

Automobile Industry

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Mr. Vipin Malik, Mentor, Infomerics Ratings

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&Mr. Sankhanath Bandyopadhyay, Economist, Infomerics India Foundation

Industry Outlook

The global pandemic caused by the novel corona virus entered all of a sudden at time when both the Indian economy and the automotive industry were hoping for an upturn.

Steep Decline in March 2020 Sales number of vehicles

Sl No.	Company	March 2019	March 2020	% Change
1	Maruti Suzuki	145031	76240	-47.4%
2	Hyundai Motor India	44350	26300	-40.7%
3	Mahindra & Mahindra	27646	3384	-88.0%
4	Toyota Kirloskar Motor	12818	7023	-45.0%
5	M G Motor India	_	1518	_

Source: ‘Automakers see massive drop in sales in March due to lockdown, BS-VI transition’ (2nd April 2020) Economic Times.

Industry Risk

Besides the Covid-19 crisis, another major issue is regarding the Supreme Court order in 24th October 2018 that no BS-IV vehicle can be sold after 1st April 2020. Though The Supreme Court on 27 March 2020 permitted vehicle retailers to sell 10% of unsold Bharat Stage-IV compliant inventory within 10 days of the current lockdown getting over (except in the National Capital Region), but the Federation of Automobile Dealers Association (FADA) has once again approached the Apex Body with a Request for permission of sale and registration of BS-IV vehicles till 31st May 2020 due to the lockdown challenges that happened following Covid-19 outbreak.¹ However, a bench of justices Arun Mishra and Deepak Gupta heard the plea through videoconferencing on 27 March 2020 and stated the following:

“There is no justification to extend the time which was fixed a long time ago. This is not something new which has occurred, it would be further injurious and further burden on human health to be caused by pollution of BS-IV vehicles when BS-VI vehicles are supposed to be produced by the manufacturers well in advance considering the deadline of 31st March 2020.”²

The dealers’ counsel told the court that there were 1,05,000 two-wheelers, 2,250 passenger cars and 2,000 commercial vehicles which were sold but not registered. Dealers said the sale of some more vehicles could be concluded before the

¹ Auto dealers had approached the apex court to extend the deadline for transition to the Bharat Stage 6 (BS VI) emission norms from 1st April, as sales crashed in March in wake of the outbreak of covid-19. FADA Press Release <http://www.fadaindia.org/images/FADA%20Once%20Again%20Knocks%20SCs%20Door%20in%20BS%20VI%20transition.pdf>

² ‘Supreme court allows dealers to sell only 10% of BS-IV vehicles stock after deadline’(28 March 2020) Economic Times <https://economictimes.indiatimes.com/industry/auto/auto-news/sc-allows-automakers-to-sell-10-of-unsold-bsiv-stock/articleshow/74847588.cms?from=mdr>

deadline, through online payment. The road tax and insurance premium for these can be paid online too. According to Mahindra & Mahindra, the company had been able to clear its BS-IV inventory but for fewer than 100 vehicles. However, there are many vehicles that are sold, but not yet registered because of the closure of Regional Transport Office (RTOs) following the nationwide shutdown. Toyota Kirloskar Motor said it had held back 50% of dispatches for March 2020 just ahead of the announcement of the 21-day lockdown by the government, to lessen the burden on dealers.³

A study by Mckinsey using a global economic model Global Trade Analysis Project (GTAP), developed in Purdue University shows that there may be a production loss of Rs 1.23 lakh crores in this period of shut down for the automobile industry.⁴ India's maximum dependence on imports especially for the two wheeler and passenger vehicle industry component wise is in steering and braking systems, engine parts, alloy wheels and lighting systems. A reduction of about Rs 4,600 crore in imported inputs is likely by the auto industry of these particular types of inputs, clearly mapping back to the disruptions caused by China's prolonged shut down.

Auto industry is hit from multiple fronts: demand slump both domestically and exports, as well as negative global and domestic supply chain disruptions involving both forward and backward linkages. In a scenario of disruption in the supply of key components, the industry could look at sourcing them either locally or from other countries such as Germany, South Korea, Japan and Thailand, who currently

³ 'Automakers see massive drop in sales in March due to lockdown, BS-VI transition' (2nd April 2020) Economic Times <https://economictimes.indiatimes.com/industry/auto/auto-news/automakers-see-massive-drop-in-sales-in-march-due-to-lockdown-bs-vi-transition/articleshow/74935219.cms?from=mdr>

⁴ 'Opinion: Covid-19 impact on Indian economy and the auto industry - What's ahead of us?' (28 March 2020) <https://auto.economictimes.indiatimes.com/news/industry/opinion-covid-19-impact-on-indian-economy-and-the-auto-industry-whats-ahead-of-us/74862940>

account for around 33% of the total imports.⁵ However, the change in procurement channels could be costlier and the supply could be insufficient to meet the demand. The SARS outbreak, which also originated in China during FY03, led to around 100 basis point margin reduction among Indian auto parts manufacturers. However, the intensity of COVID-19 is much greater than that of SARS and China's position in the global automobile market has also become more prominent now compared to FY03. Hence, if the containment of the spread remains elusive, then the margin impact could be much more in Q4FY20-Q1FY21.

The Way Forward

Possibly the best scenario for the auto sector would be if the current pandemic would subside by summer, before the next festive season arrives. Nevertheless, all would depend upon the end of the current pandemic and improvement in economic situation showing optimism for the overall business scenario.

⁵ 'COVID-19 spread to add to woes of auto ancillaries and OEMs: Survey'(19 March 2020) Financial Express <https://www.financialexpress.com/industry/covid-19-spread-to-add-to-woes-of-auto-ancillaries-and-oems-survey/1902495/>