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# A Report on
# Economic and Industry Crisis

**GayiAdi Management and Trends Ltd.**

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# Economic scenario (Global & Indian)

The global economic activity is on a halt owing to lockdowns and social distancing imposed on the populations across the countries affected with COVID-19, the expected recovery from the 2019 slowdown is far from the reality.

The economic activity in the advanced economies has come to a standstill with weakened industrial production and tepid retail sales, the consumerist USA has seen a decline in consumer spending, the disruption in the global supply chains due to the halted operations is affecting the demand and supply of the goods across the economies.

The Chinese companies are struggling to recover from aftermath the coronavirus. The profits of the Chinese industrial companies have dropped 34.9% from the march of the last year, improved from a decline of 38.3% in the first two months of this year. The economic activity has resumed with the decline in the cases, yet there still exists a downward pressure as the market demand has not improved, the industrial profits dropped 36.7% from a year ago. China accounts for 20% of the world's manufacturing output, an extended shutdown would have dented the global economy.

Financial markets have become highly volatile from January onwards due to the outbreak of COVID19. Panic selloffs have resulted in wealth destruction in equity markets across advanced and emerging economies alike. Emerging and advanced economy currencies are experiencing severe depreciation pressure on a daily basis because of fire sales due to extreme risk aversion.

International crude prices initially traded with a softening bias from January in the anticipation of demand weakening due to the COVID-19 outbreak. Production cut disagreements among key oil producers, however, set off retaliatory supply scale-ups and a price war that plunged international Brent crude prices to a low of US$ 20 per barrel. The recent debacle that happened on April 20, 2020 when the U.S. benchmark price for crude dropped below zero to a minus $37.63 a barrel owing to slack in demand and piled up inventories has sent a shock across the world.

COVID-19 would impact economic activity in India directly due to lockdowns. The impact of COVID19 on inflation is ambivalent, with a possible increase in food prices is due to potential rise in the cost of non-food items related to supply disruptions.

The national statistics office estimated the real GDP growth to be at 4.7% for Q4:2019-20 and to be 5% for the fiscal 2019-20, the UN report citing the adverse impact of global economy on Indian economy has estimated economic growth to be at 4.8% for the fiscal 2020-21. KPMG has estimated the growth rate to be less than 3% for FY21. In its Global Economic Outlook, Fitch ratings say India's GDP growth will fall to 0.8% FY21 but expected to rebound to 6.7% FY22. Likewise, Goldman Sachs and CRISIL have estimated the growth to be at 3.3% and 1.8% respectively. The lowered estimates of growth are a result of unprecedented global recession underway due to disruptions in the supply chains caused by the lockdowns. Further the FITCH ratings expect a dip in the global GDP to fall by 3.9% in 2020.

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The economic structures across the globe have come to a receding point where the policies are to be revised to the newest formats.

The manufacturing in India is yet to reach a mature stage and being supported by various policies in the forefront, it being in the elementary form can make an opportunity out of the present crisis. China being the largest trading partner for India account for 15% of the imports and only 5% of the exports. The time has come ripe for India to act in establishing itself as a manufacturing hub by attracting foreign manufacturers to setup base in India with appropriate measures ranging from policy making to tax-cuts acting as an impetus for the manufacturers to setup their industries. Several industries of India depend on china for the imports, the prolonged dependence on Chinese imports might be a challenge in future, as any disruption in the supply will raise the prices. The vacuum left by China in the manufacturing is an opportunity for India to gain by boosting its efforts through "Make in India" initiative.

The Indian financial markets are vulnerable to the global developments, furthering of slowdown in India related to the concerns of the COVID-19 pandemic. The Indian equity market made noticeable gains till the mid-January 2020 taking positive cues from global markets with the optimism over USChina phase 1 trade negotiations and Brexit favouring UK election outcome. The fall of the markets have begun in the February when the budget proposals were not on par with the investor expectations, and gradually pulled in line with the global markets in response to COVID-19. The effect on the domestic financial markets is inevitable through the slowdown in the global trade and growth, lowering the investor confidence in the financial markets. In the bond market too, yields have risen on sustained FPI selling, while redemption pressures, drop-in trading activity and generalised risk aversion have pushed up yields to elevated levels in commercial paper, corporate bond and other fixed income segments.

With the slew of liquidity measures, the Reserve Bank has endeavoured to keep financial markets liquid, stable and functioning normally. The measures to boost liquidity, include

- Reduction of the repo and reverse repo rates by 75 and 90 basis points (bps) to 4.4 and 4.0 percent.
- Liquidity measures to the tune of 3.7 trillion Rupees (1.8 percent of GDP) across three measures comprising Targeted Long-Term Repo Operations (TLTRO).
- A cash reserve ratio (CRR) cut of 100 bps, and an increase in marginal standing facility (MSF) to 3 percent of the Statutory Liquidity Ratio (SLR).
- RBI reduced the reverse repo by 25 bps to 3.75 percent, announced
- A TLTRO-2.0 for an initial amount of around 0.2 percent of GDP amounting to 50,000 crore rupees (funds to be invested in investment grade bonds, commercial paper, and nonconvertible debentures of NBFCs).
- On April 20, the Securities and Exchange Board of India (SEBI) reduced the required average market capitalization of public shareholding and minimum period of listing.

Fiscal measures, include

- The finance ministry had also rolled out a ₹1.7 trillion relief package towards food security and cash transfer, to tackle the loss of livelihood. The key elements of the package are: in-kind (food; cooking gas) and cash transfers to lower-income households; insurance coverage for workers in the healthcare sector; and wage support to low-wage workers (in some cases for those still working, and in other cases by easing the criteria for receiving benefits in the event of job loss).
- Prime Minister Modi that an additional 150 billion rupees (about 0.1 percent of GDP) will be devoted to health infrastructure, including for testing facilities for COVID-19, personal protective equipment, isolation beds, ICU beds and ventilators.

COVID-19, the pandemic has disrupted the global economy causing a massive derailment of economic activity accompanied by lockdowns and shrinking global output in 2020, the significant measures taken to improve the economy would mitigate the adverse impact on domestic demand and help spur economic activity once normalcy is restored.

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# FINANCIAL SECTOR

## ANALYSIS ON MUTUAL FUNDS

India being the highly populated country is remained less affected by COVID-19. However, indexes like Sensex, Nifty were seeing bearish and being most volatile and unpredictable.

The 27 trillion rupees mutual fund is also being hit by Covid-19 there is a slowdown in the industry and has seen dipping in equity to an extent of 15% i.e., around 9700Crores.

Mutual funds being systematic investment plan where investors mostly are middleclass who save monthly in these pools, as the lockdown is implemented in the country and people are getting pay cuts already so, industry will be more volatile. But the flow is robust also there is decline in inflow, when compared to 12months average 6984crores the equity flows are 35% higher.

Industry players suggest that flow has been good even though there is lockdown and offices are running with minimum staff the digital platform are playing a good role in term of making investor reachable for systematic fixed payment and due to lesser stock prices people are boosted to invest but the volume will be increasing but in terms of money it mayn't raise.

As the corporate earnings may certainly see downgrade for next 3-4 quarter therefore it is likely to weigh down mutual scheme performance but a better portfolio could fetch profits. Given the vulnerability of smaller firms to deal with situation is uncertain, mid and small cap focused funds are most likely to see downfall whereas large cap will be stable.

## RBI'S ACTION

To support mutual funds RBI has announced 50000crores as special liquidity facility the aim of this action is to remove pressure from mutual fund industry amid the covid-19 lockdown.

## LIQUIDITY RISK

Despite RBI taking lot of counter action to control pandemic but the factor called redemption would increase risk. During 2008 recession there was an outflow of 50000 crores where mutual funds weren't prominently in use. Therefore, it would be worse as the industry has shaped well all these years.

## SEBI's Action

The association of mutual funds in India has approached the SEBI regarding the current under pressure scenario for which SEBI being a regulator has acted in benefit to amfi and decided to change various regulation to control volatility.

## Road Ahead

The mutual funds industry which is dependent on financial markets would be more volatile to predict trend post corona. RBI, SEBI making their effect to make mutual funds less volatile but we can see factor like decrease in corporate earnings would definitely diminishes the performance of mutual schemes and after the lockdown unemployment, salary cuts would popup where it makes fixed payments like mutual funds difficult. But due to lesser prices in the stock market many people are willing to invest in mutual funds

Because of these factors it would be more volatile in the coming 7-8 months. But altogether we can tell post covid-19 it is likely to be downgraded.

**TLTRO 2.0 FAILURE (RBI-17/4/2020)**

Targeted long-term repo operation 2.0 a supplementary credit policy, RBI offering cheap long-term loans with targeted long-term repo of 4.4% up to Rs.50000 crores for only banks who lent to NBFCs will avail these funds with 50% of them reserved for small finance companies.

TLTRO (earlier policy) providing up to Rs.25,000 crore loans same as TLTRO 2.0, turned to be a failure as banks till the date applied only up to Rs.12800 cr.

Risk evasion behaviour of banks, leading them in not taking this credit facility provided by RBI may also effect the NBFCs in the following ways:

- NBFCs may find difficulty in funding avenues for the operations as banks may not come forward to lend credit to NBFCs as banks did not show any interest in taking the best of RBI's TLTRO scheme.
- Due to lack of credit availability with the NBFCs, lending and financing activities will be effected. This may show direct impact on small and medium scale industries as they largely depend on NBFCs for funds.
- Top graded non-banking financial institutions may also back down in the share market, their stocks may also tend to fall down in this covid-19 period.

## MANDATORY MORATORIUM

Covid-19 financial stress situation has forced RBI to announce all the banks to provide compulsory moratorium to the borrowers for a period of 3 months. Especially NBFCs under "moratorium by default" will face problem of liquidity crunch as the inflow of money will reduce due to stoppage of interest amounts and loan repayments.

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## EFFECT ON CREDIT GROWTH DUE TO CORONA VIRUS.

**Effect on India:**

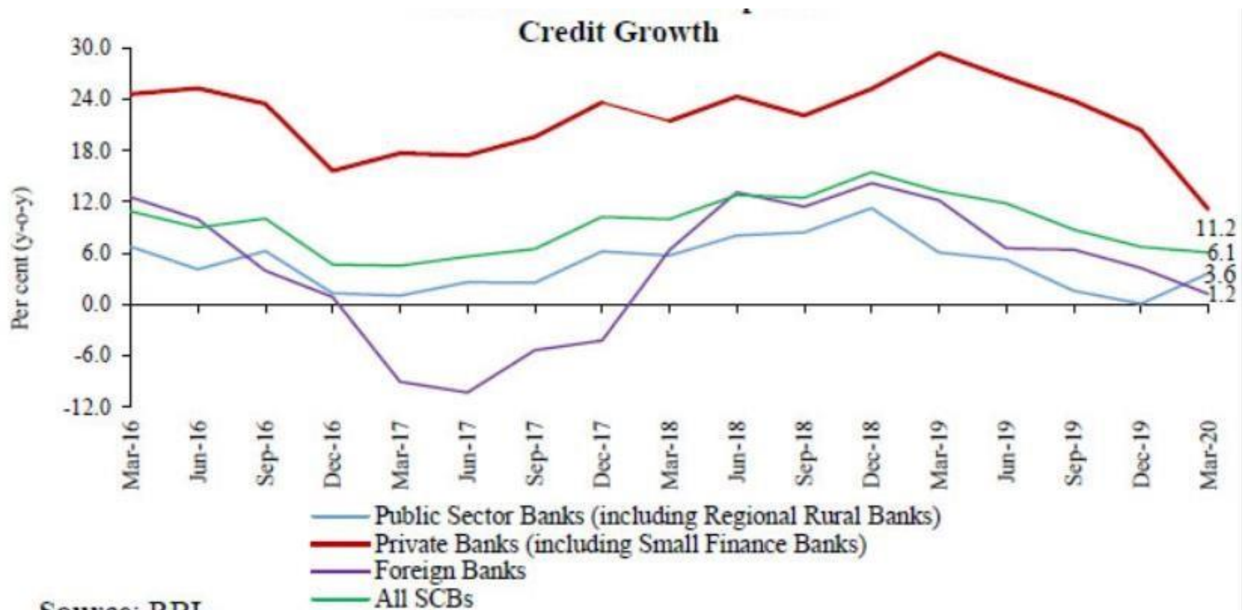
In India the credit growth rate for the period 2019-20 (up to March 2020) is 6.1% where the rate for the corresponding period of previous year was 14.4% that implies the current growth is less than half of the previous year. According to a report by Credit Suisse Group AG, more than 25% of ICICI's total loans is given to sectors such as small businesses and automobile finance, which are most vulnerable to the lockdown. Similarly the case with Axis bank and IndusInd bank where the proportion is 35% and 45% respectively which have high proportion in the industry. There is also an estimation that if lockdown is extended till the end of May month then the total Non-Performing loans may rise by 7% where the current figure is at 9.3% which is a worst soured asset ratio of any major countries.
Before the outbreak of virus, India's real GDP growth was pegged at 4.7% in the month of March, 2020. RBI's Financial Stability Report projected a rise in the gross NPA ratio for the banking sector to just under 10%. With the lockdown in place, growth forecasts have been revised downwards to 2.5% by Moody's and 2% by ICRA for the year 2020, due to the current lockdown in the country. The ratio could go way above than 10% by next March. The slowdown in credit growth rate was outspread across all banking sectors, especially private sector banks. Credit growth of public sector and foreign banks remained modest, even as there has been some increase in credit by public sector banks in the recent period.

Of the incremental credit extended by scheduled commercial banks during the year 2019-20, 62.6 per cent was provided by private sector banks, 36.6 per cent by public sector banks and 0.8 per cent by foreign banks. While the year on year growth of personal loans accelerated marginally to 17.0 per cent in February 2020 from 16.7 per cent in February 2019, credit growth to both agriculture and industry moderated over the last five months. Although credit growth to the services sector showed an uptick in January 2020, it again weakened in February 2020. Within the personal loan segment, credit offtake has been mainly concentrated in housing and credit card outstanding. Within industry, credit growth to beverage and tobacco accelerated, but credit flows to chemical and chemical products, cement and cement products, construction and infrastructure decelerated. Credit to basic metal and metal products, textiles, food processing and all engineering contracted in February 2020.

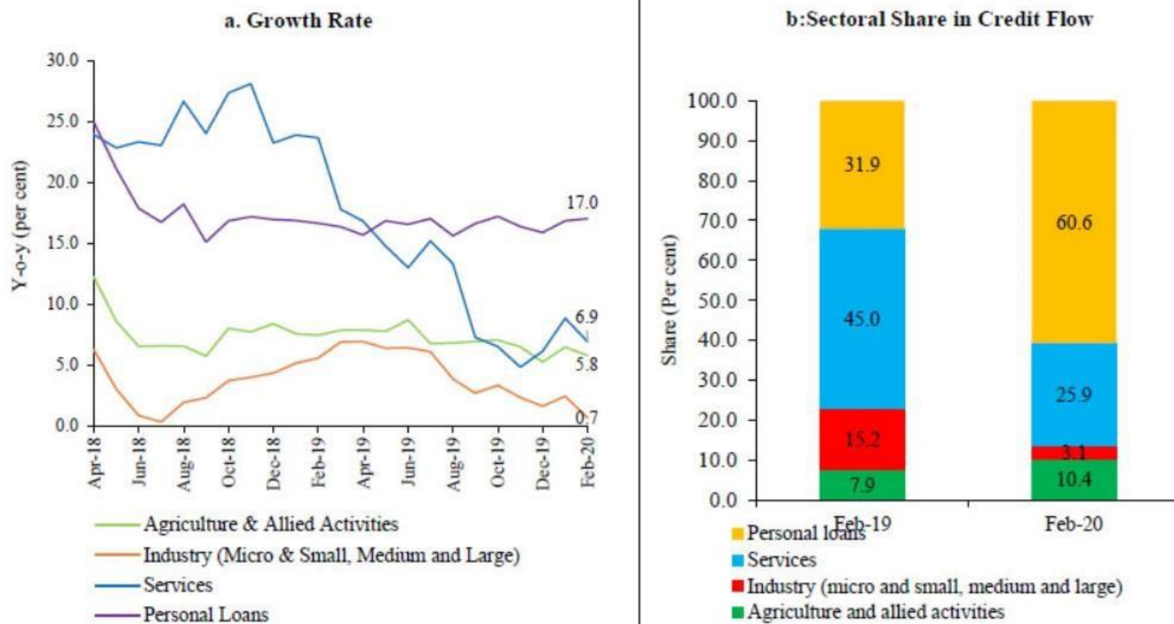
After spreading out nearly two-thirds of new lending in 2019, the private banks are unable to escape from the India's lockdown effects of its economy, which is expected to liquidate many of their corporate and retail customers. If they now react by decreasing the amount of new loans even to healthy borrowers, that will have serious outcomes for the Indian economy and the pace at which it can emerge from the crisis. The RBI has given a three-month grace period to all banks during which they have some relief from the rules governing recognition of bad loan. But it is expected, if the crisis is still acute then bad-loan rates are likely to surge from September onward. Sources says that tight funding conditions at shadow lenders and smaller private banks could force them to reduce lending but as a result for this, companies relying on either type of lender for funding, many of which have weak financial stability, will have to face difficulty in maintaining liquidity, which can result in defaults on loans.

The relief given by RBI can offset liquidity constraints to an extent in the interim, but revenue-related challenges will continue due to the massive unprecedented shock to the economy. Despite relaxations in the market regulator's rules for credit ratings, several small and mid-sized companies and some large ones with leveraged balance sheets will remain vulnerable to a cash flow slump. The moratorium and forbearance in terms of classification of stressed loans will prevent a spike in NPA levels at banks and non-banks for the next couple of months. But a few months after the moratorium is over, bad loans may rise sharply. Large increases in bad loans can get banks barred from extending new loans, which can impair their ability to generate income and restrict the flow of credit in the economy, especially to medium and small enterprises. RBI can place curbs on lending by banks saddled with high undisclosed NPAs and weak balance sheets through its Prompt Corrective Action framework, as it had done during the global financial crisis. Many banks becoming stressed at the same time can pose risks to India's financial stability. Banks saddled with high NPAs will most likely see capital infusion by their promoters to avoid RBI's regulatory curbs. To strengthen state-owned banks, the Centre may recapitalize them. To prevent a situation where too many banks come under PCA, the Centre may insist on relaxing the criteria that trigger such an action by RBI. In extreme cases of systemically important private banks failing to raise funds, bailouts by RBI or the Centre cannot be ruled out.

"The credit growth will be in the range of 6 per cent in FY21, largely based on expectations of incremental credit growth of around Rs 6 trillion. The demand from corporates for credit will remain muted as expansion will get deferred. On the working capital cycle, there is a demand for working capital loans to tide over liquidity issues but destocking is expected to pull down the demand for those loans. Retail segment is also likely to remain conservative to borrow and spend amid concerns of job losses and possibly salary cuts," said Anil Gupta, vice-president (financial sector ratings) ICRA. "We expect a sharp slowdown in credit growth and deterioration of asset quality across all private banks and the individual impact will depend upon their relative exposure to vulnerable small businesses and the risky unsecured retail segment," said Saswata Guha, the head of financial institutions at Fitch Ratings in India.




**Source**: RBI.



Source: RBI.

## EFFECT ON GLOBAL ECONOMY:

In the US, GDP grew by 2.1 per cent in the 4th quarter of 2019, the same pace as in the previous quarter. Overall GDP growth for 2019 decelerated to its slowest pace in three years amidst continuing weakness in business investment and exports. In 1st quarter of 2020, industrial production growth stalled in March after contracting for the fifth consecutive month in January and the manufacturing purchasing manager's index (PMI) of the Institute for Supply Management contracted in March after improving marginally in January-February. Retail sales have also softened since January. Although labour market remained strong in February as reflected in better than expected US jobs report, number of people filling jobless claims in the US for the week ended of March rose to a record level of 6.6 million – the highest since the series began in 1967.

Economic activity in the Euro area decelerated markedly in 4th quarter of 2019 as a pronounced downturn in industrial activity and subdued consumer demand weighed on overall economic performance. GDP growth contracted in France and Italy in the same period on waning consumer confidence, and stagnated in Germany on muted private and government spending. In 1st quarter of 2020, the rapid spread of COVID-19 infections in Italy, Spain and other European countries is likely to impact manufacturing and services sectors. The External Commercial Borrowings (ECB) has projected GDP growth to decline to 0.8 per cent for 2020 under its baseline scenario assumption that the impact of virus would get contained in next few months and growth would normalise in 2nd quarter.

The Japanese economy contracted sharply in 4th quarter, as private consumption slumped in the wake of October's sales tax hike. The slowdown in factory activity due to a string of typhoons and sluggish external demand added further pressure on domestic activity. In 1st quarter of 2020, the increased number of infections, including across the East Asian regions, threaten to disrupt economic activity severely.

In the UK, GDP growth stagnated in 4th quarter, after rebounding in quarter 3. Positive contributions from the services and construction sectors were offset by a decline in manufacturing output. Political uncertainty due to the Brexit deadline in October and general election in December appeared to have slowed activity in the final quarter. In 1st quarter of 2020, industrial production contracted and retail sales remained subdued. Risks emanating from COVID-19 may undermine the outlook for Quarter 1.

## MEASURES TAKEN BY DIFFERENT GOVERNMENTS:

| **Central Bank** | **Measures** |
|---|---|
| People's Bank of China | • 1.7 trillion yuan of liquidity injected on February 3 and 4<br>• Rate on 200billion yuan worth of one-year medium-term lending facility loans to financial institutions lowered by 10 bps to 3.15 per cent on February 17<br>• 1-year Loan Prime Rate lowered by 10 bps to 4.05 per cent effective February 20, 2020; 5-year LPR lowered by 5 bps to 4.75 per cent<br>• Reduction in reserve requirement ratio for select banks<br>• 7-day reverse repo rate lowered by 20 bps to 2.2 per cent on March 30 |
| Federal Reserve | • Target range of the federal funds rate lowered by 50 bps on March 3 and a further 100 bps on March 16 to 0-0.25 per cent<br>• Unlimited asset purchases, commercial mortgage-backed securities included in the asset purchase program<br>• Lowering of primary credit rate to 0.25 per cent<br>• Banks allowed to use capital and liquidity buffers for lending<br>• Reserve requirement reduced to 0 per cent from March 26<br>• Additional repo operations<br>• Primary Dealer Credit Facility established<br>• Commercial Paper Funding Facility established<br>• Money Market Mutual Fund Liquidity Facility established<br>• Term Asset-Backed Securities Loan Facility established<br>• Primary Market Corporate Credit Facility and the Secondary Market Corporate Credit Facility established to support credit to large employers<br>• The existing dollar liquidity swap line arrangements with five central banks (EU, UK, Japan, Canada and Switzerland) made lower cost, with more frequent and longer-term operations<br>• Temporary swap lines with central banks of Australia, Brazil, Denmark, South Korea, Mexico, Norway, New Zealand, Singapore and Sweden established<br>• Temporary repurchase agreement facility for foreign and international monetary authorities (FIMA Repo Facility) established to help support |

| | |
|---|---|
| | the smooth functioning of financial markets, including the US Treasury market |
| European Central Bank | • Additional longer-term refinancing operations (LTROs) to provide immediate liquidity support to the euro area financial system till June 2020<br>• More favorable terms under TLTRO III from June 2020 to June 2021, to support bank lending to those affected most by the spread of COVID-19<br>• Additional net asset purchases of €120 billion until end 2020<br>• Banks allowed to use capital and liquidity buffers, including Pillar 2 Guidance<br>• €750 billion Pandemic Emergency Purchase Program (PEPP) to be conducted until end-2020 in a flexible manner, to include purchase of Greek government debt<br>• Non-financial commercial paper included in asset purchases<br>• Collateral standards eased for ECB's refinancing operations |
| Bank of England | • Bank Rate reduced in two steps of 50 bps and 15 bps to all-time low of 0.1 per cent on March 19<br>• Additional purchases of £200 billion to be done in 2020<br>• A new Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises introduced<br>• Counter-cyclical capital buffer rate reduced to 0 per cent of banks' exposures to UK borrowers effective March 11.<br>• Supervisory guidance on dividends and other distributions issued<br>• Other supervisory and prudential policy measures including cancellation of annual stress test of banks in 2020<br>• Covid Corporate Financing Facility launched, in association with the Government<br>• Contingent Term Repo Facility activated |
| Bank of Japan | • Provide loans against corporate debt as collateral at 0 per cent with maturity up to one year<br>• Additional 2 trillion yen purchases of commercial paper and corporate bonds |

| | • Double the annual pace of purchases of exchange traded funds and JREITs |
|---|---|
| Bank of Korea | • Base Rate lowered by 50 bps to 0.75 per cent on March 17<br>• Interest rate on the Bank Intermediated Lending Support Facility reduced to 0.25 per cent and the ceiling on the facility increased by 5 trillion won<br>• Collateral for open market operations broadened<br>• Unlimited liquidity through weekly 91-day repo auctions<br>• Forex market stability rules eased |
| Bank Indonesia | • Policy rate lowered by 25 bps each in February and March to 4.5 per cent effective March 19, 2020<br>• Daily repo auctions of 12-month tenor introduced<br>• Frequency of forex swap auctions increased |
| | • Triple intervention policy intensified to minimize the risk of increasing rupiah exchange rate volatility<br>• Forex reserve requirement for commercial banks halved to 4 per cent effective March 16, 2020<br>• Rupiah reserve requirement lowered by 50 bps for banks financing export-import activity, MSMEs and other priority sectors effective April 1, 2020<br>• Range of underlying transactions available to foreign investors expanded to provide alternative hedging instruments against rupiah holdings |
| Reserve Bank of Australia | • Cash rate target reduced in two steps of 25 bps each to a further all-time low of 0.25 per cent with effect from March 20<br>• Target set for the yield on 3-year government bonds of around 0.25 per cent, to be achieved through secondary market purchases<br>• Term funding facility for the banking system, with particular support for credit to small and medium-sized businesses instituted<br>• Exchange settlement balances to be remunerated at 10 bps |
| Bank of Canada | • Reduced key rate in three steps of 50 bps each to 0.25 per cent in March<br>• Announced purchase of government securities, minimum purchase of $5 billion per week<br>• Bankers' Acceptance Purchase Facility launched<br>• Provincial Money Market Purchase announced<br>• Standing Term Liquidity Facility established<br>• Commercial Paper Purchase Program launched |

# AUTO MOBLIE INDUSTRY

OVERVIEW:

| | |
|---|---|
| **Sector contribution to GDP and employment** | • Automobiles - 7.1 per cent, Auto components - 2.3 percent<br>• ~40 million |
| **Key export markets** | U.S., Mexico, Bangladesh, African region, and Asia. |
| **Key source countries for imports** | China, Germany, South Korea, Japan and Thailand |
| **Major auto clusters in India** | Chakan, Maharashtra; Oragadam, Tamil Nadu; National Capital Region (NCR), Sanand, Gujarat. |
| **FDI equity inflows (per cent of total)** | 5.2 per cent (Apr 2000 – Dec 2019) |

CURRENT IMPACT ON THE SECTOR:

| **Parameter** | **Low** | **Med** | **High** | **Unknown** | **Comments** |
|---|---|---|---|---|---|
| **Supply-side** | | | | | |
| **Price variations of key raw materials** | | ✔ | | | Short-term fluctuations witnessed in prices of raw materials |
| **Production shutdown** | | | ✔ | | Automotive sector was already facing weak demand; production shutdown across the country due to the pandemic will significantly impact the sector further |
| **Cash flow constraints** | | | ✔ | | General liquidity shortfall in the sector due to Non-Banking Financial Companies (NBFCs) and banking sector situation leading to an impact on sales |
| **Suppl chain disruption** | | | ✔ | | China accounts for around 25 per cent of India's automotive part imports. |

| | | | | | |
|---|---|---|---|---|---|
| **Imports (if applicable)** | | | ✔ | | Disruption in supply of raw material and other critical components have affected imports |
| **Labor force** | | | ✔ | | Availability of contract labor for operations and support functions may be an issue even after the situation normalizes |
| **Demand-side** | | | | | |
| **Lockdown/restrictions impact** | | | ✔ | | |
| **Consumer sentiment** | | | ✔ | | Consumers have been postponing their vehicle purchase decisions owing to uncertainty surrounding the pandemic. |
| **Exports (if applicable)** | | | ✔ | | Global slowdown and production shutdown in key markets affecting exports |

- Continued cash flow tightening will impact the market further • **Passenger vehicles and two/four-wheeler segment**: o Demand likely to continue to be muted, as this segment is significantly impacted by economic / market sentiments, and consumer purchasing power
- **Commercial vehicles segment**:
  - With a shutdown of all non-essential services, the demand for commercial vehicles is expected to further plummet
  - Liquidity and cash crunch have already put a dent in sales of fleet operators, which is expected to further widen in the coming months.
- Auto original equipment manufacturers (OEMs) will need to delay any new launches by at least a few quarters, or till sentiments improve
- After market spending by consumers on discretionary items will be put-off due to increase in spending share of essential items including food and medicines, for the immediate period. Only essential repair related after, market services may continue, but under low demand
- Auto components sourcing might get dearer due to disturbance in supply chain across the globe. However, Indian auto component industry can emerge in medium to long term as an alternative source of supply if duly supported by policy frame work.

## FUTURE GROWTH IN AUTOMOBLIE INDUSTRY:

- The rapidly growing auto market in India is expected to reach $ 300 bn by 2026
- Automotive Industry, Automotive aftermarket segment in India is expected to reach $ 32 bn by 2026
- Automotive Components industry exports to grow 5B in next 10 years

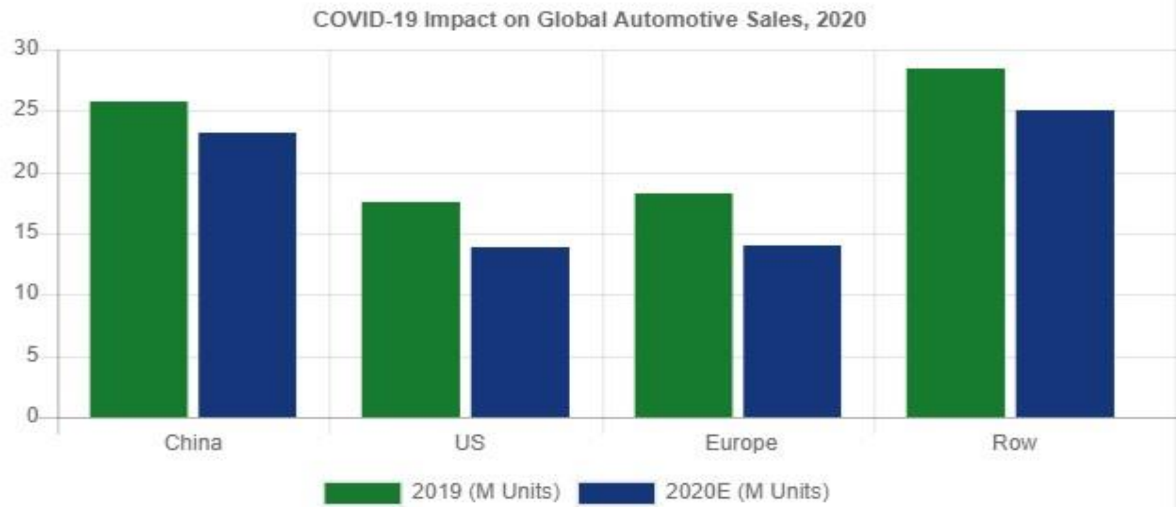
## GROWTH DRIVERS:

**Expanding R&D:**
India accounted for 40% of global engineering and R&D activities. 8% of the country's R&D expenditure is in the automotive sector.

**Emerging global sourcing:**
Proximity to markets such as ASEAN, Europe, Japan and Korea

**Cost competitive**
Excise duty reduction in vehicles will spur demand

**Favourable trade policy**
100% FDI allowed and no restrictions on import-export.


COVID-19 Impact on Global Automotive Sales, 2020
30
25
20
15
10
5
0
China
US
Europe
Row
2019 (M Units)
2020E (M Units)

COVID-19 to Lead Global Automotive Industry into Recession
30
25
20
15
10
5
0
China
US
Europe
Row
2019 (M Units)
2020E (M Units)

## EFFECTS ON AUTOMOBLIE INDUSTRY:

### DEPENDENCY ON CHINA

The Auto quarter has a reasonable dependency on China for imports with standard 18% of car aspect imports and ~30% of tire imports.

Wuhan is a massive Auto hub with no longer completely OEM's alternatively a massive volume of section producers providing elements to many tier 1 producers and OEMs in India – many players started to feel the impact of COVID-19 in India in Jan itself with factors now no longer engaging in on time.

The import dependency is greater in the two-wheelers section as greater than four-fifths of the imported components in two wheelers are from China. Hence, this phase is probably to be impacted greater.

Chinese import ranges round 20 to 25 percentage of the complete imports, in different segments inclusive of buses, passenger automobiles and business automobiles and demand has been surprisingly slow with the rapid spread of the COVID-19 outbreak throughout the world, international auto enterprise and consumption is probably to be impacted significantly. This is possibly to additionally pose challenges to export-oriented ancillary element manufacturers. This coupled with the preceding slowdown found in the region in India, is predicted to be a double whammy for the sector.

## ALTERNATIVES FOR INDIA

The sector has inventories enough for temporary support; however, lack of single, essential aspects can damage OEMs.

Local Indian auto-component producers are unlikely to immediately capitalise on the void created by means of China, as it takes time for OEMs to recalibrate their supply chain.

In a scenario of disruption in the supply of key components, the industry could look at sourcing them either locally or from other countries such as Germany, South Korea, Japan, and Thailand (currently accounting for around one-third of the total imports)

However, the change in procurement channels could be costlier and the supply could be insufficient to meet the demand.

# HOSPITALITY INDUSTRY

Hospitality industry is one of the largest Industry which include Air and travel, Food and Beverage, Hotels, Entertainment and Tourist attractions. Hospitality Industry being a part of service sector has emerged as one of the key drivers for its growth. In 2018, India was ranked 3rd among 185 countries by World Travel and Tourism Council (WTTC) for contribution to GDP in terms of travel & tourism's total.
In 2019, India was ranked 34th in the Travel & Tourism Competitiveness Report 2019 which was published by the World Economic Forum

As with most industries, the hospitality industry is encountering various difficulties as a result of the global economic crisis. The industry is feeling the effect of a contracting capital market and diminished spending by both corporate and individual customers. The coronavirus has been featuring the postponement and cancelation of events, conferences, conventions, and sports leagues, which is promptly driving down travel and tourism for business and fun.

As per the JLL report, more than 60% of the hotel are already shut and many other have not more than single-digit occupancies, the future looks bad for hospitality industry if the situation does not improve Dec-2020. China has reopened most of its hotels by the end of Feb-2020 which is two months after the first corona case which gives a little hope for the Indian Hospitality Industry after seeing many booking cancellations and restrictions.

Under lockdown the hospitality industry has come to the halt. There is suspension of visas against travel and no bookings are made for the future. The nationwide lockdown has covered lodging and travel parts, obstructing their income.
The hospitality industry is dealing with the loss of 5 trillion. The government initiated social distancing has resulted in cancellation of major events. These events, and others, bring thousands of exhibitors and attendees to the host cities occupying hotels and contributing revenue to restaurants, bars and other venues. There is drop in foreign and domestic travel, across both the tourism and business traveller segments.

## ROAD AHEAD

Normal life in a post coronavirus environment will not resume because people will be less interested in spending the money on holidays and travel rather people will be more cautious on setting up their business and earning money. If the situation worsens in next 6 months there could be the huge impact on revenues of the hospitality industry.
Post Corona, it will be a difficult road ahead for the Hospitality industry.
Behaviour of people tend to change over a period of time, this behavioural change because of the lockdown and the tension caused will lead to lessen the socializing which is a bad indicator.

GAMAT PRUDENCE REDEFINED

# 2008 AND 2020 CRISIS

# Introduction

## 2008 crisis

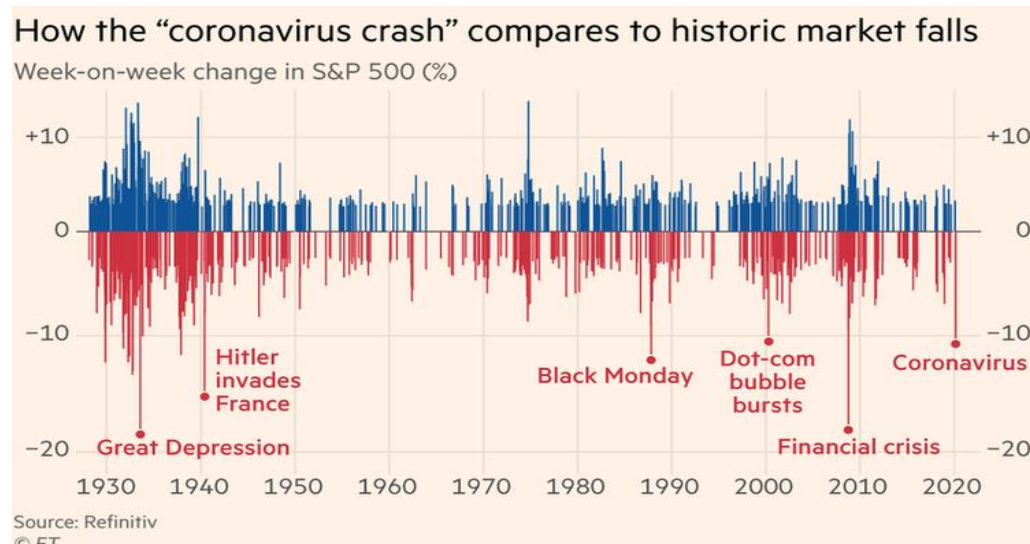
The underlying cause of financial crises was a combination of debt and mortgage-backed assets. House prices in the United States have been steadily rising. There have been a few fluctuations, but the trend has been upward. Investment banks were buying mortgages from mortgage issuers, repackaging them and then selling off specific tranches of the debt to investors. As time went on, there were fewer and fewer new mortgages to securitize so the structured products groups at banks started repacking MBS's. In 2008 the default rates on the subprime mortgages suddenly spiked. This meant that some of the bottom tranches on the CDOs and MBSs were being wiped out. Suddenly, investors started to lose confidence in the top AAA tranches and in the banks, which held large amounts of them or had exposure to such assets.

**Solution**

In September 2008, the US government and Federal Reserve developed a plan which consisted of buying troubled assets from the banks, in order to minimize uncertainty in the market. This plan was entitled the Troubled Asset Relief Program (TARP). It was signed into a law on October 3rd, 2008, the Congress allowing a $700 billion budget. Most of the firms which got money via TARP have paid it back and until summer 2011 the financial markets stabilized and grew. The Commercial Paper Funding Facility, the Term Asset-Backed Securities Lending Facility, and the purchase of housing-related assets helped fill in for failing financial markets

## 2020 crisis

The pandemic has disrupted the global economic activity. Stock markets have suffered losses. Asian stocks incurred various losses. The stocks have worst performance since 2008 financial crises.



The resilience of banks asset quality in 2020 hinges in part on the success of governments and regulators policy responses. The difference between these two crises are that this time economy will not take a longer to get up due to past experiences of people.

**Solution**

Investors should reallocate their investments. Banks should accelerate to respond to the behavioural changes of the people or investors. After falling into a bear market, the market has always recovered and went to exceed its previous high-water mark so the investors should invest. The taxes should be finances by the central banks. Dollar swap lines should be initiated by the central banks. Government should guarantee loans to SME companies. People have already experienced 2008 crises and have knowledge to cope up with today's scenario. As investors have various strategy from their past experiences to adapt the situation, even it can boost up the economy.

# SUMMARY

The expected recovery from the 2019 slowdown is far from the reality. The Chinese companies are struggling to recover from aftermath the coronavirus and as China accounts for 20% of the world's manufacturing output, an extended shutdown would have dented the global economy. Several industries of India depend on china for the imports, the prolonged dependence on Chinese imports might be a challenge in future, as any disruption in the supply will raise the prices. The vacuum left by China in the manufacturing is an opportunity for India to gain by boosting its efforts through "Make in India" initiative.

India being the highly populated country is remained less affected by COVID-19. However, indexes like Sensex, Nifty were seeing bearish and being most volatile and unpredictable. In India the current growth is less than half of the previous year and Given the vulnerability of smaller firms to deal with situation is uncertain, mid and small cap focused funds are most likely to see downfall whereas large cap will be stable. The stock prices have also reduced and due to lesser prices in the stock market many people are willing to invest in mutual funds.

Financial markets have become highly volatile from January onwards due to the outbreak of COVID-19 and the Indian financial markets are vulnerable to the global developments, furthering of slowdown in India related to the concerns of the COVID-19 pandemic. With the slew of liquidity measures and fiscal measures, the Reserve Bank has endeavoured to keep financial markets liquid, stable and functioning normally. Covid-19 financial stress situation has forced RBI to announce all the banks to provide compulsory moratorium to the borrowers for a period of 3 months and RBI to support mutual funds it has also announced 50000 crores as special liquidity facility the aim of this action is to remove pressure from mutual fund industry amid the covid-19 lockdown.

COVID-19 has also caused a lot of problems for Automobile and Hospitality industries as well as China being the largest trading partner for India account for 15% of the imports and only 5% of the exports.

In case of Automobile industry, Wuhan which is known as massive Auto hub and the Auto quarter has a reasonable dependency on China for imports with standard 18% of car aspect imports and ~30% of tire imports (right now it is also known to be the centre of COVID-19 pandemic), because of this there were problems like production shutdown, Supply chain disruption and various problems. It will have a greater negative impact if this situation continues any further.

In case of Hospitality sector, it is facing many problems like more than 60% of the hotel are already shut and many other have not more than single-digit occupancies. Behaviour of people tend to change over a period, this behavioural change because of the lockdown and the tension caused will lead to lessen the socializing which is a bad indicator.

The very deliberate government shutdown of all the major economies of the world, triggering the epic shock in the financial markets. India's response to the 2008 crisis was very quick and delivered in a noticeably short span of time both from a fiscal and monetary point. Now in 2020 pandemic India will fight back its economy with a higher speed than 2008.