# Slowdown In The Automobiles Sector In India: Causes And Suggestion

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***Abstract: India is seeing a dreaded slowdown in the automobile sector right in between slowing economic growth & the increasing costs of owning a vehicle. Since many industries are interlinked with the automobile sector both backward and forward, it is a horrifying thing for the related industries and jobs in such industries be it plastic, iron & steel, rubber & tyre or battery manufacturers.***

***The automobile market of India is consistently showing a downward trend which indicates a tough time for the automobile sector in the times to come. The amazing incline in the growth of sales during the earlier decades, if we exclude the year 2008-09 feels like a forgotten past. As per our records, the steepest decline in history was witnessed in the month of November 2008 which was around 24.6 %, while recession across the globe was at its peak. A substantial Shift was during the month and year of October, 2011, seeing a 21.1 % fall. In February 2003, the decline was recorder around 19.9 %. The sales of passenger cars in July 2019 have declined by 31 % and even Maruti Suzuki (MSIL), the Indian market giant witnessed a 36.7 % loss of sale in comparison to July, 2018,. The production in July 2019 being 96,478 units only.***

## A. INTRODUCTION

The Indian Economy
Post Independence, the organisation of Indian economy in a systematic way was a major issue for the then Government. There was a dire need to deliver consistency in way the economy grows along with trust and transparency.

New Economic Policy's adoption in the year 1991 was important in shaping the Indian economy, putting an end to the concept of a mixed economy and opened Indian economy to the Globe.

The Sectors of Indian Economy can be understood as:

A.1 The Primary Sector

The primary sector heavily relies on the availability of natural resources for the execution of relatedprocesses. Also, services in primary sector are vastlydependant on the natural resources available in a nation for keeping the daily operations in running mode.

Agriculture is the most dominant example for this particular sector which is then followed by fishing and forestry,
Even to this day a very crucial sector of Indian economy is Agriculture. Though is GDP share has declined stillabove 50% of the nation's population relies on agriculture. Even, the

Union Budget for the year 2017 - 18 attached top priority to this sector aiming to two fold the income of a farmer by year 2022.

The issue plaguing this sector is both the under and unemployment which also includes disguised from of employment.

A.2 The Secondary Sector

Contributing to 28% in GDP, this sector relies on natural ingredients which are then utilised for creatingvariousproducts and services for consumption in the market. This sector is the best if seen with regard to the value added to the products and services. Transportation and Manufacturing are the primary examples related to this particular sector. The secondary sector accounts for employingaround 14% of the nation's workforce. This sector is rightly considered as the sector to look forward to and is very pertinent for Nation's growth in the years to come.

A.3 The Tertiary Sector

With the maximum contribution in terms of GDP in India, naturally this sector is service related and is vital when it comes to think of the development and growth of other related sectors. Like the sector discussed earlier, tertiary sector is instrumental in adding value to products. This sector accounts for the employment of around23 % of the nation's workforce.

This sector includes various service industries, solutions, consulting, information technologyalong with upcoming unique start ups This sector contributes a whopping 59 % of the total GDP of the nation. The consistent growth and better employment avenues are vital with improved salaries for various job types since India is looking towards a two-digit growth number in the coming future.

**B. Objectives of the Study**

1. To identify the reasons behind the slowdown of automotive sales.
2. To suggest possible solutions to improve the slowdown of automotive sales.

**C. Methodology Used**

Descriptive study is undertaken for the research with secondary data being utilized from various sources.

**D. Contribution of Manufacturing Sector**

After service sector, being the 2nd largest contributor to India's GDP, the manufacturing sector has seen multiple initiatives by the Govt. which include the Sagarmala, campaign of Make in India, MUDRA yojna, Startup India campaign etc.

It is important to understand that if India wishes to increasemanufacturing's share in its GDP to near 25 percent, there has to be a significant role of research and development conducted in the nation with proper allocation of funds for needful expenditure.

**E. Automobile Sector as a Major Contributor**

The automotive sector in India is currently a contributor of around 7 percent to the GDP of India. As per the the Automotive Mission Plan from the year 2016–2026 the nation aspires to increase this contribution by 5% more, thereby reaching to a good 12 percent contribution.

The Indian automobile industry which includes various vehicles and vehicle related components is a strong driver of the Indian economic growth

It is obviously linked with many other industrial sectors and a primary driver of the GDP related to manufacturing along with substantial exports and a major generator of country's employment. The strength of this is a by product of India's age old forte in fabricating, forging, welding, casting, grinding and work related to machining with precision along with obvious cost related benefits owing to the ease of finding skilled labour at very low costs compared to western nations along with inflows in the form of FDIs.

India ranked as the 6$^{th}$ largest manufacturer in the automobiles industry across the globe acing an avg. yearly production of nearly 29 million multi type vehicles in the year 2017–2018.

Out of the no. listed above, around 4 million vehicles were exported to other countries.

It is pertinent to note that:

India is World's largest manufacturer of tractors.

Second largest manufacturer of two-wheelers.

Second largest bus manufacturer.

Second largest manufacturer of heavy trucks.

Sixth largest manufacturer of cars.

Eighth largest manufacturer of commercial vehicles.

The automotive sector provides direct as well as indirect employment to a grand 29 million people of the nation with a turnover of around US$ 67 billion in the year 2016–2017 along with components related industry's turnover of US$ 43.5 billion in the year 2015–2016.

Of the production done globally, the India accounts for 4.92 percent of total vehicle production as per the year 2017, individually the figures being 5.38 percent in passenger cars and 3.48 percent of commercial vehicles.

F. **Sales of Indian Auto industry in 2018-19**

The Indian automotive industry is one of the largest, noting that it employs around 35 million people, directly or indirectly, and contributes more than 7% to the country's GDP and it directly and indirectly employs 37 million workers.
India's economy is witnessing a tough phase which further rose in the quarter ending June 2019 - its lowest in five years. This coupled with banking crisis and the decline in private investment, has made access to credit immensely difficult leading to an insecure situation and a weak consumer demand.
As the automotive industry continue declining for consecutive months the month of august registered a mighty fall in sales i.e. by 41% which is the lowest decline in two decades.
With lacs of job being lost, there is now a growing apprehension that if this demand continues to decline, more jobs may disappear. Thousands of subsidiaries supplying spares

and components to the major manufacturers are hit the hardest effecting umpteen no. of daily wage workers.
The sales of trucks and buses declined by 39% where as Two-wheeler sales considered as a key indicator of demand in rural India also fell by 22% to 1.5 million units as compared to 2018.
The situation of domestic passenger vehicles was not reassuring as well, showcasing a decline in sales by 31.57% to 1,96,524 units in the month of August, from 2,87,198 units in 2018.
Total two-wheeler sales in August declined by 22.24% to 15,14,196 units from 19,47,304 units in the year 2018 in which the sales of motorcycle fell 22.33% to 9,37,486 units from 12,07,005 units a year ago.
In the same fashion, Commercial vehicle sales declined by 38.71% to 51,897 units
The entire vehicle sales across categories fell 23.55% to 18,21,490 units from 23,82,436 units in August 2018.
In light of the same automobile companies and top executives demanded some relief to curb the situation like tax cuts and easier access to financing for manufacturers, vendors and consumers. The Government also seemed worried about the same and as a result of the same announced certain measures including staying the decision in raising the registration fee of new vehicles and up to certain extent lowering the interest rate on loans from banks for purchasing a vehicle.
The slowdown did not even spare the age old market leader- Maruti Suzuki India Limited (MSIL), which has been registering a steep decline in monthly sales since March 2019. MSIL's sales have come below 1 lac mark after a very long time. At 96,478 units, the company's July 2019 sales in the domestic market a re down to 36.3 percent from sales a year earlier, sales for July 2018 being 1,52,427 units.
The No. 2 player in Indian automotive market i.e Hyundai Motor India Limited (HMIL) reduced to mere 39,010 units i.e by 10.28 percent as compared to 43,481 units sold in July 2018. The Korean carmaker witnessed a slump in all of its models be it Santa FE, Tucson, Creta, Verna or small cars like Santro, i10, i20 and Eon.
M&M i.e. Mahindra and Mahindra Motors , the indigenous brand tasted decline in sales which sold a total of 16,831 vehicles in July 2019 a decline by 14.91 percent as compared to July 2019 in which 19,781 units were sold .
Tata Motors Limited (TML) reported sales of 10,485 units in July 2019, indicating a huge 46 percent year-on-year decline in sales, compared to 19,410 sales figures for July 2018. What is more astonishing is that the sales figure declined at such a pace despite an addition of 48 new sales points across the country by Tata, including 30 which were added in July 2019 employing more than 2500 sales representatives.
Toyota Kirloskar Motor sold a total of 10,423 units in the domestic market in July 2019, which is a decline of 23.77 percent in comparison to July 2018, the sale then being 13,677 units . Officials at Toyota resolved to maintaining a lean inventory at dealership levels in order to lend support to the troubled dealers.
Honda Cars was has been one of the biggest losers in YoY sales, reporting a monthly sales of 10,250 units in July 2019, a decline of 48.67 percent compared to 19,970 units in July 2018 with almost all cars in its kitty showing poor sales figures be it the high selling Honda City, WRV , Amaze or newly launched Civic.

The slowdown in automobile sector has lead to closing up of 286 dealerships operating pan India which at dealership level only affected more that 30,000 job losses. Largely this closure is seen taking place in the semi urban and urban markets, most of them being in car segment.

By the end of April 2019, 84 showrooms were shut in Maharashtra alone, 35 in Tamil Nadu, 27 in Delhi, 26 in Bihar, 21 in Rajasthan and small chunks in other states of the nation. The operational costs were reduced to bare minimum and primarily stocked inventory, models and colors were pushed to the customers with very limited no. of sales executives.
In order to reduce the cost further, many companies including the top sellers of the nation announced factory shutdowns of several days from June to August Months since a lot of unsold inventory lies dead in the stockyard. This was although not healthy for the employees and other vendors but the companies had no other way out.

It was estimated that in the month of June , a whopping half million regular passenger four wheelers having a worth of around Rs 35,000 Crores were lying as dead stock , waiting to be sold.
Much to the dismay, 7 of top 10 car makers, including the big shot Maruti Suzuki, , Tata Motors and Mahindra & Mahindra had shutdown their plant in May and June month
The car dealers having brand showrooms are badly hit by the unsold inventory with more than 50% of them unsold , regardless of sale as per the new GST regulation, the dealership were levied GST on the unsold vehicles as well.

Car manufacturers like Renault, Nissan, Skoda and Volkswagen had bare minimum sales and resultantly had to shut manufacturing for longer periods.

### G. Reasons for the slowdown in automobile sales

**Shift from Bharat Stage IV to VI**: In the wake of discontinuation of older engines and BS VI becoming a norm, it is natural for all prospective buyers to put a halt on their car buying decision and rather buy an updated model of the same car/ a newer car since the sale of BS IV shall be discontinued wef March 2020 with only BS VI diesel and Petrol engines to be sold from the showrooms.

**Slowdown in the Country's GDP** – The GDP i.e. the gross domestic product of India in June 2019 reduced to 5 percent which is the lowest in the past six years. As a result the consumption of goods have also reduced to a as low as 3.1 percent from 10.6 percent in the March quarter. In addition to the above there is stagnation in the share market and the Sensex have dropped almost 3 percent during the last two years.

**People relying on rapido, ola, uber and car sharing platforms** – Rising fuel prices, traffic jams, road side crimes, unavailable parking slots, poor road infrastructure and an expensive cost of owning a vehicle have led to a scenario where people prefer ride hailing apps like Rapido, Uber Ola and other alternatives.

**Improved quality of cars:** The vehicles manufactured in the last decade have been doing very well owing to their technological advancements and refined engines along with better service avenues. The vehicles if kept well and serviced regularly hardly pose a problem to the owner as compared to the yester years engines , therefore the need to buy a new car have reduced significantly amongst consumers. The repurchase cycle have widened now.

**Spending on experiences rather than assets**: The choice of many millennials today is to spend on experiences rather than spending on materialistic things and owning more and more assets. The era of YOLO ( You Only Live Once) suggest to invest in trips, destinations unknown and services which can last a life time. Naturally, such thought leads to reduced expenditure on expensive things.

**No more small and affordable cars** – As opposed to earlier models, cars these days have been viewed more of a social statement rather than a need. Car manufacturers have drastically increased the prices of their cars by adding plethora of features on even hatchback cars and the aspirational value for buying a small car is long gone. Consumers are ready to wait for saving more and purchasing their first car which is expensive and feature laden.

**Increased fines and tolls**: There is a huge rise in the penalties and stricter rules are imposed after the the amendment in Motor Vehicle Act, 2019 which came into force on September 1. The amended law has even stricter regulations and the fine so imposed have increased by 4 to 10 times in comparison with previous fines which have led to a negative sentiment amongst prospective buyers. Similarly, the highway tolls and parking costs have increased considerably.

**Increased car loan interest rates** - Although , the RBI have reduced rates for the banks, the banks however have not passed the lower rate benefits to the consumer probably owing to weak economic situation of the country. Banks have now even increased the formalities and pre requisites for a customer for taking a loan which again acts as a deterrent in new vehicle purchase.

**Increased cost of registration and Insurance** – It is mandatory now to do multi-year insurance with respect to third party i.e buyers are now required to get a 3 year insurance done instead of the previous norm of 1 year. Even the registration fee of a new vehicle on certain states have been increased which leads to higher cost of acquiring a vehicle.

**Upcoming era of electronic vehicles-** Across the globe, e vehicles are becoming more and more popular with emphasis on lowering the pollution. In India also, Government have started advising newer consumers to go for e vehicles and certain subsidiaries are also being provided to the manufacturers as well as the buyers. As of now since the tech is new, it is still expensive but people are considering buying an EV in coming times since it is considered to be the future and internal combustion engines like petrol or diesel powered ones shall be long obsolete, thus stricter pollution norms and change in fuel technology is also keeping the buyers away from buying a new vehicle.

**Cars now available on rental and lease** – Rentals for self driving like the ones being offered by zoom car, myles provide cars on rental basis for self driving to the consumers. The consumers thus pay a nominal fee and rent a car for doing trips while enjoying a different model every time starting from basic to luxury cars. Similarly, certain companies like Citroen, Mahindra & Mahindra, Volkswagen, and Mercedes have started providing car on lease, no need to buy; just like western countries one can lease a car and use it rather than owning one.

**Waiting for more discounts**: The news of slowdown have brought with it even more slowdown since many prospective buyers feel that since the situation is so grim, they can get a good deal once the year is close to an end i.e. near December or probably they will wait till January to buy a dead stock which the companies would be in a hurry to exhaust.

**Lower resale value in the pre owned market:** With stricter pollution norms and changing technology, the second hand market has also become sceptical towards previous generation pre owned vehicles. They are now foreseeing buying an old vehicle for resale as a dead stock and are rather not doing the same. A new buyer could only go for a purchase if his previous vehicle fetches good value.

**H. Suggestions to fight the automotive slowdown**

**Availability of Credit** : The NBFCs i.e. Non-Banking Finance Companies play a vital role in providing credit to the automobile sector across various segment, be it the owners of a fleet of buses or trucks or any commercial vehicle or farming equipment and tractors bought by farmers along with the regular passenger car buyers for household and business use. There is a 60 to 70 percent fall owing to stricter compliances and lesser flexibility along with less credit availability. There is a solution if the overall credibility goes up..

**Reduced tariffs and easier affordability**: Reduction in tariffs is a must which is evident from the growth story of China. Owing to lower VAT in China, which is 13 percent, reduced from the earlier 16 percent, the overall vehicle ownership cost per capita income is around 97 percent only. However, in India the GST being 29 to 50 percent, along with higher interest rates , the vehicle ownership cost per capita income is 450 percent which is very high and thus it is much difficult for an Indian to purchase a vehicle. Thus, lowering the taxation on vehicles is very important and it can prove to be a catalyst for battling the slowdown.

**Clarity in polices and consumer classification**: The lack of clarity on Govt.'s stance on BS IV vehicles along with growing talks on making e vehicles as the only way of pursuing future mobility, buyers are skeptical and fearful to take any step towards the purchase decision. There has to be a role of consumer and market forces and regulations should consider the outcomes of usage rather than blindly giving green signal to one technology and declaring the other as obsolete. The Total cost of ownership of a hybrid or electric vehicle will largely vary from one type of consumer to the other. A taxi owner may find an electric vehicle's initial cost worth it owing to daily run of 200+ kms. , however for domestic usage of 10 to 20 kms. a day, a petrol/cng/ car shall make all the more sense.

**Understanding and reducing operational Costs**: This is a time for automobile industry to understand the productivity lacunas and work on lowering the cost of manufacturing a particular vehicle along with rationalizing and consolidating its market portfolio. Indian automotive industries lag behind other countries in automotive productivity, for instance when compared to Japan, the lag is 40 percent and if compared with China, the lag increases to 60 percent which is quite high and an area to work on. Work is required to reduce operational complexities and regulating cost areas by rationalizing their variant spreads, monitoring the supply chain and using cost friendly new age practices of manufacturing, distribution and sales. The redundant models may be taken away from the manufacturing lines and no. of variants per model may also be rationalized and reduced as they only add to the cost since only a few of them are popular amongst the consumers.

**Improving the road infrastructure**: Majority of the urban consumers fear driving their vehicles nowadays owing to poor road planning, increasing traffic jams and horrible road conditions. Although the Government is working on increasing connectivity through better highways, the real picture is far from being tolerable. Potholes, uneven roads, increasing road rage and related incidents have made sure that people steer clear from putting their spanking new car on the road, only to witness the wrath of fellow commuters and Indian roads. With increased tolls, fines and other taxes, Govt. must see that the roads of the nation are worthy of driving which can improve the slowdown scenario.

**Reducing the "on road" prices**: A car buyer bears a lot of burden in the form of taxes prior to registering the vehicle, however, it doesn't end there. To make a car road legal, a substantial amount is spent by the buyer in the form of vehicle registration fee and insurance which can be 15% of the total cost of the car. Such high fee should be reduced and rationalized to curb the slowdown.

**Creation of Earning Avenues**: At this scenario where cash flows are at a standstill and trust issues are prevailing amongst banks, lenders and customers, it is very important to create jobs in the country. The automobile slowdown along with the decline in nation's GDP has lead to job losses and loss of income. Govt. should work on creation of jobs and work on sectors like food processing, hospitality services, tourism and textile to name a few since there is a potential in these sectors to absorb more manpower.

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