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Auto industry to witness recovery in Q4 FY17 before BS-IV norms kick in

New opportunities are emerging for component suppliers due to regulatory changes in auto sector

D C Sharma **January 23, 2017** Last Updated at 12:59 IST

Demonetisation drive is likely to have long term benefits for the Indian economy. The Government's efforts to address larger economic issues such as tax non-compliance, counterfeit currency, fiscal imbalances, rising corruption levels and black money transactions are undoubtedly commendable. Strategic directional move towards digital/cashless economy would certainly help developing country like India to reach to a next level.

Sectors with discretionary spending such as consumer durables, luxury items, gems and jewellery, real estate and allied sectors appears to be adversely impacted in the short term although the impact for the long term seems favourable. Demonetisation impact is expected not to last beyond three to six months from now. Overall, weakening consumption demand with muted investment climate in the country on account of recent demonetisation drive may impact India's GDP growth by approximately 1.0 percent for the current fiscal year, compared to earlier projections.

Impact of demonetisation was clearly visible on the automobile industry after release of data for December 2016 by SIAM. Overall decline in automobile sales volume growth was (approximately 18.6 percent) in December 2016 compared to the same period last year. The two wheelers volumes declined significantly by (about 22 percent) y-o-y in December 2016 although passenger vehicles was relatively less impacted with a decline of just (1.4) percent y-o-y.

The recent demonetisation should have a short-term negative impact on account of demand postponement for vehicle purchase. Commercial vehicles volumes declined by (5.1 percent), which was relatively lower than expected initially. Liquidity situation has already started easing out and automobile sales volumes across segments should pick up.

I am optimistic that the automobile industry should witness some recovery in Q4 FY2017 on the back of pre-buying before BS-IV norms implementation from April 2017, reduced cost of financing, new product launches by OEMs and expected additional incentives from forthcoming budgets.

Budget expectations

Some of the recent decisions such as ban on diesel vehicles above 2000 cc in Delhi/NCR, vehicle scrappage policy etc have adversely impacted automobile industry in recent months. We are looking forward towards Government to provide impetus to improve consumer sentiments and purchasing power which should in turn help the auto industry.

We expect that the fiscal budget should provide boost to the consumption pattern, which is not inflationary, along with reducing borrowing cost for sectors particularly real estate and automobile sector along with lowering personal income taxes to increase disposable income.

Lowering of corporate taxes to commensurate the adverse demonetisation impact and tax incentives for environmental friendly vehicles are highly expected from this budget. In addition to these, incentives for using alternative fuel, introducing laws for mandatory replacement of old vehicles and also provide incentives for fleet modernisation are being expected from the union budget.

On a macro front, the expected increase from budgets for the construction and infrastructure developmental activities would not only benefit overall India's economic growth but also growth for commercial vehicles segment.

D C Sharma, group CFO, Minda Corporation

We are cautiously monitoring the developments relating to the roll out of the Goods & Services Tax (GST) and are optimistic of its positive implications for the automobile industries in the mid to long term. The new uniform tax structure is expected to create a vibrant business environment and help auto industry to positively contribute to the GDP.

The proposed GST would undoubtedly require corporates to recalibrate their business models to realign with the new taxation system. Small passenger vehicles, two wheelers and LCVs are expected to be the key beneficiary of lower taxation

Due to emerging technology trends and regulatory requirements on safety and emission, a lot of new opportunities are emerging for auto component sector. Heavy capital investments for high level of competence in electronics with state of the art R&D and validation/testing facilities for electronic products is inevitable. Weighted deduction for new investment towards capital and revenue R&D expenditure should be extended for another 3 years to support research and development initiatives.

Closing comments

Although, current automobile industry continues to face short term challenges on account of issues such as impending implementation of GST, demonetisation issues etc but we have strong faith in central government's pro-business strategies and forthcoming fiscal budget as government is undoubtedly working to make India an investor friendly place. These reformative measures by central government would eventually make our system more accountable and efficient.

D C Sharma is the group CFO of Minda Corporation