

## Automobile Industry A driver for employment and growth

**Prof. Uday Lawate**

Director, BETs Global Business School,  
Belagavi, Karnataka

+91 - 9449851152 , lawateuday@gmail.com

### ABSTRACT :

Make in India (MII) promises to have the potential to give a new thrust to manufacturing in India. A key sector is automobiles and going by the objectives mentioned in the Automotive Mission Plan (AMP) 2016-26, India aims to be a big player on the global scenario. Currently being the second largest two wheeler manufacturer in the world, India could stand first in production/sale of small cars, two wheelers, three wheelers, tractors and buses and third in passenger vehicles and heavy trucks. This will take the contribution from the present 7.1% to the level of 12% of National GDP.<sup>2</sup> The amount of FDI inflows in the Automobile Industry during January, 2000 to December, 2015 was Rs. 77,036.56 crore (US\$ 14.48 billion) which is 5.20% of the total FDI equity inflows.<sup>3</sup> India has a great advantage with a young population, which if skilled, can produce a workforce which can be deployed to productive purposes. This will give a greater spinoff to other services and ensure a healthy growth.

Development of infrastructure, ensuring ease of doing business and rationalization of tax structure and consistency in policy are some of the areas which the government has to focus on to give automobile industry and MII the thrust it requires.

**Keywords :** Make in India, automobile sector, Automobile exports, Training opportunities

### INTRODUCTION

Of late, the fact that India is a market for anything from the “Bottom of the Pyramid” to high end luxury goods is well recognized. A decade ago, one would raise eyebrows if someone had acquired an expensive imported car – a case in point is the issue of several instances we used to hear about tax evasion by celebrities about such acquisitions. We have moved on from then to Maserati making a comeback to India with models priced between Rs. 1.14 crore to Rs. 2.2 crore.<sup>4</sup> The flooding of the market by Chinese goods such as low technology plastic table mats, pins, kites, crackers, artificial flowers to technology oriented gadgets such as mobiles, laptops and other electronic goods can give a glimpse of all that we can potentially make in India.

The impact of imports can be as simple as closure of low technology industry in India to more complex social-economic implication such as unemployment. Can we allow ourselves to lose out such huge employment? Can we allow ourselves to be looked at as only a market of 1.2 billion people with money to spend? AMP aims to increase exports of vehicles by 5 times and components by 7.5 times.

In the last century, evolution of marketing was segregated in terms of eras. These were the production era, product era, sales era, marketing era and societal marketing era. All these essentially were led by instinct of the industry leaders and companies to survive in the market and ensure better service to customers. Make in India as a concept is not new. Did Tata not manufacture steel in 1912? During World War I, they supplied 1500 miles of steel rail which made movement of troops and material possible in Mesopotamia. Were we not known for all the cotton cloth we manufactured?

### Automobile business zone...

Let us take the automobile sector as a case in point. The saga of Maruti Udyog from early 80s to the current level is well documented. Similar are the cases of Bajaj who from a near monopoly had to transform itself on being challenged, or the stupendous success of Royal Enfield and Hero Motor Corp – all examples of what can be achieved with drive and adaptability. The technology and talent are available locally.

The Indian auto industry produced 25.3 mn vehicles in the financial year ending March 2017.<sup>6</sup> The sale of auto industry in India has grown by 6.8% in April-March 2017 over the same period in 2016. The key contributors in terms of volumes are two wheelers 80% and passenger vehicles 14% in 2015-16. Production is up by 5.4% in the period mentioned above.

The automobile industry currently contributes to 7.1% of the country's GDP by volume and is estimated to become the 3rd largest by volumes in the world by 2026.<sup>5</sup> It will account for more than 5% of global vehicle sales. The Automotive mission plan, 2016-26 outlines the aim to emerge as the world's destination of choice for design and manufacture of automobiles and auto components with output reaching a level of USD 300 Billion, accounting for more than 12% of the GDP and a potential for providing additional employment to 65 Million people by 2026.

### New investments

From the early days of Hindustan Motors and Premier Automobiles, we now have a multitude of manufacturers of passenger cars, commercial vehicles and two wheelers including leading foreign players like Suzuki, Ford, Nissan, Toyota, Hyundai, Renault, General Motors, BMW and others.<sup>8</sup> According to data released by Department of Industrial Policy and Promotion (DIPP) the industry has seen foreign direct investment (FDI) worth US\$ 15.065 billion during the period April 2000 to March 2016.

BMW which started its India operations in 2007 in Chennai has enhanced its indigenous content to 50%. In July 2015, it has announced a reduced price for a range of models produced locally.<sup>8</sup> Mercedes Benz India inaugurated its second plant in Chakan, Maharashtra which doubles its capacity to 20,000 units per annum. With the market to go up to one lakh cars per annum by 2020, the company feels it is future ready and grab a significant share of the market. This investment takes its total to over Rs. 1,000 crore since inception. Mercedes-Benz's local manufacturing now strengthened with as many as six key models made in India: S-Class, E-Class, C-Class, M-Class, GL-Class and the GLA. The company is likely to add CLA sedan in future.

Electric mobility is now a reality. The white paper from SIAM clearly states the shape of the future.<sup>10</sup> It outlines the milestones and timelines on the phases of making the nation reach an all new vehicle sales of pure electric vehicles (EVs) by 2047, meaning that no conventional diesel and petrol vehicles will be sold. State run Energy Efficiency Services Limited plans to procure 10,000 electric vehicles and Tata Motors has delivered the first lot of Tigor Electric Vehicles.<sup>11</sup> Suzuki is not too far behind and has already announced its plans for EVs.

Government will have to plan a whole gamut of investments in creating new infrastructure for recharging and creating ecology conducive to the new challenge. Does one guarantee continuance of policy matters is a question no one can rally answer. Lobbying and political priorities/pressures will always cast their shadows even in the best case. Investment needs to be made in this sector but returns are relatively low. The 2017 report on Automotive Industry Trends from

PWC views the sector through the lens of Total Shareholder Returns and Return on Invested Capital. It gives a very clear understanding of the challenges in terms of new investment in technology, trained manpower, design, manufacturing practices, distribution and many allied aspects.

At current levels, the policy makers and economists insist that private investment in industry needs to come. However, industry appears vary and reluctant given the cost of capital and returns expected. Added is the scenario of a new technology in the form of electric mobility.

**EXPORTS**

In April-March 2015, overall automobile exports grew by 14.9% over the same period in the previous year but this has been poor in the year 2016-17.

Positives of this industry will impact steel, rubber, aluminium, lead, plastics, glass, machine tools and several others in the capital goods and consumables as well as services such as finance, banking, sales & services, insurance, distribution and logistics.

Recent news reports indicate that Ford plans to export its Ecosport to the US by 2017. Ford has been able to keep its Chennai plant working 24x7 by catering to the export market.

**SKILL DEVELOPMENT**

The Automotive Mission Plan 2016-26 expects the sector to contribute to over 12% of the country’s GDP and comprise more than 40% of its manufacturing sector.2 It goes without saying, that the current skill sets might not be good enough. More needs to done to factor in the technological change that EVs require. These could be more IT related and alternative power options. The presence of a large pool of skilled and semi-skilled workers and a strong educational system has given India a great advantage to exploit the opportunity. The International Labour Organization (ILO) has projected India to have 116 million workers in the work-starting age bracket 20-24 years by 2020. CII had projected a requirement for about 2-2.5 mn skilled workers by 2015 in the auto sector. Policy makers need to look into this, while industry will have to look to re-skill the present manpower.

**CONCLUSION**

What matters most is the active implementation of the scheme to convert the intent into results. We already have a few clusters in this sector such as Delhi-Gurgaon-Faridabad, Mumbai-Pune-Nashik-Aurangabad, Gujarat (Halol, Sanand), Jamshedpur-Kolkata and Chennai-Hosur-Bengaluru having attracted huge investments. The direct benefit of such investments will create opportunities for growth and expansion of OEM and ancillary industry. 100% FDI is allowed in this sector but a few aspects such as taxation, consistency in policy decision, labour laws, skilled manpower and power supply need to be worked out. Hurdles such as speedy clearances and ease of working, making resources available (especially land) by the government agencies and industry on its part ensuring promised investment is made, will ensure better outcomes.

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**Automobile Production Trends**

Category	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Passenger Vehicles	3,146,069	3,231,058	3,087,973	3,221,419	3,465,045	3,791,540
Commercial Vehicles	929,136	832,649	699,035	698,298	786,692	810,286
Three Wheelers	879,289	839,748	830,108	949,019	934,104	783,149
Two Wheelers	15,427,532	15,744,156	16,883,049	18,489,311	18,830,227	19,929,485
Grand Total	20,382,026	20,647,611	21,500,165	23,358,047	24,016,068	25,314,460

**Automobile Domestic Sales Trends**

Category	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Passenger Vehicles	2,629,839	2,665,015	2,503,509	2,601,236	2,789,208	3,046,727
Commercial Vehicles	809,499	793,211	632,851	614,948	685,704	714,232
Three Wheelers	513,281	538,290	480,085	532,626	538,208	511,658
Two Wheelers	1,34,09,150	13,797,185	14,806,778	15,975,561	16,455,851	17,589,511
Grand Total	17,361,769	17,793,701	18,423,223	19,724,371	20,468,971	21,862,128

**Automobile Exports Trends**

Category	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Passenger Vehicles	508,783	559,414	596,142	621,341	653,053	758,830
Commercial Vehicles	92,258	80,027	77,050	86,939	103,124	108,271
Three Wheelers	361,753	303,088	353,392	407,600	404,441	271,894
Two Wheelers	1,975,111	1,956,378	2,084,000	2,457,466	2,482,876	2,339,273
Grand Total	2,937,905	2,898,907	3,110,584	3,573,346	3,643,494	3,478,268