Towards Sustainable Growth in India:
Connecting the Missing Dots *https://www.kdpublications.in*
ISBN: 978-81-19149-33-9

7. The Indian Automobile Industry Slowdown and its Impact on Sustainable Growth in India

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Abstract:

The automobile industry in India contributes more than 7 per cent to India's GDP and almost half of the country's manufacturing GDP. It is also a massive employer and supports almost 37 million direct and indirect jobs. A slowdown in such a sector needs to be carefully examined and the causes and impacts judiciously isolated in order to find appropriate solutions. The present article attempts to identify the potential causes and gauge the probable impacts so that appropriate policy measures can be taken to correct the distortions. This will ensure a more sustainable growth in this sector and hence for the economy.

Keywords:

automobile, slowdown, credit, investment, policy, job creation, sustainable growth.

Introduction:

The automobile industry in India has been hit by several setbacks all at once. Starting from financial crisis like Infrastructure Leasing & Financial Services Limited (IL&FS) that have induced severe liquidity crunch in the economy, an uncertainty on account of general elections foreseeing policy changes, rising ownership costs, the slow-down in the economy and the recent severe floods in keyvehicle buying states, the industry has been facing a tough time. On top of this all, came the Bharat Stage VI emission norms and the policy push for electric vehicles which didn't help the situation to get any better. Growth has been slowing since September 2018 and the situation has worsened. Sales as well as dispatches have declined across all vehicle categories, that is, passenger cars, Sport utility vehicles (SUVs), scooters, motorcycles, vans, pickup trucks, large tractor trailers and buses. The sector has been racked by huge job cuts resulting in contract workers finding themselves jobless in huge numbers.

Experts have predicted that if the slowdown continues, even permanent workers may find their jobs in jeopardy. Not only that, according to the Society of Indian Automobile Manufacturers (SIAM) the automobile industry accounts for 14 per cent of the total goods and services tax (GST) collections in India, which means that a slowdown in the sector will stretch the already overstretched budget thin.

The current research attempts to gain a deep understanding of the sector in order to identify the potential causes and gauge the probable impacts of such a slowdown so that appropriate policy measures can be taken to correct the distortions. This will ensure a more sustainable growth for this sector and hence for the economy.

The paper is divided into 4 sections. Section 1 covers the introduction and literature review, section 2 covers the extent and impactof the slow down, section 3 talks about government initiatives to fight the slow down and section 4 concludes.

Literature Review:

Thind *et. al.* (2020) confirms that a slowdown in the automobile industry in India will impact many other interlinked industries like plastic, iron & steel, rubber, tyre and battery production. They also confirm that the performance and growth of the automobile sector is related to the global and national economic performance. That is, a recession in the nation or the globe can affect the growth of the industry. they suggest several causes for the slowdown in the industry such as shift from BS-IV toBS-VI, availability of substitutes such as hired rides, a slowdown in the country's growth, an increased vehicle-life, rise in prices, increased buying costs and increased road taxes. Mohata (2023) in his article states that the growth in the automobile sector of a nation is directly related to its macroeconomic growth and technological advancements. He also opines that overall economic slowdown; liquidity issues and weak consumer demand are some of the major factors contributing to the slowdown of the automobile sector.

The paper suggested changes in government policy as a counteractive measure to promote growth in the sector. Mandal (2020) in his blog titled "India Automotive Industry: Struggling in 2020?" exerts those automobiles sales declined sharply in 2019 due to multiple factors like political uncertainity, economic issues, stringent environmental and safety regulations and changes in consumer behavior. Tripathi (2019) identifies similar reasons for the Indian automobile industry slowdown and adds that Indiahas immense scope for growth in the automobile sector and hence it is the responsibility of the government to act promptly and address the challenges so that the industry can be put on the path to growth as soon as possible. The report by TheStanding Committee on Industry (Chair: Dr. K. Keshava Rao, 2020) on 'Downturn in Automobile Sector – its impact and measures for revival' noted that the slowdown in the automobile industry had a spillover effect on the Indian economy, causing a slowdown in many other interlinked sectors. The committee also recommended that the government should declare a stimulus package for generating demand in the industry instead of just concentrating on the supply side.

The Volume of the Down Turn:

The slowdown in vehicle sales in the Indian automobile industry was spread across categories and across companies. All players, whether big or small seem to have been affected by the slowdown in sales.

Industry leaders like Maruti Suzuki Tata Motors and Hero MotoCorp have all reported major fall in sales growth in 2019 as compared to 2018. Maruti Suzuki reported a fall in sales by 34.53 per cent whereas Tata Motors and Hero MotoCorp have reported a decline of 45 per cent and 20 per cent in sales respectively between August 2018 and **A**ugust 2019[10].

Maruti Suzuki sold less than one lakh units in the month of August 2019, which is its lowest in over two years whereas Honda cars India and Tata Motors passenger vehicledivision, reported decline of 51 per cent and 58 per cent, their lowest in the last 10 years[10].

The following table gives an account of the severe crisis that hit the industry.

Table 5.1: Monthly Sales of New Vehicles in India in 2019

Type	January	February	March	April	May	June	July	August	September
Passenger Vehicles	2,80,125	2,72,284	2,91,806	2,47,541	2,39,347	2,25,732	2,00,790	1,96,524	2,23,317
Commercial Vehicles	87,591	87,436	1,09,030	68,680	68,847	70,771	56,866	51,897	58,419
GrandTotal	3,67,716	3,59,720	4,00,836	3,16,221	3,08,194	2,96,503	2,57,656	2,48,421	2,81,736

Source: Compiled by author based on data from Marklines Flash Report

The table clearly shows that sales have almost continuously fallen between Januaryand September of 2019, the extent of fall being almost 31 per cent in just 9 months. It is also apparent that the commercial vehicle segment suffered more than the passenger vehicle segment.

The decline in the commercial vehicle segment was almost 50 per cent whereas the passenger vehicle segment fell by 25 per cent over the same time period.

The figures below give a month-wise comparison of sales of new vehicles in India between 2018 and 2019.

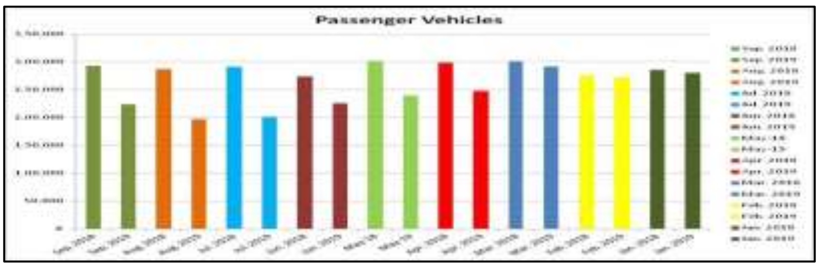

Figure 5.1: Monthly Comparison of Sales of New Passenger Vehicles in Indiafrom January to September 2018 and 2019

Source: Created by author on the basis of data from Marklines Flash Report

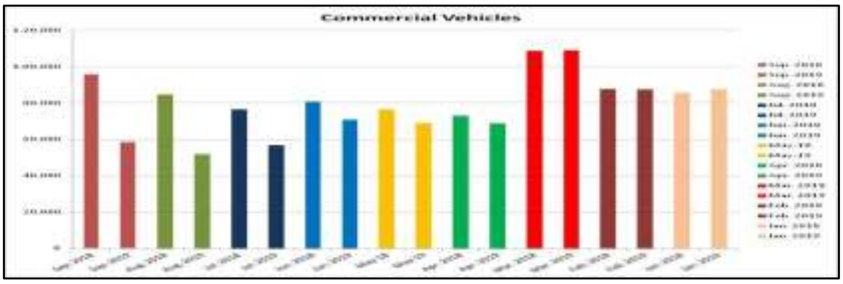

Figure 5.2: Monthly Comparison of Sales of New Commercial Vehicles in Indiafrom January to September 2018 and 2019

Source: Created by author on the basis of data from Marklines Flash Report

It is apparent from the above figures that the slowdown has worsened across both segments since April 2019 and is still continuing the downward spiral.

Potential Causes of the Downturn:

Globally, the automobile industry is doing well and that points towards the fact thatthe Indian automobile industry’s current problems could be traced back to trouble rooting within the nation. A few such factors can be identified as follows;

Low Availability of Credit:

The growth in the automobile industry is dependent on several factors. One of the major factors in the recent years has been the easy availability of credit. A lot of consumers as well as small businesses buy their vehicles on loans that are made available through banks in some cases but mostly through the non-banking financial companies that have tie-ups with the vehicle selling units. According to a report by Economic Times, bank loans to finance vehicle purchases in India has slipped to 4.9% year-on-year at the end of July, less than half of the growthrecorded in the year-ago period[9].

The other important user of bank credit is the automobile dealers and several banks including some of the largest ones have large outstanding loans to automobile dealers. Recently, Indian banks, already burdened with burgeoning non-performing asset numbers, have become overly cautious in giving credit and the slowdown in the industry have pushed the decision against theautomobile dealers.

According to another report by Economic Times[6], in August 2019, the State Bank of India had issued a circular to its branches, advising them to tighten collateral norms while lending to auto dealers. Non-state lenders Axis Bank and Kotak Mahindra Bank have also become cautious and averted to new unnecessary exposures and have slowed down on financing auto dealers.

In case of the non-banking financial institutions' role as dealer financers, the IL&FS and group entity defaults on repayment of dues have reduced their ability to create liquidity[8]. As about 60 per cent of commercial vehicle sales, 70 per cent of two- wheeler sales and 30 per cent of car sales are financed by NBFCs[8], the result is an already slowing sector suffering from a further liquidity crunch.

Lower Income and Investment Growth:

Growth in income spurs consumption spending and hence is a driver of automobile industry growth. However, according to the annual report of the RBI for the fiscal year 2018-19, the Indian economy seems to be in a regressive mode. The GDP growth rate of the economy has slithered down to 5 per cent in the first quarter of the fiscal year 2019-20, the lowest in over six years. The growth of the Indian economy had been consumption led growth inclusive of both Private Final Consumption Expenditure as well as the Government Final ConsumptionExpenditure. Over the last five years, the total consumption expenditure by Indian households had accelerated with an average growth rate of 7.8 per cent comparedto an average of 6.1 per cent in 2011-14[4].

State Bank of India's group chiefeconomic advisor Soumya Kanti Ghosh said in a report that consumption slowdown is more entrenched and has dipped by Rs 1.5 lakh crore in the first quarter of 2019 as compared with the preceding March quarter[9].

The Private Final Consumption Expenditure has suffered a sharp fall to 3.1 per cent in the June quarter as compared to 7.2 per cent in the March[4]. As a result of a slump in consumption spending both output and employment has fallen leading to deflated prices and even more unemployment as firms grapple with rising costs. The combined effects of the above have severely reduced income levels and are pushingthe economy towards a vicious cycle.

Further, income levels define the levels of saving and investment and the economic slowdown in India has impacted both private and government investment and led to reduction in gross fixed capital formation through reduced investment in research and development and technology, both of which are critical to the growth of the automobile industry in India.

New Registration, Insurance and Other Policy Norms:

Another factor dampening automobile industry growth is the new registration and insurance norms initiated by the government. Since september1, 2019, third party cover has been made mandatory for all vehicles plying on public roads, which has promptly increased the insurance cost for vehicles. As a result, the on-road price at the time of purchasing a vehicle has also shot up leading to a dampening of demand. At the same time, stricter safety norms also increased price of vehicles.

From April 1 2019, anti-lock braking systems/combined braking system (ABS/CBS) was made compulsory for cars and two-wheelers, new-vehicle registration fee was also proposed to be hiked steeply, from ₹50 to ₹1,000 for two- wheelers and from ₹600 to ₹5,000 for cars[8], leading to further loss of potential buyers. Further, the BS IV vehicles, which are cheaper than BS VI vehicles, will not be allowed to be sold post March 31, 2020, which is bound to create inventory problems for manufacturers. Prior to all these, in July 2018, the government increased the axle load limit for all trucks.

This effectively gave existing operational trucks the permission to carry higher loads, increasing the freight carrying capacity of all trucks by almost 25 per cent[8] and in the process dampening the demand for trucks in relation to business expansion.

Untimely Push for Electric Vehicles:

According to the Indian Automobile Industry Report by IBEF[3], the Ministry of Heavy Industries, Government of India has shortlisted 11 cities in the country for introduction of electric vehicles as a part of their public transport systems under the FAME (Faster Adoption and Manufacturing of (Hybrid) and Electric Vehicles in India) scheme. The government will also set up incubation centre for start-ups working in electric vehicles space. However, this policy is ill timed as the nation doesn't seem to be ready for it yet.

Electric vehicles have high operating expenses and long wait times at charging stations. An example is the failure of Ola's ambitious Electric Vehicle project in Nagpur just after nine months of its launch. Although introduced in 2015, with incentives as high as INR 140,000 on some cars, FAME has received only lukewarm response. Also, India still lacks thenecessary technology to support Electric Vehicle manufacturing and is yet to achieve efficiency in manufacturing critical components such as high-density batteries. The infrastructure and ecosystem necessary to build a robust supply of charging stations is another challenge for in this regard.

Immediate and Future Impact of the Downturn:

Impact on Other Sectors:

The automobile industry contributes more than 45 per cent of the countries manufacturing GDP and 7.1 per cent of India's overall GDP[3]. It also contributed to 4.3% of overall exports, 13% of excise revenues and provides incremental employment in excess of 19 million[3]. Hence a slowdown in this industry could have far stretching impacts on the economy.

Additionally, the industry has backward linkages with Mining, Steel, Primary and Fabricated Metals, Fuel, Plastic, Rubber and Glass and Electronics and forward linkages with Finance and insurance, after market services, Car hires and Rentals, Fuel supply, used car market, Advertising, Transportation and Warehousing. Thus, a slowdown in this industry will impact the performance of many other sectors too!

Slow Job Creation:

Automobile manufacturers in India have countered the slowdown in sales by slowing down production and selling off accumulated inventory. Estimates of the Federation of Automobile Dealers Associations (FADA) in February 2019, show inventory levels touched a peak 50-60 days for passenger vehicles, 80-90 days for two-wheelers and 45-50 days for commercial vehicles whereas the ideal level isthat of 21 days[8]. As a result, the first to be impacted is the huge number of temporary workers who have promptly lost their jobs. According to reports, industry leaders such as Mahindra & Mahindra, Maruti Suzuki, Tata Motors, Ashok Leyland, Toyota and Hero MotoCorp have all implemented intermittent plant closures for a few days in recent months[8].

Component manufacturers such as Bosch, Wabco and Jamna Auto have also followed suit[8], thus increasing the loss of jobs multifold. According to another report by News18[2], since April 2019, there have been over 3.5 lakh layoffs across the industry.

Government Initiatives:

The threat of extended impact of the automobile industry slowdown has prompted the government to initiate various measures in an attempt to boost demand and get the industry back on its growth track. The ban on purchase of new vehicles by government departments has been lifted. An additional 15 per cent depreciation has been allowed on vehicles acquired between August 2019 and March 2020.

A higher depreciation rate will bring down the resale value faster, prompting customers to replace the vehicle sooner. It will also bring down insurance premium from the second year onwards, apart from allowing businesses to claim higher business expenses, leading to more tax benefits. Additionally, BS-IV vehiclespurchased up to March 2020 will now be allowed to commute for the entire period of registration. For the time being the government is also going easy on the pushfor electric vehicles and is currently focusing on setting up of infrastructure for development of ancillaries/components, including batteries for exports.

The revision of one-time registration fees has also been deferred till June 2020. To boost the financial health of automobile dealers, the government has announced therelease of the pending GST refund within 30 days. To infuse liquidity into the liquidity starved industry, the finance minister has announced that the repo rate will be directly linked to retail, housing, and vehicle loans. So, any reduction in repo rate will now be directly passed on to the lender. This will make working capital cheaper and boost production and hence employment. The low repo ratewill also lead to cheaper credit for consumers. Additionally, the Public Sector Banks (PSBs) are being recapitalised to the extent of Rs 70,000 crore which will boost credit creation.

Conclusion:

Prior to this slowdown, the Indian automobile industry was growing by leaps and bounds and is expected to emerge as the world's third-largest passenger-vehicle market by 2021[1]. Contributing more than 7 per cent of the country's GDP and almost half of its manufacturing GDP, the sector's growth is crucial in fulfilling theIndian dream of becoming a 5 trillion economy by 2025. With its automotive mission plan in full swing and contributing towards innovation and technology integration in the industry, a careful and strategic management of the macro-economic factors with vigilant policy making will help the industry to reach the desired level of success. As the industry is a major contributor to the nation's GDPand employment, this success will instigate sustainable growth for India.

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