



Automotive Component Manufacturers Association of India

Salient Points:

Interaction with Mr. Hemant Sikka, President, FEB & CPO, M&M

April 21, 2020

Mr Deepak Jain, President ACMA welcomed and thanked Mr. Hemant Sikka for agreeing to interact with the ACMA Executive Committee. He also congratulated Mr. Sikka on his new role of President of the Farm Equipment Division at M&M.

Observations and Points made by Mr. Hemant Sikka

Global Economic Scenario

- Global recession impending
- Over 170 countries would see a negative per capita income growth in 2020
- Portfolio outflows from emerging markets would be 3X that of the Global Financial Crisis
- IMF estimates USD 9 trillion economic impact
- Steep/ V-shaped but uncertain recovery expected in 2021
- Unprecedented stimulus provided by all Governments

China

- Risky strategy to consider China as single supply source; countries/
- Companies will re-align supply chain- Asian countries including India stand to gain
- Study shows people in china showing preference for personal vehicles post lockdown

India

- GDP to grow in the range of 2- 7.4% in 2021-22 (depending upon who has made the projection)
- Demand for Petrol/diesel has plummeted
- Services industry very adversely impacted
- No major disruption in demand for durables/semi-durables – demand has been postponed
- Demand for durables/semi-durables expected to return in H2, while demand destruction in case of services is permanent
- Impact of lockdown on manufacturing – estimated loss of USD 31 billion per month
- India needs to act and move fast to attract business exiting out of China
- Proactive approach needed by the Govt. and the industry
- Need to address labour and industrial laws
- India can be a key player in global value chain

On Automotive Industry

- Automotive Industry to witness structural changes
 - Shared Mobility to suffer setback

- Boost for entry level vehicles – 2 Wheelers and PVs
- Work related travel will significantly come down
- Work from Home will become a norm (for offices)
- **2 Wheelers**
 - Recovery expected in H2/Festive Season
 - Lower segment (100cc – 125cc) to witness demand uptick
 - Lower commodity prices to aid margins
- **PV**
 - 2020-21 likely to be a washout
 - Tier-2s/3s would be adversely impacted
 - Salaried class will hold on to purchases
- **CV**
 - To experience protracted downturn
- Dealerships may find difficult to survive
- **Farm Equipment/Tractors**
 - Strong demand due to bumper Rabi Crop
- **EVs**
 - With plummeting oil prices, demand for EVs could take a back seat
 - Perception of China as a huge market for EVs, as also fountain-head for EV technologies will undergo a change, companies will re-strategize their China engagement/dependence
- **Supply Chain Localisation**
 - M&M has always preferred domestic suppliers over foreign
 - Risk premium on sourcing from China has gone up
 - While this presents an opportunity to Indian suppliers, they cannot afford to be complacent.
 - Suppliers need to continue to support their customers - become more competitive
- **On Post Lockdown Operations**
 - A detailed Manual for restart has been created
 - M&M to start operations in phased manner, with strict adherence to SoPs
 - M&M will inward all components in transit to support the suppliers
 - Re-look at non-strategic projects
 - Focus on fast moving products to ensure better cash cycle and ability to pay suppliers
- **Strategic Direction to Component Industry to survive the Disruption**
 - Be brutal in conserving cash
 - Cash conservation takes precedence over growth & expansion

- Companies having strong balance sheet could consider acquiring appropriate assets; good time to acquire assets
- Consider salary cuts rather than layoffs

The interactive session ended with a Vote of Thanks by Mr. Sunjay Kapur, Vice President, ACMA to Mr. Sikka for a very open and frank discussion with the ACMA Executive Committee. He appreciated Mr Sikka's contribution towards nurturing a symbiotic relationship with the suppliers.
