

# Corporate Vehicle Observatory

**India**

**2010**



## Summary

- CVO – What is it?
- Methodology
- Part 1 Characteristics of companies spoken to.
- Part 2. Impact of the financial crisis
- Part 3. What impact have the new FBT changes had?
- Part 4. Fleet growth potential
- Part 5. Car Policy impact
- Part 6. Services required
- Part 7. What is happening in the LCV market?
- Part 8. The Environment issue
- Part 9. Financing your fleet.




Management  
of vehicles



Sustainable  
development




Prevention  
of road risks



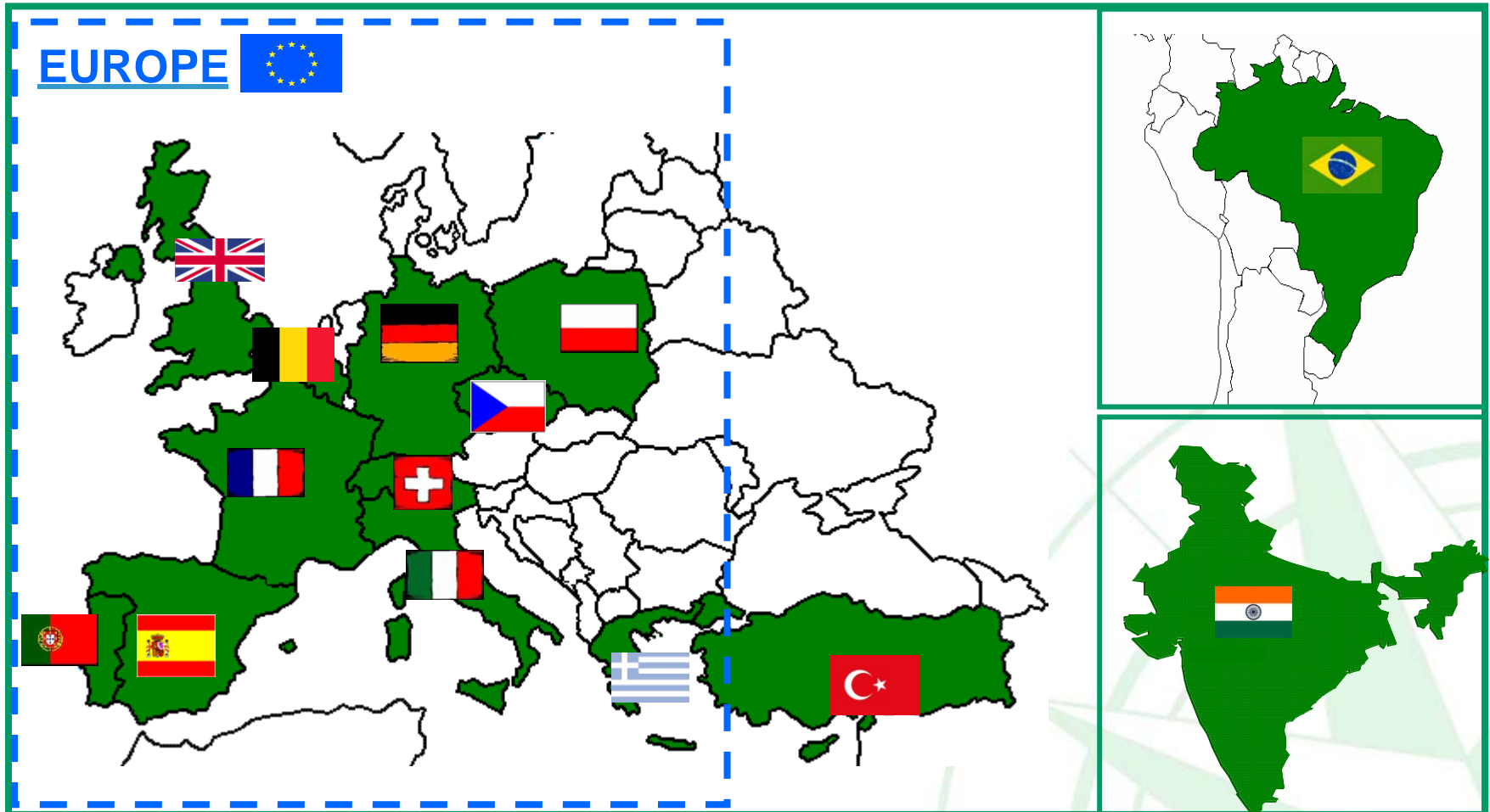
New  
Technologies

[www.corporate-vehicle-observatory.com](http://www.corporate-vehicle-observatory.com)

- An expert-platform for all fleet professionals:  
fleet managers, procurement specialists, manufacturers, leasing companies, advisers, insurers, press, public authorities, researchers etc.
- Created by Arval in 2002
- Launched this year in Turkey and Brazil
- Neutral & International
- Focus: Professional Mobility
- Cost free Studies
- Annual Fleet Barometer in collaboration with 
  - Analysis of the decision-makers' attitudes on fleets
  - Overview of the main trends of the automotive market
  - Comparison of trends on 14 countries



14 countries covered by the study in 2010  
including 2 new members : Brazil & Turkey



## Part. 1

# CHARACTERISTICS OF COMPANIES SPOKEN TO.

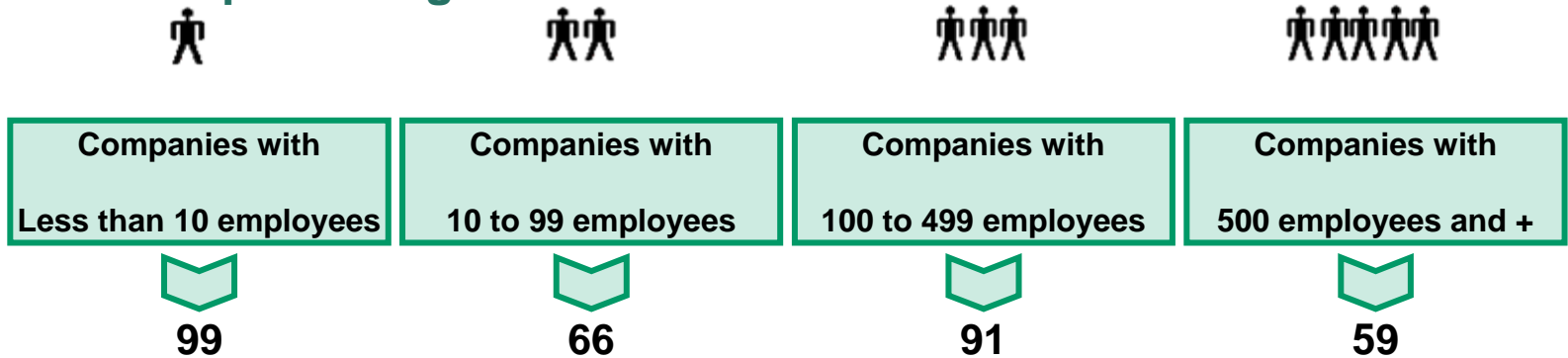
## ***Size***

## ***Fleet breakdown per segment***

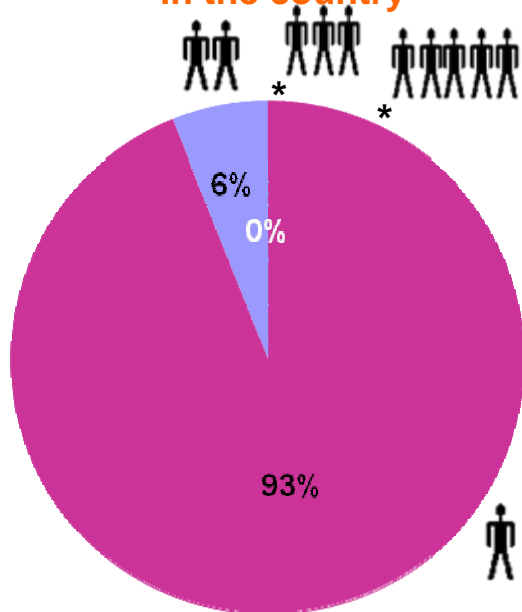
## ***Distribution of vehicle use.***



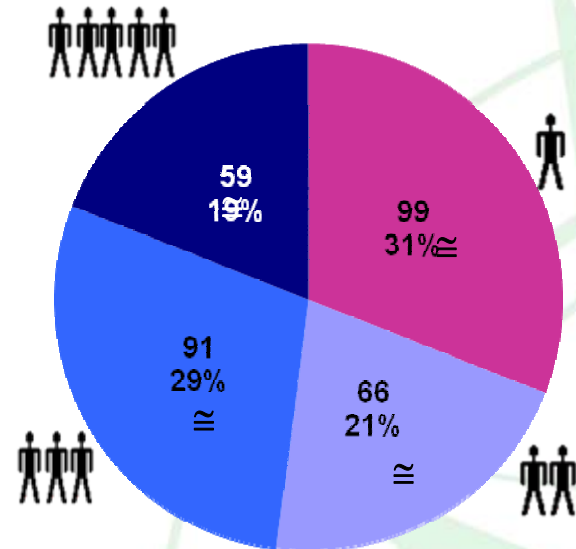
## Local Sample : 4 segments



### Distribution of companies in the country \*



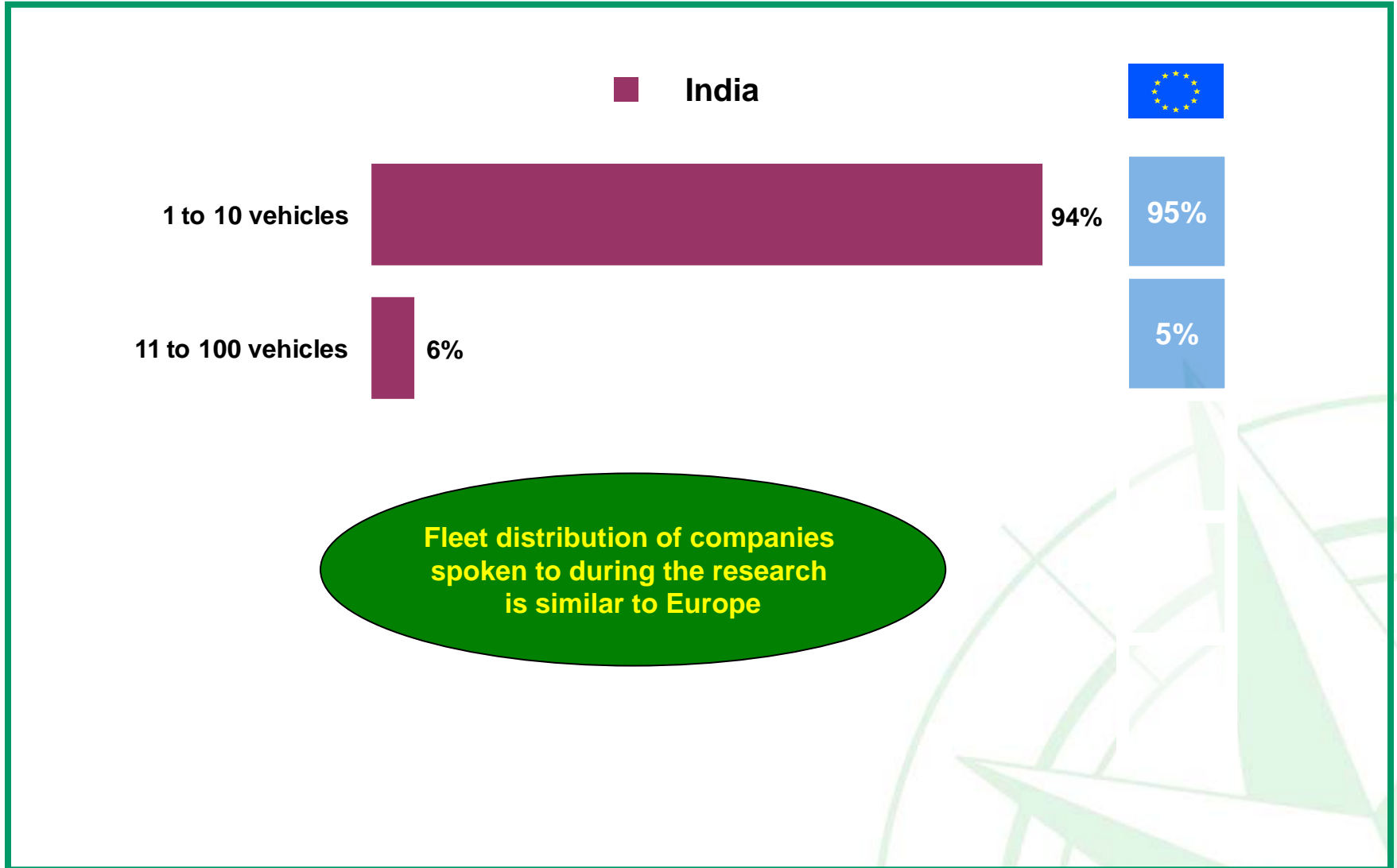
### Base: companies with corporate vehicles



\* Source: National Institutes of Statistics / Eurostat – private sector (average)

\*\* Unweighted figures. The distribution of companies interviewed has been reweighted according to its real structure at the local level.

Comparison with EUROPE



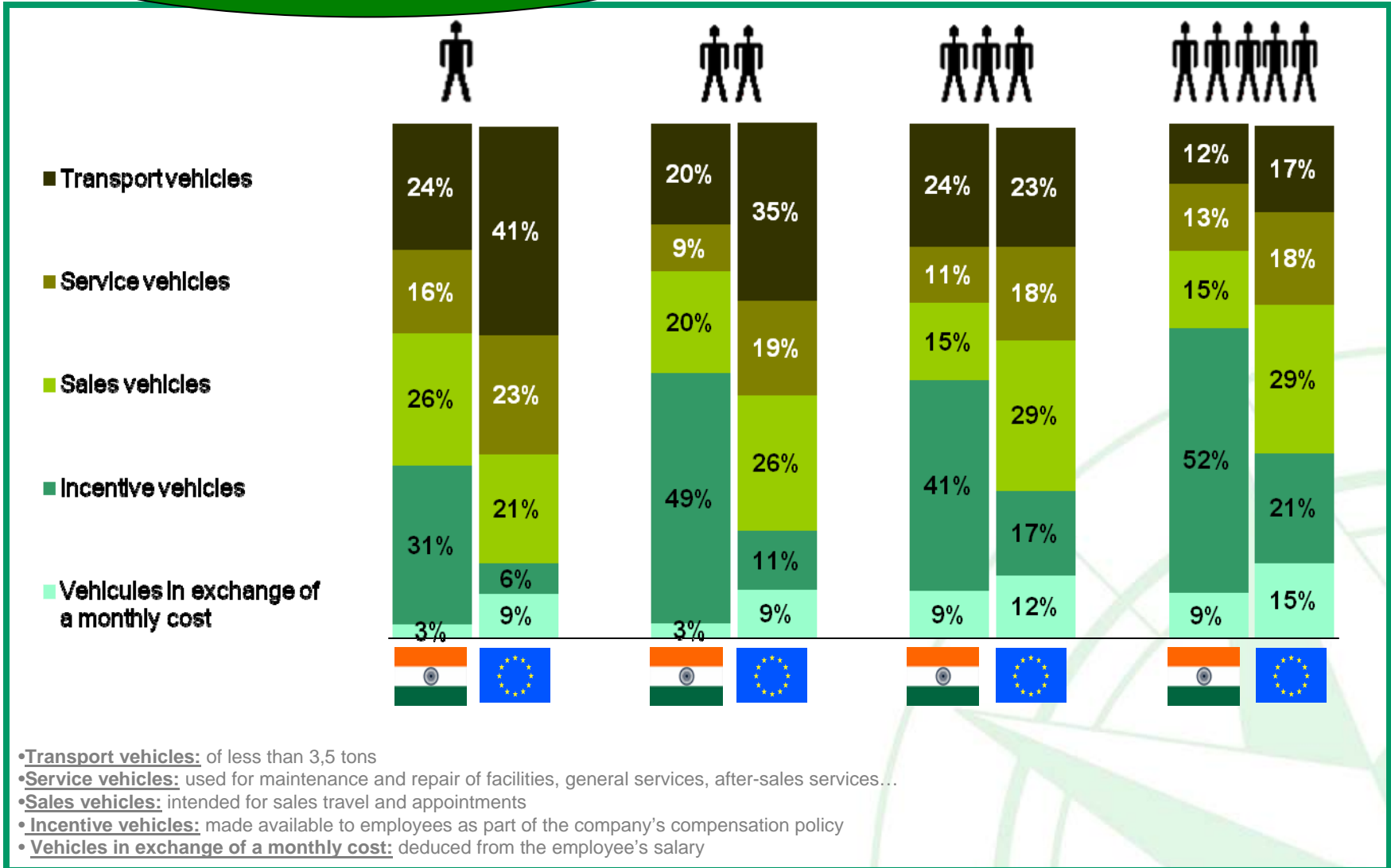
Base: companies with corporate vehicles = 100%

Total can be different from 100% due to DK

Comparison with EUROPE



A greater proportion of large Indian companies provide incentive vehicles as compared to EU – tend to be within CTC market



- **Transport vehicles:** of less than 3,5 tons
- **Service vehicles:** used for maintenance and repair of facilities, general services, after-sales services...
- **Sales vehicles:** intended for sales travel and appointments
- **Incentive vehicles:** made available to employees as part of the company's compensation policy
- **Vehicles in exchange of a monthly cost:** deduced from the employee's salary

## Part. 2

# IMPACT OF THE FINANCIAL CRISIS

*What crisis in India?*

*How will it impact corporate vehicle policies?*



## What crisis in India?

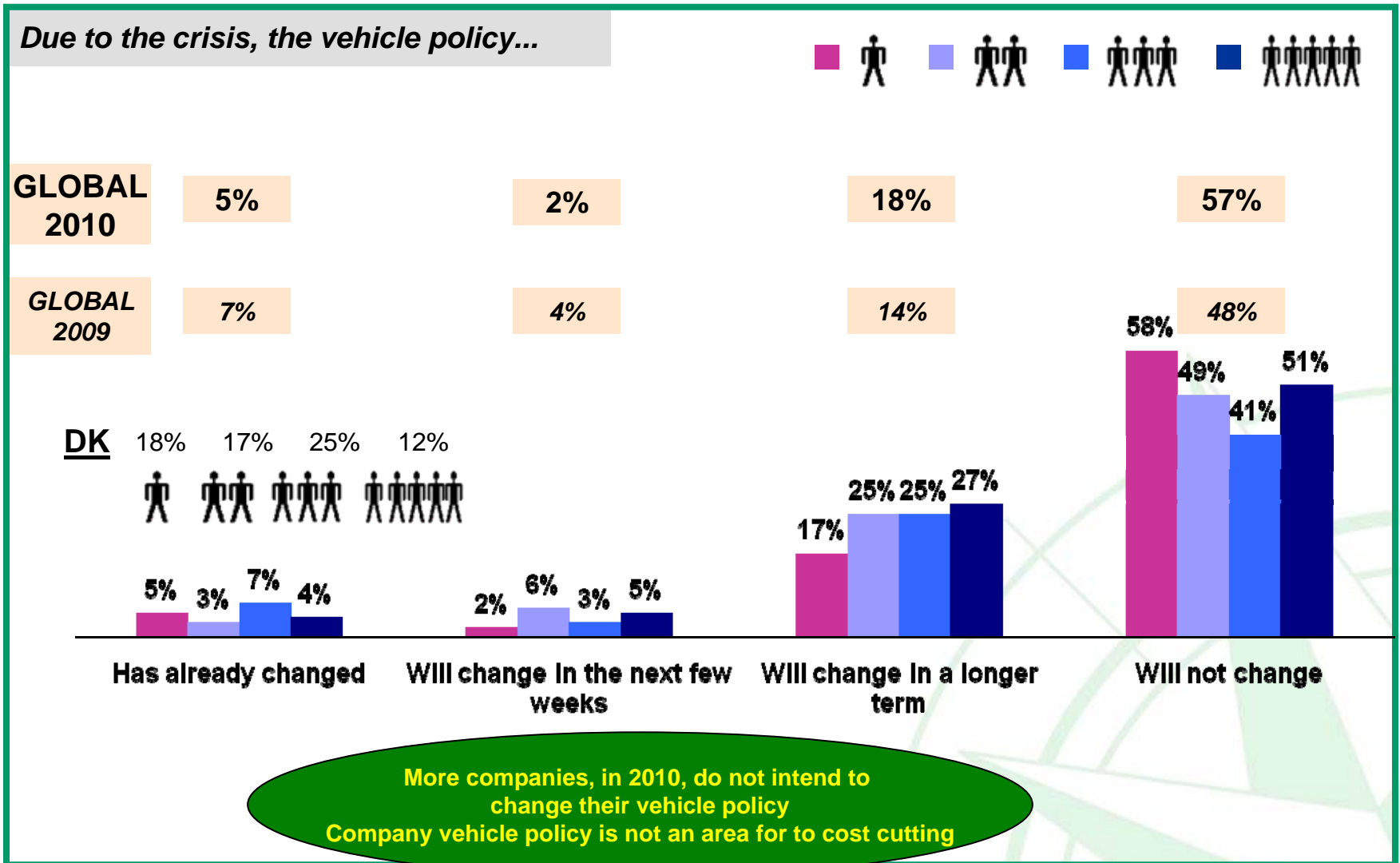
The Indian economy has shown better resilience to the global economic crisis when compared to some of the economic super powers

GDP - Real Growth Rate Estimates (%), Country Comparison				
	2007	2008	2009	2010 (F)
India	9	7.4	6.5	6.5
China	13	9	8.7	8.5
EU	3	0.8	-4	-0.3
Japan	2.3	-1.2	-5.3	1.7
United States	2.1	0.4	-2.4	0.8

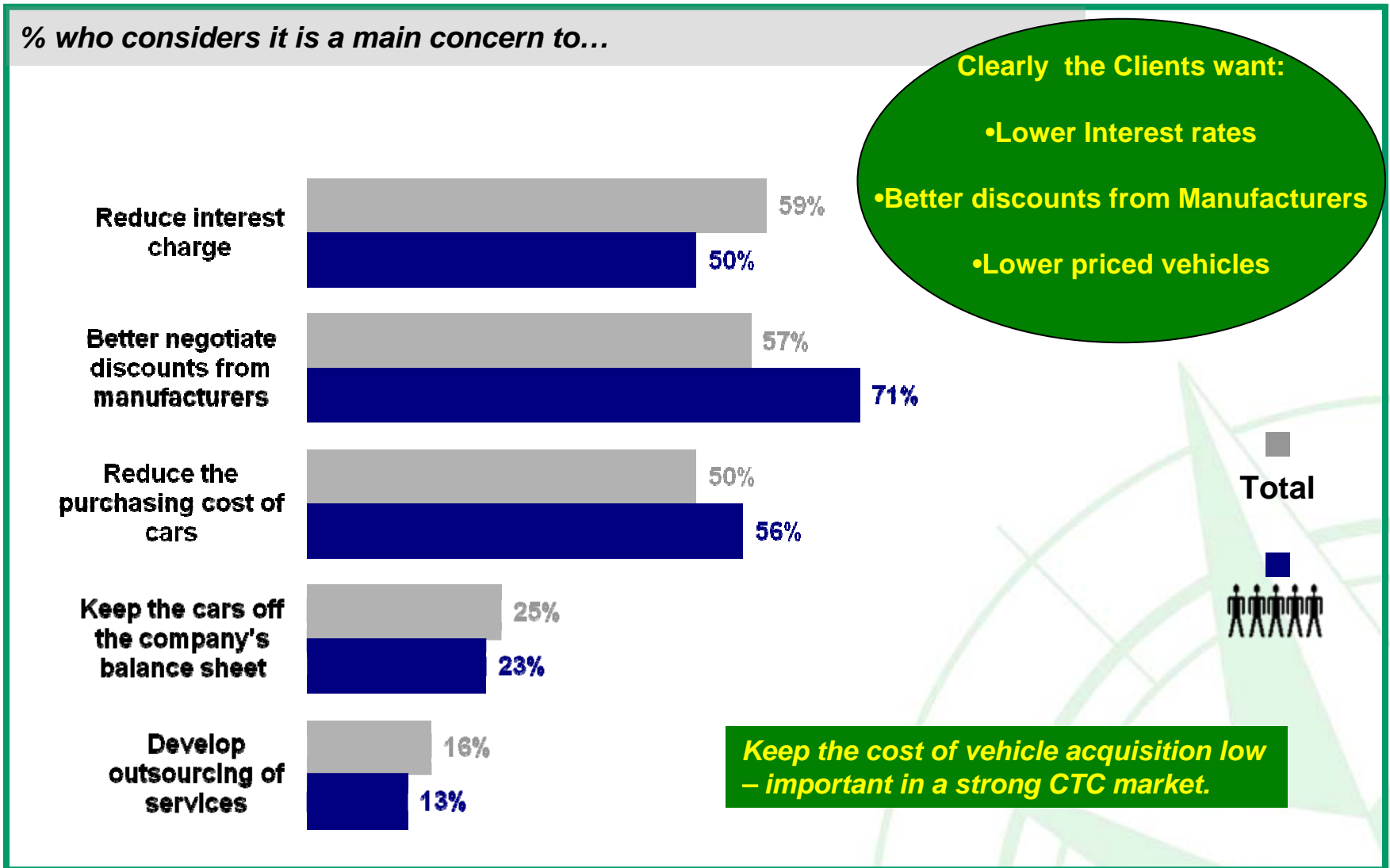
Source: The World Factbook, Central Intelligence Agency



In 2010 – Per company size



By company size



Base: companies with corporate vehicles = 100%

## Part. 3

**What impact have the new FBT changes had?**

***What was the Government trying to achieve?***

***What will be the impact?***

***How will the expected new Tax Slabs in 2011 impact?***



**New Tax Slabs  
generate an average saving of  
Rs 24,00 pa**

**Lower than previous expectations**

**Perquisite Tax expected to stay as is**

- One of the most important changes mooted in Budget 2009 announced by the Finance Minister is the abolition of Fringe Benefit Tax (FBT) and re-instatement of taxes on perquisites. While, this is good news for the employers, the employees would now be liable to pay income-tax on such benefits as:

- Contribution to approved superannuation fund;
- Motor Car / running expense reimbursements provided by employer;
- Chauffeur facility for car;
- Gift vouchers;
- Meals;
- Club memberships; etc

- New Tax Slabs from April 2011

### 2010

<1.6Laks	Nil
1.6 - 5.0L	10%
5.0 – 8.0L	20%
> 8.0L	30%

### Proposed April 2011

< 2.0L	Nil
2.0L – 5.0L	10%
5.0L – 10.0L	20%
>10 L	30%

- Impact

Average tax saving is now approx Rs 24,000 per annum

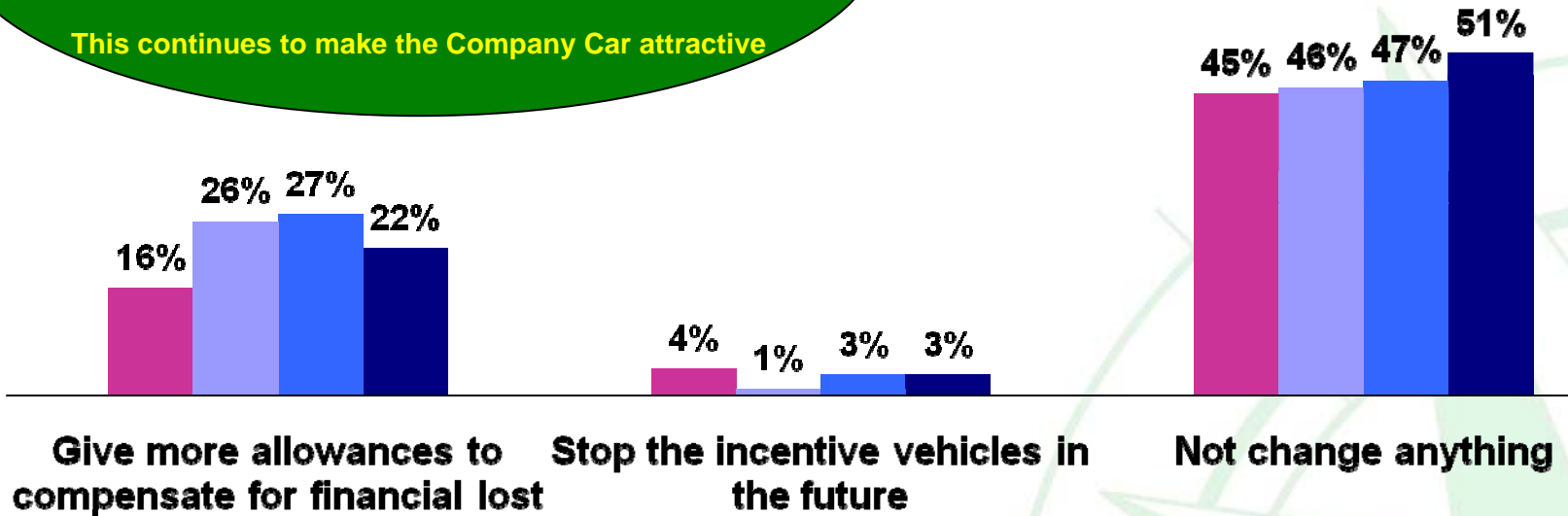
While we do not know full impact of 'Perquisite' tax from 2011 – as overall tax liability has not increased significantly – tax on 'Perquisites' expected to be stable.

India Only

Given the changing tax regime in India, would you rather...



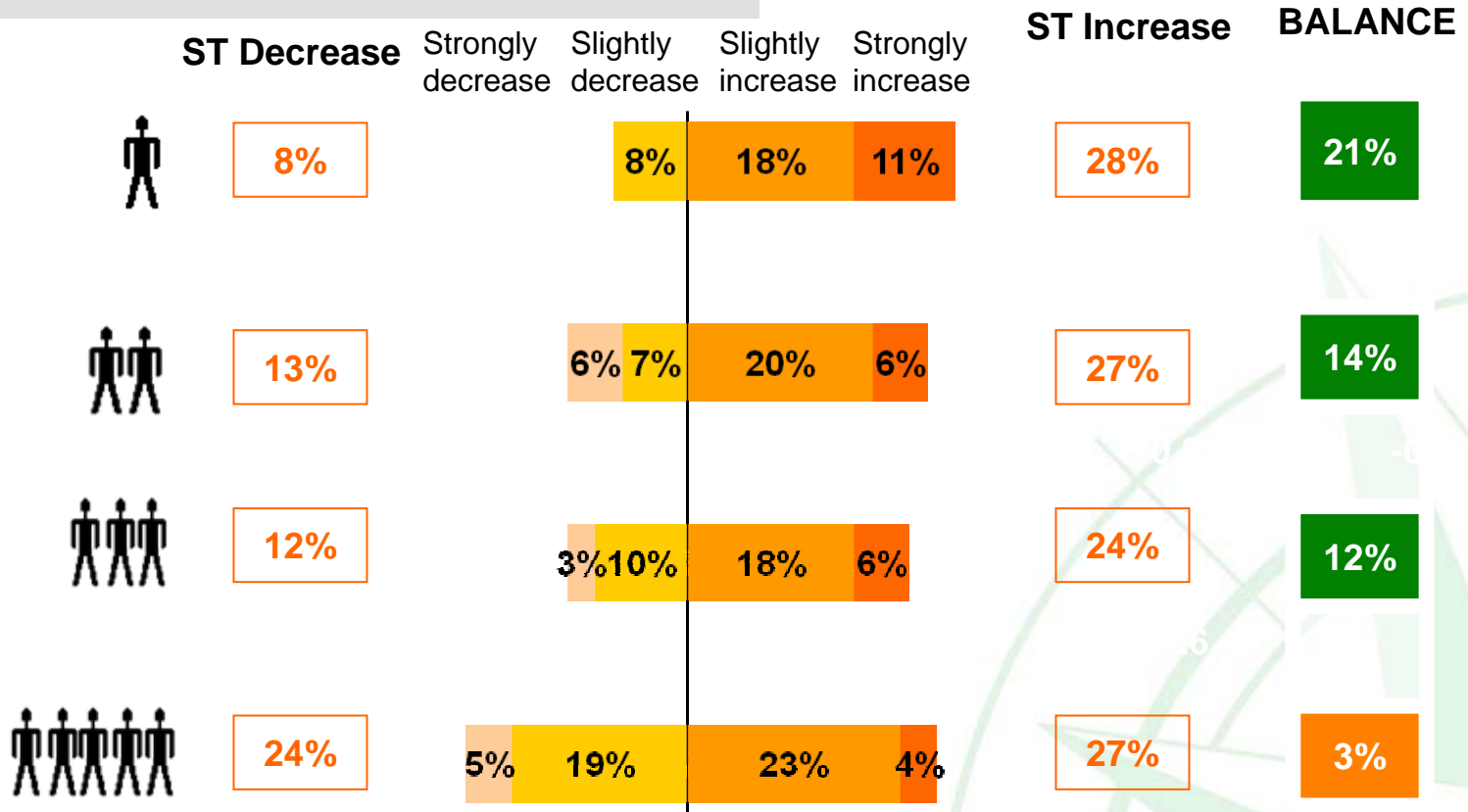
The message is clear –  
The Employer will either not change anything  
Or  
will reimburse any cost differential to their Employee  
This continues to make the Company Car attractive



Base: companies with corporate vehicles = 100%

Even if the Company Car became more expensive in the hands of the Employee, Employers believe, the uptake would increase

% who think that if the Company vehicle was to be taxable in the hands of the employees, the number of employees with a company car would...



Balance = Fleet growth will increase – Fleet growth will decrease

## Part. 4

# FLEET GROWTH POTENTIAL

*What are the growth expectations within corporate fleets?*

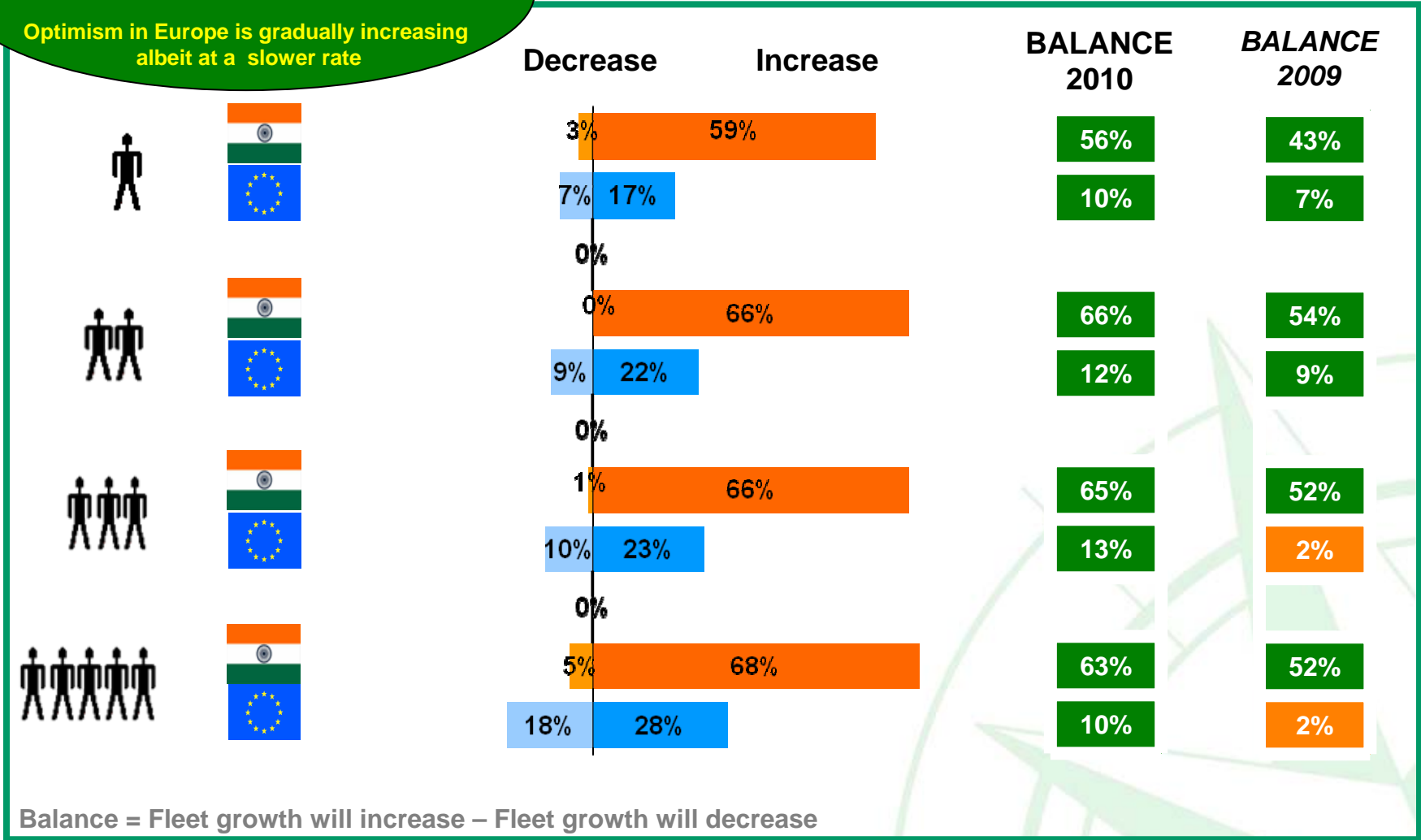


## Comparison with EUROPE



All sectors expect fleet growth over the next 3 years - a sign of strength in the local economy

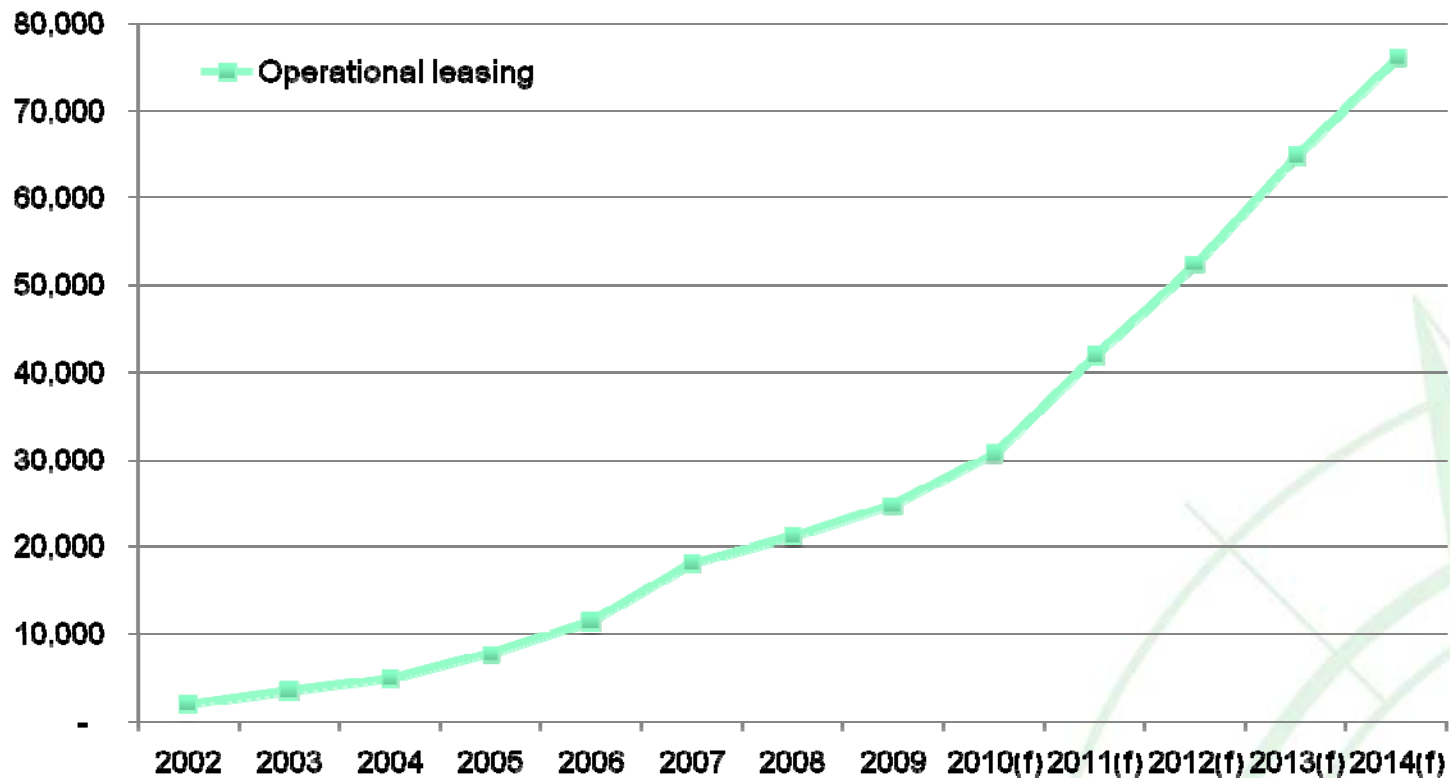
Optimism in Europe is gradually increasing albeit at a slower rate



Base: companies with corporate vehicles = 100%

**Operational Lease Fleet is expected to Double over the next 4 years**

**Corporate Market Penetration will increase from 7.5% in 2010 to 11% in 2011**



**Growth expected to be driven by:**

- Employee aspirations
- Greater disposable income
- Drive by the Corporates to retain their Employees in a competitive market

## Part. 4

### CAR POLICY

***What rules are included in company car policies?***



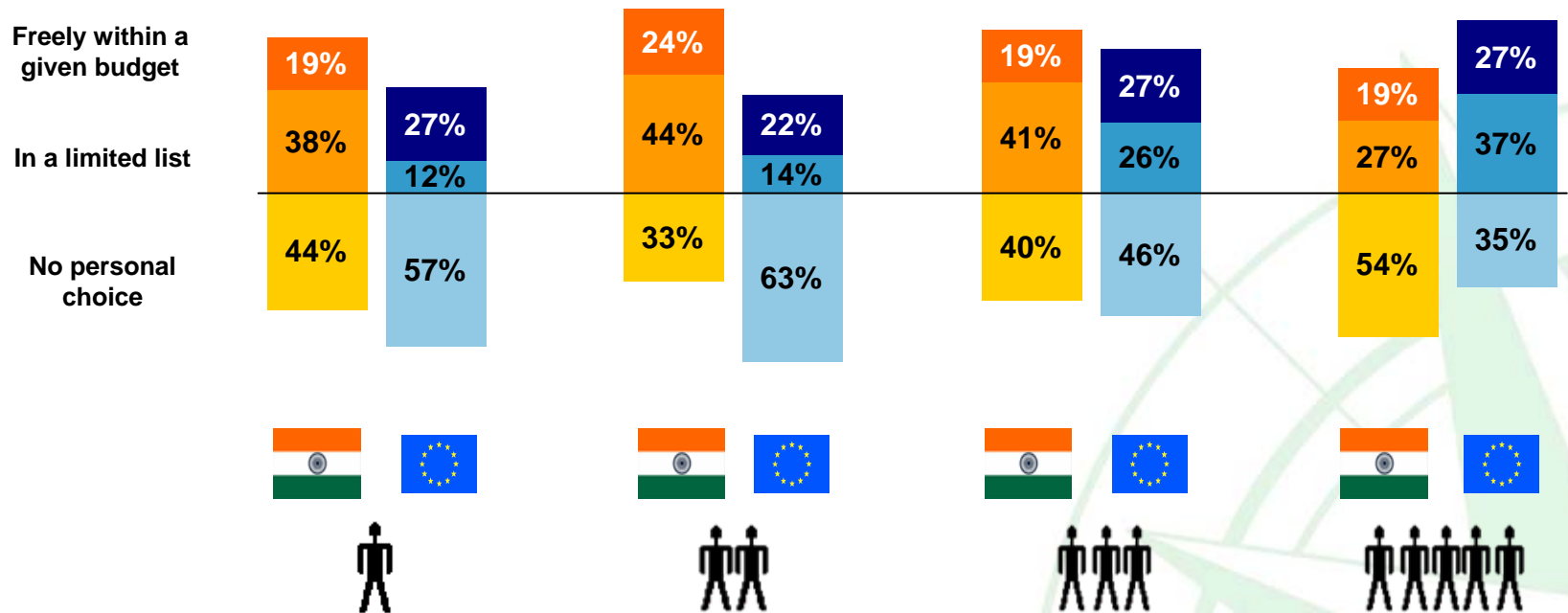
Comparison with EUROPE



% of companies in which most of users have to choose...

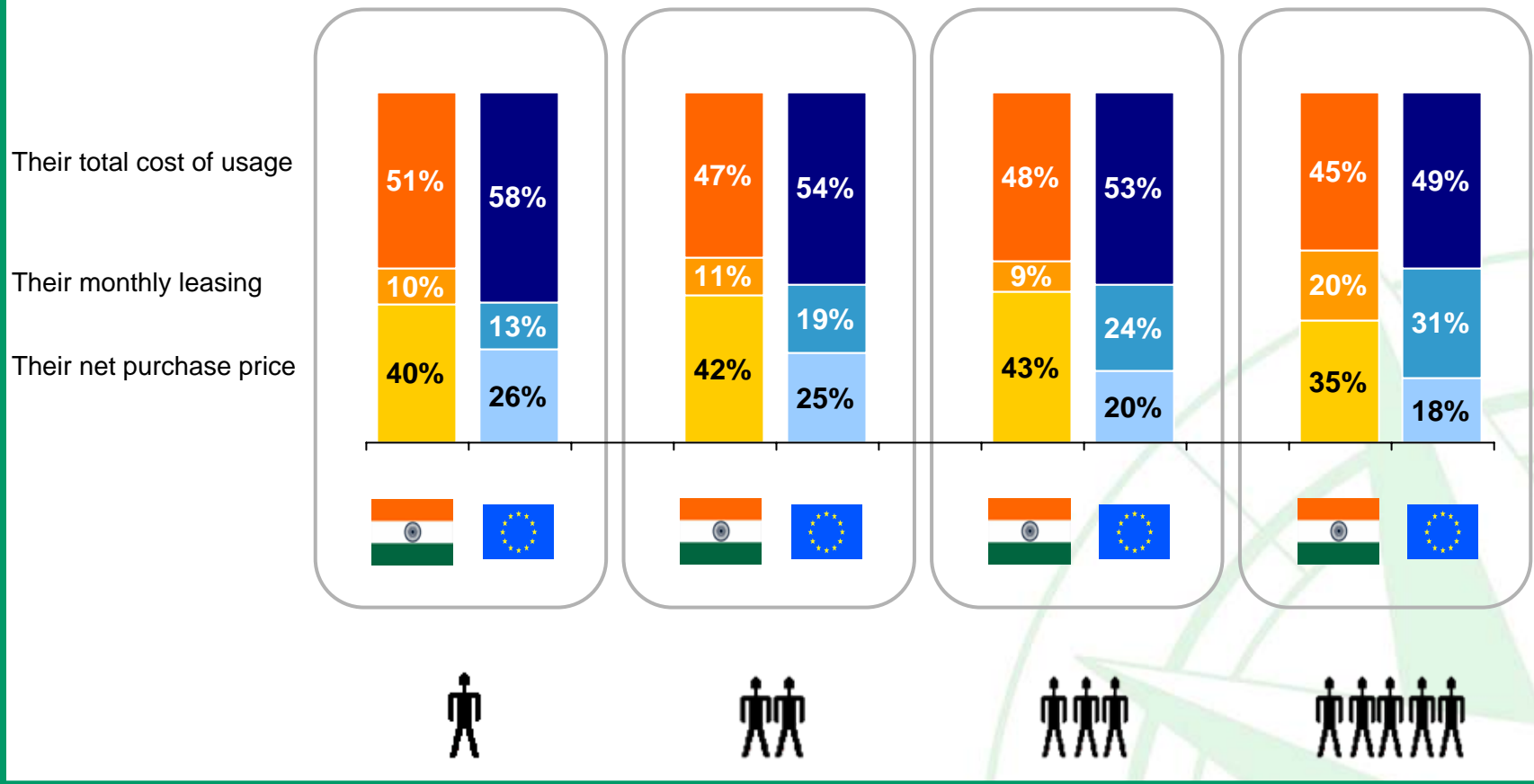
Greater freedom on selection of vehicle in Europe within an agreed rental budget – possibly to motivate employees

India tends to restrict the selection of vehicles – by capital cost of the vehicle - this may not always be cost efficient



% who quote as most important criteria

Total Cost of Ownership is the main criteria in Europe  
Purchase price of vehicle has greater influence in India

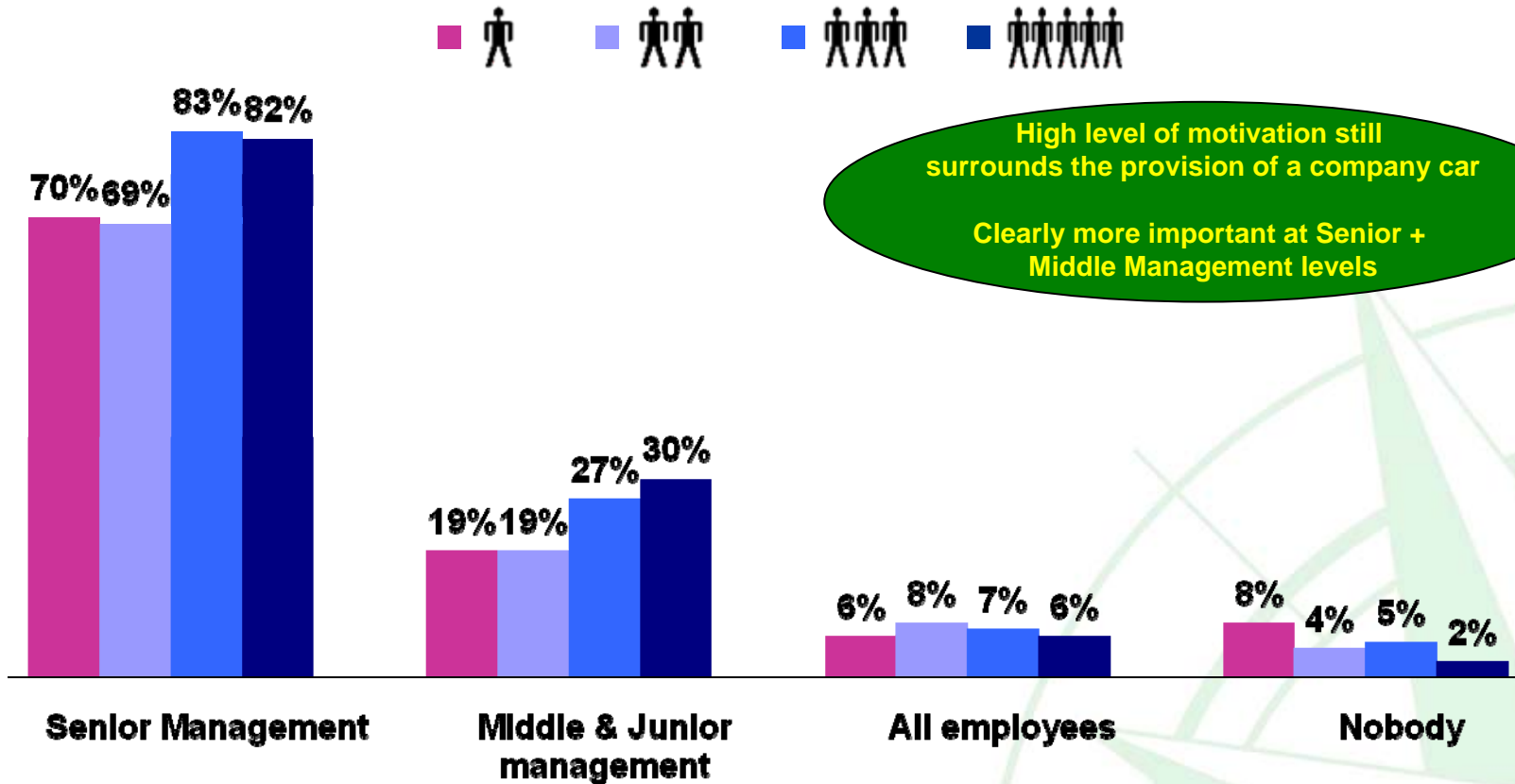


Base: companies with corporate vehicles = 100%

Total can be different from 100% due to DK

India Only

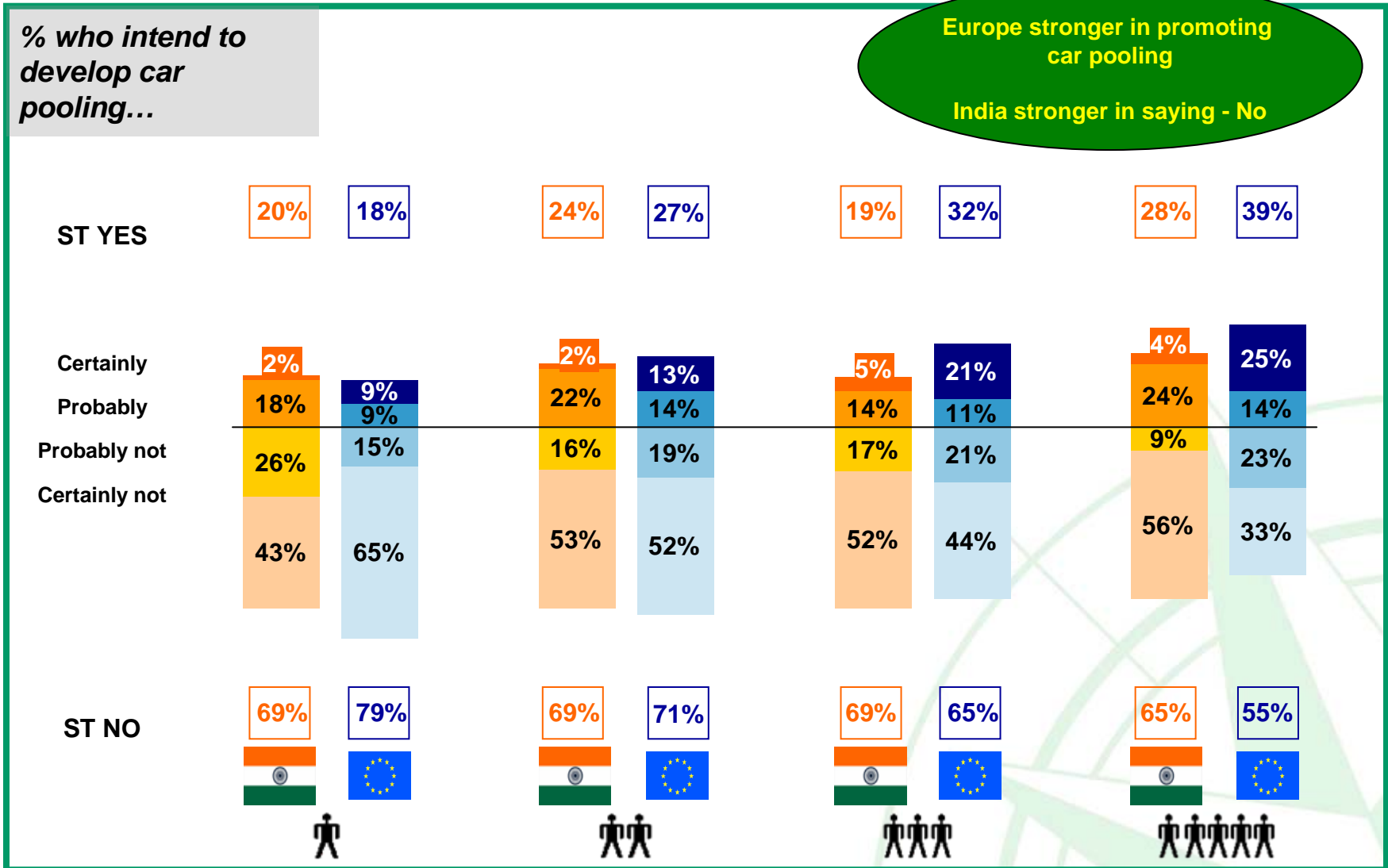
*Employee categories most concerned about company vehicles as a motivational tool*



% who intend to develop car pooling...

Europe stronger in promoting car pooling

India stronger in saying - No



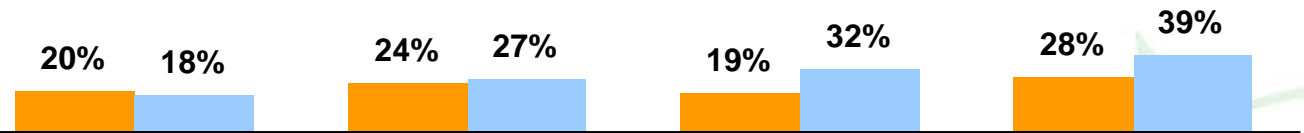


### % who intend to develop car pooling or car sharing

EU leads by a good margin in promoting 'car pooling'  
'Car sharing' in India is more common

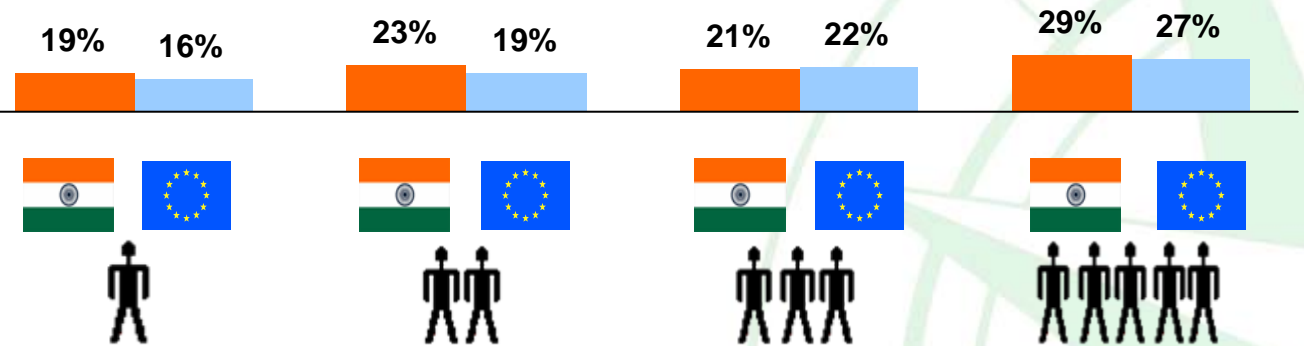
#### Car pooling:

System where company cars are not individually allocated but are available to employees upon booking



#### Car sharing:

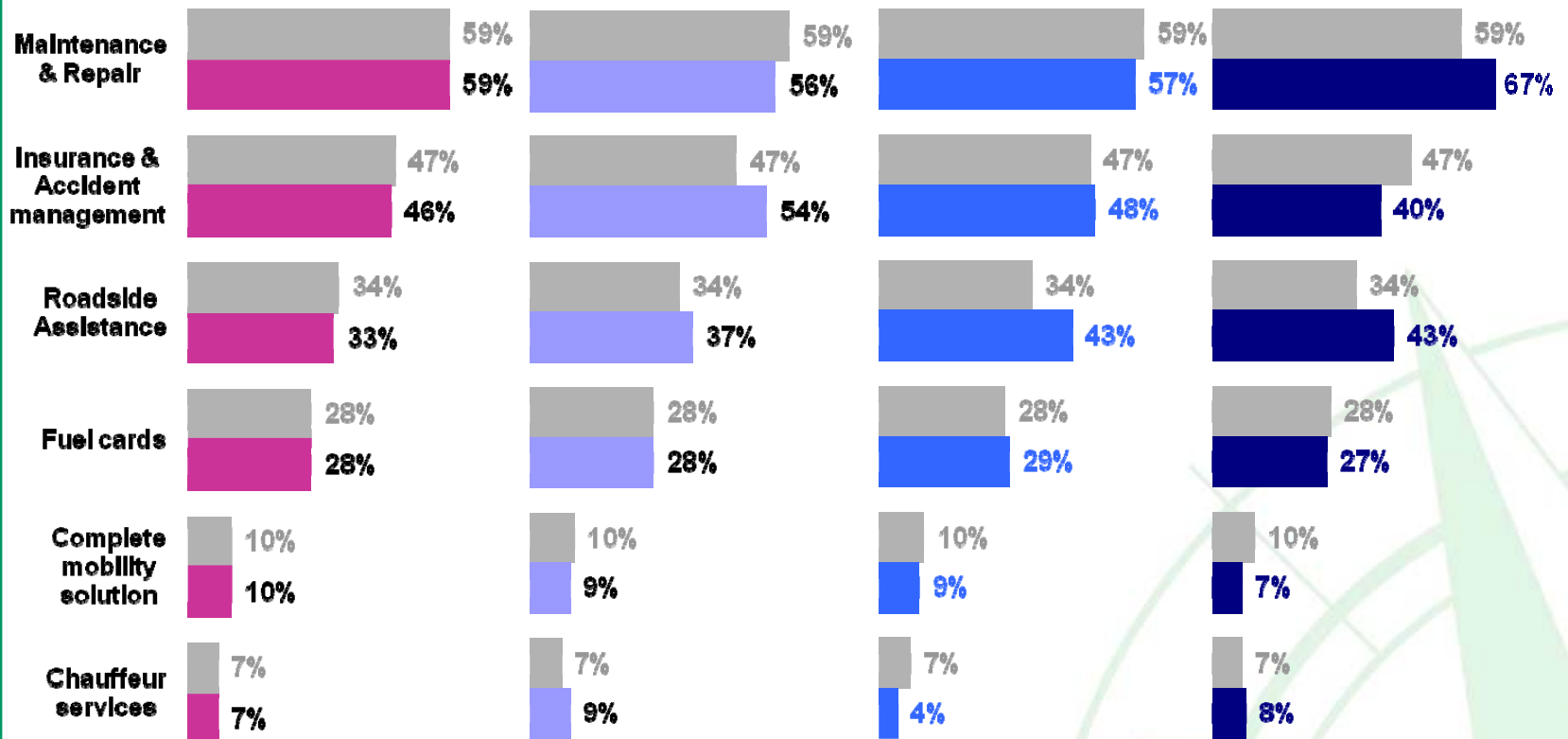
System where journeys are shared in the same car with various persons sitting together, in particular for commuting to work



■  
Total



*% who quote each service as a key motivator for an employee to opt for a company car*



**Company Car users clearly want their vehicles fully covered against most eventualities**

## Part. 5

# SERVICES

***Which services are the more important?***

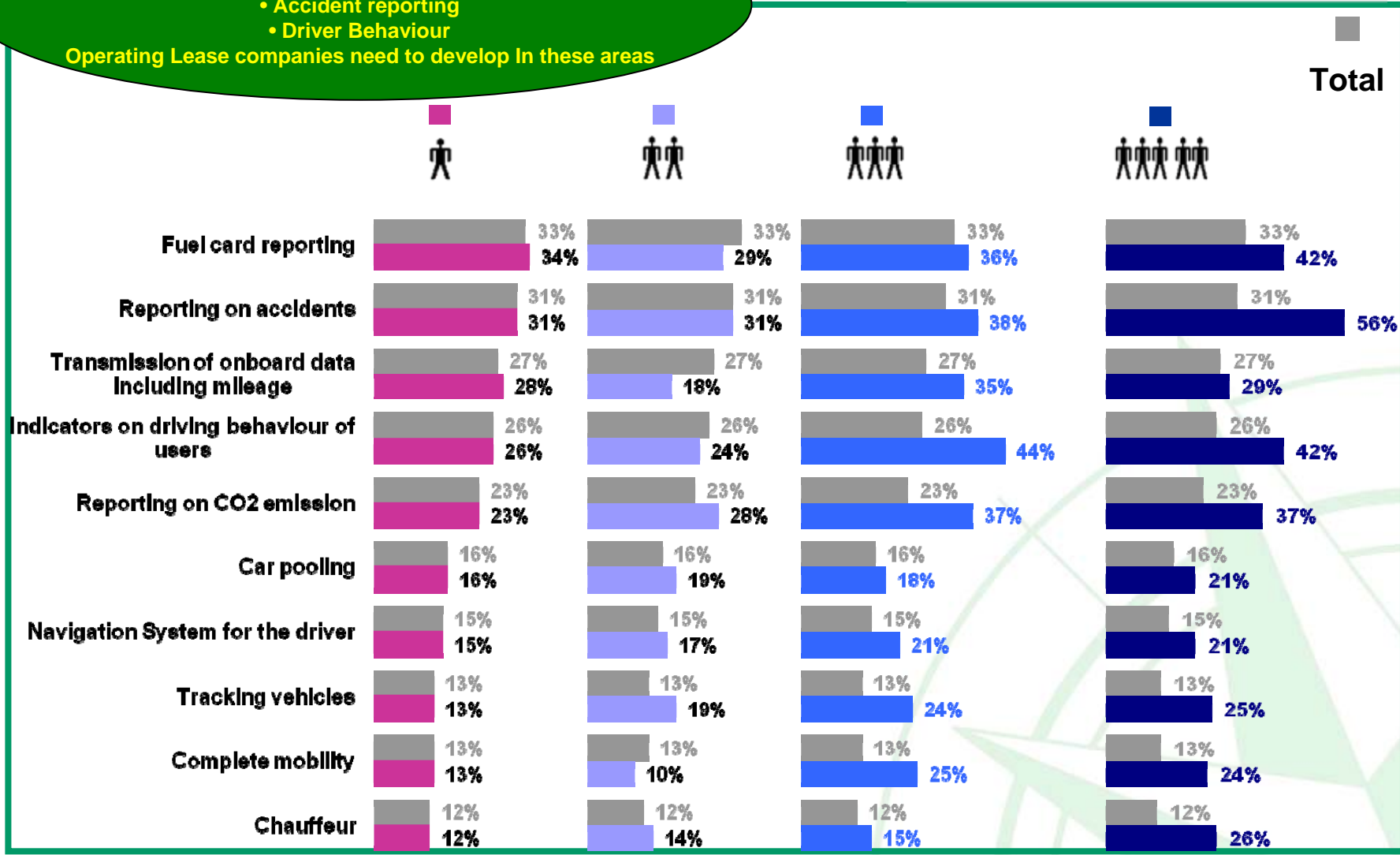


More information required on:

- Fuel reporting
- Accident reporting
- Driver Behaviour

Operating Lease companies need to develop in these areas

% of interest for the following services – ST Interested



Base: companies with corporate vehicles

- Petroleum Minister Murli Deora has said the government is firm on total deregulation of fossil fuel price in phases
- A major impact of deregulation would be the re-emergence of private oil retailers such as Reliance Industries Ltd. and Essar Oil, which went into oblivion a couple of years ago when international crude prices skyrocketed to touch \$150 a barrel.
- In the decontrolled regime, private companies, including MNCs, will not only enter the market with renewed vigor but could also offer fuel cards.
- A fuel card is a cash less payment card for fuels at filling stations. Account balances are cleared in full when due and payment terms vary depending on the supplier.
- This presents an opportunity for corporate car leasing companies to tie up with oil companies offering fuel cards and bargain for discounts on fuel prices.



**Managing Fuel Costs  
and Fuel consumption  
Is a key tool of Operating Lease**

**Market needs to de-regulate to  
really see the full impact**

## Part 6

**What is happening in the LCV Market?**

***What equipment is now being demanded?***

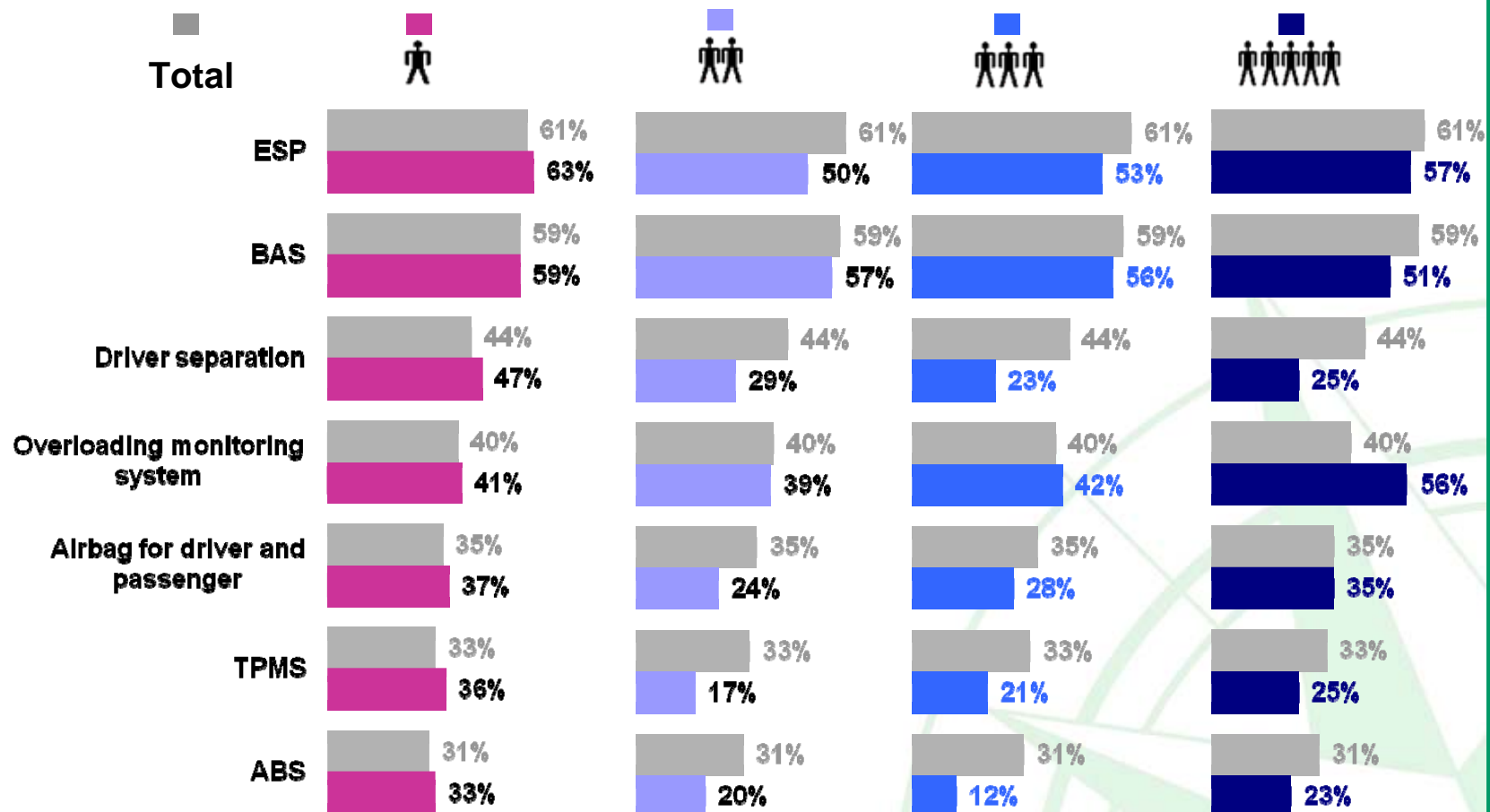
***How long are coprorates keeping LCV's working?***

***How will this change?***



Safety concerns steer decisions  
ESP and BAS are high on the wish list  
Greater demand for overloading monitoring systems  
among larger companies

% who consider each equipment as mandatory



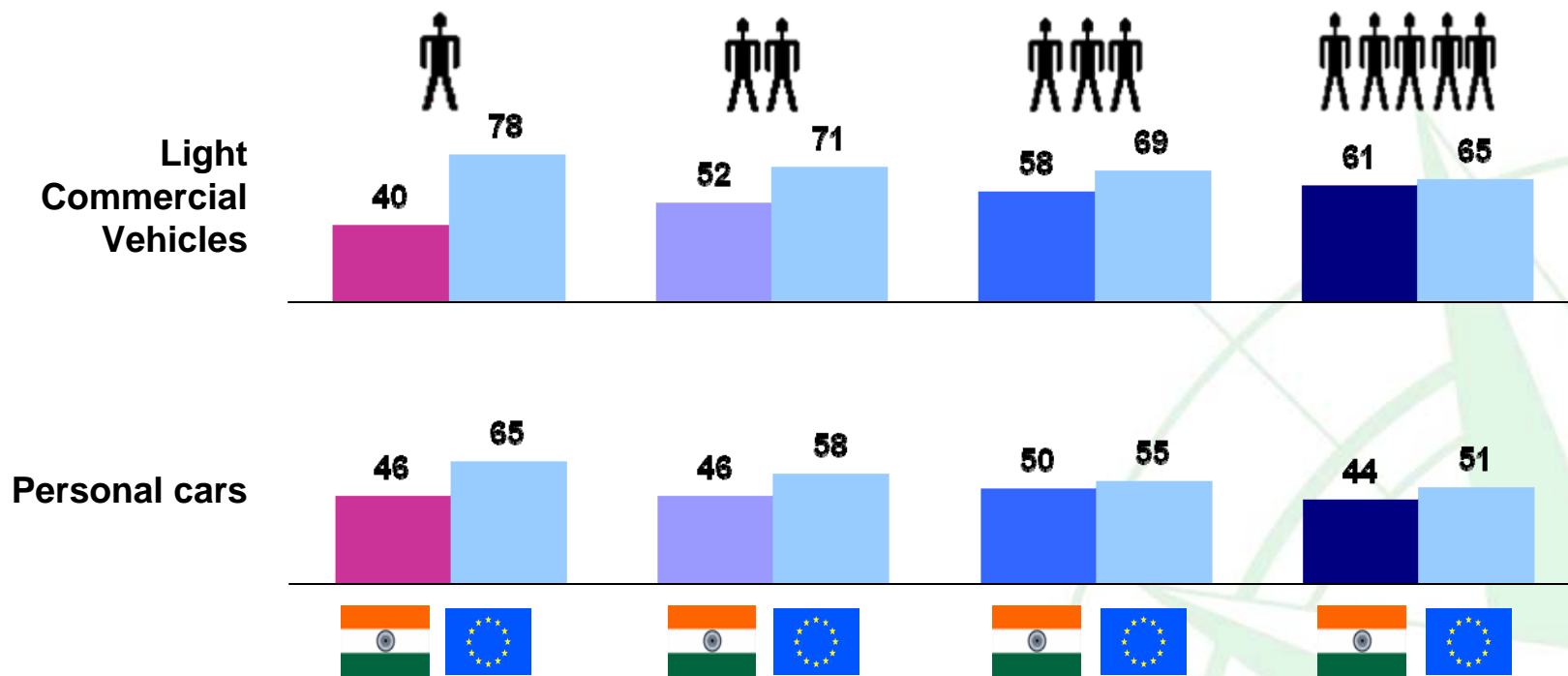
ESP: Electronic Stability Program, BAS: Brake Assist System, TPMS: Tire Pressure Monitoring System, ABS: Anti-lock Braking System  
Base: companies with Light Commercial Vehicles / Excluding second-hand vehicles

Light commercial vehicles and Personal Cars

Average duration of usage in months

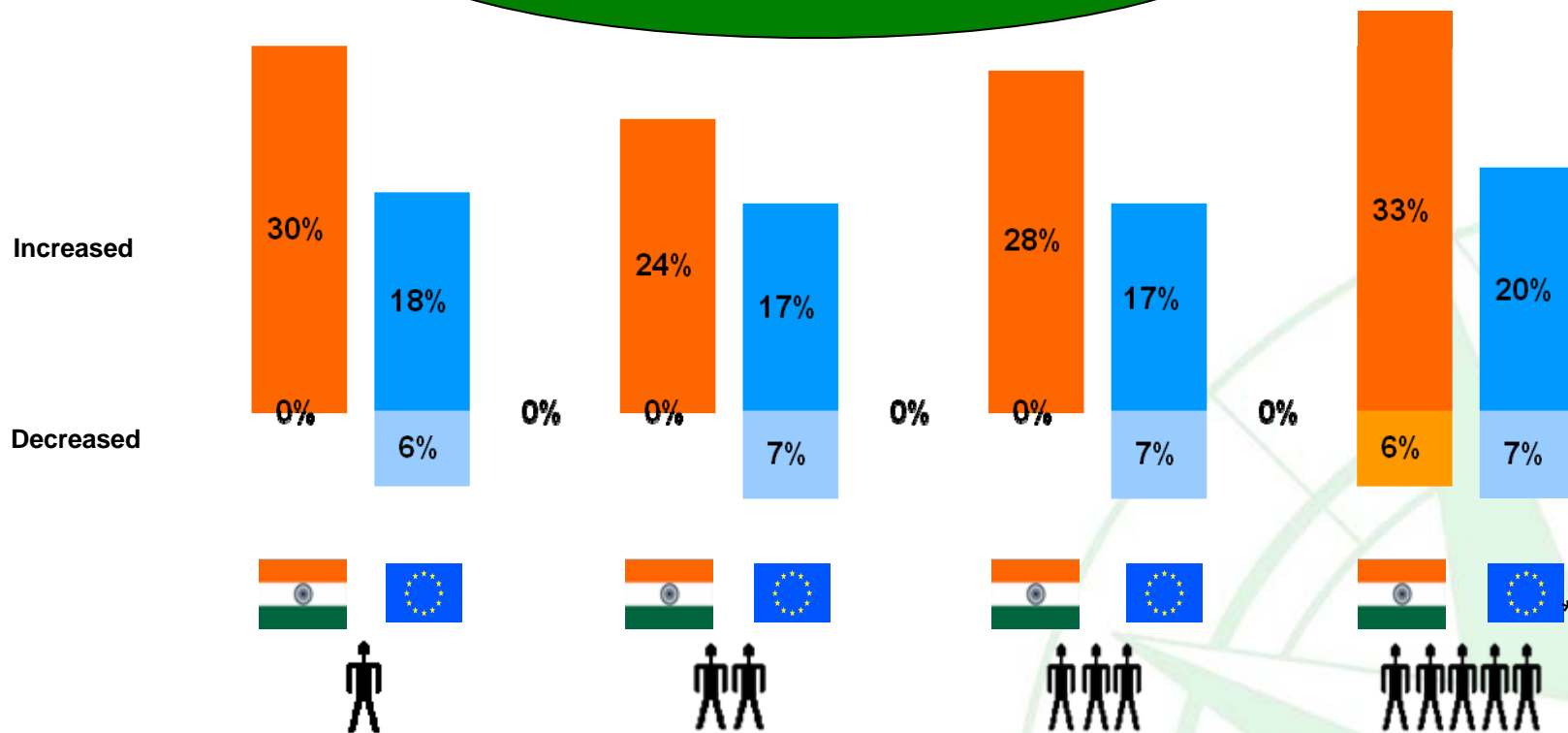
Average duration in India is lower in both Personal cars and LCV's

-this is increasing costs for Indian corporates



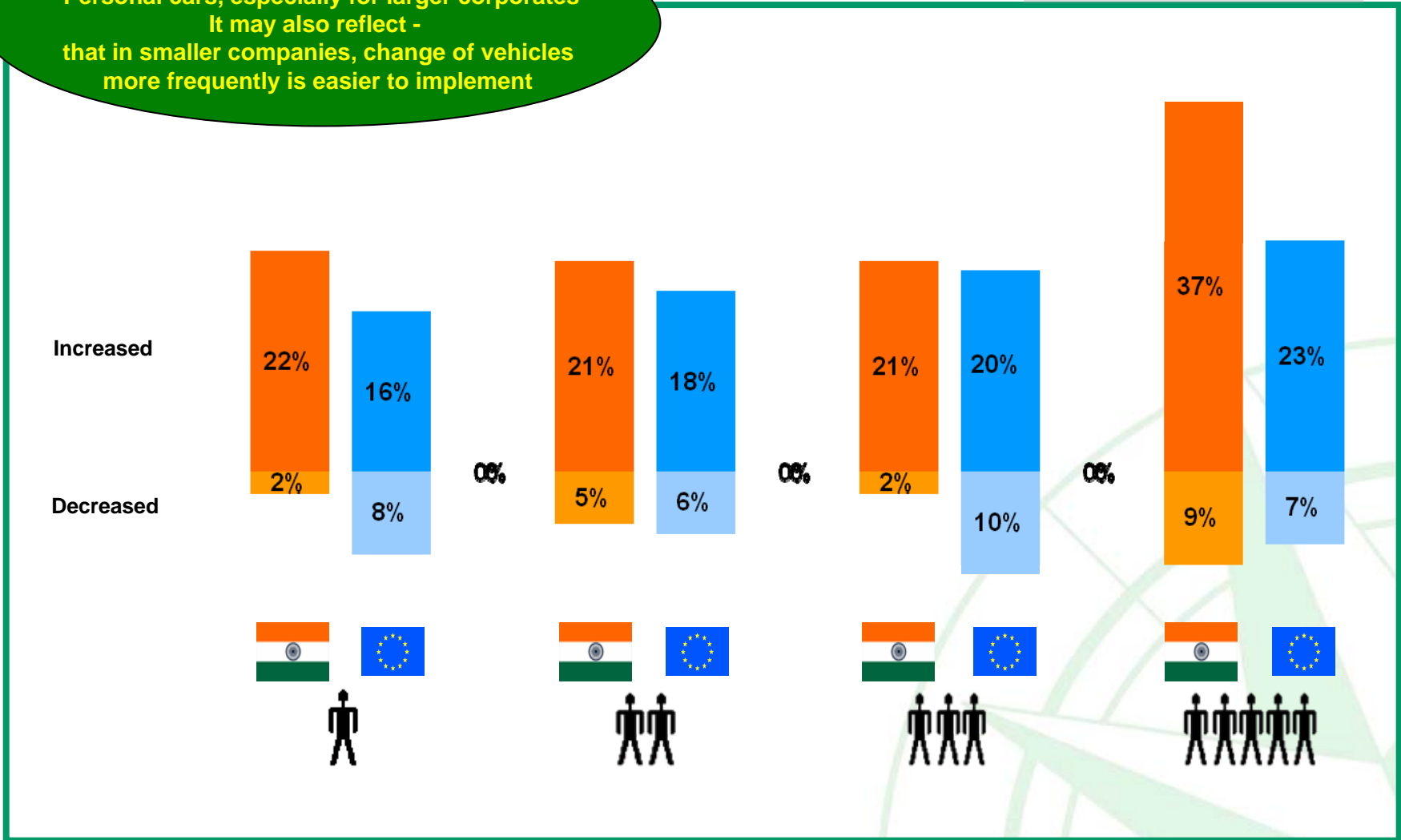
% who say that the average duration of LCV has...

However, there appears to be an appetite to address this issue  
-since last year increased periods have been seen across all sectors



% who say that the average duration of Personal cars has...

This change is also foreseen within Personal cars, especially for larger corporates  
It may also reflect - that in smaller companies, change of vehicles more frequently is easier to implement



## Part. 7

### ENVIRONMENT

*How important for companies?*

*Which influence on fleets in the next 3 years?*



% use intention of the following vehicles

■ In the future

As PC

As LCV

At least one green vehicle



47%

80%

54%

Fuel efficient labels



37%

LPG or natural gas



32%

Hybrid



17%

Flex fuel or using plant-based fuels



13%

Electric



11%

Base: companies with more than 10 employees, with corporate vehicles, intending to use at least one green vehicle

Near 50% of companies intend to try at least 1 green vehicle in the future.  
More likely to be in Personal Cars  
Fuel efficiency is the most important factor guiding future purchase decisions.

Comparison with EUROPE



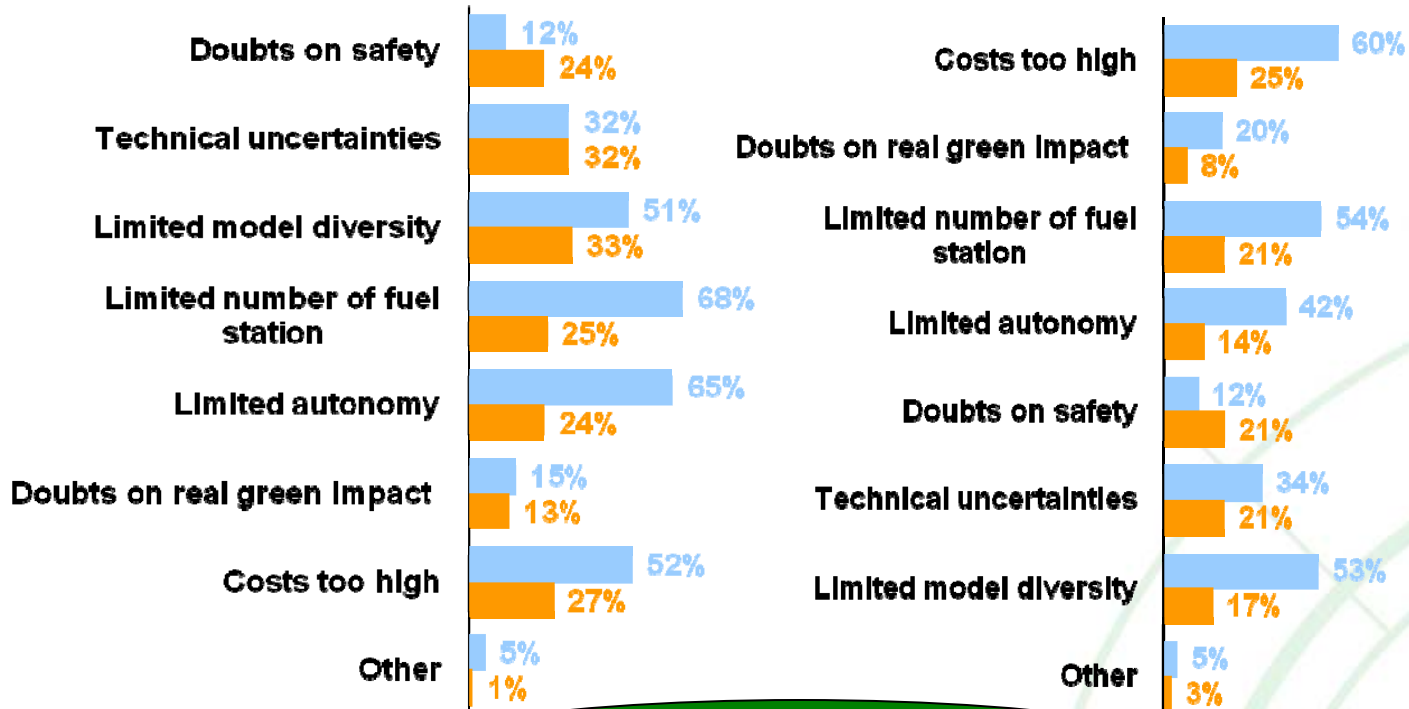
% who quote each barrier for a specific vehicle



**Electric**



**Hybrid**



Disposition toward green technology is encouraging. Lack of availability, inhibiting costs and limited infrastructure is off-putting purchase

- Bharat Stage-IV emission norms for four-wheeled vehicles were extended to eleven identified mega cities and Bharat Stage-III norms throughout the country from April 1, 2010
- While emission performance standards have been used to dictate limits for conventional pollutants such as CO, HC, NOx, and PM; there are no norms for CO2 which is currently the focal point of the green policies in the US and the EU
- In 2009, the country's law ministry has asked the Bureau of Energy Efficiency (BEE) to notify fuel efficiency standards and labeling for vehicles in India
- While the Indian Govt. is serious about fuel economy in order to reduce its oil import bill and also its carbon footprint, little has been done to incentivize the sale of hybrid or electric vehicles



**To promote eco-friendly electric vehicles in the country, the Government plans to create a 'Governing Council for Electric Vehicles (EVs)' in 2010. The proposed council will look at setting up of infrastructure for electric mobility such as charging stations, and work with the State Governments to provide fiscal incentives for the use of EV's as in Europe.**

**Currently, Delhi provides the highest incentives for electric 2W with tax rebates amounting to 29.5% of the cost**

**In the 4W segment, the market is very nascent**

- In 1999 a EU Directive set down rules for providing fuel efficiency and CO<sub>2</sub> emissions information on labels on new passenger cars in salesrooms, posters or displays (also electronic) and specific guides. All promotional literature, too, has to contain fuel consumption and specific CO<sub>2</sub> emissions data of the car models to which it refers.
- This sent a strong message for the consumers to decide for a car with low CO<sub>2</sub> emissions
- Incentives for purchase of cars with low CO<sub>2</sub> emissions and for electrically chargeable vehicles are now applied in almost all western European countries
- The incentives mainly consist of tax reductions and exemptions, as well as of bonus payments for the buyers of electric vehicles
- By April 2009, sixteen Member States had CO<sub>2</sub>-related taxation, up from fourteen in 2008, eleven in 2007 and nine in 2006.
- Tax measures are an important tool in shaping consumer demand for fuel-efficient cars, and help create a market for breakthrough technologies. Innovations generally first enter the market in low volumes and at a significant cost premium, and this is being offset by a positive policy framework.

In 2009, the market share of cars emitting 120 gCO<sub>2</sub>/km had risen to 25%.  
Cars with emission above 160 gCO<sub>2</sub>/km accounted for 23% of the market in 2009,  
compared to 39% in 2006 and 80% in 1995.

## Part. 8

# FINANCING

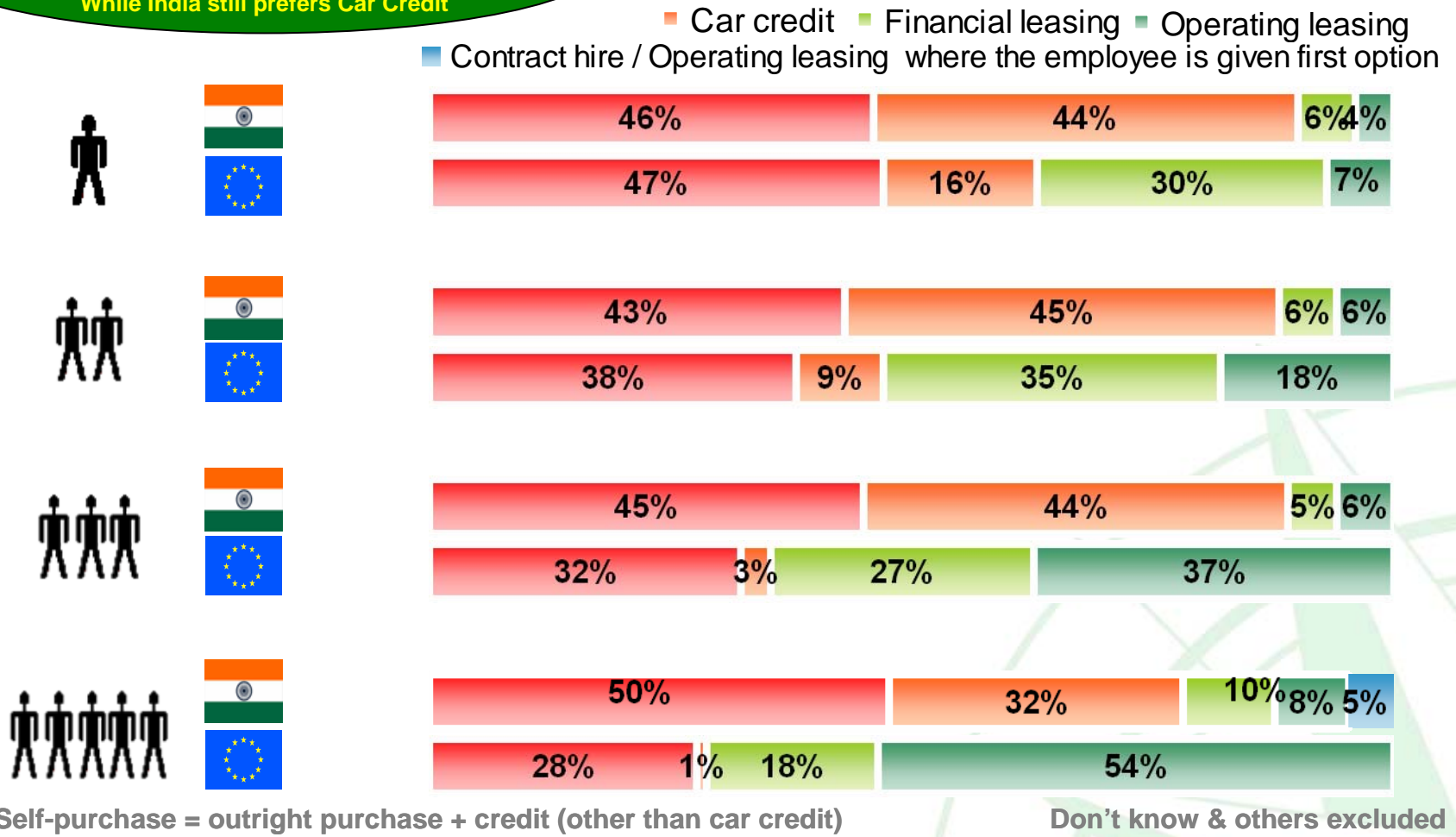
*What financing methods used today?*

*What development projected?*



There is a huge disparity in the financing methods of corporate fleets in EU and India  
-Europe preferring operational lease  
While India still prefers Car Credit

Comparison with EUROPE 



Under U.S. GAAP if, at its inception a lease meets one or more of the following four criteria, the lease must be classified as a financial lease:

- (A) The lease transfers ownership of the property to the lessee by the end of the lease term.
- (B) The lease contains a bargain purchase option.
- (C) The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- (D) The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90 percent of the excess of the fair value of the leased property over any related investment credit retained by the lessor.
- An operating lease is a lease that satisfies none of (A), (B), (C), (D)

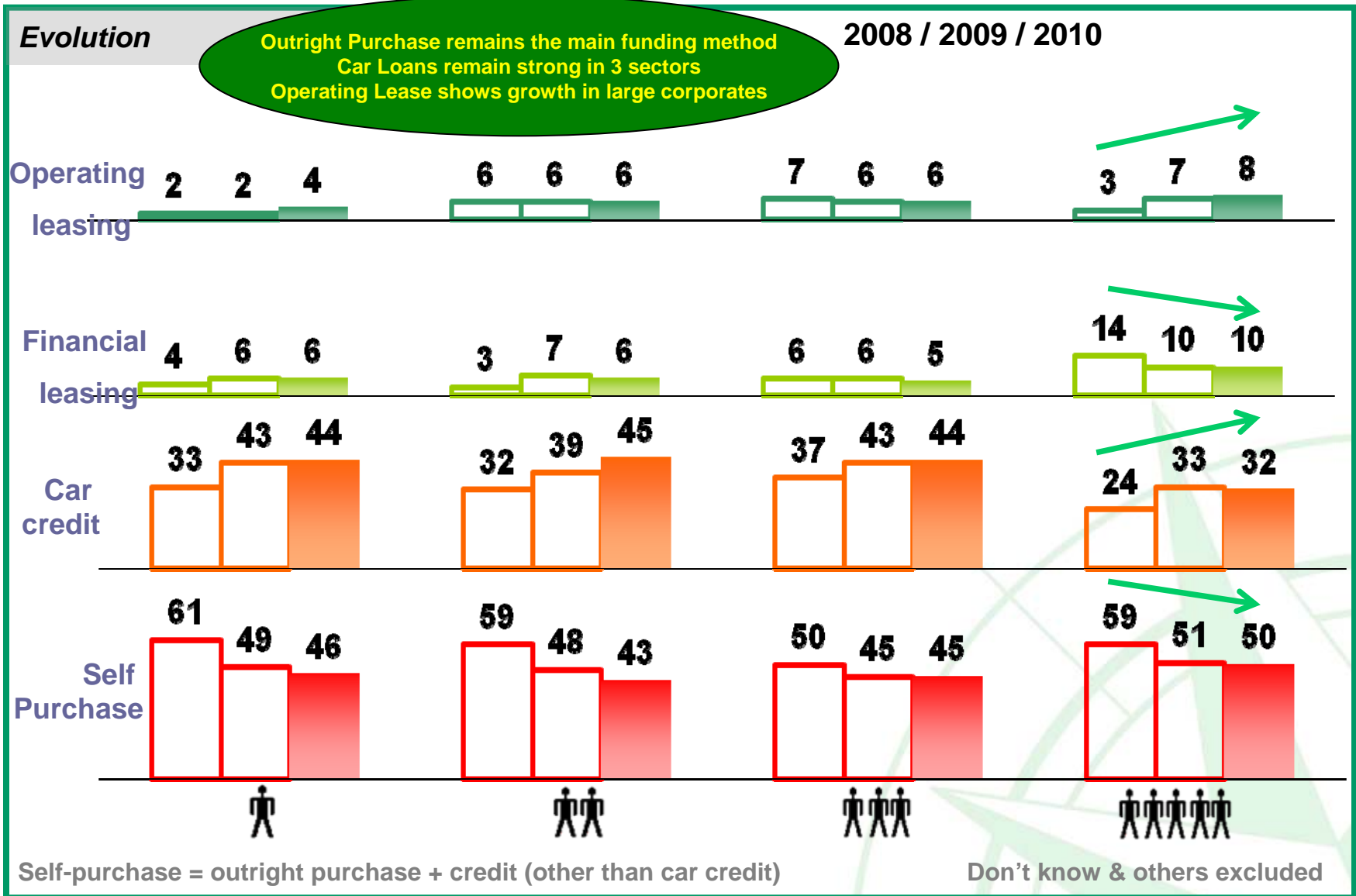
Source: U.S. GAAP Codification of Accounting Standards

## IFRS vs. U.S. GAAP

- Under IAS 17, a lease arrangement is classified as a finance lease when substantially all risks and rewards incidental to ownership have been transferred. This general principle is assessed via a series of indicators, which are similar to those in U.S. GAAP.
- However, differently from U.S. GAAP, IFRS indicators do not contain any numeric thresholds. Indicators are meant to help in judging compliance with the overarching general principles.

## New IFRS Proposal – yet to be agreed

- The new proposal is to eliminate operating lease accounting. Lessees would treat all leases in a manner similar to the way finance leases are accounted for today.

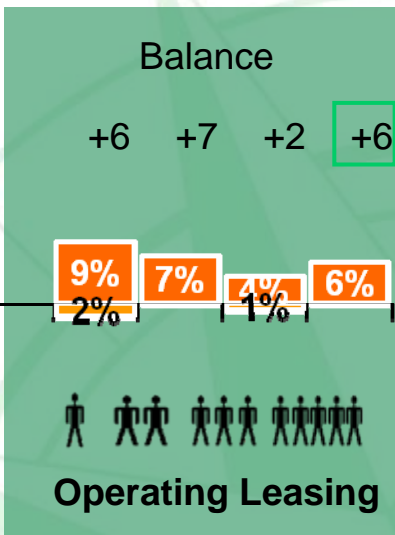
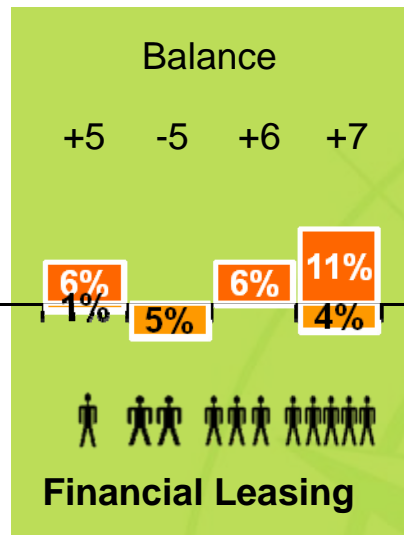
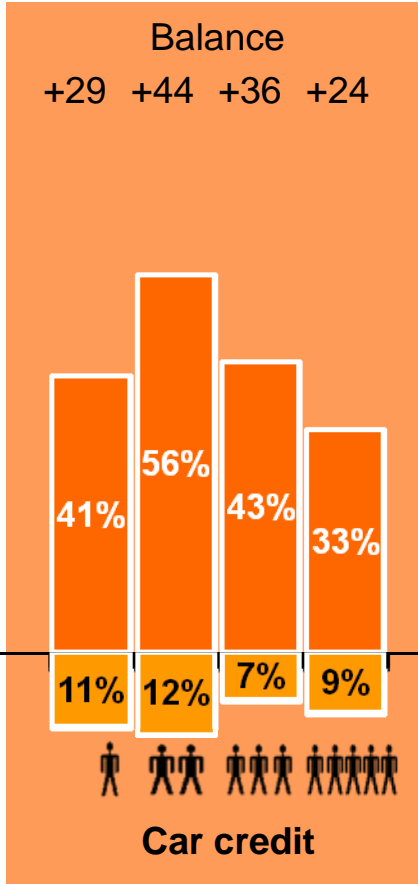
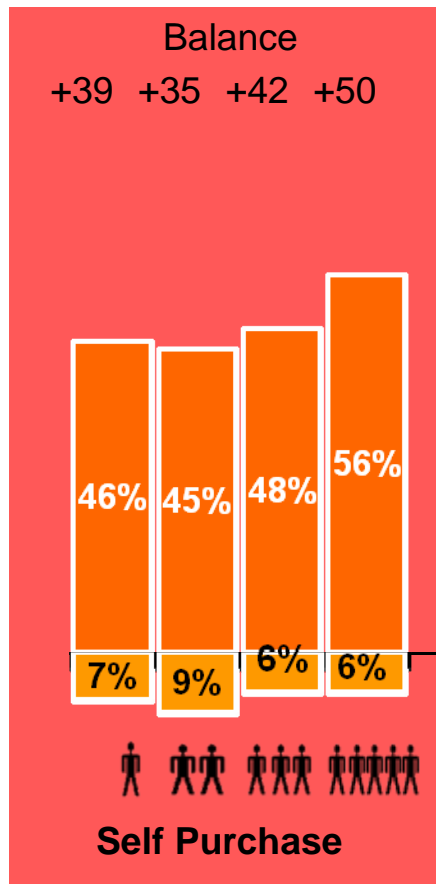


Base: companies with corporate vehicles = 100%

Self purchase and car credit still remain Strong over the next 3 years. Operating Lease within the larger corporates also showing growth

## Dynamism indicators by sizes of companies

**Balance = Intention to develop – intention to reduce**



Self-purchase = outright purchase + credit (other than car credit)



This report was validated in the respect of the  
TNS Sofres quality process

