The *Fifth Chapter* concentrates on the Socio-Economic conditions of the Maruti car users and their problems faced in using Maruti cars in the study area.

The *Sixth Chapter* deals with analysis and interpretation of data.

The *Seventh Chapter* deals with summary of findings and suggestions with conclusion.
CHAPTER II

ORIGIN AND GROWTH OF CAR INDUSTRY IN INDIAN CONTEXT

2.1 INTRODUCTION

The Indian Automobile Industry has got a tremendous market potential. With the growth of population and change in the life style of people as a result of urbanization. There has been a rapid increase in demand for Indian automobiles. The purpose of this chapter is to survey the growth of Automobile Industry in India and its role in economic development and to bring out the profile of the study area. The entire discussion has been divided into three main sections. The first section traces the development of Automobile industry. The second section discusses origin, growth and other aspects of passenger car Industry. The third section gives a brief insight into the study area.

2.2 AN OVERVIEW OF INDIAN AUTOMOBILE INDUSTRY

The Indian Automobile industry has flourished as never before in the recent years. This extraordinary growth that the Indian automobile industry has witnessed is a result of major factors namely, the improvement in the living standards of the middle class and an increase in their disposable income, modern and innovated technology.

Moreover, the liberalization steps, such as, relaxation of the foreign exchange and equity regulations, reduction of tariffs on imports and
easing the banking policies initiated by Government of India, have played an equally important role in bringing the Indian Automobile industry to great heights.

The increased demand for Indian automobiles has resulted in a large number of multinational auto companies, especially from Japan, U.S.A., and Europe, entering into the Indian market and working in collaboration with the Indian firms. The institutionalization of automobile finance has also further paved the way to sustain a long term high growth in the industry.30

The Future Growth Drivers31

- Higher GDP Growth
- India’s huge geographic spread — Mass Transport System
- Increasing Road Development
- Increasing disposable income with the service sector
- Cheaper (declining interest rates) and easier finance schemes
- Replacement of aging four wheelers
- Graduating from two wheelers to four wheelers
- Increasing dispensable income of rural and agri sectors
- Growing concept of second vehicle in urban areas

India produced about six million two-wheelers, one million passenger cars and utility vehicles in 2003-2004. It ranks second in the
world in the production of two-wheelers and thirteenth in the production of passenger cars.  

**TABLE NO.2.1**

**INDIAN AUTOMOBILE INDUSTRY**

Largest Three Wheeler Market in the World  
2\textsuperscript{nd} Largest Two Wheeler Market in the World  
4\textsuperscript{th} Largest Passenger Vehicle Market in Asia  
2\textsuperscript{nd} Largest Tractor Market in the World  
5\textsuperscript{th} largest Commercial Vehicle Market in the World


**SWOT Analysis of the Automobile Industry**

**Strength**

- With most of the Indian auto companies tying up with foreign majors, quality for the end users will be assured.
- Cheap and skilled labour and efficient management of overheads definitely get translated into lower costs.
- Demand for automobiles is purely dependent on Indian — consumer specific factors, and it is not affected by fluctuations in prices in the international markets, as in the case of most commodities.
- The presence of a large number of car finance companies in the country would definitely contribute to the growth of the industry.
Weaknesses

➢ Traditionally, the industry has been characterized by its indifferent attitudes to the service after sales, resulting in the mushrooming of a fake spare parts market.

➢ India’s 2.1 million km of roads are already under the weight of 30 million vehicles, 50 percent of which are in the metros. With hardly any projects worth their name being implemented to improve the efficiency of the roads and highways, this growth might get stunted.

➢ Over dependence on foreign collaboration without a move towards indigenization may prove to be harmful in the long run. In order to develop a car, a minimum of about $1 million is required and Indian car manufactures cannot afford to incur such high costs on R & D alone. Hence, there is an excessive dependence on foreign car producers for new technology.

Opportunities

➢ Income levels and the purchasing power of the Indian middle class have definitely increased leading to a wider market.

➢ The rural market remains untapped.

➢ With car finance offering high returns, innovative financial schemes are being introduced to attract the buyers.
TABLE NO.2.2

GROSS TURNOVER OF THE AUTOMOBILE INDUSTRY

<table>
<thead>
<tr>
<th>Year</th>
<th>Rs. in Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>10,40,203</td>
</tr>
<tr>
<td>2005-06</td>
<td>13,44,608</td>
</tr>
<tr>
<td>2006-07</td>
<td>17,06,707</td>
</tr>
<tr>
<td>2007-08</td>
<td>18,22,545</td>
</tr>
<tr>
<td>2008-09</td>
<td>19,03,488</td>
</tr>
</tbody>
</table>

Source: www.siamindia.com

The automobile has become an important aspect of economic and social life. The agricultural, industrial and infrastructural investments made during the Five year plan periods have helped the growth of automobile industry in India. Since 1980, the automobile industry has received encouragement from the government and the public. The above table discloses a gross turnover of the automobile industry for a period of 5 years. During the year 2008-09, the gross turnover was Rs. 19,03,488 million as against Rs 10,40,203 million in 2004-05, growth rate of 82.99 percent in 5 years.

INDIAN PASSENGER CAR INDUSTRY

The Indian car industry is going from strength to strength rapidly. Following the liberalization of the passenger cars marketed by the government, the mid 90s saw hectic activity in the passenger car industry. This can be called the second revolution in the passenger car market. For the first time, international car manufactures began to show a keen interest
in the Indian car market. According to the Society of Indian Automobile Manufacturers, annual vehicle sales are projected to increase to 5 million by 2015 and more than 9 million by 2020. By 2050, the country is expected to top the world in car volumes with approximately 611 million vehicles on the nation's roads

HISTORY OF CARS

With the invention of the wheel in 4000 BC, man’s journey on the road by mechanized transport had begun. Since then, he continually sought to devise an automated, labour saving machine to replace the horse. Innumerable attempts had been made to reach a conclusion in the early 1760s with the building of the first steam driven tractor by a French captain, Nicolas Jacob Cugnot. It was however left to Karl Benz & Gottlieb Daimler to produce the first vehicle powered by the internal combustion engine in 1885. It was then that the petrol engine was introduced, which made the car a practical and safe proposition. The cars in this period were like the cars-on our roads today With the introduction of cars, came the era of speed the first mass production of car named Ford Model T, was launched in 1908, and the production line was introduced in 1914. This flagged of an era of ‘wheels racing’, till 1964, after which jet and rocket propelled vehicles were allowed.

Industry Development

The first motor car on the streets of India was in 1898. Mumbai had its first taxicabs in the early 1900. Then, for the next fifty years, cars were

---

imported and they were to be considered luxury items. However, once affordable for only the rich, these are now being owned by middle class families also. The passenger car segment in India is set to grow at a reasonable pace in the future. Strong drivers in the form of higher disposable incomes, higher penetration of financial schemes, new model launches, and changing consumer mindset are expected to push the demand further.

**Passenger Car Segmentation**

With more players and greater number of models, a whole lot of different specifications became a need for segmentation. The segmentation of the passenger car market in India is vastly different from that in the developed nations. Price, the most significant factor contributing to the purchase decision of a car buyer, can be used as an effective segmentation variable for analyzing the passenger car market. The passenger car market can be broken into four broad segments.

<table>
<thead>
<tr>
<th>Category</th>
<th>Models</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy segment</td>
<td>Maruti 800, premier padmini</td>
</tr>
<tr>
<td>[up to Rs.0.25 mn]</td>
<td></td>
</tr>
<tr>
<td>Mid-size segment</td>
<td>Maruti 1000, Tata Indica, Hyundai Santro,</td>
</tr>
<tr>
<td>[Rs.0.25 -0.45 mn]</td>
<td>Ambassador Nova, Fiat Uno and Zen</td>
</tr>
<tr>
<td>Luxury car segment</td>
<td>Maruti Esteem, Honda City, Hyundai Accent,</td>
</tr>
<tr>
<td>[Rs.0.25-0.45 mn]</td>
<td>Mitsubishi Lancer</td>
</tr>
<tr>
<td>Super car segment [above Rs.1 mn]</td>
<td>Mercedes Benz &amp; other BMW imported models</td>
</tr>
</tbody>
</table>

Source: Society of Indian Automobile Manufacturers

---

34 Satya Sundaram, I, 'New Models Heating up the Car War', Facts for You, Jan 2005, pp.7-11.
35 Rama Prasad, M.V., 'Passenger Cars: Surplus production will lead to higher exports — Part I', Motorindia, Jan 2004, Vol.48, No.6, pp.41-46.
In India, the economy segment accounts for the largest share of the cars sold, as compared to mid-range segment in the mature markets. The economy and the luxury car segments face the lowest competitive threats. But the luxury car segment will witness intense competition due to lower volumes.

In India, passenger car vehicles in which seating capacity including driver (does not exceed six) are classified into six segments on the basis of their length.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Length</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Mini/small</td>
<td>Up to 3.4 m</td>
</tr>
<tr>
<td>A2</td>
<td>Compact</td>
<td>3.4-4M</td>
</tr>
<tr>
<td>A3</td>
<td>Mid-size</td>
<td>4-4.5 m</td>
</tr>
<tr>
<td>A4</td>
<td>Executive</td>
<td>4.5-4.7 m</td>
</tr>
<tr>
<td>A5</td>
<td>Premium</td>
<td>4.7-5 m</td>
</tr>
<tr>
<td>A6</td>
<td>Luxury</td>
<td>5m and above</td>
</tr>
</tbody>
</table>

Source: Society of Indian Automobile Manufacturers

MAJOR PLAYERS

After the de-licensing of the automobile industry in 1993, global automakers entered into Indian markets through various types of modes like subsidiaries, joint ventures and technology licensing agreements etc. Indian car industry has many players that bring to us dream machines. Some of the major manufacturers that have shaped Indian car industry are:
1. Maruti Suzuki Ltd.,
2. Hyundai India Ltd.,
3. Hindustan Motors Ltd.,
4. Fiat India Ltd.,
5. Pal Peugeot Ltd.,
6. General Motors (India) Ltd.,
7. Tata Motors Ltd.,
8. Ford India Ltd.,
9. Honda SIEL India Ltd.,
10. Skoda India Ltd.,
11. Mercedes Benz (India) Ltd.,
12. Toyota India Ltd.,
13. Daimler Chrysler India Pvt. Ltd.,

The market shares of major automobile manufacturers in India for the financial year 2011.

There are some indicators, which reveal that Indians will continue buying cars. They are i) easy monthly installment schemes available for the consumers and ii) sufficient loan facilities with affordable / less interest rates. The obstacles faced by the consumers who buy cars for the first time have been broken by these facilities. The knowledgeable consumers would determine the growth rate of the car industry. If the marketers are able to satisfy customers’ expectations, they will see growth.36

At another level, consumers decision to move up the car segment ladder is being driven by easy access to finance. The NCAER survey reveals that 39 percent of all car purchases are done with the help of car loans. According to www.Indiainfoline.com, midsized cars and utility vehicles form the biggest segment in auto finance with a market size of Rs. 20,000 crore and finance volume of around Rs, 15,000 crore.

Most banks and finance companies are tying up with auto manufacturers to give a boost to this segment. Hyundai has even initiated a finance package in conjunction with the sale of accessories to buy its cars.\(^{37}\)

**Associations**

Various associations have been formed with a goal to promote sustainable development in the automobile industry, focusing on technology upgradation for environment and safety. They are:

- Society of Indian Automobile Manufacturers [SIAM]
- The Automotive Component Manufacturers Association of India [ACMA]
- The Western India Automobile Association [WIAA]
- Federation of Automobile Dealers Association [FADA]
- Association of International Automobile Manufactures [AIAM]

**Government Policy**

If the passenger car industry has not grown at a reasonably good speed in India during the last five decades or so, the entire blame should

---

be placed on the government policies because such policies have been short-sighted and coloured by technological considerations such as car is a ‘luxury’. So it should not be encouraged.38

The government -controls the car sector by way of framing policies on depreciation norms, import duty on cars and parts used in it, petrol prices, and import duty on steel. The perception of cars as luxury goods has led to heavy excise duty on cars.

The car industry had been asking for reduction in excise duty so as to reduce the end prices of cars to customers and increase the flagging demand. With continuation of liberalization and a shift in the perception of car being a luxury product will lead to reduction in duties over a period of two to three years. This will reduce the prices of cars leading to further boost in demand.

Car manufacturing is basically an assembly of components procured from ancillaries or auto component manufactures. Car manufactures outsource nearly 75 percent of auto components. This helps in reducing the capital cost needed to set up a car manufacturing plant. The body panel and engine constitute a major portion of the total cost of car manufacture.

Production

As one of the largest industries in India, Passenger car Industry has been witnessing impressive growth during the last 30 years. Abolition of licensing in 1991, permitting automatic approval and successive

liberalization of the sector over the years have led to all round
development of this industry. The freeing of the industry from restrictive
environment has, on one hand, helped it to restructure, absorb newer
technologies, align itself to the global developments and on the other
realize its potential. This has significantly increased industry’s
contribution to overall industrial growth in the country.

India ranks 13th in the world in the production of passenger cars.
The massive growth in the country’s car population is attributed to the
concurrent spurt in demand that has resulted in consequent rises in car
production. The fluctuating production trend evinced during the past 10
years and the achievement of all-time high record in the production of
passenger cars are given below:

**TABLE NO.2.3**

**PRODUCTIONS OF PASSENGER CARS**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Cars</th>
<th>Change over the previous year (in %)</th>
<th>as a percent of auto vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>517957</td>
<td>-2.85</td>
<td>-0.58</td>
</tr>
<tr>
<td>2001-02</td>
<td>654557</td>
<td>26.37</td>
<td>-43.52</td>
</tr>
<tr>
<td>2002-03</td>
<td>703948</td>
<td>7.55</td>
<td>19.24</td>
</tr>
<tr>
<td>2003-04</td>
<td>907968</td>
<td>28.98</td>
<td>32.86</td>
</tr>
<tr>
<td>2004-05</td>
<td>1178354</td>
<td>29.78</td>
<td>31.25</td>
</tr>
<tr>
<td>2005-06</td>
<td>1264000</td>
<td>7.27</td>
<td>9</td>
</tr>
<tr>
<td>2006-07</td>
<td>1473000</td>
<td>16.53</td>
<td>50.74</td>
</tr>
<tr>
<td>2007-08</td>
<td>1713479</td>
<td>16.33</td>
<td>-1.2</td>
</tr>
<tr>
<td>2008-09</td>
<td>1846051</td>
<td>7.74</td>
<td>-9.99</td>
</tr>
<tr>
<td>2009-10</td>
<td>2175220</td>
<td>17.83</td>
<td>-4.1</td>
</tr>
</tbody>
</table>

Source: Society of Indian Automobile Manufactures
It may be noted from the above table that the annual growth of production of cars are recorded positive growth in the years from 2000-01 to 2009-10. Especially in the year 2004-05 the car production has reached a high as 29.78 per cent growth followed by 28.98 percent in the year 2003-04. However, only one year it recorded negative annual growth in car production.

Sales

Rise in the proportion of young people who have the propensity to spend, increasing urbanization and the need for mobility has led to woofing demand for cars in India. Relatively, good availability of money and a favourable interest rate regime has also been a strong contributor to the sustained good demand. In contrast to China, a much larger fraction of consumer sales in India is financed by loans and easy availability of financing from banks.39

The concept of a second car is, on the rise, in urban areas. With more than one member of the family working, the need for personal transportation is a driving force for the purchase of more than one car. This is likely to add significantly to the sales growth of cars, especially in the metros.

**TABLE NO.2.4**

**SALES OF PASSENGER CARS**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Cars</th>
<th>Change over the previous year (in %)</th>
<th>As a percent of auto vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>345340</td>
<td>30.41</td>
<td>9.87</td>
</tr>
<tr>
<td>2002-03</td>
<td>411305</td>
<td>19.10</td>
<td>10.35</td>
</tr>
<tr>
<td>2003-04</td>
<td>417720</td>
<td>1.56</td>
<td>10.48</td>
</tr>
<tr>
<td>2004-05</td>
<td>409951</td>
<td>-1.86</td>
<td>9.59</td>
</tr>
<tr>
<td>2005-06</td>
<td>638815</td>
<td>55.83</td>
<td>13.0</td>
</tr>
<tr>
<td>2006-07</td>
<td>590647</td>
<td>-7.54</td>
<td>12.28</td>
</tr>
<tr>
<td>2007-08</td>
<td>570473</td>
<td>3.42</td>
<td>10.00</td>
</tr>
<tr>
<td>2008-09</td>
<td>591491</td>
<td>3.68</td>
<td>10.22</td>
</tr>
<tr>
<td>2009-10</td>
<td>696153</td>
<td>17.70</td>
<td>10.38</td>
</tr>
<tr>
<td>2010-11</td>
<td>819918</td>
<td>17.78</td>
<td>11.35</td>
</tr>
</tbody>
</table>

Source: Society of Indian Automobile Manufactures

The demand for different types of cars produced in the country is met by the supply, at required destinations depending on the needs, likings, and the availability of a particular brand. From the above table, it is inferred that during the period 2005-06, sales of car have showed a continuous growth by touching 6,38,815 number of cars sold as against 4,09,951 cars in 2004-05 - 55.83 percent growth in a single year.

According to the Society of Indian Automobile Manufactures (SIAM), domestic sales of passenger cars during 2010-2011 have grown by 17.78 per cent to 8.20 lakh units with 10.38 per cent in the total production of auto vehicles during the year.40

---

Export

The passenger car exports in the eighties and early nineties had been very negligible as the companies were facing capacity constraints that were not even sufficient to supply to the domestic market. The poor quality of cars compared to international standards had led to a poor quantity of exports to any other country.

Passenger car industry of India is now finding increasing recognition worldwide. Indian cars of the earlier times lacked in technology but the entry of multinationals made superior and latest technology available to the domestic industry.

TABLE NO.2.5
EXPORTS OF PASSENGER CARS

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Cars</th>
<th>Change over the previous year (in %)</th>
<th>As a percent of auto vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>23271</td>
<td>-8.63</td>
<td>16.63</td>
</tr>
<tr>
<td>2001-02</td>
<td>22913</td>
<td>-1.54</td>
<td>13.62</td>
</tr>
<tr>
<td>2002-03</td>
<td>50108</td>
<td>118.0</td>
<td>29.70</td>
</tr>
<tr>
<td>2003-04</td>
<td>70263</td>
<td>40.22</td>
<td>22.86</td>
</tr>
<tr>
<td>2004-05</td>
<td>125320</td>
<td>78.36</td>
<td>26.11</td>
</tr>
<tr>
<td>2005-06</td>
<td>160677</td>
<td>28.21</td>
<td>25.51</td>
</tr>
<tr>
<td>2006-07</td>
<td>175572</td>
<td>9.27</td>
<td>35.60</td>
</tr>
<tr>
<td>2007-08</td>
<td>198452</td>
<td>13.03</td>
<td>22.01</td>
</tr>
<tr>
<td>2008-09</td>
<td>218401</td>
<td>10.05</td>
<td>19.09</td>
</tr>
<tr>
<td>2009-10</td>
<td>335739</td>
<td>53.73</td>
<td>-27.67</td>
</tr>
</tbody>
</table>

Source: Society of Indian Automobile Manufacturers

The statistics given in the above table on exports of cars highlights the significant role of passenger cars in country’s foreign trade. During
the years 2000-01 and 2001-02 car exports have recorded a negative annual growth. The Indian passenger car industry has not only made available, comfortable, spacious and efficient cars to a large population within the country but also attracted a sizeable number of buyers outside the country. The available statistics on exports of cars highlight the significant role of passenger cars in country’s foreign trade.

**Future Prospects**

The passenger car segment in India is set to grow at a reasonable rate in the future. Strong drivers in the form of higher disposable incomes, higher penetration of finance schemes, new model launches and changing consumer mindset are expected to push demand further up with the upgradation of technologies, the users have developed liking for efficient, sleek and spacious cars. Because of rising fuel prices, the Indian consumer is keen on low running cost’ and ‘low cost of maintenance’.

For better prospects of the passenger car industry, there should be competitiveness among the manufactures in the adoption of the latest technology with low consumption of fuel and more indigenous components. This would help in reducing the cost of car as well as the costs on repairs and replacements after sales. Widened and smooth metalled roads and removal of traffic hazards are the other prerequisites. In this regard, special infrastructural development programmes are currently being implemented in the country. To survive and grow, the Indian auto industry has to ensure product innovation and overall cost competitiveness.
### TABLE NO.2.6

**PASSENGER CARS, COMPANYWISE SALES**

<table>
<thead>
<tr>
<th>Units</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maruti Suzuki</td>
<td>295408</td>
<td>270914</td>
<td>276758</td>
<td>275031</td>
<td>357937</td>
</tr>
<tr>
<td>Hyundai</td>
<td>75664</td>
<td>80900</td>
<td>87822</td>
<td>103516</td>
<td>129452</td>
</tr>
<tr>
<td>Tata Motors</td>
<td>54499</td>
<td>43797</td>
<td>64037</td>
<td>79062</td>
<td>108265</td>
</tr>
<tr>
<td>Fiat</td>
<td>20745</td>
<td>9354</td>
<td>21277</td>
<td>25932</td>
<td>10417</td>
</tr>
<tr>
<td>Hindustan Motors</td>
<td>24472</td>
<td>25652</td>
<td>19724</td>
<td>18222</td>
<td>14893</td>
</tr>
</tbody>
</table>

Source: Society of Indian Automobile Manufacturers

The analysis on car sales by principle manufactures reveals that during 2008-10, Maruti topped with sales of 357,937 units, followed by Hyundai with 129,452 units and Tata Motors with 108,265 units.

**MARUTI SUZUKI LIMITED**

Maruti Udyog Limited (MUL), now MARUTI SUZUKI LIMITED was established in February 1981 through an Act of Parliament, to meet the growing demand of personal mode of transport caused by the lack of an efficient public transport system. A license and a Joint Venture agreement was signed between Government of India and Suzuki Motor Company (now Suzuki Motor Corporation of Japan) in October 1982, by which Suzuki acquired 26 percent share of the equity.41

The objectives of MUL then were:

- Modernization of the Indian Automobile Industry.

---

➢ Production of fuel — efficient vehicles to conserve scarce resources.
➢ Production of large number of motor vehicles which was necessary for economic growth.42

MUL, a subsidiary of Suzuki motor Corporation of Japan, has been the leader of the Indian car market for about two decades.

The company has a portfolio of 11 brands, including Maruti 800, Omni, premium small car Zen, international brands Alto and WagonR, off roader Gypsy, mid size Esteem, luxury car Baleno, the MPV, Versa, Swift, Luxury SUV Grand Vitara XL7 and SXi.

MUL, the small car manufacturer, has maintained its market leadership in the passenger car industry in India, despite the entry of multiple players.

India’s largest automobile company, Maruti entered the Indian car market with the avowed aim to provide high quality, fuel-efficient, low-cost vehicles. Its cars operate on Japanese technology, adapted to Indian conditions and Indian car users.

The company has the largest and the strongest dealer network in the country. MUL has 182 Authorized Dealers with 243 sales outlets in 161 cities.

42 http://www.marutiudyog.com
The company has around 342 dealer workshops and 1545 Maruti Authorized Service Station backed by express service station on 30 highways across the country.

Maruti is also likely to increase its production capacity by 250,000 in 2007 to meet growing domestic and export demand. Hence, the company is likely to retain its dominant position in the Indian passenger car market over the medium term.