

## RECENT TRENDS IN THE PERFORMANCE OF INDIAN AUTOMOBILE INDUSTRY

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### ABSTRACT

*The Automobile Industry is one of the fastest growing Manufacturing sectors in India. Before the introduction of the liberal economic policies of the 1990s this sector was also suppressed under the protectionist policy regime. But the liberal economic policies adopted in the 1990s changed the fate of this industry. Various measures have been undertaken in India to promote this sector. The present study is an attempt to understand the recent trends in the performance of the Indian Automobile Industry. Here performance has been analyzed by the trends in the growth of production, sales, and export as well as FDI inflows. By analyzing the available data from various sources we could find that the Indian Automobile Industry has been registered an impressive performance during the study period. The annual average growth of production, sales, and export is more than two digit which shows the potential capability of Indian Automobile Industry to grow further.*

**KEYWORDS:** *Foreign Direct Investment, Passenger Vehicles, Commercial Vehicles, Two Wheelers, and Four Wheelers, Automobile Industry, Original Equipment Manufacturers (OEMs), Production, Sales and Export*

### INTRODUCTION

The automobile industry is one of the major contributors to the gross domestic product of India, it accounts 7.1 % of India's GDP and also provides employment to 17 million people either directly or indirectly (CII<sup>2</sup> and EY, 2016). Before the advent of the economic reforms of 1991, there were only very few players in the Indian automobile industry. Up to 1982, there were only 5 players in the Indian automobile industry (IBEF, 2016). But the liberalization measures have changed the fate of this industry as well. Now there are more than 50 players in the Indian automobile sector with a gross turnover of US \$ 67724 million in 2016-17. In 2018 India becomes the fourth largest auto market in the world (Economic Times, Mar 24, 2018). This sector has attracted the US \$ 18.43 Billion foreign direct investment between April 2000 and December 2017 (makeinindia.com). 'Automobile industry has made significant achievements in developing designing and manufacturing capability in the country. India has now emerged from just an automobile producing hub to designing and development hub as well' (PIB, 2016)

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Indian automobile industry consists of both the automobile industry as well as the auto component industry. Our present study is focusing on the automobile industry. Automobiles industry can be broadly classified into 4 segments<sup>3</sup>. They are Passenger Vehicles, Commercial Vehicles, Two Wheelers, and Four Wheelers. Passenger Vehicles Includes Passenger Cars, Utility Vehicles<sup>4</sup> and Multipurpose Vehicles<sup>5</sup>. Commercial Vehicles (CVs) can be further classified into Medium and Heavy Commercial Vehicles (M&HCVs) and Light Commercial Vehicles (LCVs). Both M&HCVs) and LCVs includes Passenger Carriers and Goods Carriers. Three Wheelers also includes Passenger Carriers and Goods Carriers. Two wheelers include Scooter/ Scooterette, Motorcycles, Mopeds, and Electric Two Wheelers. In 2015-16 India were the 7<sup>th</sup> largest Commercial vehicle (CV) Manufacturer, 6<sup>th</sup> largest Passenger vehicle (P V) manufacturer<sup>6</sup> and 5<sup>th</sup> largest Heavy truck manufacturer, 2<sup>nd</sup> largest Two-wheeler manufacturer and the largest Tractor manufacturer in the world.

**History of the Development of Indian Automobile Industry:** The history of the automobile industry in India is more than a century old and goes to the nineteenth century. In 1840 the first automobile company called Simpson & Co established in India to build a steam car and steam bus. It was in 1887 the first car run on Indian road, by a resident of Calcutta who brought it to India. The next year, there were four imported cars were used in Bombay, one of them was owned by Jamshedji Tata a leading industrialist, Mr. Rustom Cama, a Solicitor, Mr. Cawasji, Vadia, a Merchant and Mr. Pack a Bombay Jeweler. In Madras, the first car ran only in the year 1901 by Mr. Yorke of Parry's & Co<sup>7</sup>. Soon after this, the motor cars become visible on Indian roads. The motoring becomes apparent as it was more comfort, pleasure, and status than the then used modes of transportation.

A Madras-based company Samuel John Green of Simpson & Co built the first steam car of India in 1903. Two years later, Simpson built the first steam Bus. It ran between Bezwada (Vijayawada) and Masulipatam (Machilipatnam) in what was possibly the first motor bus service in the country (Muthiah and Gopalan.,2013). In 1904, the Bengal Coal Company had officially set up a motor wing at its mines in Ranigunj and made a car called Dennis, which enjoyed a great reputation in those days as a manufacturer of the tough and long lasting vehicle. In 1907, Burn & Co followed this lead and bought a four-seater Albion car for the use of its top management. The import of motor vehicles has increased during the First World War. But in 1918 the government restricted the import of motor vehicles and later it was removed in 1920 and the total number of imported vehicles increased to 13,486. (Syamala G (2011)

In the 1920s two foreign manufacturers, one from the US namely ford motor company and another from Canada namely General Motors company<sup>8</sup> set up local companies to do business in motor cars and trucks in India. General Motors India started to assemble trucks and Cars in their factory located in Bombay in 1928. Followed by this the Ford motor corporation was also launched their assembling units in Madras Bombay and Calcutta during the 1930s. In 1931 Simpsons started a repair workshop in Madras. Later in 1936, Addison & Co Ltd commenced assembly of cars and trucks in Madras. (Muthiah and Gopalan., 2013).

<sup>3</sup> there are different types of classification, but in our present study we follow the classification of Society of Indian automobiles (SIAM)

<sup>4</sup> It also Includes Sports Utility Vehicles (SUVs)

<sup>5</sup> Now it is called as Vans

<sup>6</sup> 4<sup>th</sup> largest car manufacturer in the world after USA, China and Japan in March, 2018.

<sup>7</sup> Mentioned in [www.kolkataonwheels.com](http://www.kolkataonwheels.com)

<sup>8</sup> Subsidiary of General Motors, U.S.A

M. Visweswarayya, the father of Indian planning could understand its importance in the 1930s. To him, the “development of a full-fledged automotive industry is the key to our economic growth”. In 1935 M Visweswarayya summoned a meeting of few businessmen to discuss the possibility to establish an indigenous car manufacturing unit in India. It was believed to be possible to manufacture a car in India with the help of the Tata steel plant at Jamshedpur and the metallurgical workshop in Bombay. An automobile factory committee was set up on April 17, 1936, by the Indian Merchant Chamber in Bombay to prepare a detailed proposal, but not much progress could take place (Syamala, 2011)

It was during 1940s the manufacturing of automobiles in India got a great leap. In 1942 Hindustan Motors Ltd was incorporated by the Birla group at Port Okha near Gujarat and their first product was made in the year 1950<sup>9</sup>. In 1944 Premier Automobiles Ltd was established by the Walchand group in Bombay in collaboration with the Chrysler Corporation of the US and in 1947 their first vehicle was produced. Both companies were set up without any support from the government. Mahindra & Mahindra was established in 1945 by two brothers, and it began the assembly of Jeep CJ-3A utility vehicles. In 1945 Tata motors was incorporated on 1<sup>st</sup> September at Mumbai to manufacture diesel vehicles for commercial use, excavators, industrial shunter, dumpers, heavy forgings, and machine tools. In 1950 PAL entered into a collaboration with Fiat S.p.A of Italy and started assembly of Fiat 1100 cars.

**Automobile Industry in India After Independence:** The industrial sector in independent India was guided by various industrial policy resolutions<sup>10</sup>, which were protectionist in nature. The automobile industry has also suffered a lot due to the license raj and import substitution<sup>11</sup> policies. Under license, raj license has to be obtained from the concerned authority to establish a company, import technology or components. But obtaining a license involved tedious bureaucratic procedures, while imports of technology and components were difficult and unprofitable, as a result, the barriers to entry were high.

The first tariff commission inquiry in 1953 has suggested a comprehensive policy for the development of Indigenous automobile industry in India. It includes A progressive increase in indigenous content up to 100% of raw materials, Protection against imports and it also recommended to restrict the foreign equity participation up to 49 percent except in special cases.

Guided by these principles India had to manufacture all components for car, bus, tractor etc indigenously. But building all these in a short span of time was not easy. It has led to the extinction of foreign firms from India. This led to a lack of technology upgradation, modernization, and export of Indian automobile industry. As a result of all these, the automobile market was dominated by ‘Ambassador’ of Hindustan Motors and ‘Premier Padmini’ of Premier Automobiles up to 1980s. These cars were costly in relation to the purchasing power of most Indians. This resulted in low production levels at around 30,000 vehicles a year. Customers had to wait for their turn, even if they could afford it. It was an era of scarcity.

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<sup>9</sup> It was a modified version of Morris oxford series later modified and renamed as ambassador in 1958

<sup>10</sup> IPR, 1948 and IPR 1956, ‘The Industry Policy Resolution of 1948 announced that automobiles and tractors would be classified amongst industries which would be subject to regulation and control by the Central Government’. (Muthiah and Gopalan., 2013).

<sup>11</sup> Import Substitution:

The period of the 1980s witnessed landmark progress in Indian Automobile Industry. The Government allowed foreign technology with or without equity participation with Indian companies in the Indian automobile industry. As a result in 1982, Maruti Udyog Limited (MUL) came up as a Government initiative. It established a joint venture with Suzuki Motor Corporation of Japan to manufacture a low-cost car affordable to the common man. In two-wheeler segment following companies made an entry: Suzuki, Honda, Kawasaki, Yamaha – all from Japan, Piaggio (Italy) Scooters: Steyr Daimler Puch (Austria), Zundapp (Germany) Mopeds: Agrati Garelli (Italy) (Jotva, 2015). Soon after that in 1985-86, the government initiated certain policy measures for the automobile sector, it liberalized the policies which helped in the import of technology. Only the new entrant Maruti, who had entered the market with small and fuel-efficient cars and new technology, achieved tremendous success and leadership in the Market.

**Automobile Industry in India Since 1991:** So many policy changes were also announced in the Indian Automobile sector in the wake of economic liberalization. Liberal policies announced during this period also became beneficial to the automobile industry. 'The fiscal measures, tax reliefs and reforms in equity regulations and foreign exchange led to significant growth in the automobile sector'. (Economy watch, 2010). It was during the mid-1990s foreign players were entered into the Indian market. International players like Ford, Hyundai, Toyota, Daewoo, Fiat, General Motors and Honda were entered to Indian Automobile Industry from 1995 to 2000 through technical tie up or major-minor investments. Now, most of the global Original Equipment Manufacturers (OEMs) are established their presence in the Indian automobile industry. Automobile Policy 2002 allowed 100 % foreign equity investment under automatic route in Indian Automobile Industry without any minimum investment criteria. The government has also announced a rebate on R&D expenditure it helped to improve the R&D expenditure in this sector. In 2014-15 this sector accounts 8% of the country's R&D expenditure. In 2015 the Government has released an automotive mission plan 2016-26. This plan aims to make India the third largest auto manufacturer in the world by 2026. The policy also targets to increase its contribution from the current 7.1 % to India's GDP to 12 % by 2026. It also aims to create 12 million additional jobs related to this sector.

### **Objectives of the Study**

Based on the above discussion the present study set the following objectives

- To analyze the trends in the production and sales of Indian Automobile Industry
- To understand the trends in the export performance of Indian Automobile Industry.
- To understand the trends in the FDI inflow into Indian Automobile Industry.

### **Methodology of the Study**

In the present study, the performance trend of Indian automobile Industry has been analyzed from 2001-02 to 2017-18. The period has been chosen due to the availability of comparable data. In order to understand the recent trends in the performance of Indian Automobile Industry, we take data from the various issues of Statistical Profile of the Automobile Industry in India, SIAM and data.government.in. The data has been analyzed by using various statistical techniques like average, percentage, AAGR (Average Annual Growth Rate), trend analysis line and bar diagram

### Analysis of the Data: Performance of Indian Automobile Industry

The Indian Automobile industry has witnessed tremendous progress in terms of production and sales. Table 1.1 below clearly shows that the total number of Automobile production has been increased from 53,16,302 in 201-02 to 2,90,73,892 vehicles in 2017-18. The auto automobile industry has a whole registered an impressive growth rate throughout the period. The annual average growth rate in production was 12 during this period. All the segments of the automobile sector registered a two-digit growth rate. The growth rate of commercial vehicle was higher during this period. It was 13 per cent per annum while the passenger vehicle industry registered an average growth rate of 12 % per annum

**Table 1: Trends in the Production of Automobile Industry (GR in Per cent)**

Year	Passenger Vehicles (No)	GR	Commercial Vehicles (No)	GR	Three Wheelers (No)	GR	Two Wheelers (No)	GR	Grand Total (No)	GR
2001-02	6,69,719		1,62,508		2,12,748		42,71,327		53,16,302	
2002-03	7,23,330	8	2,03,697	25	2,76,719	30	50,76,221	19	62,79,967	18
2003-04	9,89,560	37	2,75,040	35	3,56,223	29	56,22,741	11	72,43,564	15
2004-05	12,09,876	22	3,53,703	29	3,74,445	5	65,29,829	16	84,67,853	17
2005-06	13,09,300	8	3,91,083	11	4,34,423	16	76,08,697	17	97,43,503	15
2006-07	15,45,223	18	5,19,982	33	5,56,126	28	84,66,666	11	1,10,87,997	14
2007-08	17,77,583	15	5,49,006	6	5,00,660	-10	80,26,681	-5	1,08,53,930	-2
2008-09	18,38,593	3	4,16,870	-24	4,97,020	-1	84,19,792	5	1,11,72,275	3
2009-10	23,57,411	28	5,67,556	36	6,19,194	25	1,05,12,903	25	1,40,57,064	26
2010-11	29,82,772	27	7,60,753	34	7,99,553	29	1,33,49,349	27	1,78,92,427	27
2011-12	31,46,069	5	9,29,136	22	8,79,289	10	1,54,27,532	16	2,03,82,026	14
2012-13	32,31,058	3	8,32,649	-10	8,39,748	-4	1,57,44,156	2	2,06,47,611	1
2013-14	30,87,973	-4	6,99,035	-16	8,30,108	-1	1,68,83,049	7	2,15,00,165	4
2014-15	32,21,419	4	6,98,298	0	9,49,019	14	1,84,89,311	10	2,33,58,047	9
2015-16	34,65,045	8	7,86,692	13	9,34,104	-2	1,88,30,227	2	2,40,16,068	3
2016-17	38,01,670	10	8,10,253	3	7,83,721	-16	1,99,33,739	6	2,53,29,383	5
2017-18	40,10,373	5	8,94,551	10	10,21,911	30	2,31,47,057	16	2,90,73,892	15
<b>AAGR</b>	<b>12</b>		<b>13</b>		<b>11</b>		<b>11</b>		<b>12</b>	

Source: SIAM (compiled and computed by the researcher)

AAGR; Annual Average Growth Rate

The data on the sales of auto mobile shows similar trends. The average annual growth rate in the sales of motor vehicle was 11 per cent per annum. It is clear from the Table 1 is that the growth rate was higher in commercial vehicle industry with an average annual growth rate of 13 percent per annum. Only three wheeler industry registered a growth rate which is less than 10 %, but the achieved 8 % growth rate per annum is also an impressive one.

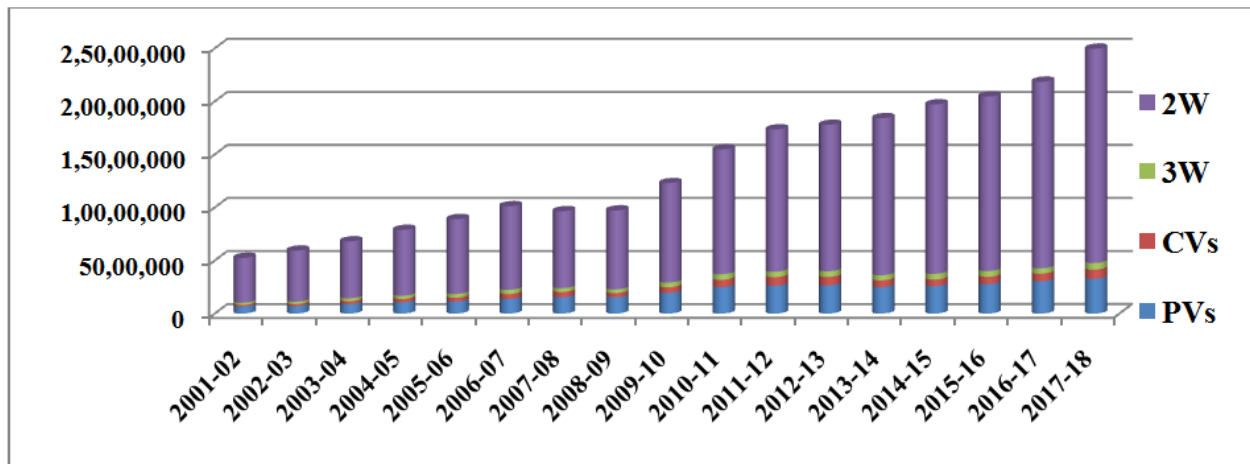
Figure 1. below shows the trends in the domestic sales of automobiles as well as the category wise trends during the study period. From the figure, it is understood that domestic sales have been increasing over the years. The 2 wheeler segment accounts around 80 % of domestic sales followed by the Passenger vehicles in all the years during the study period.

**Table 2: Growth in the Sales of Automobile Industry (GR in Per cent)**

Year	Passenger Vehicles	Commercial Vehicles	Three Wheelers	Two Wheelers	Grand Total
2001-02					
2002-03	4.75	30.01	15.60	13.74	13.11
2003-04	27.56	36.41	22.70	11.47	14.63
2004-05	17.68	22.42	8.37	15.76	15.96
2005-06	7.68	10.24	16.91	13.57	12.77
2006-07	20.73	33.25	12.22	11.63	13.67
2007-08	12.31	4.86	-9.69	-7.91	-4.64
2008-09	0.18	-21.67	-4.13	2.60	0.72
2009-10	25.67	38.66	25.92	25.99	26.44
2010-11	28.20	28.57	19.44	25.59	25.91
2011-12	5.13	18.19	-2.42	13.94	12.15
2012-13	1.34	-2.01	4.87	2.89	2.49
2013-14	-6.06	-20.22	-10.81	7.32	3.54
2014-15	3.90	-2.83	10.94	7.89	7.06
2015-16	7.23	11.51	1.05	3.01	3.78
2016-17	9.26	4.14	-4.89	6.89	6.81
2017-18	7.89	19.94	24.19	14.80	14.23
<b>AAGR</b>	10.84	13.22	8.14	10.57	10.54

Source: SIAM (Computed by the researcher)

AAGR: Annual Average Growth Rate

**Figure 1: Trends in Domestic Sales**

**Source:** SIAM (computed by the researcher), 2W- Two Wheeler, 3W-Three Wheeler, CVs- Commercial Vehicles and PVs- Passenger Vehicles

The export performance was much higher than the growth rate in production and sales of Indian Automobile industry. The annual average growth rate during these periods was 23 per cent. All the sub segments of automobile industry witnessed an outstanding performance in terms of export growth rate. The growth rate was much higher in three wheeler industry. It registered a remarkable 29 % average annual growth rate during this period. The total number exported vehicles have been increased from just 1, 81,603 in 2001-02 to 40, 40,172 in 2017-18. Out of these 40, 40,172 exported vehicles two wheelers itself account 28, 15,016 (69.7 % of total automobile exports)

Table 3: Growth in the Export of Automobile Industry (GR in Per cent)

Year	Passenger Vehicles (No)	GR	Commercial Vehicles (No)	GR	Three Wheelers (No)	GR	Two Wheelers (No)	GR	Grand Total (No)	GR
2001-02	50,088		11,870		15,462		1,04,183		1,81,603	
2002-03	70,828	41	12,255	3	43,366	180	1,79,682	72	3,06,131	69
2003-04	1,29,291	83	17,432	42	68,144	57	2,65,052	48	4,79,919	57
2004-05	1,66,402	29	29,940	72	66,795	-2	3,66,407	38	6,29,544	31
2005-06	1,75,572	6	40,600	36	76,881	15	5,13,169	40	8,06,222	28
2006-07	1,98,452	13	49,537	22	1,43,896	87	6,19,644	21	10,11,529	25
2007-08	2,18,401	10	58,994	19	1,41,225	-2	8,19,713	32	12,38,333	22
2008-09	3,35,729	54	42,625	-28	1,48,066	5	10,04,174	23	15,30,594	24
2009-10	4,46,145	33	45,009	6	1,73,214	17	11,40,058	14	18,04,481	18
2010-11	4,44,326	-0	74,043	65	2,69,968	56	15,31,619	34	23,20,076	29
2011-12	5,08,783	15	92,258	25	3,61,753	34	19,75,111	29	29,37,978	27
2012-13	5,59,414	10	80,027	-13	3,03,088	-16	19,56,378	-1	28,98,907	-1
2013-14	5,96,142	7	77,050	-4	3,53,392	17	20,84,000	7	31,10,584	7
2014-15	6,21,341	4	86,939	13	4,07,600	15	24,57,466	18	35,73,346	15
2015-16	6,53,053	5	1,03,124	19	4,04,441	-1	24,82,876	1	36,43,494	2
2016-17	7,58,727	16	1,08,271	5	2,71,894	-33	23,40,277	-6	34,79,169	-5
2017-18	7,47,287	-2	96,867	-11	3,81,002	40	28,15,016	20	40,40,172	16
<b>AAGR</b>	20		17		29		24		23	

Source: SIAM (Computed by the researcher)

Foreign Direct Investment (FDI) inflows have also shows an increasing trend over the years. India has become the Centre of attraction for global auto makers due to the increase in the number of middle class income people and also due to the low cost labour (Lavanya et al, 2017). The auto penetration rate is far below in India if we compare with the USA and China. The penetration rate is 19/1000 (19 passenger vehicles per thousand population) as compared to 77/1000 in china and 455/1000 in UK.

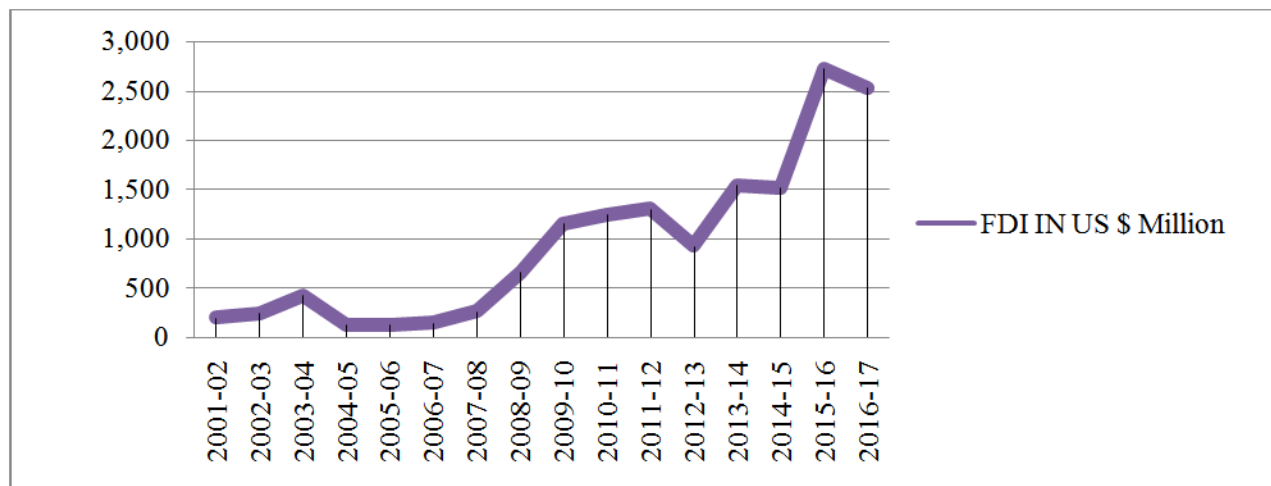


Figure 2: Trends in FDI Equity Inflow

Source: data.govt.in

By understanding the huge potentiality of this sector the FDI inflow to India has shown tremendous growth. The FDI inflow has been increased from the just US \$ 195 million in 2001-02 to the US \$ 2527 million in 2016-17



## CONCLUSIONS

Automobile Industry in India has witnessed tremendous progress during the post-liberalisation period. The conducive policies of the government helped this sector to grow and develop its activity in the global market also. The production and sales of this sector have also registered an impressive growth rate during the study period. The two-digit growth rate in the production, sales, and export of all segments of this sector during the study period shows a great ray of hope to achieve the targeted position of the fourth largest producer of the automobile in the world by 2026 envisaged in the Automotive Mission Plan for 2016-2026.

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