

A Review of Growing Automobile Industry in India

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ABSTRACT: *In India, the automotive industry is one of the key drivers of the macroeconomic growth and technological advancement. This sector contributes 7.1% to the total GDP and provided employment to about 32 million people, directly and indirectly in the year 2016. India is the largest manufacturer of two-wheelers, three-wheelers and tractors in the world, and the fifth largest vehicle manufacturer overall. Strong domestic demand coupled with supportive Government policies have led to the Indian automotive industry climbing up the ranks to be one of the global leaders. The Government of India and the Indian automotive industry articulated their objectives for the future of the industry through the Automotive Mission Plan 2016-26 (AMP 2026). The plan envisions that by the year 2026, India will be among the top three in the world in engineering, manufacturing and export of vehicles and auto components. It is estimated that by 2020 the automobile industry in India will be the third largest in the World after China and USA. The paper aims at studying the performance and growth of India's Automobile industry, the contributing factors for such growth and the present situation of foreign investments in this sector.*

Key Words: : GDP, growth, automobile, ranking, trend, investment

Introduction

Two decades of robust growth have propelled India from being a net importer of automobiles to a leading manufacturer and exporter of vehicles and components. During the last decade (2006-2016) the growth of the sector has been quite impressive despite economic slowdown, however with economic growth looking up, the sector is expected to outperform the projections during the decade of 2016-2026. The automobile sector in India has immense potential for growth and to supplement the growth of other related sectors synergistically. For achieving high sustainable growth, the Government of India has not only simplified and streamlined the regulatory policies framework for ease of doing business but also committed for minimum Government and maximum Governance.

The automobile sector in India has immense potential for driving economic growth and employment and also supporting a host of other manufacturing industries like auto-components, machine tools, steel, aluminum, plastics, chemicals, electronics, etc. In addition, the auto sector also supports the services sector which includes IT and software, banking, insurance, repair and maintenance, transport and logistics including public transport etc. The Government of India had not only simplified and streamlined the regulatory policies framework for ease of doing business but also launched Automotive Mission Plans for 2006-2016 in 2006 and AMP 2016-2026 in 2016. The other major programmes/plans initiated by the Government include Faster Adoption and Manufacturing of (hybrid &) Electric Vehicles (FAME) and National Electric Mobility Mission Plan (NEMMP) 2020. These programmes/plans envisioned a robust and faster growth of vehicles to attain the coveted place among the world leaders in automobile sector like USA, Japan, Europe and China.

1. Automotive Mission Plan 2016-26:

The plan also envisions India to be the first in the world in production/sale of small cars, two-wheelers, three-wheelers, tractors and buses; and third in passenger vehicles and heavy trucks. Specific interventions are envisaged to sustain and improve manufacturing competitiveness and to address challenges of environment and safety. The Indian Automotive industry aims to increase exports of vehicles by 5 times. The growth of vehicles particularly the passenger vehicles is expected to triple to 9.4 million units per annum by 2026.

2. The National Electric Mobility Mission Plan 2020 (NEMMP):

This initiative has been taken up to encourage reliable, affordable and efficient HEVs (hybrid and electric vehicles) that meet consumer performance and price expectations through government-industry collaboration. Promotion and development of indigenous manufacturing capabilities, required infrastructure, consumer awareness and technology are additional objectives of NEMMP 2020. The target is of putting 6 million electric & hybrid vehicles per year on the road by 2020 under NEMMP 2020.

3. Faster adoption and manufacturing of Hybrid and Electric Vehicles in India:

It aims at incentivizing the use of E- Vehicles across all vehicle segments ranging from 2 wheelers to light commercial vehicles and buses.

4. National Automotive Testing and R&D Infrastructure Project (NATRIP):

The project has been set up at a total cost of USD 573 million to enable the industry to adopt and implement global performance standards. The focus is on providing low-cost manufacturing and product development solutions. As a part of the program, 7 test centers are finalized to set up the test facilities.

5. New Green Urban Transport Scheme (GUTS), 2017:

The aim is to promote low carbon sustainable public transport system in urban areas; the scheme will be executed with the help of private sector including assistance from the central and state governments under a seven-year mission with a total cost of USD10.76 billion. The scheme will push for promotion of Non-Motorized Transport (NMT), public bike sharing, Bus Rapid Transit (BRT) systems, Intelligent Transport Systems (ITS), urban freight management etc.

The automotive sector in India has an edge over other countries in terms of requisite manufacturing infrastructure, low cost labour, rising middle class, increasing demand from the Government sector and rural areas which is consistently adding and supporting the growth of automotive sector to newer heights. Focus on the rural demand and adapting to the special needs of low cost and robust vehicles will lead automotive growth, economic development and jobs creation in rural areas which is a priority for the Government. The EVs and low carbon transport shall meet the aspirations of people for safe, secure, affordable and pollution free transportation.

Many multinational companies are making India as their manufacturing base due to the potential for growth and supporting infrastructure. The automobile manufacturers can achieve higher growth by utilizing the opportunity provided by the AMP 2016-2026 and schemes like Low Carbon Transport Scheme, Green Urban Transport Scheme, Make in India Initiatives and the Faster Adoption and Manufacturing of Electric and Hybrid under the National Electric Mobility Mission 2020 and 100% EVs by 2030. In addition, rapid urbanization, Smart cities programme, availability of raw material, cost effective capital, changing lifestyle etc. provide business supportive milieu and will foster new avenues of growth establishing completely new ventures and start-ups. Further, to galvanize the automotive industry and other related institutions, the Government has to ensure consistent and predictable regulatory policy regime with clear roadmaps. The robust and coherent policy framework with roadmaps will leave little scope for judicial intervention like ban imposed by the Supreme Court on the registration of BS-III compliant vehicles after 31st April 2017.

Performance of Auto Industry during 2017-18

Production

The Auto industry produced a total of 29,075,605 vehicles in April-March 2018 as against 25,330,967 in April-March 2017, recording a growth of 14.78% over the last year production. The highest growth was observed in case of commercial vehicles wherein the segment grew at a rate of more than 30% in comparison to last year. The production in the two-wheeler segment grew at a rate of 16.12% in the year 2017-18 in comparison to its immediate last year.

Table 1: Production trends in Automotive Industry in India

Category	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Passenger Vehicles	32,31,058	30,87,973	32,21,419	34,65,045	38,01,670	40,10,373
Commercial Vehicles	8,32,649	6,99,035	6,98,298	7,86,692	8,10,253	8,94,551
Three Wheelers	8,39,748	8,30,108	9,49,019	9,34,104	7,83,721	10,21,911
Two Wheelers	1,57,44,156	1,68,83,049	1,84,89,311	1,88,30,227	1,99,33,739	2,31,47,057
Grand Total	2,06,47,611	2,15,00,165	2,33,58,047	2,40,16,068	2,53,29,383	2,90,73,892

(Source: SIAM Website)

Domestic Sales

The sale of Passenger Vehicles grew by 7.89 percent in April-March 2018 over the same period last year. Within the Passenger Vehicles, Passenger Cars, Utility Vehicle and Vans grew by 3.33 percent, 20.97 percent and 5.78 percent respectively in April-March 2018 over the same period last year.

The overall Commercial Vehicles segment grew by 19.94 percent in April-March 2018 as compared to the same period last year. Medium & Heavy Commercial Vehicles (M&HCVs) grew by 12.48 percent and Light Commercial Vehicles grew by 25.42 percent in April-March 2018 over the same period last year.

Three Wheelers sales grew by 24.19 percent in April- March 2018 over the same period last year. Within the Three Wheelers, Passenger Carrier & Goods Carrier sales registered a growth of 28.65 percent and 7.83 percent respectively in April-March 2018 over April-March 2017.

Two Wheelers sales registered a growth at 14.80 percent in April-March 2018 over April-March 2017. Within the Two Wheelers segment, Scooters and Motorcycles grew by 19.90 percent and 13.69 percent respectively, while Mopeds declined by (-) 3.48 percent in April-March 2018 over April-March 2017.

Table 2: Domestic Sales trend in Automotive Industry in India

Category	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Passenger Vehicles	26,65,015	25,03,509	26,01,236	27,89,208	30,47,582	32,87,965
Commercial Vehicles	7,93,211	6,32,851	6,14,948	6,85,704	7,14,082	8,56,453
Three Wheelers	5,38,290	4,80,085	5,32,626	5,38,208	5,11,879	6,35,698
Two Wheelers	1,37,97,185	1,48,06,778	1,59,75,561	1,64,55,851	1,75,89,738	2,01,92,672
Grand Total	1,77,93,701	1,84,23,223	1,97,24,371	2,04,68,971	2,18,62,128	2,49,72,788

(Source: SIAM Website)

Exports

In April-March 2018, overall automobile exports increased by 16.12 percent. Two and Three Wheelers Segments registered a growth of 20.29 percent and 40.13 percent respectively, while Passenger Vehicles and Commercial Vehicles declined by (-)1.51 percent and (-) 10.53 percent respectively in April-March 2018 over the same period last year.

Table 3: Exports trend in Automotive Industry in India

Category	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Passenger Vehicles	5,59,414	5,96,142	6,21,341	6,53,053	7,58,727	7,47,287
Commercial Vehicles	80,027	77,050	86,939	1,03,124	1,08,271	96,867
Three Wheelers	3,03,088	3,53,392	4,07,600	4,04,441	2,71,894	3,81,002
Two Wheelers	19,56,378	20,84,000	24,57,466	24,82,876	23,40,277	28,15,016
Grand Total	28,98,907	31,10,584	35,73,346	36,43,494	34,79,169	40,40,172

(Source: SIAM Website)

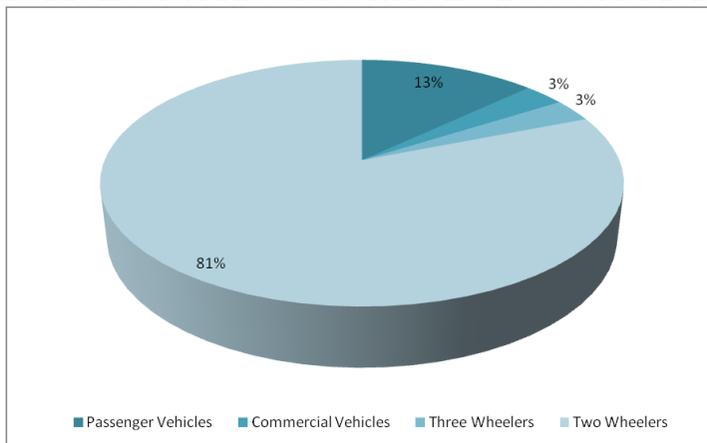
Considering the domestic market share of the automobile sector for the year 2017-18, the sector was dominated by two wheelers segment with a share of 81%, passenger vehicles accounted for 13% and commercial vehicles and three wheelers accounted for 3%each.

Table 4: Domestic Market Share of Automobile Sector for 2017-18

Passenger Vehicles	13
Commercial Vehicles	3
Three Wheelers	3
Two Wheelers	81
Grand Total	100

(Source: SIAM Website)

Figure 1: Domestic Market Share of Automobile Sector for 2017-18



(Source: SIAM Website)

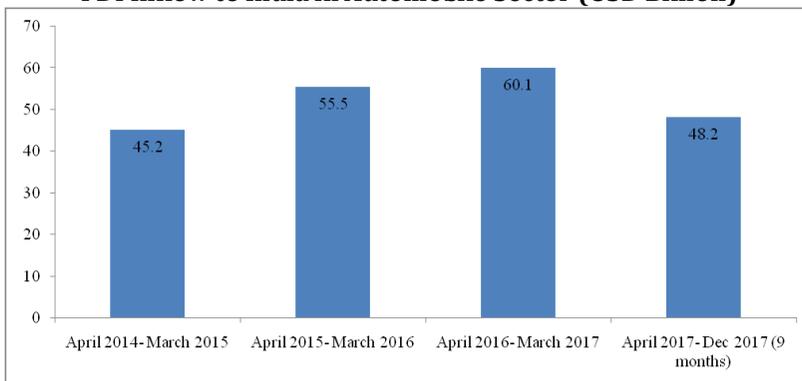
Foreign Investment in Automobile Sector

100% Foreign Direct investment (FDI) is allowed under the automatic route in the auto sector, subject to all the applicable regulations and laws. The sector attracted US\$ 18.43 Billion in foreign direct investment between April 2000 and December 2017. This stupendous growth is expected to continue as it is estimated that sector would attract additional USD 8-10 billion in local and foreign investment by 2023. List of the foreign investors in this sector:

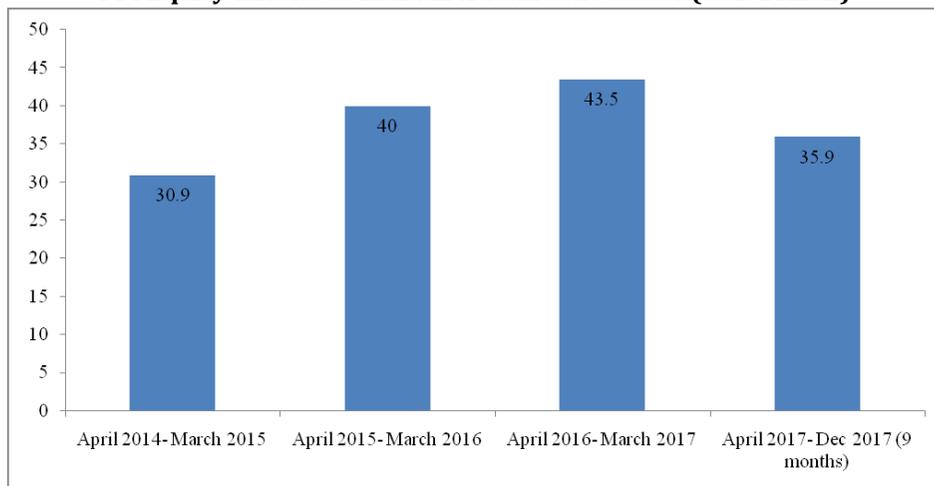
- Suzuki (Japan)
- Nissan (Japan)
- Piaggio (Italy)
- Volkswagen (Germany)
- Renault (France)
- Hyundai (South Korea)
- General Motors (USA)
- BMW (Germany)
- Ford (USA)
- Toyota (Japan)
- Mercedes (Germany)
- Daimler (Germany)
- FIAT (Italy)
- Honda (Japan)

FDI inflows to India in automobile sector have been consistently on rise from the last few years. In the financial year 2015-16, the FDI in this sector grew at a rate of 22.8% in comparison to the immediate previous year. The growth rate is further expected to rise in coming years because of the developmental policies of the government taken in this regard. Not only this, if the growth of FDI Equity inflow is seen, the growth rate is phenomenal in that case too.

FDI Inflow to India in Automobile Sector (USD Billion)



(Source: Make in India Website)

FDI Equity Inflows to India in Automobile Sector (USD Billion)

(Source: Make in India Website)

Conclusion

Today, India is one of the most important markets for various overseas automakers, which includes largest market for Suzuki Corporation as it gets over 50 per cent of its business share from here. For Honda, India is one of the biggest markets in two-wheeler space, while for cars also it contributes substantially. The other most favourable part for India is increasing software content in the automobiles. India is emerging as one of the largest exporters of connected and software solutions for automobiles. A number of manufacturers are setting up their backend for research and development to support their global markets for this. The Indian automobile industry is highly supported by factors such as availability of skilled labour at low cost and low-cost steel production.

India has some great advantages in the changing automotive landscape but it has to overcome some serious challenges too. The country falls extremely behind in the lithium and cobalt reserves. It needs to speed up in securing lithium. What is rather detrimental is that it levies highest 28 per cent Goods and Service Tax (GST) on import of this crucial item.

Argentina recently showed interest in helping India in providing lithium but we have not made any progress towards collaborating with any country so far. The other important raw material is cobalt and its reserve is also extremely low, limited only in Nagaland, Jharkhand and Orissa.

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