

# Growth of Indian Automobile Industry

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## Abstract:

**A**utomotive sector is regarded as an important driver and indicator of economic growth. In recent years automobile sector has rapidly increasing its market share. The business strategies adopted by automobile manufacturer has focused on small cars and fuel efficient cars with low market price to target maximum market. This article will identify growth factor and significant factors that have led to the growth of automobile industry. It will help to identify the contribution of other states that have led to the growth of automobile industry globally.

**Keywords-** automobile Industry growth market size, factors.

## I. INTRODUCTION

The automotive industry is considered a driver for the growth of Indian economy and is important contributor to the global economy.[1] The Indian auto industry being of the most vibrant and accounts for 22 per cent of the Country's GDP. As per the reports of 2014-15, 31 per cent of small cars that are sold globally are being manufactured in India. 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 being one of the major auto exporter has an expectations of growth rate for the near future. According to the statistics of April – January 2016, growth of 18.36 percent has been experienced over April – January 2015. Various initiatives are being taken by the Government and dominant players to make India a leader in the segment of Two wheeler and Four Wheeler market by 2020.

## II. INDIAN AUTOMOBILE INDUSTRY OVERVIEW

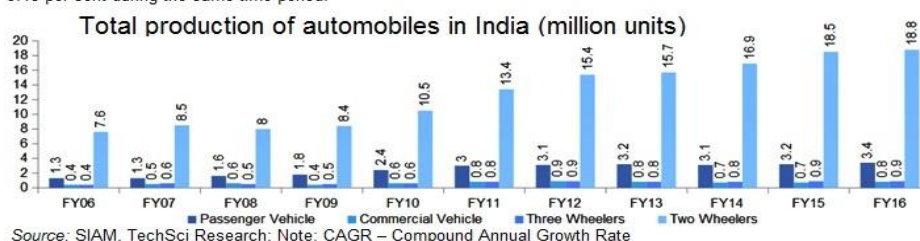
The automobile industry plays a significant role as it has employed 9 million people and includes approximately 5% of world's total employment in manufacturing unit. Production of world's automobile industry has spread across three major regions that includes North America, Europe and Asia. World's automobile Industry has undergone major restructuring and India has become a leading player along with nations like China, south Korea, beside the giant Japan. Post Independence, India espoused a central economic system, a partial liberalization was implemented in 1980. The central government formed a venture with Maruti Udyog in 1981. The cars produced by Maruti was affordable for Indians, small in size and suitable for Indian roads.[2] The passenger car market in India is dominated by Suzuki, Hyundai Motors and Tata Motors where Suzuki has dominated with more than 50% of the passenger car market share and has covered more than 90% of both brand and price competitiveness [3]. Indian automobile industry has its origin in 40's and has considered growing due to economic liberalization including 100% FDI in the sector[4]. The Indian automobile industry is striving for global competitiveness and is clear from the fact that the manufacturers are the second-largest after Japan for the quality for Deming[5]. Indian economy has provided to its citizens the best fuel rates as well as affordable cost of ownership[6]. Thus, buyer decision process are the decision making which is taken by consumers in response to a potential market before, during and after the purchase of a product or service[7].

### Current Trend of Indian Automobile Industry

India's automobile market is flooded with opportunities and has wide scope of development. Indian automotive industry has its roots in the 40's and has seen substantial rise due to economic liberalization including 100% FDI in the sector[4]. The industry contributes 7%.

Table 1 : Total Production of Automobiles In India

Production of automobiles increased at a CAGR of 9.4 per cent over FY06-16. During FY06-16, passenger vehicle segment witnessed the fastest growth, at a CAGR of 10.09 per cent, followed by two wheeler segment, which grew at a CAGR of 9.48 per cent during the same time period.



Source: SIAM, TechSci Research; Note: CAGR – Compound Annual Growth Rate

[Source: <http://www.ibef.org/industry/india-automobiles.aspx>]

### **Performance of Auto Industry during 2015-16**

The industry produced a total 23,960,940 vehicles including passenger vehicles, commercial vehicles, three wheelers, two wheelers and quadricycle in April-March 2016 as against 23,358,047 in April-March 2015, registering a marginal growth of 2.58 percent over the same period last year.

The sales of Passenger Vehicles grew by 7.24 percent in April-March 2016 over the same period last year. Within the Passenger Vehicles, Passenger Cars, Utility Vehicles and Vans grew by 7.87 percent, 6.25 percent and 3.58 percent respectively during April-March 2016 over the same period last year. The overall Commercial Vehicles segment registered a growth of 11.51 percent in April-March 2016 as compared to the same period last year.

Medium & Heavy Commercial Vehicles (M&HCVs) registered a growth at 29.91 percent and Light Commercial Vehicles grew marginally by 0.30 percent during April-March 2016 over the same period last year.

Three Wheelers sales grew by 1.03 percent in April-March 2016 over the same period last year. Passenger Carrier sales grew by 2.11 per cent & Goods Carrier sales declined by (-) 3.62 percent respectively in April-March 2016 over April-March 2015.

Two Wheelers sales registered a growth at 3.01 percent during April-March 2016 over April-March 2015. Within the Two Wheelers segment, Scooters grew by 11.79 percent while Motorcycles and Mopeds dropped by (-) 0.24 percent and (-) 3.32 percent respectively in April-March 2016 over April-March 2015.

In April-March 2016, overall automobile exports grew by 1.91 percent. Passenger Vehicles, Commercial Vehicles, Three Wheelers and Two Wheelers registered a growth of 5.24 percent, 16.97 percent (-) 0.78 percent and 0.97 percent respectively in April-March 2016 over April-March 2015.[8]

### **Major Developments of the Indian automobile Industry in India are as follows:**

1. The UK-based automotive company, Jaguar Land Rover is planning to manufacture Land Rover SUV at its plant in Pune, for the local market and to export.
2. Fiat, an Italian Manufacturer has announced to start local production at its plant in Pune.
3. The Italy-based motorcycle manufacturer, MV Agusta has entered India through partnership with Pune-based Kinetic group to launch three luxury bikes and will be sold through 'Motoroyale' chain in Pune.
4. Sweden-based electric vehicle maker Clean Motion has planned to invest US\$ 10 million in India to expand its operations including setting up of an assembly unit for its Zbee three-wheelers in the country.
5. The Japan-based utility vehicle manufacturer, Isuzu Motors, has inaugurated its greenfield manufacturing unit in Sri City, Andhra Pradesh, at a cost of ₹ 3,000 crore (US\$ 450.94 million).
6. Two-wheeler manufacturer Honda Motorcycle and Scooter India (HMSI) has opened its fourth and world's largest scooter plant in Gujarat, and is initially planning to produce 600,000 scooters per annum to be scaled up to 1.2 million scooters per annum by mid-2016.
7. American car maker Ford has unveiled its iconic Ford Mustang in India and will make its debut in second quarter of FY2016 within the price band of ₹ 45 lakh (US\$ 66,146) and ₹ 50 lakh (US\$ 73,496) in the Indian market.
8. Nissan Motor Co. Ltd is in discussion with Government of India to bring electric and hybrid technologies to India as the government plans to reduce air pollution caused by vehicles.
9. Global auto major Ford plans to manufacture in India two families of engines by 2017, a 2.2 litre diesel engine codenamed Panther, and a 1.2 litre petrol engine codenamed Dragon, which are expected to power 270,000 Ford vehicles globally.
10. The world's largest air bag suppliers Autoliv Inc, Takata Corp, TRW Automotive Inc and Toyoda Gosei Co are setting up plants and increasing capacity in India.
11. General Motors plans to invest US\$ 1 billion in India by 2020, mainly to increase the capacity at the Talegaon plant in Maharashtra from 130,000 units a year to 220,000 by 2025.
12. US-based car maker Chrysler has planned to invest ₹ 3,500 crore (US\$ 513.5 million) in Maharashtra, to manufacture Jeep Grand Cherokee model.
13. Mercedes Benz has decided to manufacture the GLA entry SUV in India. The company has doubled its India assembly capacity to 20,000 units per annum.
14. Germany-based luxury car maker Bayerische Motoren Werke AG's (BMW) local unit has announced to procure components from seven India-based auto parts makers.
15. Mahindra Two Wheelers Limited (MTWL) acquired 51 per cent shares in France-based Peugeot Motorcycles (PMTC)

### **Government Initiatives**

The Government of India encourages foreign investment in the automobile sector and allows 100 per cent FDI under the automatic route.

Some of the major initiatives taken by the Government of India are:

- Mr Nitin Gadkari, Minister of Road Transport, Highways & Shipping has announced plans to set up a separate independent Department for Transport, comprising of experts from the automobile sector to resolve issues such as those related to fuel technology, motor body specifications and fuel emissions, apart from exports.
- Government of India aims to make automobiles manufacturing the main driver of 'Make in India' initiative, as it expects passenger vehicles market to triple to 9.4 million units by 2026, as highlighted in the Auto Mission Plan (AMP) 2016-26.

- In the Union budget of 2015-16, the Government has announced to provide credit of Rs 850,000 crore (US\$ 124.71 billion) to farmers, which is expected to boost the tractors segment sales.
- The Government plans to promote eco-friendly cars in the country i.e. CNG based vehicle, hybrid vehicle, and electric vehicle and also made mandatory of 5 per cent ethanol blending in petrol.
- The government has formulated a Scheme for Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India, under the National Electric Mobility Mission 2020 to encourage the progressive induction of reliable, affordable and efficient electric and hybrid vehicles in the country.
- The Automobile Mission Plan (AMP) for the period 2006–2016, designed by the government is aimed at accelerating and sustaining growth in this sector. Also, the well-established Regulatory Framework under the Ministry of Shipping, Road Transport and Highways, plays a part in providing a boost to this sector[9].

### **Future Trends in the Automobile Industry**

In the auto Show of February 2016, the industry promised a blend of technology and automotives. With the recession trend breaking its leashes from the past two years, 2016 expected to get back on track with the sales of automobiles in the country.

- Almost Self-governing cars are predicted to be on the streets by 2020
- More than half the cars on the streets are going to be powered by diesel by 2020
- Industry watcher Gartner indicates that 30 percent of motorists want parking info. The facility is likely to come up after glitches in the infrastructure catch up.
- High Performance Hybrid cars are likely to gain greater popularity among consumers.

The Indian automobile industry has a prominent future in India. Apart from meeting the advancing domestic demands, it is penetrating the international market too. Favoured with various benefits such as globally competitive auto-ancillary industry; production of steel at lowest cost; inexpensive and high skill manpower; entrenched testing and R & D centres etc., the industry provide immense investment and employment opportunities

### **Demonetisation effect on Auto Industry**

According to the reports of manufacturers, dealers and bankers ,demonetisation has badly affected the the market with demand weakening in Gujarat , Punjab , the National Capital Region.

- Used cars sale is also expected to plummet by 50% leading to the loss of revenue of Rs.3,900 crore.
- Footfall at Showroom of Hero MotoCorp has dropped by 15% in the first two days of demonetisation drive
- The largereffect is seen in the unorganised used car market, which is driven mostly by cashbased deals[10].

### **Factors determining the growth of the industry**

- Fuel economy and demand for greater fuel efficiency is a major factor that affects consumer purchase decision that will bring leading companies across two-wheeler and four-wheeler segment to focus on delivering performance-oriented products.
- Sturdy legal and banking infrastructure
- Increased affordability, heightened demand in the small car segment and the surging income of the Indian population
- India is the third largest investor base in the world
- The Government technology modernization fund is concentrating on establishing India as an auto-manufacturing hub.
- Availability of inexpensive skilled workers
- Industry is perusing to elevate sales by knocking on doors of women, youth, rural and luxury segments
- Market segmentation and product innovation[11].

### **Indian Automobile Industry – Challenges Ahead**

**Research And Development-** In India research and development program is low as compared to other parts of the world.

**Fluctuations in fuel prices-** Fluctuation in prices of the fuel affect the demand for the vehicle. The price of fuel affect the driving habits of consumers and the type of the car they buy. Change in the price of petrol have changed the preference of people to switch to more efficient cars.

**Poor Infrastructure** - Poor roads infrastructure is the biggest issue by far in the Indian automotive industry. Traffic laws are not well enforced and followed leading to one of the highest per capita accident rates in the world.

**Innovation** – The competitiveness of any sector depends on the capacity to innovate and upgrade. It is also significant to understand that labour cost, duties, interest and economies of scale are regarded as the determinant of competitiveness. It also involves core products and technology innovation apart from productive human resource. The automakers will have to look for the policies of the state that encourages innovation.

**Stiff Competition** - There exists a tough competition among the automobile players and all desire to capture a big share of the market. The margins of the manufacturers are squeezed out and which in turn they cut cost to be profitable and competitive.

**Taxes, Duties and Tariffs** – In India the tax laws are supposed to be one of the most complex due to plethora of associated process. High tariff restrict the flow of trade but attracts investment if domestic market has scope of growth.

### III. CONCLUSION

The automobile industry has an enormous growth and has created huge interest among the analyst, policy makers and researchers. The factors that has led to the growth of automobile industry is its favourable government policy and the role played by supporting industries. Thus, it can be positioned as one of the world's most attractive automotive markets for both manufacturers and consumers and its benefits which provides support to economy, employment, stability for families employed by the automotive industry.

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