

## **IS THE SLOWDOWN IN THE INDIAN AUTOMOTIVE SECTOR A CULTURAL PHENOMENON?**

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### **ABSTRACT**

The Auto sector is the key sector for any major economy in the world. It not only promotes growth but also contributes to innovation and research and development. The Coronavirus Pandemic has affected every sector and Auto Industry is no exception with lockdowns imposed with no deadlines. The Automakers are finding it hard to survive with sales constantly dipping and global supply chain problems.

This Research Paper using secondary sources of data projects the huge potential and challenges the Indian Automotive sector faces. It also states threats to companies and buying habits that influence Indian Consumer like Pollution and fuel, government interference, rising income of Indians, stiff competition in the market, infrastructure and export opportunity present for Automakers in India as compared to the world.

Furthermore, it compares the Indian Automotive sector with that of developed countries and contrasts buying vs leasing. It also mentions why Indians prefer more two-wheelers as compared to cars in the US UK to commute to work. The Paper also talks about the contribution of startups in the Indian Automotive sector.

Last but not the least, the Paper ends with suggestions on what the government and companies can do to maximize their potential and make India the Automobile manufacturing hub of the world.

To sum up, it questions whether the slowdown in the Indian Automotive Sector caused by the Coronavirus Pandemic is really a Cultural Phenomenon for better not only for Indians but for the whole World?

## **Introduction**

Automobile industry is an industry that has direct and indirect effects on other industries as well and is one of the most important sources of revenue for an economy.

The Indian automobile market is in a very hot space right now with a lot of events happening in the recent past like Ford leaving India, government banning BS4 vehicles and sky rocketing fuel prices.

India has numerous advantages like Geo-Political location, cheap labor, Government incentives etc. that can help it become the auto exporter for the whole world. It will not only strengthen the Indian economy in terms of treasury but will provide work to millions of Indians.

In 2020, India was the 5<sup>th</sup> largest automobile consumer in the world where Electric Vehicles sales saw a 20% increase acting as very lucrative for companies across the globe. It is growing at a rapid pace due to various factors like rising income among the middle class and youth population in the country as India is going to be the youngest nation by 2025. Lower interest rates and affordable EMIS add to the growth. Demand in India is not only limited to passenger vehicles but also commercial vehicles like trucks as more than 65% of transportation is done via road. It is the largest producer of tractors in the world. The demand for Automobiles in India can also be measured via the success of Startups and Automakers already present in India like OLA sold roughly 6000 CRORES worth EV Bikes in a day and Maruti Suzuki has forecasted growth of 20% despite the Pandemic. Moreover, The Government is also providing a lot of incentives and subsidies to attract foreign investors under Make in India Initiative. It has very recently passed the PLI (Production linked incentive) scheme (September 2021) which will be a major boost to Foreign Electric makers like Tesla, Rivian etc. to encourage setting up production plants in India. Furthermore, the demand for electric vehicles will soar in coming years as India recently pledged Net Zero by 2070 in COP26 Submit held in the UK.

As wonderful as it may be seeing the massive growth potential and profit opportunity in the country, many automobile companies are in deep waters due to price sensitive consumers and stiff competition in the market. Many people are still poor in the country and owning a car has remained a luxury till now. The Automobile industry is highly government regulated and many foreign companies are hesitant to enter as they have to incur heavy import duties if production is not based in India. Furthermore, with ever rising increase in petroleum and diesel prices, the automobile companies' sales have gone for a toss. The Coronavirus pandemic has further aggravated the problem with lockdowns bringing down car makers revenues so much so that FORD has to close its operations and exit India. Short term problems in the supply chain like

shortage of semiconductors globally, rising commodity prices have only added fuel to fire increasing the liabilities of automobile manufacturers.

### **Research Methodology**

Secondary research entails combining existing data from many sources. This includes publicly available datasets, reports, and survey results, as well as information from websites and libraries.

I gathered, validated, analysed, and incorporated information to help corroborate research objectives during the study period.

### **Literature Review**

**Industry 4.0 workforce implications and strategies for organisational effectiveness in Indian automotive industry:** The study makes a direct link between the Fourth Industrial Revolution and its impact on the workforce in the Indian automotive industry. It also examines the changing role of HR professionals in the Industry 4.0 paradigm.

**Analysis of Barriers to Green Manufacturing Using Hybrid Approach: An Investigatory Case Study on Indian Automotive Industry:** This paper aims to define eleven barriers based on literature and practitioners' views on GM issues. In this paper, the role of the hierarchical and contextual links between GM barriers was understood using a hybrid interpretive structural modelling (ISM) and the Decision Making Trial and Evaluation Laboratory (DEMATEL).

**Picturing the Indian Automotive Sector's Slowdown:** looks into how slowdown has caused job cuts of around 0.2 million workers, particularly contractual labourers, and shut down of around 300 dealers' shops in the last few months

**Statistica:** Looks into how the automotive industry is recovering post pandemic and its impact on the India market.

**SIAM:-** It is a body that represents major Indian automobile manufacturers. It works together to increase productivity of the Indian automotive industry.

**Finshots :** tells what went wrong with Ford In India, how its approach was not according to the needs of Indians.

### **Analysis of Data**

While there is a huge upside potential for car making companies especially Electric Vehicles to

enter the Indian market, there are a few major hurdles they face as stated below and need be resolved.

### **Rising Income And Young Nation**

India is a young nation with millions of young aspirations that can transform the economic and social fortunes of the country. The median age of the Indian population is 28.4 years and it is home to one fifth of the total youth population. Statistics suggest a positive relationship between youth and car ownership so much so that many companies like Audi have started aiming at a target audience of 22 to 37 years of age.

Although the rural population in India was reported at **65.07 %** in 2020, according to the World Bank collection of development indicators, the rising income among the middle class due to shifts in sectors from primary and secondary to tertiary will have a positive influence on car sales in coming years. Long sown seeds in the form of education and health to children are bearing fruits now with increasing per capita income over the years.

However, car sales will be accelerated by this only when other factors are in sync like EMIs option available, low range model cars etc.

### **Government Interference**

Government has played a very active role in the automobile sector and has taken various initiatives like Automotive Mission Plan (2016-2026), PLI scheme 2021 for automobiles, auto components worth 25,938 crores and many more. It is providing subsidies as well under Make in India initiative and continuously taking measures to attract foreign investors in India.

It has also introduced a lot of rules and regulations to combat pollution such as vehicle scrappage policy 2021, banning BS4 vehicles and is planning to make it mandatory for car manufacturers to produce flex-fuel engines.

However, it does not promote imports and has levied heavy duties as CEO of Tesla said "We want to do so, but import duties **are the highest in the world** by far of any large country". Also, GST on vehicles is 28% currently.

### **Pollution And Fuel**

India is one of the most Polluted countries in the world with increased concentration of smoggy air or PM 2.5. This has led to measures adopted by stakeholders which has impacted the car sales

at various points like odd-even policy to encourage use of public transport, ban of diesel vehicles in India etc.

Discussion on fuel prices is very common in Indian households. While petrol cars form the majority, many three-wheelers and cabs have started using CNG and LPG due to their availability at cheaper rates. Electric auto rickshaws have become popular in many parts of the country.

India has also banned BS4 vehicles in the country. The Union minister for roads and Transports – Mr. Nitin Gadkari stressed on Flex Fuel cars as in countries like Canada, USA and provided another impetus on alternative fuels that ethanol pumps will be soon set up in the country.

### **Consumer Behaviour And Stiff Competition**

Many foreign companies find it extremely difficult to get Indians to spend money as Indians negotiate more often and spend less on luxury goods as compared to their global counterparts.

While 80% of the vehicles sold in India account for two wheelers, Maruti Suzuki, Honda, Toyota, Tata motors are some of the automobile manufacturers currently present in India. Due to increasing competition, they have been constantly upgrading their customer service and introducing lower range models to fight for market share. Companies are constantly making mileage efficient cars to win the trust of Indians.

Currently, the rising fuel prices and increase in running cost has been a concern for budget friendly buyers. Also, the once popular sedans are losing out of the customer demand and SUVs are gaining attraction now. The Luxury Car owners are also facing the heat with a dip in sales numbers due to the pandemic.

### **Infrastructure**

India is a developing and an emerging nation with a per capita income of 6,390\$ as of 2020. India has the second largest Road network in the world spanning a total of 5.89 million kilometers. The government is continuously spending money here to reduce the gap between villages and cities. However, there has always been news about poor maintenance of roads and large puddles developing due to lack of all-weather roads and use of cheap material which has increased the problem of Automobile buyers. Also, shortage of raw materials in the supply chain like microchips, lithium-ion batteries and semiconductors has further aggravated the problem.

Similarly for the EV industry which although is at nascent stage in India, the main question for

stakeholders is whether the EV cars will adapt to the country's infrastructure. We have seen the lack of adoption of CNG-LPG Vehicles in India due to long queues at petrol pumps which are limited in number. The government and companies will have to take massive steps to improve EV infrastructure in India to meet the projections of USD 152.21 billion by 2030. The collaboration of Indian Oil with major automobile companies like Tata Power, REIL, Power Grid Corporation of India, NTPC etc. to set up EV chargers at fuel stations is a positive step in this direction.

### **Export Opportunity**

India is ranked 63<sup>rd</sup> in terms of ease of doing business as of 2020. India is present at a very good geographical location and the government is doing everything to make it the automobile manufacturer of the world. The government has provided various incentives under Make in India initiative and has levied 100% duty on imported cars with cost, freight and insurance cost. One such measure under Atmanirbhar Bharat Abhiyan - Self Reliant India includes a special economic and comprehensive package of INR 20 lakh crores for promoting manufacturing in India.

China's market is expanding rapidly and markets in Europe and Japan have become mature due to increasing competition and flattening sales. This presents a very good opportunity for companies to enter India. Moreover, availability of cheap labor both skilled and unskilled makes it a very ideal place for investment.

However, with the onset of pandemic and problems in the supply chain such as shortage of microchips has created doubts in the minds of foreign manufacturers.

For Example: - Ford has closed its manufacturing plant in Gujarat and will end its operation in India completely by 2022 due to low sales and high incurring cost. The company faced various challenges due to heavy competition and was unable to develop new feature models that solved the needs of Indians. Hyundai and Maruti are the dominant choice for the majority of Indians and due to the pandemic, Ford was unable to generate revenue to overcome its losses. Hence, the company that entered India in 1995 in a joint venture is finally ending its operations serving models like ikon, ecosport, figo etc to Indian people in this period.

### **Comparison**

#### **Indian Eco System Vs The World**

There is a major difference on how Indians look at Automobiles as compared to the rest of the world. They prefer mileage efficient Vehicles over fancy luxurious features. Some more

differences can be seen below:-

### **Buying A Car Vs Leasing A Car**

An Asset is an item that generates future cash inflow.

However, a car depreciates by almost 15-20% as you buy from the showroom and it depreciates by almost 40% within a year. Even the life of a car is limited to 10 years in India as mandated by the government.

This is quite contrary to the belief of Indians where a car is still seen as a status symbol. TATA NANO failure is a very prominent example to prove this.

In India, 80% of the vehicles sold are two wheelers and Tata Nano wanted to compete with them using the features of a car. It was positioned as the cheapest car in the world which opposed the belief of status driven Indians, people who could afford the higher range Nano avoided it as who wants to look cheap in a world where we are constantly buying articles to outshine neighbors and colleagues. Poorly built to reduce cost and bad marketing approach led to massive failure for the company.

However, in developed countries like the USA, Europe people buy cars as a necessity to commute to different places and more people tend to lease cars as compared to buying one.

Buying a car involves added cost like insurance, service, EMI's etc.as compared to maintenance charges only in rented cars. Tax advantage is also present in leasing a car and you can upgrade to new models more frequently than ever.

Due to increasing globalization and onset of pandemic, many individuals and companies are shifting to an efficient method of leasing a car. The market is projected to grow at a **CAGR of 7.8%** during the forecast period (2021-2028).

This has given rise to many startups like cars trade, cars24 etc. in the Indian space.

Whether Car Leasing will be the Future of Car Ownership in India is something only the future can tell us.

### **Way to commute to work:- two wheelers vs cars**

One in three households in India own a two wheeler. Most of the Indians use two wheelers or public transport to go to offices. Majority of Indians prefer two wheelers because it is hassle free,

affordable and commutes become shorter. It is in sheer contrast to people in the UK, USA that usually prefer cars to go to work. India has overtaken China to become the largest two wheeler market in the world and is now a very hot space for electric two wheelers.

### **Luxury Cars Segment**

Luxury cars market is more dominant in developed countries as compared to India simply because of the higher purchasing power of their nationals. The Luxury car manufacturers present in India are Mercedes-Benz, BMW, and Audi etc. It faces hurdles regularly like the pandemic but has constant demand due to rising millionaires and billionaires in the country.

More premium cars are not even present in India like Ferrari or a Lamborghini mainly because the Indian market is all about comfort and mileage. Moreover, the Indian infrastructure will not allow these cars to run as they don't have the suspension or ground clearance to run in India. Moreover, these cars are better on high speed roads unlike heavy traffic roads and small lanes in India.

The Indian Luxury car market will grow owing to growing income and the youngest nation population in coming years.

### **Emerging Startups**

India is home to **79 unicorns** with a total valuation of \$ 260.5 bn. Out of the total number of unicorns, 42 unicorns with a total valuation of \$ 82.1 billion were born in 2021. Many have been born in the auto sector as well like OLA, UBER which have revolutionized the taxi system in India and solved the needs of a lot of Indians. India's CarDekho became a unicorn with a 250 million fundraise very recently.

Startups like Rivigo are revolutionizing the India Road transportation Industry. Revv Cars have enabled people to hire cars for a certain duration.

OLA has entered the electric vehicles segment and has sold electric vehicles worth 6000 Crores in a day causing threat to already established players.

These Indian startups also have government Immunity from foreign startups like Tesla that can only enter India if they establish a manufacturing hub in India, else import duty on them is 100%.

### **Conclusion**



The Indian Automobile industry is on road to meet its projections of reaching 16 Billion by 2026. The government is taking all the necessary steps to achieve its vision of making it the automobile manufacturing hub of the world as stated by our honorable minister for road transport Mr. Nitin Gadkari.

The Government of India is promoting manufacturers in India by providing protection against foreign manufactures. However, in order to encourage more foreign manufactures to come to India, they should specifically address supply chain problems that are causing more concerns in recent times like lack of microchips globally that are mostly imported from China and Taiwan. Similar concerns were raised by the CEO of Tesla, Hence greater emphasis should be placed on setting such industries to not only make automakers benefit from cheap labor but also of cheap raw materials. A greater deal of resources should be spent on bettering the road infrastructure of the country so that consumer's mileage increases per vehicle and their maintenance charges go down making it affordable for end consumers.

Companies instead of following a fixed set of practices should try to understand the nature of the Indian consumer more deeply and shape products according to their needs. They can take advantage of India's vast skilled resources and encourage research and development in the country to lead the innovation on a global level. Companies can benefit vastly because of India's prime location and not only get demand from world's second most populated country but also from neighboring developing nations like Bangladesh, Srilanka etc.

It is true when we say that every problem is a blessing in disguise. Vehicles running on Fossil Fuels are not sustainable in the long run and we are bound to shift to environmentally friendly modes of transportation. A huge profit opportunity lies here which has begun to be discovered by young minds like the owners of Ola, Rivigo etc. India will lead the innovation in the 21st Century and this is becoming true faster than ever with rapid revolution of not only automakers but all industries where companies like Cred, Zerodha, Oyo, Zomato and many more are changing the way the world eats and lives.

As humans Evolve and Grow, their habits will continuously change and so will the demand for products. Indian consumers currently prefer safety and take great pride in mileage efficient cars. They want an overall good consumer experience mainly because they travel mostly with their families. They prefer this over luxury features because they are conditioned in that environment. Even while purchasing a car, family opinion is the most determinant force and it's no magic why companies are spending so much on customer experience and satisfaction now. The most dominant even today are two wheelers with SUVs taking over sedans in four wheelers. Public

transport like buses is still prominent today because of the low affordability of the majority of Indians. Yet the Indian market is opening up and people are trying new experiences like Auto Expo, F1 coming to India etc.

While all the variables mentioned above play their part, it's likely when all ingredients including government and companies are added in the right quantity that we will be able to see results that will lead the automobile revolution for the world and generations to come which will be holistic in its approach towards all the spheres it will have its impact on.

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