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Growth Driver & Opportunities in Automobile Sector

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Demographically, politically and economically, automotive industry in India is all set for rapid growth, servicing not only the domestic demand but also export opportunities.

Demographically – A predicted increase in India's young & working-age population along with an increase in disposable income is likely to help grow the market for vehicles. In other words, easier access to credit & financing options, rising prosperity and increase in affordability of consumers is expected to see a significant growth in the sales volume of four-wheelers, although two wheelers will still remain the primary choice for the majority of purchasers, lifted by greater need from rural areas, the youth market and women. Demand for commercial vehicles is also expected to increase due to the upcoming high level of activity in infrastructure sector.

Politically – Favourable government policies like Make in India, lower excise duties, automotive mission plans, the constitution of NEMMP (National Electric Mobility Mission Plan 2020) and FAME (Faster Adoption and Manufacturing of Hybrid land Electric Vehicle) is expected to give a huge boost to the sector. In addition, 100% FDI under the automatic route in the auto sector, subject to all the applicable regulations and laws and automatic approval for foreign equity investment up to 100% with no minimum investment criteria is further expected to set the exciting outlook for the sector. Government of India thus have a very clear vision to make India an auto manufacturing hub.

Opportunities – Domestically, with the changes in regulations, technologies, manufacturing facilities, services and distribution networks, some consolidations might occur, in order to fulfil the government's move towards the electrical mobility thus achieving the targets of Paris Climate Accord.

The components and other ancillary sector is also in a strong position to cash-in on India's automotive sector growth, cost-effectiveness, profitability and globally-recognized engineering capabilities. As the benefits of acquisitions/ consolidations become more apparent, the sector would be better able in promoting standardization and meet customer demands. OEMs are already planning for the future - enabling themselves to access global technology and experience, and permitting them to grow their ranges with the growth akin to the global environment so as to have fewer financial risks in the coming decades. ***This exciting outlook for the industry is set against a backdrop of three potentially game-changing transportation trends – the move towards greener, electrical transport vehicles, a technological disruption in terms of fully autonomous or self-driving vehicles and the growing popularity of the ride sharing options as the urban mass mobility schemes so as to service increasing urbanisation.***

1

Green Revolution: India, a highly price sensitive economy will be a little bit slow in adoption of green vehicles unless the same is spurred by government mandates. Although the major players are already equipped/ are working to improve capabilities so as to develop cleaner vehicles, they do not see much merit in commercializing these technologies until the green revolution gains momentum in India similar to that of China or Scandinavian or other European countries. This push may only be provided through various political legislation that should achieve the market scale required for commercial viability. Manufacturers are placing greater faith in hybrid technologies than in complete battery-powered alternatives because the necessary support infrastructure, such as recharge stations, is not yet in place for the widespread adoption of the latter.

2

Autonomous Revolution: Since the 1980s, automotive industry worldwide has been actively trying to understand the potential and possibilities of autonomous vehicle technology, with developments advancing rapidly in the past decade. It is now being said that Advanced Driver Assistance System (ADAS) aka autonomous vehicles will be as essential to future passengers as seat belts are to today's. Notably, India isn't hopping on this bandwagon as the focus of the present government is to create more jobs so as to arrest unemployment but it's hardly a matter of time when there will be a sea-change in the way people think about owning cars over the next decade in India, and that that will push for the move towards self-driving technology.

3

Mobility Revolution: Slowly & gradually, use of public transport in India has declined as private vehicle ownership (likes of Ola and Uber) has boomed, but with the increasing strain on the road infrastructure in major cities, popularity of ride sharing is continuously growing. Car ownership has now become more expensive, inefficient and less appealing for urban millennials. And thus there lies an opportunity for the manufacturers to become involved with the Urban Mass Mobility Schemes such as metro systems and buses so as to improve links between different modes of transport.

Cybercrime in India

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India has done enough to be globally acknowledged as an Information Technology superpower, it still has a lot to enhance its cyber security. For instance, the United Nations classified India as still being a maturing nation in a global index that ranked all countries on the strength of their cyber security, indicating that there's still a long way to go before it can rest on its laurels. Additionally, according to Symantec's 2017 Internet Cyber Security Threat Report, India was ranked as the fifth most vulnerable country in the world in terms of potential cyber security breaches.

As Indian government has embarked on a programme to turn the country into a digital economy and this is likely to help trigger a fresh wave of economic growth, attract more investment, and create new jobs, across multiple sectors. However, it also poses a big challenge of cyber security

Cyber Security Challenges in Digital India –

- **Digital Data Threat:** India sees a net outflow of data as data servers of majority of digital service providers take information highways to West. Hence, India has largely become a net exporter of information especially with social media making deep inroads.

- **Digital Illiteracy**: Amidst the push for digital economy, India faces widespread digital illiteracy which makes Indian citizens highly susceptible to cyber fraud, cyber theft, etc.

- **Supply Chain Inter-connection**: The supply chains are increasingly interconnected. Companies are urging vendors and customers to join their networks. This makes a company's security wall thin.

- **Lack of Infrastructure:** CERT-In is understaffed to manage the reporting rise in cybercrimes in India and NASSCOM has projected, India would need 1 million cyber security experts by 2020.

- **Lack of Awareness:** The private sector in India fails to report and respond to security breaches in digital networks, and also there is lack of awareness among internet users about Privacy enhancing technologies.

Government of India has taken several steps to ensure India's cyber security remains a priority. The setting up of the National Cyber Coordination Centre has been incredibly promising in this regard, as has been the creation of the Cyber Operation Centre and the National Critical Information Infrastructure Protection Centre (NCIIPC). These initiatives have to be balanced with sensitisation programmes to ensure that the persons involved in the system understand the effects of cybercrime and act expeditiously

Large technology firms in India should collaborate and create solutions that increase efficiency in cyber security management. Security controls need to move outward, beginning at the application level where such frauds can be caught easily and companies should run regular tests which simulate real life attacks. However, when every network has monitoring that detects changes, data can be protected. Further, companies need to start cooperating with peers to learn from each other's experiences, identify potential attack scenarios, identify hidden threats and co-develop a security framework. Organisation should also provide training to their employees about the cyber security management. There is a need to change the perception of cybersecurity from being a passive agent, to an active business enabler.

Tough laws are needed to put in place for perpetrators of cybercrime to ensure such criminals are deterred effectively. Cyber security infrastructure needs to be set up to defend against attacks. Devices with better security measures should be made cheaper to enable wider access. India is soon to transform into a digital economy. The challenges we continue to face on this front are greater than ever and, as such, there's still more work that needs to be done. It is now up to companies to ensure they are ready and prepared to harness and exploit the opportunities this evolution will bring. The only way to do that is to ensure that cybersecurity finds its way into the agenda.

"BUDGET 2018: A juggle between Populism and Growth"

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Come February the 1st all eyes and cameras will be trained on just one man, the Finance Minister Mr. Arun Jaitley. No one would ideally want to be in his shoes as his talk is a tough one – a juggle between populism and growth favouring budgets. His party having just about scraped through with a razor thin majority in its stronghold and Prime Minister's backyard of Gujarat, robs him of the freedom he would want in a penultimate year to the general elections and now Mr. Jaitley has to don two caps, that of an astute politician who calculates the electoral math while also making sure the work done over the years through disruptive yet reformist steps like Demonetization are not undone while also tackling the biggest Achilles heel of this government – Job Creation.

One of the first priorities of Mr. Jaitley and this government would be to revive growth, which has fallen to the same quarterly levels as it was when Mr. Modi roared into power in 2014. But the most important thing to keep in mind while pushing for high growth will be to stay true to and not give up on fiscal consolidation. Growth rate fell to the 6% levels while the government has already shot through its fiscal target for the fiscal year 2017-18 in the month of November only with a good one quarter more to go, this hurts investor confidence and thus must be avoided.

The second challenge is to balance the fiscal spend between giving more to vote winning populist schemes like PM Awas Yojna and Swachh Bharat while also making sure that the infrastructure spend doesn't suffer as with less than enthusiastic pick in private investment majority if not all job creation maybe through the creation of jobs in the infrastructure sector, a place where India lags and so is a stone that can kill two potential birds, that of inadequate infrastructure and paucity of jobs at once.

The next challenge is very tricky as to how to use the booming bull run on the Indian stock market, which has given a staggering 75% return in the last five years, thus the capital gains from such a bull run are a lucrative opportunity for a government that is already struggling to keep up its revenue streams with GST tax collection falling on a monthly basis. But this taxation on capital gains is a double edged sword and thus the Finance Minister has to tread carefully as too much taxation may lead to a sudden halt in the Bull Run.

Another highlight of the budget can be on the personal and business taxation front wherein the FM has to make sure that he cuts the corporate tax rate from 30 to 25% as mentioned in the budget of 2015 but yet to be fulfilled completed while also reducing the tax burden on the honest tax paying middle class, which also coincidentally happens to be the most loyal voter base of the ruling party. This has to be done without the fear of tax terror or too much overreach on the government's part so that it doesn't hurt the business sentiment.

The final hurdle is perhaps the biggest, the resolution of the agrarian crisis which almost dented the hopes of his party retaining its bastion of Gujarat. There are two ways to go about it and perhaps the FM will need both, one through the rate of infrastructure creation in terms of better cold storages, irrigation infrastructure, as even after all these years of modernization and progress most if not all farmers are still dependent on rains, and more cost effective supply chains that help guard against price shocks and the other way is to keep MSP's as promised to double farmer's income, as promised in their 2014 manifesto but also to keep in mind that inflation which has again kick started its rise back up like it did in the regime of UPA-2.

All in all, the challenges in front of the Finance Minister are both massive and aplenty and thus he has to decide how to balance the best of both worlds, politics and economics and not slip and mess up.

Rural Demand and FMCG Sales: Joined at the Hip

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Major FMCG firms in India have a strong dependency on rural consumption for maintaining/growing sales volumes targets. But in times of macroeconomic shocks they generally are on the defensive and tend to wait the storm out. Case in point: Both demonetisation and GST reforms in the past 15 months have been detrimental to that end since both rural supply and demand took mighty blows on the back of the Centre's financial initiatives. The former caused a shortage of money supply in the short run leading to a short term loss of livelihood for agricultural labourers, the exact measure of which has not been accurately gauged by any reputable agency so far. The latter caused significant friction in the distribution system affecting supply and stocking of FMCG goods in rural retail. Despite a rewarding monsoon in 2016 and an average one in 2017, the upturn in the employment statistics of seasonal labourers solely due to this reason was marginal at best. This situation is furthered by the lack of significant growth in wages. In fact, Y-o-Y wage growth for agricultural labourers is at a 10 year low as of 2017.

These seasonal labourers form 30% of the rural earners. The remaining 70% are land owners who have a fairly heterogeneous income profile. Majority of land owners have marginal holdings (<1 hectare of land) due to which 39-41% of their income is accounted for as wages yielded from working on bigger holdings of other farmers. Agricultural yields due to favourable monsoon seasons necessitated a short term rise in employment of seasonal labourers. However this increase in costs was not offset by a possible increase in revenue per hectare due to a fall in prices of agricultural goods last year. This reduced overall rural disposable income further and in turn reduced consumption demand further.

As a response to this situation, populist remedies such as managing up to a 3rd of total farm loan waivers have been taken up in major agricultural states such Punjab, UP and Maharashtra. Other states in the South are likely to resort to this measure due to impending elections warranting the appeasement of the voters of the incumbents. However, as pointed out by the RBI, these measures are counterproductive in the long run for two reasons: the first being that it is likely to account for at least 0.5% of the GDP for this FY (an enormous cost borne due to lack of safety nets and considerations provided by the Centre), the second being that this move will likely cause banks to increase interest rates due to negative sentiments surrounding farmer loans. This sets a bad long term precedent as farmers are likely to default on their loans at the first sign of financial distress. This will be followed by State and Central governments arranging bailouts to protect the interests of their voting population. Banks will hike interest rates again and this will alienate farmers who are in genuine need of loans that will be paid back in full. A vicious cycle is thus created.

This problem can be managed by a Fiscal Budget that manages prices and agricultural profits vis-à-vis subsidies, loan waivers and agricultural schemes. And it is very likely that these measures will indeed be taken up due to the ease of execution during a time bound election season. However, these benefits of these measures are not sustainable in the slightest due to the lack of institutional backing and the lack of infrastructure support for farmers. Capital investments for the latter in the way of storage facilities and Government sponsored distribution channels have to be created so as to somewhat insulate farmers from macroeconomic shocks such as those of yesteryears.

Meanwhile, FMCG players have to focus inwards for a marketing solution to capture more real estate in the rural consumer's mind so that when demand increases eventually, they are aware of the products they need to look out for. A possible means could be how HUL resorted to audio entertainment on mobile phones in 2015 and leveraged this channel to push products of categories that faced stagnancy in rural markets. Further tech based communication remains the best way to prepare for a bump in sales when the market eventually normalises in the next few months.

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The need to relook 'fiscal spending' patterns

The old saying goes, "Make Hay while the sun shines", but India has been found lagging when it comes to having enough Hay for dark, gloomy days.

The Indian finance minister has committed himself to fiscal tightening with a self-proclaimed target of spending not exceeding 3.2% of the GDP. But in a scenario with weak growth and low private sector contribution, shouldn't the Indian government be loosening rather than tightening its purse strings?

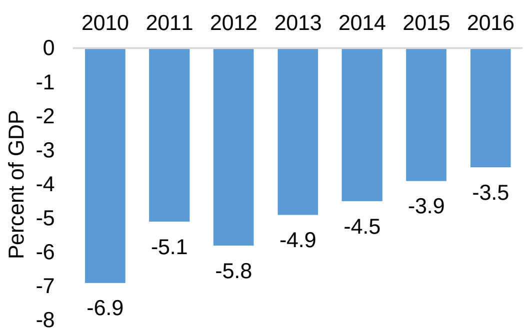
It all boils down to India following a pro-cyclical rather than a counter cyclical fiscal strategy. In times of high growth when tax revenues are buoyant and funds easy to come by, the Indian government fritters away it gains by spending on often wasteful subsidies and expenditures. This is the time when it should have been tightening, considering that it doesn't need to spend much to support the economy with the private sector contributing enough. But in a scenario of weak growth and weaker private sector investment, India is now contrarily tightening its belt to appease fiscal hawks and global rating agencies. This is the time when the government should go out gangbusters when it comes to spending so as to crowd in spending and support the private sector.

As can be seen from the chart, the high growth years from 2010-12 saw high deficits ranging from 6.9 to 5.8%. This started decreasing the following year onwards. Coincidentally, this is also when India's growth hit a slowdown with September 2013 seeing the famous Taper Tantrum and the consequent run on the Indian Rupee.

In a bid to appease rating agencies and bond market hawks, India is committing itself to tighter deficit targets. But shouldn't this credibility have easily been built some years ago when such austerity would have been easier to practice with booming tax revenues and high growth?

This is a question that should be pondered over.

Indian Government Budget



Source: Trading Economics, Ministry of Finance, Govt. of India

Outdoor Advertising Industry goes Green!

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Can you recall the last billboard or hoarding you saw while travelling to work? Did you ever think that these can also be a plausible reason of pollution?

In this ever growing concern for pollution and the increasing awareness among individuals and organisations about the need to protect the environment, the outdoor advertising industry is also not behind! With huge advancements in technology, giants such as EFI Vutek and HP have come out with green printing options in their technology. These printers which can print up to a length of 5m have been specially equipped to not emit any harmful fumes during printing to make these machines eco-friendly. The media that is being used for large format printing is also green which means that the environment has not been harmed during their formation.

There is an increasing trend among multinational firms to opt for greener options in all their activities. In fact, many organisations have undertaken environmental protection as a part of their CSR activities. For instance, recently State Bank of India has taken an initiative for a healthy living and organised a Green Marathon in Mumbai with a motive to create awareness about the serious imbalance in nature and in human life. And to catch the attention of Mumbaikars on the go, King-size hoardings have been used across Mumbai to promote the event with relevant details.

This is just one of the many instances where organisations are realising the importance of preservation of our environment. It is still a long way that we have to go, but the first steps have surely been taken in the right direction!

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