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GROWTH OF INDIAN AUTOMOBILE INDUSTRY AN REVIEW

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ABSTRACT

The Indian automobile industry has emerged stronger from the recent global downturn, and sales across all segments have seen record breaking numbers in the recent past. While the Indian industry has much to look forward to, by way of steady growth in both domestic and export markets, there are some clear challenges accompanying the opportunities in greener vehicles and alternative mobility. In order to capitalize on these opportunities, the industry needs to develop or acquire technologies and capabilities to produce vehicles that meet future market needs.The government for its part has much to do to ensure the growth trends are maintained, and encourage the development of greener vehicles, while also improving compliance to even existing environmental standards. This paper attempts to capture how the Indian automobile industry is expected to develop in the longer term, and what role each stakeholder needs to fulfill in order to be geared up for evolving requirements.

Keywords: *Automobile, Globalisation, Green Fuel, Hybrid Fuel, Rural Consumers*

INTRODUCTION

The Indian automobile industry has emerged stronger from the recent global downturn, and sales across all segments have seen record breaking numbers in the recent past. While the Indian industry has much to look forward to, by way of steady growth in both domestic and export markets, there are some clear challenges accompanying the opportunities in greener vehicles and alternative mobility. In order to capitalize on these opportunities, the industry needs to develop or acquire technologies and capabilities to produce vehicles that meet future market needs. The government for its part has much to do to ensure the growth trends are maintained, and encourage the development of greener vehicles, while also improving compliance to even existing environmental standards.

Demographically and economically, India's automotive industry is well-positioned for growth, servicing both domestic demand and, increasingly, export opportunities. A predicted increase in India's working-age population is likely to help stimulate the burgeoning market for private vehicles. Rising prosperity, easier access to finance and increasing affordability is expected to see four-wheelers gaining volumes, although two wheelers will remain the

primary choice for the majority of purchasers, buoyed by greater appetite from rural areas, the youth market and women.

Observations:

The Indian economy has grown at an average rate of around 9 percent over the past five years and is expected to continue this growth in the medium term. This is predicted to drive an increase in the percentage of the Indian population able to afford vehicles. India's car per capita ratio (expressed in cars per 1,000 population) is currently among the lowest in the world'stop 10 auto markets.

The automotive industry is one of the key drivers of India's economy, accounting for around 4 percent of India's GDP1 and over200,000 jobs. It is also a focus area for globally. This study which is focused on the Indian market contains insights from two such global reports, Concentration in the European Automotive Industry. Itanalyzes data and examines three emerging themes within the Indian context:

- Growth and consolidation
- Green revolution
- Mobility revolution

The Indian automobile industry has seen interesting dynamics in recent times with the effect of the global downturn, followed by recovery in domestic demand. The future of the industry in the medium term based on current trends, is analyzed here along two broad themes in the global automobile industry:

- Growth
- Consolidation

As discussed below, the nature of demand in the Indian automotive industry and the associated drivers are likely to take it along a path, which is different from the evolving global automotive landscape.

Growth

India's automobile market has grown steadily over the last seven to eight years, with the exception of the previous two years where the effects of the global downturn were felt, primarily in sales of commercial vehicles. However, even during the downturn, the two-wheeler and three- wheeler segments, which were until then experiencing low growth or losing volumes, bucked the trend. India's vehicle demand is quite different from other top automobile markets – with the exception of China – in that two-wheelers constitute a

significant portion of vehicle demand (more than 3/4th of the Indian market is in two-wheelers). In the context of the unique characteristics of the Indian automobile market, growth is expected to be driven by the following:

Affordability

While quite a few new vehicles launched in the Indian market have been developed locally, vehicle affordability remains a significant concern as seen in Figure 6. Although the price of an average motorcycle in India (about USD 900) is comparable to the average per capita income, the prices of passenger cars have a long way to go. Although the entry level car (Nano) is priced at around USD 2,500, the passenger car market could grow multi-fold if there is a break-through of another price level in the years to come.

John Flintham, global CEO of Amtek Auto, believes four-wheelers are particularly well-placed to take advantage of these changing trends. "If you look at the Tata Nano, people buying two-wheeler bikes who have a bit more disposable income and can now afford to buy a car instead. I think you're going to see a doubling of sales over the next three to four years and I think that's going to be driven by both domestic demand and by India becoming a small car export hub."

Fuel Economy

The volume leaders across two-wheelers and four-wheelers in India are companies which have been able to offer products with the globally acknowledged best-in-class fuel economy rates, as well as affordable total cost of ownership. For example, while the US is setting norms for cars to achieve 35 mpg1 on petrol, a majority of Indian cars already offer that much3, while the leading- class bikes offer up to 200 mpg3 and more

Alternative Fuels

Vehicles based on alternative fuels remain another area of interest for both consumers and companies. Reva4 , a pioneer in electric cars, remains an exception in the area of electric vehicles in India, although in two- wheelers there are multiple offerings, none of which have as yet taken off in terms of volume. Although both commercial vehicles and passenger vehicles running on CNG are gaining popularity among transport service providers and consumers due to their lower cost of operation, much more needs to be done to improve the fuelling infrastructure before CNG vehicles become more mainstream.

Rural Market

The automobile industry has yet to fully tap into demand from rural areas. Previously,

consumers from these areas would need to go to automobile dealerships in towns and cities for their vehicle purchases. However, in recent years, market players have made overtures to rural consumers, with encouraging sales. vehicles from rural areas, accompanying the growth of the overall segment. While the Indian automobile industry seeks to double total sales on the back of steady growth over the next decade, these relatively undertapped demand segments (rural markets, youth, women and luxury cars) are expected to play a significant role.

Consolidation

As India seeks to become one of the world's largest automobile markets, it is interesting to look at its evolution over the years. India's attraction as a destination for automobile manufacturers has been underscored by the number of new manufacturers entering the country over the last two decades. Unlike in several markets, the number of manufacturers has continued to grow in India over the years across vehicle segments. "Global consolidation is a natural process of business alignments based on technologies and market opportunities," says Daimler's Marc Llistosella. "The Indian market is evolving as the next big opportunity and players from across the world see it as a natural extension of their business domain. And Indian players in the automotive component sector are now viewing the entire global market as an opportunity. With high skill levels and a competitive environment, they are no longer restricted to viewing India alone."

Major acquisitions/ joint ventures like Tata & JLR and VW & Suzuki have enabled OEMs to grow their ranges while taking fewer financial risks. Alliances are playing significantlly increasing role in generating economies of scale.

Green Vehicles in India

As with conventional automobiles, the Indian industry has taken a path different from that of the global industry in the development of green vehicles. The development of cleaner vehicles in India began with a regulatory push for CNG buses and three-wheelers in New Delhi more than a decade ago. In all other segments of the automobile market, demand has grown largely based on customer awareness and a pull for products motivated largely by perceived economic benefits. For instance, LPG kits were available in the market more than a year before the first entrant in the field, Maruti Suzuki, introduced factory-fitted vehicles in 2004. In recent times, electric two- wheelers have ridden on the back of customer demand for vehicles with lower running costs, as well as some incentives to users in the form of little or no duties on electric vehicles (and parts) in areas such as New Delhi.

Nevertheless, the Indian auto industry today seems to be evaluating two paths in its move towards greener vehicles:

• CNG/ Dual Fuel4 Vehicles
• Electric/ Hybrid Vehicles

CNG/Dual Fuel Vehicles

This part of the industry has developed largely based on legislative and judicial activism and the subsequent availability of CNG fueling outlets across major parts of the country. As shown in Figure 15, the government ordered the conversion of existing diesel/petrol-based public transport vehicles (buses, taxis, and auto-rickshaws) to CNG in several cities including New Delhi and Mumbai, in response to growing concerns over emissions.

Electric/Hybrid Vehicles

Battery powered/plug-in hybrid electric vehicles (BEV/PHEV) have continued their steady growth worldwide, despite accounting for only about 1percent of all vehicles sold in 200912. In India, electric vehicles have just begun making some inroads into the market. In passenger cars, there is only one established domestic manufacturer, Reva, whose sales account for less than 1 percent of all passenger cars sold in India. However this could change soon with Mahindra &Mahindra's (M&M) acquisition of a majority stake in Reva.

In the two-wheeler market, an electric scooter is available for less (about USD 600) than a conventional scooter (about USD 900)13. Soon, Indian electric vehicle manufacturers are expected to launch electric motorcycles. Given that motorcycles account for more than 80 percent of all two-wheelers sold in India, the introduction of electric motorcycles could have a significant impact on the market for electric vehicles. However, electric two-wheelers have seen a recent these companies had to shut up shop resulting in a decline in numbers. As a result, the entire electric vehicle industry has earned a bad name and because of this the industry overall witnessed fewer sales in this segment. However, things are changing now, with the introduction of new models, Electrotherm is seeing growth in electric two wheeler sales month over month" He is also expecting 2010 numbers to bounce back on the strength of a service support network being developed to address any customer problems.

Other Fuels

As in Brazil, where more than 90 percent of new vehicles sold can run on either ethanol or gasoline15, India has been exploring the prospect of reducing its dependence on crude oil. There are mandatory blending requirements for ethanol and the government has announced a policy for biofuels (such as biodiesel/biopetrol) from various sources. However, none of these have taken off in a sustainable manner. As with any developing market trend, greener vehicles face several challenges to their growth in India (see Figure 18). Addressing them

would help expand the market multifold.

Arun Pratap Singh, Senior VP of electric vehicle business Electrotherm, argues that this was partially due to a huge influx of low cost Chinese models which had quality constraints. "A lot of fly-by-night companies had started operating in India who sold inferior quality models at cheap prices but did not provide any service support," he says. "As the customers became aware, In the context of fuelling/charging infrastructure being a significant hurdle to the growth of greener vehicles not just in India but also globally, the following case study of Better Place, one of the promising start-ups in the electric vehicle sector, illustrates how the green sector can be encouraged to grow.

Conclusions:

India's automobile industry is poised at the start of an exciting phase of growth, not all of which may derive from manufacturing conventional fuel-based vehicles. Various possibilities ranging from developing vehicles based on alternate fuels to collaborating with some-time rivals, have the potential to open fresh avenues for growth.

India has no duty benefits for even hybrid cars, which need to be imported due to low volumes. If India's automobile industry wants to play a role in the global arena for alternative fuel- based vehicles, such limiting measures need to be reexamined and an appropriate redesign of the framework needs to be enacted immediately. While global companies are pursuing innovations in third and fourth generation biofuels, India is yet to decide on a purchase price for the fuel. Such a delay in key policy decisions, which have the potential to unlock innovation, need to be remedied based on the recommendations of industry associations/participants.Demand for nascent technologies and fuel efficient cars needs to be encouraged by offering consumers incentives to adopt these products, such as an expansion of the policy of little or no duty being payable on electric vehicle parts.

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