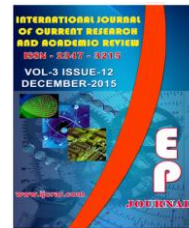




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Recent Trends in Indian Automobile Industry

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A B S T R A C T

With the increasing growth in demand on back of rising income, expanding middle class and young population base, in addition to a large pool of skilled manpower and growing technology, will propel India to be among the world's top five auto-producers by 2016. The automobile industry accounts for 22 per cent of the country's manufacturing gross domestic product (GDP). The auto sector is one of the biggest job creators, both directly and indirectly. It is estimated that every job created in an auto company leads to three to five indirect ancillary jobs. India is expected to become a major automobile manufacturing hub and the third largest market for automobiles by 2020. India is currently the seventh-largest automobiles producer in the world with an average annual production of 17.5 million vehicles, and is on way to become the fourth largest automotive market by volume, by 2015.

Introduction

Global Scenario

The worldwide automotive industry has been enjoying a period of relatively strong growth and profitability, and annual sales have reached prerecession levels in some regions. Yet considerable uncertainty about the future remains.

The most immediate challenge is the unevenness of global markets. Auto industry executives and experts tend to be optimistic about the U.S. market, forecasting annualized sales in North America in the near term of a relatively robust 16 million

cars, up from only 13 million in 2008. However, the outlook in Europe is much weaker as the region is emerging fitfully from a six-year sales slump. And sales have plunged in Russia and South America- they were down by about 25 percent and 15 percent, respectively, in August 2014 year-over-year. Meanwhile, the Indian market's performance has been inconsistent. And growth in China, the world's largest vehicle market, has slowed, even though investments by most original equipment manufacturers (OEMs), which are betting big on future demand, continue to ramp up. Reacting strategically to these demand shifts will be an absolute priority for industry leaders in 2015.

In the initial years, most of the manufacturing activities were concentrated in the USA and in some of the European countries. Though, these countries still account for a significant share in the production, more and more volume of production comes from other parts of the world, like China, Japan and Korea. Around three-fourths of the global production is being carried out in top 10 producing countries, in 2007. Of these, Japan, USA and China, cumulatively constitute over 40% of global production.

The last decade has experienced a growing level of motorization, as reflected by the production of automobiles. According to OICA, Japan is the largest producer of cars in the world followed by China, Germany, USA, South Korea and France. India ranks 9th in the production of cars in the world ahead of UK, Canada, Russia and Mexico. USA is the largest producer of commercial vehicles; close competitors in production of commercial vehicles are China, Japan, Canada, Thailand and Mexico. India ranks 8th in the production of commercial vehicles and is ahead of countries like Brazil, Germany, France and Turkey.

The Indian Scenario

The Indian automobile industry, the sixth largest automobile producer in the world, is one of the potential future markets in the world. The Indian automobile market has grown from a seller dominated market in the 1980's to a consumer dominated market today. The auto industry of the India has grown substantially and further is expected to grow at a CAGR of more than 10% over the period of next 7 years. Indian automobile industry is well positioned in terms of demography and geography as it can service both domestic demands as well as cater to the increasing demand in export markets. This rise of the automotive industry can be attributed to various factors like growing economy, rising prosperity, increasing disposable income among consumers, easily accessible finance options, and an increase in the working population of the country.

The Indian automobile industry can be categorized under four different categories namely, two-wheelers, three-wheelers, passenger cars & Utility Vehicles (UVs), commercial vehicles and tractors. The two-wheeler segment can be further sub divided into mopeds, scooters, motorcycles and electric two-wheelers. Major share of the Indian automobile industry is taken by two-wheelers followed by passenger cars and the share is almost equal between commercial vehicles and three-wheelers. The major contribution to the vehicle production comes from Southern India, accounting for 35% of the total production.

The Indian automotive industry based on vehicle type (two-wheelers; three-wheelers; passenger cars & UV; commercial vehicles; tractors), region (North; South; East; west). The passenger vehicles segment further covers the market for passenger cars and utility vehicles and the commercial vehicles

segment covers light-duty and heavy-duty commercial vehicles. Apart from quantitative analysis of these markets, the report also covers qualitative aspects like market dynamics, porter's five forces analysis, PESTLE analysis (Political, Economical, Social, Technological, Legal and Environmental.) and others.

The report features profiles of the top players in the Indian automotive market covering their market presence; financial health; product offerings in the segment and further insights into their strategies and recent market developments associated with individual players.

FDI in India

Indian Economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as *Liberalization, Privatization, Globalization (LPG model)* aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient. With the contest of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all sectors of the economy.

Automobile Industry in India

Indian Automotive Industry growth decades started in the 1970s. Between 1970 and 1984 cars were considered a luxury product; manufacturing was licensed, expansion was restricted; there were Quantitative Restriction (QR) on imports and tariff structure designed to restrict the market but

starting in 2000, several landmark policy changes like QR and 100% FDI through automotive route were introduced. In 2003, Core group on Automotive R&D (C.A.R) was set up to identify priority areas for automotive R&D in India.

The Indian auto industry is one of the largest in the world with an annual production of 23.37 million vehicles in FY 2014-15, following a growth of 8.68 per cent over the last year. The automobile industry accounts for 7.1 per cent of the country's gross domestic product (GDP).

The Two Wheelers segment with 81 per cent market share is the leader of the Indian Automobile market owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector. The overall Passenger Vehicle (PV) segment has 13 per cent market share.

India is also a prominent auto exporter and has strong export growth expectations for the near future. In FY 2014-15, automobile exports grew by 15 per cent over the last year. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the Two Wheeler (2W) and Four Wheeler (4W) market in the world by 2020.

FDI in Automotive

India's automotive Industry is one of the largest and rapidly growing industries in the world. At the moment, it is the sixth largest vehicle manufacturing nation. India's production has risen five times in the last two decades. Almost all global manufacturers in the automotive industry already have a manufacturing plant or R&D

centre in India. The country has seen 78 FDI deals in this sector by 2011 which has grown 28% since 2010. At the moment, India's automobile sector contributes 8% of all FDI projects and 16% of all jobs created within FDI deals.

The FDI in Automobile Industry has experienced huge growth in the past few years. The increase in the demand for cars and other vehicles is powered by the increase in the levels of disposable income in India. The options have increased with quality products from foreign car manufacturers. The introduction of tailor made finance schemes, easy repayment schemes has also helped the growth of the automobile sector. The basic advantages provided by India in the automobile sector include, advanced technology, cost-effectiveness, and efficient manpower. Besides, India has a well-developed and competent Auto Ancillary Industry along with automobile testing and R&D centers. Opportunities of FDI in the Automobile Sector in India exist in establishing Engineering Centers, Two Wheeler Segment, Exports, Establishing Research and Development Centers, Heavy truck Segment, Passenger Car Segment.

Current trends and Performance

The industry produced a total of 23,366,246 vehicles including passenger vehicles, commercial vehicles, three wheelers and two wheelers in April-March 2015 as against 21,500,165 in April-March 2014, registering a growth of 8.68 percent over the same period last year.

The sales of Passenger Vehicles grew by 3.90 percent in April-March 2015 over the same period last year. Within the Passenger Vehicles segment, Passenger Cars and Utility Vehicles grew by 4.99 percent and

5.30 percent respectively, while Vans declined by (-) 10.19 percent in April-March 2015 over the same period last year.

The overall Commercial Vehicles segment registered a de-growth of (-) 2.83 percent in April-March 2015 as compared to same period last year. Medium & Heavy Commercial Vehicles (M&HCVs) grew by 16.02 percent and Light Commercial Vehicles declined by (-) 11.57 percent.

Three Wheelers sales grew by 10.80 percent in April-March 2015 over the same period last year. Passenger Carriers and Goods Carriers grew by 12.16 percent and 5.27 percent respectively in April-March 2015 over April-March 2014.

Two Wheelers sales registered growth of 8.09 percent in April-March 2015 over April-March 2014. Within the Two Wheelers segment, Scooters, Motorcycles and Mopeds grew by 25.06 percent, 2.50 percent and 4.51 percent respectively in April-March 2015 over April-March 2014.

In April-March 2015, overall automobile exports grew by 14.89 percent over the same period last year. Passenger Vehicles, Commercial Vehicles, Three Wheelers and Two Wheelers grew by 4.42 percent, 11.33 percent, 15.44 percent and 17.93 percent respectively during April-March 2015 over the same period last year.

Reason to Invest in India

- By 2016, India is expected to be the third largest automotive market by volume in the world.
- Tractor sales in the country are expected to grow at CAGR of 8-9% in the next five years, upping India's market potential for international

brands. Two-wheeler production has grown from 8.5 Million units annually to 15.9 Million units in the last seven years. Significant opportunities exist in rural markets.

- India's car market has the potential to grow to six Million-plus units annually by 2020.
- The emergence of large automotive clusters in the country: Delhi-Gurgaon-Faridabad in the north, Mumbai-Pune-Nashik-Aurangabad in the west, Chennai-Bengaluru-Hosur in the south and Jamshedpur-Kolkata in the east.
- Global car majors have been ramping up investments in India to cater to growing domestic demand. These manufacturers plan to leverage India's competitive advantage to set up export-oriented production hubs.
- An R&D hub: strong support from the government in the setting up of NATRiP centres. Private players such are keen to set up an R&D base in India.
- Tata Nano is a sterling example of Indian frugal engineering and is being positioned as a mobiliser of the young generation.

Automotive Sector Policy in India

Auto Policy

- Automatic approval for foreign equity investment up to 100% with no minimum investment criteria.
- Manufacturing and imports in this sector are exempt from licensing and approvals.

- The encouragement of R&D by offering rebates on R&D expenditure.

Automotive Mission Plan, 2006-16

- To emerge as the world's destination of choice for design and manufacture of automobiles and auto components with output reaching a level of USD 145 Billion, accounting for more than 10% of the GDP and providing additional employment to 25 Million people by 2016.
- The setting up of a technology modernisation fund focusing on small and medium enterprises.
- The establishment of automotive training institutes and auto design centres, special auto parks and auto component virtual Special Economic Zones (SEZs).

Automotive Mission Plan 2016-26

The Automotive Mission Plan 2016-26 (AMP 2026) is the collective vision of Government of India (Government) and the Indian Automotive Industry on where the Vehicles, Auto components, and Tractor industries should reach over the next ten years in terms of size, contribution to India's development, global footprint, technological maturity, competitiveness, and institutional structure and capabilities. AMP 2026 also seeks to define the trajectory of evolution of the automotive ecosystem in India including the glide path of specific regulations and policies that govern research, design, technology, testing, manufacturing, import/export, sale, use, repair, and recycling of automotive vehicles, components and services.

AMP 2026 is a document that is aimed at multiple stakeholders in India and overseas, and seeks to communicate the Government and industry's intent and objectives pertaining to the Indian Automotive industry, comprising the automotive vehicle manufacturers, the auto-component manufacturers and tractor manufacturers who operate in India.

National Automotive Testing AND R&D Infrastructure Project (NATRIP)

- The project has been set up at a total cost of USD 388.5 Million to enable the industry to adopt and implement global performance standards.
- Focus on providing low-cost manufacturing and product development solutions.

The Department of Heavy Industries and Public Enterprises

- Working towards the reduction of excise duty on small cars and increased budgetary allocation for research and development.
- A weighted increase in R&D expenditure to 200% from 150% (in-house) and 175% from 125% (outsourced).

The National Mission for Electric Mobility 2020

- The objective of this body is to encourage reliable, affordable and efficient xEVs (hybrid and electric vehicles) that meet consumer performance and price expectations through government-industry collaboration, for the promotion and development of indigenous manufacturing capabilities, required infrastructure, consumer awareness

and technology – thereby helping India emerge as a leader in the two-wheeler and four-wheeler xEV market in the world by 2020, with total xEV sales of 6-7 Million units thus enabling the Indian automotive industry to achieve global xEV manufacturing leadership and contributing towards national fuel security.

- Target of putting 5 million electric & hybrid vehicles per year on the road by 2020 under NEMMP.

Pilot Electric Vehicle Projects

- The Department of Heavy Industry (DHI) is launching pilot projects on electric vehicles in Delhi and subsequently, other metros and cities all across the country under the NEMPP 2020 with a dual purpose – demonstrating and disseminating the benefits of adopting cleaner, greener modes of transportation as also to explore the viable operational modalities.
- The DHI will provide viability gap funding through subvention to support the extra cost of acquisition and operation of these vehicles by state governments or designated bodies. In the first phase, a pilot project to provide last mile connectivity to the Delhi Metro through electric passenger vehicles, has been approved. All the other states have been brought on board and different states have already appointed nodal officers to co-ordinate with DHI and vehicle manufacturers for the implementation of those pilot projects.
- The uptake of electric vehicles will depend in large part on the adequate deployment of Electric Vehicle Supply Equipment (EVSE) needed to recharge electric vehicles.

Table.1 Automobile Production Trends

Category	2010-11	2011-12	2012-13	2013-14	2014-15
Passenger Vehicles	29,82,772	31,46,069	32,31,058	30,87,973	32,20,172
Commercial Vehicles	7,60,735	9,29,136	8,32,649	6,99,035	6,97,083
Three Wheelers	7,99,553	8,79,289	8,39,748	8,30,108	9,49,021
Two Wheelers	1,33,49,349	1,54,27,532	1,57,44,156	1,68,83,049	1,84,99,970
Grand Total	1,78,92,409	2,03,82,026	2,06,47,611	2,15,00,165	2,33,66,246

Source: SIAM Report(Society of Indian Automobile Manufactures)

Table.2 Automobile Domestic Sales Trends

Category	2010-11	2011-12	2012-13	2013-14	2014-15
Passenger Vehicles	25,01,542	26,29,839	26,65,015	25,03,509	26,01,111
Commercial Vehicles	6,84,905	8,09,499	7,93,211	6,32,851	6,14,961
Three Wheelers	5,26,024	5,13,281	5,38,290	4,80,085	5,31,927
Two Wheelers	1,17,68,910	1,34,09,150	1,37,97,185	1,48,06,778	1,60,04,581
Grand Total	1,54,81,381	1,73,61,769	1,77,93,701	1,84,23,223	1,97,52,580

Source: SIAM Report(Society of Indian Automobile Manufactures)

Table.3 Automobile Exports Trends

Category	2010-11	2011-12	2012-13	2013-14	2014-15
Passenger Vehicles	4,44,326	5,08,783	5,59,414	5,96,142	6,22,470
Commercial Vehicles	74,043	92,258	80,027	77,050	85,782
Three Wheelers	2,69,968	3,61,753	3,03,088	3,53,392	4,07,957
Two Wheelers	15,31,619	19,75,111	19,56,378	20,84,000	24,57,597
Grand Total	23,19,956	29,37,905	28,98,907	31,10,584	35,73,806

Source : SIAM Report(Society of Indian Automobile Manufactures)

Fame (Faster Adoption & Manufacturing of Hybrid And Electric Vehicles, April 2015-2020

- The overall scheme is proposed to be implemented over a period next six years i.e. till 2020.
- It will cover all vehicle segments i.e. two-three- and four-wheelers, cars, LCVs, buses etc. and all forms of hybrid (Mild/Strong/Plug-in) and pure electric vehicles.
- It also seeks to provide demand incentives to electric and hybrid vehicles from two-wheeler to buses.

Conclusion

By 2016, the government is targeting an annual turnover of US \$ 145 billion, representing 10% of GDP and employing a total of 25mn staff. A switch to a 30% tariff could be a major boost for European premium vehicle manufacturers currently face import tariffs of up to 100%. The economic growth, population expansion and the increasing wealth of individuals are key factors behind the forecasted 18% growth of the auto vehicles sector.

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