



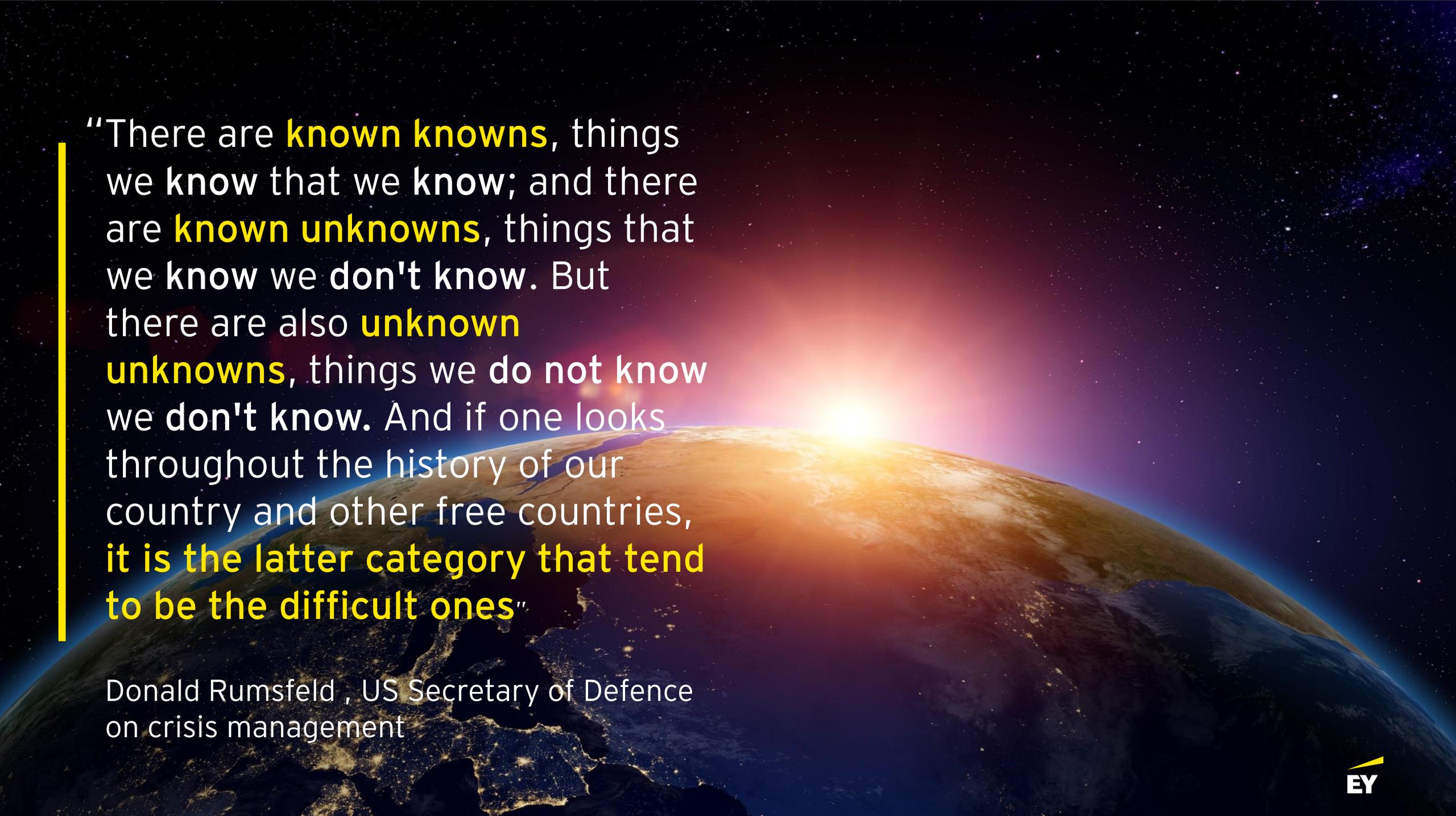
ET Auto - EY
COVID-19 Lockdown:
5 Essential Aspects for
the Auto Industry

07 April 2020



EY

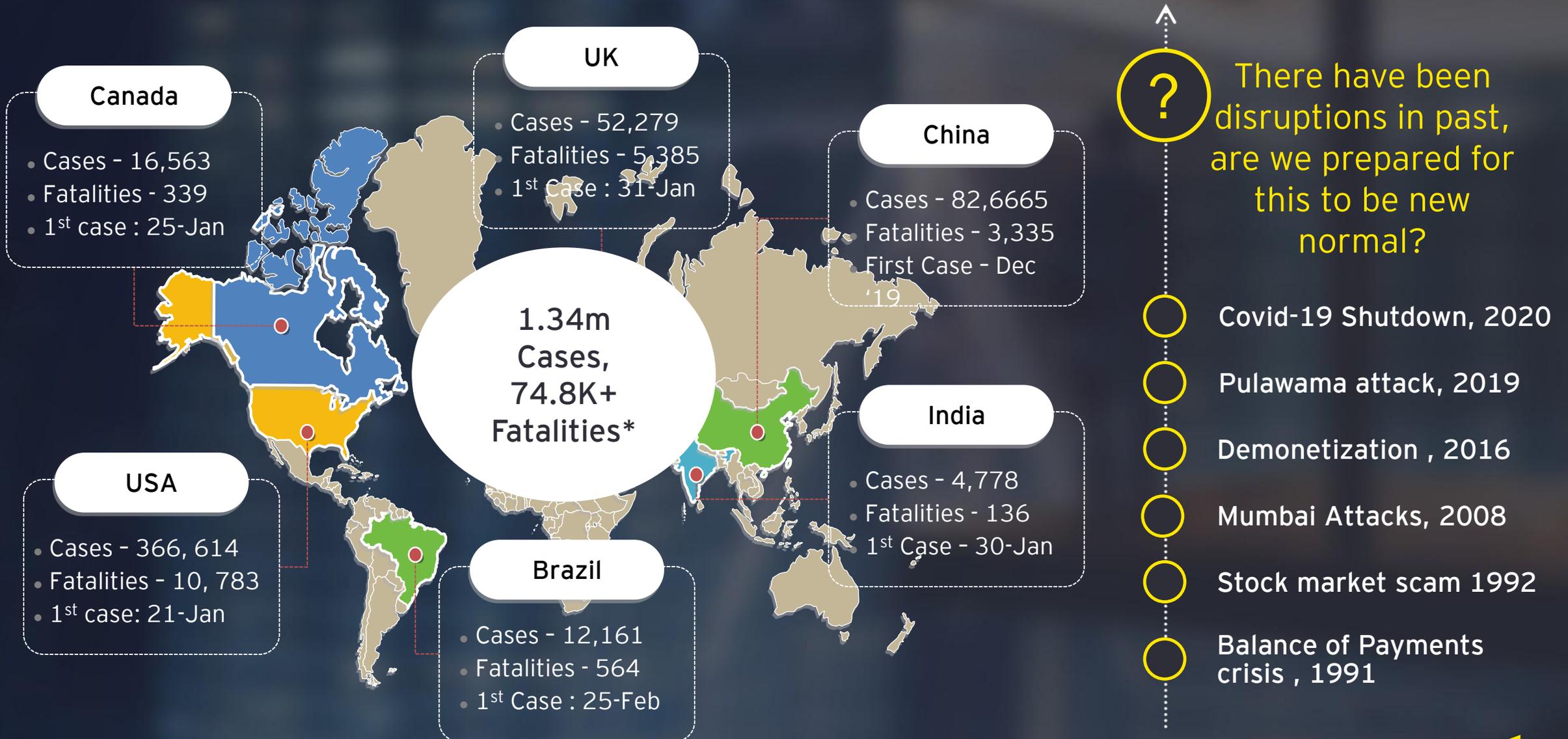
Building a better
working world



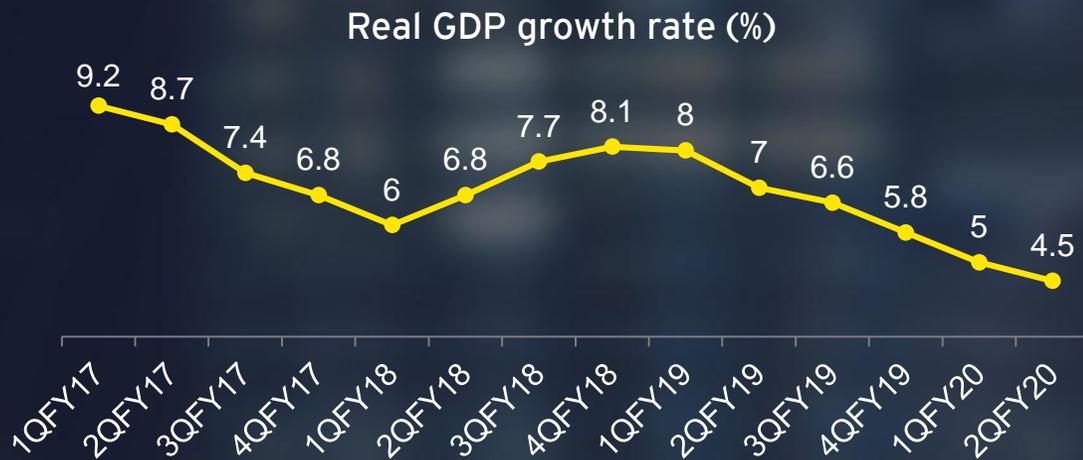
“There are **known knowns**, things we know that we know; and there are **known unknowns**, things that we know we don't know. But there are also **unknown unknowns**, things we do not know we don't know. And if one looks throughout the history of our country and other free countries, **it is the latter category that tend to be the difficult ones**”

Donald Rumsfeld , US Secretary of Defence
on crisis management

COVID-19 Impact : Global Snapshot | Resilience is the key

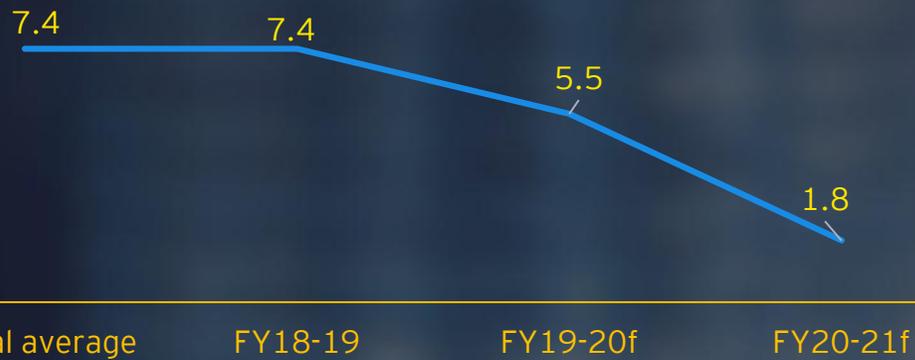


Headwinds were clearly visible in the Indian economy even before COVID-19



Source: MoSPI, EY Analysis

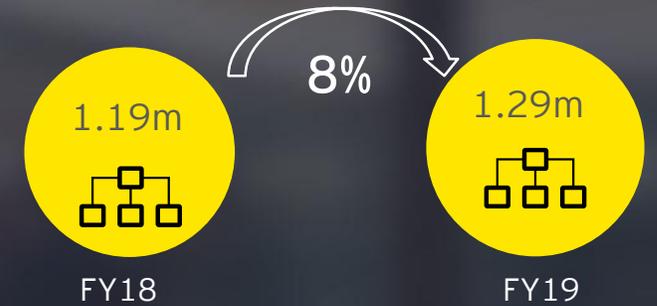
Consumer spend growth (% , FY starting April)



Source: Fitch ratings, EY analysis



Unsold housing inventory*



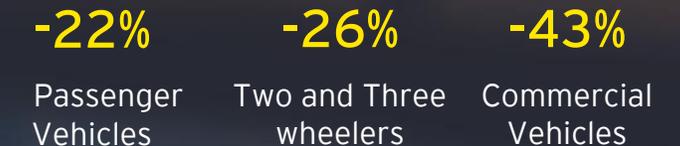
Slowdown in FMCG sector

FMCG industry value growth¹



Slump in auto sales (Q4FY20)

Domestic sales growth²



*Represents the unsold housing units (millions) of 30 cities in India

¹Combination of volumes and price-led expansion

²Source: SIAM Data, EY Analysis

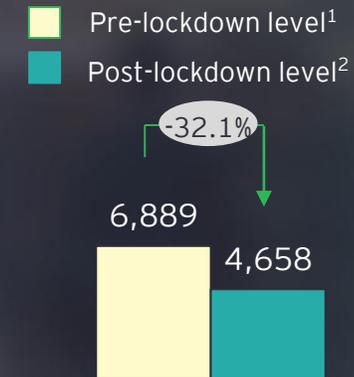
COVID-19 has compounded this and affected the entire Indian auto ecosystem

"Poll-of-Polls" Estimates

Forecast	Earlier	Now
Nomura	4.50%	-0.50%
Citibank	5.50%	2.50%
Moody's	5.30%	2.50%
HDFC Bank	5.60%	3.20%
ICRA	4.20%	2.00%
S&P Global	5.20%	3.50%
CRISIL	5.10%	3.50%
UBS	4.00%	2.50%
Fitch	5.60%	5.10%
Average	5.00%	2.70%

Source: Secondary research, EY Analysis

Nifty Auto Index³



Source: Secondary research, EY Analysis



Short Term



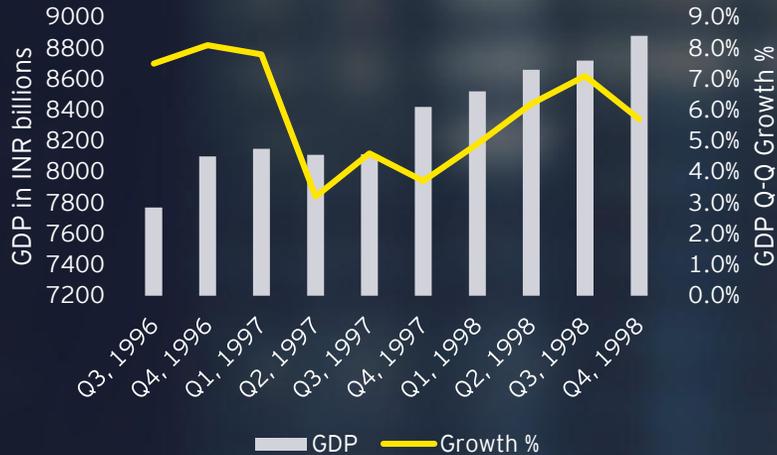
1. Pre-Lockdown levels were made in Feb 2020/ early March 202; 2. Post-Lockdown Forecasts were made from 27th March to 30th March 2020.

3. Nifty Auto Index data is from the pre-lockdown 3 March 2020 to post-lockdown 3rd April 2020.

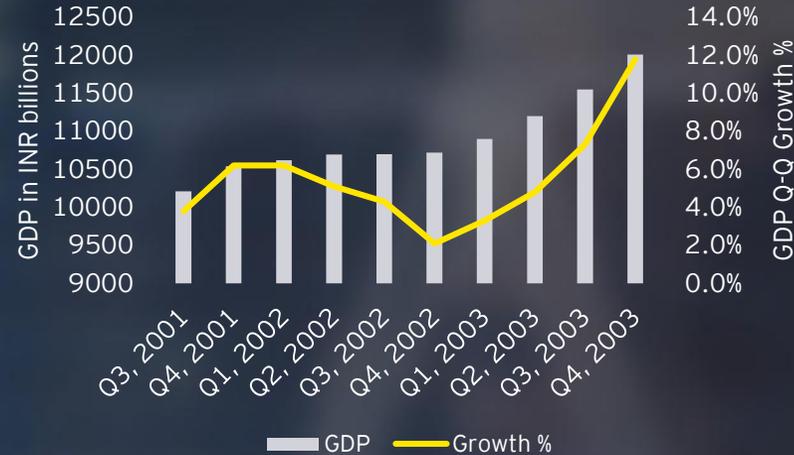
Source: SIAM, ICRA, Analyst reports, Press Reports, EY Analysis

India has however been resilient and has bounced back strong in the past

ASIAN FINANCIAL CRISIS (1997)



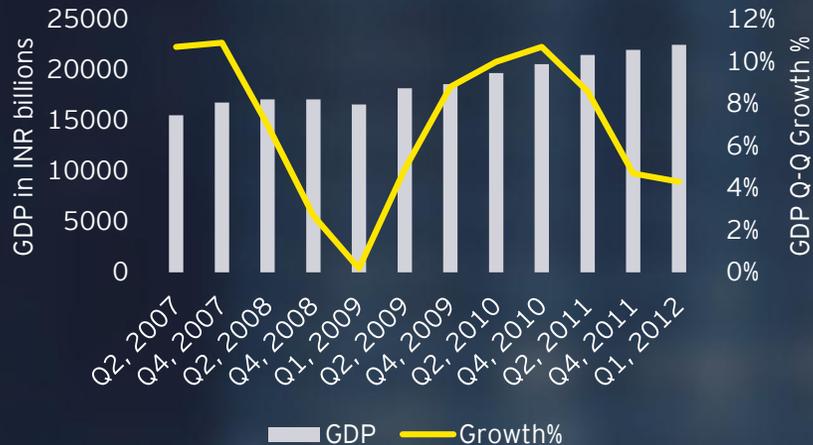
AGRICULTURAL CRISIS (2002-03)



INDIA'S POSITIVE OUTLOOK

- ▶ Chances are that the Indian economy will bounce back once the crisis is mitigated

GLOBAL FINANCIAL CRISIS (2007-08)



DEMONITIZATION (2016-17)



CHINA'S AUTOMOTIVE STORY

- ▶ 90% OEM resumed production
- ▶ >80% recovered capacity production
- ▶ 66% dealers resumed work by end-March

Source: Oxford Economics, China Association of Automotive Manufacturers (CAAM), Asian Nikkie, Ministry of Industry and Information Technology (MIIT), China Passenger Car Association (CPCA), EY Analysis

What we are hearing : Now, Next, Beyond



We believe that there are 5 crucial “NOW” themes that need immediate focus



"Now" Themes (1/3)



1. Workforce Management & Employee Health

Non-Negotiables

- ▶ Top-down governance with decisive and creative leadership
- ▶ Employee communications, policies and messaging
- ▶ Accessibility and usability of health and safety information
- ▶ Risk assessment, control and investigations
- ▶ Reassess and establish updated norms of man-machine ratio
- ▶ Revise shop-floor SOPs to align to a post COVID working environment



2. Short-term Finance Management

Non-Negotiables

- ▶ Monetization of identified non-core assets wherever possible
- ▶ Possibility to garner WC support in the short to medium term
- ▶ Debt restructuring
- ▶ Planning, management and control of short-term financial and liquidity positions



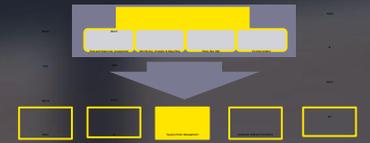
India Auto Sector Highlights

Auto sector has approximately 50% of contractual workforce, sectoral volatility needs to be dealt with prudently - EY analysis

India Auto Sector Highlights

Indian carmakers are making advance payment of ₹1800 Cr to their dealer partners as majority of them are facing cash flow issue- Economic Times

"Now" Themes (2/3)



3. Supply Chain Management

Non-Negotiables	Key Dimensions	Risk Exposure
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- ▶ Constraint discovery mechanism to monitor and track possible disruptions
- ▶ Budget for bulk in-warding of stock on reopening to limit restart impact
- ▶ De-risking of supply chain including exploring vendor financing tie ups
- ▶ Communicate with vendors and assess extent of impact up to Tier II/ Tier III
- ▶ Lower plant load factor to drop fixed across utilities overhead
- ▶ Preparedness for restart (ensure maintenance)

Route to market and channel strategy

- ▶ Rapid re-alignment of channels, outlets, products
- ▶ Liquidity and credit management in the network
- ▶ Agile sales and service team re-deployment

Integrated sales and operations planning

- ▶ Demand and supply volatility
- ▶ Allocation and re-prioritization framework

Logistics and distribution

- ▶ Securing inbound/outbound flows
- ▶ Re-positioning of inventory at regional warehouses

Manufacturing and plant operations

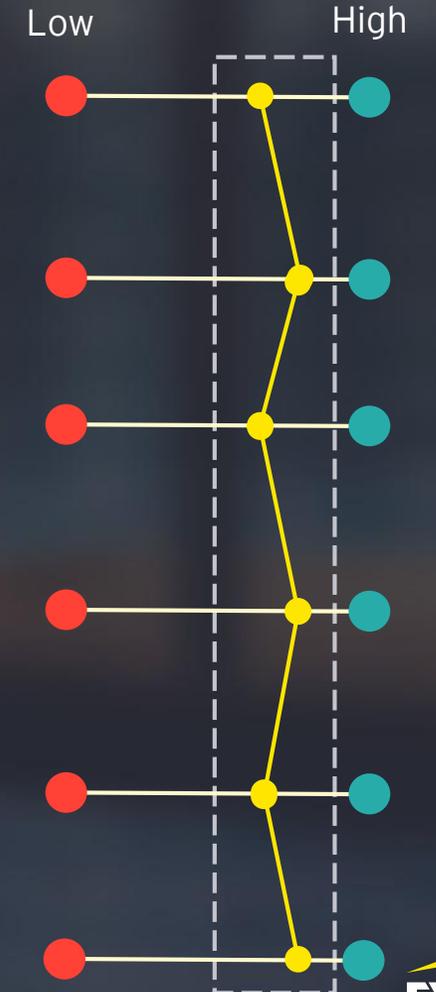
- ▶ Assess and manage safety and constraints
- ▶ Agility of machines, labour and materials
- ▶ Immediate planning for recovery

Procurement and supplier management

- ▶ Supplier risk re-assessment
- ▶ Contractual obligations management
- ▶ Open order reset/amendments

Crisis management and governance

- ▶ Remote working capability
- ▶ Crisis governance and communications
- ▶ End-to-end compliance support



Illustrative

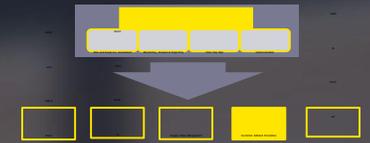


India Auto Sector Highlights

- *Supply side constraint of BSIV inventory liquidation : 10% sales allowed by Authorities post lockdown that too within 10 days - Press Reports*
- *Indian auto ancillaries and OEMs have about 27 per cent import dependence on China for key parts and accessories - ICRA*



"Now" Themes (3/3)



4. Customer & Brand Protection

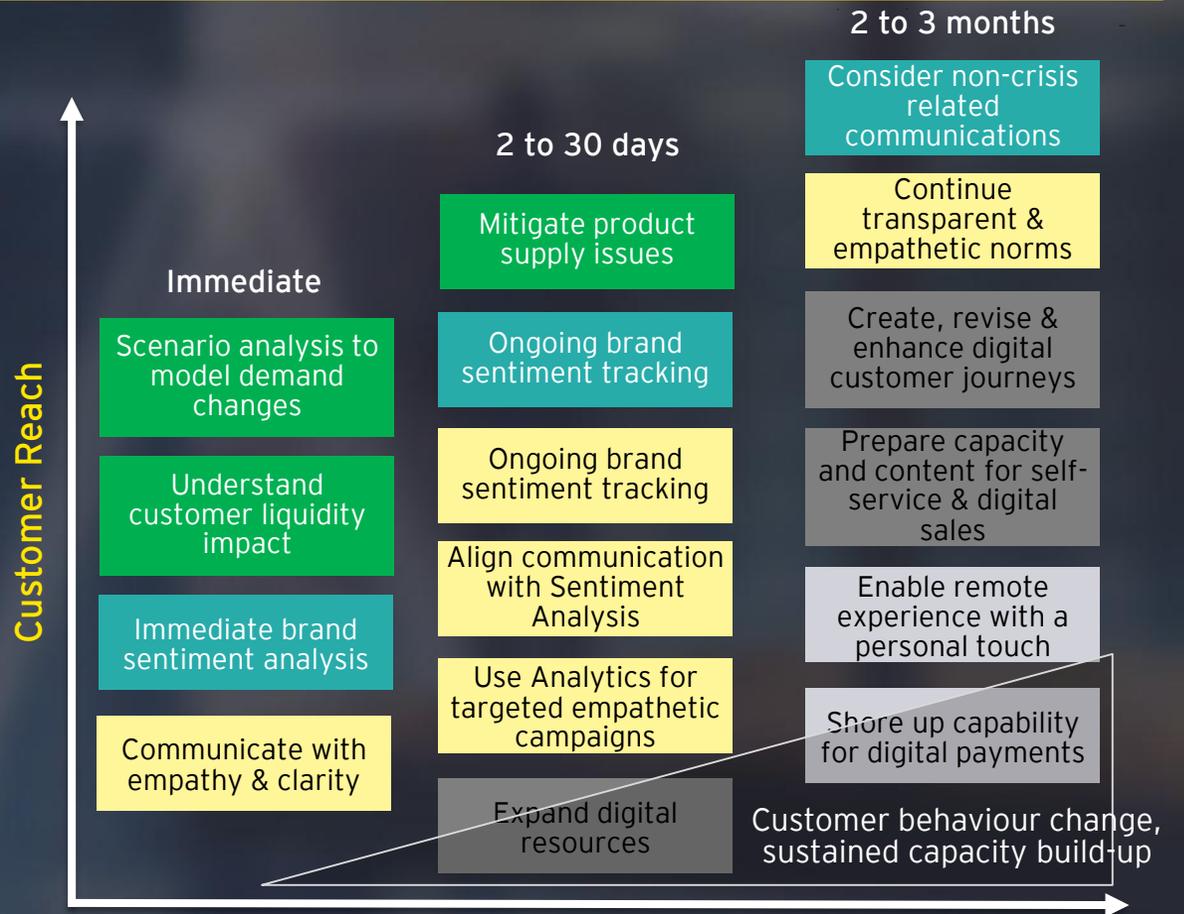
Non-Negotiables

- ▶ Communicate with your largest customers about the potential risks and impacts on their business
- ▶ Roll out standardized messaging to all customer / sales personnel regarding the organization's response to the crisis
- ▶ Identify solutions that can be re-purposed to support key customers , review different commercial models
- ▶ Evaluate the impact and proportion of pipeline opportunities which are likely to be deferred by the customer



India Auto Sector Highlights

- ▶ **Customer Protection:** Roll out prevention interventions across touchpoints, customer facing team training and service monitoring
- ▶ **Communication:** Best practice sharing on COVID-19 control and prevention. Extending warranty covers/insurance claims post lockdown. Digital interventions are gaining more intensity than before
- ▶ **Dealer Support:** Potential risk areas and mitigation scenario communication by organizations across the value chain. **Sector has supported Dealers with ₹1800 crore advance** for better cash flow



Source: EY Analysis

	Immediate customer migration		Purpose and brand
	Digital adoption		Digital front office Ops
	Communication		





5. Risk Management, Legal & Contract Dispute Resolution

Non-Negotiables

- ▶ Set-up an organization wide crisis response team, executive-level sponsorship, to drive initiatives
- ▶ Establish cadence amongst the organizational leadership and executive teams to discuss updates across the organization, as well as periodic evaluation of the response
- ▶ Identify a team responsible for creating and circulating relevant and internal communications
- ▶ Contract risk assessment & identify prevention actions
- ▶ Safeguard technology landscape and analyze potential Cyber risks
- ▶ Managing customer / suppliers contract disputes due to economic impacts or supply disruptions
- ▶ Evaluate local laws regarding the provision of safe workplaces and working conditions / compulsory health insurance coverage

**22 notifications/
9 advisories**
issued in India by
MoHFW with daily
updates

**150+
compliance**
obligations may
arise because of
COVID-19

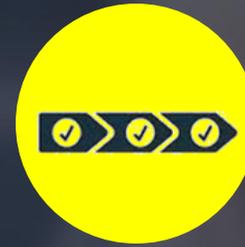
100+ countries
have issued **350+
regulatory**
notifications to
deal with COVID-19

7 state governments
and the Central
Government of India have
invoked powers and
provisions under **The
Epidemics Act, 1897**

What we are hearing : "Next" & "Beyond" Themes



In a Post Covid environment, how does one manage a linear supply chain which may have missing parts (including delinquent suppliers / dealers) : Linear vs Network?



How do firms compete to own relationships in a digital marketplace and establish a source of differentiation with their end consumers



What solutions / scenarios can help manage diverse sources of future unpredictability (Demand-side, Supply-Side)



How does one manage unprecedented scrutiny & regulation which is forcing firms to have more robust risk management and controls in place



How does one conserve cash to continue to invest in the accelerating pace of disruptive competition, innovation and changing consumer dynamics



How do firms look at re-baselining all costs, optimize resources and improve overall business performance

EY is helping firms address aspects spanning the 3 horizons of Now, Next & Beyond



Panel Discussion



David Sanders

Global Advanced
Manufacturing &
Mobility Leader, EY



Vinay Raghunath

Partner and Leader,
Automotive Sector,
EY India



Som Kapoor

Partner,
Automotive Sector,
EY India



Rajeev Chaba

President and MD,
MG Motor



Diego Grafii

President and MD,
Piaggio Vehicles



Vinod Aggarwal

MD & CEO,
VE Commercial
Vehicles



Nabeel A Khan

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