Chapter - III

GROWTH AND DEVELOPMENT OF INDIAN CAR INDUSTRY
AN OVERVIEW
3.1 INTRODUCTION

Automobiles originated in Europe in the latter half of the nineteenth century. The first car was driven on the British soil in 1894. The car had been imported from a French car company called P& L (Panhard and Lavassor), which was a leading car company. P&L had commenced production in early 1890s, after licensing gasoline engine technology from Gottlieb Daimler.

The automobile era in India begins in 1898 when the Bombay Cycle and Motor Agency imported four cars into the country. India imported a large number of vehicles, mainly motor cars, during the world war-I. There seems to have been no attempt made by any Indian entity to either manufacture or assemble automobiles from 1898 to 1928. The Indian automotive industry can be considered to have got off the ground when Ghanshyam Das Birla promoted Hindustan Motors Ltd. (HML) in 1942 at Port Okha in Gujarat as a small assembly plant for passenger cars. The first car was named Hindustan.

Independent India considered automobiles as an industry of importance which would be controlled and regulated by the Government. In 1952, the tariff commission was appointed to find the ways and means of establishing an indigenous automobile industry. In 1953, based on the Tariff Commission's recommendations, the Government terminated the activities of assemblers, that did not have any manufacturing programme. In 1954, manufactures, like General Motors and Ford decided to leave India rather to undertake manufacture. Hence, the year 1954 was considered to be a turning point in the history of Indian auto industry. In 1956, the industry was sealed off from new players which led to no fear of competition. Categories of vehicles were limited to three passenger cars namely Fiat 110 (PAL), Hindustan (HM), and Standard (Standard Motors) and no new entrant was to be allowed even if it had a full-
fledged manufacturing programme. For nearly three decades PAL and HM dominated the passenger car industry.

In 1951, PAL signed a deal with Fiat to make Fiat 500 and then the Mille Cento in 1954. PAL was forced to share the small car market share with SMPIL. The company received a major setback in its truck business after the wars with China and Pakistan. PAL's market share began to increase in the mid 70's when SMPIL stopped car production and there was a shift towards small cars following hikes in fuel prices resulting from the 1973 oil crisis. In 1968, foreign collaborations were permitted with equity participation. The Government appointed the Mudaliar Committee to study the whole issue of foreign collaborations. The stricter approach advised by the committee thereafter discouraged the acquisition of technology through foreign investments. This period is considered to be tough for passenger car makers whose so-called 'elitist' product came under more and more controls. The government imposed control over the price capacity and distribution. The price controls seriously affected car makers, where the government fixed the price. Due to this, the car makers went to the Supreme Court in 1965 by which the car price commission was appointed to work out a formula for the same.

Government policy has traditionally been an important determinant of industry performance in India. From independence till today, the automotive industry has witnessed dramatic changes in the automotive policy of the Government of India. Till 1980's, the Government wanted to develop an indigenous automobile industry, for which it decided to throw out marketers that did not have a local factory and keep local manufacturers "protected" from foreign competition. Car prices too were controlled by the Government. The demand for cars increased from 15,714 in 1960 to 30,989 in 1980 at a compounded growth rate of just 3.5 percent per annum. The passenger car industry, leading up to the broad banding period of the early 80's, was in the 'dark ages' for the consumer whose choice throughout this period was limited
essentially to two models, namely Ambassador and the Padmini. The fuel price of petrol was Rs.5.56/litre and diesel was Rs.2.6/litre.

3.2 PRE-LIBERALISATION TILL – 1991

In the early 1980's, a series of liberal policy changes were rapidly introduced, marking a crucial turning point for the automobile industry. This change of attitude on the part of the government coincided with the State taking a direct interest in the auto business, with a 74 percent stake in Maruti Udyog Ltd (MUL), a joint venture between Suzuki of Japan and the Indian Government. This was a revolutionary departure from the Government's previous policies on the restriction of foreign equity and technology.

The Indian market accommodated no more than 70,000 passenger cars until the early eighties. The licensing of Maruti Udyog Ltd. in 1982, to manufacture a fuel efficient, low priced passenger car had as expansive effect on the Indian market. After Maruti began reduction in 1983, the car quickly became part of the urban landscape and changed India's concepts of quality, family transport, status symbolism, consumerism and foreign technology. To the next five years, the market for cars grow from 15 to 17 percent and sales doubled to 1,78,000 by the end of 1988-1989. Under the Industrial Policy Statement of 1973, the automotive industry was added to the list of "core" industries of national importance. In May 1985, the companies under the purview of the Monopolies and Restrictive Trade Practices (MRTP) Act 1969 were allowed to undertake substantial expansion or set up new units without any approval. In January 1985, the Indian government announced its famous "broad banding" policy which gave new licenses to broad groups of automotive products such as two and four-wheeled vehicles.


The delicensing of the industry in 1993 opened the gates to a flood of international automakers to tap up the remaining market of the world. Attracted by such a vast potential, global joint ventures and Indian automobile enterprises
made their projects and plans for radical reforms and extensive diversification. Daewoo Motors India Limited was the single largest foreign direct investment in the automobile in India and it commenced production in 1995. Daewoo motors introduced Cielo model in the year 1995 to have direct competition with Maruti Esteem. Honda Seil Cars India is a joint venture of Honda Motor Co. Ltd, Japan and Seil Limited, India that was incorporated in December 1995.

The reforms that began in the late seventies underwent their most significant change in 1991 through the liberalization of the economy. The passenger car industry was completely deregulated. In the area of trade, several reforms were introduced with the goal of making Indian experts competitive. The passenger car industry in the nineties was characterized by an increase in the number of brands available in the market which caused brands to compete on the basis of product features.

3.4 POST-LIBERALISATION A ROLLING SUCCESS

Global production has become a common feature as the world economy is moving towards being interdependent. The translational activities in trade, manufacturing and servicing have made the world economic space practically independent of the boundaries imposed by the geo-political setting of the different countries. Multinationals (MNCs) have made entries in a number of developing countries in a large scale. India too has been benefited out of this global integration. In 1998-99, Maruti’s turnover was Rs.81.8 billion with a net profit of Rs.5.2 billion. Its market share stood at 80 percent in early 1998 and was able to retain its monopoly with the entrance of global brands. Hyundai Motor India (South Korea) entered in 1998 to manufacture Santro and the size of this segment was about 2.1 lakh units.

During the post-liberalisation period from 1992, there had been phenomenal growth in the demand for passenger cars. The boom was due to intensity.
Competition, launch of several new products in the market, easy availability of finance and general growth in the Indian industry. The passenger car segment posted a growth of 11.75 percent in the period from 1994-98. However, the general downturn witnessed in 1998, slowed the growth rate in this segment of the automobile sector. The first quarter of 2001 had once again witnessed slackening of demand. Due to tight monetary conditions, there had been a considerable downturn in the demand for passenger cars.

3.5 MILLENNIUM ERA 2002 - 2007

Indian’s economic and motor vehicles growth are correlated. Increase in per capita income leads directly to increase in motorization rates. During the period of 1996-2004, India’s gross domestic product (GDP) had been growing at 5.9 per cent (CAGR). The India’s Purchasing Price Parity (PPP). The fourth largest economy in the world is behind US$, China and Japan. However, with a per capita gross domestic product of $3080 in which year? India is ranked 125th in the world.

The top 10 per cent of the population, who constitute a big chunk of the market for cars, is equal to 80 per cent of the population of Japan and 35 per cent of population of US. However, the expanding middle class has been driving the passenger car market in India. In 2001-02, 28 per cent of the population was in the above Rs.90,000 annual income bracket. A recent National Council of Applied Economic Research (NCAER) survey indicates that 48.4 per cent of the population shall be in this bracket by 2010. This indicates a surplus disposable income in the hands of the households which is likely to be used to purchase durables, transportation vehicles amongst other items of interest. As the national income increases, more and more households come into the boundary of purchase. Also as the rich gets richer, market for up-market cars also opens up. The other major driver of growth is the deeply penetrated auto finance. This is the second largest segment of retail finance in India after housing and is growing at a rate of 29.2 per cent which is greater than that of Indian automobile market. There is an increasing competition in
the organized retail finance industry with entry of non-banking finance companies, housing finance companies and banks.

The turnover of auto component sector had grown from a level of US$ 3.1 billion in 1997-98 to US$ 9.8 billion in 2003-04. Low labor costs, availability of skilled labor and high quality consciousness among Indian vendors had spurred the growth of auto component exports from India. During 2003-2004, the exports of auto components crossed the magic figure of US$ 1 billion after having recorded a healthy growth of 25 per cent. During the year 2004-2005, the exports grew by 40 per cent thereby taking the direct exports of components to a level of US$ 1.4 billion. In the year 2005-06 exports grew by 28 per cent and reached the level of US 1.8 billion. It is pertinent to mention here that this figure was still very low against the volume of world trade of 185 billion US$ in auto components.

More than 60 per cent of the exports of auto-components to USA and Europe, constitute high AQL (Accepted Quality Level) countries. Moreover, over the last 5 years, the structure of the customer base in the global markets has also undergone a major change. In the 1990s more than 80 per cent of the exports were made to the international aftermarket. In 20056, more than 70 per cent of the exports were made to the global OEMs and Tier 1 companies and only 30 per cent was to the aftermarket. This signifies that the Indian component industry has now reached a high degree of maturity in terms of quality and productivity and has also develop capabilities in the area of design and engineering, which are critical requirements for being a part of the global supply chain.

3.6 ENTRY OF THE FOREIGN COMPANIES

The liberalized policies and emerging markets have attracted top companies from USA, Japan and some other European countries who have come to India and set up operations. GM and Ford of USA, Toyota and Honda of Japan, Skoda and Benz of German along with other automakers have entered
into developing countries like India as the US automobile market has been declining due to highly structured competition inspite of their prominent presence there.

In Japan, Suzuki has maintained its leadership position in mini-market car for the last three decades without losing it ever. It holds 31.65 per cent market share in this segment. This fact demonstrates its competitiveness in this segment. The company is present in fourteen countries through its affiliates. MUL, therefore has an advantage through Suzuki, which cannot be ignored. Daihasu, a subsidiary of Toyota is the second largest player in the mini car market in Japan. These two potentially formidable giants are present in the car segment in India. The story of the China is different from that of India. In that Chinese industry is highly fragmented. This has resulted in cut-throat competition. There is a price war in the automotive industry despite passenger cars growing at a healthy 16.6 per cent CAGR over the last seven years.

3.7 KEY DOMESTIC AND FOREIGN PLAYERS

Due to the entrance of many multi-national companies, the markets are shared by many players. All the manufactures are trying to retain their markets by taking aggressive steps and innovative strategies to attract their buyers. The consumer feedbacks are given much importance and the after sales service and financing the consumer are the major promotion tools of the industry
# Table 3.1

## Profile of domestic players

<table>
<thead>
<tr>
<th>S.No</th>
<th>Name of the Company</th>
<th>Parent Company</th>
<th>Output</th>
<th>Models</th>
<th>Plants</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Maruti Udyog Ltd.</td>
<td>Suzuki of Japan holds a 54.2 percent stake in the company</td>
<td>Capacity 500,000 units pa volume 472,122 units including exports in 2004 operating income US $2.4 Billion in 2005</td>
<td>800,Omni Alto,Wagon R, Zen,Baleno,Esteeem Gypsy,Victara,Versa</td>
<td>Gurgoan (Haryana)</td>
</tr>
<tr>
<td>2.</td>
<td>TATA Motors Ltd.</td>
<td>One of the largest in the passenger vehicles segment in India</td>
<td>Capacity 180,000 units Pa Volume 171,870 units in 2004 Operating income US $3.8 Billion in 2005</td>
<td>Sierra,Sumo, Safari,Indica, Indigo</td>
<td>Pune (Maharashtra)</td>
</tr>
<tr>
<td>3.</td>
<td>Hyundai Motors India Ltd</td>
<td>Wholly owned subsidiary of Hyundai Motors Company, S.Korea</td>
<td>Capacity -150,000 Units Pa Volume 171,905 Units Including exports in 2004</td>
<td>Santro,Accent Sanata, Terracan</td>
<td>Irugutukottai (Tamil Nadu)</td>
</tr>
<tr>
<td>4.</td>
<td>Hindustan Motors Ltd</td>
<td>C.K.Birla Group flagship and one of the oldest auto companies in India</td>
<td>Capacity 64,000 units pa volume 15,782 units operating income US $159.7 millions in 2004</td>
<td>Lancer, Ambassadador Contessa,Trekker, Pushpak Pajero</td>
<td>Utpara (West Bengal) Pithampur (Madhya Pradesh Trivelor (Tamil Nadu)</td>
</tr>
<tr>
<td>5.</td>
<td>Fiat Motors</td>
<td>Subsidiary of Fiat Auto Spa, ..........</td>
<td>Capacity 10,000 units pa volume 10,428 units</td>
<td>Uno, Siena, Palio, Palio Adventure</td>
<td>Mumbai (Maharashtra)</td>
</tr>
<tr>
<td>6.</td>
<td>Ford Motors Ltd.</td>
<td>Ford Motor Company, USA. The world’s second largest automaker</td>
<td>Capacity 100,000 units pa volume 45,723 units</td>
<td>Icon,Mondeo</td>
<td>Chengapattu (Tamil Nadu)</td>
</tr>
<tr>
<td>7.</td>
<td>General Motors Ltd.</td>
<td>Collaboration between GM Corporation and C.K Birla Group of Companies, India</td>
<td>Capacity -25,000 units per annum volume -17986 units</td>
<td>Astra, Corsa, Swing,Optra, Forrester, Sail Vectra,Optra, Chevrolet</td>
<td>Halol (Gujarat)</td>
</tr>
<tr>
<td>8.</td>
<td>Honda Siel Cars India (HSCI)</td>
<td>Established in 1995 with Honda Motors Company (Japan) and Siel Ltd (India) Being the Key Promoters</td>
<td>Capacity -30,000 units per annum volume -20550 units</td>
<td>City, Accord CR-V</td>
<td>Noida (UP)</td>
</tr>
<tr>
<td>9.</td>
<td>Skoda Auto India</td>
<td>Skoda auto, based in Czech Republic, is a part of Volkswagen group</td>
<td>Capacity -10,000 units per annum volume -3712 units</td>
<td>Octavia,Laura</td>
<td>Aurangabad (Maharashtra)</td>
</tr>
<tr>
<td>10.</td>
<td>Daimler Chrysler India Ltd</td>
<td>100 percent subsidiary of Daimler Chrysler, ..........</td>
<td>Capacity -10,000 units per annum volume -1640 units</td>
<td>Eclass Sclass C class</td>
<td>Pune (Maharashtra)</td>
</tr>
</tbody>
</table>

Source: Developed for this thesis.
3.8 SMALL CAR MARKET IN INDIA

The small car segment is one of the largest car segments in India. Small car in India is defined as a car that has length between the range of 3.8 to 4 meters. It comprises of nearly two-third of the sales in the country. This car segment has grown by leaps and bounds in past few years in the wake of growing economy, more dispensable income and growing richer middle-class. The new breed of young executives with fatter pay-checks has led to more purchase power. Young India is booming and auto industry is basking under the sun. By the year 2010, India shall witness a boom in the small car segment with major car makers making their foray in India and India will have small cars from General Motors, VW, Fiat, Ford, Toyota, Honda, etc.

The existing small cars would attract hefty discounts or would be phased out to compete with the new cars laden with latest trendy features like ABS, airbags, automatic drive, etc. We expect that all the cars shall be placed in the price band of Rs.3 lakh to Rs.5 lakh. Tata Nano is also set to roll out in the near future.

The small car market in India is increasing by leaps and bounds. The indigenous market for small cars now occupies a substantial share of around 70 per cent of the annual car production in India of about one million. The main players in the car market like Tata Motors and Maruti Udyog are fiercely competitive and more or less all the automobile companies in India that have forayed into the production of small cars are trying to out-do each other in terms of design, innovation, pricing, and technology in order to gain control of the small car market in India.

The biggest players in the Indian small car market are engaging in a healthy competition, which has intensified since the Indian government decided to boost the small car sector. In this regard, a reduction in the excise duties has been thought of. Even the engine capacities are expected to be raised to 1500cc. The new small cars in India may even be fueled by gasoline and diesel.
in the future. With all these facilities, it has been estimated that the indigenous car market is going to move beyond the 3.5 million mark very soon.

Suzuki, which is now heading the Indian small car market, has plans to invest an additional US$ 650 million for research and development work in its Manesar Plant. This Plant will also be used for manufacturing diesel cars. Suzuki has decided to enter into a joint-venture with Nissan to launch a new mini car model in India. 

Maruti Suzuki is the uncrowned king of the small car industry in India. It has already made India as its manufacturing and exports hub for its small cars. It also has one of the largest product portfolios in India amongst all the other car makers. It is the largest auto maker in India by sales and has various models like Alto, Wagon R, Zen, 800, and Swift. Each car has made its mark in the small car segment with its unique features and price factor. It caters to the overseas demands of Suzuki models worldwide. Maruti Suzuki planed to launch A-Star and Splash by the end of 2008. 

Hyundai is the second largest auto manufacturer in India and has also made India as its manufacturing and exports hub. It currently has its manufacturing plant in Sriperumbudur, near Chennai, with an existing capacity of 600,000 units. It is planning to expand its production capacity by nearly another 100,000 units. Hyundai has strong sales figures in India and has witnessed more than 40 percent growth in the first four months of 2008 itself. It has strong contenders for the small car segment like Santro, Getz and i10. It also plans to launch its new models of i20 and i30 in India powered with the new Kappa engine currently being used in i10. i20 is expected to launch some time at the end of 2008.

Even Hyundai Motors is on a similar investment spree for research work with a venture of US$ 700 million in India. The two cars from the Hyundai stable - Santro and Getz are already in the market and have been doing
exceptionally well in the past few years. It is expected that more and more foreign companies are likely to join the healthy race in the Indian small car market. One of the biggest players in China's car market, Volkswagen, has decided to invest in the Indian small car market. It is supposed to invest a total amount of US$ 540 million and manufacture nearly 100,000 mini cars on an annual basis.

Fiat would also launch its small car Grand Punto by the year end with Tata Motors at its tails with a new version of Tata Indica. The much awaited Tata Nano would also roll out in the last quarter of year 2008. India would also witness Up! From General Motors and Jazz from Honda. Toyota is also ready to launch its small car by 2010 in both petrol and diesel options. Renault-Nissan has also announced to launch a Nano-competitor being manufactured in alliance with Bajaj.

The increase in the demand for small cars can be attributed to the aspiration lifestyle of people which makes them strive for a car early on in life. The overall age for owning a car has also decreased in recent years.

Further, with the growing affluence of the rural sector, owning a car, at least a small car, is a foregone conclusion in modern India. However, since small cars are more affordable and utilitarian, the demand for them has shot through the roof. This rising demand for small cars is attracting companies like General Motors which has increased its yearly production in India to 140,000 vehicles.

The Maruti 800 which is the most preferred car among the Indian middle classes can now be bought at a lower cost. Tata Motors has decided to launch a mini-car in 2009, which will cost as less as US$ 2,200. Tata Motors is also going through a process of decision-making, to launch a variety of mini-cars in association with Fiat. Honda has also decided to increase its manufacturing capacity in India to 100,000 very soon. Therefore, the leaders in
the market for small cars in India can be seen to engage in a price war to make more cars available to the majority of Indians. The small car market in India is witnessing the maximum activity and is all set for more exciting times ahead, with more players from India and abroad joining the race.

3.9 TATA NANO LAUNCHED - 2008

The launch of Tata Nano at the Geneva Motor Show attracted a lot of interest. The car was regarded as the star of the show by many of the top brasses of the global automobile market. People like David Richards, CEO of Aston Martin and Fiat's boss Luca de Montezemolo congratulated Tata Motors for their marvelous effort to bring out such a beautiful thing. As of now, the Tata Nano is expected to successfully transform not only the automobile market in India but also the global automobile market.

The introduction of the Tata Nano in the Geneva Motor show generated much interest among the automobile industry players and media as well. This would be fruitful for the company when the car is launched into the European Automobile Market.

Though the company has not yet planned an entry in the European market it desires that it would introduce the top variant of the Nano some modifications under the hood in compliance with the specifications pertaining to the small car segment in Europe or the individual countries but the external features would continue to remain the same. This would take place only after the company has established the product in the Indian automobile market. The company has also planned that if the production of the company is not able to meet up with the demand in the home and the global markets, it would go for outsourcing licensed production to different national or international companies.
Tata Motors feels that the Nano would also find a booming market in the South and Central American countries, where the demand for small automobiles are high, but the company is waiting for a launch in this automobile market before planning out the format of business they are going to perform in these areas.

Tata Motors wishes the use of satellite manufacturing units for low cost production and follow the distribution of Nano by the existing distribution system of the company.

The cost of the car would be an important factor. The company would offer price, which was never offered to the public before, not only in the India, but also less in compliance to European standards. The automobile market in India is facing tremendous odds with the lack of required capital, rise in the price of inputs, and high rates of interest. The only positive sign was the recent 4 per cent cut in excise duty, which would help the company to offer the Nano at the Rs.1 lakh price range.

3.10 AUTOMOTIVE COMPONENT SECTOR

The world's top car makers turn to India for the nuts and bolts of their vehicles. Riding this success, and capitalizing on the spiralling demand of domestic auto companies, the Indian automobile components industry has emerged as one of India's fastest growing manufacturing sectors, and a globally competitive one. The Indian auto component industry is likely to almost double to €14 billion by 2009 and reach about €29.94 billion by 2014. Its globally competitive auto component manufacturing sector has been much in demand with global auto majors15. A number of them source the following critical components from India, with engine parts making up nearly a third of all exports:
- Engine parts (31 per cent)
- Drive transmission and steering parts (19 per cent)
- Body and chassis (12 per cent)
- Suspension and braking parts (12 per cent)
- Equipment (10 per cent)
- Electrical parts (9 per cent)
- Others (7 per cent)

Indian auto component manufacturing, currently constrained by lack of large capacities, is slowly but steadily working on expanding capacities and automation levels. As the users increasingly become discerning in their buying behaviour, new model introduction by the auto manufacturers has become the trend. Greater variety in vehicle is offering challenges to the manufacturing capabilities and economies of scale of component suppliers. Hence, the component industry is constantly looking at maintaining lean and efficient manufacturing systems. Having established themselves in the domestic market, tapping opportunities abroad was a natural step for the auto component manufacturers in their growth path. The Indian auto component industry is targeting a bigger share of the export market and is in the process of ramping up its manufacturing capabilities to meet the capacity and quality requirements. During 2004, the auto component industry increased its investment by 17 per cent while the automation processes in this industry registered a growth of over 40 per cent.

The India Advantage

Steered here by the country's high engineering skills, established production lines, a thriving domestic automobile industry and competitive costs, global auto majors are rapidly ramping up the value of components they source from India. The industry is poised to jump from exports of €1.347 billion in 2004-05 to €4.416 billion in 2008-09.
According to the Automotive Component Manufacturers Association of India (ACMAI), more than a third (36 per cent) of Indian auto component exports head for Europe, with North America a close second at 26 per cent. In 2006, components worth €1.5 billion were exported by Indian companies, 75 per cent of which were bought directly by car companies. The original equipment manufacturers (OEMs) include firms like General Motors, Ford Motor Company, Cummins International, Bosch, Volkswagen, BMW, MAN (trucks) and JCB (earthmoving equipment) amongst others.

3.11 PRESENT SCENARIO

The 'My car is better than yours' dilemma has been a psychological ailment in western societies for long, so much so. The uneasiness inducing cleft stick acted as a virtual yardstick between the haves and the have not of the world. A perpetual differentiation between those who could not only afford personnel transportations but also think of jealousy at that and those who could not even think of such amenities in the first place, leave alone choose. With only 7 cars per 1000 persons, Indians as a matter of fact found themselves in the latter group of forsaken souls. A difference which is so blindly glaring that disparities in humanity become ever so obvious and painful. Now however, things are changing and at a very rapid rate.  

Obviously this so called western phenomenon is finding its way into Indian societies as well post 1992, there have been so many cars making space in the Indian market place that harboring a grudge against your neighbor’s car has indeed become a reality. Today India is the world’s twelfth-largest consumer market with the fourth highest purchasing power parity in the world. It is destined to become the number three car market by 2018 with just the big markets like the USA, Japan, and China ahead of it. Major players like Maruthi, Ford, TATA, Hyundai, and TATA are already present and are planning bigger investment in the country. According to SIAM, close to 2,75,147 passenger cars were sold in April-June, 2007. Recording a year-on-
year growth of 12.6 per cent on an average, the Indian car industry is all set to fulfill Indian dreams.

Maruthi Suzuki dominated the Indian passenger car industry in the mid 1990s with a market share of around 70 per cent. The model range was limited to the incredibly popular Maruthi 800, Maruthi Zen, Maruthi Esteem, Murthi Omni, Fiat Uno, Opel Astra, and of course Hindustan Motor's Ambassador.

Muruthi Suzuki reigned supreme as the king of the Indian roads. It was essentially a seller's market, over which Maruthi had a vice-like grip. There were hardly any product innovations. The technology prevalent in the market had grown archaic. Foreign car manufacturers like Ford, General Motors were dumping their decade old models in the Indian market. The Indian consumer had no access to easy consumer finance to fund his purchase, and customer service was a term heard only in management text books.

However, the market situation changed with the entry of Hyundai Motor's Santro in September, 1998. This launch was followed by other high profile launches like Daewoo Matiz and Tata's Indica. These three launches in the compact car segment changed the entire dynamics of the Indian passenger car market. From a sellers' market it transformed overnight into a buyers' market. The Indian consumers were exposed to the largest international models with the latest technology.
The relative market share of leading car brands in India during 1998-2007 is presented in Table 3.2. A look at the table reveals that the share of Maruthi Suzuki Ltd in the total market share has gradually declined from 71.3 per cent in 1998 to 45.7 per cent in 2007. A like trend can be observed in the case of Hindustan Motors Ltd, Ford Motors Ltd and General Motors Ltd and Fiat Motors. As against these brands, the proportion of TATA Motors, Hyundai India Ltd, Honda Siel Cars India Ltd, and others has increased. Despite the declining trend Muruthi Suzuki Ltd, ranks first. The account of Fiat Motors and Hindustan Motors each is less than one per cent. The import of cars stands at 1.62 per cent in 1998 as compared to as 1.45 per cent in 2007.

It can be concluded that Muruthi Suzuki Ltd dominated the market in the sales of cars in India during the period. Further there is no substitute near to it.

### Table 3.2

<table>
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<th>Brand Name</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
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<th>2004</th>
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<tr>
<td>Maruthi Udyog</td>
<td>71.3</td>
<td>68.4</td>
<td>52.47</td>
<td>48.17</td>
<td>47.21</td>
<td>47.02</td>
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<td>3.21</td>
<td>1.54</td>
<td>2.45</td>
<td>0.54</td>
<td>0.94</td>
<td>0.83</td>
<td>0.24</td>
<td>0.44</td>
<td>0.16</td>
</tr>
<tr>
<td>Ford Motors</td>
<td>2.89</td>
<td>3.09</td>
<td>2.18</td>
<td>3.89</td>
<td>3.32</td>
<td>2.13</td>
<td>2.02</td>
<td>3.14</td>
<td>3.45</td>
<td>2.03</td>
</tr>
<tr>
<td>General Motors Ltd</td>
<td>3.21</td>
<td>2.34</td>
<td>2.42</td>
<td>1.92</td>
<td>2.53</td>
<td>2.23</td>
<td>1.31</td>
<td>2.12</td>
<td>2.14</td>
<td>2.12</td>
</tr>
<tr>
<td>Honda Siel Cars India (HSCI)</td>
<td>1.89</td>
<td>2.61</td>
<td>3.86</td>
<td>3.85</td>
<td>4.61</td>
<td>4.4</td>
<td>4.34</td>
<td>3.12</td>
<td>1.35</td>
<td>3.42</td>
</tr>
<tr>
<td>Other brands</td>
<td>1.91</td>
<td>2.86</td>
<td>4.8</td>
<td>5.89</td>
<td>5.21</td>
<td>6.13</td>
<td>5.11</td>
<td>4.21</td>
<td>3.41</td>
<td>4.12</td>
</tr>
<tr>
<td>Imports</td>
<td>1.62</td>
<td>1.81</td>
<td>1.91</td>
<td>2.06</td>
<td>2.29</td>
<td>1.62</td>
<td>1.35</td>
<td>1.89</td>
<td>1.73</td>
<td>1.45</td>
</tr>
</tbody>
</table>

Source: Frontline magazine, Jan 2008.
Society of Indian Automobile manufacturers.
Fig. 3.1: Market shares of leading car brands 2007

- Maruti Udyog Ltd
- TATA Motors Ltd
- Hyundai Motors India Ltd
- Hindustan Motors Ltd
- Fiat Motors
- Ford Motors Ltd
- General Motors Ltd
- Honda Siel Cars India (HSCI)
- Other brands
- Imports
3.12 PRODUCTION

The growth in the production of cars in the country during 1998-2008 is furnished in table 3.3. It can be observed that there is a progressive increase in the production of cars except a slight decline in 2002. The number of cars produced was 3,75,948 in 1999 as against 17,62.13 in 2008. The compound growth rate was 17.7 per cent, which is significant at one per cent level. In other words, the calculated value of “t” is more than that of its corresponding critical value.

Table: 3.3
Trend in car production in India during 1998 – 2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual production</th>
<th>Change</th>
<th>Percentage of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>375948</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999-00</td>
<td>450751</td>
<td>-74803</td>
<td>19.90</td>
</tr>
<tr>
<td>2000-01</td>
<td>567728</td>
<td>116977</td>
<td>25.95</td>
</tr>
<tr>
<td>2001-02</td>
<td>564052</td>
<td>-3676</td>
<td>-0.65</td>
</tr>
<tr>
<td>2002-03</td>
<td>723330</td>
<td>159278</td>
<td>28.24</td>
</tr>
<tr>
<td>2003-04</td>
<td>989560</td>
<td>266230</td>
<td>36.81</td>
</tr>
<tr>
<td>2004-05</td>
<td>1209876</td>
<td>220316</td>
<td>22.26</td>
</tr>
<tr>
<td>2005-06</td>
<td>1309300</td>
<td>99424</td>
<td>8.22</td>
</tr>
<tr>
<td>2006-07</td>
<td>1545223</td>
<td>235923</td>
<td>18.02</td>
</tr>
<tr>
<td>2007-08</td>
<td>1762131</td>
<td>216908</td>
<td>14.04</td>
</tr>
<tr>
<td>Mean</td>
<td>949789.90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C.V (%)</td>
<td>51.31</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CGR (%)</td>
<td>17.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t-Value</td>
<td>14.236*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Society of Automobile Manufacturers (SIAM)
Note: *Significant at 1 per cent level
The year to year changes are significant. The year 2004 registered an increase of 36.81 per cent over the previous year while it is 8.22 per cent during 2005-06. These are the highest and lowest respectively. The production of cars per year, on an average, during 1998-2008 was 9,49,790. The coefficient of variation (CV) works out to 51.31 per cent. In other words, the inconsistency in the production of cars is 48.69. It can be summed that the growth in the production of cars in India is remarkable in study period, in addition, to a growing trend in annual increment.
Fig. 3.2: Trend in car production in India during 1998 - 2008
3.13 SALES OF CARS

Table 3.4 reports the growth in the sale of cars in India during 1999-2008. The sales have increased from 3,57,182 in 1999 to 15,47,985 in 2008 with growth rates in the order of 7.68-38.91 per cent. The year 2002 witnessed the decline of 1.70 per cent in 2002 over the immediate previous year. When the entire period is considered together, the sales per year, on an average worked out to be 8,51,983.

Table 3.4
Grow of car sales in India during 1998 - 2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual sales</th>
<th>Change</th>
<th>Percentage of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>357182</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1999-00</td>
<td>393747</td>
<td>36565</td>
<td>10.24</td>
</tr>
<tr>
<td>2000-01</td>
<td>517907</td>
<td>124160</td>
<td>31.53</td>
</tr>
<tr>
<td>2001-02</td>
<td>509088</td>
<td>-8819</td>
<td>-1.70</td>
</tr>
<tr>
<td>2002-03</td>
<td>707198</td>
<td>198110</td>
<td>38.91</td>
</tr>
<tr>
<td>2003-04</td>
<td>902096</td>
<td>194898</td>
<td>27.56</td>
</tr>
<tr>
<td>2004-05</td>
<td>1061572</td>
<td>159476</td>
<td>17.68</td>
</tr>
<tr>
<td>2005-06</td>
<td>1143076</td>
<td>81504</td>
<td>7.68</td>
</tr>
<tr>
<td>2006-07</td>
<td>1379979</td>
<td>236903</td>
<td>20.73</td>
</tr>
<tr>
<td>2007-08</td>
<td>1547985</td>
<td>168006</td>
<td>12.17</td>
</tr>
<tr>
<td>Mean</td>
<td>851983.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C.V(%)</td>
<td>49.48</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CGR(%)</td>
<td>17.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t-value</td>
<td>15.475*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source : Society of Automobile Manufactures (SIAM)
Note : * Significant at 1 per cent Level

The coefficient of variation is found to be 49.48 per cent and hence the inconsistency the sale of cars is set to be 51.42 per cent. The compound growth was 17.2 per cent, which is significant at one per cent level. It may be informed that there is significant growth in the sale of cars in the country during 1998-2008. The fluctuation in the sales is noticeable and is similar to that of other consumer durables in country.
Fig.3.3: Trend in car sales in India during 1998-2008
3.14 CAR EXPORTS FROM INDIA

Table 3.5 presents the growth in car exports from India during 1999-2008. It can be observed that there is a continuous growth during the period except 2000 and 2001.

Table: 3.5
Progress in car exports from India during 1999-2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual exports</th>
<th>Change</th>
<th>Percentage of change</th>
<th>Percentage of export to production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>25557</td>
<td>-279</td>
<td>-1.08</td>
<td>6.79</td>
</tr>
<tr>
<td>1999-00</td>
<td>23312</td>
<td>-2245</td>
<td>-8.78</td>
<td>5.17</td>
</tr>
<tr>
<td>2000-01</td>
<td>23122</td>
<td>-190</td>
<td>-0.82</td>
<td>4.07</td>
</tr>
<tr>
<td>2001-02</td>
<td>50122</td>
<td>27000</td>
<td>116.77</td>
<td>8.88</td>
</tr>
<tr>
<td>2002-03</td>
<td>72005</td>
<td>21883</td>
<td>43.66</td>
<td>9.95</td>
</tr>
<tr>
<td>2003-04</td>
<td>129291</td>
<td>57286</td>
<td>79.56</td>
<td>13.06</td>
</tr>
<tr>
<td>2004-05</td>
<td>166402</td>
<td>37111</td>
<td>28.70</td>
<td>13.75</td>
</tr>
<tr>
<td>2005-06</td>
<td>175572</td>
<td>9170</td>
<td>5.51</td>
<td>13.40</td>
</tr>
<tr>
<td>2006-07</td>
<td>198452</td>
<td>22880</td>
<td>13.03</td>
<td>12.84</td>
</tr>
<tr>
<td>2007-08</td>
<td>218418</td>
<td>19966</td>
<td>10.06</td>
<td>12.39</td>
</tr>
<tr>
<td>Mean</td>
<td>108225.30</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C.V (%)</td>
<td>71.98</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CGR (%)</td>
<td>29.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t-value</td>
<td>11.876*</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Society of Automobile Manufactures (SIAM)

Note: * Significant at 1 per cent level

There are fluctuations in the yearly progress on an average the export per year worked out Rs.1,08,225. The compared growth rate during period was 29.4 per cent, which is significant at 1 per cent level. The proportion export in total production was 6.79 per cent in 1999 as compared to 12.39 per cent in 2007. In the meanwhile there are ups and downs.

It may be concluded that the share of exports in the production of cars was less than 15 per cent in the period. Further, there is a growth in exports with to and fro changes across the period.
Fig. 3.4: Progress in car exports from India during 1998-2008
3.15 AUTOMOTIVE MISSION PLAN 2006-2016

The necessity of the Automotive Mission Plan arose in the background of a newly found strength and resurgence in the Indian manufacturing sector. For most of the period doing 1990s, growth in the Indian economy has been led by growth in the service sector, a growth that has overshadowed the growth in the manufacturing sector. In the past few years, several industries including automotive industry in the Indian manufacturing sector have become internationally competitive and have acquired a new energy to grow.

In developing a Mission Plan for India's automotive sector, answer are sought to the following:

(i) Where is automotive sector in India today?
(ii) What do we want of Indian automotive sector to look like in 2016?
(iii) How do we attain the vision?

Vision for the future: The opportunity landscape for the Indian auto industry would encompass manufacture of vehicles and components for domestic sales, manufacture for exports (both vehicles and components), and export of services in areas such as design, engineering, and back office operations. It is estimated that the total turnover of the automotive industry in India would be in the order of USD 122-159 billion in 2016 (a substantial increase from the size of USD 34 billion in 2006).

It is expected that in real terms, India would continue to enjoy its eminent position of being the largest tractor and three-wheeler manufacturer in the world and the world's second largest two-wheeler manufacturer. By 2016, India would emerge as the world's seventh largest car producer (as compared to the eleventh largest currently) and retain forth largest position in world truck manufacturing sector. Further, by 2016, the automotive sector would double its contribution to the country's GDP from current levels of 5 per cent to 10 per cent. The share of industry in GDP is expected to go up to around 35 per cent from current level of 24 per cent by 2016.
Implementing AMP 2006-2016 would need an incremental investment in the order of USD 35-40 billion in the Indian auto industry over the next ten years (2006-2016). It is anticipated that the bulk of this investment will come from expansion of capacities by existing manufacturers operating in India and from global multinational corporations (MNCs) seeking to make India their manufacturing base. However, attracting F & I in auto industry would invite competition from its anibows Kapan, China and Thailand.

Currently the automotive industry employs 200,000 persons in vehicle manufacturing, 250,000 in component companies and 10 million at different levels of the value chain - both through backward and forward linkages. The expected growth in investments and output of India's automotive sector during the next ten years will create further employment opportunities in the country by way of both direct and indirect employment in automotive companies and in other parts of the value chain such as servicing, repairs, sales and distribution.

Vision Statement: Given the backdrop, the vision statement for India's automotive sector would be as follows:

"To emerge as the destination of choice in the world for design and manufacture of automobiles and auto components within output reaching a level of US$ 145 billion accounting for more than 10 per cent of the GDP and providing additional employment to 25 million people by 2016":

The Way Forward: The future challenges for the Indian automobile 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, overcoming infrastructural bottlenecks, while at the same time stimulating domestic demand and exploiting export and international business opportunities.
Interventions are required to be envisaged at two levels - industry and the government. The government would play a key role in facilitating infrastructure creation, promoting country's capabilities, creating a favourable and predictable business environment, attracting investments and in promoting R&D. The role of Industry will primarily be 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 and showcasing India's products in potential markets. Attaining Vision 2016 for the automotive sector in India is a goal for both government and industry to strive for.

The path of implementation of the Vision 2016 calls for some decisive action on part of State and central governments. The challenges for industry essentially call for a matching vision and action to attain global standards in operational efficiency. Given the commitment of the Government of India and the fundamental competitiveness of the Indian automotive industry, achieving the targets defined in the Mission Plan is a doubtable challenge and would be rewarding for all stakeholders.

3.16 CONCLUSION

Not very long ago, the only cars that were available in India were the Ambassador and the Premier Padmini. The Ambassador is a replica of the Morris Oxford – an old British car, while the Premier Padmini was a Fiat 1100 assembled in India. All that was in pre-liberalisation India, which existed before 1991, when the first liberalization measures were announced. Earlier, the production of the Maruti Suzuki 800 1983 – a joint venture between Government of India and Suzuki Motors of Japan, paved the way for a renaissance in the Indian automobile sector.

Currently, India is the fourth largest commercial vehicle market in the world. Not only it is the eleventh largest passenger car market globally, but it is also expected to be the seventh largest by 2016. Many foreign manufacturers
have lined up and have setup base in India. Other domestic manufacturers have also improved production levels and are in the race for producing better models as well. Some of the car manufacturers who have set up base in India are Audi, BMW, Chevrolet Fiat, Ford, Honda, Hyundai, Mahindra, Maruti, Mercedes, Mitsubishi, Skoda, Suzuki, Tata, Toyota, and Volkswagen. These manufacturers have set up manufacturing facilities in India, or are importing cars and spares to meet the demands of this growing market. Easy availability of vehicle finance, attractive rates of interest, and convenient installments are some of the reasons for the impressive growth of the Indian car industry.

Competition has forced manufacturers to be innovative and responsive to customer demands and needs. Since India is not alien to quality and perfection, customer expectations have soared to higher levels. Depending upon customers needs, four segments namely small, midsize, premium and sports utility vehicles currently represent the car market in the country. A niche car segment is also emerging wherein reputed re-modellers like DC Chhabria cater to individuals who wish to remodel their vehicles to create concept cars for their use. Contrarily, another segment is also emerging comprising of people who wish to upgrade to cars from two wheelers. Tata and Bajaj already is in the process of launching the small car.

Currently, there is high demand for cars across all these segments. With the growing economy, people are left with more disposable income to be spent on meeting their mobility needs such as cars. Banks and other financial institutions have an assortment of vehicle loan schemes with attractive rates of interest and convenient number of installments. Additionally, a convenient union budget in the current financial year (2008-09) has worked in favour of the automobile sector, to boost sales across various segments.

The latest trend of new cars on Indian roads has led to the emergence of an entirely new segment called in second hand car market.
Many entrepreneurial and professional dealerships have sprung up in many cities in India dealing in second hand cars. The new car market has grown at an incredible pace in India. As mentioned, loans are easily available in the country for purchase of new cars. Moreover, many people are now upwardly mobile. Therefore, people who were earlier part of the small car segment now have moved over to the premium car segment, and those in this segment have moved over to the luxury car segment. Therefore, the trend is to get rid of the cars that defined them as part of the earlier segments and buy cars that identify them with the newer segments. This makes them sell their current cars for reasonable resale values in second band car market.

Many companies like Maruti Suzuki (Maruti True Value) have also established resale showrooms where people can purchase genuine, good conditioned, second hand cars at reasonable prices. With the emergence of favourable trends in the automobile sector in India, what remains to be seen is how these developments will go a long way to transform the mobility needs of the ordinary Indian.
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