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INDUSTRY OUTLOOK

AUTOMOBILE INDUSTRY: TRENDS AND PROSPECTS

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Introduction

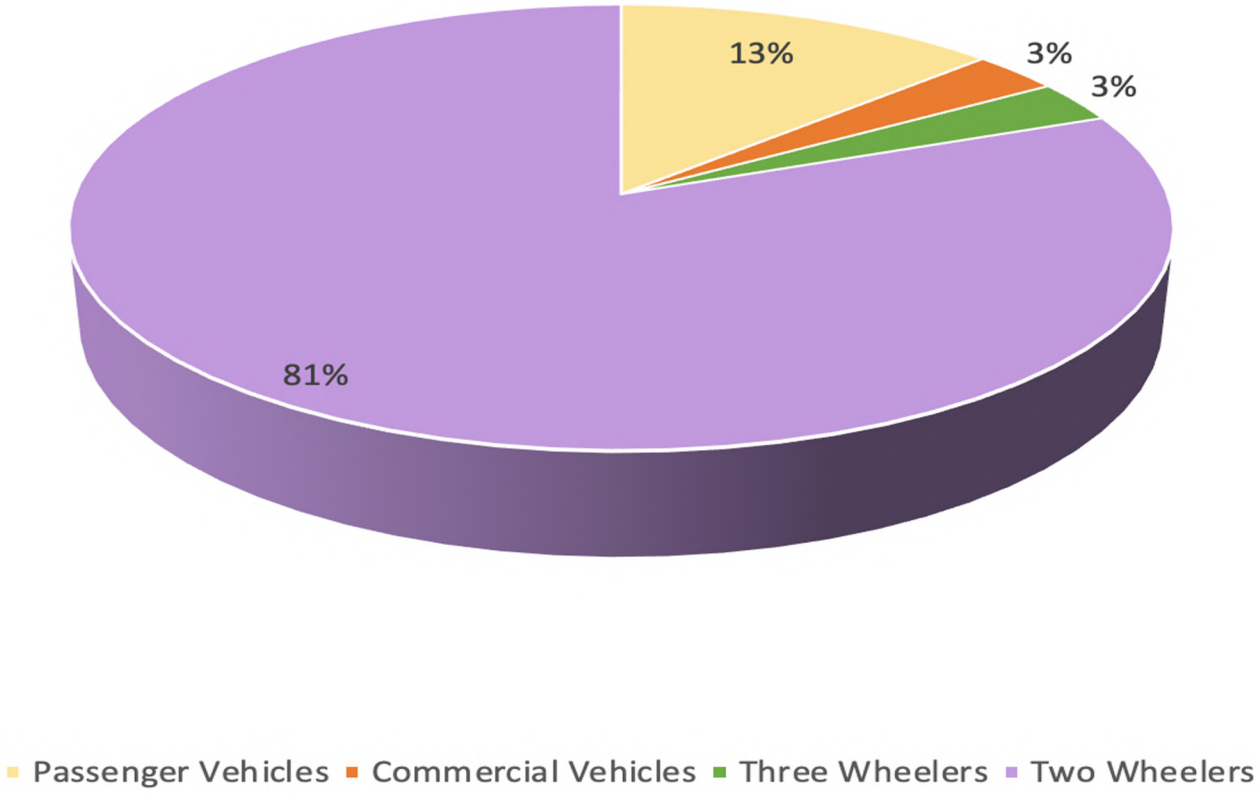
The automobile industry has been hit hard due to the COVID-19 pandemic and there have been widespread speculations about the evolving growth trajectory of this key industry. While the last festive season injected some cheer in the industry in respect of passenger cars and two-wheelers, the sector is once again witnessing challenges with the recent surge in the second wave of Covid-19 pandemic atrocities. What is prognostically alarming is not just the fact the numbers in terms of both infections and deaths are much higher than the last time around but that this dreaded disease seems rapidly spreading to the rural areas, where the medical and health infrastructure is woefully inadequate to meet the spike in the numbers. Evidently this disconcerting scenario has grim implications for the macro-economy in terms of the devastating hit to output, income and employment and the sectoral outlook. What makes matters worse is the distinct possibility of a third wave of infections. This unsettling fact together with the heavy expenditure on medicines, drugs, nursing, etc. has severely impaired the disposable income of the individuals with a crippling impact on the automobile industry.

These and other aspects together with important aspects of the big picture, viz., deceleration in economic growth, negative consumer sentiment, transition to BS-VI norm, modified axle load norms, liquidity crunch, low-capacity utilization and potential bankruptcies make the growth prospect of the automobile industry unclear and, therefore, gazing into the crystal ball is fraught with difficulties. This report briefly highlights some recent trends that the industry has shown along with some risks that the industry entails.

Given the unnerving surge in the numbers, there have been localized restrictions and lockdowns on a large level across the country. In view thereof, several auto original equipment manufacturers (OEMs) and auto ancillaries have been constrained to close plants as a prudent and effective measure to contain the rapidly rising numbers and the rising concerns of health and well-being. The non-functioning of automotive dealerships in different parts of the country have been something of a double whammy: the problem of supply disruption has been exacerbated by demand destruction on a large nation-wide level. This bleak scenario necessitates a downward revision of the growth estimates for most of the different automotive segments.

To understand the trends, it is important to understand the composition of the industry is, i.e., which segment of the vehicle contributes most to the industry. The figure below (Figure 1) gives the market share of different segments of the automobile industry.

Figure 1: Market Share (2019-20)



Source: Society of Indian Automobile Manufacturers (SIAM), Statistics. Available at https://www.siam.in/statistics.aspx?mpgid=8&pgidtrail=12

From the above figure (Figure 1), it can be observed that two-wheeler is the largest contributor to the automobile sector and, therefore, any negative impact on the same can affect the industry severely. The below table (Table 1) compares the domestic sales trend that the industry has witnessed in the FY20 and FY21. As is clear, all vehicle categories have seen a huge downfall in FY21 as compared to FY20.

Table 1: Domestic Sales (in '000)

	FY20	FY21	YOY Growth
Passenger Vehicles	2774	2771	-0.10
Commercial Vehicles	718	569	-20.75
Three Wheelers	637	216	-66.09
Two Wheelers	17416	15119	-13.18

Source: SIAM, Production, Domestic Sales and Exports data for the FY 21 (April 2020 to March 2021). Available at https://www.siam.in/pressrelease-details.aspx?mpgid=48&pgidtrail=50&pid=481
Note – As per the latest data available.

Vehicles across all categories have witnessed a negative growth with three-wheelers sales witnessing almost two-third of a percentage decrease. Two-wheelers also registered a sharp decrease of about 13 per cent. To have a more comprehensive look, the table below (Table 2) gives the production and sales number over the years.

Table 2: Domestic Production and Sales Trend (in crore)

	2014-15		2015-16		2016-17		2017-18		2018-19		2019-20	
	Prod.	**Sales**	**Prod.**	**Sales**	**Prod.**	**Sales**	**Prod.**	**Sales**	**Prod.**	**Sales**	**Prod.**	**Sales**
Passenger Vehicles	0.32	0.26	0.35	0.28	0.38	0.30	0.40	0.33	0.40	0.34	0.34	0.28
Commercial Vehicles	0.07	0.06	0.08	0.07	0.08	0.07	0.09	0.09	0.11	0.10	0.08	0.07
Three Wheelers	0.09	0.05	0.09	0.05	0.08	0.05	0.10	0.06	0.13	0.07	0.11	0.06
Two Wheelers	1.85	1.60	1.88	1.65	1.99	1.76	2.32	2.02	2.45	2.12	2.10	1.74

Source: SIAM, Statistics. Note – Figures rounded-off to nearest value.

From Table 2, it can be seen that in 2019-20 both production and sales have decreased compared to the previous year across all categories which hasn't been the case before. Another way to look at the trends is to analyze vehicle registration data. This is provided in the table below (Table 3), where we see that two-wheelers and three-wheelers have seen a massive reduction in registration with a decrease of roughly 35 and 51 per cent, respectively, when compared data vis-à-vis March 2021 with March 2020.

Table 3: All India Vehicle Registration Data (March 2021)

Category	Mar'21	Mar'20	YoY %
Two Wheelers	11,95,445	18,46,613	-35.26%
Three Wheelers	38,034	77,173	-50.72%
Passenger Vehicles	2,79,745	2,17,879	28.39%
Tractor	69,082	53,463	29.21%

Source: Federation of Automobile Dealers Associations (FADA), Press Release March 2021. Available at http://www.fadaindia.org/images/Automobile%20Retail%20Sales%20Data%20for%20March%202021.pdf
Note – The above numbers do not have figures from AP, MP, LD & TS as they are not yet on Vahan 4.

Government Initiatives

The second wave of Covid-19 pandemic has been much more deadly and fatal compared to the first wave that occurred in India last year. Against this backdrop, the government support is crucial for beleaguered industry's revival. On 11 November 2020, the Cabinet approved Production Linked Incentives (PLIs) worth ₹1.45 lakh crore for 10 sectors including white goods, automobiles, pharmaceuticals, textiles. Of this, an overwhelming part went to automobiles and auto components at ₹57,042 crore. Under the scheme, cash subsidy is provided to companies as a percentage of incremental sales from the base year.

Along with the above, the government had also set the National Electric Mobility Mission Plan (NEMMP) 2020, which aims to achieve national fuel security by promoting hybrid and electric vehicles in the country. There is an ambitious target to achieve 6-7 million sales of hybrid and electric vehicles year on year from 2020 onwards. The Government aims to provide fiscal and monetary incentives to kick start this nascent technology. The Government plans to incentivize buyers to purchase these hybrid and electric vehicles by providing monetary support.[1]

Further, the Faster Adoption and Manufacturing of Hybrid & Electric Vehicles (FAME) India Scheme is already under process. In the First Phase of the Scheme up to 31st March 2019, about 2,80,987 hybrid and electric vehicles were supported by way of demand incentive, amounting to about ₹359 crore. The Department of Heavy Industries (DHI) also sanctioned 425 electric and hybrid buses to various cities in the country with total cost of about ₹280 Crores. It further sanctioned 520 Charging Stations for ₹43 crore (approx.) in cities like Bangalore, Chandigarh, Jaipur and NCR of Delhi under Phase-I of FAME-India Scheme.

At present, Phase-II of FAME India Scheme is being implemented for a period of 3 years w.e.f. 1st April 2019 with a total budgetary support of ₹10,000 crore. This phase focuses on supporting electrification of public & shared transportation and aims to support, through subsidies, approximately 7,000 e-Buses, 5,00,000 e-3 Wheelers, 55,000 e-4 Wheeler Passenger Cars and 10,00,000 e-2 Wheelers. In addition, creation of charging infrastructure is also supported to address the anxiety among users of electric vehicles.[2]

The government's support for the electric vehicles instead of the traditional internal combustion engines stems from the fact that that a switch from internal combustion engine to electric vehicle reduces the total cost of ownership by almost 35 per cent for two-wheelers and almost 40 per cent for three-wheelers (Table 4). Also, given the current hike in fuel prices complemented with a price rise due to Bharat Stage VI emissions norms (which increased the prices by about 7 to 9 per cent for two-wheelers and 3 to 5 per cent for cars),[3] there is a pressing need to switch to electric vehicles along with ongoing demand for clean air, which is both a national and global priority. In view of the universal concern for climate change, emission norms and pollution management emerge as important elements of the growth strategy.

	Internal Combustion Engine	(in USD)	**Electric Vehicle**	(in USD)
Two-Wheelers	Down-payment and EMI	0.94	Down-payment and EMI	0.56
	Maintenance and Insurance	0.45	Maintenance and Insurance	0.2
	Fuel	2.39	Fuel	2.06
	Total cost of ownership	**3.78**	Total cost of ownership	**2.48**
Three-Wheelers	Down-payment and EMI	2	Down-payment and EMI	0.25
	Maintenance and Insurance	0.97	Maintenance and Insurance	0.27
	Fuel	3.81	Fuel	3.23
	Total cost of ownership	**6.78**	Total cost of ownership	**4.07**

Source: McKinsey, 2020. Available at https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/the-unexpected-trip-the-future-of-mobility-in-india-beyond-covid-19

Industry Risk

The pandemic has already started showing its effect with respect to second wave. This is reflected in a variety of leading indicators, for example, market leader Mahindra & Mahindra (M&M) reported a 12 per cent drop in its domestic tractor sales at 26,130 units in April 2021 compared to 29,817 units in March 2021. Escorts also reported a significant decline in tractor sales in April 2021 at 6,386 units against 11,730 units in March 2021. Industry analysts peg the retail tractor sales for April 2021 at about 37,000 units and suggest a decline of more than 40 per cent compared to March 2021. [4]

The COVID pandemic, and especially the second wave, has led to heightened concerns across the industry over inputs, output, sales, revenue, and other production and sales related aspects. There continues to be uncertainty on the process and duration of normalization. According to the FADA Survey, 47 per cent passenger vehicle dealers said that they lost more than 20 per cent sales due to supply side constraints.[5] Further findings from online members survey showed a 'bad sentiment' for roughly 20 per cent of the dealers.

A particular reason for concern has been on the supply side with respect to semiconductors. An earlier estimate [6] had forecasted that the semiconductor industry for automotive will decrease by 10 to 27 per cent in 2020. This is likely to get carried forward in 2021 given that the semiconductor industry is finding it difficult to address the increasing demand as it is busy supplying to other industries such as IT, consumer electronics, personal computers, tablets, smartphones, medical equipment etc.[7] The lockdown in last year shifted people from buying cars into consumer electronics, as people stuck at their home, as a result, demand for consumer electronics like laptops, mobile phones as well as back-end Internet data centres have flourished. This is complemented by shortage of other auto parts as some of them which are made using cutting and welding sheet metals that use oxygen supplies are facing shortage since oxygen supplies are currently being diverted for medical purposes. But it is increasingly realised that human lives matter most and, therefore, the diversion to oxygen for medical purposes is not just desirable but also necessary in this difficult extraordinary time-a time like perhaps no other in this century.[8]

Another issue that is cropping up in this regard is that auto component makers in India are bracing for a tough time due to shortages of critical inputs/parts, absence of workers, temporary closures of plants etc., as cited by automobile manufacturers with respect to partial/full shutdown of their plants along with facing lack of demand for auto-component makers.

Way Forward

While we expect the industry demand to be north of 15 per cent in the financial 2021-22, there could conceivably be a skew with OEMs, dealers and suppliers with deep pockets relatively better positioned to overcome the travails of transition. It is imperative to focus on growth strategies of the automobile sector given the sheer number of livelihoods associated with it.[9] The pandemic has prescribed a change in approaches towards mobility, with health and safety taking utmost priority, with the newer preference could be for micro-mobility or small-format mobility. Accordingly in the aftermath of the COVID 19 medical cum economic emergency, there could logically be a renewed thrust on personal mobility, which would certainly impact the automobile sector in a salubrious manner. Further, the increased demand for used vehicles and service-based models such as pay-as-you-go, and lease rentals could provide headwinds to this important sector.

Though at a nascent stage, electric vehicle (EV) purchase subsidy over and above FAME-II subsidy along with interest subvention on loan amount taken for EV purchase, could be in line with moving towards efficient and green energy. Alongside, 'green zones' can be demarcated within cities that permit only EVs. Opportunities to battery swapping stations to participate in real-time and ancillary service markets should also be made available.[10] Finally, India's pursuit of the vision of 'AatmaNirbhar' requires an accent on augmenting the internal capacity in manufacturing critical components over a period of time. This requires a sharper focus on domestic manufacturing of batteries and its components in the long-term. This would reduce India's dependence on a few countries and would make the growth process more broad-based, robust and scalable.[11]

ENDNOTES

1. https://policy.asiapacificenergy.org/node/2663#:~:text=The%20National%20Electric%20Mobility%20Mission,on%20year%20from%202020%20onwards.

2. https://pib.gov.in/PressReleasePage.aspx?PRID=1658900

3. https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/the-indian-automotive-industry-from-resilience-to-resurgence

4. The Hindu Business Line, Vol. 28 (121), May 2, 2021.

5. http://www.fadaindia.org/images/Automobile%20Retail%20Sales%20Data%20for%20March%202021.pdf

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7. https://www.thehindubusinessline.com/economy/logistics/demand-disruption-led-to-semiconductor-shortages-in-auto-sector/article33863846.ece \

8. http://timesofindia.indiatimes.com/articleshow/82450336.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

9. The automotive sector provides 37 million direct and indirect jobs while stimulating job creation in other industries.
https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/the-indian-automotive-industry-from-resilience-to-resurgence

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