

India

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With a population of 1,366 billion, India is becoming the fastest growing country for energy consumption in the world. Just to give an idea on the magnitude, India adds one Australia every year in terms of population. The country is the world's fifth largest economy by nominal GDP of 2.87 trillion USD (2019) and continues to remain the world's sixth largest consumer market. With rising middle-class income, huge investments in infrastructure and rapid urbanisation over next 20 years, it is expected that the Indian economy will overtake the USA by 2050, as per PwC analysis. Since the start of the 21st century, India's annual average GDP growth has been 6-to-7%, one of the highest in the world.

The vehicle parc, manufacturing and sales

The country's automotive industry accounts for around 7.1% of the country's GDP, in which the two-wheeler segment accounts for a share of around 81%, making India the largest manufacturer of 2 wheelers in the world. For the Financial Year 2019-20, India's domestic sales of Commercial vehicles has been 0.7 mn; that of Passenger Cars 2.7mn and 2 wheelers 17.4mn (in previous years, it has even crossed 21 mn). Additionally, the government's initiatives, such as the Make in India campaign, are helping the local manufacturers to think of not just domestic market, which itself is huge, but preparing them to become a major player in the global market. This applies not just to Automobile, but also to Industrial products, thus boosting consumption of both Automotive and Industrial Lubricants. Interestingly in the 'new normal' world, Automobile sales have picked up and going by the massive sales in last quarter, India is witnessing V-shaped economic recovery. This has encouraged all leading manufacturers to launch new models over next 12 months.

Base Oil Production

India is the world's third largest finished lubricant market but doesn't have the domestic base oil

capacity to match, making it one of the biggest base oil importers globally. The country's annual base stock production capacity is estimated to be around 1.2 million tons and it imports more than 2.5 million tons every year. API Group II accounts for the biggest share of consumption (60% approx.), followed by Group I, Group III and Naphthenics.

Looking at the huge potential for base oils and the gap in domestic refining capacity, all local base oil manufacturers, viz. Indian Oil Corporation Ltd. (IOC); Hindustan Petroleum Corporation Ltd (HPCL) and Bharat Petroleum Corporation Ltd (BPCL) have announced their expansion plans. But it is likely that India will continue to import base oils, since overall demand is going to increase.

Just like a global base oil market, Indian base oil market is short, with prices going through the roof. This has put pressure on lubricant companies in terms of margin management.

The Lubricants Market

The Indian Lubricant market is expected to grow at the CAGR of 3% YOY. The Global lubricants market is 39mT in terms of volume and India's share is approx. 2.7 mT. In terms of value, Indian lubricants market is estimated to be US\$ 6 billion in value.

Automotive lubricants contribute the most to the market overall, with 55% of the market share. Industrial lubricants contribute a further 40% of the market share, and the remaining 5% is made up by Greases.

India is committed to the Paris Agreement and as a signatory has embarked on an ambitious plan by announcing that they would go directly to BS VI from BS IV over the course of the preceding 3 years (India had upgraded to BS IV from BS III in April 2017). This was a herculean task, considering that India had taken 7 years to go from BS IV from BS III.

Indian refineries, OEMs, Lubricant companies and additive companies certainly deserve credit for achieving this milestone in a record three years. Meeting the deadline in time displays India's capability to accept challenges and deliver successfully and it clearly shows new resolute India.

IOC, HPCL, Castrol, BPCL, Gulf Oil, Shell, Valvoline, Total, ExxonMobil and Tide Water are leading companies in this market. However the market is so big that it has given opportunities for medium and small lubricant companies to still find place on the shelf.

While bazaar trade is the biggest contributor to overall lubricants sales, B2B channels like Independent Workshops and Institutional customers are becoming influential. This has a positive impact on the market, as they demand higher performance level. Lubricants are becoming lighter, as expectations from regulators, and hence OEMs, on Fuel Economy are building up. Extended drain interval and Engine durability are other key considerations in this competitive market.

It is expected that IC Engines will continue to dominate the Indian Market in spite of the advent of Electric vehicles. It is expected that 2 wheelers and 3 wheelers will see the faster transition to EV over next few years. Currently EV penetration in overall 2 wheeler sales is just 1%. Since Lubricants market will continue to expand, I will not be surprised to see new brands to be launched in this massive market.

'Make in India' as stated above will also help India to position as a manufacturing hub, since many companies are adopting China+1 strategy for security of supplies, which will result into growth for Industrial lubricants.

Summary

As has been mentioned on few occasions, the Lubricants industry seems recession-proof and even COVID has not dampened the spirit nor the future prospects for the Lubricants industry in India. It has shown a strong resilience during previous financial melt-downs and while their peers from downstream (like Fuels) have been following cyclical trends in financial performance. Lubricant companies are quick to turnaround and post strong financials year after year. Consolidation of the lubricant industry is going

to happen, with cash-rich companies finding this the most appropriate time to acquire companies, with strong outlook of the industry, in spite of advent of EVs.

Apart from consolidation of the industry, it is expected that quite a few new brands will hit the Indian lubricants market over next 12-18 months, as it will continue to offer opportunities and space on the shelf for new brands, particularly when unorganised lubes are giving way to organised lubes in the 'new normal' world. Goodyear, a global major in tyre industry, has announced its foray into Indian lube market recently.

With world moving into digital, lube companies will also look at e-commerce platform to sell their lubricants and also at digital platforms to advertise their brand, with ability to reach wider market.

Overall India will offer exciting opportunities to Lubricant, additive and base oil players!

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