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Automotive and Manufacturing

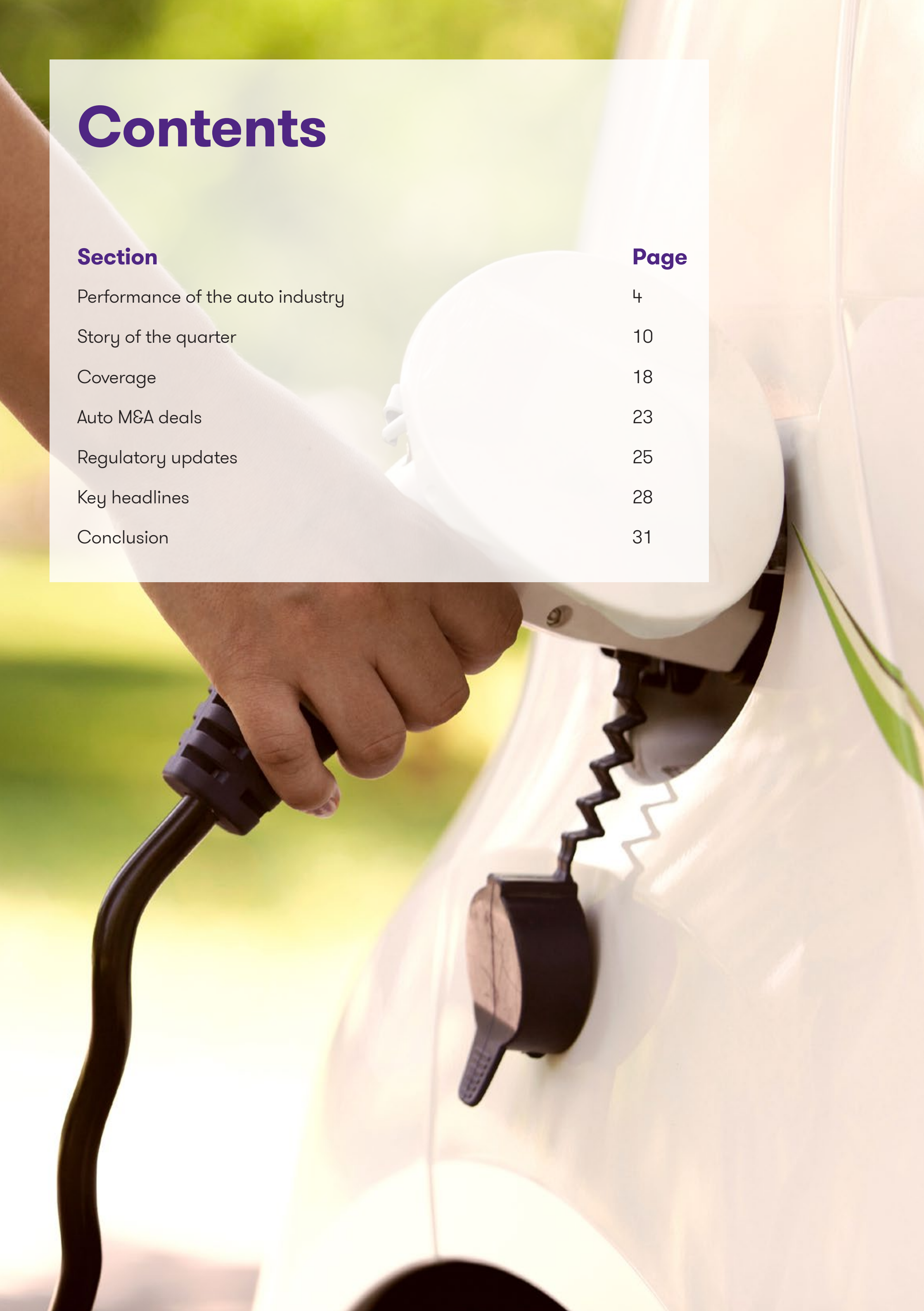
Brand visibility

Opportunity

Auto Track

Q2 2019
(July to September 2019)

Contents



Foreword

Demand environment and changing competitive landscape in the auto sector would be the key determinants of stock performance with further positive momentum expected on back of government initiatives for a much-needed respite to the automobile industry.

The auto sector has been in a downward spiral for some time now. Consumers are deferring their purchases in anticipation of GST revision and steep discounting ahead of the BS VI rollout, affecting demand. Factors such as the BS VI transition, encouragement to e-vehicle implementation and expected flash sale of BS IV vehicles towards the end of Q4 FY20 have also confused consumers to some extent. While all segments reported a y-o-y decline in monthly volume, the passenger vehicle (PV) and commercial vehicle (CV) segments witnessed the highest decline.

The government has implemented various initiatives to ease the liquidity crunch, though the measures are unlikely to provide any immediate respite to the industry.

Going forward, we expect the slowdown to continue, as rural demand is yet to pick up pace due to the liquidity crisis in the non-banking financial company (NBFC) space, while several rural markets are impacted by excess rainfall, which has created a temporary disruption. After inventory destocking, existing inventory continues to remain at higher than normal levels for most players, which is expected to continue to impact the wholesale dispatches in FY20.

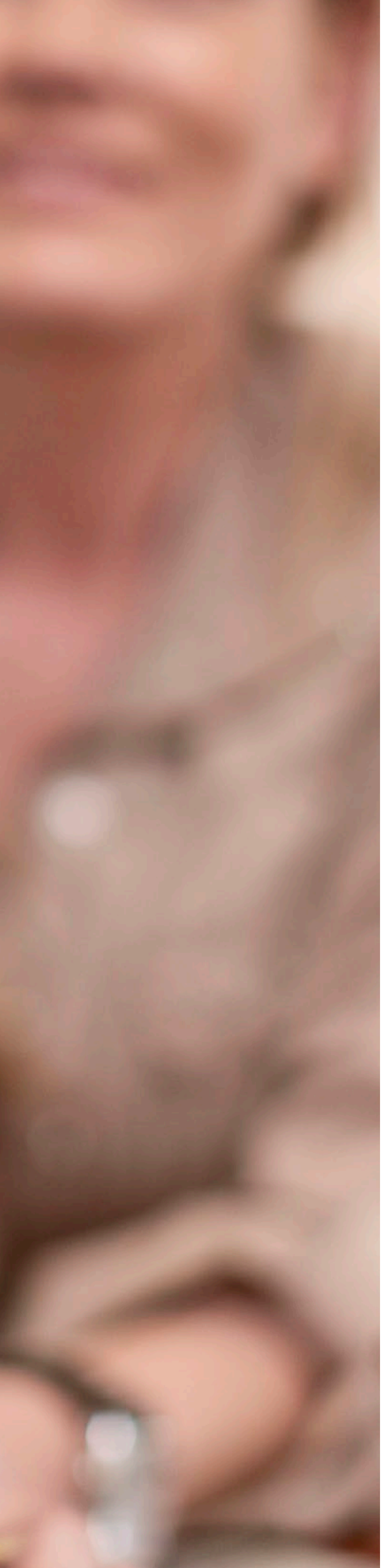
Demand environment and changing competitive landscape in the auto sector would be the key determinants of stock performance with further positive momentum expected on the back of the upcoming government initiatives for a much-needed respite to the automobile industry

I am sure this edition of our quarterly publication Auto Track will provide deep insights into the industry with top stories and comprehensive coverage of the important deals, regulatory updates and contemporaries of the overall automobile industry.

Saket Mehra

Partner
Grant Thornton India LLP

Performance of the auto industry



Overview of the quarter

With the continuing slowdown warranting intensified efforts to restore the growth momentum, the July to September 2019 quarter saw major push by the government towards the revival of the Indian automobile industry. With the RBI monetary policy, the fiscal initiatives are complemented with the cut of 25 bps, bringing down the repo rate to 5.15% including a USD 20 billion reduction in corporate taxes. As part of the stimulus package announced by the government, all government departments would replace old cars for a resulting boost in the demand for the industry. The new motor vehicle act endeavours traffic management with significant increase in driving penalties. The Electric Vehicles Guidelines and Standards are yet another push towards deep focus on charging infrastructure with the Bureau of Energy Efficiency BEE being nominated as the Central Nodal Agency in India's EV plan.

Moreover, the overall auto domestic sales showed a continued declining trend as PV numbers declined by (–)31.57% y-o-y in August 2019, the steepest fall in two decades, due to a continuing slump in demand amid slowing economic activity and an increase in vehicle ownership costs. However, the combined exports for all categories in the month of September 2019 stood at 4,17,232 units compared to 4,14,428 units for the same period last year, registering a slight rise of 0.68%.

Whereas, Vehicle sales across categories fell 23.55% to 1,821,490 units with the multiplier effect in job cuts for the component industry and the dealer community. Given the dismal demand situation, the efforts of both the industry and government are crucial for an immediate respite.

Industry overview

YoY comparison of the number of units sold

	July 2018	July 2019	% change	August 2018	August 2019	% change	September 2018	September 2019	% change
PVs	290,931	200,790	-30.98	287,198	196,524	-31.57	292,660	223,317	-23.69
CVs	76,545	56,866	-25.71	84,668	51,897	-38.71	95,870	58,419	-39.06
3Ws	60,341	55,719	-7.66	63,199	58,818	-6.93	69,066	66,362	-3.92
2Ws	1,817,406	1,511,692	-16.82	1,947,304	1,514,196	-22.24	2,126,445	1,656,774	-22.09
Total	2,245,223	1,825,067	-18.71	2,382,369	1,821,435	-23.55	2,584,062	2,004,932	-22.41

PV: Passenger vehicle

CV: Commercial vehicle

2W: Two-wheeler

3W: Three-wheeler

Quarterly sales trend – July-September 2019

The Indian automobile industry is not likely to witness noteworthy growth in the next few months. There are several reasons for this. For starters, the fuel prices are bound to increase once the additional cess and excise duty proposed by the government come into effect. Another reason for the sales downturn could be the impending BS VI emission norms, which are probably deterring people from buying existing BS IV compliant vehicles.

July 2019

The downturn plaguing the Indian automobile industry continued to impact car sales in July 2019.

As per data released by the Society of Indian Automobile Manufacturers (SIAM), vehicle sales across categories, including PVs and 2Ws, stood at 18,25,148 units last month as against 22,45,223 units in July 2018.

August 2019

The slowdown nightmare for the automobile industry continued for August as the overall auto sales declined by 23.5% in the same month and the overall sales stood at 18,21,490 units against 23,82,436 units in the same month last year.

The other segments fared no better. The CV segment saw its sales decline by 38.71%, while the distress in the rural economy was highlighted by a 22.24% slide in the sale of 2Ws. Motorcycle and scooter sales declined by over 22% during the month.

September 2019

The vehicle sales by segment in September 2019 showed a continued declining trend, with CVs showing a -39.06% y-o-y decline from 95,870 vehicles sold in 2018 to 58,419 vehicles sold in 2019 in the same month. On the other hand, a -23.69% y-o-y fall was witnessed in PVs. The total sales were 2,584,062 in September 2018 and 2,004,932 in September 2019, representing a -22.41% y-o-y decline.

In terms of overall production, there was an 18.29% decline to 24,06,640 units in September 2019 compared to 29,45,431 units during the same month last year.

Synopsis of coverage and stories

Story of the quarter

Global interest to make India a manufacturing hub for EV

Operationalising this mass transition to electric mobility for a country of 1.3 billion people is not an easy feat. Thus, a strong common vision, an objective framework for comparing state policies and a platform for public-private collaboration are needed. These levers will allow leaders to show clear action to our future generations.

Coverage

Revival of the Indian automobile industry

The industry is calling for enablers for the automotive sector and a stimulus package to overcome the pitfalls and regain sectoral strength and sustainability.

Future of Indian car rental industry

The Indian car rental industry comprises various car rental companies that follow different business model such as the aggregator and the ownership model. With many businesses already following this concept in the country, it is possible to see brick and mortar businesses in the Indian car rental space following this trend to increase brand visibility across various platforms soon.

Auto M&A deals

- Auto parts maker Minda Industries acquires Germany's Delvis Gmbh
- Volkswagen Finance buys 25% stake in Kuwy Technology Service Pvt. Ltd.
- Igarashi Electric to buy out partner in India unit
- Blackstone Group acquires 97.9% stake in Agile Electric Sub Assembly Pvt. Ltd. for INR 600 crore

JV tie-ups

Robert Bosch in JV with Igarashi Motors India Ltd.

Minda Corporation enters into a JV with China's Shandong Beiqi Hai Hua Automobile Parts Co.

Lumax Auto Technologies enters the defence sector through a JV with Italy's SIPAL

Regulatory updates

Motor Vehicles Bill: From traffic violation fines to new rules

The Transport Ministry had issued a notification dated 28 August 2019, listing out all the laws that would come into effect from 01 September 2019. The new Motor Vehicles Act has enhanced the penalties for driving errors. For example, the penalty for driving without a licence has been enhanced by 10 times.

Uniform GST and incentives for EVs

About 60% of auto components attract 18% duty and the remaining high-value parts are taxed at 28%. Therefore, the Automotive Components Manufacturers Association of India (ACMA) pitched for a uniform GST rate of 18% for all auto components as well as some export incentives for the industry from the Centre in its 59th Convention in New Delhi.

Story of the quarter

Global interest to make India a manufacturing hub for EVs

The Indian government has created momentum in the EV space through its Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles scheme. The scheme encourages, and in some segments mandates, the adoption of EVs with a goal of reaching 30% EV penetration by 2030. The scheme creates demand incentives for EVs and urges the deployment of charging technologies and stations in urban centres. If these aims are realised by 2030, they will generate an estimated saving of up to 474 millions tonnes of oil equivalent (mtoe) and 846 million tonnes of net carbon dioxide (CO2) emissions over their lifetime; these savings would align with India's commitment under the Paris Agreement of reducing the amount of CO2 pollution produced for every dollar of GDP by 33% to 35% by 2030.

The focus on EVs stems from the government's focus on curbing rampant pollution in the major cities and on reducing oil imports. Given the large dependence on oil imports, it is imperative to shift the focus to alternative fuels to support mobility in a sustainable manner.

Following the push towards EVs by the central government, India can become one of the largest EV markets in the world. Thus, with EVs, the Indian automobile industry is witnessing a tectonic shift requiring real-time investments in manufacturing, R&D and the supply chain to make India the undisputed global hub of the EV world.

The market share of electric cars is around 39% in Norway and 2% in China, whereas the Indian market share is a meagre 0.06%.

Setting up of battery and assembly plants in India

Lack of charging stations is one of the key factors behind the marginal sales of EVs in India. Appropriate policy measures are needed to lower the overall lifetime ownership costs of EVs and make them an attractive alternative to conventional vehicles for all consumers. Indian Oil, National Thermal Power Corporation and Tata Power have big plans to open electric charging stations throughout cities.

Due to the lack of a robust EV charging infrastructure and the low domestic EV parts manufacturing capacity, companies in this space had to invest heavily in setting up their own charging infrastructure and importing key EV components.

Currently, Japan's Suzuki, along with Toshiba and Denso as partners, is the only automobile manufacturer investing in lithium ion battery manufacturing in India for EVs.

Key players like SmartE have battery swapping stations in Delhi NCR and are

India is in the process of setting up 10 GWh producing plants by 2020. Three lithium-ion battery manufacturers are expected to set up their facilities with a combined capacity of 10 gigawatt in Telangana soon, with an investment of INR 1,500 crore in the first phase.

working in partnership with Delhi Metro, Sun Mobility, Panasonic, Exicom and Amara Raja batteries to operate the stations. Ola has its own battery swapping unit for e-rickshaws in Gurgaon. The station has around 14 battery-swapping units with 20 battery packs per unit powering 100+ e-rickshaws. With all the merits attached to the concept of battery swapping, the government should consider operationalising battery swapping as a part of the FAME II policy.

Moreover, one of the biggest hurdles for adoption of electric mobility has also been the high cost of lithium-ion batteries and sourcing of lithium and cobalt.

The government is considering a plan to establish battery-making capacity of 40 gigawatts to give a boost to its EV and renewable energy initiatives.

The proposal is expected to entail investments of USD 40 billion in the next two-three years and is likely to garner interest from global battery manufacturing firms and renewable energy players such as SoftBank, Tesla and Panasonic.

Power pack

The government is working on a mega battery manufacturing plan

USD **40 billion**
investment envisaged

10 GW
4 plants in 4 states

40 GW
Targeted capacity

Open challenge

States and manufacturers to bid for plants

Centre to provide incentives

Set up globally competitive facilities and also help domestic electric car manufacturing

Room for more

Batteries and battery cells are imported from China and the US

India can first make batteries before moving on to cells

Nearly a fifth of components for lithium-ion cells are imported

Infused funding in e-mobility companies

Automotive industry players and charging infrastructure, battery and mobility service providers have taken various actions to ramp up industry action. Companies are designing and testing products suitable for the Indian market with a key focus on 2Ws and 3Ws. Ola, an Indian taxi company, has launched 'Mission: Electric' to integrate 10,000 e-rickshaws and electric auto-rickshaws into its fleet. Car manufacturer Mahindra and Mahindra is investing INR 18 billion over the next three years into EV production to ramp up its 4W production.

Hyundai, which recently launched its first EV Kona, has a definite strategy to launch more EVs in the next five years. The investment made in Ola Electric will allow Hyundai to get all the information required to launch the next EV at an affordable cost. Also, the fund-raise by EV startup SmartE is aimed at rapidly increasing its fleet size and ramp up its charging infrastructure network within Delhi-NCR and other key cities around the country. It will also use the funds to significantly expand its charging infrastructure network to offer both plug-in vehicle charging as well as battery swapping solutions. Additionally, SmartE has entered into MoUs with multiple state governments around the country to roll out its last-mile connectivity services using EVs.

Other manufacturers are forging partnerships with states to augment their public transport systems. In the push for 30% EVs and green mobility by 2030, the government of India has approved amendments in the EV charging guidelines and specifications. Approved by Union Minister of State for Power and New and Renewable Energy (IC) and Skill Development & Entrepreneurship, the new guidelines shall supersede the earlier guidelines and standards issued by the Ministry of Power on 12 December 2018.

Features of the EV guidelines

At least one charging station in a grid of 3 X 3 km in cities

One charging station every 25 km on both sides of highways/roads

In the first phase (i.e., 1-3 years) for all mega cities with a population of over 4 million, all existing expressways connected to these mega cities and important highways connected may be taken up for coverage

In the second phase (3-5 years) big cities like state capitals and UT headquarters may be covered for distributed and demonstrative effect

It has been clarified in the guidelines that private charging at residences/offices shall be permitted and DISCOMs may facilitate it

In the case of PCS, it has been provided that tariff for the supply of electricity to PCS shall be determined by the appropriate commission in accordance with the tariff policy issued under section 3 of Electricity Act 2003

Fast charging station for long range and/or heavy duty EVs like buses/trucks, etc., shall be installed every 100 kms, be installed one on each side of the highways/road located preferably within/alongside the public charging station (PCS)

Domestic charging shall be akin to domestic consumption of electricity and shall be charged as such

Setting up of PCS shall be a de-licensed activity and any individual/entity is free to set up PCS

Hurdles to EV development and solutions

Like any transformative new technology, electric vehicles (EVs) create a variety of potent economic development challenges and opportunities. The EV market is still at an early stage of development, but it is expected to reshape industries and communities around the world.

More conventional hybrids, light duty vehicles and fuel-efficient gas cars provide valuable fuel savings and environmental benefits as they rely heavily on gas and thus should be considered a preliminary step toward a more visionary transportation solution. Because battery EVs and plug-in hybrids are impacted by similar charging infrastructure and battery technology, they will share many of the same hurdles and corresponding solutions

High cost of plug-in EVs

Demand-side strategies

- Provide tax incentives for purchase
- Alleviate battery ownership risk
- Provide non-financial incentives
- Encourage utility rate discounts
- Transition government fleets to EVs
- Encourage EV cabs

Supply-side strategies

- Make public investments in R&D
- Create tailored workforce training programs
- Provide business financing
- Support supply chain development

Limited charging infrastructure

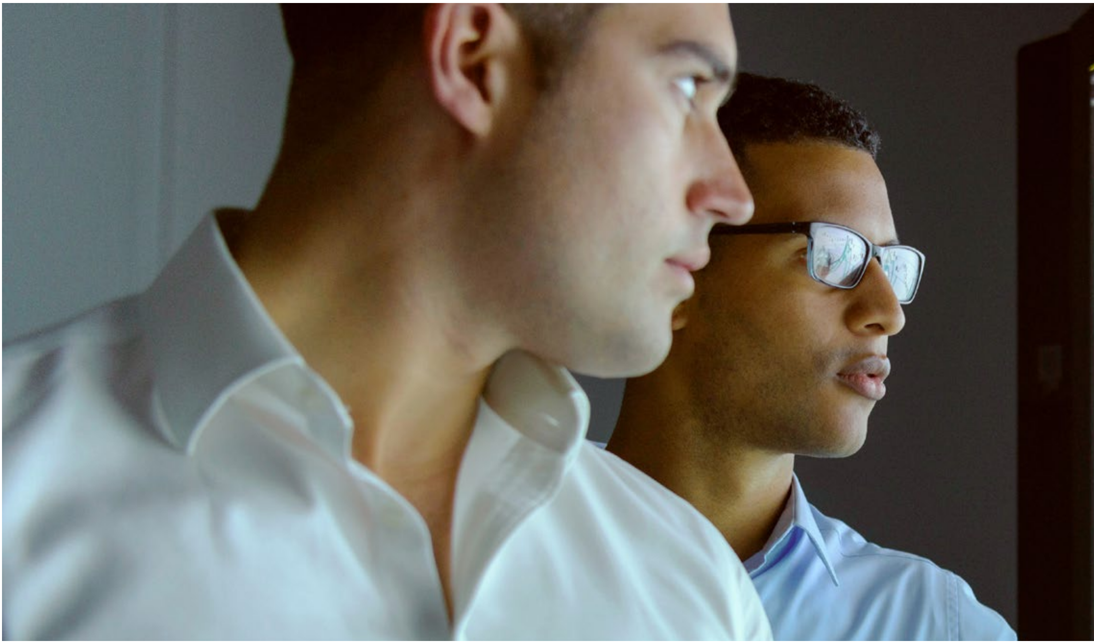
Invest in chargers in public spaces

- Provide incentives for installing chargers
- Collaborate with private charging station providers
- Streamline local zoning and permitting
- Disseminate information on charger locations

Consumer misperceptions

Develop a consumer education plan

- Establish public demonstration of plug-in EVs (PEVs)
- Market private sector solutions and advancements



Impetus by Union Budget 2019

Various fiscal demand incentives have been put in place to spur the production and consumption of EVs and charging infrastructure - for example, income tax rebates of up to INR 150,000 (USD 2,100) for customers on interest paid on loans to buy EVs. To scale production of lithium-ion cell batteries, there will be an exemption from customs duties to bring down costs. Overall, the Budget announcements are likely to charge up the EV push with tax incentives.

In order to further drive green mobility, the industry also aspires for the inclusion of plug-in hybrids for duty exemption.

EV makers and owners in the country will be eligible to enjoy the reduced GST rate and income tax rates respectively, in line with the government's vision to expand infrastructure to enable electric mobility like setting up charging stations, battery swapping, as well as investment in EVs by both manufacturers and consumers. This will further give a major acceleration to EV makers in the country.

Global sentiments towards India

To encourage global companies and market players to relocate their manufacturing capabilities in India, there is an essential need to primarily overcome the high initial set-up costs and to revamp infrastructural amenities, effective warehousing, logistics and transportation support along with excellence in communication and connectivity.

On the surface, global players seek governmental support along with trained and skilled manpower, efficient tax regime and conducive legal framework. To help overcome the hesitation and uncertainty of such companies to relocate to India, we need to fully utilise our FDI inflow potential and remove the global stigma of being a sleeping giant. We need to win the confidence of external investors to induce them to willingly commit to long-term investments in the country.

The Indian entities of global firms, especially ones from Japan, have been demanding

a technology-agnostic route to controlling emissions in the country. While home-grown firms like Tata and Mahindra have been actively participating in the government's e-mobility mission, by launching electrified versions of their existing models, the global firms believe electric is not the best solution for a country where the primary source of power generation is coal, and where infrastructure is a big constraint. Instead, they have been pushing for hybrids as the most plausible solution. The local arms of Honda and Toyota, for instance, are preparing for a hybrid model launch by 2021. The INR 10,000 crore FAME II scheme makes strong and plug-in hybrids under Rs 15 lakh eligible for an incentive of Rs 20,000. Though small as compared to what EVs are eligible for, this is expected to create a momentum.

Operationalising this mass transition to electric for a country of this size is not going to be easy. It will require a strong common vision, an objective framework for comparing state policies and a platform for public-private collaboration to enable leaders to show set clear action plans.

The INR 10,000-crore FAME II scheme makes strong and plug-in hybrids under INR 15 lakh eligible for an incentive of INR 20,000

Coverage

Revival of the Indian automobile industry

The Indian auto industry has been going through a prolonged slowdown for the past 12 months. Monthly sales have seen the worst decline in the past two decades. The PV segment has been the worst hit with sales continuing to decline for almost a year now. Federation of Automobile Dealers Associations (FADA) has stated that nearly two lakh jobs have been cut in the last three months due to the slowdown.

The recent measures announced by the government to help the auto industry overcome the ongoing slowdown are yet to fully take effect at ground level and the uncertainty over GST reduction is making customers postpone purchases.

Announced measures to for the auto industry's recovery

All BS IV vehicles purchased upto March 2020 will remain operational for their entire period of registration

An additional 15% depreciation will be provided on vehicles acquired from now till March 2020, taking the total depreciation to 30%

The increase in the one-time vehicle registration fee will be deferred until June 2020

Government departments will be actively pushed to replace old vehicles to provide a source of demand for the auto sector

Introduction of a new scrappage policy

Policies to boost the charging infrastructure for EVs

Duty exemption on Li-ion cells

Import duty on spare parts for exclusive use in EVs to be removed

Income tax deduction of INR 1.5 lakh on the interest paid on loans taken to purchase EVs

Import duty on Li-ion cell imports to be nil

GST on EVs to be cut to 5% from 12%

INR 10,000 crore outlay till 2022 for EVs under the FAME II scheme

Of the total outlay, INR 1,000 crore earmarked for charging infrastructure

The issues affecting vehicle sales in the country include the burden of road tax, insurance and registration fee on the end consumer. Also, the delays in loan sanctioning for a vehicle purchase are acting as a major hinderance in vehicle purchase.

Thus, the government needs to lay down measures to effectively cut down the transaction costs. Scrappage policy, which is one of the most awaited announcements, is expected to provide a solution for the increased transaction costs. The measures announced by the government are a momentary relief to the industry; the government needs to lay measures which foster and give impetus to the low sales numbers and further push the industry to a level of increased sales and positive consumer sentiments.

The reduction in GST is being postponed for long now and is not expected to happen anytime soon.

The reduction in depreciation rate is the only useful measure for the industry overall and specifically for the individual buyer. Boosting confidence of the industry is one part and helping elevate the sales numbers is other.

Thus, the incentives announced are good interim measures.

Hurting factors

- **Finance availability and affordability**
- **High cost of vehicle acquisition**
- **Axle load capacity of commercial vehicles**
- **Job losses in the sector**
- **Banks' treatment of dealers – considering all of them to be defaulters**
- **Reduced lending structures by banks**

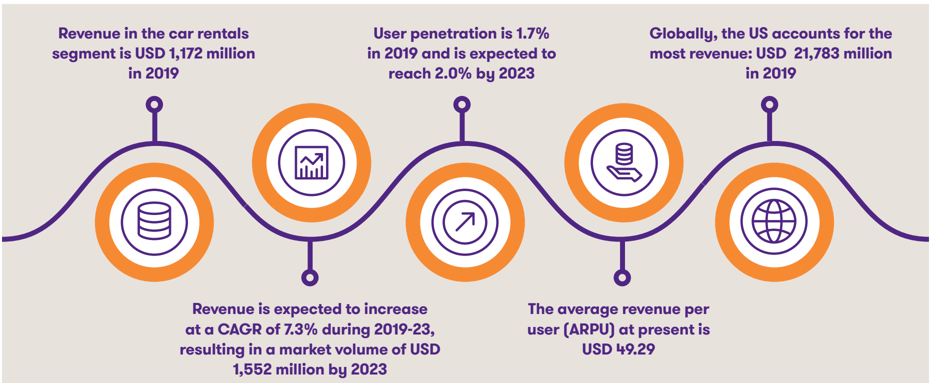
There is growing demand for enablers for the automotive industry and a stimulus package to overcome the pitfalls and regain strength and sustainability.

Future of Indian car rental industry

The market for car rentals in India is changing at a brisk rate. It has grown leaps and bounds over the years due to a rising demand for better and sustainable modes of transportation among the growing urban population. Technological advancements and growing influx of tourists in the country, along with competitive pressures, have been significantly changing the market.

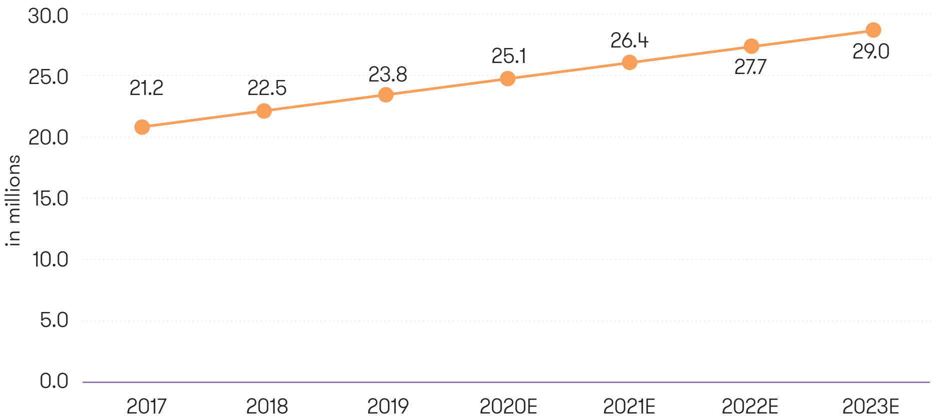
The country has several car rental companies, such as Ola Cabs, Meru Cabs, Carzonrent and Savaari Car Rentals. These companies follow different business models: the aggregator model and the ownership model. Aggregators do not own cars but are instead linked with private taxi owners for business. On the other hand, under the ownership model, companies do own the cabs and are in direct contact with the customers.

Majority of the cab bookings are expected to be done online as compared to physical bookings because of the ease of availability, better chance of accommodating a big group, limited responsibility regarding vehicle repair and/or maintenance, and lower costs involved. While most car rentals companies do have guidelines in place in case of accidental damages to their vehicles by the customer, there is usually an advance security deposit or minimal charges.



Source: Statista

In the car rentals segment, the number of users is expected to increase to 29.0 million by 2023.



User penetration: Global comparison

United States	10.6%
Canada	9.9%
New Zealand	9.8%
Australia	9.6%
Switzerland	9.3%
India	1.7%

'Retailification' of car rental services is a potential trend in the car rental space as it involves introducing retail-based business concepts in order to make them more scalable. It involves building an omni-channel market base, utilising location-based and real-time technologies, social media optimisation and hands-on customer support.

With many businesses already following this concept in the country, it is possible to see brick and mortar businesses in the Indian car rental space following this trend to increase brand visibility across various platforms soon.

Auto M&A deals

Auto parts maker Minda Industries acquires Germany's Delvis Gmbh

Auto parts maker Minda Industries Ltd. has signed a definite pact to acquire German automotive lamps engineering, design and testing company Delvis Gmbh at an enterprise value of about EUR 21 million. The deal will include two subsidiaries, Delvis Solution and Delvis Products, Gurugram-based Minda said in a regulatory filing.

The acquisition forms part of Minda's strategy to improve its technological prowess in existing product lines, which includes automotive lighting.

Volkswagen Finance buys 25% stake in Kuwy Technology Service Pvt. Ltd.

Volkswagen Finance Pvt. Ltd. (VWFPL) has acquired a 25% stake in Chennai-based automotive fintech digital platform Kuwy Technology Service Pvt. Ltd., one of India's leading instant lending digital platforms. The strategic alliance will help VWFPL access Kuwy's pan-India footprint, thereby consolidating its car financing network in the domestic market. The alliance will also offer finance, insurance and warranty products for Volkswagen Group customers on the Kuwy platform.

The critical step by Volkswagen India's captive financing arm, which is owned by Volkswagen Financial Services AG (Germany), also suggests that the passenger car major is readying up for its India 2.0 strategy.

Igarashi Electric to buy out partner in India unit

Japan's Igarashi Electric will buy out its Indian partner chief executive Mukund Padmanabhan and will take over the debt from Igarashi Motors India as the Kawasaki-based electric motor maker looks to expand its business in the country,

The transaction will involve acquisition of close to 22% stake of CEO Mukund and others, while another Indian investor, Mape Advisory Group, will continue as a shareholder in the company. The acquisition will be done through Igarashi Electric Works, Japan and subsidiary Agile Electric Sub Assembly. Igarashi Electric Works will acquire 9.52% share capital of Igarashi Motors from Mukund Padmanabhan, while Agile will acquire 11.63% stake from Padmanabhan in the target company.

Blackstone Group acquires 97.9% stake in Agile Electric Sub Assembly Pvt. Ltd. for INR 600 crore

Blackstone Group has acquired a 97.9% stake in Chennai-based Agile Electric Sub Assembly Pvt. Ltd. for about INR 600 crore. Following the deal, Blackstone will also control a 58% stake in Igarashi Motors India, a listed subsidiary of Agile Electric. Blackstone and other investors will have to make an open offer to Igarashi shareholders. According to a BSE notification by Igarashi, Agile Electric and certain shareholders of Agile have entered into agreements with investors Blackstone Capital Partners and Blackstone Family Investment Partnership (Cayman).

Regulatory updates

Motor Vehicles Bill: From traffic violation fines to new rules

The Transport Ministry had issued a notification dated 28 August 2019, listing out all the laws that would come into effect from 01 September 2019. The new Motor Vehicles Act has enhanced the penalties for driving errors.

Stricter penalty laws will become applicable in case of dangerous driving or even causing obstruction in free flow of traffic. As per the new law, if a motor vehicle is used by a child, the registration of the vehicle may be cancelled for one year. As per newly inserted sections 199A and 199B of the Act, relating to provisions on offences by juveniles, the guardian/owner shall be deemed to be guilty and subsequently fined INR 25,000 and face imprisonment of up to three years. The minor child would be tried under the Juvenile Justice Act and would not be able to get a learner's licence till the age of 25. As per the Act, there will be an annual increase of these fines by up to 10%.

Also, driving an uninsured vehicle or driving when mentally or physically unfit to drive for would lead to fines or imprisonment as applicable from 01 September 2019. From the said date, new penalties have been prescribed for violations such as carrying excess passengers, failing to use safety belt, inappropriately seating children, violating safety measures for motorcycle drivers and pillion riders, refusing to stop and submit vehicle for weighing, using phones in silent zones and failing to allow free passage to emergency vehicles.

The penalty in driving without licence has been enhanced by 10 times. Also, enhanced penalties would be levied on drivers for over-speeding and racing. People who disobey government orders and refuse to share the information requested with the authorities would face strict actions and penalties from the Transport Ministry. Under section 210B, twice the penalty in the relevant section shall be charged if the offences are committed by enforcing authorities.

These amendments are a clear indication that the government is looking at an overall change in drivers' mindsets to be cautious of the rules before and after taking their vehicle. It is an applaudable endeavour to improve the traffic and driving situation of the country.

Uniform GST and incentives for EVs

With BS VI emission norms set to kick in by April 2020, vehicle prices will shoot up, further exerting pressure and squeezing margins. July 2019 was the ninth consecutive month of a fall in PV sales. With prolonged slowdown in sales, the automobile industry has been demanding reduction in GST rate from the current 28% to 18%. Thus, the entire automotive industry unanimously seeks rationalisation of GST on all vehicles and car components to a base rate of 18% and levy of additional cess only on luxury vehicles. Currently, all automobiles are categorised under the peak GST rates of 28%. Additional cess is calculated after considering specifications and make of engine; it ranges from 1% to 15%.

About 60% of auto components attract 18% duty and the remaining high-value parts are taxed at 28%. Therefore, the ACMA pitched for a uniform GST rate of 18% on all auto components as well as some export incentives for the industry from the Centre in its 59th Convention in New Delhi.

Announced in Budget 2019 was the reduction of GST on EVs from 12% to 5% to increase viability and investor interest. Also, to make EVs affordable for consumers with simultaneous provision of the much-needed fillip to manufacturing and associated ancillaries, the government provided additional income tax deduction of INR1.5 lakh on the interest paid on loans taken to purchase EVs.

However, to propel sales and to give a multiplier effect on small industries and employment to address the macro-economic slowdown, there is a need of reduced GST to further lower the prices of automobiles.

Key headlines

New motor vehicles law pushes online auto insurance sales

IBEF: 06 September 2019

Online sale of auto insurance policies has more than doubled since the enforcement of the new motor vehicles law that imposes stricter penalties for traffic rule violation from 01 September.

The Motor Vehicles (Amendment) Bill, 2019, was passed by Parliament in July. The Motor Vehicles (Amendment) Act, 2019 has come up in a positive light towards traffic rules. Under the amended Act, the penalty for driving without insurance has been doubled for first-time offenders and has gone up by four times for second-time offenders.

The new motor vehicles law also includes several other stringent measures to increase awareness and improve road behaviour. Not wearing the seat belt, drunk and dangerous driving, over-speeding, jumping red lights, driving without insurance and overloading vehicles will also attract higher penalties.

Toyota, Suzuki enter into capital alliance amid a shake-up in auto industry

IBEF: 29 August 2019

Strengthening their existing collaboration to develop futuristic technologies, Japanese automobile majors Toyota Motor Corp and Suzuki Motor Corp on Wednesday announced a 'capital alliance' for equity investment into each other. While Toyota will acquire 4.94% shares of Suzuki, worth USD 908 million, the latter will make a USD 454 million investment in the biggest automaker of Japan.

The latest investment comes months after the two companies announced a cross-badging deal under which they would manufacture vehicles for each other in the Indian market.

Premium products from the Maruti stable such as the Baleno, Ciaz and Vitara Brezza will be sold under the Toyota brand with small changes. In return, Maruti will get technical know-how, which will help the company develop hybrid and electric cars. With the government giving impetus to cleaner fuel, the industry expects Maruti to hav a significant advantage where it can develop such vehicles using Toyota's research and development prowess.

Using Toyota's know-how and facilities, Maruti is currently testing around 50 EV prototypes in the country.

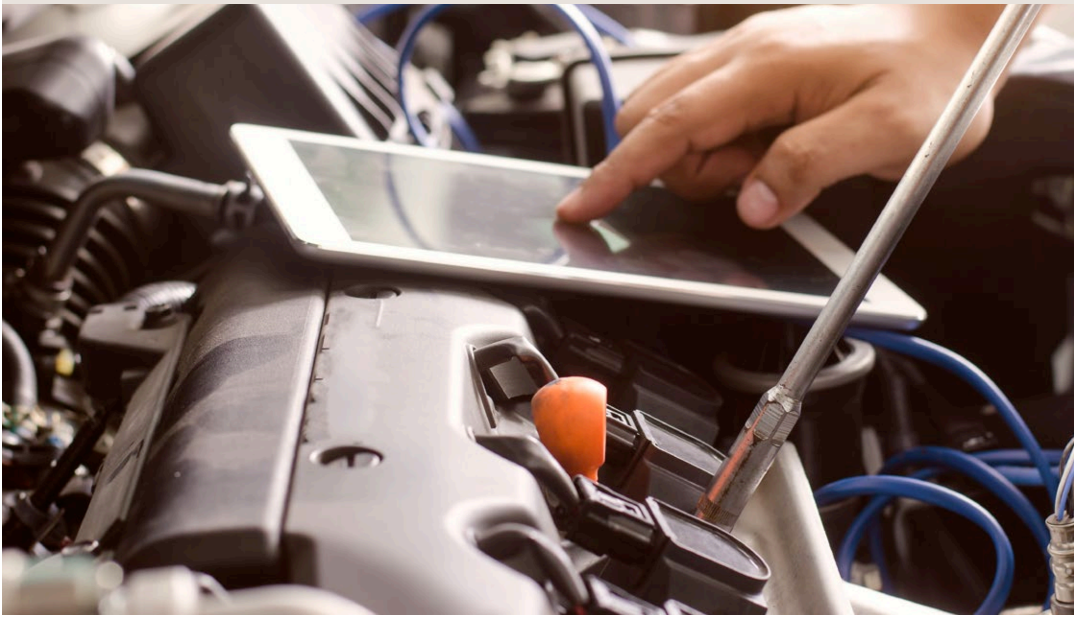
India to promote EV race with the latest drive in Union Budget 2019

IBEF: 08 July 2019

India has joined hands with the governments of China and Europe, which have supported the progress in EV manufacturing by offering extensive fiscal incentives and a favourable regulatory environment.

From 01 April 2019, the government has commenced the second phase of the FAME II scheme, with an expenditure of INR 10,000 crore (USD 139 million), promoting its goal to increase the number of EVs on the road to fight the problem of pollution and trim the cost of oil import. Even though this investment is not as much as it is in developing counties, it boosts the confidence of the manufacturers, investors and of customers.

These steps are quite similar to the steps taken in China and Europe, although India has no set target for automakers to transform a specific part of their total vehicle production to electric or other electrified offerings. NITI Aayog is pondering over a policy proposal to ban all internal combustion engine 2Ws under 150cc by 2025 and 3Ws by 2023.



Conclusion

The Indian automotive sector has been experiencing major stagnation for the past four quarters and has found it challenging to revive from the slowdown that has been plaguing it for months now. The implications of several landmark disruption and changes are expected to shape the future of the overall market. The current year is a roller coaster year for automakers and is expected to be a tumultuous one for the overall sector on account of various regulatory changes, especially the transition from BS IV to BS VI. The market volatility and uncertainty raise fear of a cyclical slowdown, which is further compounded by lower consumer sentiments. This is resulting in inventory build-up, with all OEMs aligning production in line with demand.

As a result of the cuts in production, companies are being forced to reduce headcounts. The job losses have begun across the value chain, including showrooms, suppliers, and other stakeholders. According to the Automotive Component Manufacturers Association of India (ACMA), around 1 million jobs could be on the line if the prolonged slowdown continues. The decline in growth in the auto industry over the past 11 months has adversely affected the components industry.

Thus, the outlook for this fiscal is challenging, and market players are hoping for some relief from the policymakers. Generous subsidies and incentives by the government are necessary for demand revival, especially towards improving the availability of credit for the sector through NBFCs.

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Acknowledgements

For further information, please write to:

Saket Mehra
Partner
Grant Thornton India LLP
E: saket.mehra@in.gt.com
M: +91 98990 08822

Priyanka Mehra
Manager
Grant Thornton India LLP
E: priyanka.mehra@in.gt.com
M: +91 99114 48867

For media queries, please contact:

Spriha Jayati
E: spriha.jayati@in.gt.com
M: +91 93237 44249

Editorial review	Design
Tanmay Mathur	Gurpreet Singh

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Contact us

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

NEW DELHI
National Office
Outer Circlea
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 0135 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

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