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Industry Spotlight Vol-II

Indian Auto & Auto Components Industry

CRIF Together to the next level

sidbi

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Preamble

MSME sector plays a critical role in the economic growth of our nation. In India, more than 6 crore MSMEs contribute around 30.3% of the GDP and provide employment to more than 11 crore persons. The sector has also been a major export contributor, with 49.8% share in the total exports during FY 2020. During the recent years, the sector has undergone various structural changes on account of introduction of GST, formalization etc., which contributed significantly to the robustness of the sector.

MSME sector is a vibrant and dynamic sector and holds the promise of taking the GDP growth of the nation to next level. However, the sector has also been badly affected, at times, due to the global trade tensions and the slowdown in demand affecting the large corporates. Accordingly, it becomes critical for the policy makers to frame policies based on real time tracking of the data. Flow of credit has always been a good indicator for assessing the health of the industry sectors and their prospects.

In view of the above, SIDBI and CRIF High Mark have collaborated to present the "Industry Spotlight" report, which presents sectoral deep dive of a prospective export intensive industry sector in its each edition. The report analyses the credit landscape of the sector, major lenders, sectoral composition, borrower segments along with its risk analysis. The unique feature of the report is the analysis of credit flow at cluster level, with further slicing at the level of established v/s emerging clusters in the respective industry sector, while factoring the state of MSMEs in the respective cluster.

Clusters have been the mainstay of the Indian growth story and through this report, SIDBI and CRIF High Mark aim to provide more granular cluster level data to the policymakers, to enable them to identify the pain areas in the industry sector. The quarterly report shall cover one industry sector in each edition and shall revisit the sectors after covering the major sectors in first round.

The credit profile in the report pertains to finance extended to auto and auto components manufacturers. This report does not cover bank/non-bank finance for purchase of automobiles (two-wheelers, passenger vehicles, commercial vehicles). The credit analysis presented in this report has been done purely on fund-based facilities i.e. considering Term Loans, Working Capital Loans, etc. and non fund-based facilities have been excluded from the analysis.

Borrower segments are segregated based on the overall credit exposure of enterprises, inclusive of funded and non-funded exposure i.e. Micro segment being <1 crore exposure, Small 1 crore - 10 crore, Medium 10 crore - 50 crore, Mid Corporates 50 crore – 100 crore and Large Corporates >100 crore exposure.

The report is an amalgamation of insights from primary data reported to the bureau as of June 2020 and secondary data collated from publicly available domains.

Indian Auto and Auto Components Industry

Executive Summary

The auto and auto components industry is one of the key sectors of the Indian economy, driving macro-economic growth and employment in the country. Constituted by players of all sizes, from large corporates to micro entities and spread across clusters throughout the length and breadth of the country, the auto and auto components industry contributes 7% to India's GDP, nearly 50% to manufacturing GDP, provides employment to more than 3.7 crore persons[1] and is a front runner in driving exports.

Recent slowdown in the sector and impact of the COVID-19 pandemic: While the industry has been growing in terms of production and turnover over the last several years, the recent demand slump in the domestic and global auto markets, tighter access to credit, coupled with policy and market developments in the country have had a severe impact on the auto and auto components sector in 2019. Although experts believed that the industry will bounce back around the last quarter of FY 2019-20, it saw an unprecedented decline in production and sales as the country came to a standstill during the lockdown imposed by the Government to curb the spread of the novel Coronavirus disease (COVID-19) in Mar 2020.

The automobile industry produced 26.36 million vehicles in FY 2019-20[2], witnessing a 15% decline in production over the previous year, with sales reducing by 18%. The total turnover of the auto component industry stood at INR 3.49 lakh crore in FY 2019-20,[3] contracting by 12% over the previous year.

Growth in Credit: The total amount of credit availed by the sector (credit value) as of June 2020 stood at INR 113K[4] crore, witnessing a minor Q-o-Q growth of 1%, owing to the existing demand slump in the market, exacerbated by the suspension of manufacturing activities in the immediate aftermath of the lockdown in Mar 2020. This added to the woes of the sector already undergoing demand slowdown, due to which the growth in credit value during the same quarter previous year was also low at 2.3%. By volume[5] or the number of active loans, the sector as of June 2020 stood at 137.88K.

Portfolio Health: The auto and auto components industry has witnessed declining NPAs (proportion of credit value delinquent by 90+ days) over the last 6 quarters, standing at 9.95% as of June 2020. The NPAs declined by nearly 3% in a span of one year and by 1.5% over the previous quarter.

Export Credit Growth: Exports of the sector also felt the impact of the slowdown in the industry. Overall amount of export credit (value) saw a huge drop of 35% from Dec 2018 to Mar 2019. Exhibiting some signs of recovery, export credit witnessed growth of 5% Q-o-Q as of Sep 2019, falling again by 5.1% as of Dec 2019. The COVID-19 pandemic and the nationwide lockdown in Mar 2020, severely impacted exports of auto and auto components industry as well, with export credit declining by 20% over the previous quarter as of June 2020 and by 14% over June 2019.

[1] GDP contribution and employment figures from Industry body Society of Indian Automobile Manufacturers (SIAM)
[2] Industry body Society of Indian Automobile Manufacturers
[3] Industry body Automotive Component Manufacturers Association of India
[4] Figures in 'K' throughout this report refer to 'thousands'
[5] Volume, in the context of credit, refers to the number of loans active/disbursed as applicable, throughout this report

91% of the overall number of loans to the sector is concentrated in micro, small and medium segment of borrowers: The auto and auto components industry has a presence of nearly 1.29 lakh borrowers as of June 2020. The MSME borrower segment occupies a share of 91% in the overall number of loans (credit volume) to the sector as of June 2020. The share of credit to micro borrower segment in the industry is the largest at 58% having increased by 4% over June 2019, while that of small borrower segment has decreased by 1% over June 2019. Medium borrower segment saw a decline in share of nearly 2% Y-o-Y as of June 2020.

80% of the overall credit amount to the sector is concentrated in the top auto clusters: Top 8 auto clusters constitute 80% of the overall amount of credit (credit value) availed by the auto and auto components industry as of June 2020. Within these, established auto clusters (total credit> INR 5000 crore) namely Mumbai - Pune Cluster, Delhi - Gurgaon - Faridabad cluster, Chennai cluster contribute to 93% of the credit portfolio. Sanand (Ahmadabad) cluster and Pithampur cluster are among the emerging clusters identified by the Government under its 'Make in India' programme and display good portfolio growth and performance as of June 2020. MSME credit standing at INR 15.31K crore constitutes only 17% of the credit portfolio in the top 8 auto clusters and witnessed a Y-o-Y growth of 2.3% as of June 2020.

Introduction & Current Market Scenario

The Indian auto and auto components industry has made great strides over the past two decades, positioning itself as the largest market in tractors, second largest in two-wheelers, sixth largest in passenger cars and eighth largest in commercial vehicles, globally. It is one of the key sectors driving macro-economic growth and employment in the country, contributing 7% to India's GDP and providing employment to more than 3.7 crore persons.[6] The auto and auto components sector is also one of the top recipients of foreign direct investment (FDI) and between April 2000 and June 2020, the sector has received FDI amounting to USD 24.5 billion.[7]

The gross turnover of the auto and auto components industry stood at around INR 9.4 lakh crore[8] in 2019-20. Over the past decade, India has established itself as one of the most preferred locations for manufacturing auto and auto components and is a crucial player in India's economic growth. The Government through strong initiatives like 'Make in India' and 'Automotive Mission Plan 2016-26' targets a 4-fold growth in the automobiles sector in India and an addition of 65 million jobs in the country by 2026.

The year 2019 however, saw the auto and auto components sector declining, with its turnover reducing by over 10% in the first half of the year itself compared to the same period previous year. Automobile manufacturing too, during the year, across categories, including passenger vehicles, two-wheelers and commercial vehicles, saw a decline of 13.7% in 2019 at 2.3 crore units as against 2.6 crore units in 2018. The overall slowdown in the economy, liquidity crunch, the crisis in the NBFC sector, increased vehicle prices due to the increase in third party insurance and road tax, uncertainty of stock liquidation before transition to BS VI emission standards and expectations of a possible GST reduction have had a severe impact on the auto and auto components sector in 2019.

Subsequently in the last quarter of FY 2019-20, with the COVID-19 pandemic hitting the world health and eventually the economies, the auto and auto components sector, one of the top manufacturing sectors was hit hard due to the resultant lockdown, labour migration, temporary shutdown of manufacturing plants – something that was unprecedented for the sector, leaving it fraught by idle capacity, low demand, and high cost of production.

With a historic zero sales in the month of April 2020 and only partial resumption of operations in May, the coronavirus pandemic coupled with the already undergoing 18-month slowdown in the industry left Q1 FY 2020-21 to be the worst quarter for sales in a long time.

However, with the gradual easing of the lockdown, as manufacturing has started to open up, vehicle sales have started picking up with July 2020 witnessing improvement in vehicle registration over June 2020. The industry had largely managed to exhaust its BS IV inventory, except a small portion of stock left at the dealerships in COVID-19 containment areas of urban cities.

Experts believe that the demand in the sector will continue to remain buoyant in the coming months, driven by private transport which is expected to bring huge incremental demand for customers avoiding public and other modes of transport in the light of the ongoing pandemic.

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[6] Industry body Society of Indian Automobile Manufacturers
[7] Invest India – National Investment Promotion and Facilitation Agency, Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, Government of India
[8] Turnover for automobile sector extrapolated to 2018-19 from SIAM data available till 2016-17. Turnover for auto components is sourced from ACMA

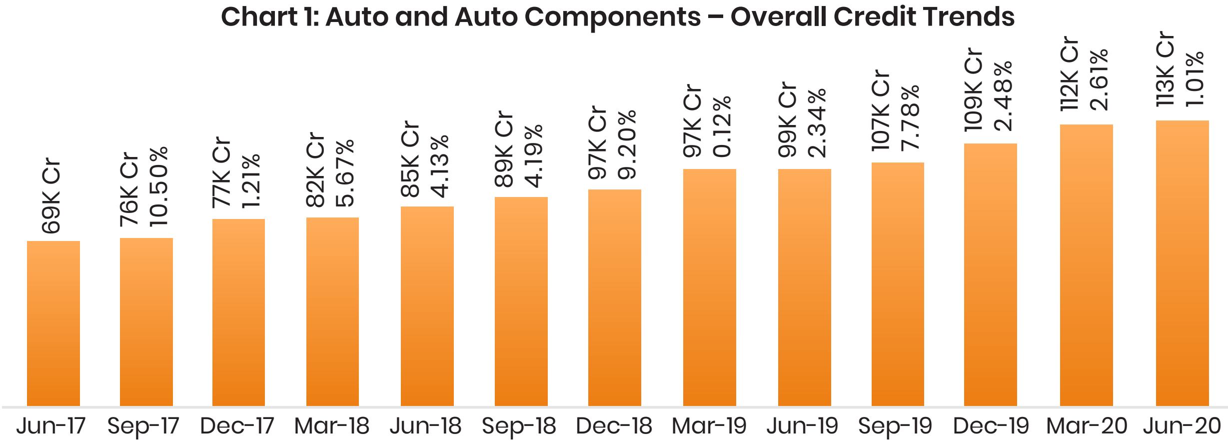
Credit Landscape in the Auto and Auto Components Industry

Portfolio and NPA Trends

The auto and auto components sector has seen sluggish growth in credit demand over the last few quarters, with the lockdown in March 2020 exacerbating the on going demand slump and putting further stress on the supply side. As of June 2020, the quarterly growth in the total amount of credit (credit value) availed by the sector[9] stood at a meagre 1% over Mar 2020 (Refer Chart 1). The total credit availed by the sector by value[10] as of June 2020 stood at INR 113K crore, and by volume[11] or the number of active loans stood at 137.88K.

Credit portfolio by value stands at INR 113K crore as of June 2020, with a sluggish Q-o-Q growth of 1%

Chart 1: Auto and Auto Components – Overall Credit Trends



Source: CRIF Bureau, India

During the years of growth of the sector till 2018, the NPAs (proportion of credit value delinquent by 90+ days, also referred to as 'delinquency' in the report) also saw an upward trend, reaching an all-time high of 16.79% in Dec 2018 largely attributable to working capital loans given by foreign banks to mid and large corporates which are public limited entities. Thereafter, continued lending to this segment of borrowers has been observed leading to an increase in the portfolio size, resulting in a decline in NPAs, reaching 12.93% in Mar 2019. The trend has continued with NPAs declining to a little over 11% by Mar 2020. The nationwide lockdown in Mar 2020 and the moratorium announced by RBI under which, such loans for which repayments were not made during the moratorium period, were not classified as NPAs, further reduced the NPAs for the sector coming into June 2020 to an unprecedented less than 10% mark (Refer Chart 2).

[9] The credit profile in the report pertains to finance extended to auto and auto components manufacturers. This report does not cover bank/non-bank finance for purchase of automobiles (two-wheelers, passenger vehicles, commercial vehicles). The credit analysis presented in this report excludes data for Non-Funded Credit Facilities submitted to the Bureau such as Bank Guarantee, Letter of Credit, Forex based credit facilities, aggregation of all Non-Fund Based Facilities, etc.
[10] Value, in the context of credit, refers to the Rupee value or amount of loans in Rupee crore, throughout this report
[11] Volume, in the context of credit, refers to the number of loans active/disbursed as applicable, throughout this report

NPAs for the auto and auto component sector stand at 9.59%, lowest across quarters in the last 3 years

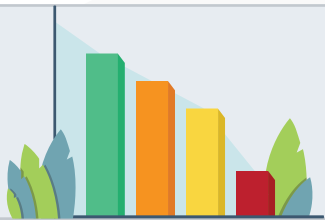
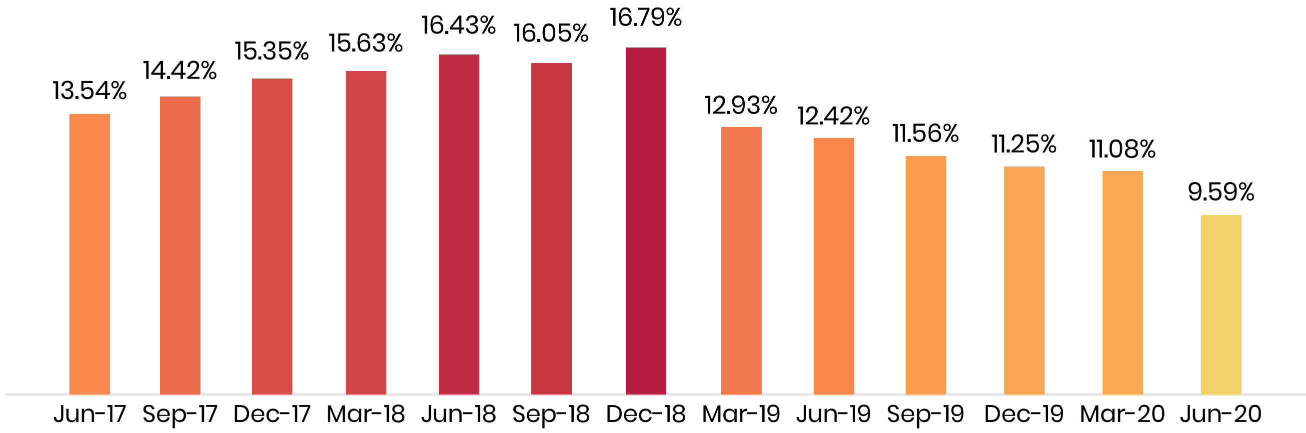


Chart 2: Auto and Auto Components – NPA Trends



Source: CRIF Bureau, India

Public sector banks are the dominant contributors in providing finance to the auto and auto components industry with a share of 34.8% in volume[12] as of June 2020, followed by NBFCs 29.6%, private banks 29.1%, foreign banks 3.5% and others 2.8% (Refer Chart 3a). In terms of value however, private banks have the largest share at 41.4%, followed by foreign banks 24.4%, public sector banks come close at 19.6%, NBFCs 11% and others 3.3% as of June 2020. (Refer Chart 3b).

Public Sector banks have the largest share in credit volume, (34.8%), Private banks, the largest share in value (41.4%)

Chart 3a : Auto and Auto Components – Financing Pattern (Market Share by Volume)

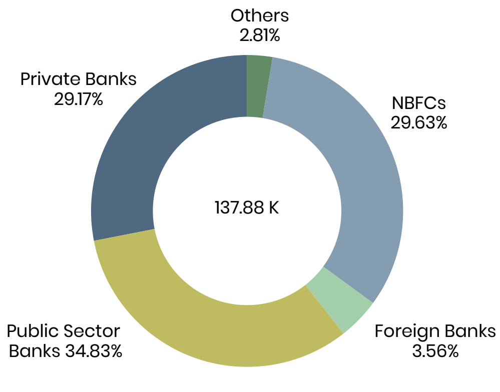
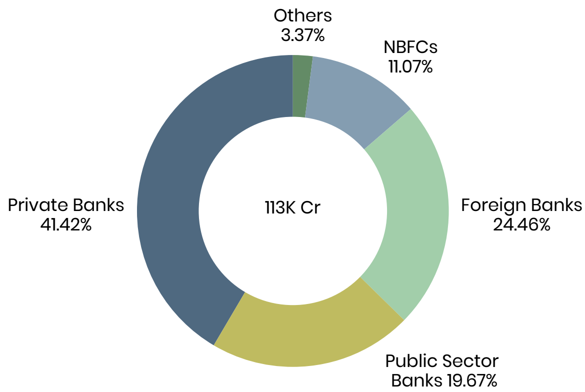


Chart 3b: Auto and Auto Components – Financing Pattern (Market Share by Value)



Source: CRIF Bureau, India

[12] Volume refers to the number of active loans availed by the auto and auto components sector.

Out of the total credit availed by the auto and auto components sector, term loans constitute 48%, followed by working capital loans at 33% and other funded credit facilities[13] 18% (Refer Table 1a). The NPAs of term loans stand at 14.7%, of working capital loans at 5.2% as of June 2020 (Refer Table 1b). Out of the total finance availed as of June 2020, term loans credit offered by private banks is at 23.1%. Corresponding NPAs stand at 1.45% as of June 2020. Term loans credit offered by Public sector Banks has a share of 10.1% of the overall portfolio as of June 2020, while the corresponding NPAs stand at 57.5% largely attributable to the deteriorating 90+ days past due performance of loans given to the auto and auto components sector prior to FY 2016-17, concentrated largely with mid and large corporate borrowers, which are mostly private limited and partnership-based entities. For working capital loans credit too, private sector banks have the largest share, 12.7% of the overall credit with delinquency at 1.8%, as of June 2020. Out of the overall credit as of June 2020, working capital loans offered by foreign banks stands at 10.4% and corresponding delinquencies at 3.5%.

As of June 2020, term loans credit constitutes 48% of the total credit offered, Working capital credit at 33%

Table 1a: Product Categories and Lender Mix (Value)

Lender Type	TL	WC	OTHERS	Grand Total
Private Banks	26K Cr 23.18%	14K Cr 12.74%	6K Cr 5.50%	47K Cr 41.42%
Foreign Banks	6K Cr 5.04%	12K Cr 10.42%	10K Cr 9.00%	28K Cr 24.46%
Public Sector Banks	12K Cr 10.15%	8K Cr 7.17%	3K Cr 2.35%	22K Cr 19.67%
NBFCs	8K Cr 7.31%	2K Cr 2.08%	2K Cr 1.68%	13K Cr 11.07%
Others	2K Cr 2.11%	1K Cr 0.96%	0K Cr 0.30%	4K Cr 3.37%
Grand Total	54K Cr 47.79%	38K Cr 33.36%	21KCr 18.84%	113K Cr 100.00%

Table 1b: Product Categories and Lender Mix Delinquency

Lender Type	TL	WC	OTHERS	Grand Total
Private Banks	1.45%	1.81%	7.71%	2.39%
Foreign Banks	0.52%	3.55%	1.15%	2.04%
Public Sector Banks	57.56%	10.65%	4.56%	34.12%
NBFCs	4.79%	6.65%	5.33%	5.22%
Others	24.10%	26.65%	15.12%	24.02%
Grand Total	14.78%	5.27%	4.09%	9.59%

Source: CRIF Bureau, India

Vintage Analysis on Term Loans given to the sector prior to FY 2016-17 (up to FY 2015-16) shows deteriorating 90+ days past due performance, which is leading to very high delinquencies for Public Sector Banks.

This anomaly is attributed to a very small number of delinquent loans (0.08% of the overall number of loans), which are term loans given to mid and large corporates by Public Sector Banks prior to FY 2016-17 mainly in Delhi - Gurgaon - Faridabad cluster and Mumbai - Pune cluster. These delinquent loans contribute to 57.56% of the public sector banks term loan portfolio.

For loans sanctioned since FY 2016-17, public sector banks are observed to have Term Loan (TL) delinquencies of 6.6% and overall book delinquency of 5.3%. This also reflects in the overall sectoral delinquency of 3.6% & overall TL delinquency of 2.5%.

[13] Other fund based credit facilities include credit data which is submitted to the bureau without a specific credit facility identified against the loan account.

Auto and Auto Components – Borrower Landscape

The auto and auto component sector has a presence of nearly 1.29 lakh borrowers[14] with a diverse mix of business entities as of June 2020. Of these, automobile manufacturing is comprised of mainly mid and large corporate entities whereas auto component manufacturers are mainly micro, small and medium enterprises.[15]

In terms of the number of loans availed (credit volume), 91% is constituted by the MSME borrower segment (Refer Chart 4a). The share of credit to micro borrower segment in the industry is the largest having increased from 53.9% as of June 2019 to 58% as of June 2020, while that of small borrower segment has decreased by 1% over June 2019. Medium borrower segment saw a decline in share of nearly 2% Y-o-Y as of June 2020.

91% of the overall credit by volume is concentrated in the MSME borrower segment. Micro segment borrowers have the largest share of 58%

Chart 4a: Auto and Auto Components – Market Share by Borrower Segments (Volume)

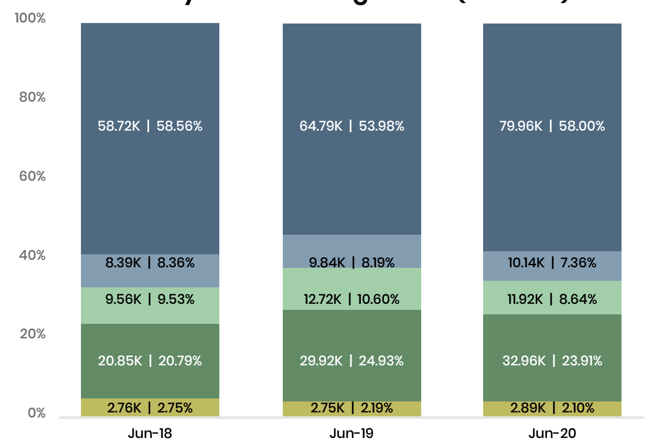
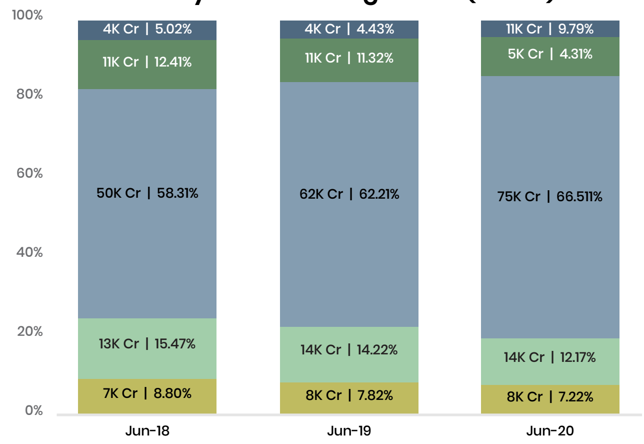


Chart 4b: Auto and Auto Components – Market Share by Borrower Segments (Value)



Micro Small Medium Mid-Corporate Large Corporate

Source: CRIF Bureau, India

Large corporates have had the largest share of credit extended to auto and auto components sector in terms of value, observed over the past 3 years, standing at 66.5% as of June 2020 (Refer Chart 4b). Credit to MSME borrower segment together constitutes 27% by value as of June 2020.

The 'Make in India' initiative of the Indian Government has seen India improving as a destination for setting up manufacturing units and jumped 14 countries to stand at 63 in World Bank's Ease of Doing Business rankings 2020. These enablers have encouraged auto components manufacturers to set up units in India, evidenced by the number of new registrations with MCA increasing Y-o-Y, and as much as a 59% increase in 2018.

[14] Of these borrowers, 62% are credit active as of June 2020

[15] Borrower segments are classified on the basis of the total credit exposure of enterprises. Micro segment <1 crore exposure, Small 1 crore -10 crore, Medium 10 crore -50 crore, Mid Corporates 50 crore – 100 crore and Large Corporates >100 croreexposure

A cross analysis of type of borrower and type of business suggests that 36.6% of the credit by volume is availed by micro enterprises which are proprietorship based entities, while 11% is availed by partnership based entities. Another 7.5% of the credit by volume is given to small enterprises registered as proprietorship based entities, as against 9.3% registered as partnership based entities (Refer Table 2).

37% of the loans to the sector are availed by proprietorship based micro borrowers, 11% by partnership based micro borrowers

Table 2: Auto and Auto Components – Borrower Landscape

Borrower Segment	Proprietorship	Partnership	Private Limited	Public Limited	Others	Grand Total
Micro	36.67%	11.05%	3.65%	0.33%	6.29%	58.00%
Small	7.59%	9.39%	6.01%	0.42%	0.50%	23.91%
Medium	0.49%	2.24%	5.16%	0.64%	0.11%	8.64%
Mid - Corporate	0.02%	0.17%	1.50%	0.41%	0.00%	2.10%
Large Corporate	0.05%	0.04%	3.96%	3.25%	0.05%	7.36%
Grand Total	44.82%	22.89%	20.28%	5.05%	6.96%	100.0%

Source: CRIF Bureau, India

Borrowing and NPA trends in MSME borrower Segment

The total number of loans disbursed to the auto and auto components sector in FY 2019-20 stood at 44.3K. The total credit value of these loans stood at INR 1.01 lakh crore. The first quarter of FY 2020-21 saw a total of 16.58K loans disbursed to the auto and auto components sector (Refer Chart 5a). By value, INR 29K crore was disbursed to the auto and auto components sector in Q1 FY 2020-21 (Refer Chart 5b).

Share of disbursement of loans to MSME borrower segment in Q1 FY 2020-21 has increased by 24% over the same quarter previous year

Chart 5a: Auto & Auto Ancillary - Acquisition Trend by Borrower Segments (Volume)

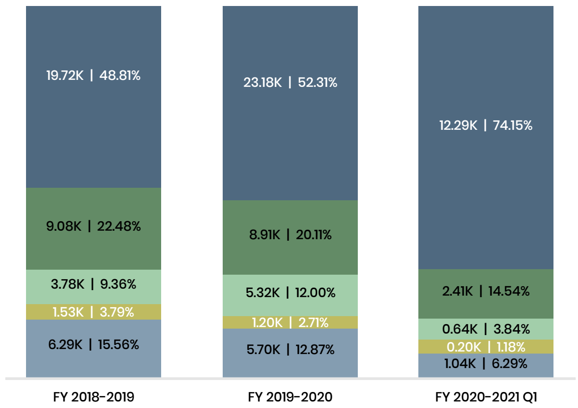
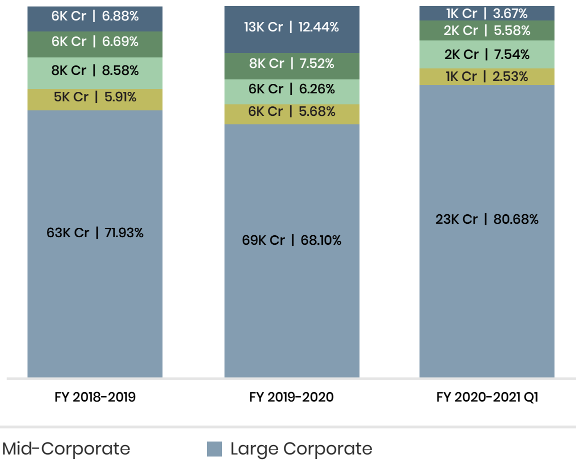


Chart 5b: Auto & Auto Ancillary - Acquisition Trend by Borrower Segments (Value)



Source: CRIF Bureau, India

Out of the total loans availed by the auto and auto component sector in FY 2019-20, 52.3% were by micro borrower segment, standing at 23.1K loans. Share of disbursements to the micro segment in Q1 FY 2020-21 stood at 74% by volume, while that of MSME segment together stood at 92.5% (Refer Chart 5a). By value, share of large corporates in disbursements in Q1 FY 2020-21 stood at 80.6% while that of MSME borrower segment stood at 17%, as of June 2020. (Refer Chart 5b).

Disbursements of loans (volume) to mid and large corporates have been visibly impacted by the lockdown in Mar 2020, witnessing a large decline in share from 21% in Q1 FY 2019-20 to 7% in Q1 FY 2020-21. The MSME borrower segment has received financial relief in May 2020, in the form of guarantee backed emergency credit line (ECLGS), from the Government as part of AatmaNirbhar Bharat Abhiyan.The share of loans (volume) to the micro borrower segment has increased from 50% in Q1 FY 2019-20 to 74% in Q1 FY 2020-21 (Refer Chart 5a).

As of June 2020, delinquencies for all borrower segments have reduced over the previous year, except for Mid corporates where a deterioration was seen by 1.5%.

Chart 6: Auto and Auto Components – Delinquency Trends by Borrower Segments

Borrower Segment	Jun-18	Jun-19	Jun-20
Micro	4K Cr | 6.06%	4K Cr | 9.22%	5K Cr | 7.35%
Small	11K Cr | 5.32%	11K Cr | 8.89%	11K Cr | 7.64%
Medium	13K Cr | 5.65%	14K Cr | 6.99%	14K Cr | 6.71%
Mid - Corporate	7K Cr | 9.99%	8K Cr | 9.70%	8K Cr | 11.27%
Large Corporate	50K Cr | 23.52%	62K Cr | 14.87%	75K Cr | 10.37%
Grand Total	85K Cr | 16.43%	99K Cr | 12.42%	113K Cr | 9.59%

Figure in crore represents the portfolio outstanding of the segment. Percentage figure indicates the delinquency of the segment as of the observation period

Source: CRIF Bureau, India

As of June 2020, delinquency for mid corporates stands highest at 11.27%, increasing by nearly 2% over June 2019, although the quarterly trend has been more or less consistent in the last 4 quarters.. For large corporates, there have been debt recoveries leading to reduction in delinquencies from 14.8% in June 2019 to 10.3% in June 2020. Delinquencies for MSME borrower segments have more or less remained constant in terms of absolute value. However, the MSME delinquencies have reduced as percentage of the overall portfolio over June 2019 (Refer Chart 6).

NPAs for Mid corporates which are proprietorship based entities stood the highest at 40.4% as of June 2020

Table 3: Auto and Auto Components – Borrower Landscape DelinquencyTrends

Borrower Segment	Proprietorship	Partnership	Private Limited	Public Limited	Grand Total
Micro	7.23%	5.94%	8.18%	26.59%	7.35%
Small	9.47%	5.36%	8.71%	6.43%	7.64%
Medium	11.60%	10.22%	6.72%	1.11%	6.71%
Mid - Corporate	40.40%	7.08%	12.87%	8.10%	11.27%
Large Corporate	0.00%	0.04%	14.25%	4.41%	10.37%
Grand Total	9.27%	6.48%	12.62%	4.51%	9.59%

Note:Borrower Business Type as Others with 8% of the total credit by volume is excluded from this analysis.

Source: CRIF Bureau, India

As of June 2020, private limited entities have witnessed maximum repayment stress amounting to 12.6% of its credit portfolio, followed by proprietorship based entities at 9.2%. A cross analysis of NPAs for borrower segments and business type shows that the highest delinquencies are faced by mid corporates which are proprietorship based entities at 40.4%, followed by micro enterprises which are public limited entities at 26.5%. Delinquencies for large corporates which are private limited entities stood at 14.2% while proprietorship based entities, in the medium and small borrower segment saw delinquencies to the tune of 11.6% and 9.4% respectively as of June 2020. (Refer Table 3).

Vintage Analysis on Term Loans given to the sector prior to FY 2016-17 (up to FY 2015-16) shows deteriorating 90+ days past due performance largely for proprietorship and private limited entities to the tune of nearly 50%. Among borrower segments, all except medium borrower segment indicate stressed profiles with delinquencies as high as 40%.

For loans sanctioned since FY 2016-17, borrower segments are observed to have much lower Term Loan (TL) delinquencies and overall book delinquency, also reflected in the overall sectoral delinquency of 9.59%.

Established and Emerging Auto Clusters in India

The auto and auto componentsindustry in India is spread across a large number of clusters. These clusters are formed on the basis of availability of raw material, skilled labour and other support infrastructure and are key components in the growth story of the auto and auto components sector. In all these clusters a symbiotic relationship exists between manufacturers, part suppliers, related services and support industries.

The top 8 automobile clusters together constitute 80% of the credit portfolio as of June 2020

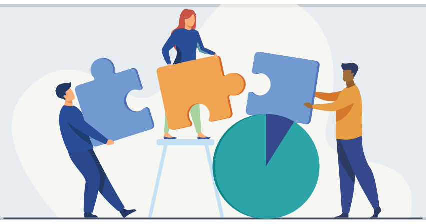
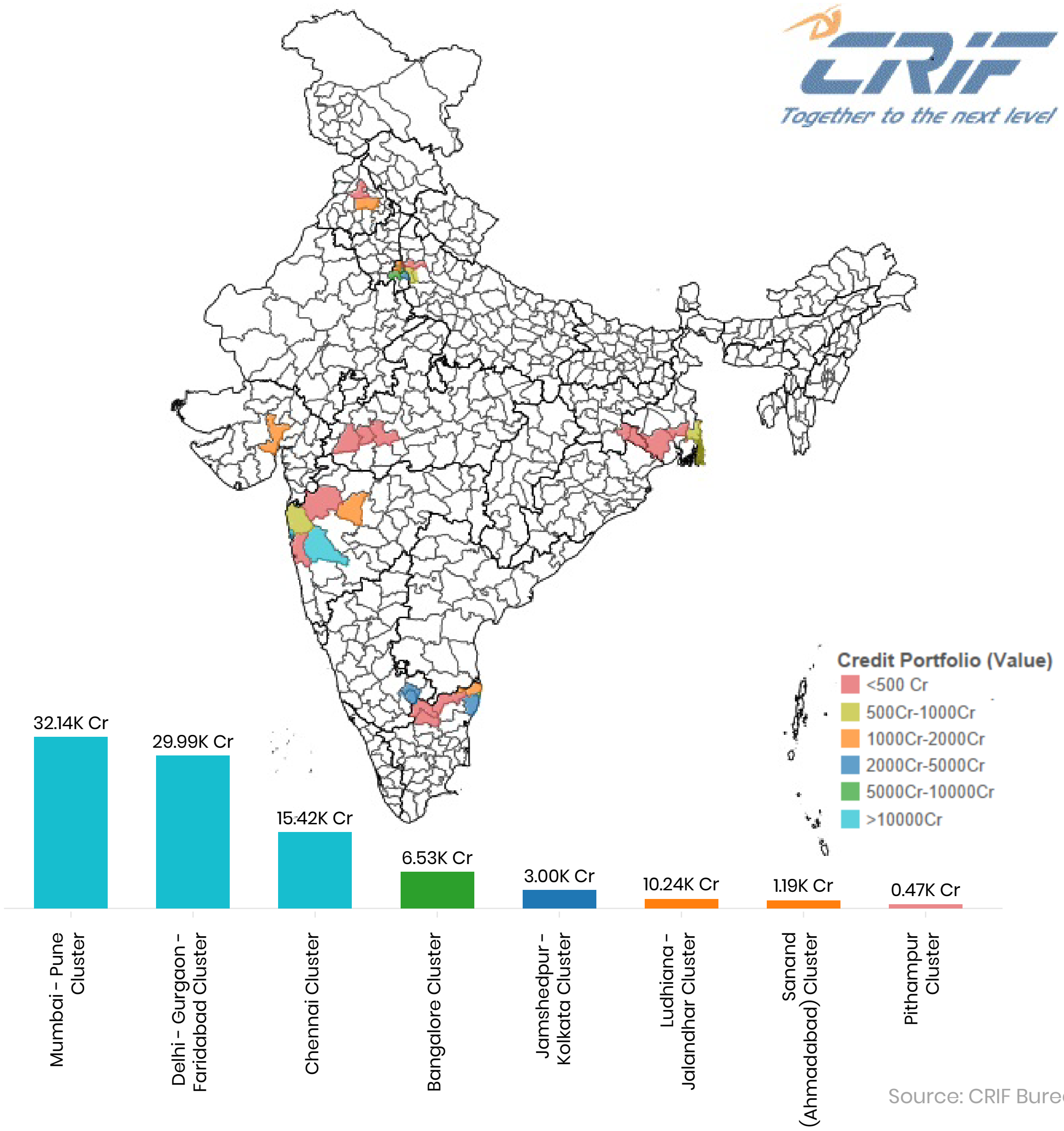


Chart 7: Auto and Auto Components – Top Clusters



Source: CRIF Bureau, India

Cluster	Mumbai Pune Cluster	Delhi - Gurgaon-Faridabad Cluster	Chennai Cluster	Bangalore Cluster	Jamshedpur-Kolkata Cluster	Ludhiana - Jalandhar Cluster	Sanand (Ahmadabad) Cluster	Pithampur Cluster
Number of Credit Active Units	5000-7500	5000-7500	2500-5000	1500-2000	1500-2000	1500-2000	1000-1500	500-1000

The Mumbai – Pune cluster (incl. Aurangabad and Nashik) is the largest cluster having an outstanding portfolio of INR 32.14K crore, and a share of 36% of the overall credit as of June 2020 (Refer Chart 7). Established auto clusters (total credit >INR5000 crore) comprising Mumbai - Pune cluster, Delhi - Gurgaon - Faridabad cluster, Chennai cluster and Bangalore cluster together contribute to 93% of the overall sectoral credit to the top clusters.

Among the top clusters, Mumbai – Pune cluster witnessed a Y-o-Y growth of 37.8% as of June 2020, followed by Chennai cluster at 23% (Refer Table 4). Growth in Mumbai – Pune cluster is mainly on account of Aurangabad and Pune which have grown by 158% and 42% Y-o-Y respectively, driven largely by the mid and large corporates segment. Chennai and Kancheepuram have contributed to the growth of Chennai cluster with 50% and 11% Y-o-Y growth respectively. While Chennai has a larger play of mid and large corporates, growth in Kancheepuram is driven by MSME borrower segment.

The Government of India, under its Make in India programme has identified certain auto clusters with high potential as emerging auto clusters. Within these clusters, in terms of credit infusion, bureau data suggests that Sanand (Ahmadabad) Cluster and Pithampur Cluster saw impressive annual growth as of Dec 2019 at 31% and 19% respectively, despite the slowdown in the market. However, these emerging clusters have been impacted by the lockdown announced in Mar 2020, witnessing a quarterly degrowth of 6% and 11% respectively as of June 2020.

Overall delinquency as of June 2020 in these top clusters stood at 9.7%. Among the established clusters, Delhi-Gurgaon-Faridabad cluster saw the highest delinquency at 18.64%, followed by Mumbai – Pune cluster at 8.21%. Chennai cluster and Bangalore cluster had relatively low delinquency at 1.15% and 1.52% respectively as of June 2020.

The auto and auto component sector is known for its contribution to employment generation. These top 8 clusters alone constitute around 72% of the total employment generated by the sector, as per Government sources[16]. Among these clusters, Chennai cluster constitutes 33% of the employment, followed by Delhi - Gurgaon - Faridabad cluster at 22% and Mumbai-Pune cluster at 21% in 2018-19[17].

MSME borrower segment constitutes only 17% of the credit portfolio in the top 10 clusters

Table 4: Auto and Auto Components - Comparison of Top Auto Clusters

		June 2020								
		Mumbai - Pune Cluster	Delhi - Gurgaon - Faridabad Cluster	Chennai Cluster	Bangalore Cluster	Jamshedpur - Kolkata Cluster	Ludhiana - Jalandhar Cluster	Sanand (Ahmadabad) Cluster	Pithampur Cluster	Total
Overall	Portfolio Outstanding (Cr)	32.14K	29.99K	15.42K	6.53K	3.00K	1.24K	1.19K	0.47K	89.99K
	Y-o-Y Change	37.80%	3.11%	23.2%	1.58%	-18.76%	-34.72%	8.51%	-20.59%	14.40%
	Delinquency 90+ %	8.21%	18.64%	1.15%	1.52%	2.54%	43%	4.55%	5.33%	9.73%
	WC Utilization Ratio	43%	40%	36%	36%	44%	55%	24%	47%	40%
	TL Utilization Ratio	53%	64%	56%	55%	57%	53%	3%	36%	46%
MSME	Portfolio Outstanding (Cr)	4.17K	5.13K	2.79K	0.89K	0.83K	0.63K	0.52K	0.35K	15.31K
	Y-o-Y Change	6.58%	13.39%	-2.10%	-14.42%	-11.36%	-7.02%	-21.43%	1.64%	2.43%
	Delinquency 90+ %	11.76%	4.17%	4.55%	6.51%	3.51%	14.40%	10.46%	4.84%	7.06%
	WC Utilization Ratio	33%	45%	48%	26%	51%	57%	24%	57%	40%
	TL Utilization Ratio	47%	50%	38%	32%	25%	55%	52%	40%	43%

Source: CRIF Bureau, India

In terms of utilisation of funds, the overall utilisation of Working Capital loans (WC) stands at 40%, and at 46% for Term Loans (TL). Term Loans utilisation refer to the ratio of outstanding balance by the total sanctioned loan amount, while Working Capital utilisation refers to the ratio of outstanding balance by the drawing power of the borrower. Higher TL utilisation ratio indicates higher deployment of credit for capacity expansion needs, while higher WC utilisation ratio indicates higher deployment of credit for meeting operational needs of the business.

Among the top clusters, Pithampur cluster has the highest utilisation of WC at 47%, followed by Ludhiana-Jalandhar cluster at 44%. Delhi - Gurgaon - Faridabad has the highest utilisation of TL at 64%, followed by Ludhiana-Jalandhar cluster at 57%.

Within the top clusters, credit availed by the MSME borrower segment, constitutes only 17% of the total credit value as of June 2020, standing at INR 15.31K crore. The sector witnessed a growth of 2.4% Y-o-Y, mainly on account of Delhi - Gurgaon - Faridabad and Mumbai – Pune cluster witnessing a Y-o-Y growth of 13.3% and 6.5% repectively. NPAs in the MSME borrower segment stood at 7% as of June 2020, while the overall utilisation ratio of WC stood at 40% and TL at 43%. Under the MSME borrower segment, Ludhiana-Jalandhar cluster and Pithampur cluster saw the highest utilisation of WC at 57%, while Ludhiana-Jalandhar cluster also saw the highest utilisation of TL at 55% as of June 2020.

Exports Credit Landscape

The auto and auto components industry is not just struggling to recover from the pandemic impact on the domestic front, but its exports, especially to neighbouring countries, are being impacted due to foreign currency challenges, export orders drying up and border closures to Nepal and Bangladesh.

Europe and North America continue to be the largest markets for export of auto components by region with a share of 30% each followed by Asia at 27%. USA is the largest country of Indian auto components exports in 2019-20 with a share of 26% (Refer Chart 8a,b).

Chart 8a: Auto Components – Exports by Region 2019-20

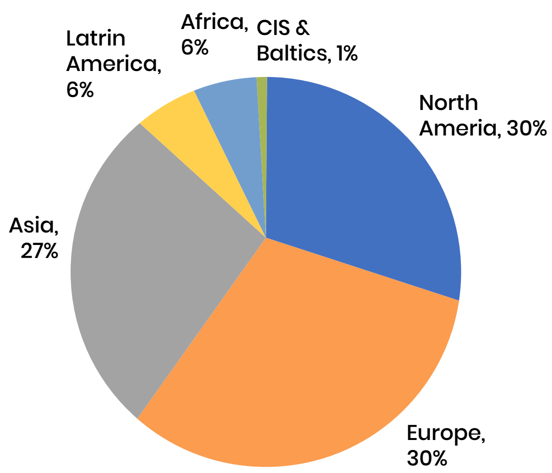
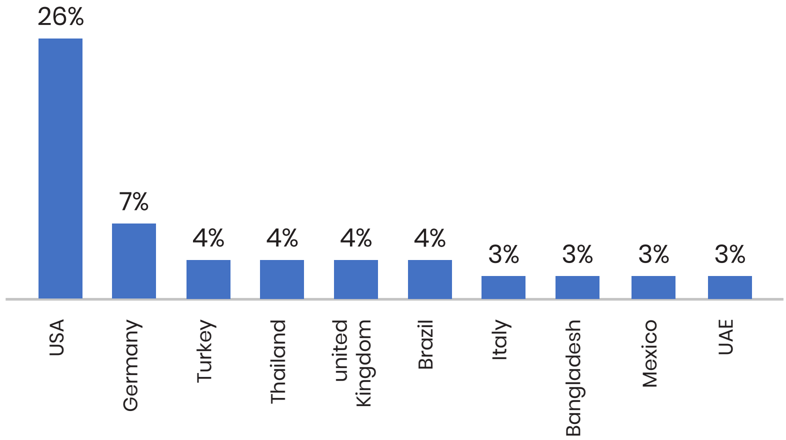


Chart 8b: Auto Components – Top 10 Export Destinations 2019-20



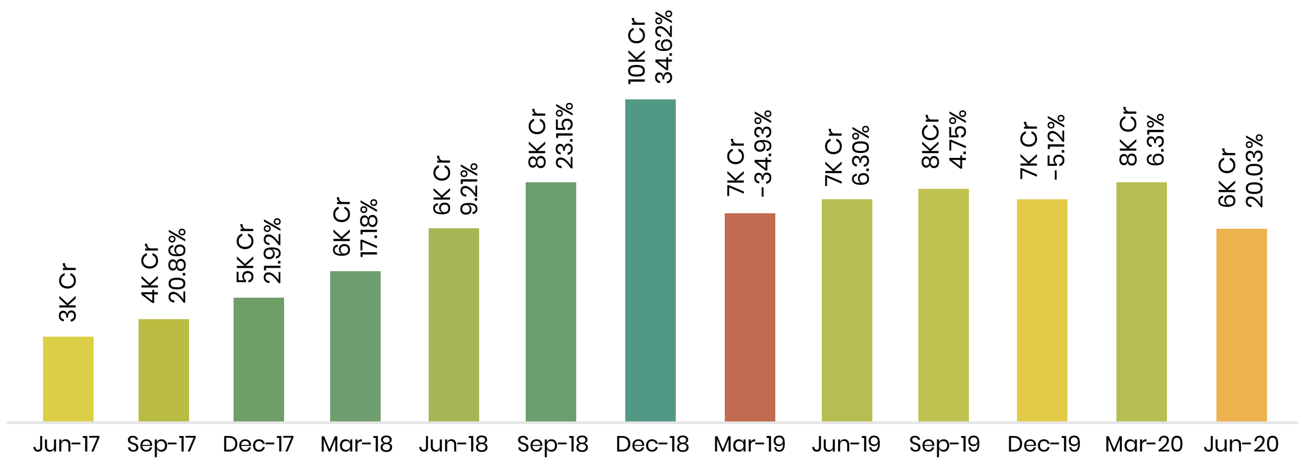
Source: Annual Report 2019-20, ACMA

Export credit to the sector has seen a continuous increase from Mar 2017, peaking with a 35% Q-o-Q growth in terms of value in Dec 2018. Thereafter, impacted by the slowdown in the industry, export credit saw a huge drop of 35% into Mar 2019. The next two quarters saw an increase in export credit at 6.3% and 4.7% respectively. Q3 FY 2019-20, again saw a dip in export credit of 5.1%.

The COVID-19 pandemic and the nationwide lockdown in Mar 2020, severely impacted exports of auto and auto components sector as well, with export credit declining by 20% over the previous quarter as of June 2020 and by 14% over June 2019 (Refer Chart 9).

Export credit to the sector witnessed a quarterly decline of 20% as of June 2020

Chart 9: Auto and Auto Components – Export Credit Trends



Source: CRIF Bureau, India

Breakdown of Credit to Automobile Manufacturing and Auto Components Sector

The automobile manufacturing sector comprises two-wheelers, three-wheelers, passenger vehicles and commercial vehicles. In 2019-20, two-wheelers constitute 81% of the market share, followed by passenger vehicles 13%, commercial vehicles 3% and three-wheelers 3%.[18] The auto components sector comprises[19] engine parts, drive transmission and steering parts, body and chassis, suspension and braking parts, electrical parts etc.

26.36 million vehicles were manufactured in the domestic market in FY 2019-20, growing at a CAGR of 2.3% over a period of 4 years from FY 2015-16. India ranked 4th in auto market in 2018. However, in 2019-20, the industry witnessed a 15% decline in production over the previous year, with sales reducing by 18%.[20]

The auto components sector contributes 2.3% to India's GDP and has a share of 4% in India's exports. As of FY 2019-20, the domestic market OEM (Original Equipment Manufacturer) supplies constitute 51% of the auto components market followed by exports at 28% and aftermarket[21] at 20%. The auto component industry stood at INR 3.49 lakh crore in FY 2019-20, contracting by 12% over the previous year. Even under adverse conditions, the domestic aftermarket sales remained steady at INR 0.69 lakh crore registering a growth of 3% over the previous year. Exports stood at INR 1.02 lakh crore as of FY 2019-20 witnessing a degrowth of 4% over FY 2018-19.[22]

Chart 10a: Auto Manufacturing – Growth in Credit

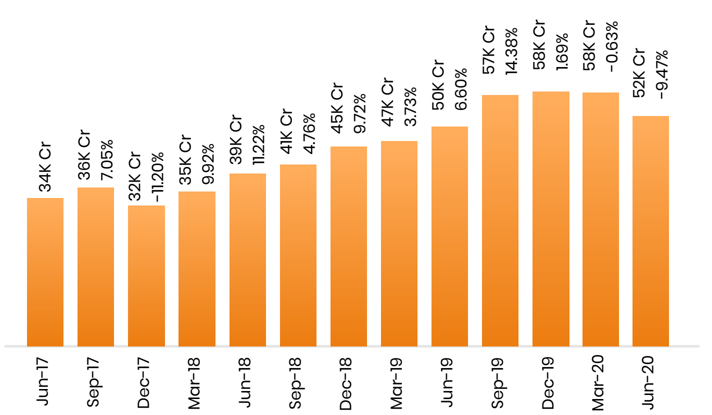
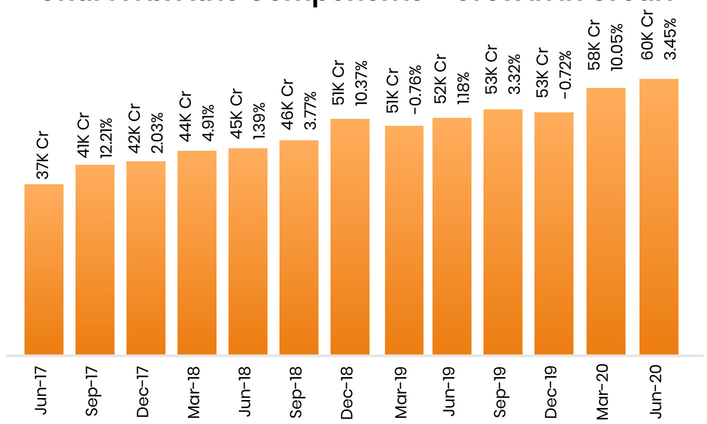


Chart 10b: Auto Components – Growth in Credit

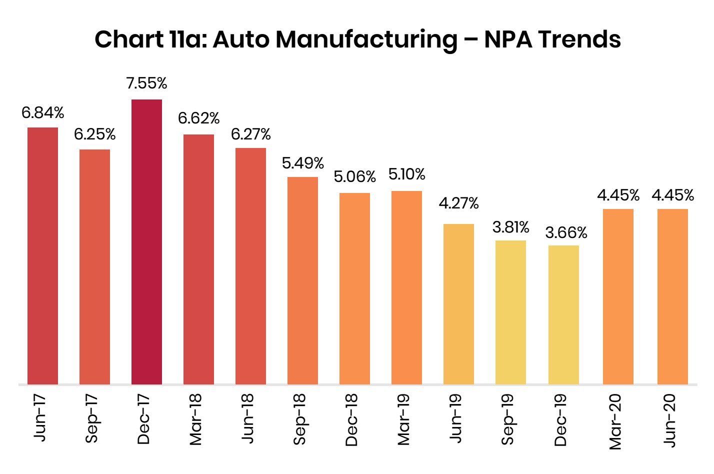


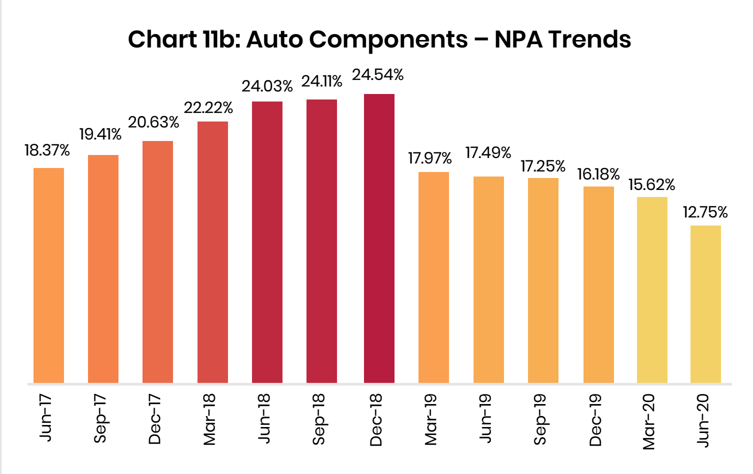
Source: CRIF Bureau, India

As of June 2020, credit to the automobile manufacturing sector saw a quarterly degrowth of nearly 10% over Mar 2020, (Refer Chart 10a). Credit demand in the industry which saw tepid growth of 1.6% impacted by the slowdown in the sector, coming into Dec 2019, declined by 1% in Mar 2020.

Credit to auto components sector has also been impacted by the slowdown in the industry, witnessing a quarterly decline of 0.8% in Dec 2019. However, in line with industry setiments, the sector witnessed 10% growth coming into Mar 2020, while the growth rate came down to 3.4% in June 2020 due to the lockdown (Refer Chart 10b).

[18] Society of Indian Automobile Manufacturers (SIAM)
[19] Industry body Automotive Component Manufacturers Association of India (ACMA)
[20] Society of Indian Automobile Manufacturers (SIAM), Domestic Market Share for 2019-20
[21] Aftermarket is the secondary market of the auto and auto components industry, concerned with the manufacturing, remanufacturing of all vehicle parts, chemicals, equipment, and accessories, after the sale of the automobile by the OEM to the consumer.
[22] Automotive Component Manufacturers Association of India (ACMA)





Source: CRIF Bureau, India

NPA trends in the automobile manufacturing have seen a decline over the previous 8 quarters, from 7.55% in Dec 2017 to 3.66% in Dec 2019, with only a slight increase in March 2019. Coming into Mar 2020, the NPAs of the sector increased to 4.4% and have remained stagnant as of June 2020 (Refer Chart 11a).

On the other hand, auto components sector has witnessed increase in delinquency since June 2017, having peaked in Dec 2018 at nearly 25%. March 2019 saw a 7% drop in NPAs of the sector, attributable to the settlement of WC loans disbursed prior to FY 2016-17, mainly in Mumbai – Pune cluster, leading to a sharp correction in NPAs. As of Dec 2019, NPAs stood high at 16.1% in the auto components sector but witnessed a quarterly decline of 1.08%. NPAs thereafter have reduced and stand at 12.7% as of June 2020 (Refer Chart 11b).

Private banks dominate credit to automobile manufacturers in terms of both volume and value with a share of 34.9% and 49.3% respectively as of June 2020. In terms of volume, Foreign banks have a share of 30.6% in volume and 28.6% share in value. NBFCs have a 19.2% share by volume while their share in value is a meagre 2.8% in credit offered to automobile manufacturers.

For auto components as well, private banks dominate in terms of credit availed by volume and value as of June 2020. Foreign banks have a relatively low share of 4.6% by volume compared to 16.3% by value. On the other hand public sector banks and NBFCs have a larger share by volume at 27.8% and 23% respectively as against 19.7% and 14.5% by value respectively as of June 2020.

Way Forward for Auto and Auto Components Industry

The auto and auto components industry in India accounts for nearly 50% of India's manufacturing GDP. It has been one of the focus areas for the Government owing to its capacity to contribute to domestic sales and exports. The Government through the Automotive Mission Plan 2016 – 2026 intends to position India amongst the top three automobile manufacturing hubs in the world with gross revenue of INR 18.89 lakh crore by 2026.

- **Invested capital in the sector has grown with a CAGR of 6.2% between FY 2013-14 and FY 2017-18.**
- **Employment in the sector has increased with a CAGR of 6.1% between FY 2013-14 and FY 2017-18.**
- **Tamil Nadu, Maharashtra, Haryana, Karnataka, and Jharkhand - top 5 states constitute 78% of the employment generated by the sector in 2018-19**

In line with global trends, the Government has also approved the National Mission on Transformative Mobility and Battery Storage to finalize and implement strategies for transformative mobility and Phased Manufacturing Programmes (PMP) for electric vehicles, their components, and batteries. The financing industry in India is also playing its part in boosting demand by providing easier and cheaper access to finance for manufacturing as well as consumption.

However, despite being one of the foremost sectors driving economic growth of the country, the auto and auto components sector has seen one of its roughest phases in 2019, having witnessed a nearly 18 month period of contraction in demand, recording worst ever sales decline in two decade across segments of the industry.

COVID-19 pandemic and the nationwide lockdown announced by the Government in March 2020, led to zero sales in April 2020 and a drop of nearly 80% in May 2020 for most manufacturers, adding to the woes of the sector. However, the sector has already begun to witness green shoots of recovery, with October 2020 considered the best month in terms of sales in the current fiscal year. Industry experts attribute this to several factors such as pent-up demand from rural and semi-urban markets, reduced interest rates on loans as well as festive season and attractive offers from automakers.

A short survey administered by SIDBI conducted amongst Auto and Auto component units located in major industrial clusters and involving a healthy mix of entities by constitution, turnover, investment in plant and machinery, manpower and nature of manufacturing activity, highlighted the following challenges that were faced by MSMEs and have been accentuated by the pandemic:

Survey Composition

- **Manufacturing entities with a majority of small borrowers and those having less than 50 employees**
- **47% private limited companies, 33% proprietorship entities**
- **67% respondents with turnover less than INR 5 crore and investment >INR 1 crore and up to INR 10 crore in plant & machinery**

Finance

- High rate of interest on loans to MSMEs
- Cash flow/liquidity constraints for MSMEs
- Working capital requirements are not being met

Policy & Procedures

- Lack of incentives for industrial labour to return to work even as the lockdown is lifted
- High GST rate of 28% on auto parts, eg: Tractor and three wheeler parts
- Varying industrial policies for different states
- High amount of paperwork for availing loans from banks

Infrastructure

- Power failure, discontinuous supply of electricity and high tariff rates in industrial areas for MSMEs
- Exorbitant rent in industrial areas prohibitive for MSMEs to start up and operate
- Machinery breakdown

Supply Chain

- High cost of raw material/ Aluminium reduces profit margins
- Restriction in International shipping / transportation amid the COVID-19 crisis
- Dependence on migrant labour and shortage of skilled and unskilled labour post lockdown

Also, the fiscal assistance by the Government to MSMEs through Emergency Credit Line Guarantee Scheme in May 2020 has been observed to have visible effect, with 70% of fresh disbursements (volume) in Q1 FY 2020-21 to the micro borrower segment alone. As of July 1, 2020, public sector banks and private banks together had disbursed INR 52K crore in the form of emergency credit to MSMEs.[23] Other policy measures by RBI such as one-time restructuring of loans, and waiver of compound interest charged on loans of up to INR 2 crore for the 6-month moratorium period from Mar to Aug 2020, are aimed at helping the economy tide over the COVID-19 pandemic induced stress. Measures to reduce cost of funds, promote skilled labour and address infrastructure related concerns will further help in boosting growth of the sector and thereby give an impetus to credit demand in the sector.

- **Projected growth in Credit Portfolio to the Industry 26% by Mar 2022**
- **Industry NPA at 9.5% as of June 2020**
- **MSME Credit to remain consistent by Mar 2022**
- **NPAs for MSME borrower segment projected to increase by 1.2% by Mar 2022**
- **Projected growth of Credit to Mid and Large Corporates 26% by Mar 2022**
- **Mid and large corporates NPA projected to increase by 1.3% by Mar 2022**

[23] Liquidity to MSME rises as bank sanctions cross Rs 1.10L cr, Outlook India, July 4, 2020

DROC
Auto and Auto Components Industry

DRIVERS

- Implementation of second phase of Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles (FAME II) and introduction to tax incentives on EV purchases
- Favourable Government policies such as approval of Production Linked Incentive (PLI) scheme for auto sector and fiscal stimulus to MSMEs in the form of Emergency Credit Line Guarantee Scheme - both as part of AatmaN-irbhar Bharat Abhiyan
- High value of FDI received by the sector - 5% of total FDI inflow to India between April 2000 and March 2020 was to auto and auto components sector

RESTRAINTS

- Tightened liquidity situation and higher cost of borrowing for MSME units in the auto components sector restricts growth with MSME credit to even the top clusters at only 13% of the total credit to the sector
- Availability of land and high cost of land acquisition in established auto clusters is an impediment in set up of new units
- Low quality imports of auto parts from China disrupts fair competition with local manufac-turers

CHALLENGES

- The COVID-19 pandemic and the resultant lockdown has derailed production and exports already dampened by the global slowdown in auto consumption
- Migration of labour due to lockdown has left auto manufactures in distress, with OEMs and auto parts suppliers yet to return to full produc-tion capacity.
- Tougher CO2 emisiion standards and higher investments in new technology exacerbate the challenges faced by the sector in coping in the new normal

OPPORTUNITIES

- Government's 'Make in India' initiatives and GST implementation has aided in emergence of new auto clusters and new registrations of MSME units, translating into a larger potential customer base for formal channels of financing
- Vehicle scrappage policy and increased depreciation may prompt consumers to replace vehicles sooner, increasing both new and used vehicle sales
- Social distancing practices to curb the spread of COVID-19 will drive consumers, who were earlier dependent upon public transport, to purchase their own vehicle

While there is hope for an uptick in demand in the coming months as well, going forward, the recovery of the sector also depends on the spread of COVID-19. India is currently at the tail-end of the first wave of the infection, having successful-ly reduced the spread of COVID-19 compared to other countries. In coping with this new normal, there is need for concerted efforts by the auto and auto components industry, Government and regulators to adopt new and more digitally driven ways and means of doing business, keeping both growth and sustainability in mind, while attempting to reach the pre-pandemic state as soon as possible.

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