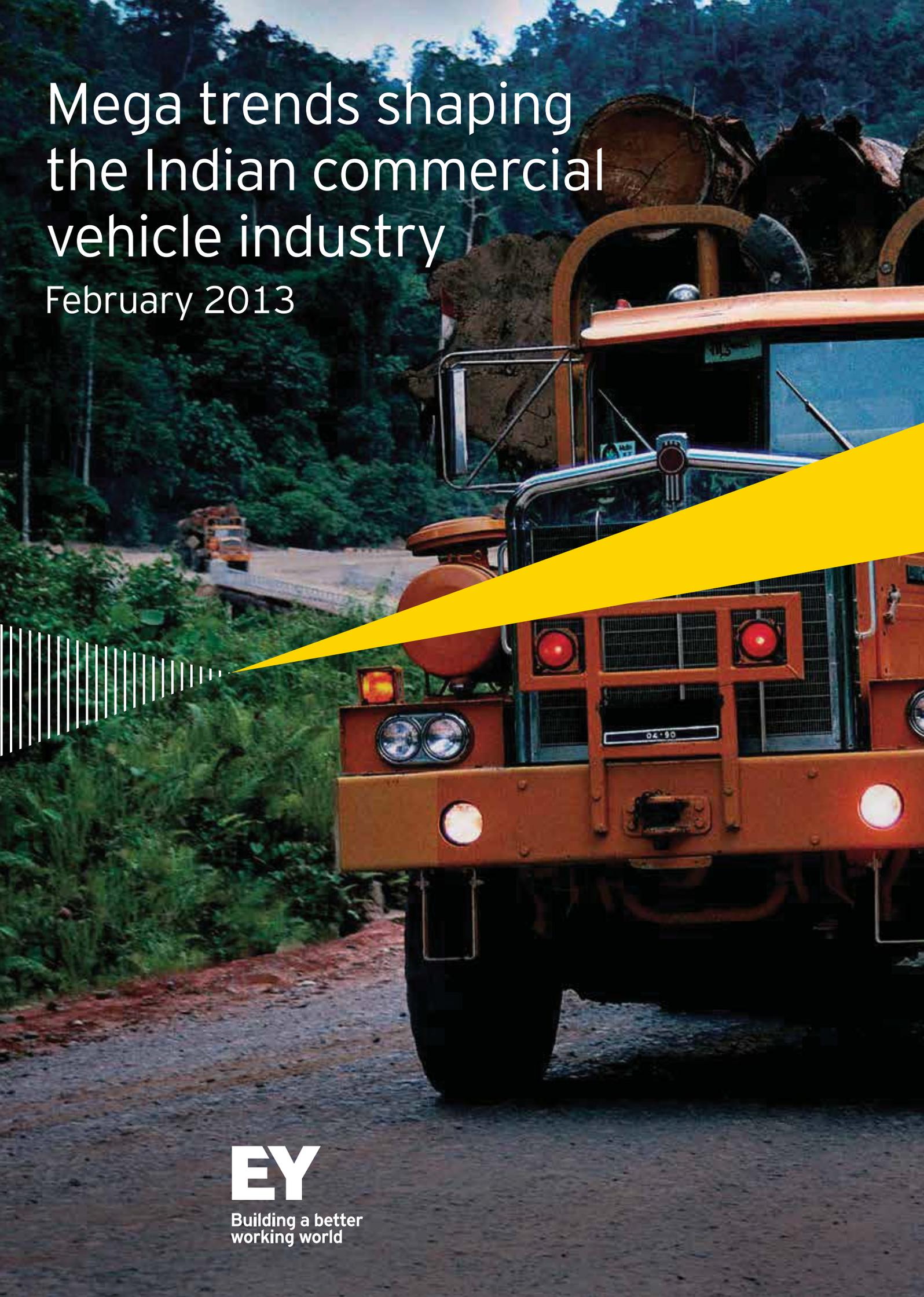


Mega trends shaping the Indian commercial vehicle industry

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EY

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What is shaping India's commercial vehicle industry?

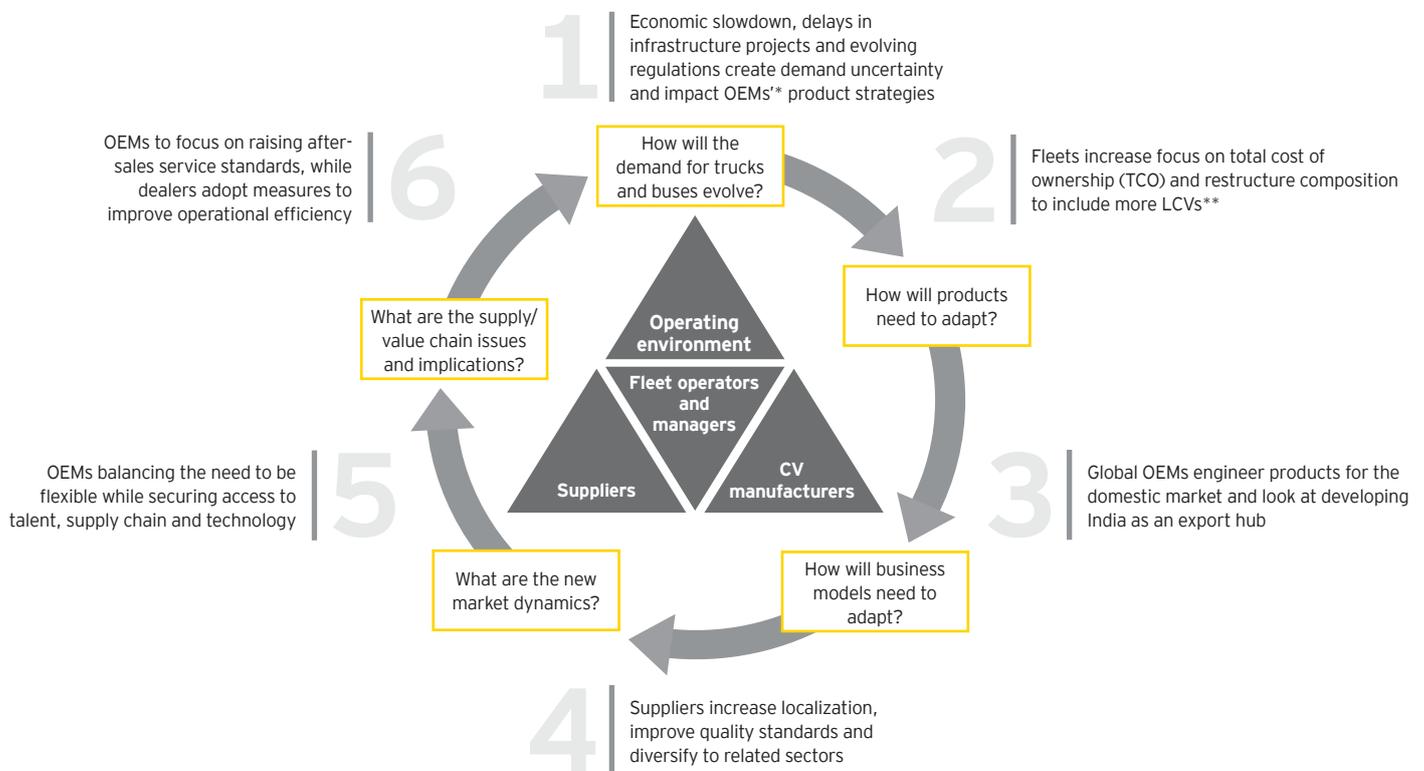
After a few years of strong growth, India's commercial vehicle (CV) industry hit a rough patch last year, impacted by the overall economic slowdown, delay in infrastructure projects and weak investment sentiment. However, the industry has long-term growth potential, subject to the economy accelerating back to 7%-8% GDP growth per annum and the Government expediting policies that support growth of manufacturing and infrastructure development. While deregulation of diesel prices will make the industry less dependent on subsidies, it is likely to create demand uncertainty in the short-term as truck owners and manufacturers adjust to the new normal.

While the fundamental drivers of the industry have not changed, key stakeholders will need to re-calibrate their strategies to be in tune with a market that has shifted into a lower gear. A careful assessment of the industry ecosystem – an uncertain operating environment, changing preferences of fleet operators, rising competitive intensity, new supply chain dynamics and novel concepts in distribution channels – is imperative to respond to industry forces and weather the intermittent rough patch.

To prepare for the years ahead, participants in India's CV industry should answer the following questions to evaluate how well they are positioned to respond to the emerging opportunities and challenges:

- ▶ How will the demand for trucks and buses evolve?
- ▶ How will products need to adapt?
- ▶ How will business models need to adapt?
- ▶ What are the new market dynamics?
- ▶ What are the supply or value chain issues and implications?

While addressing these questions, EY has identified six mega trends that are likely to impact and change the face of the Indian CV industry.



* OEM – original equipment manufacturer
** LCV – light commercial vehicle

- 1 Economic slowdown, delays in infrastructure projects and evolving regulations create demand uncertainty and impact OEMs' product strategies**
 - ▶ Slowdown in the economy, mining industry activity and delays in infrastructure projects create uncertainty in demand for goods carriers
 - ▶ Policies such as deregulation of fuel prices and the new bus-body building code drive OEMs to introduce compatible products and adopt process-oriented bus-body manufacturing
 - ▶ Need for an efficient public transport system to drive the demand for low-floor, alternate fuel buses and LCVs for last mile connectivity
- 2 Fleets increase focus on total cost of ownership (TCO) and restructure composition to include more LCVs**
 - ▶ Fleets consider using TCO as an important procurement and fleet management criterion
 - ▶ Freight transporters increase adoption of used trucks to reduce fleet acquisition cost and add more LCVs to support hub-and-spoke distribution model
- 3 Global OEMs design products for the domestic market and look at developing India as an export hub**
 - ▶ Global OEMs increase localization levels, adapt products to meet local needs and look at establishing India as an export hub
 - ▶ Global OEMs will also be looking to make their alliances with domestic players successful, to leverage the latter's understanding of the local market and their distribution infrastructure
- 4 Suppliers increase localization, improve quality standards and diversify to related sectors**
 - ▶ Global suppliers increase localization to be cost-competitive, while domestic suppliers improve the quality and features of their products
 - ▶ Suppliers diversifying to related sectors, such as the off-road CV industry, the railways and defense, to reduce exposure to uncertain CV demand
- 5 OEMs balancing the need to be flexible while securing access to talent, supply chain and technology**
 - ▶ OEMs resort to flexible manufacturing and workforce arrangements to address demand uncertainty
 - ▶ Set up technical centers to strengthen R&D capabilities and overcome skill constraints
 - ▶ Increase collaboration with suppliers to improve technical and manufacturing capability
- 6 OEMs to focus on raising after-sales service standards, while dealers adopt measures to improve operational efficiency**
 - ▶ Global OEMs to push for expansion of dealership and service network, while domestic OEMs reduce the cycle time for service and maintenance
 - ▶ OEMs encourage dealers to implement IT systems for efficient inventory management and enable fleets to order vehicle parts and book servicing online

Key strategies for consideration of stakeholders	CV manufacturers		Suppliers	
	Evolving demand for CVs	<ul style="list-style-type: none"> ▶ Focus value proposition on optimizing the cost of ownership for fleets ▶ Invest in training and upgrading skills of the workforce ▶ Educate truck and fleet owners on telematics and create low-cost telematics solutions 	<ul style="list-style-type: none"> ▶ Partner with OEMs and other suppliers to upgrade manufacturing and technical competence ▶ Consider acquisitions in Europe and North America to gain access to technologies, advanced manufacturing skills and customers in new markets 	
	Adapting products	<ul style="list-style-type: none"> ▶ Focus on R&D to develop products for the Indian market and introduce fuel-efficient technologies ▶ Partner with suppliers to develop cost-competitive products ▶ Increase use of lightweight or alternate materials that can reduce insurance claim costs for fleets 	<ul style="list-style-type: none"> ▶ Localize to cater to the cost-competitive market ▶ Increase volumes of common parts by modularization 	
	Adapting business models	<ul style="list-style-type: none"> ▶ Consider offering an approved used-truck proposition for fleets ▶ Develop a distribution channel to offer value-added services ▶ Offer lease plans and maintenance contracts to fleet owners 	<ul style="list-style-type: none"> ▶ Create an aftermarket product portfolio and distribution channel ▶ Explore other growth markets and offerings in allied sectors to mitigate cyclical risk 	
	Preparing for new market dynamics	<ul style="list-style-type: none"> ▶ Invest in flexible manufacturing ▶ Adopt process-oriented bus-body manufacturing ▶ Leverage India's potential as a low-cost export hub 	<ul style="list-style-type: none"> ▶ Invest in flexible manufacturing ▶ Develop offerings for special-purpose trucks 	
	Addressing supply/value chain issues	<ul style="list-style-type: none"> ▶ Expand distribution and service network to reduce turnaround time of vehicle ▶ Explore flexible production schedules and workforce relations 	<ul style="list-style-type: none"> ▶ Diversify customer and supplier base to mitigate concentration risks 	

This is an executive summary of a detailed analysis conducted by EY's Global Automotive Center. Please contact our automotive professionals for more in-depth information.

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