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The Indian Automobile Sector Slowdown

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ABSTRACT

The Automobile sector is an important pillar of the Indian Economy. Being a major contributor to GDP, and a big job creator facing a slowdown, the crisis in the Indian automobile sector has far-fetching consequences. This research study examines the reason leading to the decline in automobile sales with specific reference to Indian automobile companies from a two-wheeler, passenger, and commercial vehicles. An overall economic slowdown, liquidity issues, weak consumer demand, disruptive entry of new players are observed to the be the prime factors forcing automobile companies to declare plant non-working days, employee wage cuts and even retrenchments, delaying expansion plans and technology upgrades apart from being pushed into a deep financial crunch. Findings and recommendations from this research can strengthen our understanding of the issues surrounding the sector and can potentially help companies to find a way out of the crisis.

KEYWORDS

Ashok Leyland, Maruti Suzuki, Hero MotoCorp, MG Motors, Tata Motors, Jaguar Land Rover.

INTRODUCTION

Macroeconomic growth and technological advancements have facilitated the auto sector to contribute 7.1% towards GDP and employ 37 million in India. Its sister sector auto components (auto ancillary) employs 19 million. (IBEF, 2018) Helmed as the fourth largest sector in the world in 2017 and with sales increasing 9.3% year-to-year, the sector tumbled down to the seventh position by 2018 with a significant decline in growth during 2019. However, a slum in 2018-19 has made the sector to collapse with the NSE Auto Index reporting -40% during September 2018-19. The development strategies used by countries like India, Mexico, and China in the auto ancillary industry are converging and thereby will impact the global value chain of the automobile industry. (Sturgeon & Biesebroeck, 2009).

OBJECTIVES OF THE STUDY

1. To study slowdown in the Indian automobile industry.
2. To study the consequences from the sectoral slowdown.
3. To identify potential solutions.

SIGNIFICANCE OF THE STUDY

According to the Automotive Component Manufacturers Association of India (ACMA), around 1 million jobs could be on the line if the prolonged slowdown in the automobile industry continues. The decline in growth in the auto industry over the past 11 months has affected the components industry as well. So, a study to analyse the reason for the slowdown is important.

DISCUSSION

A. OVERALL ECONOMIC CRISIS

The global economic slowdown has historically shown a direct impact on the global auto industry. (Bai, 2012) The Asian currency crisis, Y2K, global financial crisis are some examples where this was historically visible. Financial instability, job cuts, and inefficient cash flow in the economy will impact buyer preferences, shift in demand to cheaper and smaller vehicles and increased focus on energy efficiency. (Merkisz, 2009) Weak income growth and the increasing cost of vehicle ownership are some deterrents.

B. LIQUIDITY CRISIS

Lending norms have been tightened to and by the Non-Banking Finance Companies (NBFC) sector since the 2018 IL&FS crisis. (Vijaya Kittu & Sai Rai, 2019) The failure of some big conglomerates in meeting their debt payment obligations has brought in a trust deficit in the financial economy. The tightening of credit availability, particularly to car buyers and dealers,
is its immediate consequence. Already manufactured vehicle numbers outpaced the sales, and
all the unsold inventory piled up at stockyards.

C. POOR CONSUMER DEMAND

Consumers began postponing their purchase decisions anticipating two possibilities. Firstly, anticipations are that BS-IV vehicles will be sold at huge discounts because of Governmental pressure to move towards BS-VI. Secondly, those who are not budget-conscious are waiting for the availability of a broad choice of BS-VI models, but auto manufacturers are reluctant to do that hurriedly. A situation like this has forced dealers to pile up inventory that remained unsold for a longer than anticipated time.

Increasing inventory levels without demand will mean that capital gets stuck and remain unproductive. A repeat situation of this occurred with two-wheelers when inventories before the festival season (October/November) are high and with some actual sales happening during the season has tempted manufactures to start again producing thereby again unnecessarily increasing the inventory levels post-November.

The rise of carpooling and car-sharing services such as Ola and Uber are forcing the daily urban commuter to think twice about owning a car.

D. GOVERNMENT POLICIES

Governmental policies play an essential role in fostering the automobile industry. (Ranawat & Tiwari, 2009)The automobile sector is given decent importance in the "Make in India" initiative taken up by the Government in 2014. (Kamal, 2017) New vehicle insurance policy, smoother scrappage policy, tweaking of freight carrying capacity (axle load norms), EV promotion via FAME-II schemes, tax deductions on interest on the loan for the purchase of EV vehicles, cut in Goods and Service Tax (GST) are some critical decisions during 2019. India contributes to 11 percent of Asia's transportation emission in Asia as of 2016, and it is high time that the Government implements policies to reduce carbon-dioxide emissions. (Bhowmick, Sahoo, Bhat, Mathur, & Gambhir, 2019) While auto companies launched eco- friendly vehicles in response to this, it is still unsure if consumers liked the green marketing initiatives taken up by them. (Vatsa, Chakrabarti, & Kumar, 2016) The hurried transition by the Government from BS-IV to BS-VI norms that will be implemented from April 2020, skipping BS-V, is also hurting automakers. Further, the Corporate Average Fuel Economy (CAFÉ) Phase II will come into effect in India from April 2022, which can potentially increase importance to hybrid electric vehicles (HEV). The auto sector is relatively diversified, and the Union Budget can make a profound difference. For example, higher disposable income in the hand of individuals can foster the recovery of the two-wheeler and passenger car segment but this is a weak and indirect case. A more direct straightforward case will be boosting commercial vehicle sales if there is a healthy and positive budgetary allocation for capital goods, infrastructure push and increased allocations to the logistics sector (such as by way of freight corridor). Truck sales usually lead to an economic recovery process before passenger cars shows improved performance.Owing to the deep multi-dimensional problems associated with the industry, a very sharp economy policy is required for the revival of the industry.

E. NEW MODELS & NEW ENTRANTS

It is not uncommon for the sector to do new product launches to catch buyer attention. Different automakers use different strategies for this. Nissan revived its strategy to turnaround and decided to make one new model every year. (PTI, 2020) Already a competitive industry, competition further increased during 2019 with the entrant of new players. Not just entry, but the launches by new entrants such as MG Motors using different marketing strategies and disruptive marketing methods are threatening existing players, as seen from the weakening of brand concentration of the top 5 players. There is a definite shift in buyer interests and loyalty and marked enthusiasm to test newer players. Existing players are using joint venture routes to enter into segments it has not entered earlier. Bajaj Auto, for example, entered into a non-equity alliance with 178-year-old British iconic motorcycle maker Triumph to enter into the middleweight motorcycles segment in order to challenge the domination by Royal Enfield of Eicher Motors. Bajaj Auto's earlier such global alliance was a success when it joined hands with KTM of Australia. (Mohile, 2020)

F. SHIFT TO ELECTRIC VEHICLES

Tighter environment pollution norms, particularly in Europe, have forced automobile manufacturers to switch from the traditional petrol and diesel-run vehicles to green fuel-based vehicles. Some early entrants such as Tesla has not only flourished the company but also helped the evolution of the electric vehicle industry. (Financial Times UK, 2020) The transaction requires a machinery upgrade, which requires huge capital expenditure. Added to this, counties like India are forcing manufacturers from BS-IV to BS-VI norms, that in a short time frame. Not just commercial and passenger vehicles, the EV bug has bitten the two-wheeler sector as well. In late January 2020, TVS Motors launched iQube Electric, announcing its entry into e-mobility space. (Abrar, 2020) The EV saga also has built the shared-electric-scooter startups industry that is currently led by Bird Rides and Lime. (Vartabedian, 2020)

G. NON-WORKING DAYS AT PLANTS

With weak demand and low-capacity utilization, companies like Ashok Leyland, Maruti Suzuki, Tata Motors, Sundaram-Clayton, and others are forced to declare non-working days at their plants. Non-production days are holidays for the plant and employees will not get their pay. The most affected will be daily wage workers who are not on company rolls.

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