



September 2019

EMPOWERING TIMES



THINKING ALOUD

Will the Auto sector survive?

Jay

PODIUM

Aspi Bathena
Editor - Car India &
Bike India



WE RECOMMEND

Tata vs Mistry
Deepali Gupta

Dear Reader,

The Indian auto industry accounts for nearly half of the country's manufacturing GDP. However, the recent auto slowdown brings to fore the challenges that the sector faces amid slowing economic growth. Sales of passenger vehicles fell for the tenth consecutive month in August. Also, the growing popularity of shared mobility has affected auto sales. Other factors, such as expensive steel and fuel along with high GST and cess have also led to the slowdown.

Despite the worsening slowdown, all is not lost. Customers have responded enthusiastically to budget SUV offerings by new entrants. Auto companies are slowly aligning their offerings to changing consumer preferences and the move towards electrical vehicles (EVs) (with the government reducing GST on EVs to 5%). Further, the decision to slash corporate tax rate is expected to boost corporate profits which will lead to earnings benefit for the auto industry.

This month in **ET**, we look at the **Indian Auto Sector: Challenges & Opportunities**.

In the **Thinking Aloud** section, **Jay** highlights the uncertainties that abound in the auto sector and the way forward. We are privileged of having the Editor of magazines - Car India & Bike India - **Aspi Bathena**, on the **Podium**, where he discusses the developments & happenings in the Indian auto landscape. In the **We Recommend** section, we review Deepali Gupta's **Tata vs Mistry** and the events that went behind the scenes that led to and followed Mistry's removal.

In **Figures of Speech**, **Vikram's toon** has a flat tyre!

As always, we value your opinion, so do let us know how you liked this issue. To read our previous issues, do visit

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THINKING ALOUD

Will the Auto sector survive?

Jay

The automobile sector is widely considered a bellwether industry for any economy. The reasons are fairly simple. Even if one forsakes the economic reasons why automobiles are important for a country, the plain fact is that in an emerging economy, one of the most aspirational products for an individual or a family is owning a car. The purchase of a four-wheeler is not only a symbol of upward mobility in the social strata but the size, kind or number of cars that one owns is indicative of personal wealth. Which is one reason why in a consumption conscious economy like India, all arguments in favour of public transportation fails to carry much weight even when the rational thing to do would be to opt for public transportation (say, the Metro) instead of being stuck in crowded and polluted street traffic.

The Indian automobile sector is now acknowledged as the 4th largest in the world. Besides the domestic consumption, India has emerged as a major exporter of vehicles, both two - and four -wheelers (both passenger cars and commercial vehicles). Not surprisingly, therefore, any hiccoughs in this sector can readily spell panic across the economy, as we witness today. The reported number of car sales for Maruti, Hyundai, Mahindra and Tata Motors for August 2019 reflected that the slump in the sector continued deeper, and the leader of the pack, Maruti, had sold only 93,173 cars (compared to 96,400 units in July 2019). With aggregate sales down by 36% compared to the same period last year, Maruti announced more plant shut down days (euphemistically called

non-working days) and other firms (including commercial vehicles firms, like Ashok Leyland) also followed suit.

Not only does this spell trouble for the primary vehicle manufacturing firms, the real hit is felt by the component supplier industries. Smaller in size by definition, they are the first to reel from the tiniest blow to the industry. In turn, this spells curtains to the large pool of contract and temporary labour force that is an essential element of this industry. And, before you know it, the viral fever spreads across other sectors of the economy.

Where have all the buyers gone? That mystery has not been solved to date. A series of reasons have been offered: poor business sentiment, lack of demand, buyer behaviour of millennials, lack of jobs, poor economic conditions, rise of the sharing economy, et al. Funnily enough, this has not deterred some new players from entering the market. Two recent examples are the Chinese firm, MG Hector, and the Korean Firm, Kia Motors. Other players too have announced new models and we continue to feel the impact of loud advertising from the sector's key competitors who jockey for the customer's attention.

Other factors uppermost in the Industry's mind are becoming complaint with BS VI norms & the advent of the Electric Vehicles. The government's hand has been forced with the Supreme Court ruling that India should implement Bharat Stage Six norms by April 2020 (skipping the BS V norms) - and now there is a scramble to comply, notwithstanding the cost pressures arising from this step. With sales of diesel vehicles particularly under threat - the price of such vehicles is expected to increase by over Rs. 1 Lakh, the double whammy comes from the thrust for electrification of vehicles. With Niti Aayog taking an aggressive stance in this regard, the government has only recently decided to soft-pedal the issue - but only just. The latest salvo in this matter is the announcement this week that all buses in India should become electric in 2 years. How? Don't ask. Perhaps, the market forces will make them so. But, clearly policy pronouncements indicate the inevitability of such moves especially as India has chosen to be on the forefront of climate change issues, and rightly so. While much needs to be done, the message to the industry is loud & clear: create the change - rather than wait for it to happen.

This is certainly not music to the ears of firms who are taking nervous first steps. Case in point is the report that only 250 bookings were received for the new Hyundai Kona in July when bookings opened, despite its beautiful features coupled with a mileage of over 450 kms per charge. Clearly, the customer is extremely sceptical & shy and needs to be convinced more - or perhaps is waiting for a cheaper car than Hyundai's asking price of Rs. 30

Lakhs. This is further evidenced by the Society of Manufacturers of Electric Vehicles (SMEV)'s report that in 2018-19, only around 7.6 lakh Electric Vehicles were sold in India (of which Three-wheelers accounted for 6.3 lakh units, followed by 1.26 lakh two-wheelers and just 3,600 electric cars).

However, all is not lost. While challenges abound today, given the appetite of vast new entrants to the middle class every year, the market for the automobile sector will rebound, I am sure. The growth pitch of the government will continue and the vision of USD 5 Trillion economy beckons. The only issue is that the players in the industry will have to adapt quickly if they want to gain market share in a highly competitive & crowded arena where customers continue to be price and value conscious. Only the swift and daring will survive in this intense & dynamic environment. The winner is easy to predict: the customer!

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Podium

Aspi Bathena

Editor - Car India & Bike India



As the Editor, Aspi Bathena has been leading the editorial teams of both BIKE India and CAR India since 2007. Prior to this, Aspi had been the backbone of both the magazines as their Road Test Editor, in charge of conducting all vehicle tests that empowered readers with detailed and credible data that they could rely on.

Aspi's career in journalism began with Overdrive magazine as Road Test Editor where he established the basic tenets of vehicle testing - both for two as well as four wheelers. Before becoming a journalist, his career as a motorcycle racer had been both long and rewarding. Between 1977 and 2004, when he finally hung up his racing boots and leathers, Aspi tasted victory several times both in India and abroad. He is also the only Indian to have ever won a Bronze replica medal at the legendary Isle of Man TT, which he won in 1987. He also plays an invaluable role as a jury member of the prestigious World Engine of the Year, Indian Motorcycle of the Year (IMOTY) and Indian Car of the Year (ICOTY) panel.

ET: As an avid commentator of the Indian Auto sector, please tell us what would you say are the 3 major changes in the sector over the last 2-3 decades?

AB: In the recent past, the Indian automotive sector has seen some major developments. Firstly, it is no longer just a low-end commuter market. Sales of entry-level cars have been declining as buyers have been opting for stylish, better-equipped models. With better connectivity, widespread internet usage and more people travelling abroad, Indians have become far more aware of international trends now. Growing disposable incomes have led

to people looking to buy high-end cars in India, which wasn't the case three decades ago. So, we can see major international car makers developing India-specific cars, like a sub-4-metre sedan and compact SUVs.

While Indian car manufacturers have come a long way in improving their products, cars like the Tata Nexon have scored five-stars in the Global NCAP rating which is a huge achievement in terms of safety. On the other hand, the Mahindra XUV300 is the finest car model from the Mahindra stable, giving stiff competition to cars models from international car makers.

Another important change is that the overall quality of cars available in our market has improved drastically. New car models with modern technologies have replaced old gas-guzzling, less efficient models. The efficient new cars have become a lot cleaner and frugal which is helping reduce pollution levels and save precious fuel. This change has been well received by Indian car buyers and has increased the overall market size rather quickly.

Another interesting change is toward improving passenger and pedestrian safety. It is good to see the Indian automobile industry on the brink of major reforms. Implementation of strong laws such as ABS becoming mandatory, crash test norms coming into play, and the shift from BSIV to more stringent BSVI emission norms, are just the beginning.

ET: How does the Indian auto sector compare to the rest of the world at present?

AB: The Indian auto sector is more or less on par with the global markets, with all the top carmakers from around the world either manufacturing or importing cars to India.

In 2020, we will be moving to cleaner BSVI emission norms which is equivalent to Euro Stage Six. This will make cars a lot cleaner than before and bring India on par with global standards. Also, the Indian Government is finally pushing for Electric Vehicles (EV) to further reduce pollution levels from Indian cities. So, we can expect many players to introduce new-age EVs in our country, with Indian car manufacturers investing in cleaner technologies.

ET: Autonomous driving, e-cars, digital services and mobility platforms are some of the buzzwords in the auto sector. How do you read the future of automotive innovation?

AB: Going by the current state of traffic and congestion on our roads, shared mobility and mass transport are the need of the hour. A modern and efficient mass transit system is clearly the answer to the bigger problem. With the growing population, we need more metros, shared transport systems and intercity trains in place.

Coming to the buzzwords, eventually, all these new-age technologies will be making their way into our country. But the main challenge remains comparatively poor infrastructure, without which most of these automotive innovations will be of little use. For instance, in the current scenario, autonomous driving will remain a faraway thought as the system has been designed to obey every single traffic rule. Sadly, in our country, technologies like these will not survive until we get the traffic situation in order.

ET: The government of India has been giving a big push for e-bikes. In your assessment, what are the challenges for electrification in the Car & Bikes sectors?

AB: First, we have to get the infrastructure for e-charging in place. In our country, the power generated is not clean as we mainly rely on fossil fuel like burning coal and diesel to produce electricity. Because of this e-bikes and EVs won't be producing clean energy, and we will be simply moving pollution from the exhaust pipes to power stations. Another challenge is to find a better solution for disposing and recycling batteries. Another hurdle is that currently, good quality EVs are more expensive than traditional ICE-powered vehicles.

In a surprising move, the Niti Aayog (National Institution for Transforming India - a policy think tank of the Government of India) proposed to make two-wheelers with an engine capacity less than 150-cc to be converted to electric by 2025. It takes nearly five years for companies to develop, test and launch a regular IC motorcycle. Further, to make a vehicle with a completely new powertrain from scratch in such a short time seems out of question. Announcements like this create unnecessary confusion for the manufactures and end-users. Thankfully, the idea has been recently shot down by the Union Road and Transport Minister.

I feel that smart plug-in hybrid is the way forward especially for a country like ours. For instance, the new BMW 7 Series comes with clever tech where the owner sets the satellite navigation and it toggles between the electric motor and IC engine. In the city, the 7 Series drives purely in EV mode, switches automatically to the IC engine on highways without any range anxiety and keeps charging the battery. The same car works like an EV and ICE - making it a multipurpose car.

ET: Can you please tell us about your publications, Car India & Bike India & what advice would you like to convey to our readers who would like to pursue a career in motor/bike journalism?

AB: Car India is a premium magazine catering purely to four-wheeler aficionados for over a decade-and-a-half. While Bike India, founded in 2005, is the leading two-wheeler magazine of our country, made by and aimed at motorcycling enthusiasts. We recently celebrated our fourteenth anniversary and brought out special issues of both the magazines.

There are two basic criteria to keep in mind if you want to become a motoring journalist. First, you must have good writing capabilities and have the knack to hold the attention of the readers. It is not just about rattling out information but transforming the story into an engaging read.

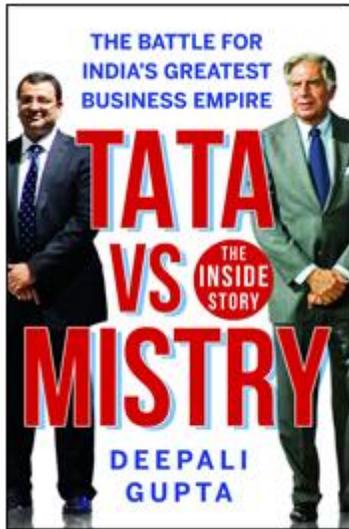
The other important thing is that you should have knowledge of the subject. I feel that it is not enough to get knowledge by just reading and surfing the net. While it is important to read and research, having practical knowledge is vital. I keep telling youngsters that you have to get your hands dirty and work on cars and bikes in person to understand them better. Only then will you be able to correctly judge a vehicle and enlighten readers through your reviews and news stories.

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We Recommend

Tata vs Mistry

Deepali Gupta



In her first book, author Deepali Gupta's read is based on information from various sources and several exchanges with the parties who had a ringside view of events that led to and followed Cyrus Mistry's removal.

In August 2010, Ratan Tata announced the five names who would undertake the responsibility of steering the Group ahead: Noshir Soonawalla, Shirin Bharucha, Cyrus Mistry, R.K. Krishna Kumar and Sushanta Kumar Bhattacharyya. Amid all the praise of the values that the Tata Group stood for, the appointment of Cyrus Mistry came as a surprise to many. The naysayers said that the Shapoorji business mindset would never fit into the Tata culture - which focused on diversity, people and philanthropy. However, Ratan Tata dismissed these doubts and pressed ahead, naming Mistry as his successor in November 2011.

Fast forward three years later, the rift between Tata Trusts (led by Ratan Tata) and Tata Sons (led by Cyrus Mistry) was put on the table. It was here that Mistry was given two choices - resign or be voted out by the board. The mysterious sacking of Cyrus Mistry in October 2016 by one-time mentor Ratan Tata echoed in all corners of the corporate world.

The author maintains a sense of neutrality while reasoning from both sides. From Tata's perspective, Mistry's actions were an attempt to dismantle the conglomerate's structure that was in place as well as to diminish the relevance of the Tata Trusts. Rebutting claims, Mistry contended that he was sacked on grounds of non-

performance while he tried to revive (or cut off) unprofitable investments that were made during Ratan Tata's tenure. In July 2018, the National Company Law Tribunal issued a verdict in favor of Tata Sons on charges of mismanagement levelled by Mistry in 2016. The dust might have settled but the issue is still in court.

Nearly three years later after the dramatic removal of Cyrus Mistry as Chairman of Tata Sons, in February 2017, N. Chandrasekaran was appointed for this prestigious position. Meanwhile, Cyrus Mistry has taken the opportunity to become a venture capitalist. He has not taken a position in the Shapoorji Pallonji Group, headed by his brother.

Former Senior Assistant Editor at the Economic Times, Deepali Gupta, has been a financial journalist for fifteen years. She was also associated with the Indian Express Group, Network 18, Wall Street Journal and Dow Jones Newswires. The book is easy to read and understand. For those who never followed the events in the biggest boardroom coup in India Inc, this is a good book to begin with. The book holds points to learn from and the corporate challenges that come with hanging up one's boots while passing on the baton in the business world.

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THROUGH THE LENS



Bird photographer, **Rupesh Balsara**, spots the Bluethroat *Luscinia svecica*, a small migratory insectivorous species. These long-distance migratory birds breed in Europe and spend the non-breeding period in Africa, while only a few species migrate to the Indian subcontinent.

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