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# A Study on

# Impact of „Make in India" on Automobile Sector

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## Abstract

The Make in India program was launched by The Hon'ble Prime Minister Mr. Modi in September 2014 as part of a wider set of nation-building initiatives. The programme has been devised to transform India into a global design and manufacturing hub.

The automobile industry, along with the auto components industry, is one of the core industries in India. A well developed transportation system plays a key role in the development of an economy, and India is no exception to it. Automobile is one of the largest industries in the global market. Owing to its strong forward and backward linkages with several key segments of the economy. Automobile Sector occupies a prominent place in the fabric of Indian Economy.

Against the backdrop of this crisis, and quickly became a rallying cry for India's innumerable stakeholders and partners. It was a powerful, galvanising call to action to India's citizens and business leaders, and an invitation to potential partners and investors around the world. But, Make in India is much more than an inspiring slogan. It represents a comprehensive and unprecedented overhaul of out-dated processes and policies.

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## 1.1 Introduction

Automobile sector is leader in product and process technologies in the manufacturing sector. It has been recognized as one of the drivers of economic growth and the domestic automobile industry is believed to be the barometer of the economy. Such a belief is in line with international trends since in most mature economies the automobile industry's performance is viewed as a reflection of the economy's health. This sector has emerged as sunrise sector in the Indian economy.

According to data published by Department of Industrial Policy and Promotion (DIPP), ministry of Commerce, the amount of cumulative foreign direct investment (FDI) inflow into the auto sector from April 2000 to November 2012 was worth US$7,518 million. The auto sector accounts for 4 per cent of the total FDI Inflows (in terms of US $) in India.

According to the recent data released by Society of Indian Automobiles Manufacturers (SIAM) India's scooter and motorcycle manufacturers have registered 4 per cent growth during April-November, 2012. The Global and Indian manufacturers are focusing their efforts to develop innovative products, technologies and supply chains. India is one of the key markets for Global Manufacturers for hybrid and electronic vehicles, which is the new development in automobile sector. With a turnover of almost $59 Million US Dollars, Automobile industry Provides employment to 13 million people in the India Work-class.

The automobiles sector is divided into four segments - two-wheelers, passenger vehicles, commercial vehicles and three wheelers. Two wheelers India is one of the world's fastest growing passenger car markets it is second largest two wheeler manufacturer and fifth largest commercial vehicle manufacturer. It is also home for the largest motor cycle manufacturer. Moreover, India is fourth The auto sector in India has achieved a growth rate of 26% in last two years (2010-12). However, it has shown a sluggish growth of 12 percent in 2012. The trend is likely to stay with a 10 percent growth outlined for 2013. The main reason are high ownership costs (fuel costs, cost of registration, excise duty, road tax) and slow rural income growth. Over the next few Years solid but cautious growth is expected.

The growth for automotive industry is important for growth in economy, particularly because the automotive industry has strong multiplier effect. It is capable if being the driver if economic growth. High direct to indirect employment ratio of about 1:10 Is estimated for the automobile industry, because automobile industry has potential to generate employment for about 10 more for every person employed directly in automobile manufacturing industry. These indirect employments includes employments in ancillary and component industries, automobile service stations mechanics, loaders and cleaners of commercial vehicles, institutions financing purchase of vehicles and people who drive commercial vehicles and hired vehicles.

## 1.2 Research Methodology

The study to be conducted is based on a **descriptive approach** since we aim to establish outline existing models used for evaluating ‘Make in India’ campaign. Additionally, report is also going to document and describe what companies consider costs and benefits with ‘Make in India’ campaign, and this is based on the findings of the empirical study. This study will also include some **explorative** elements, mainly during its early. Stages, when examined the secondary sources available in order to develop understanding of the research area. During this phase we were also able to more clearly define purpose as well as the limitations adopted for the descriptive part of the research. Some part of this thesis will be **prescriptive** in nature, since this part focuses on constructing a method for identifying and measuring the benefits and effectiveness ‘Make in India’ campaign investments.

**Objectives of study**

1. Identify Make in India initiatives for automobile sector and investment proposals in automobile sector recently.
2. Analyze the impacts of Make in India initiatives on Automobile Sector’s growth.

The study uses of both primary and secondary types of data decision making. Thus, the primary data was collected using structured interviews of the professionals from user and vendor organisations; however, for the collection of secondary data, we have used Internet based discussion forums, Enterprise Resource Planning system product information from suppliers and some company specific material such as annual reports, accounting and auditing reports. The study also focused on recent material that could be accessed. In order to get access to the latest developments in this area a number of articles published in academic journals and trade magazines have also been collected and properly cited.

## 1.3 Discussions and Findings

Market size of the industry produced a total 14.25 million vehicles including PVs, commercial vehicles (CVs), three wheelers (3W) and 2W in April–October 2015, as against 13.83 in April–October 2014, registering a marginal growth of 3.07 per cent, year-to-year.

The sales of PVs grew by 8.51 per cent in April–October 2015 over the same period in the previous year. The overall CVs segment registered a growth of 8.02 per cent in April–October 2015 as compared to same period last year. Medium & Heavy Commercial Vehicles (M&HCVs) registered very strong growth of 32.3 per cent while sales of Light Commercial Vehicles (LCVs) declined by 5.24 per cent during April–October 2015, year-to-year.

In April–October 2015, overall automobile exports grew by 5.78 per cent. PVs, CVs, 3Ws and 2Ws registered growth of 6.34 per cent, 17.95 per cent, 18.59 per cent and 3.22 per cent, respectively, in April–October 2015 over April–October 2014.[1]

Sales of passenger vehicles increased by 11.04 per cent to 242,060 units in April 2016 driven by demand for utility vehicles*. While sales of passenger cars went up by 1.87 per cent to 162,566 units in April 2016, those of utility vehicles grew by 43 per cent to 62,170 units. Sales of commercial vehicles maintained its momentum on back of replacement demand and grew by 17.36 per cent to 53,835 units.

The two-wheeler industry also performed well. While sales of scooters increased by 35.86 per cent to 468,368 units, the demand for motorcycles shot up by a strong 16.24 per cent to 1,024,926 units.

[1] Industry, Automotive. *"Automotive Industry in India"*. www.ibef.org. Indian Brand Equity Foundation. *Retrieved 31 January 2016.*

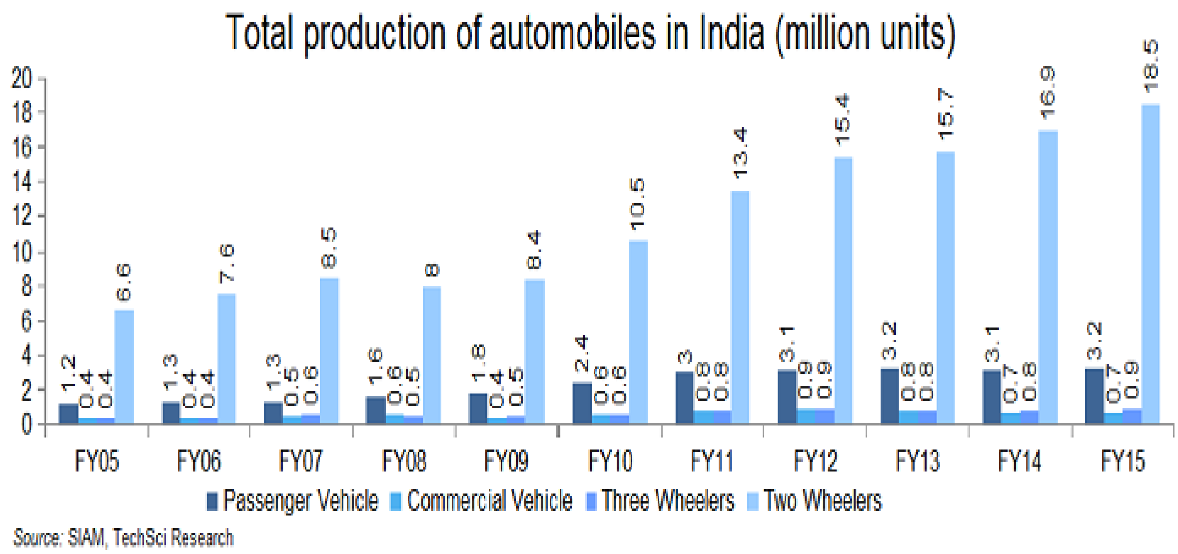


Figure 1: Automobile Production in India

According to the report of HDFC Bank Investment Advisory Group (May 2015) on Indian Automobile Sector, Domestic vehicle sales of Indian Automobile industry has been growing at CAGR of ~9.6% over the period of FY05-FY15 while exports have grown at a CAGR of ~18.9%. However, post the three consecutive years of strong double digit growth during FY10-FY12, the industry is struggling to reach even a low double digit growth rate. During FY13-FY15, domestic sales grew at a CAGR of just ~4.4% which was mainly driven by ~7.2% YoY growth in FY15. This weakness in demand for automobile vehicle in domestic market was mainly due to sluggish economic growth with subdued consumer sentiment due to rising interest rate and fuel prices.

## Major Govt. Initiative under „Make in India" campaign for automobile industry

As per M. Krishnaveni and R. Vidya (2015)[2], The Government of India allows 100 per cent FDI in the automotive industry through automatic route. According to this paper and the official website of Investment and Technology Promotion Division, Ministry of External Affairs, Govt. of India[3], Some of the major highlights of are:

- The auto industry is encouraged by 5 years extension of 200 per cent weighted deduction of R&D expenditure under Income Tax Act and also introduced the weighted deduction of 150 per cent for expenditure on skills development. These measures will help the industry improve its products and performance.

- The **"Start Up India"** pro gram, There are immense opportunities in the Indian automobile industry for technological innovation and new solutions. The growing digitization in the country is driving innovation in advanced mobility (with initiatives such as technology-based cab aggregation and, ride sharing), vehicle and component retail, connected car, etc.

- The Automotive Mission Plan 2016-26 (AMP 2026) is one such initiative. It clearly lays out the government's collective vision on how the automotive sector should grow regarding size, contribution to national development, technological maturity, global competitiveness and institutional structure. It aims to make India among the top three automotive industries in the world and increase exports exponentially to reach 35-40% of overall output. It also intends to increase its contribution to the GDP to over 12 %,

[2] M. Krishnaveni and R. Vidya, "Growth of Indian Automobile Industry", International Journal of Current Research and Academic Review, Volume 3 No. 2 (February-2015) pp. 110-118.

[3] http://indiainbusiness.nic.in, Investment and Technology Promotion Division, Ministry of External Affairs, Govt. of India, accessed in Aug 2016.

generating 65 million more jobs as well as increasing the size to USD 300 billion by 2026.[4]

- FAME Scheme - based on NEMMP (National electric mobility plan) 2020 road map, FAME (Faster adoption and manufacture of electric vehicles in India) scheme was launched by DHI, Go I with a capital outlay of INR 795 crore. It will cover all segments i.e. two, three wheelers, cars, LCVs, busses etc. and all forms of hybrid and pure electric vehicles[5].

- The likely rollout o f **Goods and Services Tax (G S T)** would also help improve doing and establishing new businesses in the country. The tax reform is likely to change the transportation scenario, and industry players must start thinking about realigning their supply chain, specifically the distribution network, his single reform will impact vehicle pricing, sourcing strategies, distribution costs and dealer profitability

- The increase in customs duty on cars and multi-utility vehicles (MUVs) valued above US$ 40,000 from 60 per cent to 75 per cent seems to be a step to encourage local manufacturing, value addition and employment.

- Also, the concessional import duty on specified parts of hybrid vehicles has been extended to lithium ion batteries and other parts of Hybrid vehicles. This will help the industry to achieve better cost efficiency.

- With the emergence of 5 large automotive clusters in the country i.e. the Delhi-Gurgaon-Faridabad in the north, Sanand-Halol and Mumbai-Pune-Nasik-Aurangabad in the west, Chennai-Bengaluru-

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[4] http://auto.economictimes.indiatimes.com/news/industry/automotive-mission- plan-2016- 26-unveiled-here-are- the-key-highlights/48772090

[5] PIB, 8th April 2015

Hosur in the south and Jamshedpur-Kolkata in the east, India is fast on its way to becoming the primary global automobile manufacturer. The government of India is more than willing to lead this charge and assist this sector in every way to help it achieve its full potential.

- Mr Nitin Gadkari, Minister of Road Transport, Highways & Shipping has announced plans to set up a separate independent Department for Transport, comprising of experts from the automobile sector to resolve issues such as those related to fuel technology, motor body specifications and fuel emissions, apart from exports.

- Government of India aims to make automobiles manufacturing the main driver of ‘Make in India’ initiative, as it expects passenger vehicles market to triple to 9.4 million units by 2026, as highlighted in the Auto Mission Plan (AMP) 2016-26.

- In the Union budget of 2015-16, the Government has announced to provide credit of Rs 850,000 crore (US$ 124.71 billion) to farmers, which is expected to boost the tractors segment sales.

- The Government plans to promote eco-friendly cars in the country i.e. CNG based vehicle, hybrid vehicle, and electric vehicle and also made mandatory of 5 per cent ethanol blending in petrol.

- The government has formulated a Scheme for Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India, under the National Electric Mobility Mission 2020 to encourage the progressive induction of reliable, affordable and efficient electric and hybrid vehicles in the country.

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- The Automobile Mission Plan (AMP) for the period 2006–2016, designed by the government is aimed at accelerating and sustaining growth in this sector. Also, the well-established Regulatory Framework under the Ministry of Shipping, Road Transport and Highways, plays a part in providing a boost to this sector.
- The Automotive Mission Plan 2016-26 (AMP 2026) is the collective vision of the government of India and the automotive industry on where the industry should be after 10 years. AMP 2026 seeks to define the trajectory for the automotive ecosystem in India including the regulations and policies that govern research, design, technology, testing, manufacturing, etc. of automotive vehicles, components and services. The plan envisages that Indian automotive industry would grow 3.5-4 times in value from its current output and reach around INR 16, 16,000 crore by 2026[6].
- Voluntary Vehicle Fleet Modernization programme (V-VMP) proposed by the Ministry of Road Transport and Highways that offers incentives worth 8-12% of the cost of a new vehicle for surrendering the old one. It would be able to generate steel scrap worth USD 1,728 million domestically every year with the set-up of organised shredding centres in addition to providing environmental and energy efficiency benefits

## Recent development in automobile industries and Foreign Direct Investment (FDI) under the Make in India project

According to the report of HDFC Bank Investment Advisory Group (May 2015), many companies are planning to launch or improve their existing products. According to the reports companies are planning to introduce the followings as given in the table given below by the end of 2016:

[6] Official website of Make In India, accessed in July 2016.

| Company | New Product/Variant | Segment |
|---|---|---|
| Maruti Suzuki | Wagon R Diesel, Celerio, Cervo and a New mode | Hatchback |
| Maruti Suzuki | SX4 Cross, iV-4, XA Alpha | Utility Vehicle |
| M&M | Thar New, Scorpio AT, Compact SUV | Utility Vehicle |
| M&M | Halo | Coupe Car |
| Tata Motors | Nano AMT, Nano Diesel, Kite Hatch | Hatchback |
| Tata Motors | Safari Storme facelift, Nexon, Aria AT | Utility Vehicle |
| Hyundai | Tucson New, ix25 | Utility Vehicle |
| Bajaj Auto | RE60 | Hatchback |
| Bajaj Auto | Pulsar 150ns, Pulsar 180ns, Pulsar 400ss, KTM Duke 690 | Two wheeler |
| Hero Motocorp | Dare 125, ZIR 150, Leap 125,HX250R 250, Dash 110 | Two wheeler |
| TVS | Apache RTR 250, TVS Draken 250 | Two wheeler |
| Mahindra | Mojo 300, Centuro O1 D | Two wheeler |

Figure F6.7: Expected launch of the products

As reported in ET Auto on July 17, 2015, **Foreign Direct Investment (FDI)** into the automobile industry has seen a 164 percent growth, in the seven month period from the launch of Make in India initiative on September 25, 2014, an official statement said on Thursday.

FDI in automotive sector was increased by 89% between April 2014 to February 2015[7]. India is 7th largest producer of vehicles in the world with 17.5 million vehicles annually. 100% FDI is permitted in this sector via automatic route. Automobiles shares 7% of the India's GDP[8].

Foreign investment jumped to US$2189.15 million (October 2014- April 2015) from US$ 830.69 million (October 2013- April 2014), in the industry. To attract more investments in the manufacturing sector, the Union Cabinet has introduced composite caps for simplification of FDI policy.

[7] "FDI in automobile sector up 89% in April–February FY'15". *The Economic Times. 25 May 2015*. Retrieved in October 2015

[8] *Invest India (16 March 2012).* "Automobile". *Invest India*. Retrieved in October 2015.

**Major investments in the automobile sector in Make in India**

i. MV Agusta, the Italy-based premium motorcycle manufacturer, has entered India through an exclusive partnership with Pune-based Kinetic group with the launch of three luxury bikes, which will be sold through the 'Motoroyale' chain in Pune.

ii. Sweden-based electric vehicle maker Clean Motion plans to invest US$ 10 million in India over the next three years in order to expand operations including setting up of an assembly unit for its Zbee three-wheelers in the country.

iii. Isuzu Motors, the Japan-based utility vehicle manufacturer, has inaugurated its greenfield manufacturing unit in SriCity, Andhra Pradesh, at a cost of fcRs 3,000 crore (US$ 450.94 million).

iv. Japanese two-wheeler manufacturer Honda Motorcycle and Scooter India (HMSI) has opened its fourth and world's largest scooter plant in Gujarat, set up to initially produce 600,000 scooters per annum to be scaled up to 1.2 million scooters per annum by mid-2016.

v. American car maker Ford has unveiled its iconic Ford Mustang in India and will make its debut in second quarter of FY2016 within the price band of Rs 45 lakh (US$ 66,146) and Rs 50 lakh (US$ 73,496) in the Indian market.

vi. Nissan Motor Co. Ltd is in discussion with Government of India to bring electric and hybrid technologies to India as the government plans to reduce air pollution caused by vehicles.

vii. Global auto major Ford plans to manufacture in India two families of engines by 2017, a 2.2 litre diesel engine codenamed Panther, and a 1.2 litre petrol engine codenamed Dragon, which are expected to power 270,000 Ford vehicles globally.

viii. The world's largest air bag suppliers Autoliv Inc, Takata Corp, TRW Automotive Inc and Toyoda Gosei Co are setting up plants and increasing capacity in India.

ix. General Motors plans to invest US$ 1 billion in India by 2020, mainly to increase the capacity at the Talegaon plant in Maharashtra from 130,000 units a year to 220,000 by 2025.

x. US-based car maker Chrysler has planned to invest Rs 3,500 crore (US$ 513.5 million) in Maharashtra, to manufacture Jeep Grand Cherokee model.

xi. Mercedes Benz has decided to manufacture the GLA entry SUV in India. The company has doubled its India assembly capacity to 20,000 units per annum.

xii. Germany-based luxury car maker Bayerische Motoren Werke AG's (BMW) local unit has announced to procure components from seven India-based auto parts makers.

xiii. Mahindra Two Wheelers Limited (MTWL) acquired 51 per cent shares in France-based Peugeot Motorcycles (PMTC).

## 1.4 Conclusion

"The concept of Make in India has really succeeded as it added more employment. With this, India has now become a vibrant market for manufacturers. For the products that are made out of the initiative, we have a strong domestic market with increasing demand. I believe that infrastructure sector is where foreign investments can come in a big way," said Dipankar Dasgupta, former professor of economics at the Indian Statistical Institute.

The major objectives behind the Make in India initiative are job creation and skill enhancement in 25 sectors of the economy, including automobiles, aviation, biotechnology, chemicals, construction, defence manufacturing, electrical machinery, electronic systems and mining.

According to the Department of Industrial Policy and Promotion, FDI inflows under the approval route (which requires prior government permission) increased by 87% during 2014-15 with an inflow of $2.22 billion. More than 90% of FDI was through the automatic route.

Also in 2014-15, foreign institutional investment rose by an unprecedented 717% to $40.92 billion. A state-wise analysis of FDI inflows by the economic survey shows that Delhi, Haryana, Maharashtra, Karnataka, Tamil Nadu, Gujarat and Andhra Pradesh together attracted more than 70% of total FDI inflows to India during the last 15 years.

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