Supply to Satisfaction

Work done by

A Rahman – Co-Founder Satiate Consulting Pvt Ltd

For more Articles – visit my Linkedin profile

https://www.linkedin.com/in/arahman123/

SWOT Analysis

COVID-19 impact on Indian automotive industry

Strengths:

Evolving industry: Automobiles represent freedom and economic growth. Automobiles allow people to live, work and travel in ways that were unimaginable a century ago. Automobiles provides access to markets, to doctors, to jobs. Nearly every automobile trip ends with either an economic transaction or some other benefit to the quality of life.

Continuous product innovation & technological advancement: With the advent of E-vehicles & alternative fuel such as Shell gas, CNG and others, Automobile Companies are increasing R & D expenditure to drive the next phase of growth through use of renewable sources of energy which may be solar, wind etc

Growth shifting to Asian markets: Although American & European market is the pulse of this Industry, but the focus is shifting to developing markets like China, India & other Asian nations because of the rise in disposable income, changing lifestyle & stable economic conditions.

The Indian automobile industry is the fourth largest in the world with an annual turnover of $100 billion and employs 32 million people. The two-wheeler industry in India is the largest in the world. India is also the largest tractor manufacturer and the eight largest commercial vehicles manufacturer in the world.

The automobile sector currently contributes about 50 per cent of the manufacturing gross domestic product (GDP) in India, 26 per cent of the industry GDP and 7.1 per cent of overall GDP, up from 2.7 per cent in 1992-93. The sector contributes approximately 13 per cent of excise revenue to the government.

The total investment in this sector is around $40 billion in the last decade. The decade of 2001-2010 saw a compounded annual sales growth of 15.67 per cent, which included 10 per cent exports. The yearly growth of exports was 23 per cent from 2000 to 2015 due to constant government support.

The automobile industry includes two-wheeler, four-wheeler, passenger vehicle and commercial vehicles. In 2018-19, 4.06 million cars were manufactured and at present around 32 million cars run on Indian streets. The two-wheeler segment dominates the industry with a share of 80 per cent.

51/1, Ground Floor, 2nd Main, Dattatreya Nagar, Hosakere Halli, Bangalore-560 085
www.satiateconsulting.com |info@satiateconsulting.com |+91 9900246597 | +91 9980015212

Weaknesses:

Not a day passes by without an automaker either suspending operations or operating with minimal workforce to keep Coronavirus at bay. Indian automakers, like their global counterparts, are following suit.

The outbreak of the Novel Coronavirus (COVID-19), which originated in Wuhan, China in end-December 2019, is fast spreading its tentacles across the world and is having a major impact on all aspects of society, including the automotive industry. All through January and February, automakers and their suppliers have been scrambling to keep vehicle assembly lines humming but March has seen the industry take concerted action, in sync with government advisories, to keep its personnel safe.

With the World Health Organisation declaring the COVID-19 outbreak a pandemic, an unprecedented global disruption is at hand. Automobile and component manufacturing plants are being shuttered around the world, consumer footfalls in showrooms have fallen sharply, vehicle sales are dropping dramatically and almost every major industry event is either being cancelled or going the digital way. All of March has been packed with coronavirus-related news and it all started with the cancellation of the 2020 Geneva Motor Show, which was to open on March 5

In 2019-20, however, the sector faced troubles in maintaining sales and profitability numbers on quarterly and even yearly basis. In August 2019, there was a 35.9 per cent drop in domestic sales for market leader Maruti Suzuki with 94,728 units being sold due to subdued market confidence, slow economic growth and crisis in the non-banking financial companies (NBFCs).

The March 2020 numbers show the effect of lockdown due to the COVID-19 pandemic. The last month of any financial year is usually the peak period for inventory clearance for the industry. Maruti Suzuki India saw its total domestic passenger vehicle sales fall 47.4 per cent to 76,240 units in March 2020 compared with 145,000 units in March 2019. The export sales were down almost 55 per cent to 4,712 units from 10,463 a year ago. With overall sales down by 16 per cent, the company ended FY20 with a total sales of 1.563 million units, down from 1.862 million in the previous fiscal. Similarly there was a 40 per cent decline in domestic sales of Hyundai Motor India to 26,300 units in March 2020. Similar trend was seen in Mahindra and Mahindra's domestic passenger vehicle sales, which drastically plunged 88 per cent to 3,384 units in March 2020 from 27,637 units in March 2019.

The switch from Bharat Stage 4 (BS4) to Bharat Stage 6 (BS6) emission norms has also added to the woes of the sector as BS6 was to be implemented from April 1, 2020. This brought in long-term

51/1, Ground Floor, 2nd Main, Dattatreya Nagar, Hosakere Halli, Bangalore-560 085
www.satiateconsulting.com |info@satiateconsulting.com |+91 9900246597 | +91 9980015212

problems to the automobile industry from both manufacturing end to sales point such as research and development, technological up gradation and closing down of plants to stop piling up of old inventory. As new BS6 vehicles were few in the market and the switch to BS6 saw the overall demand sales of BS4 vehicles drop, this led to an increase in inventory of old (BS4) vehicles both in two-wheeler and four-wheeler segments.

Hence many automobile plants of leading players were closed for few days to halt production, which led to loss of jobs of the contractual workforce. Macroeconomic issues that added to this crisis include the decline in demand/consumption both from the rural and urban markets, and a liquidity crunch in the financial markets. NBFCs have had an enormous exposure to vehicle financing in the country, covering all segments.

In July 2019, NBFCs financed almost 70 per cent of new two-wheelers and 60 per cent of new commercial vehicles sold in the country comprising of Infrastructure Leasing & Financial Services (IL&FS) and Dewan Housing Finance Ltd (DHFL) which were leading NBFCs. When IL&FS and DHFL went into financial distress, they transmitted this contagion from the financial services sector to automobile sector dragging it down.

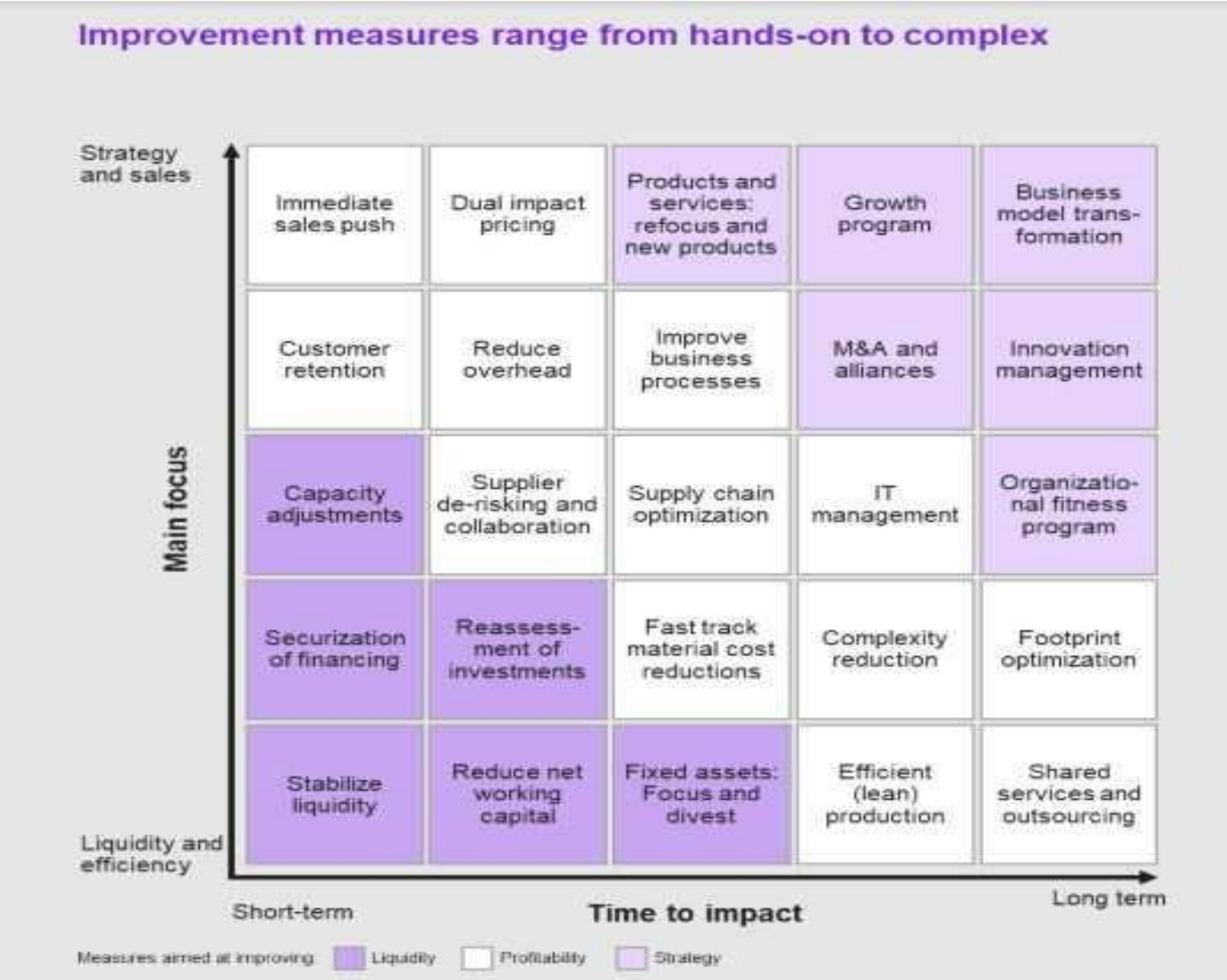
Supporting the lockdown, all automakers immediately temporarily closed down which included Maruti Suzuki, Honda, Hyundai, Tata Motors, Mahindra and Mahindra, Toyota Kirloskar Motors, Kia Motors and others. Even the two-wheeler manufacturers Hero MotoCorp, Honda Motorcycle, Scooter India, TVS Motor Company, Bajaj Auto, Suzuki Motorcycle and Yamaha have shut down manufacturing.

A minor support came on March 27, 2020, when the Federation of Automobile Dealers Associations appealed to the Supreme Court to allow the sale of BS4 vehicle inventory which has piled up amid the COVID-19 crisis. The Supreme Court gave an extension of ten days, post the ongoing 21-day lockdown to sell the old inventory of BS4 vehicles with a caveat that only 10 per cent of the unsold BS4 inventory could be sold in India excluding Delhi-NCR region where none can be sold. The unsold stock includes around 700,000 two-wheelers, 15,000 passenger cars and 12,000 commercial vehicles.

Let us hope that the Indian automobile industry, which had been accelerating for the last two decades and has now gone into reverse gear, has seen the worst. But the present global pandemic with the lockdown, job losses and declining demand casts a spell of gloom for the industry in the near future.

51/1, Ground Floor, 2nd Main, Dattatreya Nagar, Hosakere Halli, Bangalore-560 085
www.satiateconsulting.com |info@satiateconsulting.com |+91 9900246597 | +91 9980015212

Opportunities:



Reference: ET Auto.com

15 ways the Indian Auto Industry will change post-Covid 19

The haemorrhage that entire mobility eco-system will go through with coronavirus impact on auto sector, will ensure the industry does not return to its “normal” state, as before. The norms will have changed. Right from manufacturing, HR practices, operating styles, sourcing, policy support to retail, communication and emergency response mechanisms.

The Indian automobile industry will stand up into a transformed one once this pandemic is under control and the economy gradually limps back. These 45 days will bring learnings, both by choice as well as compulsion.

Rituals will be challenged.

Myths will be busted.

New methods will be tried.

True friends will be revealed.

This haemorrhage the entire mobility eco-system and will go through to ensure the industry does not return to its "normal" state, as before. The norms will have changed. Right from manufacturing, HR practices, operating styles, sourcing, policy support to retail, communication and emergency response mechanisms.

I foresee 15 specific changes that the Indian automobile market will have to accept and absorb. Some fresh. Some harsh. The faster, the better.

1. Personal Mobility back in focus– next to staying at home, the safest place to be in and also gives you the flexibility of the occasional drive / ride to shrug off the home boredom

2. EV plans can wait – with a stretched economy where the money will be spent on core reconstruction for the next 12 months, the EV push can wait for some time; also the economic debacle in primary electric-mobility-tech countries will not help matters

3. Cleaner public transport – from now it needs to be not only safe and reliable but also clean and hygienic – (1) incorporate in-vehicle hygiene aids for operators and passengers, (2) have in-vehicle health emergency aids and (3) ensure cleaner bus stops, bus depots / metro stations and daily sanitisation – operating and therefore travel costs should go up a bit but worth; regulations will come into effect

4. Redesigned Shop-floor – more low-contact technologies and robotics in place, therefore spare people at hand, across the value chain; the shop-floor will be totally redesigned, become more compact, with fewer stations and greater digital interventions and measures

5. Labour Unrest – this will be a critical problem the industry has to grapple with – contract workers laid-off, permanent workers under the scanner – can have the makings of social unrest with a growing young, educated, unemployed population waiting to take over these jobs

6. New Age Skilling – the industry has been discussing this for long without much progress; now ASDC can be gainfully busy in re-formatting the workforce – the surplus people in new modes of employment [not just cab drivers] and the existing workforce in co-existing with low-contact operations

7. Rise in People Investment – Marxian theology says that the true power the worker is when the industrial superstructure stays intact but life comes to a standstill as the people to operate the machines are gone! The industry will learn to invest more in the health, hygiene and basic operating conditions of the workforce, beyond the large automakers at even the smallest component maker, right across the entire value chain. Costs will surely go up per person but balance out as there will be fewer workers on the floor!

8. Digital and Drones connect –this industry has been a late adopter of digital but can hold back no more; digital interfaces will become the primary medium of reaching out using enhanced AI and ML; drones will also become integral to connecting

9. End of showrooms – the face of retail will change…finally; I have been predicting this since 2012 pointing to the sheer waste of an effort in creating an experience for a customer who does not wish this anymore – this crisis will once more reinforce this inevitability; the quicker the automakers rework their investments away from wooden flooring and diffused lighting to actual customer experiences of the very vehicle the better

10. Domestic Sourcing Infrastructure – the industry got short-circuited with the over-dependence on sourcing from China; this cannot work anymore and we need to look at more local manufacturing of components, modules and technologies – (1) brings in fresh investment, (2) can adjust the surplus skilled labour force and (3) hedges all future risks; the only issue is cost, but scale based on creating a viable alternative to China for the global automotive industry can sort that out

11. Brand over Sales – all the automakers who have bled most through this period [and most would have] will realise the power and the necessity of focusing on their brands much more than mere sales promotions and discounts; formal and structured brand management functions will be put in place; the global automakers will invest in making their brands relevant to the Indian customer and local sensibilities

12. Auto Mission Plan 2030 – a fresh relook at all the blueprints and timelines for the industry will not meet its key goals under the AMP 2026 – sales, vehicle penetration, revenues, employment, contribution to GDP; also gives the opportunity to prioritise key parameters

13. Force Majeure Task Force – the industry has to put in place a task force to plan, train, equip and prepare itself for such future emergencies – this has to be done together and not piece-meal; emergency action has to be on a self-sufficient platform in terms of relief, interventions and remedies

14. Government is not your friend – neither the judiciary and regulators; hope this realisation dawns on the industry loud and clear given the sheer apathy shown through this crisis; the industry has to fight its own battles alone and have a more aggressive posture in getting things done that benefit both the automaker and the customer

15. Unite or perish – sounds fundamental but unity is sorely missing; it is the Achilles heel; when times are good you can keep fighting and back-stabbing each other but in times as these you realise that you are quite alone in your fight; other stakeholders like policy makers, judiciary, regulators, lobbies and activists have actually high jacked the entire narrative for years and that needs to be taken back – now is the time; the traditional automakers, new energy automakers, network partners, component makers and technology suppliers have to all come together as ONE large platform; time for all bodies like SIAM, SMEM, FADA, ACMA, ATMA and the like to come together and form the Confederation of Indian Automotive Associations.

Covid-19 impact: Automakers want flexible manufacturing for business after the pandemic. In fast-moving mass production industries like automobiles, production schedules are rigid and optimised for efficiency. Similarly, supply chains work on schedules decided months in advance on the basis of demand projections. However, carmakers are now looking to redesign these systems to cater to an unpredictable demand environment.

Automakers are looking to fast-track plans for agile manufacturing processes and supply chains as they prepare for a volatile demand environment after the Covid-19 global pandemic.

In fast-moving mass production industries like automobiles, production schedules are rigid and optimised for efficiency. Similarly, supply chains work on schedules decided months in advance on the basis of demand projections. However, carmakers are now looking to redesign these systems to cater to an unpredictable demand environment

Information technology firms servicing automakers said they have received requests from companies looking to quickly move to agile manufacturing processes and supply chains along with undertaking cost reduction initiatives.

Automakers are immediately interested in two initiatives, according to Maneesh Pant, vice president at Capgemini India. "One is continuing the broken supply chain, and another is making manufacturing more agile. Focus is shifting from pure production performance to surviving in an environment of unpredictable change by being able to react quickly to changing market conditions," he said.

Smaller lot sizes, shorter times to market and lower manufacturing cost will drive automobile manufacturers towards the adoption of agile and lean manufacturing, said Pant.

Japanese automaker Toyota Motor Corporation's Indian unit is among those closely monitoring the market situation. "Our manufacturing side is prepared to quickly act upon changes or rearrangements that might be required to meet market demands there onwards," said Naveen Soni, senior vice president, sales and service, Toyota Kirloskar Motor. "We have also been studying 'best practices' of other Toyota affiliates in markets that have already revived, like China, post Covid-19 conditions."

The automobile sector could face instability for 12-18 months after the lockdown ends, said Ravi Bhatia, president, JATO Dynamics, a global automotive consultancy firm.

"In order to respond to this, OEMs (original equipment manufacturers) are looking at agile manufacturing and more automation. And this will require them to retrain and retool their operations," Bhatia said, citing conversations with industry insiders. "They will need to keep a close eye on trim level demand and sales to avoid build-up of inventory in the factory or at dealerships."

Threats:

COVID-19 Impact on different Stake holders

How should the industry respond?

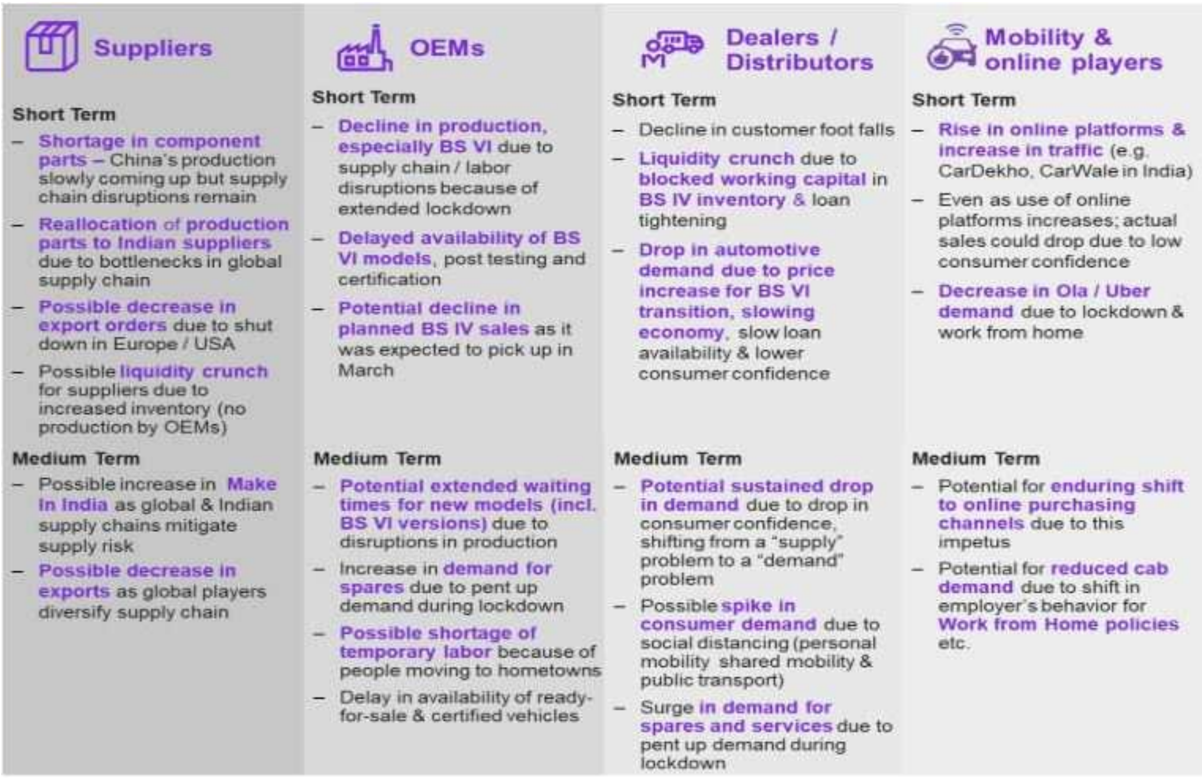
Immediate action must be taken to mitigate the most harmful COVID-19 risks. Any immediate action should be across five key dimensions.

First, prioritize employee protection and safety. For this organizations will need to monitor and track employee health status, follow most conservative disease control protocols, define travel guidelines & quarantine requirements and plan for flexible work plans and home office.

51/1, Ground Floor, 2nd Main, Dattatreya Nagar, Hosakere Halli, Bangalore-560 085
www.satiateconsulting.com |info@satiateconsulting.com |+91 9900246597 | +91 9980015212

Second, ensure business continuity planning, wherein businesses set-up instant response team, define & align leaders, review business continuity, review co-working guidelines in critical positions and measures and ensure and support supplier stability.

Third, will be inevitable operational firefighting where business leader will need to define and execute contingency measures, ensure availability of essential components, prioritize supply chain capacity, ensure real-time monitoring and response mgmt. e.g. manage in transit inventory, manage liability coverage, insurance, etc.



Reference: ET Auto.com

The impact of COVID on the economy & automotive industry could vary depending on intensity, duration and spread of the outbreak. As a result, the economy may witness a recovery that is V shape – Quick recovery, U shape – Impacting whole of 2020 or L shape – 18 months of downturn.

51/1, Ground Floor, 2nd Main, Dattatreya Nagar, Hosakere Halli, Bangalore-560 085
www.satiateconsulting.com |info@satiateconsulting.com |+91 9900246597 | +91 9980015212