CHAPTER 3:
AN OVERVIEW OF INDIAN AUTOMOBILE INDUSTRY
The automotive industry has been and will remain a vital element of the economy of industrialized countries across the globe. Today, this industry is not only viewed as an important driver of growth, income, employment and innovation, but also one which has increasingly been facilitating cross-border sharing of technologies and best practices.

The automotive industry is a thrust sector for India. This industry is one of the key drivers of the national economic growth and is one of the largest auto markets globally. Demographically and economically, India’s automotive industry is well-positioned for growth, servicing both domestic demands and export prospects.

Since the de-licensing of the sector in 1991 and the subsequent opening up of 100 percent FDI through automatic route, Indian automobile sector has come a long way. The favorable response from the industry to new progressive policies can be gauged from the large scale entry of automobile companies in the Indian market. Today, India has 9 significant manufacturers of commercial vehicles, 16 significant manufacturers of two and three wheelers and 5 significant manufacturers of engines. The main automobile hubs in India are based at Chennai, Gurgaon, Manesar, Pune, Ahmedabad, Halol, Aurangabad, Kolkata, Noida and Bangalore. Chennai is the biggest hub accounting for 60% of Indian auto exports. The auto components industry, although largely concentrated near automobile hubs, is fairly widespread in other parts of the country too.

For most part of the last decade and until 2011, the Indian automotive industry had enjoyed a respectable growth at a compounded annual growth rate (CAGR) of approximately 14%. The industry, which currently contributes nearly 7.1% of India’s GDP and employs over 13 million people, is the largest in two-wheelers segment and the seventh largest in the passenger cars segment globally.¹ According to the Department of Industrial Policy and Promotion (DIPP), the auto sector accounts for 4% of total foreign direct investment (FDI) inflow into India.² The
DIPP is part of the Government of India’s Ministry of Commerce and Industry; it is responsible for formulating and implementing the country’s FDI policy.

### 3.1 Evolution of Indian Automobile Sector

The evolution of the Indian automobile industry can be viewed in terms of four qualitatively distinct periods: (1) the period before 1982 mainly characterized by closed market (2) the period 1983-92 dominated by joint ventures (3) the period 1993-2007 characterized by the de-licensing of the sector (4) the period 2008 onwards dominated by internationalization and global presence.

Exhibit 3.1

Evolution of Indian Automobile sector

Source: Tata Motors, Society of Indian Automobile Manufacturers (SIAM), Aranca Research accessed on August 18, 2016.3
A detailed study of each of the evolutionary periods identifies technology as the most meaningful dimension for the study of structure and supportive investment behavior of the Indian automobile industry. Given the highly regulatory policy environment in India, technology has a unique relevance for industry evolution. Both government policy and industry strategy were manifest through technology.

The automobiles sector is compartmentalized in **four different segments** which are as follows:

- **Two-wheelers** which comprise of mopeds, scooters, motorcycles and electric two-wheelers
- **Passenger Vehicles** which include passenger cars, utility vehicles and multi-purpose vehicles
- **Commercial Vehicles** that are light and medium-heavy vehicles
- **Three Wheelers** that are passenger carriers and goods carriers.
For the purpose of this study, the researcher has selected passenger vehicles segment. Realizing booming passenger car demand in the country, many domestic and foreign automobile giants are formulating capacity expansion strategies, and billions of dollar worth of investments are already in pipeline. The Two Wheelers segment with 81 per cent market share is the leader of the Indian Automobile market owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector. The overall Passenger Vehicle (PV) segment has 13 per cent market share. According to SIAM, by 2020 India's share in the global passenger vehicle market is expected to touch 8 per cent from 2.40 per cent in 2015 and Passenger vehicle production to increase from 3.2 million in FY15 to 10 million in FY20. This segment has huge growth potential and is expected to grow at a CAGR of 13% in FY2012-20.
3.2 Growth drivers

With the growing Indian population and increasing earnings, the growth prospects of the automotive industry remain high. Availability of low cost finance in the market is a major assisting force for buyers. Apart from the impact of rising incomes, widening of the consumer base is aided by expansion of the middle class, increasing urbanization, and changing lifestyles. The exhibit below highlights the growth drivers of automotive industry in India.

Exhibit 3.3

Growth Drivers

Source: Tata Motors, Society of Indian Automobile Manufacturers (SIAM), Aranca Research accessed on August 21, 2016
Factors determining the growth of the industry:

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

Customer preference, while purchasing a new vehicle, is bent towards fuel efficient automobiles. Value for money and affordability play a vital role in the selection of vehicles, given the cost consciousness prevalent in the Indian consumer market.

The strategies adopted by the automotive companies are aimed at meeting the major challenges faced today, particularly in the areas of rising fuel prices, automobile recycling, increasing environmental and safety concerns, cost-effectiveness and rising market competition.
3.3 Current Scenario

India is currently the 6th largest motor vehicle producing country in the world. The industry produced a total of 2,39,60,940 vehicles in April March 2016 as compared to 2,33,58,047 in April March 2015, registering a growth of 2.58% over the same period last year. Hence, it has registered a remarkable growth of 8.68% over the same period last year. The country is also currently the 6th largest market in the world for automobiles and is expected to become the world's third-biggest car market by the year 2020.

As per the Automotive Components Manufacturers Association of India (ACMA), the world standings for the Indian automobile sector are as follows:  

- Largest tractor manufacturer
- 2nd largest two wheeler manufacturer
- 2nd largest bus manufacturer
- 5th largest heavy truck manufacturer
- 6th largest car manufacturer
- 8th largest commercial vehicle manufacturer

Today, 100% FDI is allowed in the sector through the automatic approval route which means that foreign investors do not require the prior authorization of the Government of India. The impact of this decision can be seen in the data released by Department of Industrial Policy and Promotion (DIPP) which states that the industry has attracted FDI worth USD 15.065 billion during the period April 2000 to March 2016.
The exhibit below highlights the total production of automobiles in India during FY06-16.

Exhibit 3.4
Total Production of Automobiles in India during FY06-16

![Bar chart showing total production of automobiles in India from FY06 to FY16](chart.png)

Source: SIAM, TechSci Research accessed on February 8, 2017

Production of automobiles increased at a CAGR of 9.4% over FY06-16. During FY06-16, passenger vehicle segment witnessed the fastest growth, at a CAGR of 10.9%, followed by two wheeler segment, which grew at a CAGR of 9.48% during the same time period.
The exhibit below highlights the Gross Turnover of Indian automobile manufacturers during FY0-15.

Exhibit 3.5

Gross Turnover


There has been robust growth in revenues of Indian automobile sector. The gross turnover of automobile manufacturers in India expanded at a CAGR of 11.72 per cent over FY07-15. The domestic Two Wheelers segment accounted for 81% of the total domestic market share for the year 2014-15, followed by passenger vehicle segment with CAGR of 10.31 per cent between FY05-15.

Trends in Indian Automobile Sector

- **Investments:** The Indian automobile industry attracts foreign direct investment (FDI) worth around USD13.48 billion during the period from April 2000 to June 2015. 51 per
cent share of French based Peugeot Motorcycles (PMTC) has been acquired by Mahindra Two Wheelers Limited (MTWL) in January, 2015. DSK Hyosung has announced to set up a plant to introduce more models in the 250cc segment in Maharashtra and also the company is planning to add 10-15 dealerships in the next financial year (FY15-16) mostly in the tier-II cities.\textsuperscript{12}

- **New product launches:** Large number of products is available to consumers across various segments. This has gathered pace with the entry of a number of foreign players. Reduced overall product lifecycle have forced players to employ quick product launches. In 2015, Mercedes launched the whole new Mercedes Benz B-Class Facelift which has new features like LED daytime running headlamps that are integrated into the cluster and new bumpers.

- **Improved product development capabilities:** Private sector innovation has been a key determinant of growth in the sector; two good examples are Tata Nano and Tata Pixel; while the former has been a success in India, the latter is intended for foreign markets.

- **Alternative fuels:** The CNG distribution network in India is expected to increase due to the new geographical areas allocated through 5th and 6th round of CGD bidding by Petroleum and Natural Gas Regulatory Board (PNGRB). The CNG station in India increased from 142 stations in 2005 to 1010 station in FY15 in 12 major states.\textsuperscript{13}

- **New financing options:** Carmakers such as BMW, Audi, Toyota, Skoda, Volkswagen and Mercedes-Benz have started providing customized finance to customers through NBFCs. Major MNC and Indian corporate houses are moving towards taking cars on operating lease instead of buying them.
3.4 Policy and Initiatives

The government of India aims to maintain the upward growth trend of the automobile industry and has launched several initiatives to achieve the same.

- Automatic approval for foreign equity investment up to 100% with no minimum investment criteria.
- Manufacturing and imports in this sector are exempt from licensing and approvals.
- The encouragement of R&D by offering rebates on R&D expenditure.
- Nine R&D centers of excellence with focus on low-cost manufacturing and product development solutions were set up by NATRiPS.
- Excise duty on commercial vehicles, scooters, motorcycles and small cars was reduced to 8 per cent from 12 per cent to boost the ‘Make in India’ initiative.
- Under Union Budget 2015-16, the government has announced to provide credit of USD14100 to farmers to boosts the tractor segment.
- The government plans to promote eco-friendly cards such as hybrid vehicles, electrical vehicles, and CNG based vehicle in India.
- Automotive Mission Plan’s (2006-16) vision is to make India a preferred destination for designing and manufacturing of automobiles and achieve a market size of USD154 billion by 2016.\(^{14}\)
- Setting up of a technology modernization fund focused on SMEs.
- FAME (April, 2015) is planning to implement Faster Adoption & Manufacturing Of Electric Hybrid Vehicles (FAME) till 2020 which would cover all vehicle segments, all forms of hybrid and pure electric vehicles.\(^{15}\)
- The Automotive Mission Plan 2016-26 (AMP 2026) targets a fourfold growth in the automobiles sector in India which includes the manufacturers of automobiles, auto components and tractor industry over the next ten years.
- Each state in India offers additional incentives for industrial projects. Incentives are in areas like rebates in land cost, relaxation in stamp duty exemption on sale or lease
of land, power tariff incentives, a concessional rate of interest on loans, investment subsidies/tax incentives, backward areas subsidies, and special incentive packages for mega projects.

- Specific interventions are envisaged to sustain and improve manufacturing competitiveness and to address challenges of environment and safety.

### 3.5 Investing in the Indian Automobile Sector

The advantages of investing in Indian Automobile Sector are listed below:

**Growing Demand:**

1. Due to rise in incomes and developing middle class, the purchasing power of people has increased
2. Young population is escalating the demand for world class cars
3. With the improved infrastructure, commercial vehicles can access distant markets easily. Hence, their demands have increased by multiple folds.
4. Easy availability of auto-finance makes vehicle purchases more easy

**Escalating Investments:**

1. Automobile firms from across the world can save 10% to 25% on operation costs in India, which gives them a competitive advantage over America, Latin, and Europe.
2. There is abundance of educated and skilled manpower in India who speak English, and they can be employed for lower wages in comparison to the European job market.
Policy Support:

1. The aim of the Indian Government is to get recognized as a global auto-manufacturing hub, and many NATRIP centers have been introduced to push the cause.
2. Funds are allotted by GOI for Research and Development (R&D) with an aim to manufacture low cost vehicles
3. A wide range of policy support has been given to foreign investors in the form of de-licensing, 40% reduction in excise duty, and decrease in import duties on CKD – 50% and CBU – 110%.

Innovation Opportunities:

1. The Tata Nano & Tata Pixel has opened a new segment for innovating low cost cars. Strong export possibility in ultra-low priced car segment.
2. CNG (compressed natural gas) market value was more than $330 million in the FY11. CNG distribution network is expected to expand from 30 cities (2009) to 250 cities in 2018.

3.6 Possibilities and Challenges

Factors like supportive government policies, optimal business environment, and accessibility of inexpensive proficient workforce have transformed India into a global automobile hub. Foreign manufacturers can consider investing in either or both, automobile sector and auto components sector in India. Many top brands have already capitalized on the opportunities, and many more are planning to invest. Today, India is one of the most lucrative marketing platforms for the best vehicles that the world has to offer.
In the coming decade, the main focus would be on enhancing efficiency and productivity, and on innovation, driven by changing customer demands. Price sensitivity of the Indian consumer, cost optimization needs of manufacturers and increasing focus on environmental concerns will drive critical changes in the market.

Future strategies of the auto companies will have to focus on increased environmental safety concerns, rising fuel prices and cost-effectiveness in the rising market competition. Innovation has to focus on increasing efficiency and reducing emissions.

Customer experience will be a key factor to retain the existing ones and reach out to the new ones. After-sales service is an important aspect which will help in winning the loyalty of the consumer. Overall in-vehicle experience needs to be upgraded for the consumer by deploying telematics, embedded software and infotainment in a seamless and user-friendly manner.

In order to ensure long-term, sustainable growth, auto companies will need to focus on adopting a three pronged strategy of - investing in R&D for product development, extending presence to non-auto verticals, and expanding geographical presence beyond the domestic boundaries. OEMs should expand service and distribution networks, manufacturing facilities and improve technological capabilities. Future investments will need a strong public-private partnership, not only to build infrastructure for growth but also to combat the counterfeit auto parts market.

A clear roadmap, training of man-power and appropriate regulations with clear policies regarding safety & emission norms and fiscal policies are required for long-term planning by the automotive industry. Steps to create an encouraging environment will help in accelerating and sustaining growth and project India as the global hub for the auto industry.
REFERENCES


