COVID-19 crisis

Impact on the automotive industry and navigating the turbulence
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COVID-19: Impact on global economy and the automotive industry
COVID-19 has affected the global economy adversely

Global economy to shrink by 1% in FY21, predicts Goldman Sachs

- The global impact of the COVID-19 crisis is perceived to be larger than the 2008 financial crisis. Multiple monetary and fiscal measures such as postponement in tax collections and policy rate cuts need to be implemented to tide over this crisis.

In the short term, domestic demand will decline in India

- Health and welfare have become top priorities in India as the Government has enforced a 40-day lockdown.
- The COVID-19 crisis will have a direct impact on tourism, the hospitality sector, manufacturing industries and non-essential services.

India’s major export markets severely hit; export of USD 9 billion worth of vehicles and components to North America and Europe stalled

- Approximately 31% of cars are exported to North America and Europe (USD 2.7 billion).
- Approximately 60% of components are exported to North America and Europe (USD 6.6 billion).

United States
- Largest components market (USD 2.798 billion)
- Second-largest car market (USD 727 million)
- Stay-at-home orders in most states

United Kingdom
- Third-largest components market (USD 439 million)
- Stay-at-home order in place
- Shutdown of all factories

Germany
- Second-largest components market (USD 782 million)
- Shutdown of all auto factories
- Lockdown till 19 April

Mexico
- Largest car export market (USD 1.047 billion)
- Ban on gatherings of over 50 people
- Declaration of emergency

South Africa
- Third-largest car export market (USD 674 million)
- 21-day lockdown

Source: Goldman Sachs, Press research, PwC analysis and Department of Commerce, Ministry of Commerce and Industry, Government of India

*Export data for 9M FY20 for 12 HS Codes (vehicles); 219 HS Codes (components)
Historically, there have been three potential recovery scenarios post economic shocks.

**Scenario 1: Optimistic**
- **V-shaped curve**
- Example – SARS, Spanish flu
- Rapid recovery, growth returns to normal, no loss of output

**Scenario 2: Realistic**
- **U-shaped curve**
- Example – 1973 oil crisis
- Shock breaks growth trend, some loss of output permanently

**Scenario 3: Pessimistic**
- **L-shaped curve**
- Example – 2008 financial crisis
- Real structural damage, lower long-term growth rate

**Impact on public enterprises**
- Monetary and fiscal response to the crisis (credit, liquidity push and policy rate easing)
- Sustained period of virus mitigation
- Signficant fiscal and monetary interventions
- Long-term structural damage, lack of resources for public spending
- Major expenditure in healthcare and welfare

**Impact on private spending**
- Rapid rebound in household spending
- Immediate pent-up demand seen
- Household and business confidence loss, postponement of high-ticket purchases
- Major cracks seen in the financial system
- Large-scale unemployment, repeated waves cause unrest in the labour market
- Domestic expenditure on essentials

**Impact on the automotive industry**
- Rebound in auto demand
- Cost pressures in the short term
- Sales remain depressed, significant portion of demand lost
- Likely shift to used car purchases
- Alternate supply chains, policy changes in procurement practices, trade agreements
- Continued disruption of production and retail

Three possible scenarios with different recovery periods*

**Optimistic**
- Rapid recovery (~Q3 FY21)
- Wave with community spread in isolated regions.
- Two-quarter slowdown in the economy
- Pay cuts and temporary job losses expected in the informal sector; recovery by end of Q3 FY21
- Poor consumer sentiment and deferred capital expenditures likely to result in slow recovery

**Realistic**
- Delayed recovery (~Q4 FY21)
- Community spread across both urban and rural India. Development of medical cure takes longer than expected.
- Economy expected to recover by Q4 FY21
- Job losses expected in both informal sector and formal sector; re-employment could take more than two quarters
- Government fiscal policies likely to take time to show results

**Pessimistic**
- Prolonged recovery (Q1 FY22)
- 

*PwC analysis based on the situation as on 8 April 2020. Analysis and forecasts could change due to the rapidly changing external environment.

COVID-19 crisis: Impact on the automotive industry and navigating the turbulence

PwC

April 2020
### Factors impacting automotive demand over FY21*

<table>
<thead>
<tr>
<th>Factor</th>
<th>Key parameter</th>
<th>Characteristic</th>
<th>Optimistic</th>
<th>Realistic</th>
<th>Pessimistic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply side</strong></td>
<td></td>
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<tr>
<td>Supply (availability)</td>
<td>Original equipment manufacturer (OEM) – manufacturing capacity</td>
<td>Reduced production levels</td>
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<tr>
<td></td>
<td>Supply chain issues</td>
<td>Expected supply chain disruptions</td>
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<tr>
<td>Finance availability</td>
<td>Stability of the financial system</td>
<td>Financial system likely to undergo stress; government support expected</td>
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<td></td>
<td>New product launches</td>
<td>OEMs to defer product launches later than Q3/Q4 FY21</td>
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<tr>
<td>OEM initiatives</td>
<td>Vehicle discounts and incentives</td>
<td>High discounts from OEMs; unlikely to pass through BS6 price hikes</td>
<td></td>
<td></td>
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<tr>
<td>Government and regulatory interventions</td>
<td>Tax cuts and other incentives</td>
<td>Government support expected to reduce impact of taxes and duties</td>
<td></td>
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<tr>
<td>Consumption demand</td>
<td>Compliance costs</td>
<td>Government help to liquidate BS4 stock</td>
<td></td>
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<tr>
<td></td>
<td>Consumer income</td>
<td>Job losses and pay cuts expected</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Net worth</td>
<td>Asset prices expected to decline</td>
<td></td>
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<tr>
<td></td>
<td>Sentiment</td>
<td>Consumer and business sentiment to remain low</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Mobility preferences</td>
<td>Increased preference for personal modes of transport</td>
<td></td>
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<tr>
<td></td>
<td>Vehicle finance rate</td>
<td>200–300 basis points lower than FY20</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Activity levels in the economy</td>
<td>Manufacturing sector activity level</td>
<td>To remain below normal</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Service sector activity level</td>
<td>To remain subdued due to poor sentiment and periodic lockdowns</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Investment demand</td>
<td>Private capex</td>
<td>To be deferred to FY21</td>
<td></td>
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<tr>
<td></td>
<td>Infra spend by the Government.</td>
<td>Boost in infrastructure spend by the Government post COVID-19</td>
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</tr>
</tbody>
</table>

*PwC analysis based on the situation as on 8 April 2020. Analysis and forecasts could change due to the rapidly changing external environment.

COVID-19 crisis: Impact on the automotive industry and navigating the turbulence

PwC

April 2020
How the three scenarios will play out in each vehicle segment*

Two-wheelers (2Ws)**

- Preference for personal transport (changing mobility preferences) to be a key driver – used vehicle market to capture a significant share of this demand
- Informal sector – a key buyer of two-wheelers – affected significantly by the downturn
- Online sales to grow

Key factors

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (estimated)</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20*</td>
<td>17.2 million</td>
<td></td>
</tr>
<tr>
<td>2020-21</td>
<td>15.2 million</td>
<td>-12%</td>
</tr>
<tr>
<td></td>
<td>14.2 million</td>
<td>-18%</td>
</tr>
<tr>
<td></td>
<td>13.4 million</td>
<td>-22%</td>
</tr>
</tbody>
</table>

Passenger vehicles (PVs)†

- Passenger vehicles expected to show strong growth post recovery – mobility preferences for personal mode of transport to have a significant impact on demand
- Shared mobility segment to remain subdued in the coming months
- Segment downgrade likely by buyers – consumers that buy PVs/2Ws may go one segment and one variant lower

Key factors

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (estimated)</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20*</td>
<td>2.75 million</td>
<td></td>
</tr>
<tr>
<td>2020-21</td>
<td>2.53 million</td>
<td>-8%</td>
</tr>
<tr>
<td></td>
<td>2.43 million</td>
<td>-12%</td>
</tr>
<tr>
<td></td>
<td>2.26 million</td>
<td>-18%</td>
</tr>
</tbody>
</table>

Commercial vehicles‡

- The commercial vehicle segment is already carrying excess capacity (GST impact, axle loading, movement of goods lower due to weak economy); with logistics disruptions to continue in hot zones, and with customers not in the investment mode, this sector will show a delayed recovery.

Key factors

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (estimated)</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20*</td>
<td>1.34 million</td>
<td></td>
</tr>
<tr>
<td>2020-21</td>
<td>1.14 million</td>
<td>-15%</td>
</tr>
<tr>
<td></td>
<td>1.06 million</td>
<td>-21%</td>
</tr>
<tr>
<td></td>
<td>0.99 million</td>
<td>-26%</td>
</tr>
</tbody>
</table>

COVID-19 crisis: Impact on the automotive industry and navigating the turbulence

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**†‡Classification as per SIAM. Commercial vehicles include three-wheeler goods carriers and three-wheeler auto rickshaws (including N1,N2,N3 and M2,M3).

Note: PwC analysis based on the situation as on 8 April 2020. Analysis and forecasts could change due to the rapidly changing external environment.
How to navigate the crisis?
Automotive companies can adopt a phase-wise, three-step plan to initiate demand recovery

<table>
<thead>
<tr>
<th>Strategic response</th>
<th>3–6 months</th>
<th>Restore</th>
<th>6–12 months</th>
<th>Rebound</th>
<th>&gt;12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protect</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Sense disruption impact</td>
<td></td>
<td>Recover operations and resume planned growth trajectory for the period</td>
<td>Prepare for growth</td>
<td></td>
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</tr>
<tr>
<td>Protect customers and revenue</td>
<td></td>
<td></td>
<td>Invest in new opportunities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restore</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Improve and sustain cash position through new initiatives</td>
<td></td>
<td></td>
<td>Strengthen cash position to invest in new growth initiatives</td>
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<td></td>
</tr>
<tr>
<td>Rebound</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Manage employee productivity and adapt operating model to new ways of working</td>
<td></td>
<td></td>
<td>Reorganise to align with current business imperatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protect</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safeguard employee welfare</td>
<td></td>
<td></td>
<td>Create a resilient organisation</td>
<td></td>
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<tr>
<td>Communicate and engage with employees</td>
<td></td>
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<td>Protect</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Assess supply chain disruption and monitor/manage risks</td>
<td></td>
<td></td>
<td>Strengthen the resilience and visibility of the supply chain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protect supplies, orders and deliveries</td>
<td></td>
<td></td>
<td>Invest in agile and flexible supply chains</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protect</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stress test information technology (IT) infrastructure</td>
<td></td>
<td></td>
<td>Strengthen IT infrastructure and security and develop scalability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resolve issues impacting business continuity</td>
<td></td>
<td></td>
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PwC
April 2020
Strategic response
### Prepare for different scenarios – sense and respond quickly

<table>
<thead>
<tr>
<th>Scenario 1: Optimistic</th>
<th>Scenario 2: Realistic</th>
<th>Scenario 3: Pessimistic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer segments</strong></td>
<td><strong>Product/launches</strong></td>
<td><strong>Ecosystem</strong></td>
</tr>
<tr>
<td>• Assess impact across core segments – mass vs premium, rural vs urban, private vs fleet</td>
<td>• Evaluate any product delay costs and revise target costs</td>
<td>• Refocus business areas/segments under stress</td>
</tr>
<tr>
<td>• Protect core segments and prioritise segments that are showing more resilience</td>
<td>• Assess launch readiness and identify opportunities to accelerate launches</td>
<td>• Protect and grow attractive business segments</td>
</tr>
<tr>
<td><strong>Channels</strong></td>
<td><strong>Optimise sales channels for revised demand projections</strong></td>
<td><strong>Shelve product launches that do not meet the revised business case</strong></td>
</tr>
<tr>
<td>• Enhance promotional activities across digital channels</td>
<td>• Invest in convenient digital sales and marketing channels</td>
<td>• Evaluate and invest in product solutions that meet the evolving customer needs</td>
</tr>
<tr>
<td>• Enable digital sales journey</td>
<td>• Restructure sales channels to create more flexibility and resilience</td>
<td><strong>Ecosystem</strong></td>
</tr>
<tr>
<td>• Evaluate network strength and expansion plans</td>
<td>• Develop integrated digital channels to enhance visibility of demand and customer needs</td>
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<tr>
<td><strong>Ecosystem</strong></td>
<td><strong>Support suppliers and dealers with financial initiatives to ensure sustenance</strong></td>
<td><strong>Explore opportunities for strategic investment in distressed partners</strong></td>
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<td>• Evaluate financial health of suppliers and dealers and develop support initiatives</td>
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<td>• Identify alternative sources/channel partners in line with the revised strategy</td>
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<td><strong>Scenario 2: Realistic</strong></td>
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<td><strong>Scenario 3: Pessimistic</strong></td>
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<td><strong>Ecosystem</strong></td>
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Sensing demand signals and prioritising segments

**Rural market recovery could be more prolonged**

- Impact of the lockdown has resulted in rural output loss.
- Automotive rural demand may be under stress due to:
  - loss of income in agriculture and informal sectors impact demand (crop price reduction, losses for migrant workers)
  - continued lockdown of urban pockets may further impact rural economy (even if rural clusters open up)
  - low cash reserves and limited liquidity support from banks due to crisis in non-banking financial companies (NBFCs).

- In China, the impact of the COVID-19 lockdown on rural economy was estimated to be >USD 100 billion/month, with half of the surveyed households losing USD 282–704 per month.
  
  Source: International Food Policy Research Institute

**Increase in uptake of used vehicles**

- The impact of COVID-19, along with upcoming environmental and safety regulations (e.g. BS6), will likely dampen the demand for new vehicles.
- An increasing number of buyers might choose to defer their new car purchase or shift towards buying pre-owned vehicles.
- Automotive OEMs will need to focus on strengthening their used-car business.

**Shared mobility likely to be adversely impacted**

- Shared mobility start-ups have been negatively impacted by the COVID-19 crisis as services across the cities were disrupted and users inconvenienced.
- In the short run, consumers are likely to prefer self-driven rides.
- OEMs who were considering investing in shared mobility play may identify opportunities to invest in the space at better valuations.

- 66% of Chinese consumers indicated a preference for private vehicles for commute post the COVID-19 crisis, as compared to 34% before the crisis, according to a survey by a global market research firm.
- Preference for taxis and car-hailing services went down by 15% post the COVID-19 crisis.
- Public modes of transport were the most impacted, with a decline of 32% in preference post the COVID-19 crisis.

  Source: IPSOS Impact of Coronavirus to new car purchase in China
OEMs will need to leverage digital sales and promotion channels to enhance engagement with customers

**Traditional model:** Lead generation primarily driven by dealers

**Increased focus on OEM-led lead generation**

- Digital platforms
- Brand story
- Brand platforms
- Key opinion leaders (KOLs)

**Lead sharing**

- OEM
- Dealer
- Online stores
- Customers

**Key considerations**

- Offline lead generation and sales promotion activities have been deeply impacted by the COVID-19 crisis.
- OEMs can proactively engage with prospective buyers through digital channels and share the leads with their dealer partners.
- For digital natives, the trend towards online sales may get accelerated in the post COVID-19 environment.

**COVID-19 crisis: Impact on the automotive industry and navigating the turbulence**

PwC  
April 2020
Managing liquidity
Importance of cash while dealing with the crisis

Why is it important to manage liquidity?

01 Cash visibility

02 Foundation for cash-generation initiatives

03 Process improvement

04 Rapid decision making

Global uncertainty

Requirement of a robust cash forecast

COVID-19 crisis: Impact on the automotive industry and navigating the turbulence

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### Indicative step-wise plan – what, how and when

<table>
<thead>
<tr>
<th>Week 1 – understand the situation</th>
<th>Observe historical financial data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understand quantum, ageing and periodicity of payments</td>
<td>Understand the key cash drivers and current cash position</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Week 1 – cash outflows visibility</th>
<th>Prepare supplier-wise weekly payment plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classify into statutory payments, critical/contractual payments and discretionary expenditure</td>
<td>Review pipeline expenditure</td>
</tr>
</tbody>
</table>
**Week 1 – cash inflow visibility**

1. Understand the quantum, ageing and periodicity of recoverables
   - Obtain weekly detailed collection plan
   - Monetise non-core/surplus assets

**Week 2 onwards – improved cash conversion**

1. Seek product margins and product cash conversion time
   - Consider changing sales and production plan

2. Seek key vendor contracts and payment terms
   - Identify vendors offering longer credit terms or discounts
Implementation of the cash conservation and liquidity management office (CCLMO)

<table>
<thead>
<tr>
<th>Role and Agenda of the CCLMO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Daily meetings with various departments</strong></td>
</tr>
<tr>
<td>• Prepare daily payment requests</td>
</tr>
<tr>
<td>• Cost benefits of delaying capex, research and development (R&amp;D) and onboarding</td>
</tr>
<tr>
<td>• Accelerate refunds/recovery processes, identify opportunities for bill discounting</td>
</tr>
<tr>
<td>• Capture cost-reduction ideas</td>
</tr>
<tr>
<td><strong>Weekly meetings</strong></td>
</tr>
<tr>
<td>• Actual vs forecast variance</td>
</tr>
<tr>
<td>• Update of forecasts</td>
</tr>
</tbody>
</table>

Regulate the activities each day and at each stage
Certain working capital levers to conserve cash

**Debtors**
- Proactive customer dispute management process
- Collection-focused key performance indicators (KPIs)
- Increase invoice frequency
- Negotiate advance payment terms

**Payables**
- Prioritise payments
- Ensure process compliance
- Realise discounts/rebates
- Renegotiate credit terms
- Consolidate supplier base

**Inventory**
- Align target stock levels with supply chain
- Identify alternate sources
An example of a direct 13-week cash flow forecast

This is an illustration and may change depending on client needs.

<table>
<thead>
<tr>
<th>Weeks</th>
<th>Week 1</th>
<th>Week 2</th>
<th>Week 3</th>
<th>Week 4</th>
<th>Week 5</th>
<th>Week 6</th>
<th>Week 7</th>
<th>Week 8</th>
<th>Week 9</th>
<th>Week 10</th>
<th>Week 11</th>
<th>Week 12</th>
<th>Week 13</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash inflow</td>
<td>Collections from outstanding AR</td>
<td>Customer 1</td>
<td>Customer 2</td>
<td>Customer 3</td>
<td>Customer X</td>
<td>Customer XX</td>
<td>Collections from fresh invoices</td>
<td>Product/project/service 1</td>
<td>Product/project/service 2</td>
<td>Product/project/service 3</td>
<td>Product/project/service x</td>
<td>Product/project/service xx</td>
<td>Others</td>
<td>Total cash inflow</td>
</tr>
<tr>
<td>Cash outflow</td>
<td>Statutory payments</td>
<td>Expense 1</td>
<td>Expense 2</td>
<td>Contractual/critical payments</td>
<td>Expense 1</td>
<td>Expense 2</td>
<td>Discretionary payments</td>
<td>Expense 1</td>
<td>Expense 2</td>
<td>General costs – total</td>
<td>Tax payouts</td>
<td>Total cash outflow</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash inflow/outflow from operating activities</td>
<td>Cash flow from financing and investing</td>
<td>Capital expenditure</td>
<td>Investment</td>
<td>Inflow from monetisation of surplus/idle assets</td>
<td>Loan repayment</td>
<td>Interest payment</td>
<td>Other inflows</td>
<td>Other outflows</td>
<td>Other inflows/outflows from financing and investing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

COVID-19 crisis: Impact on the automotive industry and navigating the turbulence

PwC

April 2020
Managing people and organisations in the new normal
Key workforce focus areas to consider for the future

We visualise two horizons of action in which the focus areas will gradually shift and evolve.

**Horizon 1: Immediate/short-term**
- Timeframe: 2 weeks–2 months
- Focus: Keeping the lights on through cost, compliance, care and commitment

**Horizon 2: Mid-term**
- Timeframe: 2–6 months
- Focus: Building the momentum and nurturing the ecosystem to adapt to the new ways of working

There will also be clear focus areas, where continued focus would be imperative in both the horizons.

Immediate focus areas for organisations

- Employee health and wellness
- Continuous communication and connect
- Virtual capability building
- Remote working enablement and compliance
- Transitions management
- Cost and productivity
- Business continuity planning
- Urgently rewire human resources (HR) policies

COVID-19 crisis: Impact on the automotive industry and navigating the turbulence

PwC

April 2020
## What are organisations doing to prepare for the long haul?

### Key focus areas

<table>
<thead>
<tr>
<th>Remote working enablement and compliance</th>
<th>Business continuity planning</th>
<th>Continuous communication and connect</th>
<th>Cost and productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Testing and enabling technologies to support collaboration and communication</td>
<td>• Carrying on global mobility and business continuity with customers</td>
<td>• Constantly communicating with employees to notify them about measures taken amid COVID-19</td>
<td>• Engaging in workforce planning and management</td>
</tr>
<tr>
<td>• Putting together remote working policies and data security compliance</td>
<td>• Aligning with the leadership for business continuity</td>
<td>• Sharing knowledge nuggets from credible sources like the World Health Organization (WHO)</td>
<td>• Refining performance expectations for employees</td>
</tr>
<tr>
<td></td>
<td>• Augmenting the workforce for key activities/tasks that need support</td>
<td>• Creating a digital workplace of the future</td>
<td>• Planning for increase in absenteeism and work refusal</td>
</tr>
<tr>
<td></td>
<td>• Conducting scenario-based crisis preparedness audits</td>
<td></td>
<td>• Drawing up productivity plans for senior executives and white- and blue-collar employees</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Virtual capability building</th>
<th>Transitions management</th>
<th>Urgently rewire HR policies for relevance</th>
<th>Employee health and wellness</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Managing virtual capability across an organisation</td>
<td>• Managing compliance and brand management around workforce transitions</td>
<td>• Realigning hiring, onboarding, exits, compensation and benefits (C&amp;B), performance management system (PMS) and learning and development (L&amp;D) policies to support the organisational strategy and the current scenario</td>
<td>• Conducting health and wellness training sessions</td>
</tr>
<tr>
<td>• Building leadership capability for a virtual world</td>
<td>• Coaching and providing career transition support for impacted staff</td>
<td></td>
<td>• Revising leave, travel and hospitalisation/insurance guidelines</td>
</tr>
<tr>
<td>• Coaching leaders and staff for morale and resilience</td>
<td>• Creating plans for scenario-based workforce transition</td>
<td></td>
<td>• Managing employee morale through care and communication</td>
</tr>
<tr>
<td>• Building future-focused capability building and digital fitness</td>
<td></td>
<td></td>
<td>• Establishing employee support services, e.g. a dedicated hotline number</td>
</tr>
</tbody>
</table>

---

COVID-19 crisis: Impact on the automotive industry and navigating the turbulence

PwC

April 2020
## Key industry-wise considerations for managing productivity

### Focus areas for the automotive industry

#### Accepting the new normal
- An otherwise brick and mortar sector has shown tremendous resilience to transition to work from home (WFH).
- The sector should prepare for a slow return to normal and manage plans around that.

#### Value stream management
- Depending upon the direct and indirect suppliers, the automotive industry’s plans of ramping up are going to be different.
- From an employee productivity perspective, the downtime could be used to build newer partnerships and avenues.

#### Workforce morale
- Employee costs not exceeding 10% of total costs for the sector; yet the success dependence on employee inclusivity is high.
- Working with executives, white- and blue-collar employees, contractual staff and unions to manage scenarios for sustenance.

#### Productivity
- Productivity is going to be hugely governed by how productivity is defined in current circumstances.
- Value to be delivered as a productivity norm by each function and level will be critical to be defined and focused upon.
- The sector should capture learnings from the COVID-19 crisis.

#### Newer norms and capabilities for the future
- Managing virtual capability as a way of life.
- Building leadership capability for a virtual world.
- Coaching of leaders and staff for morale and resilience.
- Stress on future-focused capability building and digital fitness.

#### Contributing to the ecosystem
- An inclusive cash flow and productivity management plan that takes into consideration the success of the entire value chain will be a key consideration.
- Planning with ancillaries, suppliers and dealer/distributors for newer ways and newer propositions could be another key consideration.

#### Preparing for the new customer and employee expectations
- Will the definition of mobility and social distancing change human preferences?
- Could workforce models across the entire value chain be shifted to core and build service providers for non-core areas across all players?

#### The long-term bets
- Organisations in the sector should look to ring-fence their critical talent.
- Upskilling talent for the future as employees will have to be doubly productive as normalcy comes in.
- Focusing on talent pipeline and making sure to engage them.
- Finally, working on the new processes for enablement and decision making.
Supply chain risk and resilience
The global supply chain disruption will have a continued impact on India for at least six months.

31% value from the top 10 auto component source countries is currently at higher risk

Auto component import share by country for FY20 (9 months)

Country risk category | Major import countries | Assumed disruption profile
--- | --- | ---
**Higher** (At peak/yet to peak from the COVID-19 disruptions) | The US, Germany, Italy, Spain, the UK, France and Belgium | Peak disruption in May (>50% risk of disruption), with disruption risk easing starting in October
**Moderate** (COVID-19 disruptions peaked and the countries are recovering) | China, South Korea, Japan, Thailand and Singapore | Peak disruption in March (25% risk of disruption); with disruption risk easing starting in September

Top 5 at-risk auto components constitute 79% of all component imports by value

Risk profiles of top 5 imported component categories

- Drive, transmission and steering: 76%
- Electricals and electronics: 78%
- Body and chassis: 77%
- Engine components: 74%
- Suspension and braking: 100%

Probable disruption risk to last 7‒9 months, peaking in Q1 FY21*

Disruption risk distribution across the year

- Q1 FY21: 32%
- Q2 FY21: 25%
- Q3 FY21: 10%
- Q4 FY21: 5%

*Based on the assumed risk profile of top 5 at-risk imported components

Source: Worldometers, media reports, PwC analysis
COVID-19 crisis: Impact on the automotive industry and navigating the turbulence
PwC
Supply chain resilience and risk management

- Simulate supply chain scenarios based on ramp up expectations
- Identify ramp-up impact on availability and supply capability
- Design responses to enable revenue growth
- Simulate supply scenarios with regard to dynamic changes in the spread of COVID-19 globally into near control, peaking and declining rate regions

- Zero-based costing (ZBC) approach to all overhead costs
- Reduction in travel spend
- Enable digital connectivity
- Revaluate office and dealership real estate costs

- Review customer allocations to optimise profits on near-term revenue or to meet contractual terms or higher demand
- Shape demand by offering discounts on available inventory
- Introduce new products previously destined for China to India-based plants
- Focus on aftermarket parts availability and enabling services at convenience points or door delivery
- Engage customers proactively about delays

- Evaluate geographical risk (China, Europe and the US) to shift share of business (SOB) to India
- Build visibility and resilience-readiness across Tier 1, 2, 3 and 4 suppliers
- Secure allocated supplies and overtime assembly capacity
- Activate preapproved parts, risk management (RM) substitutes and alternated suppliers
- Transport available inventory to areas away from quarantine zones and ports

- Focus and allocate capacities on priority products
- Enable workforce with safety, hygiene, healthcare services and incentives
- Staggered shift operations to enable social distancing
- Design a resilient manufacturing operation

- Deploy asset-based service providers
- Hedge export logistics with contract and spot rates
- Enable functioning of parts warehouses (WHs) by engaging service providers (SPs) for labour availability
- Build resilience in mode by leveraging multi-modal infrastructure of rail and road
- Inbound and parts warehouse automation
IT readiness and security
Information technology readiness and security

Target work from home (WFH) workforce/functions

- Identify functions and number of employees and infrastructure.
- Ensure secure practice awareness.
- Provide contact details of IT and information security (IS) teams.

IT and security tools

- Provide sufficient internet connectivity and bandwidth.
- Ensure 24x7 availability of crisis management team.
- Ensure virtual private network (VPN) coverage in the complete network.
- Provide laptops/mobiles/desktops/audio-video enabled voice over internet protocol (VOIP).

IT and cyber security governance

- Make sure that a central repository of critical process documentation is available.
- Access management processes and policies for different time zones/shifts.
- Have in place stringent security policies for the internet.

Hardware and data centres

- Provide policy clarity on personal device usage and special attention.
- Issue laptops/handheld devices to the extent possible.
- All data centres to be equipped with live/hot network.
- Have a robust and scalable security infrastructure.
- Ensure IT services partner is adequately staffed.

Software and licensing

- Have an optimum mix of traditional and cloud-based solutions.
- Prioritise critical daily usage software.
- Prioritise software with easy remote access and installation.

Bandwidth sizing and data backup

- Make sure internet service provider (ISP) and VPN solutions have both upstream and downstream sufficient bandwidth.
- Plan for peak-load scenarios.

Cyber security considerations

- Be aware of possible modus operandi of cyberattacks.
- Authorise resources based on relevance.
- Plan for multifactor/adaptive/risk-based authentication.
- Update identity management solutions.

Remote working ways

- Train workers with remote working nuances.
- Disseminate guidance templates to make remote working self-explanatory.
3

Building for the medium term: Every crisis is an opportunity
Reorganise for future growth while transforming the cost structure

PwC’s Fit for Growth framework

Build industry-leading capabilities
- Invest to build 3–6 differentiating capabilities (e.g. technology, service levels, Agile SC and low costs)
- Invest in start-ups to acquire futuristic capabilities (e.g. digital tools, blockchain, electric vehicle and advanced driver-assistance systems)
- Co-create with peers for shared investment in new technologies

Transform cost structure
- Rationalise stock keeping units (SKUs) and programmes
- Drive production and logistics efficiencies
- Amend vendor contracts for payment and pricing terms (e.g. large-size enterprise resource planning [ERP] projects)
- Reduce supporting infrastructure and tools cost (e.g. manufacturing assets)
- Eliminate low value-add work

Company’s strategy
- Reprioritise strategic initiatives and investments to make organisations fit for future.

Reorganise for growth
- Define the right mix of products and services portfolio for the future
- Ensure finance continuity
- Enhance innovation pipeline
- Invest in special projects (e.g. brand positioning, process streamline and automation and lean)
- Rationalise roles and resources
- Define the project management office (PMO) for execution

Enable change and cultural evolution
- Minimise management through spans and layers
- Improve consistency through standardisation
- Improve talent effectiveness through reskilling and defined programmes
- Optimise workload by redefining service levels and process change
### Every crisis is opportunity to emerge stronger

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Business restructuring</th>
<th>Differentiated capabilities</th>
<th>Unlock value</th>
<th>Product portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Create independent scalable business units with resiliency for future.</td>
<td>Leverage low valuation to acquire capabilities for future through mergers and acquisitions (M&amp;A).</td>
<td>Identify low-performing businesses and assets for sell-off to improve liquidity.</td>
<td>Develop new products considering new customers (Tier II and III) and their health, hygiene and connectivity needs.</td>
</tr>
</tbody>
</table>

### Front end

<table>
<thead>
<tr>
<th>New business opportunity</th>
<th>Increased online sales</th>
<th>Re-evaluate retail format and network</th>
<th>Doorstep service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared mobility concerns can open up increased 2W, PV and used-vehicle sales and pay-per-use model.</td>
<td>Concerns about visiting showrooms will lead to online/digital sales and marketing processes (manpower and overhead cost savings).</td>
<td>Network footprint and showroom sizes need to be revaluated considering dealer viability.</td>
<td>Service and sanitise vehicles on the doorstep to bring in hygiene transparency, thereby reducing service centre footprint.</td>
</tr>
</tbody>
</table>

### Supply chain and operations

<table>
<thead>
<tr>
<th>Be decisive</th>
<th>Focus on data</th>
<th>Build future-ready supply chains</th>
<th>Manufacturing and office space redesign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Considering financial viability for the future, decide on operations restructuring, leadership, and investments on hold.</td>
<td>Build a digital thread across operations for faster decisions, lower human intervention, pre-emption of financial loss and remote support.</td>
<td>Redesign supply base (on/offshore, critical parts, alternative material) real-time risk profiling (e.g. integrate blockchain).</td>
<td>Reduced operations expenditure (e.g. lease, energy and supplies) considering optimised manufacturing (lower production)/office space (remote work).</td>
</tr>
</tbody>
</table>

### Workforce

<table>
<thead>
<tr>
<th>Policy restructuring</th>
<th>Contract restructuring</th>
<th>Shared services and IT</th>
<th>Multi-skilled workforce</th>
</tr>
</thead>
</table>
| Restructure HR policies (e.g. health, remote working, travel, visitors, immigration, leaves, pay) through crisis learning. | Revisit labour union contracts (e.g. pay, leaves, benefits) for shared risk-impact ownership for collaborative crisis management. | • Save through shared services like legal tax, finance and administration.  
• Build scalable IT backbone for online and remote needs. | Understand the need for multiskilling and conduct relevant training programmes (e.g. coding) for the workforce. |
4 Learning from China’s COVID-19 experience
The impact of COVID-19 on China’s automotive industry

Accumulated confirmed cases of COVID-19 and the impact period

Besides work, public transportation in Hubei also resumed

PV sales volume

<table>
<thead>
<tr>
<th>Year</th>
<th>January</th>
<th>February</th>
<th>March</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>1.72 million units</td>
<td>0.25 million units</td>
<td>1.04 million units</td>
</tr>
<tr>
<td>2019</td>
<td>2.16 million units</td>
<td>1.17 million units</td>
<td>1.75 million units</td>
</tr>
</tbody>
</table>

% change

-20.4%  

Note: Confirmed cases till 31 March 2020

Source: China Association of Automobile Manufacturers (CAAM), National Health Commission and PwC analysis

COVID-19 crisis: Impact on the automotive industry and navigating the turbulence

PwC
Major impact on the auto industry and related responses

Disrupted supply chain

- OEMs stopping production
  - The outbreak has affected OEMs located in Hubei province the most. Other regions such as Guangzhou and Zhejiang have also been severely affected.

Disrupted supply chain

- In China, about 40% of the production plants and R&D centres of the world’s top 10 suppliers are located in the severely affected regions.
- Due to the high degree of integration and interdependence of value chain, the replacement of suppliers is not practical, and the impact on upstream enterprise will gradually be transmitted downward.

Disrupted supply chain

- The epidemic had the greatest impact on the service industry and affected people’s disposable income, thus leading to shrinking purchasing power.

Sluggish customer demand

- Postpone customer demand
  - As a necessity with long-term decision-making cycle, most of the demand will not disappear, but it may get postponed to Q2-Q4 2020 or to 2021 due to the pandemic.
  - The pandemic might stimulate the demand for first-purchase opportunity, but the precise demand remains unknown.

Sluggish customer demand

- Shrink purchasing power
  - Sluggish customer demand
    - Postpone customer demand
      - As a necessity with long-term decision-making cycle, most of the demand will not disappear, but it may get postponed to Q2-Q4 2020 or to 2021 due to the pandemic.
      - The pandemic might stimulate the demand for first-purchase opportunity, but the precise demand remains unknown.
      - Shrink purchasing power
        - The epidemic had the greatest impact on the service industry and affected people’s disposable income, thus leading to shrinking purchasing power.

Suspended offline sales

- Major impact on OEMs
  - Suspended offline marketing activities
  - Delayed new product launch plan
  - May also report additional losses due to the discontinued operations

Suspended offline sales

- Major impact on dealers
  - Suspended offline sales and promotion in 4S stores
  - Delays in new car delivery due to suspension of logistics and staff shortage
  - Stagnation of after-sales service, due to staff shortage and rotation

Huge cash flow pressure

- Estimate Q1 cash flow gap: 6–8 million RMB
  - Estimate Q1 cash flow gap: 3–5 million RMB

- Expected cash inflow
  - April cash for Q1
  - May cash for Q1

- Expected cash outflow
  - Rent
  - Salary
  - Interest
  - Others

- Expected cash inflow
  - Used car
  - Rental
  - Salary
  - Interest
  - Others

- Expected cash outflow
  - April cash for Q1
  - May cash for Q1

- Expected cash inflow
  - After sales
  - Rent
  - Interest
  - Others

- Expected cash outflow
  - Active cash for Q1
  - Salary

Major reactions and response

- Recovery of supply chain
  - Continue production and operation to generate revenue for both OEMs and suppliers.
  - Enhance the construction of supplier risk prevention system and build ecosystem to resist risk together.

Major reactions and response

- Seize first-purchase demand
  - Develop a marketing strategy to address consumers’ current emotions.
  - Focus on demand in Tier 3 and 4 cities.
  - Focus on compact model.

Major reactions and response

- Online-offline integration
  - Integrate online and offline activities for operation.
  - Promote more new channels of online marketing and increase the conversion rate via active engagement with potential customers.

Major reactions and response

- Enhance cash flow management
  - Dispose of distressed assets and improve the ability to optimise capital structure and restructure.
  - Increase financial support to strengthen cash flow forecast.
  - Cut unnecessary costs through labour and other expenses.

Source: PwC analysis
COVID-19 crisis: Impact on the automotive industry and navigating the turbulence
PwC
April 2020
Sales forecast and resumption of work

**Overview and projection for China’s automotive market:** The sales volume plunged in January and February, and while the market is likely to recover in July, it is expected that the overall 2020 sales volume will drop approximately 10‒15% compared to 2019.

**Estimated volume of PV sales in China in 2020**

<table>
<thead>
<tr>
<th>Sales volume (million)</th>
<th>2019 Actual</th>
<th>2020 Baseline</th>
<th>2020 Optimistic</th>
<th>2020 Aggressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>3.0</td>
<td>2.5</td>
<td>2.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Feb</td>
<td>2.5</td>
<td>2.0</td>
<td>1.7</td>
<td>1.3</td>
</tr>
<tr>
<td>March</td>
<td>2.0</td>
<td>1.5</td>
<td>1.3</td>
<td>1.0</td>
</tr>
<tr>
<td>April</td>
<td>1.5</td>
<td>1.0</td>
<td>0.8</td>
<td>0.6</td>
</tr>
<tr>
<td>May</td>
<td>1.0</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>June</td>
<td>0.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>July</td>
<td>0.0</td>
<td>0.0</td>
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<td>Aug</td>
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<td>Sept</td>
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<td>Oct</td>
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<tr>
<td>Nov</td>
<td>0.0</td>
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<td>0.0</td>
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<tr>
<td>Dec</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: CAAM and PwC analysis

- **Actual market demand for Q1:** The January and February sales in 2020 plunged by 20% and 79%, respectively. The sales volume in March is expected to decline by about 40%

- **Forecasted market demand for two-wheel drive, high range (2H):** Starting from Q2, customer demand will recover gradually and the sales volume might jump back to the 2H purchase level in 2019.

- **Forecasted overall impact:** Based on the forecast, the total sales volume of new cars in 2020 is likely to drop by approximately 10‒15%, compared to 2019.

**Status on work resumption**

**OEMs**

- **Chinese OEMs:**
  - The average resuming capacity utilisation rate is over 70%, and it is expected that production will resume from April.
  - Chinese OEMs remain optimistic for the future and will maintain the planned schedule, going forward.

- **Foreign OEMs:**
  - It is estimated that foreign OEMs are resuming about 50‒60% of their normal operations.

**Suppliers**

- Suppliers will resume work earlier than OEMs.
- Chinese suppliers who mainly sell products to local OEMs are recovering at a faster pace compared to those who heavily rely on exporting.

**Dealers**

- Resumption of work rate – about 95% of dealers have resumed work.
- Customer traffic – returned to approximately 60‒70% compared to last year.
- Sales efficiency – returned to approximately 60‒65% compared to last year.

*Statistics till 31 March 2020*
# Government of China’s support for the industry’s recovery

## Auto market incentive policies

### Extending subsidies for NEVs
- Subsidies on purchase of neighbourhood electrical vehicles (NEVs) have been extended for two years till 2022
- Exemption on purchasing tax extended for two years till 2022

### Subsidies for used cars
- Subsidies to be provided for purchase of State 3 emission standard used cars
- 50% reduction in value-added tax (VAT) for enterprise registered used car (2%)
- Exemption in VAT for personal used car

### Lifting restrictions on car plates
- Restrictions on the number of car plates issued in Guangzhou, Shenzhen and Hangzhou provinces have been lifted

## Financial incentives for enterprises post resumption of work

### Insurance support
- Social insurance expenditure extension without overdue fine (within three months)
- Housing fund expenditure extension without overdue fine (before June)
- Tax payment extension for three months

### Financial support
- 50% interest subsidies in one year
- Increase in credit loan quota and lowered financing cost

### Tax incentives
- Property tax cut for at least two months for small- and medium-sized enterprises affected by the pandemic

## Safety production support

### Daily sanitisation and medical care
- Daily sanitisation for plants and offices
- Newly added isolation area and medical area
- Closed-production area

### Staff care supports
- Real-time guest and staff registration
- Sufficient masks for staff in plants and offices
- Centralised pickup and drop-off management for staff
- Maintenance of safe distance in workspace
- Centralised meal supply and management
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Data classification DC0 (Public)

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SG/April 2020 – M&C 5644