Editorial

Speed Bumps @ Automobile Industry in India

In India, the automobile industry with the contribution of 7.5 percent contribution to the country's GDP was the fastest growing industry till 2018. The industry provided direct and indirect jobs to around 8 million people and stood at 49 percent contribution in the manufacturing sector. With the lowest sale of vehicles in the last 19 years, the domestic demand has considerable dropped in 2019. There was nearly 8 percent dip in overall vehicle production in May 2019 against last year with a 26 percent fall in car sales. According to Society of Indian Automobile Manufacturer (SIAM), the combined sales of all automobiles slipped to 1.9 million units in June against 2.2 million units a year ago. There was a growth of 14 percent in the sales of four wheelers in 2017-18 which is now down to 5% while the decline has been from 15 percent to 5 percent for two wheelers over the same period. A crash in the automobile sales due to its cascading impact, also affects sectors like steel tyres, steering etc.

The high value car manufacturing companies like Honda, Maruti Suzuki, Hyundai, Mahindra and Mahindra as well as two wheelers companies like Royal Enfield and TVS all have suffered marked drop in their sales. Mahindra and Mahindra has reported a downfall of 15 percent in total monthly sales of July where as the domestic sales of Honda cars in India registered fall of about 49 percent in the same month. Maruti Suzuki, the country's largest car manufacturing company has registered a downfall of 33.5 percent in total sales in July 2019 and the Hyundai Motor India registered a downfall of 3.8 percent dip in the collective sales during the same month. The collective impact of these factors is resulting in job losses specially the casual and contract jobs. According to an estimate about 3,50,000 workers have lost their jobs in the last 3 months and around 286 dealership outlets are shut down in past 18 months. ACMA predicts that around 10 lakh jobs would be further lost if this slow down gets prolonged.

The Bumpy Road

The whole range of short term and long term factors from policy matter to weaker demand and industry specific challenges have lead to dip in sales. Short term factors like Kerala floods, policy changes in the insurance cover by the Insurance Regulatory Development Authority and liquidity crunch in the non Banking Financial Companies had made things quite difficult for the automobile sector. Spread of third party insurance cover over 5 years in place of one year has increased the two wheeler insurance cost by 14 percent. The Non Banking Financial Company's crisis also influences the decline in sales. About 60 percent of the commercial vehicles and 70 percent of the two wheelers are purchased on credit through NBFCs. The safety, emission and insurance compliance cost are estimated to result in 13-30 percent hike in vehicle cost. The upgradation to Bharat Standard BS-VI from BS IV, applicable from April 2020 would require technical rebuild, especially in diesel vehicles. With projected rise in diesel car prices estimated price gap between petrol cars and diesel cars is expected to rise by maximum 2.5 lakh with largest price differential of nearly 50 percent will be seen in small car category.

Around 2012-13 diesel cars dominated the automobile industry by constituting nearly 60 percent of total sales. However this sales figure tickled down to 28 percent, majorly owning to declining differential prices in petrol and diesel from 40 liters in 2012-2013 to almost 9 rupees in 2019.

The Indian automobile sector is characterized by two complimentary market i.e. rural and urban market. Presently both the markets are going through rough phases. Indian urban market is facing the problem of difficult job market where as the rural India is suffering from lack of purchasing power due to farm distress. Consecutively for 5 months, the food inflation has registered a negative rate before turning positive in March 2019, leading to a decline in consumption in the rural economy which could be seen in decrease in demand for products from the automobile sector.

Another reason for price hike in automobile market is the GST slab and the Automotive Component Manufacturers Association of India (ACMA) is expecting to have a uniform 18 percent GST rate across the entire auto and auto components sector for its growth. Re-consideration at the registration fees and taking back of increase in road tax levied by state government is another relief expected by the industry.

While the Indian automobile sector is experiencing declining sales, the used car market looks very promising. According to OLX the size of the pre owned automobile industry is 1.3 times the size of new car market and by 2023 this market is expected to touch $ 25 billion which is at present about $ 14 billion. This inclination of customers to buy used cars are severely impacting the desire to purchase new vehicles specially in case of sharp price rise. Further, the change in the mindset of millennials towards purchasing a new vehicle in contrast to using easily accessible cab services like Uber or Ola, especially in tier 1 cities is also retarding the demand for personal vehicles in India.

Further the push of the government towards electric vehicles is also playing an crucial role in reducing the demand for petrol and diesel vehicles. The intentions of government to implement strict policy towards the use of internal combustion engine vehicles is inducing probable car buyers to check the feasibility of purchasing an electric vehicle. Government announcement of compulsory upgradation of three wheelers by 2023 and two wheelers by 2025 to battery powered vehicles is leading to high apprehension in the minds of vehicle manufacturers.

The Revival Measures

Measures such as clarity on scrappage policy, deferment of proposed increase in registration fee, assurance about the validity for the entire period of registration on all the BS IV vehicles purchased till March 2020 and providing accelerated depreciation of 15% for vehicles purchased till March 2020 are expected to have a positive impact on the market. Measures like cutting repo rate to 5.4 percent to ensure cheaper credit to consumers and announcement of partial credit guarantee of rupees 1 lakh crore to Public Sector Banks (PSB) for purchasing the high rated pooled assets of financially sound Non Banking Financial Companies is also a welcoming step towards the revival of the most important sector of the Indian economy.

(Prof Mahima Birla)

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