

## IMPACT OF COVID-19 ON THE INDIAN AUTOMOBILE INDUSTRY

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### ABSTRACT

*The coronavirus pandemic has dealt a deadly blow to humanity and to the industries globally. This unprecedented crisis has unleashed a global trauma and has become the biggest threat to the global economy in modern history. Major impacted businesses are travel and tourism, consumer goods, automobile, IT, and insurance.*

**KEYWORDS:** *Coronavirus, Pandemic, Global Economy, Consumer Goods, Automobile Market.*

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### Introduction

#### Impact on the Indian Automobile Market

The Indian automobile industry is the fourth largest in the world with an annual turnover of USD 100 billion. The two-wheeler industry in India is the largest in the world. India is also the largest tractor manufacturer and the eighth largest commercial vehicles manufacturer in the world. The automobile sector accounts for 7.1% of India's GDP, 4.3% of India's exports generating 35 million jobs.

Due to the coronavirus crisis, automobile manufacturers the world over are faced with a sudden slump in demands. This coupled with environmental factors, technological upheavals, and complex regulatory frameworks are going to result in tough times for the industry [1]. The automotive industry deploys a long supply chain. It has to source a large amount of materials varying from steel to non-ferrous metals, plastics, and electronics. The supply chain must be robust to ensure seamless production on a daily basis. Most of the vehicle makers have either own bases for the supply of materials or have suppliers based in China. These have been seriously affected by the coronavirus crisis.

As supply chains around the world are disrupted, the full impact is yet to be felt. Business leaders must prepare for the effects on production, transport and logistics, and customer demand. These include a slump in demand from consumers leading to inventory "whiplash," as well as parts and labour shortages due to manufacturing plants shutting or reducing capacity [2, 3, 4].

- **Auto dealers:** Auto dealers have faced major problems. There are presently 15,000 above auto dealers which include two, three, and four wheelers across India. They were not able to transport vehicles for the lockdown period. Auto dealers have informed 30-45 days of completed goods record, likely to be greatly low-priced prior to post lockdown. In the next 6 months, it is predictable that there will be finishing off at least 8%-10% of these dealerships.
- **Auto suppliers:** Auto suppliers have a high reliance on immigrant labour, whose absence is anticipated to additional delay restoration post lockdown, ensuing in a domino consequence on the complete assessment chain. Suppliers are facing the challenges of liquidity that may yield to fading market circumstances, causing extensive trouble across the whole manufacturing network.

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- **Finance companies:** These financial companies are likely to face the burden, since loan evasions are expected to increase, and new loans are likely to fall, given complexities in deciding customers' credit value. The impact of the COVID-19 is expected to put tension on used-cars, mobility solutions, and aftermarket service suppliers, whose financial support relays on violent growth projections.
- **Sales:** COVID-19 affected automobile new vehicle sales very badly especially in the month of February 2020. Like, in China new sales of vehicles have fallen by 92% in February. Also, in European countries total vehicle sales were dropped by 7.4% when compared to that of sales in last year. Also, in country like India, many automobile industries such as TVS, Mahindra have stopped their production sales due to lockdown and likewise many sectors have been affected.

#### **Some Demands of Indian Auto Industry Amidst This Crisis**

- Auto industry has been requesting a lower GST rate.
- Auto makers are seeking better financing terms and softer rates of interest for their partners and vendors, helping the intended benefits of the three-month grace period on loan repayments reach the broader ecosystem.
- SIAM, ACMA and FADA, are requesting the government to announce measures that will address the liquidity crunch, demand, and supply chain disruptions. SIAM has sought introduction of a scrappage policy, postponement of certain regulatory norms and availability of working capital at concessional rates.
- Federation of Automotive Dealers' Association (FADA) was seeking for an extension of 2 months to sell and register unsold stocks of BSIV vehicles. However, only 10 days extension post the lockdown, has been granted by the Supreme Court.
- Apollo Tyres expects the government to announce a bailout package for the auto sector.
- Industry body Federation of Indian Export Organisations (FIEO) has urged the government to immediately provide INR 30,000 crore worth of interest-free working capital term loan to exporting companies for easing their working capital liquidity issues and prevent large-scale unemployment that could follow post-lockdown, especially in the labour intensive sectors.

The automotive industry, which moves in sync with the economy of India, has already been struggling with idle capacity, low demand, and high cost of production. The following assumptions can be made:

- The auto companies, OEMs will start production from mid of May onwards.
- An expected average price drop of one percent across all segments,
- Supply chains disrupted across the entire industry, however, a mature industry like cars revs up quickly.

#### **Opportunities and Revival Strategies**

There is never a one pill solution for any business contingency at any point in time. Extremely unpredictable times like these brought about by coronavirus pandemic teaches the value of risk assessment and thereby preparing contingency plans for businesses. There would be opportunities once the time passes and companies who survive would emerge stronger. In the context of the Indian automobile industry, there are silver linings post coronavirus [5].

Some of these opportunities and revival strategies are:

- Personal use cars are expected to see an increase owing to infections, health and safety concerns with shared mobility. However, there are chances of equal opportunity for the shared mobility too due to the size and upcoming growth of the industry. Moreover, the replacement of shared mobility vehicles is 50 percent faster than personal use vehicles.
- The world will not trust China again so easily. China has been at the nerve centre of the automobile supply chain for a very long time. It is time now for global companies to de-risk themselves from China and look for alternate sourcing channels. This is where India can pitch in. This is going to be a massive opportunity for Indian component makers to grab business share from Chinese suppliers. Even a two percent increase in market share will lead to a significant \$10 billion in revenues. Typically, these customers in US/Europe offer better profit margins too.

- Being good or being excellent is not enough in the modern business world. Global customers require innovative world-class products and services at all times. This could be a great opportunity for Indian makers to increase their level of production factories and supply lines to global standards. It calls for very high levels of hygiene, cleanliness, standardisation, and visualisation at the shop floors. It also calls for system driven approach to the businesses [6].
- Alternate and related industries like aerospace, medical appliances, and consumer goods present newer opportunities to the automobile component makers. Since many of these customers will redraw their supply lines shifting from China and Taiwan, it would be a great opportunity for auto component makers to pitch in with the global players and strike collaborations [7].
- It is a great opportunity for Tier-I and II businesses to prepare a long-term roadmap for creating an ecosystem for components industry in businesses like mobile phones, computer components, electric vehicle components, high technology railways and transportation systems. Tier I/II/III companies need to work together and create a joint working model to develop complete product lines. This is a model successfully deployed in Japan, Korea, and Taiwan.
- Govt is likely to continue its push towards electric vehicles (EVs). It is time for the automobile makers to come up with definitive plans for the EVs in all segments. There is a great opportunity for serious EV players with reliable technology vehicles. For cars, there is an ecosystem creation with charging stations and swappable batteries technologies. Government and public sectors should take lead in this.

Based on the above, companies can be recommended to draw out their business plans for post coronavirus 'The New Normal' world. Indian companies have a great opportunity to create newer business networking lines, establish global business networks of suppliers, customers, and partners. Investments in these areas would take them far and insulate from future coronavirus-like shocks.

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