

Indian Automotive Sector

Reflections & Outlook 2021



In 2020, the Indian auto industry suffered losses of INR 2,300 crore for each day of lockdown¹. An uptake in the consumer vehicles segment was witnessed. However, 2021 onwards, the heavy vehicles segment is expected to drive the growth of the market

2019-2020 were the slowest growth years in the last 7 years for Indian Auto Sector

Challenges we witnessed

The year 2019 was a difficult year for the Indian auto industry, owing to the slow growth of the economy. In 2019, the industry reported a y-o-y drop of 14%² in in wholesale dispatches. Passenger vehicle sales in India registered a drop of 78.4%¹ in the April-June 2020 period, impacted by the pandemic, falling for the ninth straight quarter and making it the longest running slowdown in the past 20 years.

The year 2020 was even more challenging due to the catastrophic impact of COVID19 on the market demand and consumer spending. Already beaten by a historic slowdown before the coronavirus pandemic, the Indian auto industry was tested harshly when the nationwide lockdown began in the end of March 2020. Delays in auto parts delivery impacted the auto market at multiple levels from postponed new car model launches, shattered supply chains, financially drained SMEs, and dampened

vehicle sales in H1, 2020. The effects continued partially in H2, 2020 as well, with unfulfilled order deliveries due to ongoing production slowdowns. This situation is set to aggravate the several challenges already facing the auto industry, including stricter CO2 emissions standards and higher investments in new technologies.

As per SIAM, in April 2020, the Indian auto industry reported a revenue loss of about INR 69,000 crores. In 2020, the overall auto unit sales was estimated to have declined by 30% as compared with 2019. While the passenger cars segment may witness some recovery in 2021, the luxury and super luxury segments will continue to face challenges.

Visible Positives

India is expected to emerge as the world's third-largest passenger vehicle market by 2021.

Having faced disruptions and slowdown induced by a rare event like the COVID19 pandemic, the Indian auto sector is looking forward to 2021 with hopes of a better growth post-COVID-19, although this significantly depends upon the economic growth and expansion.

In order to overcome the unprecedented challenges faced in 2020, the auto industry players are beginning to embrace digitization to adapt to the new normal to serve customers while learning to be nimble footed to keep factories running under COVID-19 SOPs (Standard Operating Procedures) and concentrating on financial health by reducing costs and generating free cash flows.

The COVID19 pandemic has also changed the consumer behavior in a significant manner with customers now prioritizing healthcare and mobility independence. This need for personal mobility is expected to fuel growth in the auto industry and push sales momentum in 2021 and beyond. Shared mobility (Uber and Ola) may lose their demand among consumers during and post the pandemic

with people preferring personal transport, thus increasing the sales of passenger cars. As per SIAM, sales of passenger vehicle in India grew by 26.4% in September 2020 as compared with September 2019. Electric Vehicles sales saw a growth of 20% to reach 1.56 lakh units in FY20, driven by the sale of two wheelers.

Also, with the announcement of the first batch of coronavirus vaccines being available in India soon, it is expected to improve consumer optimism, possibly leading to growth in sales trend and resumption of business normalcy

The government is also taking measures to boost growth in the industry. One such step is the allowance of 100% foreign direct investment (FDI) in the automotive sector to attracting global players to set up units in India.

...but some challenges still remain...

- Shortage of steel and micro-processors (semiconductors) impacting electronic components and systems
- High commodity prices
- Reliance on the economic expansion for demand growth
- Sustaining of business operations of players at each level of value chain in the automotive industry, ranging from component manufacturers to vendors to dealers

1: As per a [study published in BusinessToday](#) on 20 Dec 2020

2: As per a [study published in BusinessWorld](#) on 08 Jan 2020

The need for a clear roadmap for the automotive sector is quintessential to sustainable growth

1 Production Linked Incentive (PLI) Scheme of GoI

India is at a junction to establish itself as a top investment destination and to attain the status of the most preferred manufacturing hub of automobiles in the world. To further support its worldwide standing, the GoI announced the Production Linked Incentive (PLI) scheme for Automobiles and Auto components with a maximum incentive of about INR 57,000 crore over a course of 5 years. The scheme covers 4 sub schemes:

1. Global sourcing scheme
2. Vehicle Champion Scheme
3. Component Champion Scheme
4. Production- Linked Incentive Scheme

PLI scheme is expected to deliver benefits to a few select

firms that would meet the eligibility criteria laid under the scheme. However, the real benefits are expected to penetrate inside the automobile value chain and make an impact at each level. The PLI scheme for automobile sector is expected to act as a growth enabler to make the sector cost competitive, increase market share, attract investments, Promote R&D, local value addition & creating jobs in turn making itself as a Global Champion for both Domestic and Global markets and build on the Government's initiative on "Atmanirbhar Bharat".

2 Scrappage of vehicles – the Hidden Opportunity

As per the Scrappage Policy announced in July 2019, the Indian government proposed changes to the motor vehicle rules to permit scrapping of vehicles that were more than 15 years old. The scrappage policy is meant to flush out old cars running on the roads and aim at phasing-out these old vehicles, which end up polluting the environment.

Further, in a draft notification, the government also proposed renewing fitness certificates for vehicles older than 15 years, every six months, instead of the one year. Under this policy's norms, owners with a commercial vehicle older than 15 years and private vehicle owners with vehicles older than 20 years, could be considered for scrapping their old vehicles.

This will also encourage new car sales, propelling the growth of the Indian automobile market, apart from environmental concerns. The government has also proposed OEM's to offer discounts on the purchase of new vehicles after scrapping an old vehicles. This policy

will also reduce the dependence on steel imports as steel and other metal deposits from the scrapped cars will minorly be cutting down the metal imports on a yearly basis.

Amid the COVID19 impacted slow down of the automobile market, the scrappage policy could be a significant market growth enabler. As per estimates, an effective vehicle scrappage policy in India can help create an industry of its own with a business opportunity worth \$6 billion¹ (Rs 43,000 crore) per year. Apart from the \$6 billion steel scrappage potential, there is an additional business that can be generated from recycling of plastic and rubber and other body parts of scrapped vehicles.

Additionally, this policy push is potent enough to create fresh employment and trigger economic growth, and also act as a critical propeller to revive growth of the automobile market, which has been impacted by a prolonged slowdown for the last 6 years, especially amid the pandemic year of 2020.

3 The need for investing into R&D with an all-aligned approach by the stakeholders

Investments in R&D would bring sustainability going forward. India presents a strong investment opportunity considering the 'percentage of revenue' metric for allocating R&D budget.

An important factor to be highlighted is the need for better-aligned collaboration between academia, industry and the government to ensure commercially viable projects focused on.

The automotive sector is undergoing technological transformation and the factors governing adoption of new technologies need to be in focus

4 Electric Vehicles – The Next Big Thing

The Electric Vehicle (EV) market in India is witnessing significant interest by investors, government and the consumers. As per estimates by Invest India, the EV market in India would expand at a CAGR of 44% during 2020-2027, reaching 6.34-million-units of annual sales by 2027. Moreover, by 2030, the EV industry is expected to create over 5 crore direct and indirect jobs in India.

The Government of India plans to establish India as a global manufacturing and research and development (R&D) hub by setting up National Automotive Testing and R&D Infrastructure Project (NATRiP) centers as well as National Automotive Board to act as facilitator between the Government and the industry. Under (NATRiP), five testing and research centers have been set up since 2015. NATRiP's proposal for "Grant-In-Aid for test facility infrastructure for EV performance Certification from NATRiP Implementation Society" under FAME (Faster Adoption and Manufacturing of (Hybrid) and Electric Vehicles in India) scheme was approved by Project Implementation and Sanctioning Committee (PISC) in January 2019.

Gol targets of having only EVs being sold in the country in

the next 10 years. The Ministry of Heavy Industries, Government of India, has identified 11 Indian cities for the launch of EVs in their public transport routes under the FAME scheme. The first phase of the scheme involved the Government approving the FAME-II scheme with a fund requirement of INR 10,000 crore¹ for FY20-22.

Under Union Budget 2019-20, Gol declared plans to offer additional income tax benefits of INR 1.5 lakh on the interest paid on the loans taken to buy EVs. The Government of India expects the automobile sector to attract US\$ 8-10 billion¹ in local and foreign investment by 2023 for EVs.

EV sales, excluding e-rickshaws, in India witnessed a growth of 20% and reached 1.56 lakh¹ units in FY20 driven by two wheelers.

Going forward, it is expected that transport Infrastructure with new highways network planned in the coming years can create a big push for EVs.

5 Electronics in Vehicles – the Next Differentiator

With the rapid adoption of technology and artificial intelligence in every sphere of life, AI-powered connected cars are going to be the differentiators for automobiles in the coming times. Consequently, the usage of electronics on vehicles will become the differentiator in an ever-crowding auto market in India.

In India, the electronics content is expected to account for nearly 45% of the total cost of an automobile by 2030.

Earlier the differentiators were engine size, power and torque and efficiency. Now everybody has same size engines and comparable power. Beyond a limit, they have stopped being the differentiator. Mileage is still quite important in India, but it also now depends on the electronics that help engines run more efficiently. The impact of this trend is already visible in the industry. A lot of high-end features, which were considered to be a luxury and were made available only in higher segments,

have now started coming to entry-level sedans and even hatchbacks.

In India, cars like MG Hector, Kia Seltos and Hyundai Venue come with various connectivity features. MG Motor India calls its Hector SUV as the internet-enabled car . In H2, 2019, MG Hector sold 15,930 units.

Also, technological developments in engine management and the incorporation of safety systems in cars will be the key growth drivers for the Indian automotive electronics market in the next few years.

By 2026, Indian Automobile Sector could reach USD 300 billion with optimal Policy Support

Few key questions that will need executable answers



Would the scrappage policy be effective enough to tackle issues related to unsold inventory and propel market growth?



Would initiatives like PLI and Atamanirbhar Bharat be successful in making India a global automobile manufacturing hub?



What additional steps are required to manage the immediate requirement of unstable supply of imported raw materials like steel?

...and what policy / budget clauses can enable implementing the above...

The Commercial Vehicle segment presents long-term potential which needs to be targeted through policies

The Light Commercial Vehicle segments' market size in India is about half a million, which presents a large headroom to grow. As unlocking began, the sector has witnessed growth driven by agri-sector and a demand increase in last mile delivery.

Medium and Heavy Commercial Vehicle segments have however been struggling since 2018. With regulations such as trucks being allowed 25% additional load carrying capacity meant decades old trucks would ply on the roads increasing the carrying capacity of existing fleet with operators. This was estimated to have pushed the need to buy new trucks (as per capacity calculations) by 3 to 4 years.

COVID further deteriorated demand which reflected in sales figures for these vehicle categories. The demand however is expected to sharply increase in 2021.

Commercial vehicles are closely associated with economic development of a country. Using population vs trucks as an indicator would require India to heavily invest on infrastructural development to catch up with countries like US and China which have a strong presence of commercial vehicles.

Provision for EVs in PLI Scheme

Electric Vehicles are an emerging as well as promising segment in the auto industry and will also help in reducing the dependence on fuel (diesel/petrol/CNG), thus being environment friendly. Given the recent policy push by GoI for adopting EVs, there is significant merit in creating a dedicated budgetary allocation under the PLI scheme for the EV sector.

Scrappage policy would benefit with the much-needed short term demand boost across segments and with

greener vehicles reducing pollution in the long term

Scrappage policy is one of the immediate relief measures that would help boost demand towards revival of the auto industry. However, there is more to it than demand creation. With efforts from the government of introduction of BSVI compliance regulations, there is a dire need to get polluting vehicles out of the roads to ensure only less-polluting vehicles ply. This would also help India achieve its global environmental and emission targets.

The policy could be seen as a vehicle 'end of life' definition where a vehicle should need to be replaced once its life of being on the roads ends.

Aligning tax laws with global standards, the government could attract the much-needed large investments in the automotive sector

Investments would need to yield expected targeted returns, and policy measures supporting the same would be required. An example could be the timeline for carrying forward tax losses, which in India is 8 years but ranges from 20 years to an indefinite period in various other countries like Germany, France, Russia, Brazil among many others.

Reduction on total cost of ownership for the vehicles would promote affordability

Reduction in total cost of ownership of the vehicles would be helpful in boosting sales. For manufacturers to leverage economies of scale for their products its is important that the demand for a product exists in fair volume. Factors such as road tax and registration tax add significantly to the cost of ownership of a vehicle and the same could be reduced as a measure towards making products more affordable to the customer.

About Primus Partners

Primus Partners has been set up to partner with clients in 'navigating' India, by experts with decades of experience in doing so for large global firms. Set up on the principle of 'Idea Realization', it brings to bear 'experience in action'.

'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

India is and will continue to be a complex opportunity. Private and Public sector need trusted advisory partners in order to tap into this opportunity. Primus Partners is your go-to trusted Advisory for both public and private sector organizations involved intricately with nation building, and the creation and growth of robust corporations as engines of progress.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc), and with varied specialization (engineers, lawyers, tax professionals, management, etc).

Primus Partners brings experience of working in more than 30 countries with private and public sector, including working with Government of India, building and leading large consulting teams at the leadership level, and creating one of the largest public sector consulting practice in India. They also represent 200 person years of experience in leading global and Indian consulting firms and the public sector.

The founding team is supported by a distinguished advisory board that includes experts with leadership experience across government, large corporate and notable civil society organisations.

Primus Partners Contacts



Nilaya Varma
Co-Founder & CEO



Anurag Singh
Managing Director



Nikhil Dhaka
Vice President,
Lead Regulatory
Impact Assessment



Pooja Ahluwalia
Vice President,
Head of Research



Prashant Bhatt
Manager, Public
Policy

Disclaimer

The report is prepared using information of a general nature and is not intended to address the circumstances of any particular individual or entity. The report has been prepared from various public sources and the information received from these sources is believed to be reliable. The information available in the report is selective and subject to updation, revision and amendment. While the information provided herein is believed to be accurate and reliable, Primus Partners Pvt. Ltd. does not make any representations or warranties, expressed or implied, as to the accuracy or completeness of such information and data available in the public domain. While due care has been taken while preparing the report Primus Partners Pvt. Ltd. does not accept any liability whatsoever, for any direct or consequential loss arising from this document or its contents.