

Indian CV Industry

Overcoming the COVID Crisis

Organized by :

MOTORINDIA

Speaker :

SATENDRA KUMAR, FROST & SULLIVAN

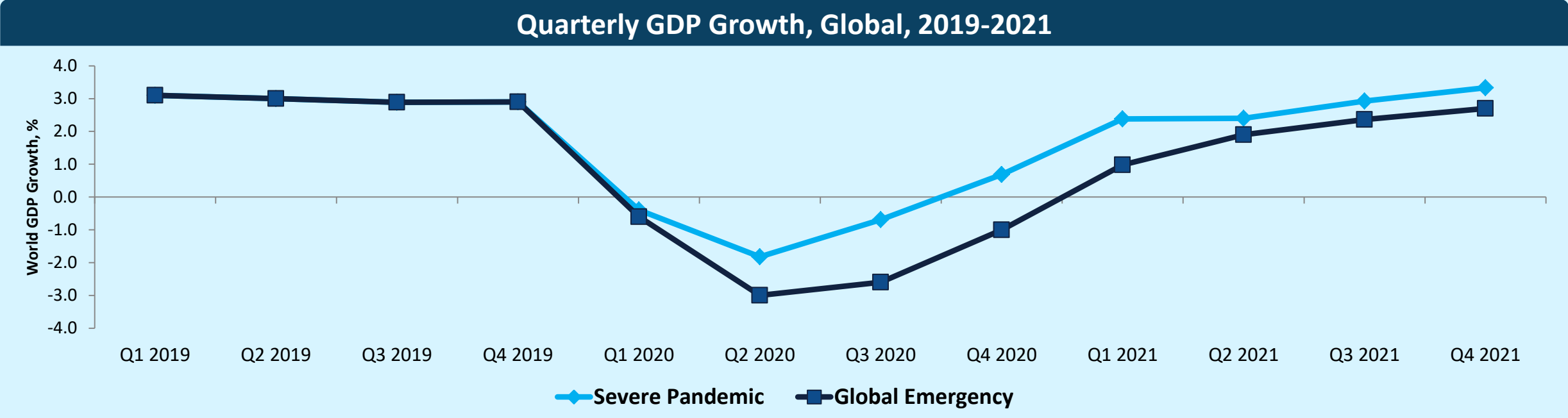
AGENDA

- **GLOBAL AND REGIONAL MACRO ECONOMICS**
- **IMPACT ON THE GLOBAL AUTOMOTIVE INDUSTRY**
- **IMPACT ON THE INDIAN COMMERCIAL VEHICLE INDUSTRY**
- **NEW BUSINESS OPPORTUNITIES IN INDIA**
- **RISK MITIGATION AND WAY FORWARD**

1

Global and Regional Macro Economics

2020 GLOBAL RECESSION NOW DEFINITE; YEAR-LONG RECESSION EXPECTED UNDER GLOBAL EMERGENCY SCENARIO



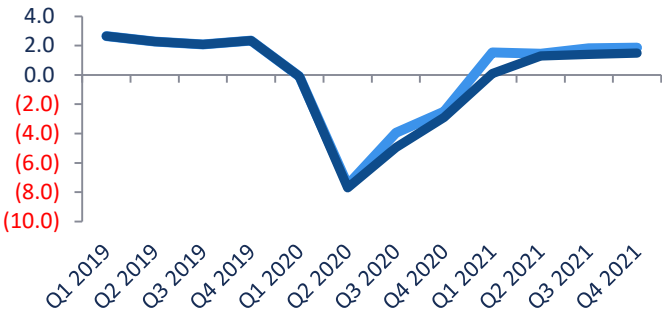
Scenario	Details
Severe Pandemic	35+ countries to register 3000+ cases by mid-April, 20 countries to register 10,000+ cases, with lockdowns to continue through April-May.
Global Emergency	80+ countries to register 5000+ cases by mid-May, 35 countries to register 10,000+ cases, with severe spread across Asia, Africa, and LATAM

Source: IMF; Worldometer; Frost & Sullivan

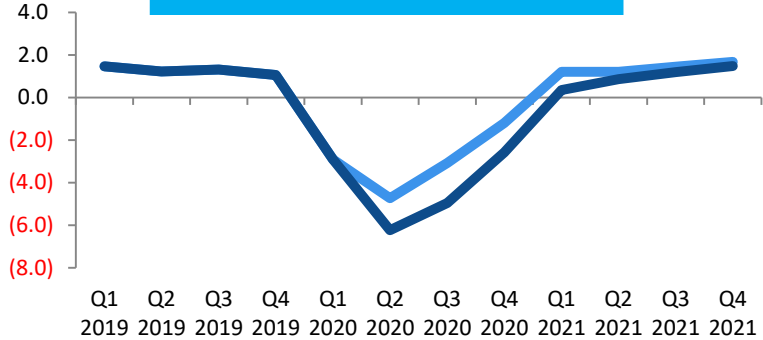
GLOBAL GDP IMPACT BY KEY REGIONS: SOUTH ASIA MIGHT JUST ESCAPE FROM 2020 RECESSION

Quarterly GDP Growth, Regions, 2019-2021

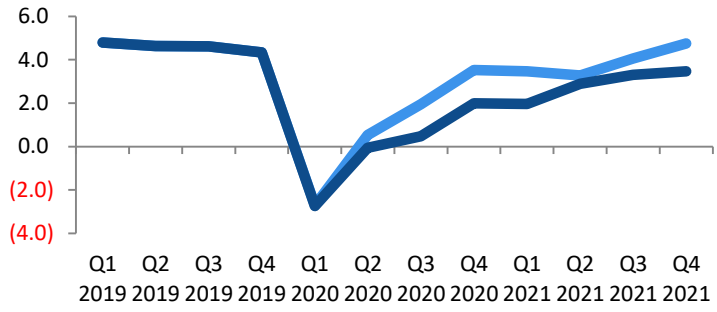
The United States



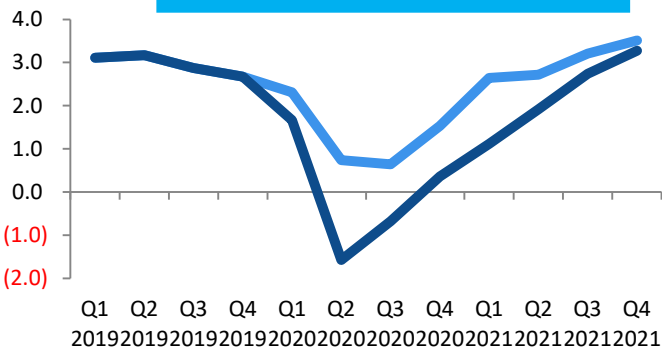
Eurozone



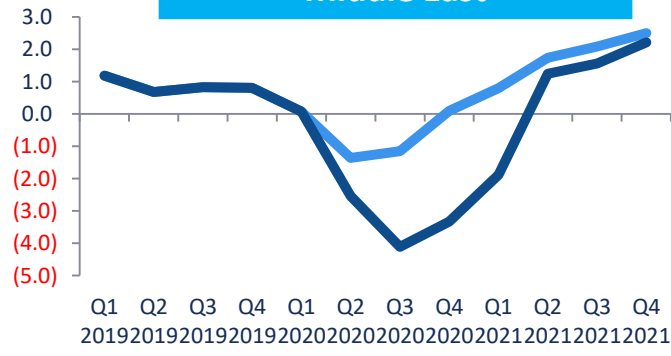
Asia Pacific



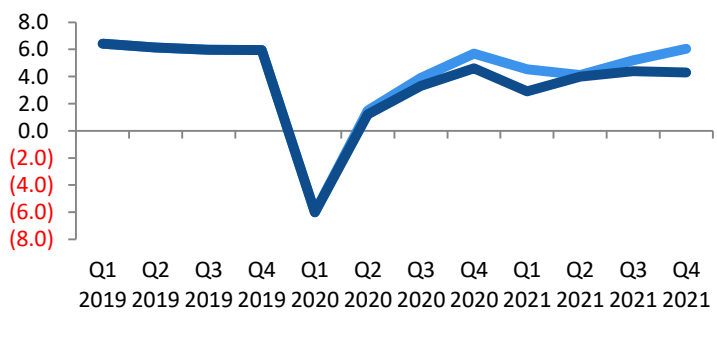
South Asia



Middle East



China

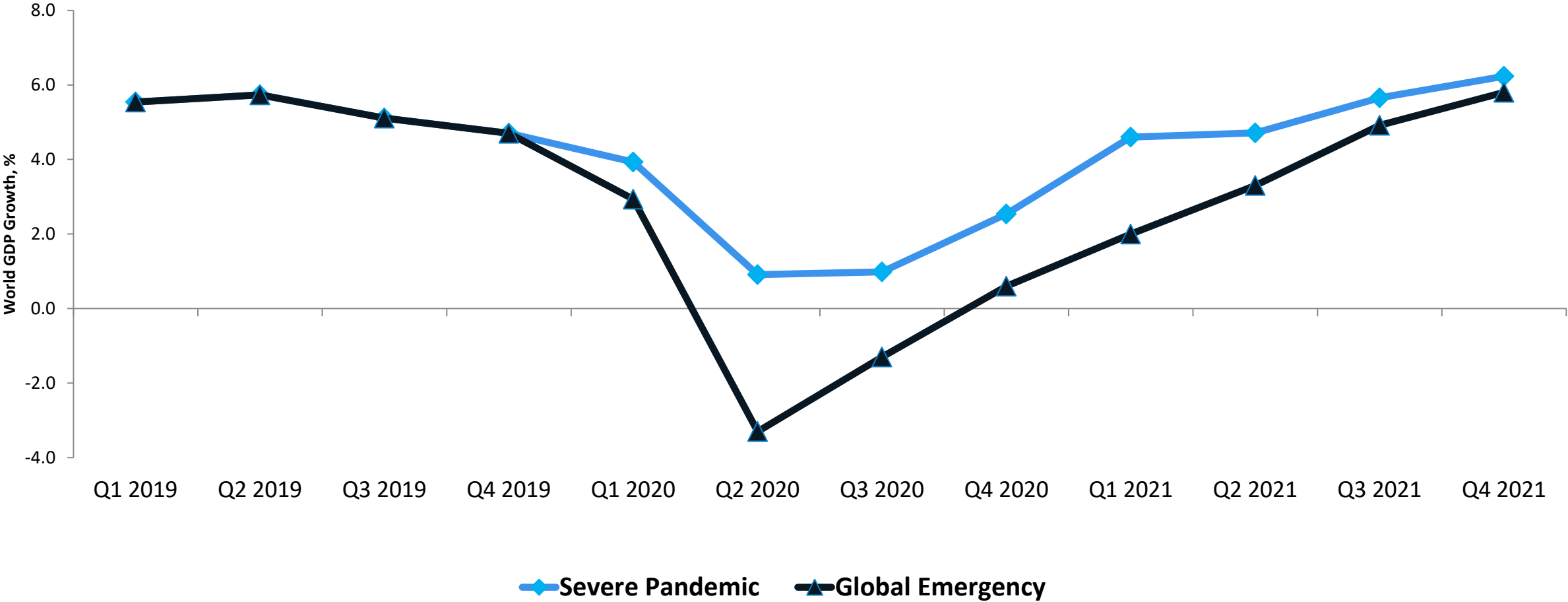


— Severe Pandemic — Global Emergency

Source: IMF; Worldometer; Frost & Sullivan

INDIA'S 2020 ANNUAL GROWTH COULD BE BETWEEN 1.1% AND -0.3%, DEPENDING ON THE SCENARIO, WITH 2021 RECOVERY TO 4-5% LEVELS

Quarterly GDP Growth, India, 2019-2021

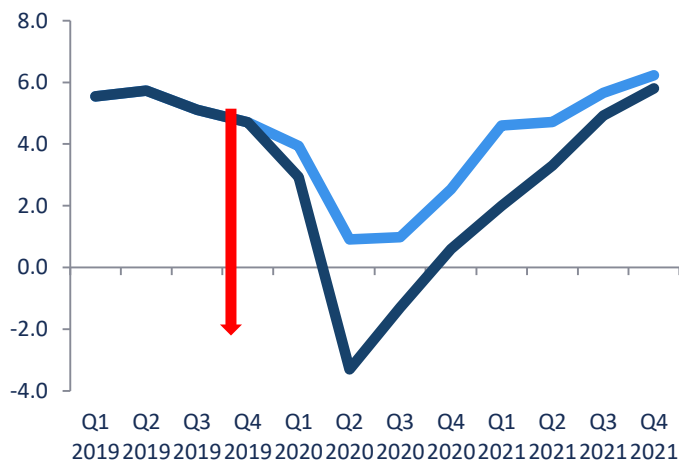


Source: IMF; Worldometer; Frost & Sullivan

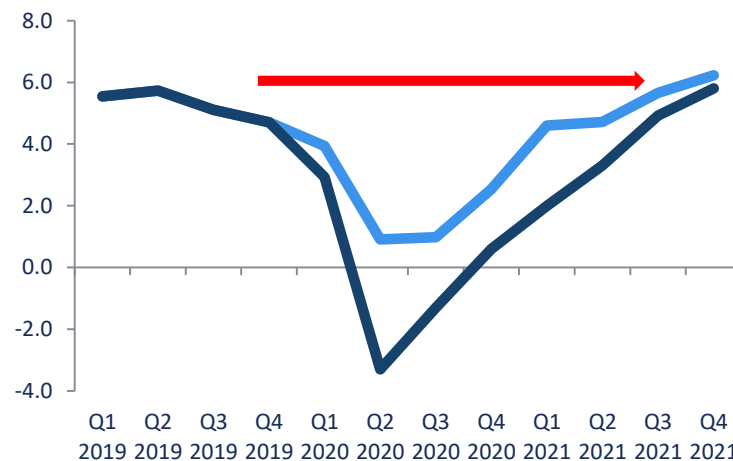
INDIA'S 2020 QUARTERLY GROWTH COULD SLIP TO AS DEEP AS -3.3%; SLOWDOWN/ RECESSION TO LAST TWO QUARTERS

Quarterly GDP Growth, India, 2019-2021

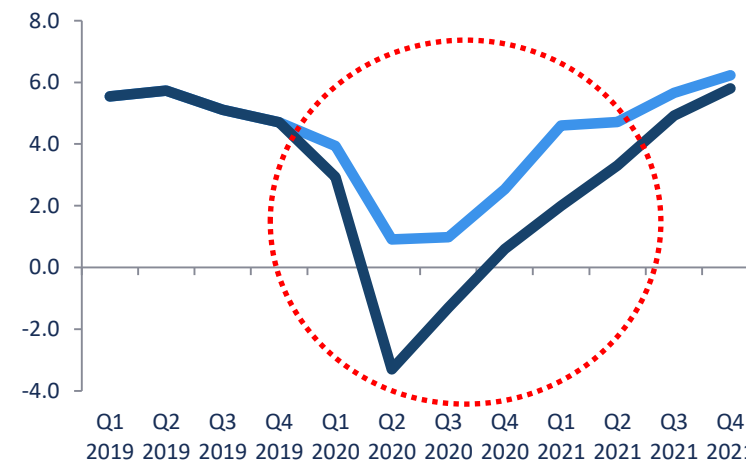
Depth of Disruption



Length of Disruption



Shape of Recovery

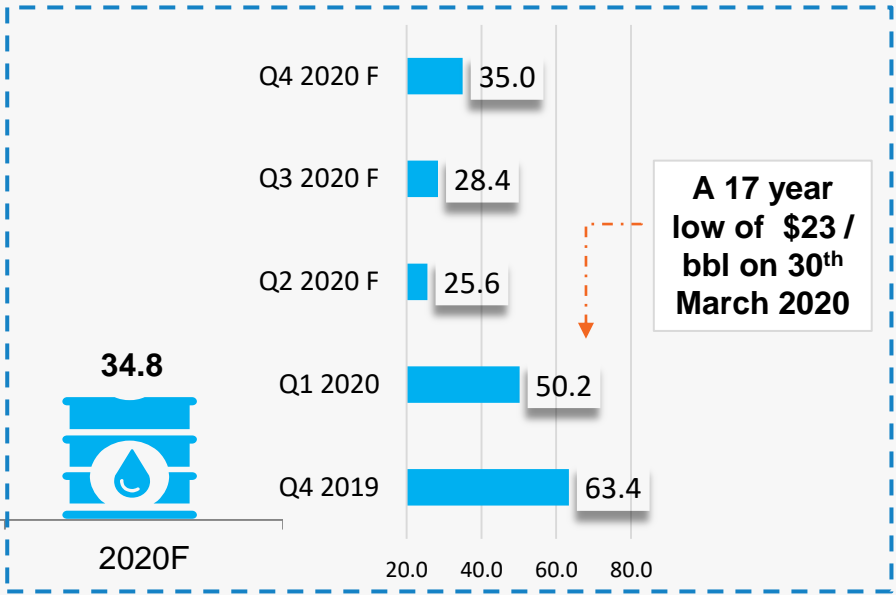
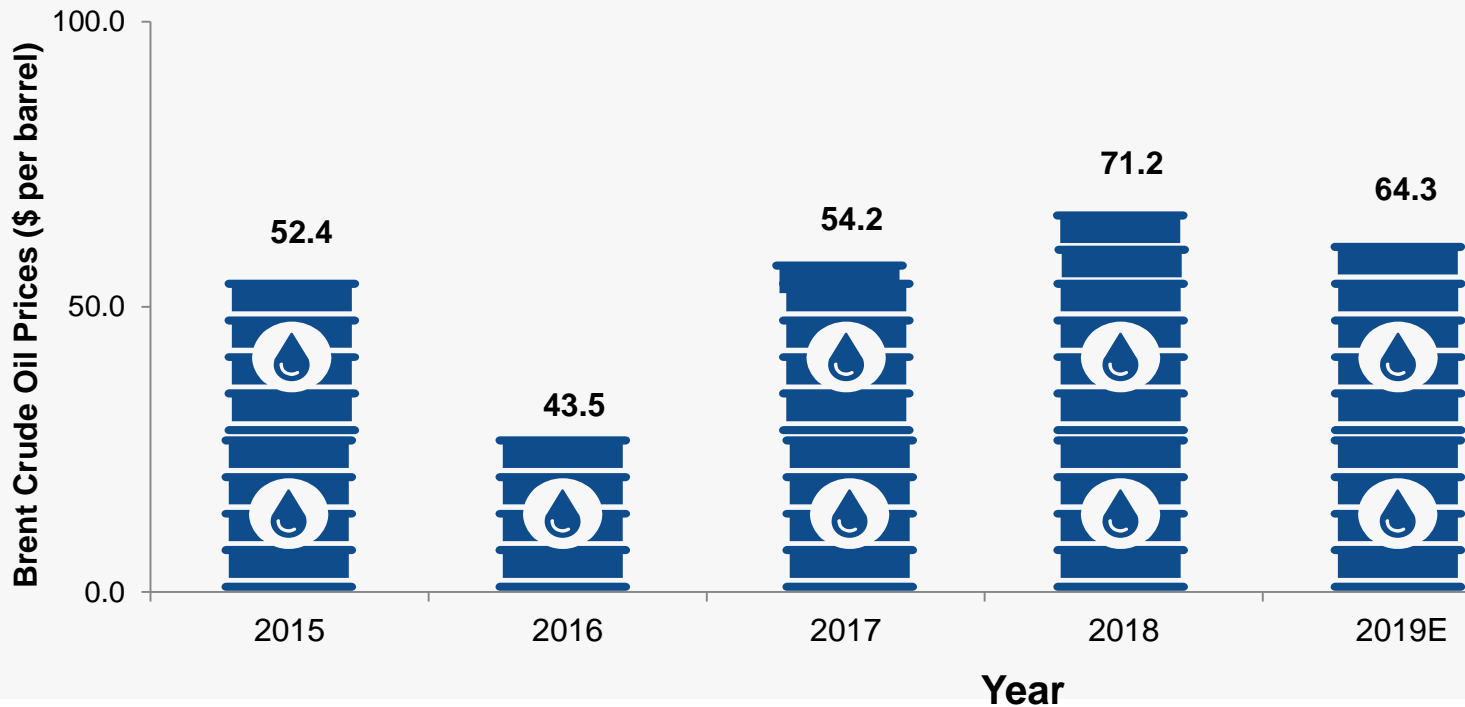


— Severe Pandemic — Global Emergency

Severe Pandemic	GDP growth to drop to 0.9% in Q2	Growth to slow to 0.9% and 1.0% in Q2 and Q3 respectively	A stretched V-curve. Recovery to start from Q3 2020. Full recovery by Q3 2021.
Global Emergency	GDP growth to drop to -3.3% in Q2	Technical recession in Q3 – Q4 2020	A stretched V-curve with sharp dent . Recovery to start from Q4 2020. Full recovery by Q4 2021.

2020 BRENT CRUDE OIL PRICES TO SLIDE \$34.8 OR LESS

Changing Business and Economic Scenario: Annual Average Brent Crude Oil Prices, Global, 2015-2020F



An expected pick-up in demand for motor and aviation fuel in H2 2020, should help an uptick in prices.

Source: International Energy Agency (IEA); U.S. Energy Information Administration (EIA) ; Frost & Sullivan

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Impact on the Global Automotive Industry

KEY CHALLENGES FACED BY THE AUTOMOTIVE INDUSTRY DUE TO COVID-19 OUTBREAK



'Stay at home' restrictions and economic uncertainty to push customers to limit mobility and defer purchase decisions



Reduced consumer traffic at physical showrooms

Drop in consumer traffic ~**70-80%** in physical showrooms due to social distancing, economic uncertainty and overall negative sentiment to bring the demand for vehicle sales to a standstill in the short-term



Up to 32%
drop in new vehicle sales
expected in 2020



Weakening demand for vehicle servicing and spare parts

A **3/4th** drop in consumer walk-ins for periodic maintenance. A **50%** reduction in parts enquiries in March 2020. Consumers tend to postpone periodic maintenance of vehicles to control virus spread.



Up to 16%
drop in revenue from vehicle servicing
and parts in 2020



Travel restrictions affecting short-term car rentals

More than 60% of the revenue from short-term car rentals are dependent on leisure and business tourists. Travel restrictions and general apprehensions about being out in public have limited demand for short-term car rentals.



Up to ~60% in
March
2020



General public reluctant to use shared mobility services

Government limiting passenger travel in metro carriages. Taxi use restricted to emergency rides and fear of being exposed to the virus in a shared mobility mode has seen a drop in usage of **ride-hailing, car sharing, metro and bus services.**

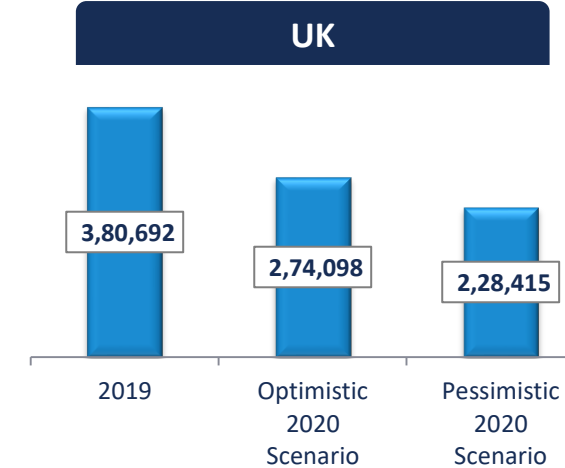
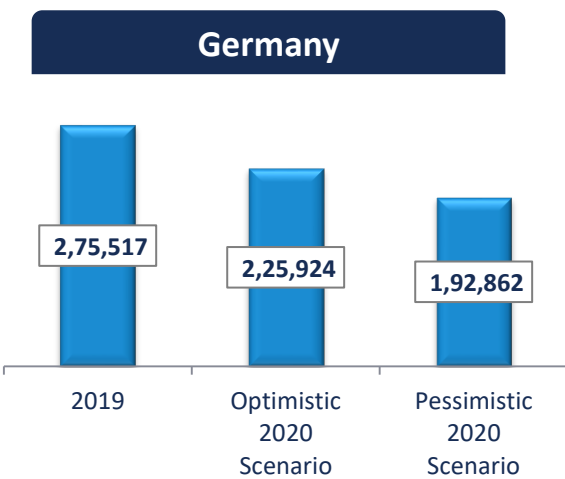
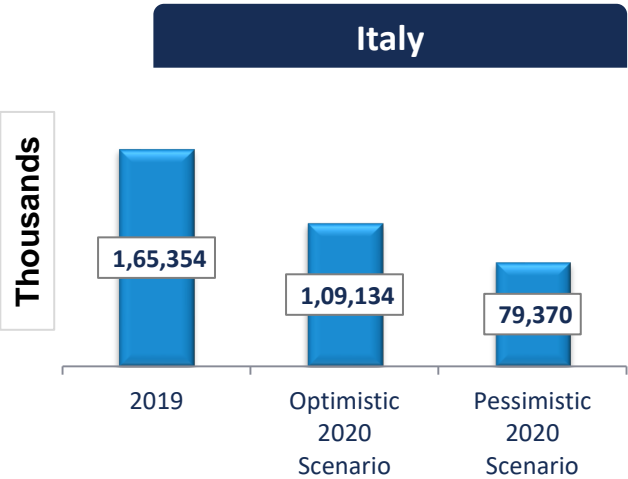
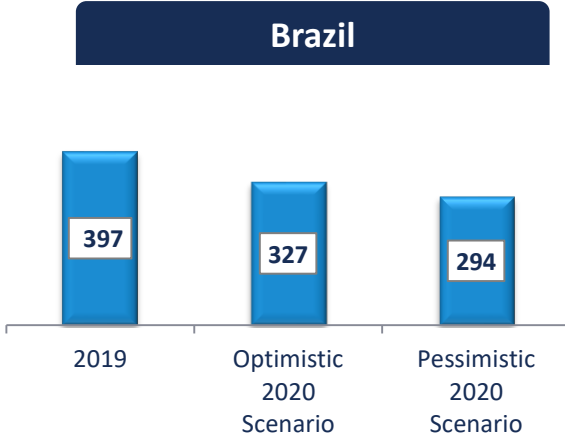
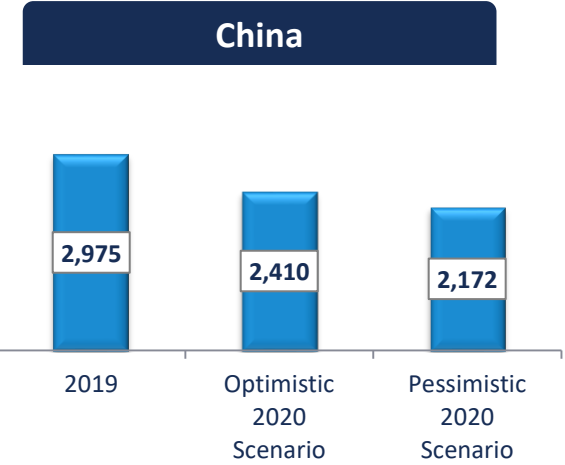
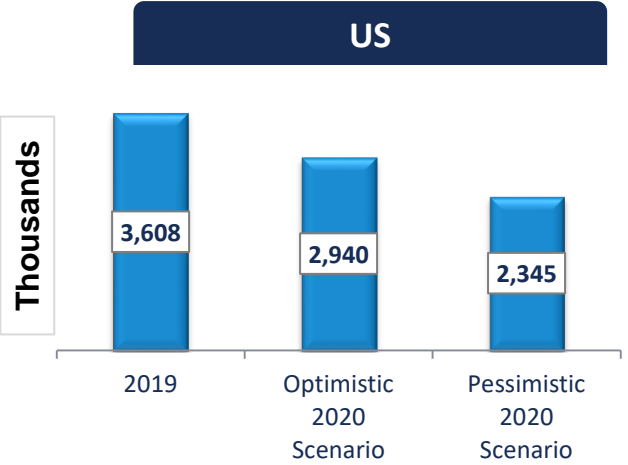


70-80% drop
mobility in Europe to
public transport hubs

Source: Frost & Sullivan analysis

THE PANDEMIC IS EXPECTED TO IMPACT THE EUROPEAN COUNTRIES THE WORST WITH ITALY AND SPAIN STARING AT AVERAGE FALL IN LCV SALES TO THE TUNE OF 35%-50% IN 2020

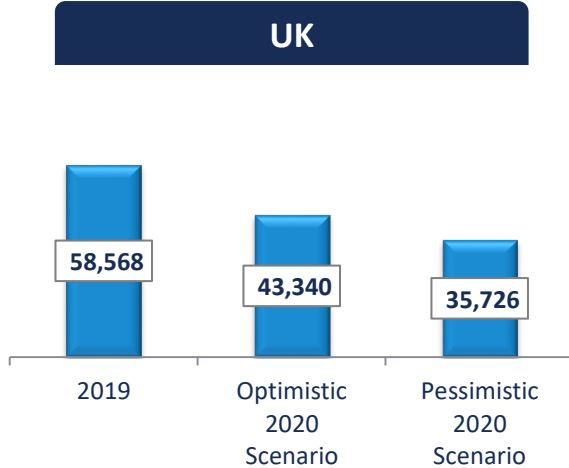
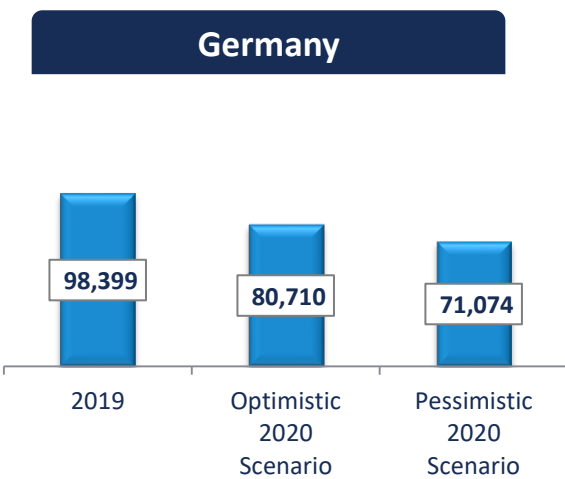
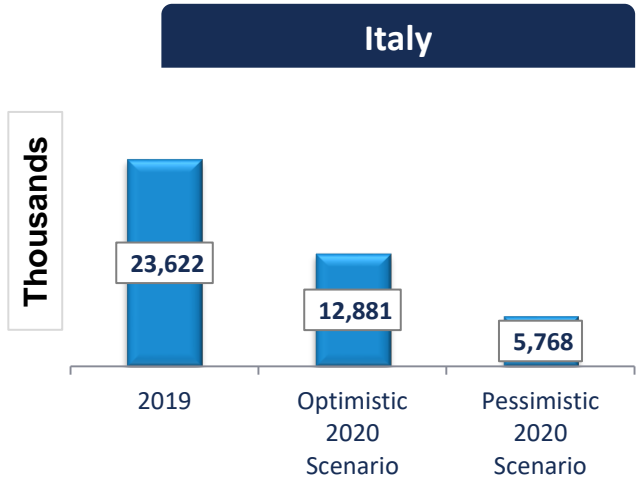
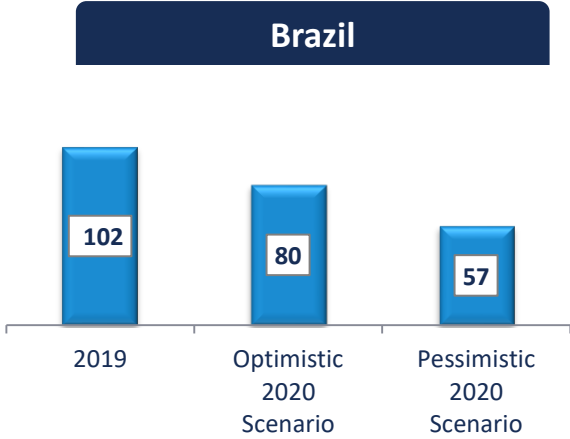
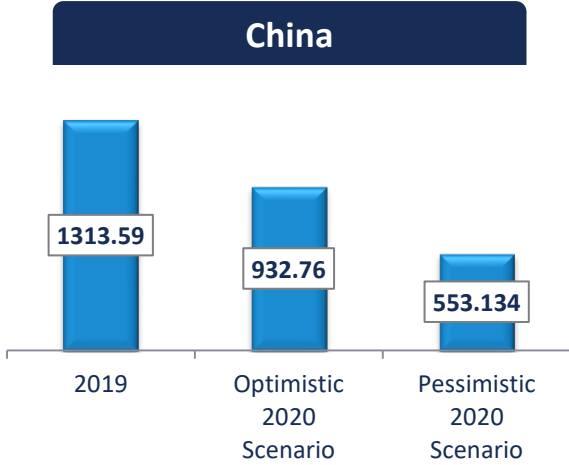
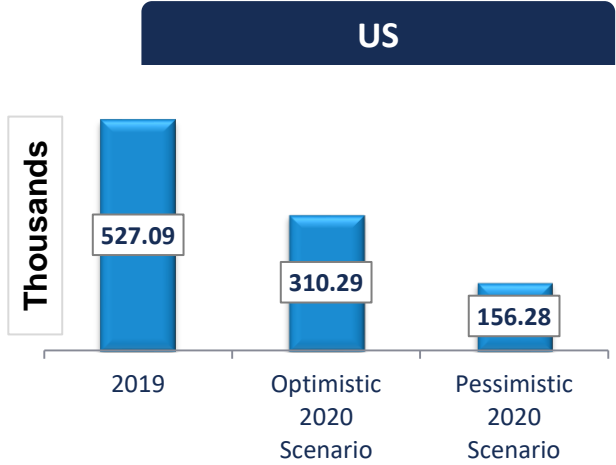
LCV OUTLOOK, GLOBAL



Source: Frost & Sullivan

IN US MARKET , COVID WILL FURTHER IMPACT THE EXPECTED DECLINE IN MD-HD SALES POST HISTORIC HIGH IN 2018 AND 2019

MD-HD TRUCK OUTLOOK, GLOBAL



Source: Frost & Sullivan

3

Impact on the Indian Commercial Vehicle Industry

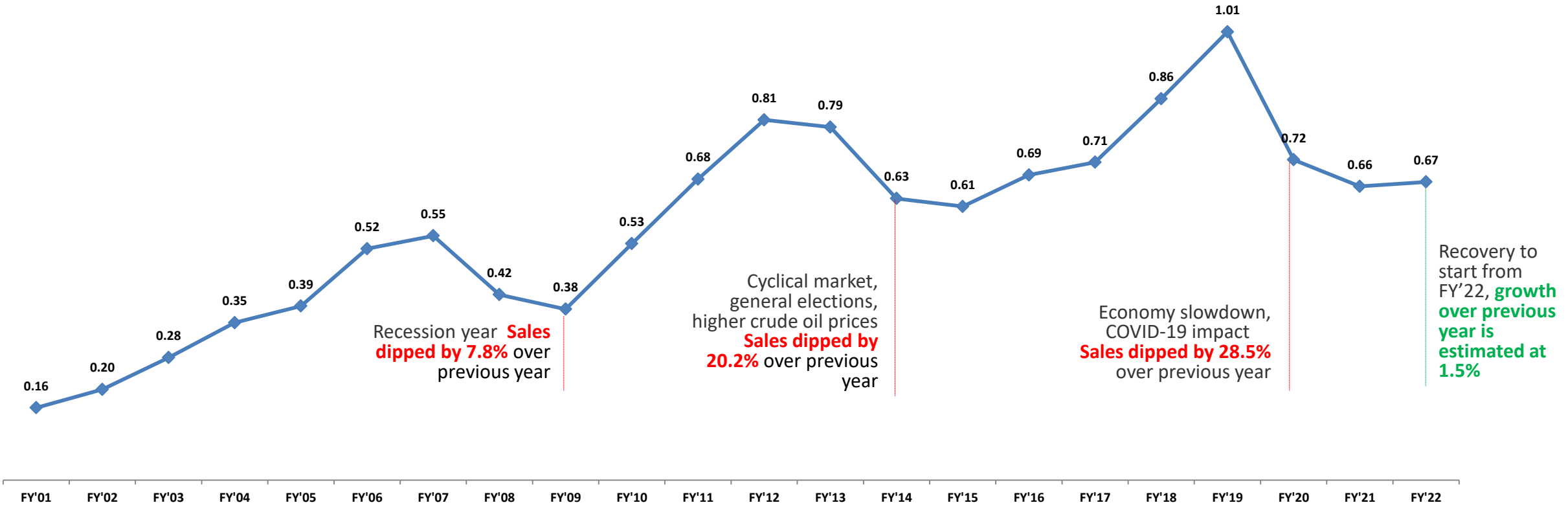
Trend analysis: Sales growth of Indian Automotive Industry

BS VI migration, low domestic demand and COVID-19 impacted on vehicle production

Impact on Commercial Vehicle sales India, FY'01 to FY'22



COMMERCIAL VEHICLE



Source: Frost and Sullivan Analysis, SIAM

IND Forecast for FY'21 – Optimistic Scenario suggests 10% reduction over FY'20

Recovery slowed down by varied levels of plant and business shutdown during Apr-May-Jun 2020 and corresponding GDP growth in India

- **GRADUAL CONTAINMENT (S1)**

- › Production loss for 30 days
- › GDP growth in tune of 1.5 – 2.5%

- **SEVERE PANDEMIC (S2)**

- › Production loss for 45 days
- › GDP growth in tune of -0.3 – 1.1%

- **GLOBAL EMERGENCY (S3)**

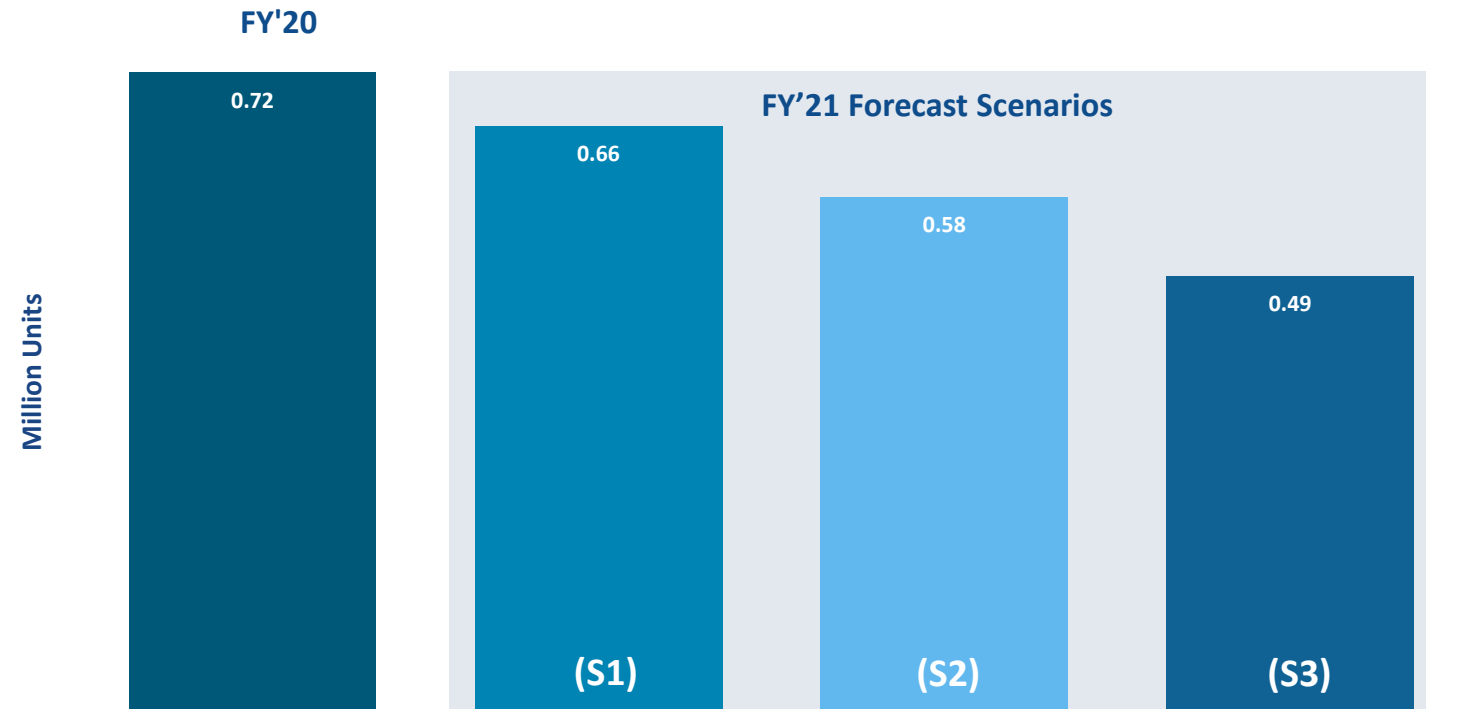
- › Production loss for 60 days
- › GDP growth in tune of -2 – -4.2%

*S: Scenario

FY'20: Financial Year (1st April 2019 to 31st March 2020)

FY'21: Financial Year (1st April 2020 to 31st March 2021)

COMMERCIAL VEHICLE INDUSTRY



Source: Frost & Sullivan analysis, SIAM

4

New Business Opportunity

Global Trends and Disruptive Transformation –Improved Sustainability

From Logistics models to transport solutions the market will see innovation in Technologies, in Services and Business Models

Urbanization



Urban **logistic opportunity** of **\$6.12 trillion** by 2025

Bricks & Clicks



By 2025, ~ **20%** of **retail** will happen through **online channels**

Connectivity and Digitalization



UBER for trucks – will generate more than **\$26.5 Billion** in revenue in 2025 (NA)

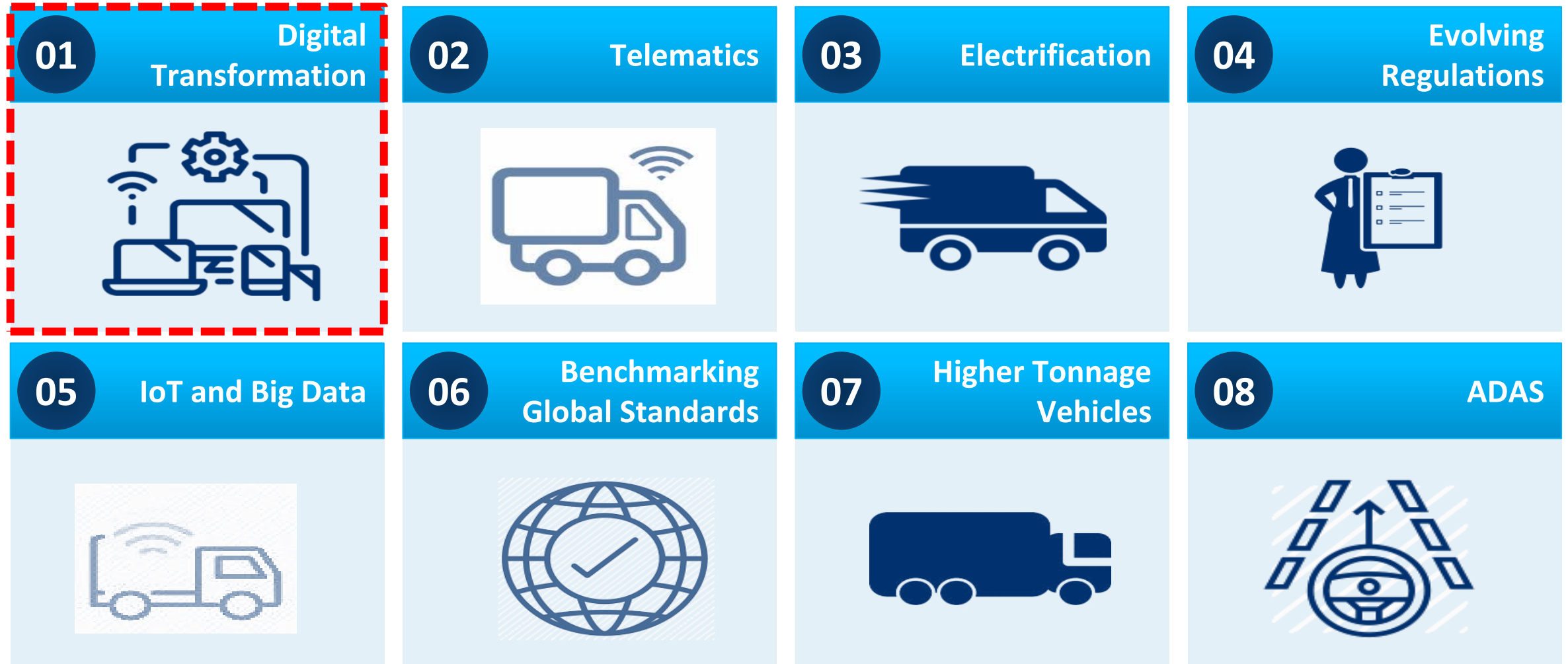
New Business models



>50 Million trucks will be **connected** by 2025 –visibility transforming logistics providers' decision making

Top 8 Trends Shaping the Future of India's CV Industry

Digital Transformation, Big Data, Telematics Electrification among the Top Trends shaping Future of Indian CV Industry

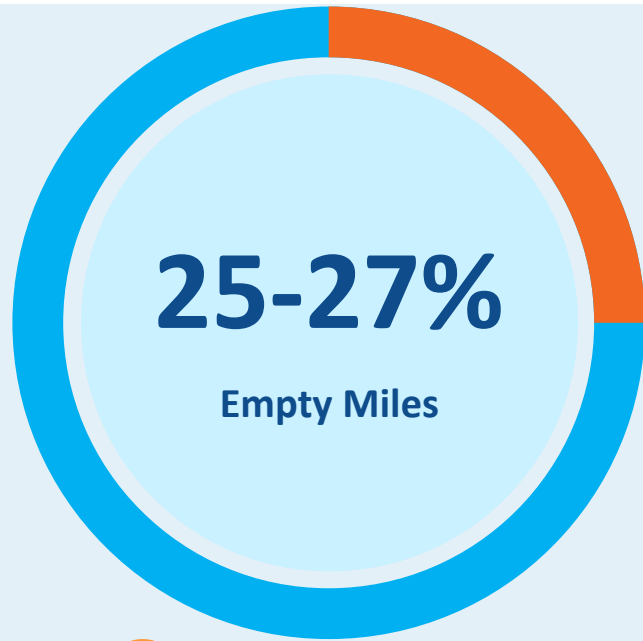


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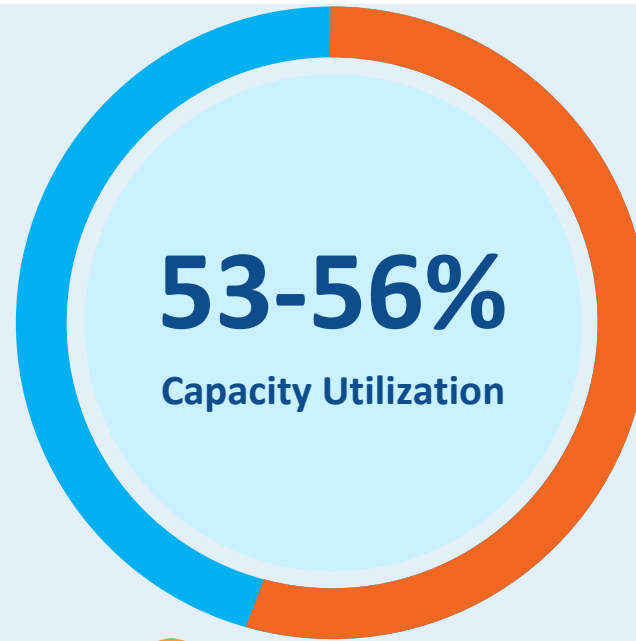
Image Source: Flaticon.com; Source: Frost & Sullivan analysis

Road Freight Capacity Utilization Inefficiencies

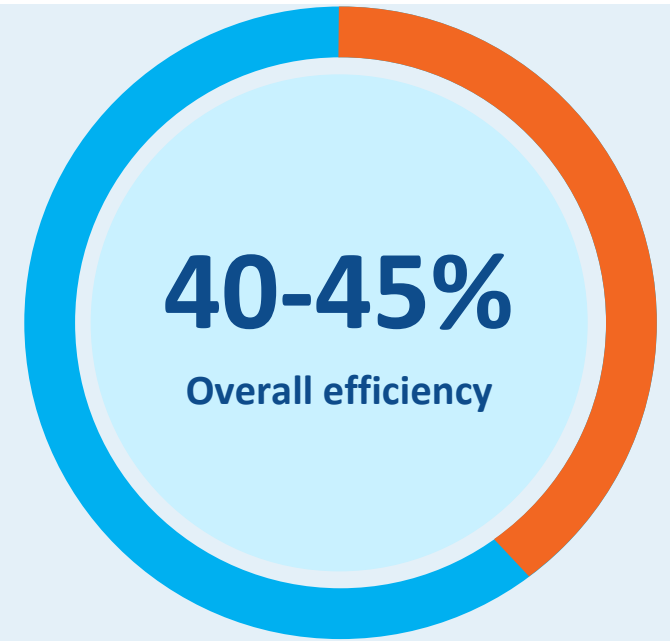
There are significant differences in the level of utilization between truck application, driven by the nature of the load and associated constraints



33 – 35%



43 – 45%



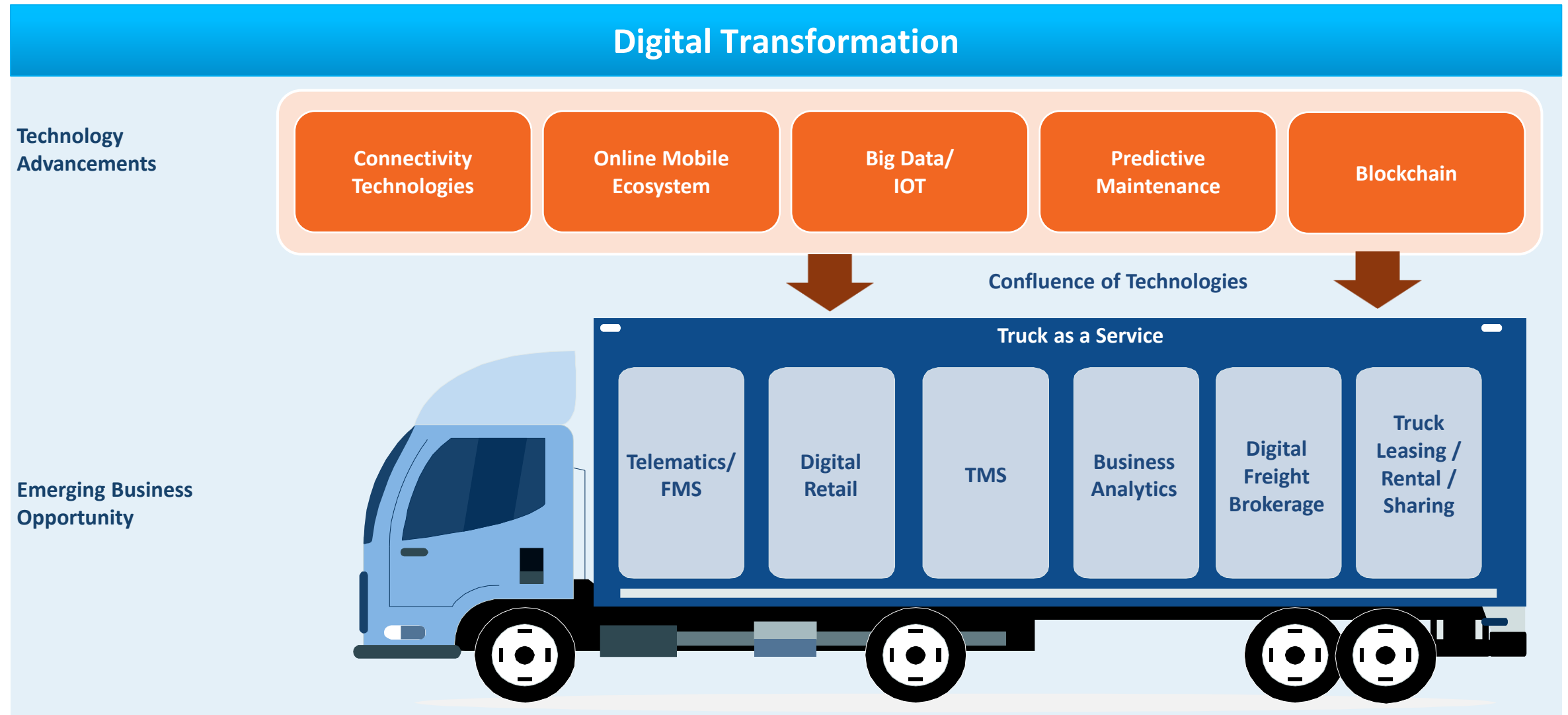
38 – 40%



Source: Frost & Sullivan

Truck-as-a-Service Opportunities

The confluence of technologies provides a platform to build service and solution-based revenue models - OEMs are transitioning from product or service to catering to the overall customer experience.



Source: Frost & Sullivan

Vehicle Scrappage Policy

CVs contribute to approximately 65% of the total vehicular pollution. The proposed policy aims to encourage voluntary scrapping of high-polluting old vehicles and subsequently increasing the replacement demand.



Scrappage Policy: Proposal, India

The ambitious vehicle scrappage policy laid down by the Government of India proposes mandatory disposal of vehicles termed as old and unfit for operation in Indian roads.

- No. of registered motor vehicles in India as of 2015 is 210 million, of which trucks and buses constitute approximately 5%.
- The move was hailed by OEMs to address sales in forecasted recessionary market environment.



Proposed Term:
20 years for CVs



Incentivization:
15%–20% subsidized rates for new vehicle purchase

Why?



Curb Pollution

Vehicular emissions contribute significantly to the overall pollution caused, making the air quality sustenance in urban areas increasing perilous that calls for immediate action to phase out highly polluting old vehicles out of the ecosystem.

Automotive sales is a vital indicator of progressing economy. Capping vehicle's end-of-life will produce cyclic replacement demand across all segments, which is expected to subsequently increase the production and sales of vehicles exponentially..



Vitalize Sales



Regulate Scrap Market

The vehicle scrap market is unorganized, where large volumes of vehicles carnage is done for the need of reusable components and metals, which are redistributed as unaccounted raw material back into the industry.

Taxes levied upon purchase of new vehicle on both manufacturing and purchasing parties are substantial source of government revenue to manage infrastructure and developmental activities. Increase in vehicle sales is expected to surge revenue accumulation.















Revenue



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Image Source: Flaticon.com;
Source: Frost & Sullivan

Impact Of covid-19 on CV Industry related Growth Opportunities

With digital retailing to witness unprecedented growth, OEMs and dealers need to plan their strategy in stages for a seamless transformation

Opportunity Segments	Supply Dynamics			Demand Dynamics			Market Dynamics		Impact Assessment [2020]	Recovery Assessment [2020]	Key Growth Opportunities
	Supply Chain Disruption	R&D Investment	Working Capital Pressure	Consumer Affordability	Customer Demand	Fear of Contamination	Government Relief Measure	Travel Restrictions & Country Lockdown			
Freight Aggregators 	NA	↓	↓↓↓	↑	↑↑	↓↓↓	NA	↓↓↓		Medium	→ Collaboration with OEMs, Fleet Operators
Connectivity 	↓	↓	↓↓	↑	↑↑	NA	NA	NA		Medium	→ Engine health and maintenance connectivity → AI, Block chain enabled platforms
Electric Vehicles 	↓↓	↓↓	↓↓	↓	↓	NA	↓	↓↓		Fast	→ Lesser impact as EV's in nascent stage → Dependency on imported parts → Revised financial benefits from govt.
Aftermarket & Vehicle Service 	↓↓	NA	↓↓↓	↑	↑↑	NA	↑	↓↓		Medium	→ Overdue service requirements → On-demand service models to surge → Rise in online parts
Vehicle Leasing 	NA	NA	↓↓	↑	↑↑↑	↑	NA	↓		Medium	→ Used CV Leasing could grow
Digital Retail 	NA	NA	NA	NA	↑↑↑	NA	NA	↑↑↑		Fast	→ Digitally generated leads and sales would gain prominence → Door step deliveries of new vehicles

Level impact:  Negative  Positive

Overall impact:  Negative Impact  Medium Impact  Positive Impact

Source: Frost & Sullivan analysis

Emerging Trends in the Auto Components Industry

The e-commerce Industry is expected to grow significantly in the near future with the growth of organised multi-brand workshops and garages, bridging the gap between OES and the informal sector



Emergence of eCommerce

E-commerce market driven by players like Boodmo and Spares Hub . High value systems to feature in online sales. E-commerce sales to contribute to **4-5%** of the components aftermarket revenue by 2025



Downstream Consolidation

Larger financially “stable” distributors with a national reach expected to **acquire and merge** with smaller regional players to maintain liquidity and financial viability



Transition b/w OPEX & CAPEX

Predictive maintenance and diagnostic service features increasing, driven by Telematics. **Subscription-based contracts** / service packages to drive sustainability



Growth of Multi Brand Garages

Consolidation in the independent multi-brand aftermarket garage space to be driven by technology, training and investments by OEMs and Suppliers



Localisation

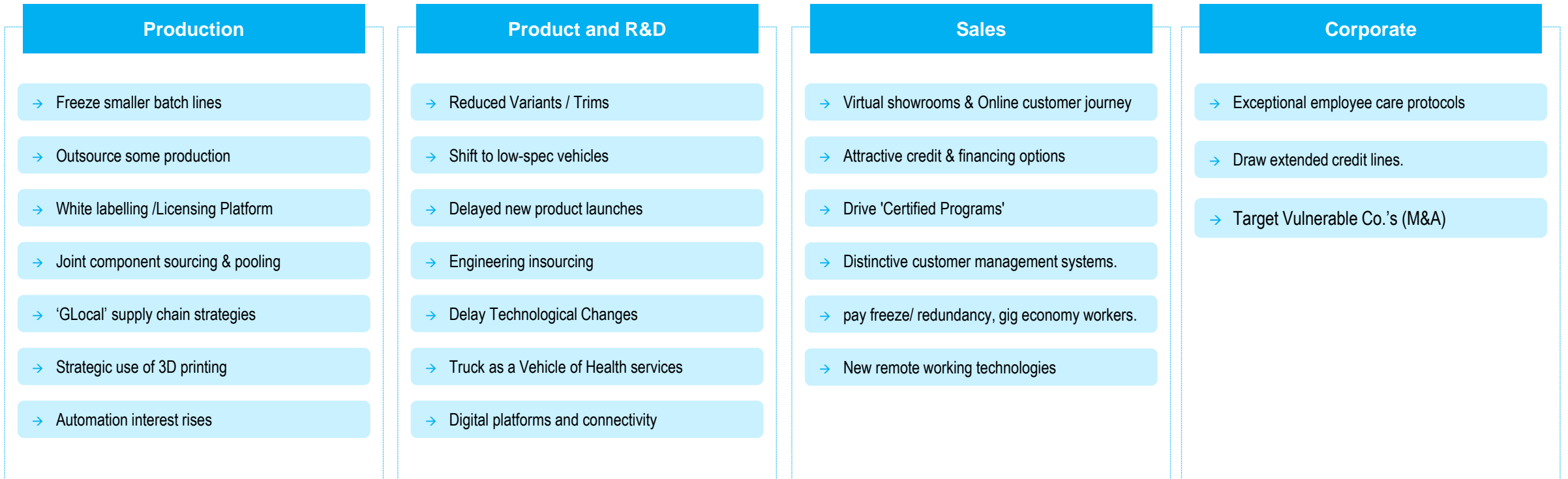
The dependency on China for auto components is expected to decline to about 15% from the current 27% and this would create an opportunity for a number of component manufacturers in India

Source: Frost & Sullivan

5

Risk Mitigation Strategy

OEMs Need To Work Towards Redesigning/ Revisiting Supplier Sourcing, Product Development and Launches



Portfolio Impact




Diminished Offerings for Customer (Less Variants)

“Frugal product” Vs “Highly Customized Offering”

Source: Frost & Sullivan

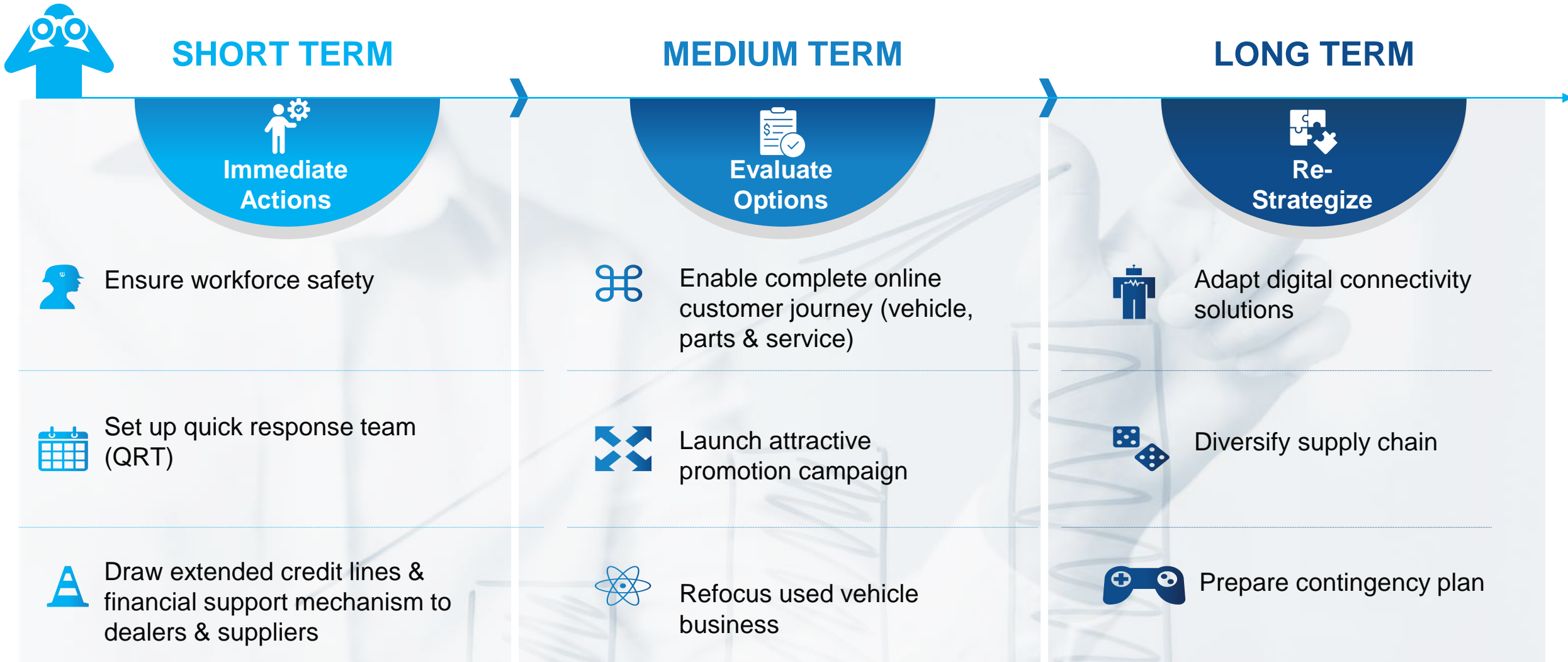
Likely OEM Mitigation Strategies

The OEMs are considering to keep a lean inventory at any given time and only produce in proportion to the sales, as and when they resume

Note: Relevant / Being Considered		ASHOK LEYLAND	TATA	Mahindra
 Finance	<ul style="list-style-type: none"> Financial support to dealers to boost liquidity 	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	<ul style="list-style-type: none"> Credit line extension measures 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<ul style="list-style-type: none"> Tax payment deferral or reductions and other fiscal benefits to preserve cash 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<ul style="list-style-type: none"> Access to redundancy funds to cover up to 80% of workers' salaries or salary cuts 	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
 Plant Implications	<ul style="list-style-type: none"> Working at reduced utilization – production cuts across all segments Promoting WFH for all corporate employees 	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	<ul style="list-style-type: none"> No employee/plant worker layoffs or retrenchments 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<ul style="list-style-type: none"> Limiting capital expenditure spend 	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<ul style="list-style-type: none"> Increased production to provide overseas capacity support 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<ul style="list-style-type: none"> Revamping of lines to help with medical equipment manufacture 	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
 Customer	<ul style="list-style-type: none"> Temporary free access to “paid subscriptions” 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<ul style="list-style-type: none"> Online sales services / Video chat for selecting or introducing products 	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<ul style="list-style-type: none"> Payment relief programs + new payment terms + extended payment periods + discounts on new vehicles 	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	<ul style="list-style-type: none"> Extension of warranty periods and support 	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Source: Frost & Sullivan

Focus On Decisive Action, Measured Strategy Alignment And Revised Long-term Roadmaps



Source: Frost & Sullivan

FOR ADDITIONAL INFORMATION



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