

## Policy Measures in Growth and Development of Automobile Industry in India

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### Abstract

*In India, automotive is one of the largest industries showing impressive growth over the years and has been significantly making increasing contribution to overall industrial development in the country. Presently, India is the world's second largest manufacturer of two wheelers, fifth largest manufacturer of commercial vehicles as well as largest manufacturer of tractors. It is the fourth largest passenger car market in Asia as well as a home to the largest motor cycle manufacturer. Automotive industry is the key driver of any growing economy. It plays a pivotal role in country's rapid economic and industrial development. The automotive industry comprises of the automobile and the auto component sectors. It includes passenger cars; light, medium and heavy commercial vehicles; multi-utility vehicles such as jeeps, scooters, motor-cycles, three wheelers, tractors, etc; and this paper discuss the growth and development of the industry and government policies to promote the sector using the secondary data.*

**Keywords:** Automobile, Export, India, Industry, Vehicles

### Objectives of the Study:

1. To analyze the recent trends in Automobile industry
2. To know the Government policy to develop the industry
3. To understand growth and development of the Automobile industry

### Research Tools:

The prepared paper is an exploratory study in nature. The secondary data and information have been analyzed for preparing the paper extensively. The secondary information has been collected from different articles published in different journals, periodicals, working paper, automotive association statistics and websites.

### Introduction:

While the genesis of Indian Automotive Industry can be traced to the 1940's distinct 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 on imports and a tariff structure designed to restrict the market. The market was dominated by six manufacturers. The decade of 1985 to 1995 saw the entry of Maruti Udyog in the passenger car segment and Japanese manufacturers in the two wheelers and light commercial vehicle segments. Economic liberalization started in 1991. This decade witnessed the emergence of Hero Honda as a major player in the two wheeler segments and Maruti Udyog as the market leader in the passenger car segment. Starting in 2000, several landmark policy changes like removal of quantitative restriction and 100 percent FDI through automatic route were introduced. Indigenously developed vehicles were introduced in the domestic market and exports were given a thrust.

The installed capacity of the automobile sector has been 9,540,000 vehicles, comprising 1,590,000 four wheelers (including passenger cars) and 7,950,000 two

and three wheelers. The sector has shown great advances in terms of development, spread, absorption of newer technologies and flexibility in the wake of changing business scenario. The Indian automotive industry has made rapid strides since relicensing and opening up of the sector in 1991. It has witnessed the entry of several new manufacturers with the state-of-art technology, thus replacing the monopoly of few manufacturers. At present, there are 17 manufacturers of passenger cars and multi-utility vehicles, 14 manufacturers of commercial vehicles, 17 of two/ three wheelers and 14 of tractor, besides 5 manufacturers of engines. The norms for foreign investment and import of technology have also been liberalized over the years for manufacture of vehicles. At present, 100% foreign direct investment (FDI) is permissible under the automatic route in this sector, including passenger car segment. The import of technology for technology up-gradation on royalty payment of 5 percent without any duration limit and lump sum payment of USD 2 million is also allowed under automatic route in this sector.

### Automobile Industry Performance in 2012-13

#### Production Trends

The cumulative production data for April-March 2013 shows production growth of only 1.20 percent over the same period last year. The industry produced 1,685,355 vehicles in March 2013 as against 1,845,868 in March 2012, which declined by (-) 8.70 percent.

#### Domestic Sales Trends

Table – 1 shows the Automobile domestic sales trends. The overall growth in domestic sales during April-March 2013 was 2.61 percent over the same period last year, While in March 2013 overall sales fell by (-) 7.76 percent over March 2012. Passenger Vehicles segment grew at 2.15 percent during April-March 2013 over same period last year. Passenger Cars declined by (-) 6.69 percent, Utility Vehicles grew by 52.20 percent and Vans grew only by 1.08 percent during April-March 2013 as compared to the same period last year. However, in March 2013 passenger car sales further declined by (-) 22.51 percent over March 2012. Total passenger vehicles sales also declined by (-) 13.01 percent in March 2013 over same month last year. The overall Commercial Vehicles segment registered de-growth of (-) -2.02 percent in April-March 2013 as compared to the same period last year. While Medium & Heavy Commercial Vehicles (M&HCVs) declined by (-) 23.18 percent, Light Commercial Vehicles grew at 14.04 percent. In March 2013, M&HCVs sales further declined by (-) 26.16 percent over March 2012. Three Wheelers sales grew by 4.87 percent in April-March 2013. Passenger Carriers grew by 8.58 percent during April-March 2013 and Goods Carriers registered de-growth at (-) 9.20 percent during this period.

**Table – 1 Automobile Domestic Sales Trends (Number of Vehicles)**

Category	2010-11	2011-12	2012-13	2013-14
<b>Passenger Vehicles</b>	25,01,542	26,29,839	26,65,015	25,03,685
<b>Commercial Vehicles</b>	6,84,905	8,09,499	7,93,211	6,32,738
<b>Three Wheelers</b>	5,26,024	5,13,281	5,38,290	4,79,634
<b>Two Wheelers</b>	1,17,68,910	1,34,09,150	1,37,97,185	1,48,05,481
<b>Grand Total</b>	<b>1,54,81,381</b>	<b>1,73,61,769</b>	<b>1,77,93,701</b>	<b>1,84,21,538</b>

Source: SIAM

Two Wheelers registered growth of only 2.90 percent during April-March 2013. Scooters, mopeds and motorcycles grew by 14.24 percent, 1.53 percent and 0.12 percent respectively over same period last year. However, in March 2013 all sub-segments of two wheelers, scooters, motorcycles and mopeds registered de-growth at (-) 3.18 percent, (-) 8.32 percent and (-) 4.54 percent respectively.

### Automobile Exports Trends

Table – 2 explains the automobile export trends during April-March 2013, overall automobile exports registered de-growth of (-) 1.34 percent compared to the same period last year. Passenger Vehicles grew by 9.02 percent, while the other segments like Commercial Vehicles, Three Wheelers and Two Wheelers fell by (-)13.35 percent, (-) 16.22 percent and (-) 0.72 percent respectively. In March 2013, Passenger Vehicles, Two & Three Wheelers grew by 3.07 percent, 3.51 percent and 7.50 percent respectively. While Commercial Vehicles declined by (-) 28.33 percent.

**Table – 2 Automobile Export Trends (Number of Vehicles)**

Category	2010-11	2011-12	2012-13	2013-14
<b>Passenger Vehicles</b>	4,44,326	5,08,783	5,59,414	5,93,507
<b>Commercial Vehicles</b>	74,043	92,258	80,027	77,056
<b>Three Wheelers</b>	2,69,968	3,61,753	3,03,088	3,53,392
<b>Two Wheelers</b>	15,31,619	19,75,111	19,56,378	20,83,938
<b>Grand Total</b>	<b>23,19,956</b>	<b>29,37,905</b>	<b>28,98,907</b>	<b>31,07,893</b>

Source: SIAM

### Automobile Industry Performance in 2014-15

#### Automobile Production Trends 2010-11 TO 2014-15

Table – 3 shows automobile production trends from 2010-11 to 2014-15. 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.

**Table – 3 Automobile Production Trends**

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

Source: SIAM

**Automobile Domestic Sales 2010-11 TO 2014-15**

Table – 4 shows automobile domestic sales from 2010-11 to 2014-15. 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.

**Table – 4 Automobile Domestic Sales Trends**

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

Source: SIAM

**Automobile Exports Trends 2010-11 TO 2014-15**

Table – 5 explains the automobile export trends in 2010-11 to 2014-15. 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.

**Table – 5 Automobile Exports Trends**

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

Source: SIAM

## **Automobile Industry Performance Begins 2015-16**

### **Production Trends**

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.

### **Domestic Sales Trends**

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.

### **Exports Trends**

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.

## **Indian Automobile Industry – Present Scenario**

### **Production**

The industry produced a total of 1,976,270 vehicles including passenger vehicles, commercial vehicles, three wheelers and two wheelers in January 2015 as against 1,937,489 in January 2014, registering a growth of 2.00 percent over the same month last year.

### **Domestic Sales**

Table – 6 shows the automobile domestic sales trends in financial year 2014-15. The sales of Passenger Vehicles grew by 3.62 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 decline of (-) 2.83 percent in April-March 2015 as compared to same period last year. Three Wheelers sales grew by 10.80 percent in April-March 2015 over the same period last year. Two Wheelers sales registered growth of 8.09 percent in April-March 2015 over April-March 2014.

**Table – 6 Domestic Sales in Financial Year 2014-15**

Segment	Apr-Mar'14	Apr-Mar'15	Percentage Change	Forecast for FY 2016 in percentage
<b>Passenger Cars</b>	17,86,826	18,76,017	4.99	6-8
<b>Utility Vehicles</b>	5,25,839	5,53,699	5.30	10-12
<b>Vans</b>	1,90,844	1,71,395	-10.19	0-2
<b>Commercial Vehicles</b>	6,32,851	6,14,961	-2.83	10-13
<b>Two-Wheelers</b>	1,48,06,778	1,60,04,581	8.09	6-7
<b>Three-Wheelers</b>	4,80,085	5,31,927	10.80	10-12
<b>Grand Total</b>	1,84,23,223	1,97,52,58	7.22	8-10

Source: SIAM

### **Exports**

In April-January 2015, overall automobile exports grew by 19.40 percent over the same period last year. Passenger Vehicles, Commercial Vehicles, Three Wheelers and Two Wheelers grew by 6.66 percent, 14.73 percent, 18.98 percent and 23.30 percent respectively during April-January 2015 over the same period last year. The Indian auto industry has entered the new fiscal on an optimistic note after reporting a 7.22 percent increase in overall vehicle sales in 2014-15, ending two years of sales fall, on the back of rising demand for passenger vehicles, two wheelers and medium and heavy commercial vehicles.

### **Government Policy and its Impact**

The industry now expects double-digit growth in sales this fiscal on improving macro-economic sentiments, stable commodity prices, re-start of mining activity and infra projects, and higher industrial activity with an improved investment climate. An array of new product launches and a possible vehicle fleet modernization programme that would go in a long way to solve the environmental issue, too, are expected to generate significant incremental sales. Auto sales have recovered after a two-year gap and the overall yearly performance is likely to improve in FY16. Passenger vehicle sales increased 3.90 percent year-on-year in the fiscal ended March 2015 at 2.6 million units, and SIAM forecasts sales to grow 6 percent to 8 percent this fiscal. Overall auto sales growth last fiscal was largely driven by scooters that reported a 25.06 percent jump in sales even as motorcycles, which largely depend on rural market, turned sluggish with just 2.50 percent increase in sales. In the commercial vehicle segment, sales of medium and heavy commercial vehicles grew 16 percent while those of the light commercial vehicles declined by 11.57 percent. For the current fiscal, the industry expects sales to grow across all segments. "With the new government trying to get in reforms like the GST, and increase focus on infrastructure and mining sectors, automotive is likely to be the direct beneficiary." Automobile industry executives also point to rise in sales in the past few months after the government last year reduced excise duty in the range of 4 percent – 6 percent to stimulate demand. While around 50 new cars and refreshes were launched last fiscal, the industry expects a similar number this year. A number of compact premium vehicles such as crossovers and SUV are expected to attract new customers. As for their key concerns, industry insiders point to high vehicle finance rates, low industrial activity and excise duty

reinstatement to the original levels that is now affecting demand. Ministry of Heavy Industries and Public Enterprises, is the main agency in India for promoting the growth and development of the automotive industry. The department assists the industry in achievement of its expansion plans through policy initiatives, suitable interventions for restructuring of tariffs and trade, promotion of technological collaboration and up-gradation as well as research and development. The department is also concerned with the development of the heavy engineering industry, machine tools industry, heavy electrical industry, industrial machinery, etc.

### **Auto Policy of 2002**

In order to accelerate and sustain advancements in the auto sector, the department has undertaken several policy measures and incentives. The most important being the announcement of the 'Auto Policy' of 2002, which aims to establish a globally competitive automotive industry in India and double its contribution to the economy by 2010. The policy seeks to set out the direction of growth for the sector and promote R&D therein so as to ensure continuous technology up gradation as well as building up of better designing capacities. It emphasizes on low emission fuel auto technologies and availability of appropriate auto fuels in order to take auto manufacturing to a self-sustaining level.

The objectives of the auto policy were to:-

- ✓ Exalt the sector as a lever of industrial growth and employment and to achieve a high degree of value addition in the country
- ✓ Emerge as a global source for auto components
- ✓ Establish an international hub for manufacturing small, affordable passenger cars and a key center for manufacturing tractors and two-wheelers in the world
- ✓ Ensure a balanced transition to open trade at a minimal risk to the Indian economy and local industry
- ✓ Conduce incessant modernization of the industry and facilitate indigenous design, research and development
- ✓ Steer India's software industry into automotive technology
- ✓ Assist development of vehicles propelled by alternate energy sources
- ✓ Development of domestic safety and environmental standards at par with international standards

### **National Automotive Testing and R &D Infrastructure Project (NATRIP)**

It aims to create core global competencies in automotive sector and facilitate its integration with the world economy. It seeks to develop 'state-of-the-art' testing, validation and R& D infrastructure in the country with a view to support the growth and development effort of the automotive industry to reach international levels. NATRIP envisages setting up of world-class and homologation facilities in India with a total investment of Rs. 1,718 crore within the three automotive hubs of the country. The project largely aims at:-

- ❖ Creating critically needed automotive testing and validation infrastructure to enable the Government to usher in global vehicular safety, emission and performance standards
- ❖ Deepening of manufacturing in India by achieving high degree of value

- ❖ addition and enhancing employment potential in the country
- ❖ Facilitating convergence of India's strengths in IT and electronics with automotive engineering
- ❖ Enhancing India's global outreach in this sector by facilitating development and mass production of high technology driven, affordable and globally acceptable automotive products and by de-bottlenecking their exports and
- ❖ Removing the crippling absence of basic product testing, validation and development infrastructure for automotive industry

### **Automotive\_Mission\_Plan\_2006-2016**

For the period of 2006-2016 is a major step taken to make India a global automotive hub. The Mission Plan aims to make India emerge as the destination of choice in the world for design and manufacture of automobiles and auto components, with output reaching a level of US\$ 145 billion (accounting for more than 10% of the GDP) and providing additional employment to 25 million people by 2016. It envisages increase in production of automotive industry to reach Rs. 600000 crore by 2016. The Mission seeks to oversee the development of the automotive industry, that is, the present scenario of the sector, its broad role in the growth of national economy, its linkages with other key facets of the economy as well as its future growth prospects. This is involved in improving the automobiles in the Indian domestic market, providing world-class facilities of automotive testing and certification as well as ensuring a healthy competition among the manufacturers at a level playing field. The future challenges for the Indian auto industry in achieving the targets defined in the Automotive Mission Plan would primarily consist of developing a supply base in terms of technical and human capabilities, achieving economies of scale and lowering manufacturing costs, as well as overcoming infrastructural bottlenecks. It also involves stimulating domestic demand and exploiting export and international business opportunities. In all these, the role of the Government is of facilitating infrastructure creation, promoting the country's capabilities, creating a favourable and predictable business environment, attracting investments and promoting R&D. While, the role of industry is primarily of designing and manufacturing products of world-class quality standards, establishing cost competitiveness, improving productivity of both labour and capital, achieving scale and R & D enhancing capabilities as well as showcasing India's products in potential markets.

All such initiatives indicate that the Indian automotive industry has been emerging as a sunrise sector of the economy. It is not only meeting the growing domestic demands, but also gradually increasing its penetration in the international markets. It has been continuously restructuring itself and absorbing newer technologies in order to align itself to the global developments and realize its potentialities. Endowed with several advantages like low cost and high skill manpower; globally competitive auto-ancillary industry; established testing and R & D centres; production of steel at lowest cost; etc., the industry provide immense investment opportunities. This has instilled confidence in auto manufacturers to face international competition as well as improve quality standards of vehicles with safety norms in the wake of rapidly increasing traffic. Various policy incentives including time bound implementation of Automotive Mission Plan together with establishment of world-class testing, homologation and certification facilities would ensure Indian automotive industry a distinct edge amongst the newly emerging automotive destinations of the world.

### **Review of Automotive Mission Plan 2006 – 2016**

The turnover of automotive industry was more than 45% of the manufacturing GDP



of India during FY14. The importance of this industry to the national economy can be seen by way of the size of its turnover compared to India's GDP and contribution across several other parameters:

7.1% of India's GDP

27% of India's industrial GDP

4.3% of overall exports (second only to textiles & handicrafts)

13% of excise revenues

Incremental employment generation in excess of 19 million since FY06

Total investment in excess of US\$ 35 bn of which US\$ 24 bn is contributed by automobile companies while US\$ 11 bn is contributed by automotive component companies

8% of the country's R&D expenditure

Improvement in fuel efficiency of passenger vehicles resulting in fuel savings of 8.6 bn litres between FY06 and FY14

The Indian automotive industry has witnessed significant growth during the first half of Automotive Mission Plan 2006-2016 (AMP 2016) i.e. FY06 to FY11. During this period, all vehicle segments registered a Compound Annual Growth Rate (CAGR) in excess of 10%. However, from FY11 the slowdown in global economy coupled with weakness in the fundamental growth drivers has resulted in decline in growth across vehicle segments except for two wheelers, which posted a CAGR of 4.6%. This has resulted in gaps between actual performances of the industry vis-à-vis targets envisaged under AMP 2016.

### **Conclusion**

Indian Commercial Vehicle Industry has been balanced for major growth phase and despite challenges, the industry is catching up fast with global trends and standards - both on technology and quality processes. Indian Auto Industry is likely to retain low cost advantage for a sizeable period. Attractive collaboration opportunities between Indian CV industry / Auto component manufacturing with global OEMs and the Supply Chain majors are important. Therefore, there is a great opportunity to associate and use India's competitive advantages for sourcing and setting up collaborative operations, which is a Win-Win opportunity – both for Indian Commercial vehicle industry and the global counterparts.

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