

Impact of Covid-19 on Automotive Industry

PHARKADE VINIT PRAVIN
MODEL COLLEGE DOMBIVALI EAST

Abstract - The COVID-19 pandemic has pushed humanity and the global economy into a crisis not seen since The Great Depression. In their efforts to curb this pandemic, the Indian government, like many others, has enforced a national lockdown. While the lockdown may have helped limit the spread of the virus, it has severely affected the economy, disrupting the entire value-chain of most major industries in India and the automotive industry is no different. In this research will we look into what the Automotive Industry had faced and impacts of pandemic on it and how this industry managed to survive the pandemic.

Keywords- Exports, Hyundai, Lockdown effect.

INTRODUCTION

EARLY CRISIS

The automotive sector had already undergone considerable slowdown over the last 12-18 months due to structural changes beginning with the goods & services tax (GST), shift to shared mobility, axle-load reforms, the switch from BS 4 to BS 6 transition, liquidity crunch, etc. The COVID-19 lockdown has had a multiplier effect – the industry has almost been at a complete standstill since March 24. A prolonged truncation of consumer demand due to the lockdown has significantly affected auto manufacturers' revenues and cash flows.

In response, most companies are starved of R&D funding to sustain core operations, and potentially setting back the progress made on alternate fuel and mobility technologies by two to four quarters. Eventually, some companies may even take a strategic call to exit unprofitable markets and vehicle segments.

MAJOR CONCERNS

Auto dealers have been unable to deliver vehicles during the lockdown phase, and have reported 30-45 days of finished goods inventory, likely to be heavily discounted post-lockdown. Further, with BS 6 sales mandated

from 10 days after lockdown ends (and sale of 10 % of existing BS 4 inventory until then), dealers face a significant burden to liquidate unsold BS 4 inventory, worth Rs 6,300 crore.

OEMs will need to financially support dealer groups, further stressing their own balance sheets. Auto suppliers have a high dependence on migrant labour, whose absenteeism is expected to further delay revival post-lockdown, resulting in a domino effect on the entire value chain. Suppliers facing liquidity issues may succumb to deteriorating market conditions, causing widespread disruption across the entire manufacturing ecosystem.

Captive finance companies are also likely to face the brunt, as loan defaults are likely to shoot up, and new loans are expected to drop, given the difficulties in determining customers' creditworthiness, further denting the firms' profitability. Lastly, the lockdown is likely to put a strain on mobility solutions, used-car, and aftermarket service providers, whose funding depends on aggressive growth projections. Shared mobility players (ride-sharing, car-sharing, ride-hailing) may have to rethink their offerings in the short term, as customers grow averse to transport means that violate social distancing norms.

TAKING INSPIRATIONS

The Indian ecosystem may take inspiration from Chinese OEMs to fight the slowdown. A few players such as Volkswagen, SAIC, Nissan and BMW in China have turned to online sale of cars, using virtual reality and live broadcasts to stimulate sales. Another Chinese player, Geely introduced contactless delivery, where social distancing is maintained throughout the journey, including the keys being delivered using a drone. These initiatives have found traction, with Geely reporting 10,000 bookings for contactless delivery within a month of launch. SAIC, BYD, GAC along with parts suppliers have begun production of facemasks and disinfectants to support the healthcare system.

The path to revival for ecosystem players is multi-phased. While they may respond with some actions immediately, they would also need to prepare to recover lost value through initiatives after the lockdown ends. Additionally, they need to consider appropriately reacting to permanent disruptions caused by the pandemic, and reinvent their businesses with long-term interventions.

LOCKDOWN EFFECT IN INDIA

In the wake of the ongoing Covid-19 pandemic and subsequent lockdowns, the Indian automotive industry suffered Rs 2,300 loss crore per day and an estimated job loss in the sector was about 3.45 lakh. The actual magnitude of the impact depends on the duration of lockdown period, the intensity and extent of spread of the COVID-19 outbreak. Considering the crisis, it is predicted that the automobile industry is likely to go through

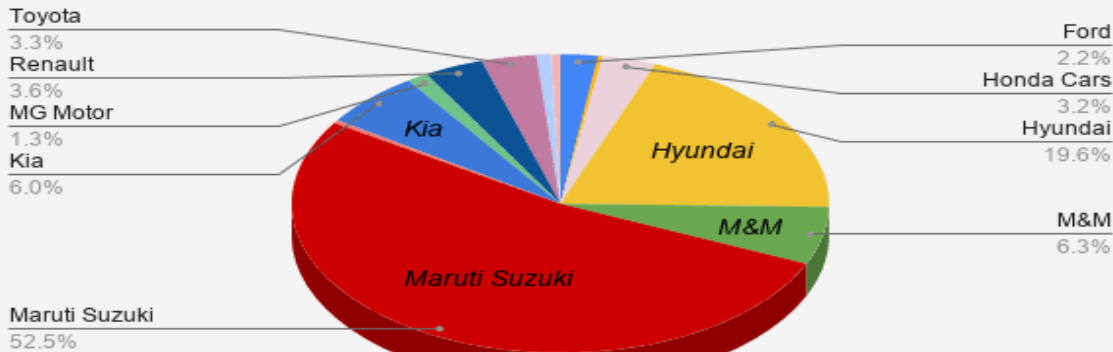
at least two consecutive years of severe contraction, leading to low levels of capacity utilisation, lack of future CAPEX investment, high risk of bankruptcy and job losses across the entire automotive value chain.

SALES REPORT IN INDIA 2020

PASSENGER VEHICLE SALES IN INDIA				
Company	Domestic Sales		Change (in %)	Exports
	May '20	May '19		
Maruti Suzuki India	13,865	1,21,018	-88.54	4,651
Hyundai Motor India	6,883	42,502	-83.8	5,700
Mahindra & Mahindra	3,867	20,608	-81	NA
Tata Motors	3,153	12,437	-74.6	NA
Renault India	1,753	5,949	-70.5	NA
Kia Motor India	1,661	NA	NA	NA
Toyota Kirloskar Motor	1,639	12,138	-86.49	928
Volkswagen India	1,404	2,685	-47.7	NA
MG Motor India	710	NA	NA	NA
Ford Motor India	571	6,361	-91	NA
Skoda Auto India	508	1,148	-55.7	NA
Nissan India	378	1,858	-79.7	NA
Honda Motors India	375	11,422	-96.7	NA
FCA India	93	991	-90.6	NA
Total	36,860	2,39,117	-84.58	11,279

Passenger Vehicle Market Share

Domestic Sales (April- October 2020)



Cars Sales Snapshot in India for the month of March 2021

RANK	OEM	YoY Analysis			MoM Analysis			Market Share Change		
		Mar'21	Mar'20	GROWTH	Mar'21	Feb'21	GROWTH	Mar'21 MS	Mar'20 MS	MS Diff
1	Maruti Suzuki	1,46,203	76,240	91.8%	1,46,203	1,44,761	1.0%	45.6%	54.2%	-8.6%
2	Hyundai	52,600	26,300	100.0%	52,600	51,600	1.9%	16.4%	18.7%	-2.3%
3	Tata	29,655	5,676	422.5%	29,655	27,224	8.9%	9.3%	4.0%	5.2%
4	Kia	19,100	8,583	122.5%	19,100	16,702	14.4%	6.0%	6.1%	-0.1%
5	Mahindra	16,643	3,171	424.9%	16,643	15,380	8.2%	5.2%	2.3%	2.9%
6	Toyota	14,997	7,023	113.5%	14,997	14,069	6.6%	4.7%	5.0%	-0.3%
7	Renault	12,356	3,269	278.0%	12,356	11,043	11.9%	3.9%	2.3%	1.5%
8	Ford	7,746	3,519	120.1%	7,746	5,775	34.1%	2.4%	2.5%	-0.1%
9	Honda	7,103	3,697	92.1%	7,103	9,324	-23.8%	2.2%	2.6%	-0.4%
10	MG	5,528	1,518	264.2%	5,528	4,329	27.7%	1.7%	1.1%	0.6%
11	Nissan	4,012	825	386.3%	4,012	4,244	-5.5%	1.3%	0.6%	0.7%
12	Volkswagen	2,025	131	1445.8%	2,025	2,186	-7.4%	0.6%	0.1%	0.5%
13	FCA	1,360	163	734.4%	1,360	1,103	23.3%	0.4%	0.1%	0.3%
14	Skoda	1,159	451	157.0%	1,159	853	35.9%	0.4%	0.3%	0.0%
TOTAL		3,20,487	1,40,566	128.0%	3,20,487	3,08,593	3.9%	Auto Punditz		

RECOVERY FROM PANDEMIC

The Indian automotive industry has been engaged in a two-pronged fight – one against Covid-19 pandemic and lockdown, and the other against poor customer sentiment during these troubled times.

Carmakers in India have been facing the worst of an unprecedented scenario with vehicle sales for the last two months badly down. While the month of April saw domestic vehicle sales plummet to zero, the sales number for May – the automotive industry witnessed a partial opening of manufacturing and sales – show that the road to recovery is a long battle. Compared to May 2019, overall sales are down by nearly 85 percent. Here's how each individual carmaker did in May 2020. Most carmakers partially resumed operations in mid-May, as per lockdown guidelines.

1. Maruti Suzuki had resumed manufacturing operations at its Manesar facility on May 12 and Gurgaon plant on May 18. The country's largest carmaker reported selling 13,865 units in the domestic market, which is a drop of 88.54 percent YoY (May 2019: 1,21,018 units). On the export front, the carmaker shipped 4,651 units.
2. Hyundai Motor India, the second biggest carmaker in the country by sales volumes, reportedly dispatched 6,883 units in the domestic market, a drop of 83.8 percent (May 2019: 42,502 units). The company resumed operations at its two plants in Chennai, Tamil Nadu on May 8 and presently has over 850 showrooms and 1,000 workshops operational. In terms of exports, the Korean company managed to ship around 5,700 units in the month.
3. One of India's leading SUV makers, Mahindra, too witnessed a similar scenario, with sales of 3,867 units in the month; a decline of 81 percent (May 2019: 20,608 units). Commenting on the performance, Veejay Nakra, CEO, Automotive Division, Mahindra & Mahindra said, "Our performance during May has been muted, due to the challenges the industry is facing. We have opened 70 percent of our dealerships and retail sales have begun. We are seeing initial traction for our small commercial vehicles and SUV brands such as the Bolero and Scorpio. As new lockdown norms are being announced we are hopeful of demand gaining traction in the coming months."
4. Toyota Kirloskar Motor reported sales of 1,639 units in the domestic market – a significant drop of 99.98 percent (May 2019: 12,138 units) year-on-year. It was a very short May for the Japanese carmaker given that production had only resumed on May 26. The market has been slow and with demand being less, we have been able to wholesale only 20 percent of what we would have clocked under a normal situation. However, retail sales (sale from dealer to customer) have been much higher when compared to wholesales (TKM sales to dealers), thereby helping us reduce the month closing inventory levels at dealerships.
5. One of the newest entrants in the country, MG Motor India, reported sales of 710 units, despite disruption in its supply chain. The company says it resumed production at its Halol manufacturing plant with approximately 30 percent capacity utilisation, and has 65 percent of its showrooms and service stations operational with reduced manpower.

SUMMARY

Unlike earthquakes and water damage, which generally affect equipment, the novel coronavirus, or COVID-19, is an infectious disease that can be classified as a disaster for humanity and an unprecedented occurrence for industries in the modern era. This report analyzes how COVID-19 has affected the global automotive industry and automakers up to this point.

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