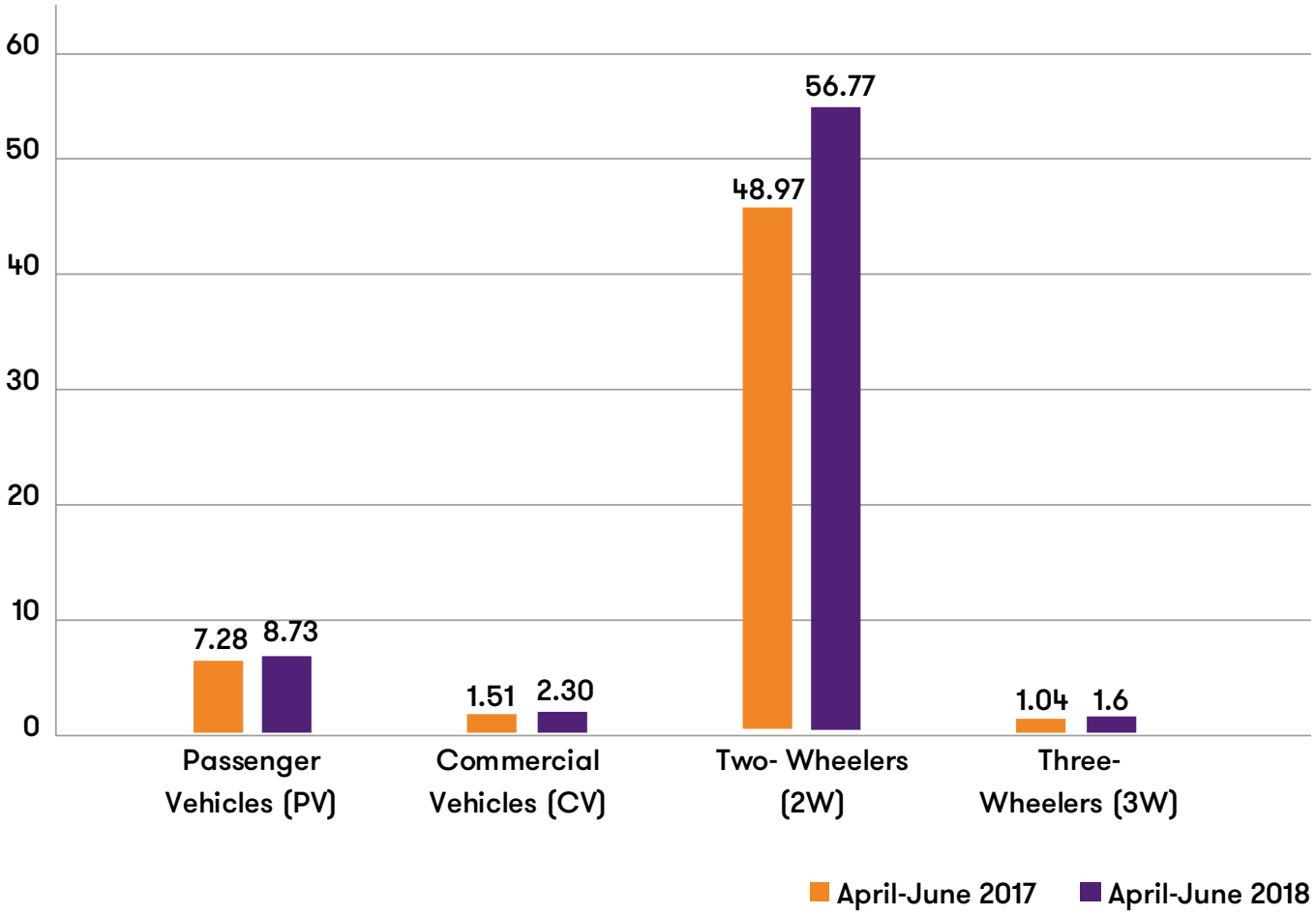
Source: SIAM

With the momentum gathered in the first two months of 2018, India is on track to become the world's third-largest PV market by 2020.

With sales of 5,60,806 units in January-February 2018, India unseated Germany, which sold 5,31,100 units, to become the fourth-largest PV market. Notably, India overtook Germany in Calendar Year 2017 with combined PV and CV sales of 4.02 million units compared to 3.81 million units in Germany.

Till March 2018, large investments made in R&D and product development towards implementation of upcoming regulatory changes of BS VI emission norms and a push towards EVs with further improvement in safety standards are expected to propel the growth of auto sales.

YoY quarterly sales comparative analysis (in lakhs)



Total domestic sales during the quarter April 2018-June 218 grew 18.01% to 6,942,612 units as compared to 5,882,912 units in the same quarter last year.

In the first quarter, the sector registered a growth of 16.55% with production at 8,064,239 units compared to the April-June quarter last fiscal.

April 2018

The advent of new FY 2018-19 was enthusing for the auto market as sales maintained a steady growth in April 2018 albeit over a low base in the same month last FY 2017-18. Macroeconomic factors like investment in infrastructure development, improved industrial activities and robust demand in private consumption ensured a boost in the economy leading to continuing demand.

The improvement in consumer sentiment in anticipation of a good monsoon for a third consecutive year and with interest rates and inflation remaining under control were some of the other major drivers of the PV segment, especially UV sales in semi urban and rural markets.

Domestic sales in the PV segment grew by 7.50% YoY to 298,504 units during the month. Domestic vehicle sales grew by 4.90% to 200,183 units and the UV segment recorded a healthy 11.92% increase at 79,136 units during the month. Exports, which had helped to boost the sales volumes of PVs in the earlier months, declined sharply by 15.89% YoY to 50,921 units from 60,538 units a year ago. This was the first decline in PV exports in a decade, caused primarily by delays in GST refunds, prioritisation by few OEMs of domestic market over international market and shifting of small car production out of India.

CVs witnessed a robust 75.95% growth in domestic sales with 72,993 units. The CV segment's domestic sales numbers were boosted by robust growth of M&HCVs & LCVs at 169.26% and 43.92% respectively, contributing 28,547 units and 44,446 units respectively to the domestic sales in the month.

2Ws continued their excellent run and registered growth in sales at 16.92% in April 2018 over April 2017. 2W exports also stayed on the growth trajectory, climbing up by 26.85% to 293,857 units during the month.

3W sales in domestic market also remained positive, gaining by 54.17% to 49,980 units. Even exports accrued a healthy growth of 88.16% at 49,717 units, with total sales of 3Ws growing by 69.43% during the month.

The auto market came back on the growth trajectory with an overall supportive environment. With the economy slated to do well, and with good monsoon predicted, the rural economy too did better in comparison to the last year.

Further, with new product launches planned in FY19, the market is set to buzz with activity.

May 2018

Overall industry sales were 22.82 lakh units in the month, which translates to sales of almost 73,632 units every day. 2W sales increased by 9.19%, with sale of over 18.50 lakh units as against 16.94 lakh units sold in the same month last year.

Domestic PV sales rose 19.65% to 3,01,238 units from 2,51,764 units in the corresponding month of 2017. Passenger car sales grew 19.64% from 1,99,479 to 1,66,732 units. Last month, this segment grew at 7.50%, with passenger cars growing at 4.89%.

Sales of CVs reported a massive jump of 43.06% to over 76,478 units. This is, however, compared to a lower base of 53,457 units in May 2017. Within CVs, M&HCV sales stood at 30,128 units and LCV sales at 46,350 units. Scooter sales in India declined for the first time in 15 months by a marginal 1.40% at 5.55 lakh units. Motorcycle sales in India registered 12.21 lakh units and moped sales, 73,067 units.

June 2018

Domestic vehicle sales for the month of June 2018 were higher than in the same time last year and the automotive industry seems to be on an upward growth trend once again. June also marked the end of the first quarter in FY 2018-2019, and there was strong showing in terms of sales across the board. The overall sales grew irrespective of fluctuating fuel price and the trade wars with the US, with a growth of 38% compared to the same period last year. However, volumes were also high due to a low base in June 2017, which had seen a tepid demand owing to the uncertainty around GST.

Domestic vehicle sales across segments grew 25.23% to 2,279,151 units driven by continued rural demand, favourable base effect and uptick in passenger vehicle sales. While PV sales grew 37.54% to 273,759 units, CV sales stood at 80,624 units during the month, a growth of 41.72%.

Total 3W sales in the domestic market saw a jump of 55.89% to 56,884 units as against 36,491 units in the same month previous fiscal.

Domestic sales of 2Ws grew 22.285% to 1,867,884 units compared to 1,527,509 units.

But, compared to the sales figures of the previous years, sales in June were still quite high and if this trend continues, there stands a possibility for the industry to hit the 3.5 million per year sales mark in this financial year. To compare the YoY sales for the last year, the growth seems huge. But then, it needs to be discounted for the pre-GST low-volumes to avoid double taxation.

The FY 2019 outlook remains optimistic

While India Auto Inc exited FY 2018 on a high note, the road ahead is likely to be smooth. The industry expects growth in high single digits this fiscal.

On the one hand, consumers appear to have overcome the GST hurdle and regulatory challenges are assumed to be behind them. However, the pace of growth could see speed breakers in the form of high fuel prices and a likely increase in vehicle finance rates. Dynamic pricing or daily fuel price revision, which kicked in on 16 June 2017, continues to be a cause for concern for motorists. India's top 20 cities, which contribute to over 50% of PV sales, have been gradual in delivering growth over the past three-four years.

Semi-urban and rural markets are expected to be the key growth drivers in FY 2019. The caution also arises from a rare likelihood of a third successive good monsoon. Thus, 2018-19 might witness issues related to rainfall, leading to a dip in the rural auto consumption.

Overall, FY 2019 is expected to bring positive sentiments back into the market and revive aggregate vehicle sales. UVs, which have set a rapid pace of growth, are expected to significantly overshadow passenger car sales in the new fiscal. A ramp up in increased public spending in road infrastructure could cushion the factors that impede growth. Thus, the industry is set to improve its performance and the investment outlook in FY 2019 compared to FY 2018.

Story of the quarter

Strengthening dealership network in the automotive marketplace

The Indian automobile market is witnessing a surge in competition and intense demand cyclicity with huge pressure on margins. The impact of this is particularly severe on the dealerships for which automobile manufacturers ardently optimise their dealer network across the country and match it to consumer behaviour and demand. A rising inclination of global auto manufacturers is seen towards the world's fourth largest automobile industry to build significant presence in major Indian cities. To be able to sustain in a competitive and highly dynamic business environment, auto dealerships resort to changing not only the way vehicles are sold but also how and where these are sold, how they are maintained, including understanding a customer's total cost of ownership.

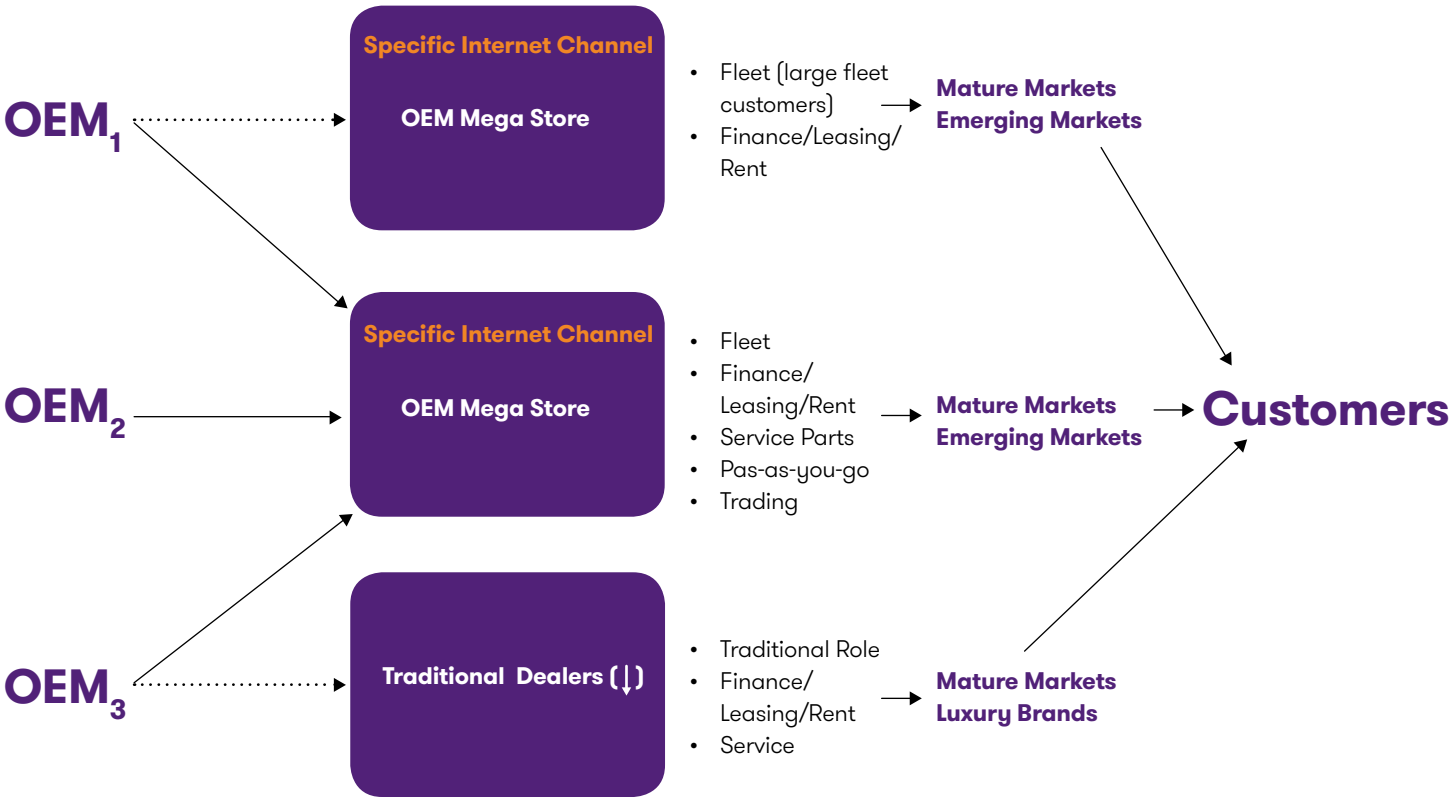
Thus, the rationale for a widened dealer network lies in enhanced potential of the manufacturers to afford higher profits mapped with increased sales and customer experiences post mass-scale introduction of EVs in the market. This requires a re-evaluation of existing sales and marketing strategies and operations in order to create an alignment with the current business environment. Dealers, thus, have decided to primarily focus on and ensure modern and premium experiences to customers by adopting a holistic improvement approach based on strategic planning for revenue growth and diversification to further drive operational excellence and develop people capabilities. Effective and efficient business models are to be evaluated as per Federation of Automobile Dealers Association (FADA) wherein strengthened dealerships throughout the national frontiers by the OEMs and also upgradation of the dealers' showrooms are a requisite with high-class infrastructure and customer conveniences. However, most dealerships lack the required exposure and competency to carry this out, as their roles have been restricted to only executing strategic and tactical changes handed down by the OEMs.

According to a Dealer Satisfaction with Automotive Manufacturers Index (DSWAMI) study, PV dealerships expect that more new-car buyers would purchase their vehicles online instead of traditional dealer showrooms. Shopping online for a vehicle has increased by 28 percentage points (28% in 2012 v 56% in 2017). The India DSWAMI study measures dealer satisfaction with vehicle manufacturers/importers in India and identifies dealer attitudes regarding the automotive retail business. The 2018 study, conducted in association with the Federation of Automobile Dealers Associations (FADA), was fielded from January through March 2018.

As with OEM stores, mega dealers will also have a tightly integrated Internet channel for research and buying.

This proportion of consumer preference demonstrates how crucial it is for dealers, with the support of their OEMs, to develop their digital strategy to enhance interaction with potential buyers.

Future of dealer's landscape



However, in spite of digitalisation, at present, dealerships are likely continuing to play an important role in providing the feel and touch experience to customers.

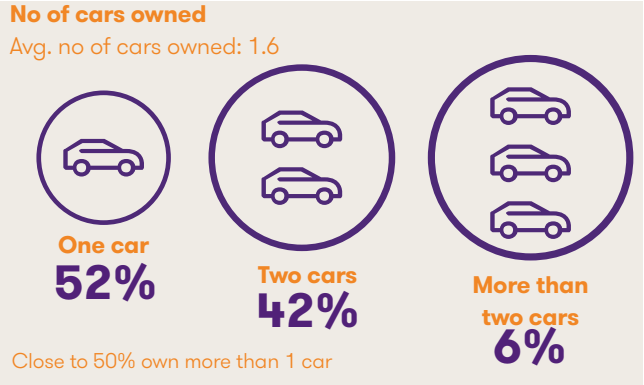
OEMs like Hyundai Motors have been expanding their product portfolio. It has best-in-segment products, strengthening the sales and service network with 493 dealerships and more than 1,309 service points across India. Its main market in South India has captured some of the most profitable relationships so far. Having launched a digital outlet in Hyderabad, the company has successfully generated great economies to scale. Similarly, Nissan is headed towards the India region to popularise its new launches and make significant brand initiatives. It has built a huge research and development centre and a 4,80,000 vehicle capacity plant in Chennai. The step by Nissan evidences a robust base of India's growth.

Thus, manufacturers are closely eyeing strengthened dealerships in India with expanded strategies. OEMs have always strived to achieve their sales targets and thus by solidifying the dealership network, they would be further enabled to devise proof read plans to make a significant impact in the auto market with a big piece of the market share. Companies are have actively been working on dealer development and aim to increase their total share, preferably in the PV market, by adding new products to their portfolio.

Top Stories

India to be shared mobility leader by 2030

The shared economy is in the process of evolving into a significant element of the economic cycle. It has begun to spawn disruptive business models with spiralling customer numbers and revenues to match. Every aspect of life going online acts as a catalyst for the shared economy, which is transforming the world into one huge network and is now an integral part of the global economy.



Shared mobility brings specific entrepreneurial principles sharply into focus and is benefiting from megatrends that are linked to exceptional opportunities for business growth. India is at the cusp of making a transition to new mobility solutions and is rapidly developing to adopt new and fundamentally different pathways to attain least environmental footprints and impact on human health. It has a growing portfolio of programmes supporting a mobility leapfrog wherein shared mobility is one such innovative transportation strategy having a transformational impact on umpteen Indian cities with enhancement of transportation accessibility, reduced driving and personal vehicle ownership.

Despite having expanded 472-fold since 1950, auto ownership in India remains low, with only 18 cars per 1,000 citizens (China has nearly 69, while the US has 786). The scarcity of privately owned vehicles creates opportunities to deploy emerging technology and business models to make mobility services more convenient and cost-effective. Shared mobility is among the fastest growing segments of the shared economy with usage replacing ownership. Its network boasts of high vehicle density, and the next shared vehicle on average is never more than 200 metres away, which is why many urban residents have given up owning their own car, with more people following their lead all the time.

Estimates indicate that India's urban population would nearly double in the next decade, to approximately 600 million in 2030. Forecasts suggest that by then, almost 500 million trips per day will be taken by urban population. Thus, car sales would likely outpace shared mobility's impact over the next 15 years as fewer new vehicles are likely to be seen on the road. While sharing does not necessarily mean less consumption, it does change the nature of consumption. Moreover, optimising mobility use for everyday life with greater thrust on the use of public transport, e-vehicles and shared rides for mass transit would be a game-changer in addressing issues of air pollution in urban areas.

India is uniquely positioned to take advantage of this concept due to a set of advantageous conditions and capabilities, having large population clusters, rising real incomes and a young demographic well connected to the Internet. Digital India has enabled mobile and digital transactions that support the shared mobility model by making digital identities and cashless payments ubiquitous and secure. This is in line with the government's vision to transform India into a digitally empowered society and knowledge economy.

Thus, shared mobility is already familiar and highly utilised in India with many new options for mobility emerging on smartphone apps that aggregate these options and optimise routes for travellers. The most successful shared mobility companies are posting sizeable revenues and have a footprint in almost every major city. Bicycle and auto-rickshaw flexibly carry commuters along routes not served by other modes, and ride hailing services are experiencing enormous growth. Under a shared mobility paradigm, over 4.6 crore vehicles (2W, 3W and 4W) are likely to be sold in 2030 as per Niti Aayog and RMI analysis. Using interoperable transportation data and mobile-connected platforms to enhance the current mobility services system, while connecting it to emerging offerings, could establish India as a global leader in shared mobility by 2030. Thus, with all the right ingredients, the country is expected to become one of the largest shared mobility markets in the world.

ISRO develops batteries to power India's EVs

To curb an all-time high vehicular pollution and to lower India's dependence on crude oil imports amounting INR 7 lakh crore ($1,102,500 million) annually, the government has emphasised to make vehicles run on alternative fuel, including EVs and improve the ambient air quality. Though the government is enthusiastically preparing to introduce 6-7 million electric and hybrid electric vehicles by 2020 and had already unveiled the National Electric Mobility Mission Plan with the set target, the lack of sufficient charging points and the high costs of battery production have slowed down the nationwide adoption of EVs.

The problem is further complicated by the fact that we have limited availability of the natural resources required for Lithium-ion ((Li-ion) battery manufacturing and the country's automotive manufacturers are likely to face challenges as a result of supply shortages of natural resources. An energy storage technology is needed to not only create a more resilient infrastructure but also bring down costs. However, it is critical to take account of the practical aspects for EV rollout and define a long-term strategy for the sector. Thus, the government's decision of dropping an EV policy plan and adopting an action plan instead has been taken owing to the fact that lithium and cobalt, which are the key battery components for EVs, are largely imported from China. Any hardcore EV policy such as going all-EV by 2030 will only increase the dependency on China, if the alternatives are not explored further.

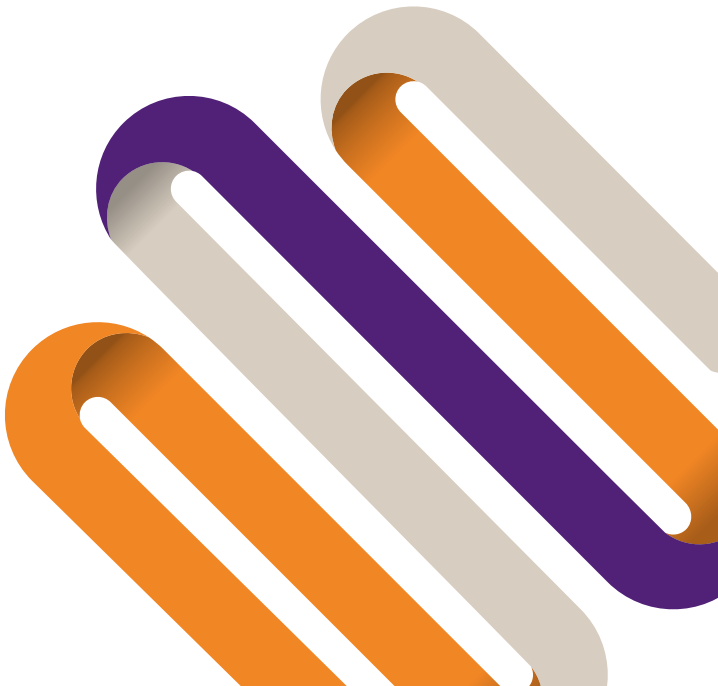
A government panel headed by cabinet secretary P K Sinha has set a mission to increase the use of Zero-Emission Vehicles (ZEVs) amidst India's growing dependence on oil and deteriorating air quality. The panel has recommended commercial use of the Li-ion battery technology of the Indian Space Research Organisation (ISRO) under the 'Make in India' initiative for EVs. The space commission is yet to approve the decision and battery manufacturers are expected to pay INR 1 crore ($1,575,000) as a one-time fee for transfer of technology.

ISRO has developed four types of cells for space applications: 1.5Ah, 5Ah, 50Ah and 100Ah. Out of the four cells, ISRO had earlier allowed Automotive Research Association of India (ARAI), an industrial automobile research association, to use 50Ah and 100Ah cells for developing prototypes of an e-scooter and an e-car, respectively. ARAI was satisfied with the performance of these prototypes.

Such commercialisation of ISRO's technology is expected to save 10-15% of the cost of EVs. The authorities are thus prompted to consider greener means of transport and the Central Electricity Regulatory Commission (CERC) is thereby proposed to be consulted by the Committee of Secretaries to form policies towards the development of charging infrastructure with requisite power tariffs.

As electric car batteries rely on a host of rare materials, from lithium and nickel to cobalt, battery makers around the world struggle to secure supplies of these key ingredients as demand outstrips supply. This has undoubtedly placed pressure on auto manufacturers and thus the hunt for alternative technologies is on.

Overall, India needs to step up Li-ion battery production in order to favour the idea of increasing use of ZEVs and relieve itself of importing them from China and Japan. A Li-ion battery factory will bring down prices and increase mass adoption, crucial for storage of renewable energy generated through solar or wind power.



The EV antithesis amidst the euphoria

The EV evolution has gained tremendous momentum in the recent past, thanks to some path breaking innovation and publicity by Tesla and out-of-the-box thinking by individuals such as Eon Musk. The focus of this article, however, is the inconspicuous silence of the massive oil lobby and their perception of the advent of EV, which perhaps works as an antithesis to this euphoria.

According to a Statista report, in 2016 the road sector used up 44.8% of the total oil demand. This is massive if you look at the second highest user of the oil distribution, the Petrochemicals sector, whose demand distribution share is only 12.74%. If, theoretically therefore, Internal Combustion (IC) powered cars were completely replaced by EV overnight, the overall demand for oil worldwide will drop by almost 50%! Why would the oil lobby not be concerned?

EV initiatives worldwide

It is well known that EV technology precedes IC. EVs, in their traditional form and shape, evolved as early as the late 19th century and were replaced by IC cars as oil gained prominence and IC cars began to technologically evolve. EVs constituted 28% of all cars in the US in early 20th century. They now constitute just 1.22% of the new vehicle production in 2017. China leads in EV adoption at 32% of the total market, followed closely by the US at 28% (source: Global EV Outlook 2017). Norway plans to go completely electric by 2025 and onwards. Several countries have come up with EV-support policies that adversely impact the oil sector. Canada, for example, has come up with strict Truck Greenhouse Gas emission regulations. Germany has proposed differentiated plates for EVs allowing for differentiated measures. There are several such examples.

Future of fossil fuels

So, how strong is the oil lobby? Has it accepted its fate and looking at alternate diversification? To some extent, yes. British Petroleum, for example, is looking at making its first big renewables investment to expand its foray into the US wind-power business. France's Total bought a battery group early in 2017. That clearly establishes the inverse proportionality between the battery and the oil sectors. The rating company Fitch has undertaken a detailed analysis on the impact on the oil sector as a result of a sharp growth of EVs. Some reports issued by them suggest a 'resoundingly negative' threat to energy companies. These reports urge those companies to plan for radical change spurred by new technologies.

The oil lobby continue to have strategies of their own as they see the advent of battery technology. The smartphone phenomenon gave us an insight into how rapidly battery technology began to transform. However, whereas the life of a smartphone is 2-3 years, a car's life is 12-15 years – the lifecycles of these two battery-operated equipment are so different that the analogy cannot proceed much. For decades, EVs were virtually not allowed to evolve. Technology such as EVs that could compete with the global oil monopoly was effectively buried. A car that could be plugged for a few hours in a home and be charged for days would effectively end the iron grip of oil on the global economy. This was well understood by all, particularly the oil industry. Evolution of battery technology could not, however, be suppressed because of the smartphone revolution.

The underbelly of the oil sector

Technology aside, evidence of geo-politics also suggests manoeuvring within the oil sector. President Trump, in a move that stunned the world, took the decision to have the US withdraw from the Paris Accord in mid-2017. Besides several geo-political reasons for this, as well as President Trump's own election stand that was evident during his campaign, there were murmurs about several other considerations. Amongst such, a paper published by Science Direct under the auspices of Advances in Climate Change Research, directly suggested the close connection of the Trump Administration to the fossil fuel industry and the fact that associated interest groups are a defining feature of American politics. The article went on to quote that the fossil fuel industry holds a powerful political clout over the Trump Administration and the Republican Party in the US.

Reduced dependence on oil

A case in point here is the continuing lobby against the Global Warming Solutions Act of 2006 (AB32) that the State of California had enacted. The primary motive of this law was to supplement California's climate and clean energy policies to reduce dependence on oil. This legislation was intended to enable Californians to save more than $ 2,000 per household on gasoline and avoid the need to drive 14 billion miles each year by 2030. Californian drivers spend more than $55 billion every year on gasoline or nearly $ 4,500 per household (source: Energy Information Administration, Motor Gasoline Prices and Expenditures, 2012). It has been alleged in a Natural

Resources Defense Council (NRDC) publication of November 2014 that the oil companies' campaign to maintain profits and continue dependence on petroleum-based fuels has been supported by a spend of more than $70 million on lobbying within California since 2009. A Bloomberg Businessweek report in September 2014 reported that the oil industry is propping up front groups that appear to be grassroots organisations started by ordinary people. It is alleged that they are backed up or funded by oil companies or State Petroleum Associations. These, at most, could be allegations but it does point to the fact that there is some activity behind the scenes that gets camouflaged by the EV euphoria.

In conclusion, therefore, the EV transformation not only has technology, safety and regulatory aspects to grapple with, but also needs to build adequate consensus around serious environmental issues created by fossil fuel application. It needs to work hard to bolster the equally vocal environmental lobby. It could be anybody's game, but the EV phenomenon is running in front for the moment.

Vikram Bapat

Partner
Grant Thornton India LLP

Source: Company website and company press release

Regulatory updates

New vehicle scrappage policy coincides with BS VI implementation

As older vehicles in the country are not environmentally friendly and contribute substantially to vehicular pollution levels, there came the need to scrap them. The scrappage policy was initiated by the Ministry of Road Transport and Highways in 2016 in a draft titled 'Voluntary Vehicle Fleet Modernisation Plan' to do away CVs that are more than 20 years old, including trucks, buses, tempos and autos. The policy will come into effect from 1 April 2020 to coincide with the implementation of the BS VI norms.

According to an analysis of data from Central Pollution Control Board (CPCB) and Union Road Ministry's emission norms, nearly 7,00,000 CVs bought before 31 December 2000 account for about 15-20% of the vehicular pollution. Over 11 lakh MHCVs that are above 15 years old in the country account for 34% of the pollution. All MHCVs together, which is 2.5% of India's fleet, account for 60% of the air pollution.

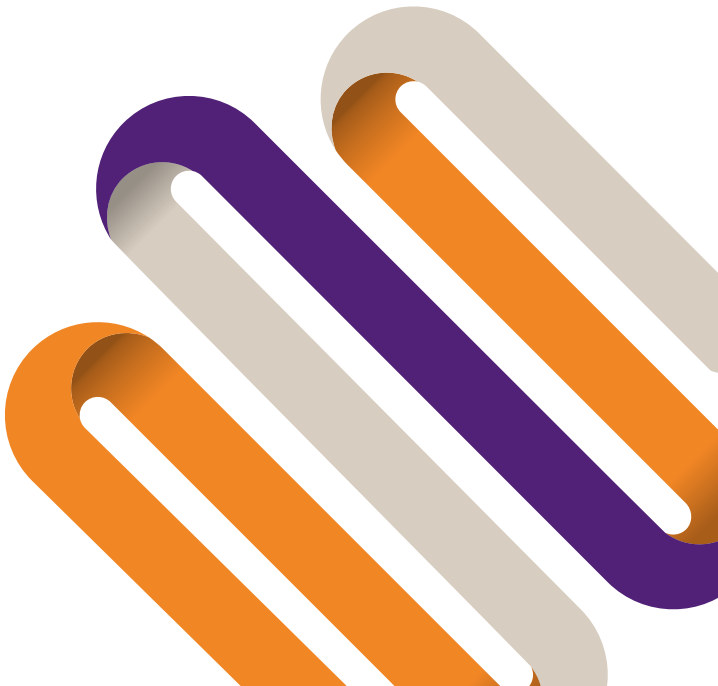
Under the draft policy, vehicles bought on or before 31 March 2005 would be eligible for the incentive scheme. Fleet owners are expected to get a waiver on duties, besides the scrap value of their vehicle and discounts from manufacturers. OEMs may give a discount certificate to the beneficiaries so that they may encash the same at the time of purchase of new CVs. OEMs can offer a discount of about 5% against scrapped vehicles.

The policy, which has received the go-ahead from the Prime Minister's Office, will now go to the GST Council to decide the extent of tax concessions to be offered by the state and central governments to compensate vehicle owners for scrapping their old fleet. Of the MHCVs, medium CVs (16 tonne gross vehicle weight) would benefit the most, while the number of multi-axle vehicles, Intermediate CVs (ICVs), tractor trailers, and light CVs opting for the scheme would be limited as very few vehicles would actually be older than 20 years.

However, the additional benefit from the scheme will prop up CV demand to some extent, when vehicle prices will increase because of change in emission norms (BS IV to BS VI).

Ministry of Steel (Government of India) is also working closely with the Road Transport Ministry to set up scrappage units in the country. CERO, a joint venture between Mahindra Accelo and MSTC Ltd, under the guidance of the Ministry of Steel, has set up a first-of-its-kind auto shredding plant that will recycle end-of-life vehicles in an environment-friendly way. Steel and other materials found in automobiles are recycled and reused. CERO aims to reduce carbon footprint and is an effort towards a zero waste, zero pollution eco-system.

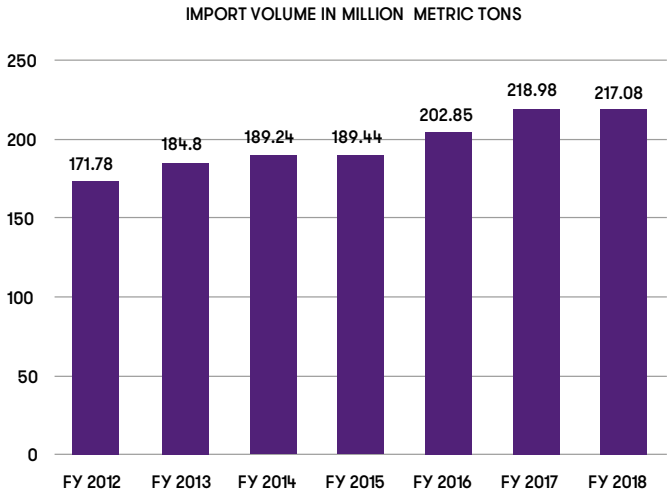
Hence, the proposed vehicle scrappage policy paving the way for mandatory disposal of CVs will become a reality soon, and to understand its nuances the sector awaits the disclosures of its financial benefits with approval of the GST Council.



Collective bargaining power against cartelisation of oil producers

India is the world's third-largest oil importer after China and the US, and the Organisation of Petroleum Exporting Countries (OPEC) supplies nearly 60% of India's oil needs. Japan is the fourth largest importer followed by South Korea. The four nations as a whole account for over a third of the oil imports in the world, and as Asian importers or consumers they tend to pay more in the name of 'Asian Premium' which annually costs around $5-10 billion.

OPEC has been playing havoc with prices with the oil producers' cartel wherein a production cut elevated international oil prices to a four-year high in May 2018 forcing an INR 3.8 per litre hike in petrol and an INR 3.38 a litre increase in diesel prices. Even though India has repeatedly asked for discounts from OPEC, it has not succeeded in receiving any monitory support. Thus, to see the light of the day, India is trying to create a network with the four countries to cut the dominance of the oil block.



India imported 17.2 Million Tonne (MT) of crude in the month of April 2018, down 5% from 18.1 MT imported in the corresponding month last financial year. The country's gross petroleum imports including crude oil and petroleum products also decreased to 20.2 MT in April 2018 from 20.8 MT in April 2017. Data from the statistical arm of the Oil Ministry, Petroleum Planning and Analysis Cell (PPAC), shows that the country's total crude oil import bill in the current FY 2018-2019 is expected to jump 24% to $109 billion from $88 billion last fiscal year.

The import volume of crude oil in India from fiscal year 2012 to fiscal year 2018 is analysed in the above figure. It amounted to approximately 217 million metric tons during fiscal year 2018, up from about 203 million metric tons in fiscal year 2016.

Thus, in line with the import volumes, the premium being charged to the Asian buyers is highlighted and the Oil Ministry has proposed an alliance of the oil consuming nations. With the joint sourcing of oil by India and China, the Asian Premium too will be brought down. China National Petroleum Corp (CNPC) sells a large portion of the produced oil in the overseas markets from the fields it owns in third countries, and India would enable a better bargain from OPEC cartel by buying the Chinese firms' equity oil directly. Thus a common front on oil is proposed to China's National Development and Reforms Commission to look for ways to leverage the combined size of Indo-China imports for a better bargain from West Asian crude producers.

According to International Energy Agency, oil demand will hit 104.7 million barrels per day by 2023, up 6.9 million bpd in 2017. China and India together will contribute nearly 50% of global oil demand. Thus, the government is concerned about rising fuel prices but it strives to maintain a balance between fiscal and consumer interests and ease the pricing pressure on consumers.

Consequently, India's proposal to set up Asian Oil Buyers Network is a great step. Joining of hands of India and China in this regard would not only result in a collective bargaining power against cartelisation of oil producers, but also significantly counter-balance to OPEC machinations as a great pitch towards responsible pricing.

Key headlines

India gets first automated vehicle scrapping and recycling facility

Business Standard, June 05 2018

The country's first automated and organised vehicle scrapping and recycling facility is up and running in Greater Noida, a satellite town outside the capital. Mahindra Accelo and MSTC have an equal partnership to set up these recycling centres under a company called CERO.

CERO is buying vehicles directly from owners and at auctions. The facility evaluates the vehicle and recycles steel, batteries, electronics, engine parts and other metals, etc. The company has managed to sell the recycled steel to domestic industry for re-rolling

In top gear: Government set to prop up EV market with VC funding for start-ups

Business Standard, May 31 2018

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India turns hotspot for global firms offering smart mobility

Livemint, May 30 2018

India's quest for smart mobility has made the country a hot spot for international companies to offer their latest technologies such as pod taxis, hyperloop, electric vehicles, cable cars and ropeways. One such firm, skyTran, is a Nasa technology partner and is developing a pod car system; a driverless vehicle that runs along a pre-determined route.

Ola to roll out 10,000 electric vehicles over the next 12 months

Livemint, April 17 2018

Ola, the cab-hailing service that is in talks to raise at least $1 billion in fresh funds, will introduce a fleet of 10,000 EVs over the next 12 months.

Ola, run by ANI Technologies Pvt. Ltd, stated that as part of its Mission: Electric initiative, it would look to deploy 1 million EVs on the roads by 2021.

Mahindra Electric ties up with Zoomcar to offer 100 EVs in Delhi

PTI, April 10 2018

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Conclusion

India is currently one of the largest markets in the world as far as automobile sales are concerned. Vehicle manufacturers raised a toast for the financial year 2017-18 as it turned out to be one of their best in terms of sales. The year also saw India surpassing Germany as the fourth largest automobile market on a global scale to stand right behind China, the US and Japan.

A revival of the economy after demonetisation and enforcement of GST put the country back on track. The GDP and economic reform programmes of the government indicate positive signs of recovery. The GDP is marked to be at 7.6% during 2018, giving a boost to industry and manufacturing activities.

From the global economy perspective, a robust cyclical recovery with the world growth projected at 3.7% in 2018, bank recapitalisation, rural revival, and governmental reforms such as the Insolvency and Bankruptcy Code is also expected to give a fillip to the automobile sector.

Initiatives to incentivise the replacement of older vehicles (10/15 years old) would further help in protecting the environment and boosting the auto industry. Measures to push the agrarian productivity would also directly impact the rise in the sale of tractors and cater to the increasing agrarian distress.

Above all, incentives to EV manufacturers by lowering the GST on it (at12%) would spike up the overall automotive business and leverage the goals to be achieved in the National Auto policy.

Thus, to help the industry leapfrog into the next generation of opportunities and depict real improved performances, there is a need to launch pragmatic policies which are not plagued by reform stagnation or suffer from subdued enthusiasm on incentives and implementation. A two-way roadmap has to be built by the government as well as the automotive industry.

Going forward, India would act as a key pillar of global automotive market, be it policy, actions and strategies of players. It will act as an anchor of future growth in the global auto landscape.

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