# India’s car industry may face further hurdles in its path to recovery after pandemic-driven slowdown

► Sector is hit by rising prices, new emission norms and expensive car loans, writes **Rebecca Bundhun**, in Mumbai

India’s car industry is facing several hurdles as manufacturers are forced to manage inflation-driven cost increases and extra expenditures to comply with new emissions regulations.

The sector had been on the road to recovery following the Covid-19 pandemic with strong sales numbers, but fresh headwinds at a time when borrowing costs for consumers are rising, may slow the pace of recovery.

“There are multiple challenges that the automobile industry is facing,” says Anurag Singh, managing director at Primus Partners, an Indian advisory company based in New Delhi.

India’s motor industry – which includes cars, motorcycles and commercial vehicles – is worth more than $222 billion. The sector accounts for 7.1 per cent of India's gross domestic product and is set to become the world’s third largest market by 2030, government body Invest India says.

This makes it too big to be ignored by all stakeholders, be it policymakers and industry bodies who need to work together to find solutions to challenges facing the sector. India remains an attractive market for international manufacturers despite all the challenges it is facing.

“The car market in India is very, very important for all the international players, because size wise it is significant,” says Mr Singh. “India has the highest potential to grow, because still, the car penetration in India is quite low compared to the developed countries.”

Only 8 per cent of households in India own cars, the National Family Health Survey shows.

But industry insiders are keeping a close eye on potential roadblocks for the sector.

The Reserve Bank of India last week raised interest rates for the fifth consecutive time in an effort to control inflation, bringing the key repo rate up to 6.25 per cent with the latest 35 basis point increase.

This makes borrowing more expensive, including car loans.

The rate rises and the possibility of further increases “may dent the consumer confidence”, the Federation of Automobile Dealers Association (Fada) a New Delhi-based trade body, says.

This comes as the industry has otherwise been enjoying a boost.

“The buoyancy among customers is on account of better perceptions on the general economic situation, employment, and household income,” according to Fada. “This, along with the ongoing festive season, has continued to help in bringing customers to the showrooms.”

This is reflected in India’s car sales figures.

Fada’s data shows that the automobile industry clocked record sales last month at 2.38 million vehicles. Sales were up 21 per cent in November to 300,922 compared with a year earlier, while they rose slightly over 5 per cent compared with November 2019, before the pandemic struck.

But Fada warns of other risks for car companies that struggled with the global shortage of semiconductors, an essential component, during the pandemic.

“Along with this, the China lockdown may play its part in slowing the supply of semiconductors. If this happens, it may act as a speed-breaker and add to the supply-demand mismatch, which was improving in the last few months,” the association says.

But Mr Singh says there is still reason for “cautious optimism”.

Even before the pandemic, the sector faced challenges. US car maker Ford exited India last year as it did not see “a path to profitability” in the country.

“The car industry has undergone a lot of pain in the last four or five years which included the sales drying up because of Covid, then the supply constraints because of the chip shortage, and significant changes in technology required for meeting the emission norms, and also with the industry moving towards electrification and lots of technological changes going on,” says Mr Singh. “Now that chip shortage is kind of abating and the situation is improving, the production numbers are going up, the sales numbers are going up.”

Car manufacturers in India are adapting well to electric vehicles, analysts say, with strong programmes in place as the government aims to increase the proportion of green cars on the road.

But there are other steps to control carbon emissions that are affecting car companies.

The Indian government has made it mandatory for carmakers to comply with stricter fuel efficiency regulations by April next year in an effort to reduce emissions in a country, with some of the world’s most polluted cities.

These are adding to the already high costs that car companies have been facing this year.

India’s largest car maker Maruti Suzuki this month announced that it plans to raise its prices from January. “While the company makes maximum effort to reduce costs and partially offset the increase, it has become imperative to pass on some of the impact through a price increase,” it said.

Maruti Suzuki said that the price rise would vary across different models.

Rishi Vora, an analyst at Kotak Institutional Equities, says emission regulations “will have cost implications” for all car manufacturers.

“As per the norms, all the vehicles must be equipped with self-diagnostic devices and programmed fuel injectors.”

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> MITUL SHAH
> Head of research at Reliance Securities

Capital expenditure for the automobile industry increased to 70 billion rupees in the first half of this financial year, running until the end of March, which is “the highest in many years”, according to financial services firm Motilal Oswal.

Retail inflation in India cooled to a nine-month low of 6.4 per cent last month, the latest official data released last week showed. But this is still above the upper tolerance level for inflation set by the Reserve Bank of India.

“Most of the [automobile manufacturers] are announcing price hikes going forward,” Fada says. “To counter this and for the lower end of the pyramid, manufacturers have started announcing discounts for slow-moving products, lower variants and to clear their year-end stocks. This may help year-end sales to remain healthy.”

Mitul Shah, head of research at Reliance Securities, based in Mumbai, expects India’s automobile industry to post low double-digit growth in the current financial year.

“Despite a stronger first half on a low base, ongoing global geopolitical issues and depreciating currency continue to keep pressure on economies and elevate the inflation level,” says Mr Shah. “This has been limiting the industry-wide recovery at the moment.”

He says there are, however, some signs of positive drivers.

“Softening commodity prices and lower fuel prices would support the industry ahead on both the volumes and margins front,” Mr Shah says.

The “long-term fundamentals continue to remain intact for automobile sector”, he adds.

Jatin Ahuja, founder and chief executive of Big Boy Toyz, India, which sells used luxury cars, says that he is noticing some positive trends amid rising incomes.

“We have experienced the youngsters between 25 [and] 35 spending the most,” he says. The company has seen sales growth of more than 35 per cent this year over the previous year, he adds.

“We are expecting the market to grow even more.”

A Mahindra & Mahindra plant in the western state of Maharashtra. India’s motor industry is valued at $222 billion Bloomberg

# IMF calls for prudent debt management amid slow growth and high interest rates

ECONOMY
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Governments must take prudent measures to manage debt and their fiscal policy amid weaker global economic growth and tighter monetary policy to avoid future economic pain, the International Monetary Fund said yesterday.

Managing current high levels of debt will become increasingly difficult if the economic outlook continues to deteriorate and borrowing costs rise further, the Washington-based lender said.

“Governments should adopt fiscal strategies that help reduce inflationary pressures now and debt vulnerabilities over the medium term, including by containing expenditure growth – while protecting priority areas, including support to those hardest hit by the cost-of-living crisis,” the IMF said.

“This would also facilitate the work of central banks and allow for smaller increases in interest rates than would otherwise be the case. In times of turbulence and turmoil, confidence in long-run stability is a precious asset.”

Global debt remained at nearly 19 per cent of GDP above pre-pandemic levels at the end of last year, even after posting the steepest decline in 70 years, posing a challenge for policymakers.

Last year, public and private debt decreased to the equivalent of 247 per cent of global GDP, falling by 10 percentage points from its peak level in 2020, the IMF data showed. But in dollar terms, global debt continued to rise, although at a much slower rate, reaching a record $235 trillion last year, the data showed.

Private debt, which includes non-financial corporate and household obligations, drove the reduction, decreasing by 6 percentage points to 153 per cent of GDP, the data showed.

> Countries ‘should adopt policies that reduce inflationary pressure now and debt vulnerability in the medium term’

The decline of 4 percentage points in public debt, to 96 per cent of GDP, was the largest such drop in decades.

“The unusually large swings in debt ratios are caused by the economic rebound from Covid-19 and the swift rise in inflation that has followed,” the IMF said.

Debt levels varied across economic groups.

The fall in debt was largest in advanced economies, where private and public debt fell by 5 per cent of GDP last year, reversing almost one third of the surge recorded in 2020.

In emerging markets (excluding China), the fall in debt ratios last year was equivalent to almost 60 per cent of the 2020 increase, with private debt falling more than public debt. In low-income developing countries, debt ratios continued to increase last year, driven by higher private borrowings.

The IMF attributed the unusually large movements in private and public debt around the world to three main factors.

First, the recession at the onset of the pandemic contributed to a major drop in GDP, which was reflected in the sharp rise in debt-to-GDP ratios in 2020, but as economies recovered from the crisis, the strong rebound in GDP helped the fall in debt ratios last year.

Second, inflation rates fell significantly in the first year of the pandemic, a trend that reversed last year as prices rose sharply in many countries. During 2020 and last year, economic activity and inflation moved together: inflation fell and then rose with output. These factors induced large swings in nominal GDP that contributed to the changes in debt ratios, the IMF said.

Third, the effects of economic shocks on the budgets of governments, companies and households had an impact on debt levels.

Debt and deficits increased sharply in 2020 because of the economic recession and the sizeable support extended to individuals and businesses. Last year, fiscal deficits declined but remained above their pre-pandemic levels.

“The weaker growth outlook and tighter monetary policy call for prudence in managing debt and conducting fiscal policy,” the IMF said.