

R. P. DAGA & CO.

CHARTERED ACCOUNTANTS



AUTOMOBILE SECTOR

COVID-19 Impact analysis and action plans

Prepared by
CA Arun R

JUNE 2020
WWW.RPDAGA.COM

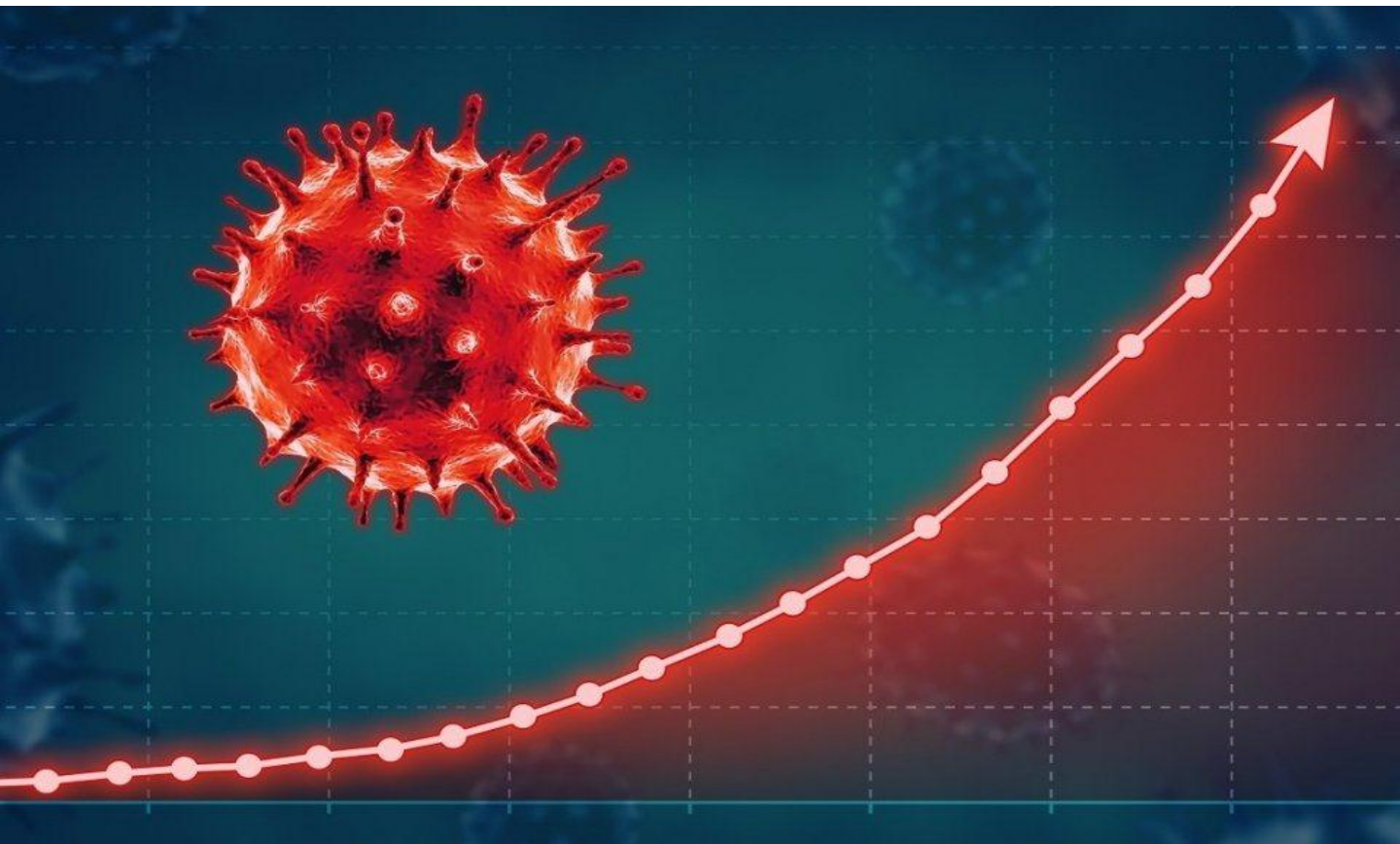
Overview

With the COVID-19 infecting almost every country, we are facing a hostile economic situation throughout the world. As there was a prediction of global recession on setting in 2020-2021, the pandemic has worsened the condition by disrupting trade flow throughout.

As the tensions rise between the US and China, there might be a shift in localization of industries in other countries. As social behavior of the people changes, there will be a larger positive shift in people moving toward digitalization and a change in present business models can be visible.

With probability of crises to deepen in future, a lot will depend on Government reliefs and taxation policies along with a good management strategies to shape the future of these crises in a controllable manner. Quick response to the situation will be essential from industries and society to tackle the crises in a timely manner.

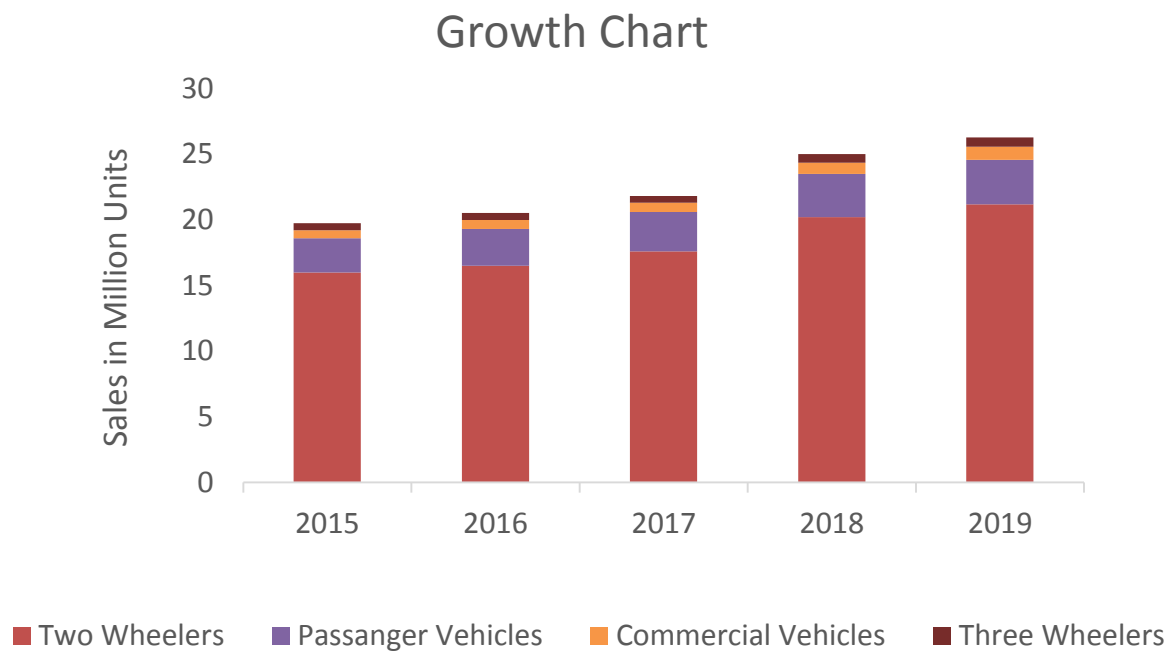
Every industry feeling the pressure, our focus will be on the automobile sector which was already having a rough phase in the previous year even before the COVID-19 situation. We are aware that the analysis made will depend on the upcoming events, hence the conditions specified in this report will be modified with the changing environment.



Past Scenario

The auto sector was already in great crises due to lower demand from last 18 months. The Revival plan was all set by the industry but was hampered by the break out of COVID-19. With the change in tax regime from VAT to GST and frequent changes in engine emission standards from BS-4 to BS-6, the auto industry was already facing the heat.

The COVID-19 outbreak & the series of lockdowns has had a major impact on the industry as it has been at a complete standstill since 24 March. Most of the auto makers across India recorded a zero unit sales during the month of April 2020. With around 40% of the world population under lockdown and as a worser economic scenario than the Great Depression setting in, there is a fear of medium term disruption and deepening of losses in the coming year.



India's Motor Vehicles Sales dropped 58.8 % in Mar 2020, compared with a decrease of 11.1 % in the previous month. India's Motor Vehicles Sales Growth has grown at a average rate of 9.7 % from May 2002 to Mar 2020. The data reached an all-time high of 63.6 % in Dec 2009 and a record low of -58.8 % in Mar 2020.

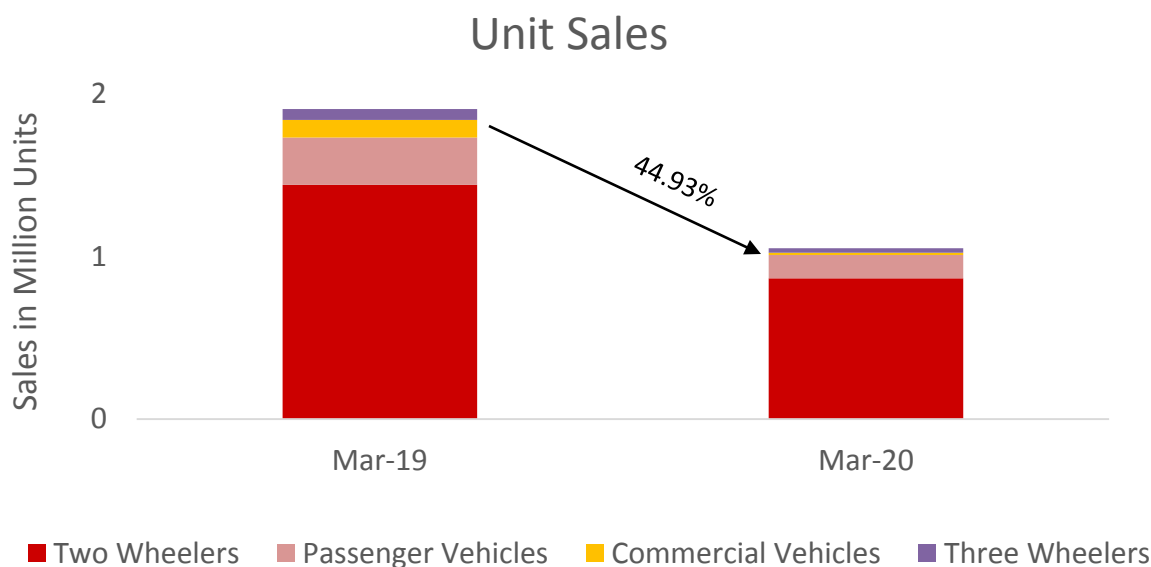
As a measure to recover the auto market, reduction in GST rate for automobiles to 18% from 28% was announced in the Union Budget 2020 to absorb the extra price impact of shift to BS-VI and also cut in personal income tax rate will provide more disposable income in the hands of consumers, which could have led to automotive demand recovery.

Present Scenario

With India surpassing China with highest number of COVID-19 cases and deaths in Asia, the 4th phase of lockdown will be ending on 31st May. Industries are all set to reopen with limited number of workers and production capacity.

Absence of Migrant labours is expected post lockdown which will further make the present situation worser for the automakers as they highly depend on these labour force. With the series of events witnessed in the country with migrant labours, the Industry will witness a downfall in labour supply for a short span of 4-6 months. Some companies are even choosing to take a strategic call to exit unprofitable vehicle segment. Shutting of dealership was observed in early 2020 by most of the auto manufacturer even before COVID-19 was hit.

As the Pandemic grows globally, all major sectors in the economy have already faced the crises. Major layoff and pay cuts have been witnessed in the month of March, April and May. With an unclear picture on how the pandemic will be controlled and how large its effect will be, the management is unable to carve out a strategy to revive the Industry.



There was some respite seen as the relief package for MSME was announced by the Government but the testing times are yet to come. With varying the payment of Government dues and banks extending the moratorium period, the short term cash crunch situation might be eased out to some extent.

Shift in demand of consumers from non-essential to essential only owing to the uncertainties is also effecting the demand. With NPA's piling up and an expected decrease in credit worthiness of the consumer, there will be a decrease in infusion of funds which will further lower the demand. As the revenues took severe hit, the Original Equipment Manufacturer's struggled on meeting fixed cost and working capital requirements.

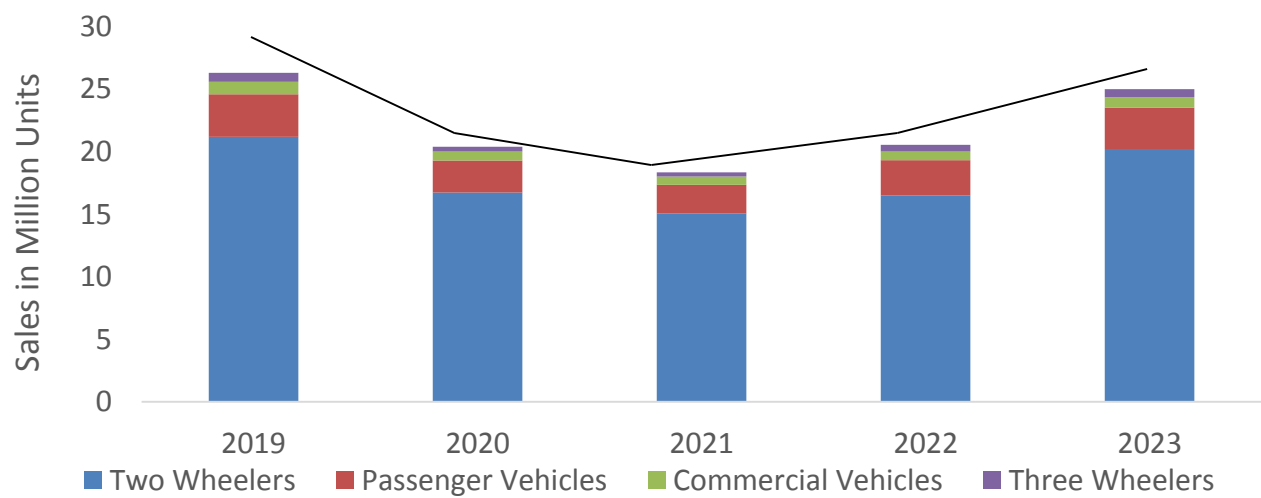
Future and Action plan

Automobile sales will touch decadal lows in FY21 as job losses and salary cuts in urban areas sour consumer sentiment, according to CRISIL. Passenger and commercial vehicle sales are expected to fall down to 2010 levels.

Up to 80% of cars are bought through financing and consumers would be hesitant to take a loan in these circumstances. Also, two-third of passenger vehicles sales are from people who are replacing their car, an “unnecessary expense” that could be deferred.

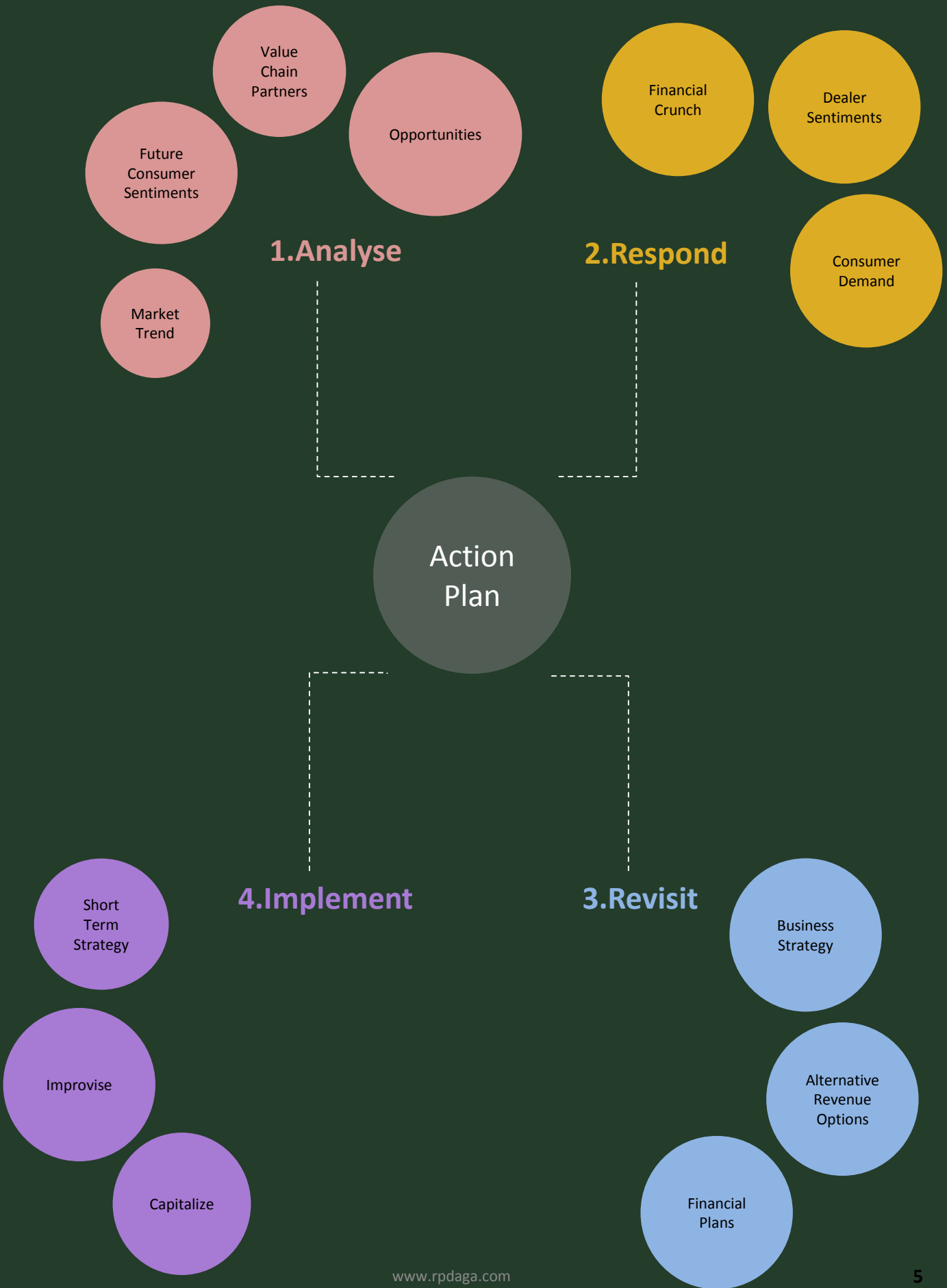
Passenger vehicles sales are predicted to dip 25% on the low base of FY20 when sales declined 18%. Commercial vehicles sales were predicted to decline 27%. The growing popularity of shared mobility platforms and cautious lending by banks and non-banking financial companies (NBFCs) will negatively impact vehicle sales.

Expected Sale Trend



While future remains uncertain, the best suited scenario has been taken into consideration for making the above judgments. Alternative strategic plans has to be created with the change in economic scenario and consumer sentiments.

We might expect a panic spike in the demand of two wheelers, entry level four wheelers and pre-owned vehicles as the consumers may be hesitant in using public transport or any other shared means of transportation.



1.ANALYSIS

Market Trend

Increase in demand for entry segment cars and bikes. Lower inflow of funds from banks and NBFC'S. Lower demand due to crises in other sectors.

1

2

3

4

Value Chain Partners

With local dealers under tremendous stress even before the pandemic and with disruption of global demands, there should be a plan to overlook the current business models by the manufactures.

Consumer Sentiments

High unemployment, piling household debts and lengthy lockdowns will affect consumer spending. Holding up of expenses for non essentials will be witnessed for a period of 8-10 months.

Opportunities

With low tax rates for manufacturing sector and Government announcing support for MSME's, this might the right time for the whole world to shift the over dependence of China. Plan for Spike in demand of vehicles up to Rs.6 Lacs.

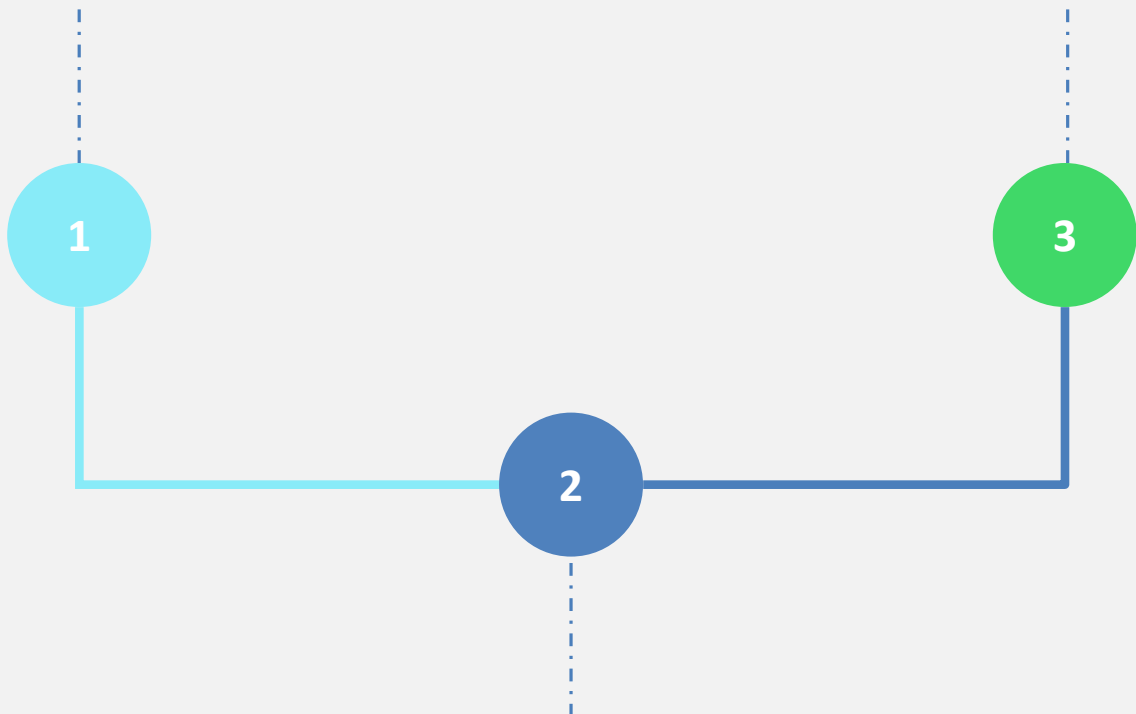
2.Respond

Financial Crunch

Customers may face loan approval disbursement problems due to lowering of the credit rating. Sector should explore other options like buy now pay later, find new sources of finance.

Consumer Demand

Shift in smaller or entry segment vehicles may have a sudden spike in demand. Hence a response to the demand by better inventory management, supply chain management and selling point experience is expected.



Dealers Sentiments

Many small dealers may sell or close their business due to low sale. Potential alliance may gain them a synergy benefit if properly evaluated. Equity funding options may be evaluated for large and medium dealers.

Better financial support from the manufactures and focusing of allied products & services will help in better management of financial crises.

3.Revisit

Business Strategy

Short to objectives can be set to make a business strategy as parameters may change in the long run.

Alternative strategies have to be developed by taking into view the worst case scenario.

Set business trigger points to make timely response when change in strategy is required.

Exploring online sale options might change the business trajectory.

Targeted marketing approach shall be adopted and collaboration with other partners like banks, MNC's might turn as a unique selling point.

Alternative Revenue Options

Cross selling of products with financial institutions like life insurance along with motor insurance.

Increased warranty period and loyalty programs.

Inhouse customization options for accessories.

Subscription based model of sale for slow moving products.

Collaboration with market competitors on service part to maximize the utilization of resources and reduction in costs.

Direct Selling Agent (DSA) model collaboration on a specified commission shall be formalized to increase revenue options.

Financial Plans

Buy now pay later options to be explored.

Incentive based payment system to be adopted instead of fixed employee cost.

Budgeting and keeping a track of the same to meet the short term financial targets.

Lowering of fixed costs to reduce the break even point.

Adoption of online sale option may eliminate major fixed costs with a negative impact on job loss.

Government policies and schemes for short term credit support at low interest rates to be exploited to the maximum.

4.Impliment

Short Term Strategies

With no clear path ahead, short term plans shall be created. This will help in recovering the working capital cost and minimization of losses.

Improvise

Improvise by changing the strategies at trigger points. This will help to tackle difficult situation in a better way.

Capitalize

Capitalizing on the Government schemes, local market sentiments and global market sentiments at the opportune moment to change the cards.

PREPARED BY

CA Arun Nair
Contact no- +91 9766244114
Email Id- canairarun@gmail.com

R. P. Daga & CO

CHARTERED ACCOUNTANTS

CA Rushikesh Daga
Contact no- +91 8668632817
Email Id- carushikeshdaga@gmail.com

CA Mayur Tapir
Contact no- +91 9763635101
Email Id- camayurtapkir@gmail.com

Address

Pune Office - 201, Aditya Park, VIT Hostel Road, Behind Pune Diagnostics Centre, Kondhwa, Pune-411048

PCMC Office-Shop No. 1, Ganesh Krupa Bldg., Near Akurdi Vegetable market, Vivek Nagar, Akurdi, Pune-411035

Email Id: carpdaga@gmail.com