

Overwhelm Recession in Automobile Industry

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Abstract: The automobile industry is the major contributor of 7.1% to GDP according to the Center for Automotive Research. The boom and wane of the auto industry is being felt in all other sectors of an economy. The case presents the domestic crisis of the renowned automobile sector in India during 2019. The industry has umpteen ways to overcome plummets in vehicles and a focused roadmap of four-wheel increase in sales, perhaps expected in the same year. Cause of slowdown carries different interpretations such as consideration of the global economy, legislation of electric vehicle by 2030, inventory pile-up (aggregative supply- low demand), and GST. The goal of the case is to provide, empathize with the customer's purchase decision of vehicle in the current (knowledge of recent sluggish) and future with the aid of the Indian government.

Keywords: Recession, Automobile, Slump, GDP, CAGR

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I. Introduction

All human beings want to live a comfortable life. The livelihood of individuals is dependent on the Country's growth. Any country's economic prosperity relies on various sectors. The economic growth or downfall of one business sector will directly or indirectly affect other sectors. With the era of global integration, this is true with economies being affected by the growth of the fall of others in the world.

History has shreds of evidence of the phenomenon of global integration, as it is found in the case of Lehmann brothers. This wave led to the disaster of major economies of the world. But India was insulated

The automobile crisis was just a part of the 2008 recession, but the current scenario portrays that the crisis is born from the automobile industry. Unlike the 2008 meltdown, the economic crisis is on the ebb, with growth in the first quarter of 19-20 hitting a six-year low of 50%.

How India Fought the 2008 Economic Meltdown.

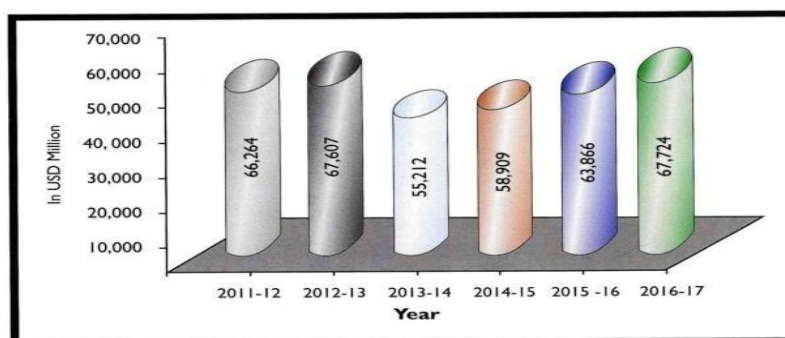
The recession did not lead to the downfall rather it stagnated the GDP on an average of 8%. Hence to boost the automobile industry, State Bank of India reduced the interest to 10% during Feb2009. Tata Motors saw 2008 as an opportunity for launching Tata Nano in the name of "People's Car", the low cost of which encouraged customers to purchase passenger vehicles by Feb2009.

According to the Core group on Automotive Research and Development (CAGR), four-wheelers encompassing passenger vehicle, utility vehicle and multi-purpose vehicle showed an increase of 23 lakhs from 9.3 lakh units in 2007-2008. Exports have increased colossally from 84,000 units in 2002-03 to 280,000 units in 2007-08; specifically, passenger vehicle exports have crossed 7 lakh units by 2011-12^[4]

PERFORMANCE OF DOMESTIC AUTOMOBILE INDUSTRY:

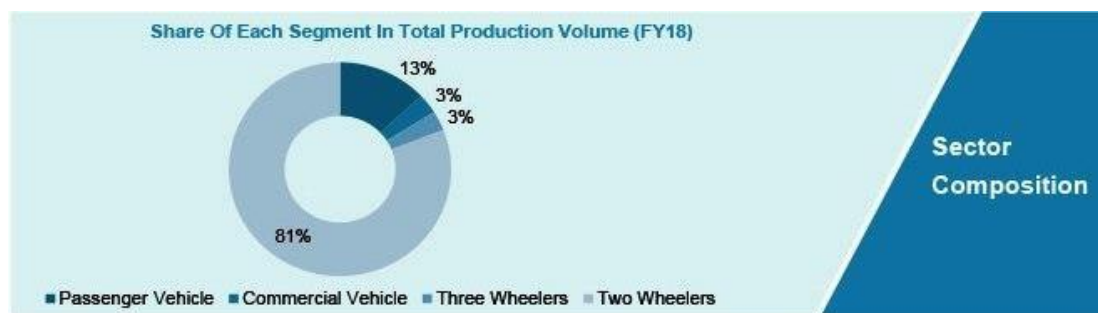
Gross turnover of Automobile manufactures in India from 2011-12 to 2016-17 shows exponential growth in the increase of sales by society of Indian Automobile Manufacturers (SIAM).

GROSS TURNOVER OF AUTOMOBILE MANUFACTURERS IN INDIA
2011-12 TO 2016-17



Source: society of Indian Automobile Manufactures.

Market Size and Market Growth: A comprehensive report from IBEF [5] says, India is the 4th largest manufacturer of cars and the 7th largest manufacturer of commercial vehicles in 2018. The overall automotive industry is dominated by two-wheelers holding 81 percent of share in domestic automobile sales in 2018.



Source: Indian Brand Equity Foundation

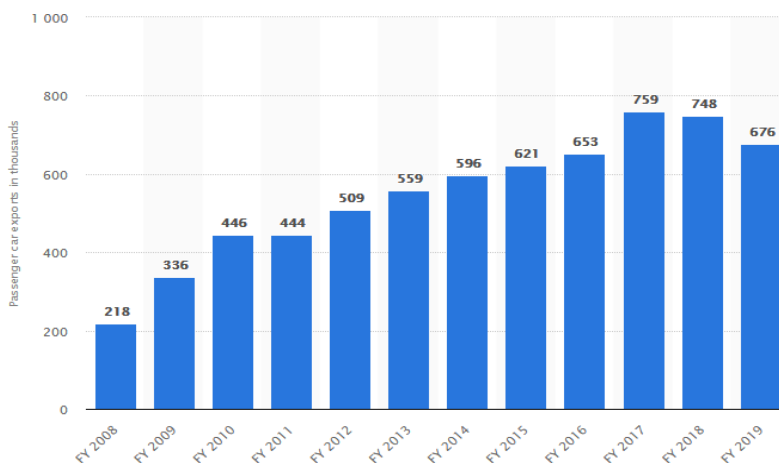
The domination of two-wheeler sales in the market is due to the outstanding growth volume of middle-class families and the young population. Besides, the interest rates of loans offered by rural banks were far less relative to metropolitan city which elevated the market size in the automobile sector.

Exactly, 30.92 million Domestic automobile vehicle is manufactured which has increased 6.96 percent between FY13-FY19.

Commercial vehicles recorded the fastest growth in domestic sales at 17.55 percent year-on-year in FY19.

In FY19 the sales of the passenger vehicle have crossed 3.37million in India and expected a further increase to 10 million in year FY20.

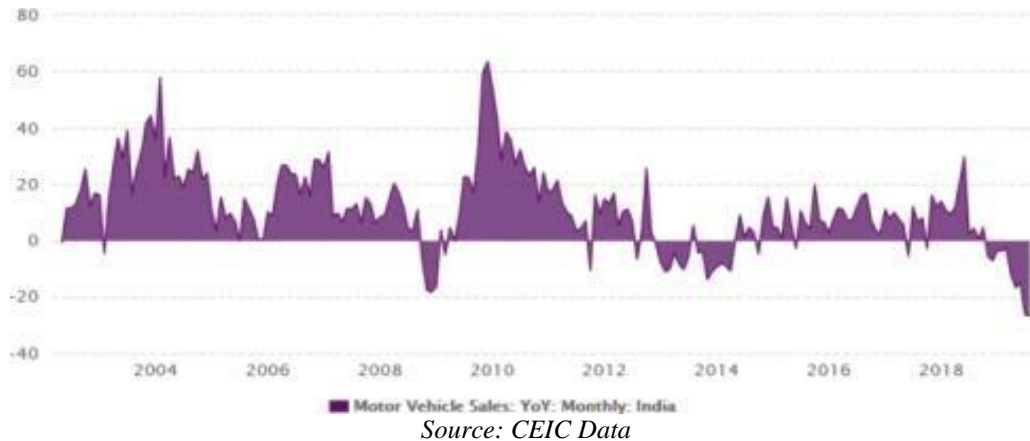
Also, India, one of the major exporters of cars has shown good progress in the passenger car segment. But there are a slump in the passenger cars i.e., 676,193 passenger vehicles in FY 2019 from about 748,366 passenger vehicles in the previous fiscal year.



Source: Statistics Research Department

SLUMP IN THE AUTOMOBILE

Automobile industry toil to improve the GDP growth already down to 5% in the April-June quarter of 2019. However, the growing clamor of tax cuts and other eliciting measures. It's a depression that not witnessed by Indian automobile industry for the past 20 years which slowly admits the merchandise of exports, high-base effect gnawed away first-quarter year, economic growth down to slump a third stage of Business – Economic life cycle a short term fluctuation in the economy relative to long term trend in output. The count of Passenger vehicle and commercial vehicle current sales travel towards negative as stated by Indian motor vehicle month after month; however, it contributes 13% and 3% to overall total production volume. Dropdown of 26.6% in August 2019 than a decrease of 26.2% in the previous month. The monthly growth sales depicted an average growth rate of 10.2%. Analysis of the past decade shows peak sales of passenger vehicle is 63.6% in December 2009 and negative low sales of - 26.6% in August 2019.



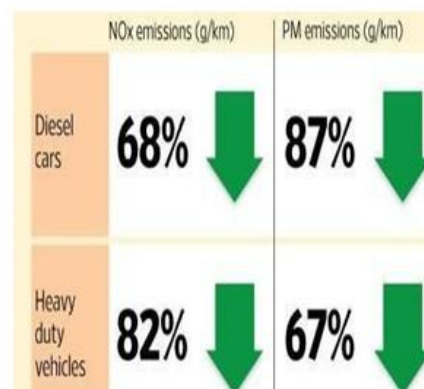
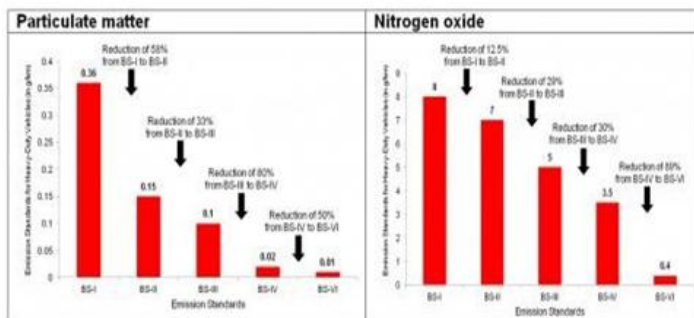
REASON FOR SLOW DOWN / FACTORS DAMPING AUTOMOBILE SALES

It is not the secret that the automobile industry reaches down point a plunge in domestic consumption demand arises for reasons.

1. Legislation of electric vehicle by Indian Government:

The invention of petrol/ Diesel vehicles as transportation for humans began in 1769. In, 1886 Benz received the patent for gas-fueled car, a Three-wheeler; in, 1891 four-wheeler was introduced, and become the world’s largest automobile manufacturer in 1900. Invention in R&D, Technology and increase of economy GDP growth when to neighborhood countries, from then after and continues prevalently to ease of transportation which facilitates by reducing human actives to automation.

The leap from BS4 to BS 6 is due to the extent of sulfur in BS-IV is 50 parts per million whereas in 10ppm in BS-VI. New norms made by on-board diagnostics (OBD) to the reduce of global warming issue in future due to the emission of effluents from vehicle in current and previous years the Government of India decided a change in mixture of proportion for ignition of internal combustion engines which contains carbon monoxide, hydrocarbons, nitrogen oxides, particular matter (PM), and Sulphur oxides a high compliance leads to air pollutions. Ola and Uber giants of a commercial vehicle are one main contributor to the emission of effluents. The stage or standard of Bharat IV was amended in the year 2010 for four wheels and all vehicles in 2017 a step in protection of nature and goes on a jump of standard VI which embark into electric vehicles probably this next window will be suitable for another set of 20years.



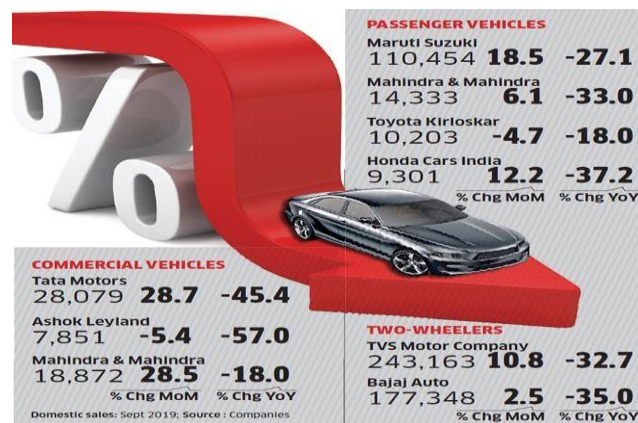
Source: Bharat standards

The Government of India announced electrical vehicle on road has to be in use from April 1, 2020, puts the manufacture into hassle due to the change of manufacturing technology, investment in R&D, manipulation of manpower, entire production, process, and organizational design decision chart, etc. However, 80% of electric vehicles remaining 20% gasoline is. Major Information on BS-VI for 20% gasoline vehicle is no capacity of engine above 2000cc. The sudden torque dismay both the car manufacturer and the republicans purchase decision in undergoing of Government points towards mitigation of artificial emission in polluting the nature.

2. Inventory PileUp:

As per the order of the Supreme Court, a deadline for implementation of stage VI norms on the 1st of April 2020 will impact automakers and buyers. It refused to grant a grace period for automakers to the sale of non-compliant BS-IV vehicles within on or before the deadline. Draft of BS-VI points by the Government of India in consideration of the global atmosphere resulted in storage stock of inventory by not operating a planned daily production count seven though thought to produce a vehicle the ultimate user the consumers are in dilemma to purchase. The value chains of automobile affects and thus shows bad results in performance.

However, existing finished vehicle waiting for sales are slowly getting increased by providing discounts, offers, bank issue loan after mitigation or elimination of debt (liquidity). This relaxation offered to clear BS-IV inventory within the stipulated time, the short term slump go off is achieved by persuading the customer purchase in sentiment of festive season 2019.



Source: *The Economic Time*

3. GST:

Goods and Service tax was proposed by the Constitution (101st Amendment) Act 2016 on 8th September 2016 paved the way for the introduction of Goods and Services Tax in India. On 29th March 2017 Lok Sabha passed the Central Goods and Services Tax Bill 2017 (The CGST Bill), the Integrated Goods and Services Tax Bill 2017 (The IGST Bill), the Goods and Services Tax (Compensation to the States) Bill 2017 (The Compensation Bill), the Union Territory Goods and Services Tax Bill 2017 (The UTGST Bill), after approval of GST council. The Rajya Sabha passed these Bills on 6th April 2017 and was then enacted as Acts on 12th April 2017.

The GST rollout with a single stroke, the biggest nation of India reformed to “one nation, one market, and one tax. The cascading of tax (tax on tax) is finally reached after one and half decades which were in thought of Shri Atal Bihari Vajpayee. The biggest indirect tax regime has been kicked off, dismantling all interstate barriers in respect of trade.

4. Loans:

The current economy due to lack of liquidity, banks become stringent in the issue of loans, offers only to republicans who have a high CIBIL score. Transunion credit information system CIBIL tracks and monitors the repayment history of individual consumers in India. It pictures the worthiness of individuals for banks and financial institutions to sanction loans.

GOVERNMENT INCENTIVES TO PROTECT AUTO INDUSTRY

The Government of India’s approval of 100 percent Foreign Direct Investment (FDI), to alleviate India a global manufacturer and hub through automatic route.

Under the National Automotive Testing and R&D Infrastructure Project (NATRIP), GOI planned to set the Research and Development department at a cost of US \$388.5 million to enable the automobile industry to be equilibrium with global standards. The following testing and research centers have been established in the country since 2015

International Centre for Automotive Technology (ICAT), Mansard

National Institute for Automotive Inspection, Maintenance & Training (NIAIMT), Silchar National Automotive Testing Tracks (NATRAX), Indore

Automotive Research Association of India (ARAI), Pune Global Automotive Research Centre (GARC), Chennai

SAMARTH Udyog – Industry 4.0 centers: ‘Demo cum experience’ centers are being set up in the country for promoting smart and advanced manufacturing.

The adoption of plug-in-hybrid vehicles (Electric vehicles) is been supported and established by national governments and local authorities. To meet the stated objective by GOI that deadline for “only electric vehicle (Manufacturing)” by 2030, it’s being recognized under the ‘Make India Policy’ and new policy are framed to make electric vehicles functional on road either through existing energy retailers like fuel pumps or by subsidizing manufacturers' investments in the field. In the year 2019 GOI has approved the FAME II scheme, allotted fund of 10,000 crore for FY20-22. Implementation of the FAME scheme increased from 5,197 to 192,451 in June 2015 to March 2018. During 2017-18, 2,202 three-wheelers, 47,912 two-wheelers 185 four-wheelers, and 10 light commercial vehicles were supported under the FAME scheme.

Not only has the Government of India planned to face the slump, other automobile giants also. In 2018-19, Ashok Leyland planned to launch 20-25 new models across various commercial vehicle categories with an investment of 1,000crores (\$155.20 million). By 2020, Hyundai is planning to invest US\$ 1 billion in India. The capacity of the Chakan plant is increased by Mercedes Benz to produce 20,000 units per year in India. An electric technology manufacturing hub in Bangalore by Mahindra Electric Mobility has opened with an investment of Rs 100 crore in November 2018, which will increase the annual manufacturing capacity to 25,000units.

II. Conclusion:

This paper briefs about the endogenous and exogenous depths of the automobile crisis in India. The vehicle sales slowdown from 18.2 lakh vehicle in July 2019 compared to 22.45 lakh in 2018.

Sales of Passenger vehicles reduced to 2 lakhs from nearly 2.91 lakhs leading to the trimming of employment over 2.15 lakhs. The causes of this owes to an increase in the cost of the vehicle is due to high fuel price, high vehicle insurance cost, high-interest rate, the crisis among NBFS. Automobile Industry a major contributor to employment has witnessed a decrease in it by nearly

3.7 crores. Due to this recession, nearly 15000 temporary works are removed by Original equipment manufacturers. Also, 300 dealers remain closed leading 2 lakhs job being lost. The rest of the 10 lakhs job is at risk. According to the Government announcement, change from BS 4 to BS 6 and also e-motor vehicle implementation results in less effective solution in combating recession. Automobile manufacturing companies understand and elicit into expansion or growth strategy (by joint venture) November 2019 FORD and MAHINDRA& MAHINDRA signed for joint venture in start of new operation with of existing location. Hence before the recession wave gains strength and devastates the other economic sectors powerful Government intervention is obligatory.

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