

# INDIAN AUTOMOTIVE INDUSTRY CURRENT SCENARIO, FUTURE EXPECTATIONS AND RECENT FUEL PRICE CRISIS

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## ABSTRACT

*This study deals with the current position and future projections on Indian Automotive Industry, and explains the various updated information with statistics related to Indian automotive companies. Further it is discussed about Indian Passenger car segment. More over this paper explains the current industry situation, Major manufacturers and leading countries in passenger car production, latest investment positions and Government of India's initiatives related to automotive and component industry. Recently the petroleum products price is increasing heavily due to the current tax structure. This article analyzes the structure of the fuel price, impact and remedy.*

**Keywords:** Automotive, Production, Industry, MNC, Government Policy, Fuel Charges, GST, Excise Duty, Value Added Tax -VAT.

## Introduction:

The Indian Automotive Industry is one of the biggest Automotive Industry in the world. This Industry manufactured more than four million vehicles in Indian sub continent. This Automotive Industry plays unavoidable role in Indian Economy.

Moreover it is contributing more than 7% for National GDP. Since implementation of new economic policy, the Indian Economy started with top gear. Many MNC's were started to invest their money and ready to provide technology to India, Particularly in the area of Automotive Industry. Along with the Automotive Industry, the sub-sectors were also developed very well. Since 1991 especially after 2000 the automotive industry growth rate is very high. Since the New Economic Policy the people's life style and standard is changing and also the purchasing power is rising day by day. Even the rural areas also developed well after implementation of LPG. But nowadays the citizens of India, facing huge problem due to fuel price hike. The Government of India is considering the fuel price problem.

## Global Scenario:

As on now the Indian Automotive Industry is moving to third position worldwide, due to various positive reasons. Now the FDI position is good. After implementation of LPG the nation's export and import developed very much. But still the Balance of Trade is not turned to surplus. Trend is getting change. After Open Economy, the Indian Government encouraged Foreign Direct Investment from other countries. But now the situation is getting change. Nowadays Indian MNC's are also started to invest their funds to other nations. Recently Mahindra & Mahindra started a plant in Detroit city (Michigan -USA). For this particular project Mahindra & Mahindra has invested INR 4600 crore.

## Research Methodology:

This paper is based on descriptive type, and the collected information taken from many websites related to automotive sector.

## Automotive Industry in India:

The Indian Automotive Industry is the successful market in the world. India manufactured more than 4 million vehicles in the year 2013-2017 (Commercial & Car). This industry will create 14.9 million direct and indirect employments in India by 2022. In India Two wheeler production is much more potential than other vehicles. In the fiscal year 2016 Indian sub-continent produced 18.8 million two wheelers. Similarly passenger car segment export also grown well. The car export has increased 16.2% between the 2015-16 to 2016-17 fiscal year. In India the Maruti Suzuki is the leading No.1 brand in car sales. Similarly Hero Honda two wheelers hold No.1 position past many years.

**Current Scenario of Car market - Company & Contribution (% wise)**

Brand Name	% of Share	Brand Name	% of Share
Maruti Suzuki	49.6	Honda	5.53
Hyundai	12.33	Toyota	4.32
Mahindra & Mahindra	7.5	Renault	3.48
Tata	5.91		

**Comparative study of car production in selected countries for the year 2017**

Country	Production in million units	Country	Production in million units
China	24.81	United Kingdom	1.67
Japan	8.35	Iran	1.42
Germany	5.65	Czech Republic	1.41
India	3.95	Russia	1.35
South Korea	3.74	Slovakia	1.00
USA	3.03	Indonesia	0.98
Spain	2.29	Thailand	0.82
Brazil	2.27	Canada	0.75
Mexico	1.9	Malaysia	0.42
France	1.75		

India will occupy third largest position by 2019. During the period 2016-17 fiscal year, nearly 3.7 million Motor vehicles sold in India. Here Passenger car sales alone 3 million units during this period. In future, the passenger car sales will be increased up to 6.7 million units by 2025.

**Latest Market and General Information:**

1. Toyota & Renault among the non – local car producer got positive growth. Renault market share reduced to 3.5% in 2017.
2. In India Maruti Suzuki's Alto car shows the best performance sales wise and got top position in market during the period of 2016-17.
3. Total number of cars manufactured in India during the period of 2013-17 was 4 million units.
4. Total manufacturing (Two Wheeler & Three Wheeler) capacity was increased up to 24.3 million units during the period of 2013-17.
5. The projected car sales in India during the period 2025 will be 6.7 million units.
6. In India, Hero motor Corp is the leader in two wheeler segment and it contributes 37% (during the financial year 2010 to 2017).
7. In the year of 2017-18 India produced about 8,95,000 commercial vehicles.
8. Overall 25.3 million vehicles produced in India during the financial year 2017.
9. During the year 2014-17 the total automotive production volume grew at CAGR of 4.43%.
10. Recently the overall automobile export increased 15.81% in between April-February 2017-18. At the same time Two Wheeler export alone raised 20.30% and Three Wheeler export alone increased 37.02%.
11. The Indian Automotive leader Ashok Leyland has a plan to invest Rs.1000 crore to launch new model commercial vehicles in 2018-19. They are planning to launch the vehicles during 2020-25.
12. Mahindra & Mahindra also planning to do additional investment of Rs.500 crore to expand the production capacity for E-vehicles in Chakan plant.
13. The Government of India has notified 11 cities throughout nation for introducing E-vehicles for public transport system under the ministry of heavy industries scheme (under the FAME-Faster Adaptation & Manufacturing of Hybrid and Electric Vehicles in India).
14. Energy Efficiency Services Limited (EESL) comes under the Ministry for Power & New and Renewable Energy, Government of India is planning to buy 10,000 Electric vehicles through demand aggregation plan and already provided bids to Tata Motors Ltd and Mahindra & Mahindra for 250 and 150 Electric Cars respectively.
15. Automotive Industry in India is projected to touch INR-16.18 to 18.18 trillion (US\$251.4 to 282.8 billion) in the year of 2026. Two wheeler segment may grow 9% in 2018.
16. Many global automotive manufacturers are started to boost their sales through providing Non Banking Financial Company (NBFC) activities.
17. Nowadays Many MNC's and Indian firms are started to utilize cars on lease based operation.

18. In India the E-vehicles sales has been increased very impressively. During 2016-17 the sales of E-vehicles raised to 25,000 units. Government had a vision to increase the sales & should reach six million units E & Hybrid vehicles by 2020.

19. The Indian Auto Component firms are also grown well. The revenue has been raised from US\$ 26.5 billion in financial year 2008 to US\$ 43.5 billion in financial year 2017 at a CAGR of 5.66%.

20. According to Automotive Components Manufactures Association (ACMA) projected that, the automotive components export may reach US\$ 70 billion by 2026. But the Indian auto component sector aims to achieve US\$ 200 billion revenue by 2026.

#### Manufacturing the Passenger Car's in leading Asian Countries during 2017

Country	No.of Units	Country	No.of Units
China	2,48,06,687	Indonesia	9,82,356
Japan	83,47,836	Thailand	8,18,440
India	39,52,550	Malaysia	4,24,880
South Korea	37,35,399	Taiwan	2,30,356

In 2017 the total passenger vehicle produced globally is 73.46 millions, China alone produced 1/3<sup>rd</sup> of the total production. Many European and American based automotive manufacturers are shifted their plants to many Asian Countries, due to high labour cost in their home country local market. These bases are playing vital role in automotive production process globally. They are China, Japan, South Korea and India.

#### Petrol & Diesel Price Crisis:

Indian Government introduced GST tax structure in India on 1<sup>st</sup> July 2017. The Government created various tax slabs for GST. They are 0%, 5%, 12%, 18% and 28%. But Fuel prices are not comes under GST. Moreover the Ministry of Petroleum gave rights to fix fuel charges as per their own willingness to petroleum companies. In 2008 crude oil price per barrel was sold up to 141.32 \$/barrel. The petrol sold price in India was 49.64 rupees on 24.05.2008. In June 2014 the crude oil price was 112\$/barrel. The petrol sold price in India was 74.71 rupees on 07.06.2014 (based on Chennai city). One barrel consists 159 liters. and But now as on 04<sup>th</sup> September 2018 the Crude oil price in international level was just 79.93\$/barrel, the sold price was 79.31 rupees. Recently the United States of America implemented economic ban on Iran. Due the crisis the OPEC nations started to raise the crude oil price.

#### The detailed calculation of petroleum price (based on Delhi city-4th Sep 2018)

Crude oil price per barrel	= 79.93\$
(Exchange rate 71.4/US\$) i.e., 5700.00 INR (approximate)	
One barrel consists	= 159 liters
Cost per liter	= 35.85 INR
Entry Tax, Refinery Processing, OMC Margin, Freight Cost	= 3.45 / liter
Basic cost of fuel after process (refining work)	= 39.29 INR
Excise Duty + Road Cess (Central Government)	= 19.48 / Liter
Price charged to dealers before VAT	= 58.77 / Liter
Commission to petrol bunk	= 3.63 / Liter
Fuel charges before VAT	= 62.4 / Liter
VAT (Various from state to state) 27% on	
Petrol + 25 Paise As pollution Cess with surcharge	= 16.86 / Liter
	= <b>79.26 / Liter</b>

#### Final charged price

Based on the above calculation, we can understand that, the crude oil price is getting reduced in International level. But in India the fuel selling price is increasing day by day without valid reason. Because the fuel charges is not comes under GST category. The maximum slab in GST is 28% only. The citizens of India are very much afraid about the fuel charges. Even the opposition party also condemned and conducted nationwide protest against the Union Government on 10.09.2018. But the Union Government not

responded. Some of the states reduced their state level tax (VAT). Telungana, West Bengal and some state Government has been reduced the tax on fuel products; as a result just least amount fuel price was decreased.

In India, one of the sugarcane by-products Ethanol is mixed in petrol. It cost approximately Rs.40/Liter. It is mixing in the ratio of 90% Petrol + 10% Ethanol. But the overall selling price is 79.26 / liter.

### **We can do petrol calculation like this**

The calculation is very simple. Let's assume See here...

Current Petrol Price per Liter is Rs. 80.00

Basic Import (Purchase Price) per Liter is Rs. 24.00

Tax per Liter :

Consumer Price - Basic Import =  $80.00 - 24.00 = 56.00$

Therefore, Tax Per Liter in % is  $56 / 24 * 100 = 233.3333\%$

what we are paying in way of Tax on Basic Import is 233.3333% per Liter.

(Source: *Pydi Raz, M.B.A Taxes & Information Technology, Andhra University (2009)*)

Value Added Tax differs from state to state. Similarly in Diesel, barrel cost is equal to petrol, but the tax structure differs from petrol. So Diesel price is little bit lesser than petrol.

### **Conclusion:**

From the above information, the Indian Automotive Industry is developing at constant speed. Within short period, India will reach 3<sup>rd</sup> position worldwide. Nowadays Indian Currency value is also getting reduced. The same time, fuel charges are increasing at high speed. Due to so many factors, the cost of inflation is increased. Peoples are very much afraid about the situation. The Government should consider the situation and try to reduce the fuel price. If fuel price reduced, many favorable things will happen. The transportation charges will be reduced, and it will be very much helpful for the citizens as well as nation. This process may stimulate the economic activity. In Tamil Nadu recently the Truck Owner's Association has increased the transport charges (freight) up to 25% due to fuel price hike. So the general public is eagerly waiting for the favorable announcement from the Union Government. If it happens, the automotive sector will develop in very high speed.

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