

professional

Essential reading for the Automotive industry

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INDUSTRY



Can the Indian auto industry afford another lockdown?

Just when industry was beginning to see the green shoots of recovery, the second wave of Covid-driven lockdowns across the country, starting with Maharashtra, is set to put a spanner in the works. We reveal the impact on vehicle manufacturers, component suppliers and the automotive supply chain **Page 16**

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 Fifth edition of India's leading aftermarket B2B trade fair goes digital, looks to connect buyers and sellers virtually **Page 50**

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FY2022 could see passenger vehicle growth but will be a 'catch-up' year **Page 11**

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Will Creta-based six- and seven-seater SUV win in the Indian market? **Page 8**

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haymarket

Lockdown spectre ha

Covid-19 is back to haunt India just when it seemed that infections had dramatically reduced and life governments are imposing lockdowns to break the transmission chain of the virus. Maharashtra has Is this the right way going forward? **Team Autocar Professional** finds out more.



IMAGE COURTESY: LMC AUTOMOTIVE

It is an eerie throwback to 2020 when Covid-19 announced its presence in India prompting the Centre to go in for the first of a series of rigorous lockdowns nationwide.

The auto industry, like the rest of the country, was completely caught off guard and things just began imploding in the months that followed. Factories laid off workers, slashed wages and millions of people in India's humongous unorganised sector walked back home in treacherous conditions.

Things slowly started getting back on track

and the auto industry, in particular, had cause for cheer as customers queued up for personal mobility options given the paranoia about using public transport. Just when it seemed the worst was over and daily infections had drastically reduced, the virus has reared its ugly head all over again.

Lakhs of people are now being infected everyday and it is estimated that the end of this month could see the figure reaching 250,000 or even more – clearly not a pretty picture. In the process, state governments really have no choice but to

It's yesterday once more in Mumbai, the financial capital of the country, as Maharashtra imposes the lockdown once again. And other states are following in the same vein.

With digital initiatives in place and implementation of operational safety procedures, the auto industry sees itself better prepared to deal with another lockdown.

impose lockdowns, curfews and whatever seems possible to break the chain. Maharashtra, Karnataka, Delhi, Punjab, Tamil Nadu and a host of other states have already begun tightening the screws even while the vaccination drive has kicked off in earnest across the country.

Whither auto?

What does this mean for the auto sector? Dealerships are the first casualty in a lockdown and when big consumption centres like Maharashtra, Delhi and Madhya Pradesh down their shutters, it means that

customers are not being able to access their new bikes and cars.

Market leader, **Maruti Suzuki** is clearly monitoring the situation carefully in Maharashtra which is a key market. "Another damaging wave of Covid can be detrimental to purchase sentiment. While we will continue to engage with consumers on the digital platform, if there is a complete shutdown of showrooms (as we see in Maharashtra) retails will be under pressure," says **Shashank Srivastava, Executive Director**. After all, the State contributes

Auto makers

was slowly getting back to normal. Daily infections are now breaching new levels and state have been the worst affected and being a key automotive hub has little choice but to impose lockdowns.



Maruti Suzuki's Shashank Srivastava: "Another damaging wave of Covid can be detrimental to purchase sentiment."



Hyundai Motor India's Tarun Garg: "As showrooms in the areas under lockdown close, it affects the overall business scenario."



M&M's Rajeshwar Tripathi: "Our employees continue to work from home and our plants remain operational with strict safety protocols."



Honda Cars India's Rajesh Goel: "The resurgence of cases is a concern. Some regions are imposing lockdown and this can impact recovery."



Citroen India's Roland Bouchara: "The only way to get around this pandemic is the vaccination and we hope we will be in a better situation soon."



ACMA's Deepak Jain: "The supply chain is a complex, interdependent tiered system. Failure of one supplier can lead to a stoppage of the system."



Sona Comstar's Sunjay Kapur: "In case the situation does not improve rapidly, companies are looking at another mass labour exodus."



Cooper Corp's Farrokh Cooper: "The pandemic's second wave has dashed expectations of a faster recovery in all major sectors."



Brose India's Vasanth Kamath: "For our onsite associates, we have all the necessary procedures in place to operate safely."



Apollo Tyres' Neeraj Kanwar: "The company is better prepared to handle the 'recurring waves' that are being witnessed now."

to about 11 percent of passenger vehicle industry sales and it is "obviously a challenge" if operations here are affected.

His counterpart at **Hyundai Motor India, Tarun Garg, Director, Sales, Marketing and Service** admits that the rising number of Covid cases is a matter of concern. "It brings in uncertainty and affects customer sentiment as well. As many showrooms in the areas under lockdown close, it affects the overall business scenario," he says.

Yet, Garg also looks at the positive side where demand

has been good and March was the eighth consecutive month of growth for the industry. Covid also imparted valuable lessons about "not making very long-term plans" but monitoring the situation on a monthly basis.

In the process, this has ensured greater flexibility where companies like Hyundai have managed to "adjust as per market

Even as companies continue to adhere to strict Covid-appropriate norms, the growing incidence of lockdowns across many states will see industry witness a production slowdown.



INTERVIEW BAL MALKIT SINGH, CHAIRMAN-CORE COMMITTEE, ALL INDIA MOTOR TRANSPORT CONGRESS

What has been the impact of the lockdown in Maharashtra on the trucking community?

The present situation has resulted in the overall economic activity in the state to come to a grinding halt. Only essential services are functioning.

The trucking industry was already fighting hard to come back to its feet since last year and we had just reached around 70-80 percent of capacity utilisation. It is now back to 40-50 percent. The trucks plying are mainly serving essential services but in terms of industrial goods, the demand is expected to go down as activities stop.

In this scenario, we are estimating that the losses for the industry are around Rs 315 crore per day, in Maharashtra alone. You also have to understand that the trucking industry is the one which pays taxes in advance, be it road taxes, annual tax, fitness and insurance among others. When one accounts for all these factors, it has a significant impact on our working capital.

It will also make it difficult for truckers to pay their EMIs. It is

estimated that each truck provides livelihoods and supports four families (trucker, driver, cleaner and mechanic). What we foresee is that it will be difficult for us to manage our cash flows, working capital as well as to pay salaries to the drivers, staff and extended family members such as accounts and loading staff.

We are speaking to the government if some financial relief can be provided to the trucking community. While something has already been done in terms of documentation renewal till June, we would request if it is possible for deferment on loans for a reasonable period. We are not asking for loan waivers.

Are you also asking the government to allow younger truckers (under 45) to be vaccinated on a priority basis?

We have already communicated to the government that truckers are always on the move, travelling from one location to another in the country, which makes them quite vulnerable. On top of that it is quite difficult for them to



'We are estimating that the losses for the trucking industry are around Rs 315 crore per day, in Maharashtra alone.'

park their vehicles and go to designated government hospitals to get vaccinated.

We have requested that the government should have vaccination centres in truck terminals, petrol pumps, highways, mandis and ports where even big corporates can help out in vaccinating the truckers. It will be quite difficult for them to enter city radiuses on the move to get vaccinated.

Are you concerned about the impact this lockdown could have on new truck purchases?

In this scenario, no one

will dare to purchase new vehicles. For instance, of the 10 vehicles that I have, 6-8 are already lying idle. And the ones that are operating, their usage is also not quite optimal. The vehicles that used to ply 900-1,000km do not get enough load (business) when coming back. This the case across India where trips take almost 3-4 days.

So earlier, if the trucks were making four trips to Delhi, they now hardly complete 2 to 2.5 trips. The viability of the vehicles being deployed is also impacted. On top of that, the cost of diesel, toll and taxes has gone up significantly while freight rates have not.

The impact is going to be for everyone in the industry, irrespective whether they are big or small.

Has there been any financial support from your clients or the government?

Till now, there has been no support forthcoming. While the lockdown in Maharashtra has just been enforced, we will speak with the stakeholders and see if something can be done to support the industry. Fortunately, we are not seeing truckers heading back to their hometowns. There is no need to press the panic button at the moment.

NILESH WADHWA



Resurgence of Covid cases and lockdowns in some states resulting in lower capacity utilisation across trucking industry.

demand". For now, things are not so dire but "we are watching very closely to see any impact unfold". The other piece of good news is that digital initiatives have now gathered pace and dealers are better placed to contact customers even in a lockdown. "Our supply chain too has become more agile and we can respond much faster to a situation," says Garg.

As for Tata Motors, which has been posting brisk numbers in recent months, there is no visible impact yet on its operations in Pune. In a statement, the company has reiterated that the



Schaeffler India's Sanjeev Saxena: "Even the government is trying to ensure business continuity. One does not plan for a pandemic, rather respond to it."

Maharashtra administration has been a great supporter when the overnight curfew was imposed. "Industries



Association of Indian Forging Industry's Vikas Bajaj: "There are concerns about the second wave's longevity and another worker exodus as happened last year."



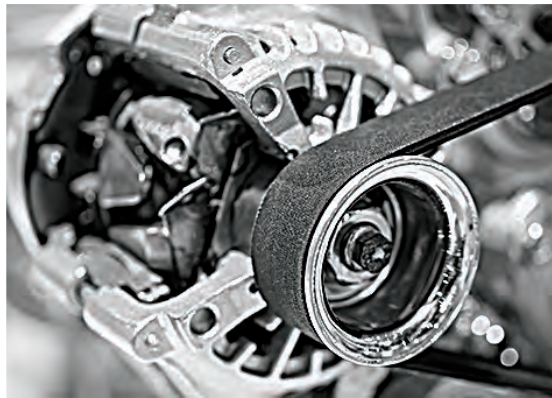
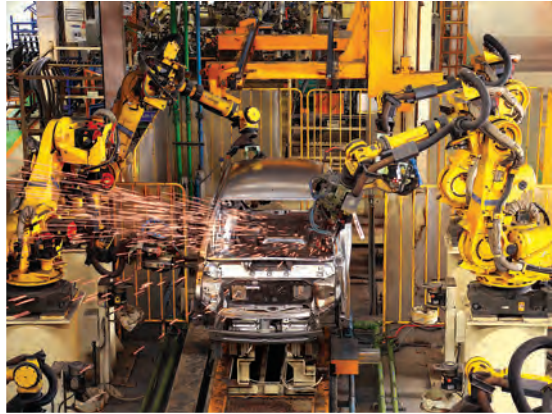
Federation of Chakan Industries' Secretary, Dileep Batwal: "Orders are down by 10%, absenteeism has increased by 5%. It may get worse in the coming days."

have been allowed to operate and employees are able to commute without hindrance by following

necessary Covid 19 protocol," it says.

Additionally, employees on the shop floor are being constantly trained to follow Covid guidelines while there is "stringent screening" at all gates to detect any symptomatic cases.

Another long-time resident of Maharashtra, **Mahindra & Mahindra**, is carefully monitoring the second wave of the pandemic. According to **Rajeshwar Tripathi, Chief Human Resources Officer**, the company continues to adhere to the protocols laid out by the



A Covid-impacted FY2021 meant that India Auto Inc produced a total of 22,652,108 vehicles across categories, down 14% YoY.

Total vehicle sales in FY2021 were 18,615,588 units, down 13.6%, which also has a ripple effect on component suppliers.

government authorities. "Our employees continue to work from home and our plants remain operational with strict safety protocols," he says.

Beyond Maharashtra, **Honda Cars India** with operations in the NCR and Rajasthan is also keeping a careful eye on the mounting infections. After all, lockdowns in key markets are not the best of news when it comes to wooing customers at dealerships.

"The recent resurgence of cases is concerning and we can already see some regions imposing lockdowns and night curfews which can have a bearing on industry's recovery," says **Rajesh Goel, Sr VP and Director, Marketing and Sales**.

From his point of view, it is important to ensure health and safety measures but "if that can be done along with continuity of business", it can become a win-win

situation for everyone.

Going down south, **Roland Bouchara, Senior VP, Sales & Marketing of Citroen India**, is as worried since there is no telling when similar lockdowns may happen in Tamil Nadu which is home to the company's Citroen range. The plant is located near Chennai which is also throwing up a whole lot of new infections.

"We are all concerned by Covid. The only way to get around this pandemic is the vaccination and we hope we will be in a better situation soon." As he explains, it eventually boils down the human ability to survive in a crisis. "You need to be creative and increase productivity."

For now, even while things look grim, manufacturers are hoping that there is no encore of last year when the lockdown just threw life out of gear and shaved off a

OXYGEN BLUES

WITH THE DEMAND for oxygen surging, Maharashtra's public health department has recently directed oxygen manufacturers to divert 80 percent of their stocks for medical use and retain the balance for industrial purposes. With cases now rising rapidly, the State government is now considering diverting all industrial use of oxygen supply for medical use, said Chief Minister Uddhav Thackeray in a press meet. If this happens, it could have a fallout on the automotive industry which uses oxygen for various manufacturing processes. When a similar order was passed last year, prices for oxygen had shot up in the black market.

considerable percentage of GDP. Now, both the Centre and States have learnt their lessons but there is still the fear of the unknown. What if cases jump to over 300,000 daily by May?

Slowing down of growth

In such a grim scenario, as lockdowns become inevitable, companies will have no choice but to cut back production and keep pace with the realities of the market. Further down the supply chain, component makers will also slash their supply schedules and this will percolate further downwards to the already struggling medium and small scale enterprises.

As the wheels start to slow down, companies (especially the smaller and more vulnerable ones) will still have to contend with overheads in the form of wages, electricity, material costs and so on. The last thing anyone

wants at this time is to go in for salary cuts and layoffs – these dominated the proceedings of 2020 – but manufacturers will face little choice if the infection tally increases and lockdowns become the only way out for State governments.

For now, a bulk of the cases are being reported from Maharashtra, Chhattisgarh, Karnataka, Uttar Pradesh, Tamil Nadu, Kerala, Delhi, Madhya Pradesh and Gujarat but it is only a matter of time before more States join the list. After all, West Bengal is still in the midst of voting and once the proverbial lockdown follows, the real face of Covid-19 will surface.

"It is impossible to conceive that it is only Maharashtra that is the hotbed of infections. The real picture will soon emerge in Assam, West Bengal, Tamil Nadu and Kerala where elections were happening with huge crowds and no masks," says an industry official. When that happens, all hell will break loose.

Farrokh Cooper, Chairman and MD of the Satara-based Cooper Corporation, believes that severe lockdowns should be avoided. "However, the pandemic's second wave has dashed expectations of a faster recovery in all major sectors. Supply-side issues will also have an effect on core inflation," he says.

Vasanth Kamath, CEO, Brose India with operations in the Pune area, says the rapid spread during this second wave has been a cause for concern. "We have limited the number of people coming in everyday. For our onsite associates, we have necessary operating procedures in place to operate safely," he adds. Kamath is hopeful that all efforts now underway to curb the spread will lead to a return to "normal" within the next quarter.

Industry observers point out that Maharashtra's guidelines are quite complex where vehicle movement is allowed but services and spare part shops have been directed to remain shut. Likewise, while OEMs and suppliers can continue to roll out vehicles, retailers are unable to sell them.

Dealers say that nearly 30,000 cars and 80,000 two-wheelers were earmarked for deliveries in Maharashtra between April 13 (on Gudi Padwa, the New Year) and 22 April (Ram Navmi) but this will not happen. **The Federation of Automotive Dealers Association (FADA)** had requested the State government to permit dealerships to operate with 50 percent manpower but this seems unlikely given the massive outbreak of infections. It is not as if the solution can come from online buying alone because when it comes to buying a vehicle, it is an entire family that makes the trip to the showroom. After all, this is a sentimental occasion and an online purchase does not quite make up for the actual dealership experience.

Thus far, there is no serious impact on the auto component supply chain as was the case last year when the entire country went into a lockdown. This was also the time the auto industry reported zilch sales in April, a historic first and something that it would rather not revisit. Lessons have been learnt along the way but there is still a degree of anxiety that ancillary suppliers will come under pressure.

"The automotive industry supply chain is a complex, interdependent tiered system. Failure of one supplier can lead to a stoppage of the whole system," cautions **Deepak Jain, President, Automotive Component**

Manufacturers Association of India.

The concern is echoed by **Sunjay Kapur, Chairman, Sona Comstar** who refers to the worrying situation on supply chain management and migrant labour. "We are already witnessing semi-lockdowns being imposed in different parts of the country. In case the situation does not improve rapidly, companies are looking at another mass labour exodus," he cautions.

If this were to happen, it will create a shortage of workers at factories, increase labour costs and also disrupt production schedules. The bright side, however, is that the pandemic has taught new ways of managing business and "also accelerated the adoption of smart factory technologies, pushed robotic production and digitalisation".

Neeraj Kanwar, Vice-Chairman and MD, Apollo Tyres, is confident that the company is better prepared to handle the "recurring waves" that are being witnessed now. "Over the past year, we have adapted and adjusted in almost all facets of the organisation from the way we work to how we communicate, and to how we sell with a strong flavour of digitalisation," he says.

The grim reality to be reckoned with is that the graph of cases "seems to be rising very quickly". OEMs are looking at building their inventories to the extent possible, fearing that the lockdowns may intensify nationwide and "there is lesser workforce available due to restrictions on movements".

It is also Kanwar's view that with better preparedness this time, there will be a further fillip to growth of small commercial vehicles and pick-ups thanks to more traction in e-commerce. "As the movement of goods

THE GOOD AND NOT-SO-GOOD NEWS

ICRA ESTIMATES THE revenue decline for the component industry to be limited to 6-8 percent in FY2021 supported by the better-than-expected demand pick-up across most segments, as against the 12-15 percent estimated earlier. Pass through of commodity prices and change in emission norms has also resulted in 4-6 percent increase in realisations, partly supporting revenue growth during H2 FY2021. The

rebound in FY2022 is expected to be strong at 20-23 percent, benefiting from demand pickup, low base of FY2021 and impact of commodity prices on realisations. However, this would come on a low base in the first quarter of FY2021 when industry revenue collapsed by nearly 60 percent. Headwinds from disruption in automotive production due to supply chain constraints (primarily due to the global semiconductor shortage)

could play spoilsport in the first quarter of FY2022 and even beyond. In addition, localised lockdowns due to the recent spike in Covid-19 infections could also derail the growth momentum for the industry as it is estimated that footfalls to dealerships may shrink. Despite the strong revenue growth during FY2022, the overall revenue CAGR during FY2020-2025 is likely to remain modest between 7-9 percent, as per the ICRA report.

would also continue, even if there is a lockdown, the commercial vehicle segment is also least likely to get impacted," he says.

Sanjeev Saxena, President, Automotive, Schaeffler India, says the auto industry has been doing well lately despite constraints like container shortage and rising raw material prices among others. Even while the second wave has struck with lockdowns in Maharashtra and restrictions in other places, people have understood that industrial activities need to continue. "Even the government is trying to ensure business continuity," he adds.

As for the component industry, Saxena says it is important to be flexible, agile and respond quickly to a dynamic situation. "In conclusion, one does not plan for a pandemic, rather respond to it."

In the supply chain map, Maharashtra, Karnataka, Tamil Nadu, Delhi-NCR region and Gujarat are among the key hubs and any lockdowns here will severely impact the entire automotive ecosystem. It is only understandable that there is a great degree of anxiety all around with stakeholders worried that lockdowns may well end up

dominating the theme for the remainder of the year.

"There are concerns about the second wave's longevity and another worker exodus as happened last year," says **Vikas Bajaj, President, Association of Indian Forging Industry, Dileep Batwal, Secretary, Federation of Chakan Industries** (in the Pune area), says orders in the region are down by 10 percent on an average while absenteeism has increased by around five percent since smaller companies are finding it difficult to arrange travel for their workers. "It may get worse in the coming days," he says.

The auto industry will be hoping that things do not spin out of control all over again. The remarkable recovery last year was also a reminder that economic growth cannot be stalled especially in a country like India where per capita income levels are still little to write home about.

Yet, in the constant debate of lives versus livelihoods, political choices are not always the easiest to make. "You are damned if you do and damned if you don't," says a senior auto executive. ■

(Inputs from Shakhar Abdi, Mayank Dhingra, Sumantra Barooah & Nilesh Wadhwa)

Lockdown in the major auto hubs can severely impact the entire automotive ecosystem in the country. The auto industry will be hoping that things do not spin out of control all over again.