



PROBLEMS AND PROSPECTS OF AUTOMOBILE SECTOR IN INDIA

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Abstract

(Rising economic uncertainties, reduction in fresh investment and coming under pressure from non-banking lenders have resulted in a significant reduction in demand in Indian automobile sector from both urban and rural consumers. Due to low demand in the market, the top passenger vehicle manufacturers are facing a big crisis. The increase in the cost of vehicle insurance last year and the credit crunch also forced many consumers to postpone their plans to buy a vehicle. All these factors have made a bad impact on the automobile industry. Two-wheeler sales continued to decline for the sixth consecutive month due to rising cost of ownership, low rural sales and tight liquidity. Obviously, low liquidity, low consumption and rising costs due to stricter standards have resulted in a decline in vehicle sales. In the first quarter of the financial year 2019-20, there was a decrease of 23 percent in car sales and 18 percent in passenger vehicle sales. The crisis may increase due to increase in registration fee. Industry organization, Society of Indian Automobile Manufacturers (SIAM) says that the proposal to increase the registration fee on new vehicles by 10 to 20 times may further increase the crisis of the domestic automobile industry. In the first half of this year i.e. from January to June, car purchases have been low in all the major car markets of the world. The only exception in this case was Brazil, whose car sales registered an increase of 11 percent. At the same time, there was no significant movement in the Japanese car market during this period, while the American and Russian car markets registered a decline of two percent. At the same time, China remained the world's largest new car market despite a 14 percent decline.)

Keywords: Automobile, Cars, Two-Wheelers, Revenue, GST, Employment etc.

1. Introduction

The automobile industry in India flourished right after independence. Before the independence of the country, automobiles were not manufactured in India. They were only imported. In 1949 some parts for passenger cars were manufactured by Hindustan Motors in Kolkata. India started manufacturing passenger cars using some indigenously manufactured parts. Since that time India has grown tremendously in the field of automobile industry. Tremendous progress has been made in the manufacturing of passenger cars, motor cycles, scooters and much more. The automobile industry basically prefers its location near steel and iron producing centers as steel is basic for manufacturing automobiles. Initially the factories that started producing vehicles based on imported parts were located in port cities like Mumbai, Kolkata and Chennai. These cities had skilled and semi-skilled labor, electricity, banking facilities, limited automobile ancillary industries, markets, and machinery, in addition to facilities for importing automobile parts. However, factories located near steel production centers have the advantage of easy access to steel and iron. The

Government of India has been generous in allowing Indian entrepreneurs to manufacture technologically superior and fuel efficient vehicles and two-wheelers in collaboration with foreign manufacturers. Major percentage of the total components of vehicles is now manufactured in India's indigenous automobile industries. Only certain parts are imported. Indian made vehicles find a ready market in other countries.

It is worth mentioning that there has been a continuous decline in the sales of major automobile manufacturers, due to which jobs in the automobile sector are also continuously ending and showrooms are also closing. According to industry body Federation of Automobile Dealers Association (FADA), automobile retailers have laid off around two lakhs employees during the last three months. The situation is not likely to improve in the near future considering the recent incidents and may lead to further closure of showrooms. Significantly, amid a huge decline in vehicle sales, vehicle dealers across the country are showing the way out to a large number of employees. Industrialists say that due to the decline in sales, they are now left with the option of reducing the workforce. To avoid this, the government should take measures like reduction in Goods and Services Tax (GST) to provide relief to the auto industry.

2. Objectives of the Study

- To study the background of Automobile Sector in India.
- To study the growth of Automobile Sector in India.
- To understand the Problems of Automobile Sector in India.
- To study the future of Automobile Sector in India.
- To suggest ideas to solve the problems of Automobile Sector in India.

3. Research Methodology

The study is based on exploratory research and based on secondary data of journals, articles, newspapers and magazines. Secondary data was extensively used for the study.

4. Reasons for the Growth of Automotive Industry in India

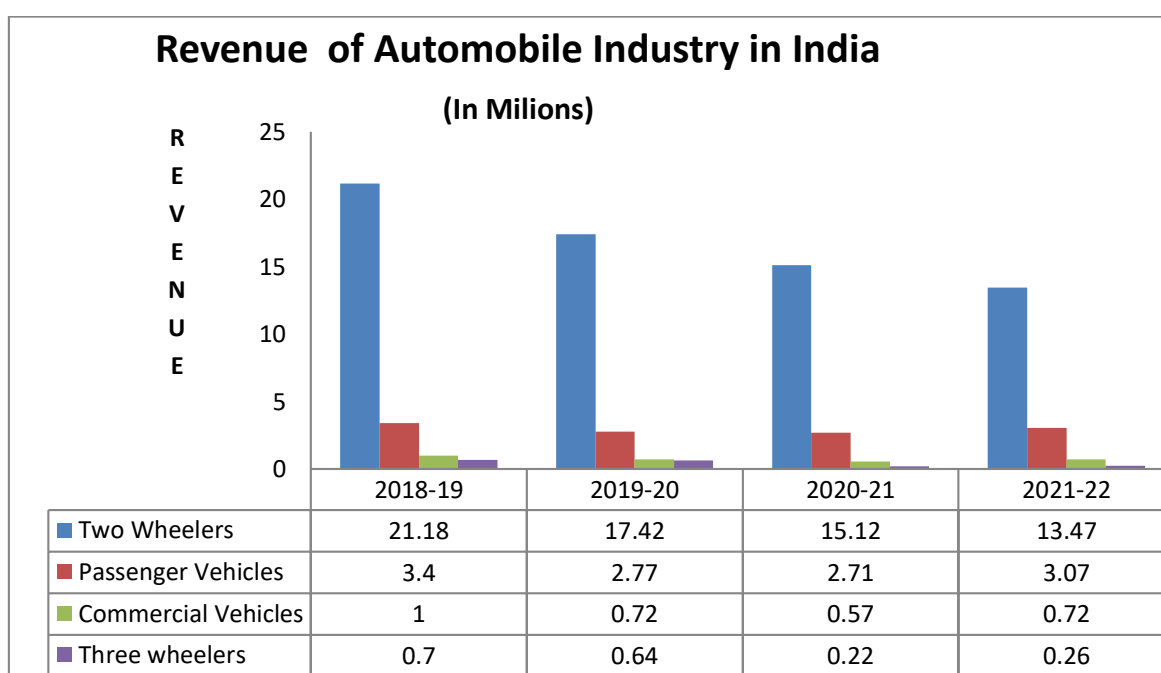
India has ideal conditions for the development of the automotive industry and a vast potential for growth. Presently, with the introduction of new models, there has been an increase in sales and exports are also increasing. In this way, due to the increasing requirements in the present time, there has been a rapid growth in the automotive sector, one of the reasons for which is the high standard of living of the people.

- Large domestic market and growing demand
- Rapidly growing economy and development of consumerist economy.
- Development of iron steel machinery and other infrastructure.
- Increase in demand due to industrialization and urbanization.
- Road transport should be important both from the point of view of passenger transport and road transport.
- Comparative advantage of automotive industry as a result of hindrance in railway development in plateau India and hilly areas

5. Problems of Automobile Sector in India

In view of the slowdown in the economy, the Reserve Bank of India (RBI) has reduced the GDP growth forecast for the current financial year from 7 to 6.9 percent. According to RBI, the shadow of slowdown is getting deeper in some sectors. Auto sector is prominent in this, where the demand is continuously decreasing. Due to this the sales of vehicles is decreasing. Due to this auto companies have to lay off less production and surplus employees. According to the Society of Indian Automobile Manufacturers, an organization of the auto sector, at this time there is a danger of losing one million jobs in the auto sector. If the situation does not improve, this number may increase further.

The automobile industry in India is going through a prolonged structural slowdown as all major vehicle segments have shown a decline in the compound annual growth rate (CAGR) during the last three decades. According to a research conducted by the Society of Indian Automobile Manufacturers (SIAM), the auto industry was already going through tough times before the COVID-19 pandemic and the pandemic derailed the entire sector last year. The industry body said the study clearly shows that the pandemic is not the only reason for the slowdown in the auto sector; rather it is facing deeper structural issues.



(Source: Statista.com)

5.1 Reasons for the Slowdown in the Automobile industry in India

5.1.1 Goods and Services Tax (GST) System: The government has reduced the Goods and Services Tax (GST) on electric vehicles, but the tax on other vehicles is 28%, which has affected people's ability to buy vehicles.

5.1.2 BS-6 Engine: One of the reasons for the slowdown in the auto sector is also regarding the electric vehicle. Companies believe that the government has not yet put any clear roadmap in front of the industry. The reality is that the customers are yet to decide whether to buy petrol or diesel powered cars or wait for the arrival of electric vehicles. It will be mandatory for vehicle manufacturers to install BS-6 engines in their vehicles by April 1, 2020. At present, BS-4 engine is used in vehicles. BS-VI will reduce nitrogen oxide emissions by 68% from diesel vehicles and 25% from petrol vehicles. Most people are looking for new engine vehicles, it is clear that this is also a major reason.

5.1.3 Reduction in the income of the villagers: In the first quarter of the current financial year, a decline of 10 to 12 per cent has been registered in the sale of tractors. The reason behind this is the decrease in the yield of rabi crops and the decline in sowing of kharif crops. Due to this the income of the rural people is decreasing. Apart from this, the strict rule made by the government regarding overloading on trucks also has the effect that the sales of trucks have decreased.

5.1.4 Banks slow in lending: Fearing loan default, many banks are refraining from lending to auto mobile dealers. Banks are wary of lending to the auto industry, which is going through its worst phase in a decade. The banking industry estimates that auto mobile dealers owe Rs 70 to 80 thousand crores.

5.1.5 NBFC crisis: One-third of the vehicles sold by Maruti in the retail market are funded by non-banking financial companies (NBFCs). NBFC funding is a major source of funding for car purchases in smaller and tier-2 cities, meaning that people here depend on it to buy a car. At present most of the NBFCs themselves are in financial trouble. These banks are unable to recover their loans. Due to this, their ability to give new loans is decreasing. In such a situation, they have reduced lending. Due to this its effect has been negative.

6. Prospects of Automobile Sector in India

Significantly, the seeds of the current slowdown in the automobile sector were sown a few years ago, when all the car companies were investing heavily in making diesel engines, then the Supreme Court banned diesel vehicles older than 10 years in Delhi NCR. The decision came to ban the sale. The clouds of policy uncertainty that have enveloped the auto sector since then have not cleared yet. As a result, not only has the pace of development of the automobile industry stopped, but it has come close to the biggest recession of this decade. Auto sector experts say that due to the ban on old diesel vehicles in Delhi NCR as well as the emission norms, the announcement of moving from Bharat Stage-IV to Bharat-VI norms in 2020 took companies by surprise. Recently, it has also been proposed to increase the registration fee for petrol diesel driven vehicles. All these reasons not only increased the cost of the companies, but also increased the price of the products for the customers.

However, there are some other reasons on the ground as well, which have thrown the entire automobile sector into a pit of despair. Experts say that since the past few months, banks and financial institutions have started demanding collateral from car dealers for loans. Till now the dealer used to get loan easily against the number of vehicles he had to take from the companies, but now if he has to take a loan of Rs 40 crore, the banks are asking for a security of Rs 10 to 25 crore as collateral. Along with this, government agencies have also initiated action against many car dealers. It is possible that there may be irregularities at the level of some car dealers, but all the dealers cannot be punished for the same. Many senior officials associated with auto companies say that the lack of coordination among various ministries and departments of the government also creates problems. At present, six central government ministries (Ministry of Heavy Industry, Ministry of Commerce and Industry, Ministry of Steel, Ministry of Labour, Ministry of Finance and Ministry of Environment) make different policies for the auto sector. The auto sector has to follow the orders of all these ministries. This is probably the reason why the scrap policy (waste disposal policy generated in the field of automobiles) is yet to be announced.

The condition of sales in the auto sector can be gauged from the fact that in the month of July, Maruti's sales fell by 33.5 percent and Mahindra's sales fell by 15 percent. In the April-June quarter of the current financial year, a decline of about 12.5 per cent has been registered in the sales of vehicles in all categories. This situation of recession spread in this industry is also being seen in the areas related to it. Not only the companies engaged in vehicle manufacturing are facing recession, but the situation remains grim in front of the companies making their spare parts. According to one of the reports, India's big vehicle manufacturers such as Tata Motors, Mahindra and Honda have put a stop to production due to low demand. Tata Motors has closed four of its plants in the last two weeks.

Significantly, this situation is very frightening for the automobile sector and its consequences can be seen all around in the coming days. At the same time, the domestic automobile industry may be facing the brunt of the recession but its exports are not showing any adverse effect. Officials of exporting units say that there is a huge slowdown in the automobile sector due to declining demand for vehicles in the domestic market, but this is not the case in the export sector. The export sector has not yet been affected by this slowdown. There is no shortage of orders from other countries, but it is certain that if the sales of vehicle manufacturers in India continue to decline and production continues to fall, then it is natural to see a decrease in this sector as well in the coming days.

7. Suggestions

Significantly, at this time the government needs to increase funding in this sector. Along with this, by increasing the flow of money in the market, the recession in the auto sector can be avoided. Automobile industry experts say that RBI has reduced the repo rate, but now banks should make auto loans cheaper, which will increase the ability of people to buy vehicles again. Looking at the circumstances in the auto sector, the government should reduce the tax for some time. The future may be of electric vehicles, but we have to look at the present and face tough times. In such a situation, it is necessary that the present should also be seen along with the future.

Due to lack of demand in rural and town areas, the earnings of companies and dealers are getting compressed, while on the other hand, the process of taking loans from banks is becoming difficult. Government, manufacturers, investors and policy-makers should seriously consider the impending crisis of the auto industry so that the health of the economy is maintained. If the RBI gives some flexibility to the banks to provide funds, be it for wholesale billing or for customers who are going to buy vehicles, it can reduce the financial crisis in this sector to a great extent. For the sustainable development of this industry, it is necessary to provide finance for technology development and acquisition, as well as concessions on research. With the changing definition of MSMEs, there is a need for a better defined technology road map for Electric Vehicles.

Although people are not talking about the vehicles that are being sold, a negative mindset has been created. To reduce this, some good provisions have been made in the budget by the government. There has been talk of good investment in infrastructure. If the government does this, it will greatly benefit the auto industry. If the roads are good, then obviously people will buy vehicles. If the country's rural economy improves, it is expected that the performance of the auto industry will improve in the coming times.

8. Conclusion

The automobile industry has its ups and downs, and as of now, we are witnessing growth in this sector. But the need to incorporate greater resource efficiency and innovative materials to manufacture electric vehicles is a challenge we have yet to overcome. New technology innovation is something the Indian automobile industry lags behind, and is seen as a turning point for the development of the sector so that India can excel in manufacturing especially with low cost of labor and materials. For the development of the industry, it needs to upgrade the manufacturing technology and to move up the value chain pyramid. There will have to be significant investment in technologies that are high efficiency and green standards at par with other countries. It is estimated that by the year 2026, the automobile industry in India will be among the top three in the world in terms of engineering, technology, manufacturing and exports. The automobile industry is expected to add 12% to the GDP and create 60 million jobs for the country's skilled youth. One of the most prominent points of discussion in the Government of India is how to proceed with electrification from conventional vehicles in the coming years. Maintaining the car's health through traditional service techniques also required a complete facelift. The sale of vehicles is not the end. Most of the cars in the country are used for many years and as of now there is no government policy that due to many years on the road the vehicle becomes old.

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