Research Paper Management

A Pre and Post Recessionary Study of Growth in Automobile Industry

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ABSTRACT

Global recession has distressed the global auto industry, with the result global companies are looking towards India as a market place for their products as they consider India as a strong and growing economy. The present paper attempts to observe the production, sales performance and efficiency of the production of automobile industry in India during pre-recessionary & post-recessionary period. The review of literature presents a general overview of the growth and development of automobile industry in India.

KEYWORDS Automobile industry, Growth, Sales performance, Pre & Post-recession, Indian economy.

Introduction

The automobile sector is a key industry in the Indian economy. The economic contribution of this sector is immense, with significance linkages to the manufacturing and services sectors. Manufacturer must improve automobile market for development of the Indian Economy. Development of automobile industry in India began 1950. In the eighties, it was major drive towards indigenization which resulted in a rapid growth in the industry. In the nineties imports started in Indian automobile industry and this lead to competition in the automobile industry.

The global motor vehicle industry (four-wheelers) contributes directly to the total manufacturing employment, total manufacturing production value and total industrial investment. The auto industry is linked with some other sectors in the economy and hence its indirect contribution is much higher than this. All over the world it has been treated as a leading economic sector because of its extensive economic linkages. In India, the automobile industry provides direct employment to the person. A rapidly increasing middle class, rising per capita incomes and relatively easier availability of finance have been driving the vehicle demand in India, which lead to economic growth. The Reserve Bank of India's (RBI) Annual Policy Statement documents an annual growth of 37.9 per cent in credit flow to vehicles industry in 2006 [2]. Auto policy, 2002, stresses on the need to provide direction to the growth and development of the auto industry in India.

Manufacturing industry in developing country like India involved a host of formidable problem. If per capita income was exceedingly low, the demand for automobiles was also relatively small. Many internationally reputed automobile importer operating in India with tie-up with Indian company. Due to global crisis, Indian market as well as International market also affected.

Due to increase demand, commission recommended import duty at a flat rate of 10 percent on completely knockdown pack. Commission's decision provided protection to a whole product rather than the parts which go to compose it leads to further differences.

In fact, tax revenue as a ratio to GDP may fall short of the modest improvement seen in FY2010-11 and come closer to the 7 percent ratio in the post-crisis year FY2009-10, while the expenditure ratio will show little improvement (World Bank 2012) [21]. The automotive manufacturing, mainly in small cars, and the manufacturing of pharmaceuticals are expected to play major role in the growth of the sector (World Economic Forum 2009).

Literature Review

Growths in automobile explore the process of development of the automobile sector in Indian market and worldwide market. Shilpa dixit and Manoj Joshi (2011) stated that competition in Indian automobile market is very high through porter's diamond model. Various factor to be considered for development of the competitiveness like factor condition, demand conditions, related and supporting industries, firm strategy structure and government [7]. Performance of Indian automobile industry in terms of sales and production has been reasonable. According to Ernst & Young report automotive ecosystem is changing fast and talked about helping their clients in terms of quality [8]. R. N. Agarwal (1991) founded that various factor of growth and performance differentiate the automobile industry. Diversification in product line and production process through vertical integration can develop the growth and profitability in Indian automobile industry. He identified industry exports are very essential in automobile [1].

Sanjay Kathuria (1987) explained that industry's average growth rate was 4 percent during 1950-1985. The recessionary period of 1965-77 was followed by a boom in 1978-81. He explored the commercial vehicle industry in India between 1928 to 1987 [13]. Pingle (2000) reviews the policy framework of India's automobile industry and its impact on its growth. While the links between bureaucrats and the managers of state-owned enterprises played a positive role especially since the late 1980s, ties between politicians and industrialists and between politicians and labour leaders have impeded the growth. Pingle argues that state intervention and ownership need not imply poor results and performance, as demonstrated by Maruti Udyog Limited (MUL). Further, the non-contractual relations between bureaucrats and MUL dictated most of the policies in the 1980s, which were biased towards passenger cars and MUL in particular [18]. McKinsey (2005) predicts the growth potential of India-based automotive component manufacturing at around 500 percent, from 2005 to 2015. This report describes the initiatives required from industry players, the Government and the ACMA to capture this potential [17]. Kumar (1984) find out export is the significant determinant of growth of the firms. New firms grow faster than old firms and also large firm grow rather than small firm [15]. Hindu (2013) talked about introduce a new investment policy in the State before May 30, 2013. Anil Kher, ex-chair-

man CII Goa Council, said the budget was a fine exercise in keeping the economy growing and giving concessions to the underprivileged [10]. ICRA Rating (2011) the domestic market is growing and attracting foreign OEM's while on the other hand, established players are positioning themselves as strong competitors to offer low-cost car manufacturing capabilities to the world [12].

The main Causes of recession due to currency crisis, energy crisis, war, under consumption, overproduction, financial crisis, price of fuel.

Pre-recession:
In 2008, global financial and economic crisis affects the automobile industry in developing country. In 2008, global financial crisis broke out in 2008 and hit the international automobile markets in October 2008 when automobile sales dropped in USA and Europe. Pre-recession existed before 2008 named Early 2008's recession in which the main Cause and impact was the collapse of US economy and other countries. Great recession started from 1929 and ended up to 1939 which was up to 10 years. In the great recession, the main Cause and impact was stock market crashed worldwide, and a banking collapse took place in the US. This generated global downturn. The main causes of recession in India is Indian company have major outsourcing deals from the US.

Post-recession:
The Indian automobile industry is expected to grow to US$ 40billion by 2015 from the current level of US$ 7 billion in 2008 [15]. It includes Challenges of Chinese automobile Industry, market strength of Indian automobile industry and new innovation. After the recession in 2008, Sales of passenger cars in India increased for the first time in five months though analysts are of the opinion that it's too early to see a recovery in the sector. The Society of Indian Automobile Manufacturers said that sales grew 22% in February, compared to the same month in 2008. According to industry experts, the increase in sales was driven by cut in auto-loan rates from about 13% to 10% (BMI, 2009) [4].

The recession in the global economy seen since the second half of 2008 has resulted in a slowdown in India's export performance and in capital flow into the country. In response to this reduction in aggregate demand, the government has taken fiscal and monetary counter-measures. These include a cut in indirect taxes, accelerating the implementation of several infrastructure projects, reducing interest rates, easing the liquidity available with the banks, etc. this part analyses the likely impacts of the global recession in GDP and its distribution across household classes and the effectiveness of some of the government's counter measures that aim to increase aggregate demand (Ganesh Kumar and Manoj Panda, Eleventh five year plan) [14].

Fall in export adversely affects the final demand in Indian economy leading to fall in output and income. The manufacturing sector is more adversely affect than agriculture or services since it account for most of India's export. The loss in income results in a fall in private consumption by 3.1 percent the across the board decline in income has strong impact on all three components of national saving – private, government and foreign. effect of export fall due to investment channel not from direct channel. Strain Industrial production picked up in February, rising by 8.6% year to year the April 2007-February 2008 period saw a deceleration to 8.7%, from 11.2% in the same period last year i.e. India's automotive market has shown the first sign of a stutter in the financial year ending March 2008. Total vehicle sales, including two- and three-wheelers, fell by 4.7% y-o-y following seven years of consecutive growth. Moreover, this could be more than a blip in the market's performance, as BMI's recently published India Automotive Report suggests that a shift in consumer trends could be behind the downturn. Motorcycle sales, traditionally strong in India, fell by 11.9% to 5,768,341 units, as total two-wheel vehicle sales dropped by 7.92% to 7,248,600 units. Sales of three-wheelers, meanwhile, fell by 9.71% to 364,703 units [4].

Effect of recession:
Various reasons for effect of recession in automobile industry are uncertain exchange rate and a sudden increase in dollar value against Indian rupee. Delayed payment from the OEMs Original equipment manufacturer. Alloy and steel prices have also not shown and reduction in their price. Some companies affected due to recession are Mahindra & Mahindra, Maruti Suzuki and Tata Motors.

Growth in Indian automobile industry
Framework of Robin Marris model suggests that growth depends mostly on diversification. Successful Diversification creates higher rate growth of the firm. Government policy also affects the growth of the automobile industry.

According Economic Times reports, Japanese automaker Nissan will set up a new manufacturing plant for its Datsun range of cars in India. Franco-Japanese automotive partnership Renault-Nissan announced in February that it would also invest US$320mn in a second Indian plant. In 2012, Nissan revealed its plans to launch 10 models to India by 2016. Chennai will be favored site for the facility [11]. Strong economic growth, rising disposable income levels, favorable demographics, easy financing environment and relatively low car penetration have been the prominent growth drivers for the industry.



Figure1: Growth Drivers of Indian Automotive Market
(Source: Shailja Dixit and Manoj Joshi (2011))

Objective
The main objective of this research is to find out the growth and performance of automobile sector before the recession and after the recession.

Research Methodology
This study is based on descriptive research. The data is mainly collected from secondary sources like journal, magazine, newspaper, report etc. The secondary data was taken from CMIE for ten years period from 2003-2008 to 2008-2012. For the purpose of analysis this research is divided into two parts using techniques like percentages. The limitations of this study are the time and resources allowed.

Data analysis
Table 1 denotes the production of automobile during 2003 – 2012. The total production of all types automobile in 2003 was 6483664 units and in 2008 it was 1,38,5547 units. It shows growth of 50,98,117 units during the pre-recessionary assessment period.

Growth occurred 15.96% from the year 2003 to 2004. From 2003 to 2012, total vehicle production fall three times and one time it was negative growth in 2008. Total production of passenger vehicle shows continuously increasing. Commercial

vehicle and two wheeler production fall in 2009 while three wheeler automobile productions fall in 2008 and 2009. Year 2011 is the maximum percentage growth in production of automobile.

Table 1: The Production of Automobile (Units)

Year	Passenger Vehicles	Commercial Vehicles	Three Wheelers	Two Wheelers	Total Vehicles Production	% Change
2003	723330	407394	276719	5076221	6483664	
2004	989560	550080	356220	5622741	7518601	15.96222
2005	1209876	707406	374443	6529829	8821554	17.32973
2006	1309300	782166	416423	7266697	9774586	10.80345
2007	1545223	1039964	556s126	8436212	11577525	18.44517
2008	1777583	1098012	500660	8009292	11385547	-1.6582
2009	1838593	833740	497020	8395613	11564966	1.5758
2010	2357411	1135117	619194	10510336	14622058	26.434
2011	2982772	1476675	799553	13349349	18608349	27.262
2012	3123528	1772110	877711	15453619	21226968	14.07228

Source: Centre for Monitoring Indian Economy (Prowess) and self-constructed

Table 2: The Sales of Automobile (Unit)

Year	Passenger Vehicles	Commercial Vehicles	Three Wheelers	Two Wheelers	Total Vehicles Production	% Change
2003	707198	381364	79529	4812126	5980217	
2004	902096	520228	284074	5364249	7070647	18.23
2005	1061572	636860	307862	6209765	8216059	16.20
2006	1143076	702082	359920	7052391	9257469	12.67
2007	1305189	935530	403910	7842572	10487201	13.28
2008	1549882	980988	364781	7232210	10127861	-3.42
2009	1552703	768388	349727	7411174	10081992	-0.45
2010	1951333	1065442	440392	9368240	12825407	27.21
2011	2501542	1369810	526024	11768910	16166286	26.05
2012	2618072	1619064	513251	13435767	18186154	12.49
Source: Centre for Monitoring Indian Economy (Prowess) and self-constructed						

From the table 2 it indicated the overall sales of automobile during 2003 to 2012. It includes pre- recessionary study (2003-2008) and post-recessionary study (2008-2012). The total number of unit sold in 2003 was 5980217 units and in 2012 it was 1,81,86154 units. It shows growth of 1,2205,937 units during the period of 2003 to 2012. In Pre-recessionary study, the sales of all vehicles in year 2003 were 5980217 units and in 2008 it was 10127861. It shows the 4147644 growths in pre-recessionary period.

During Post-recessionary period, growth in the sales of all automobile calculated from year 2008 to 2012. It shows the positive growth in sales of all vehicles in the year of 2010, 2011 and 2012. In year 2008 and 2009, it show negative growth such that (-3.42) and (-0.4529).

During both period, negative growth sales of all vehicles is two times more than negative growth of all produced vehicle. During recession period, growth of automobile is negative while other period shows extensive growth in both. The performance of Indian automobile industry in terms of sales and production has been rational.

Conclusion

Automobile industry expects the growth of the Indian economy and also in this sector. Automobile industry also consider that global automakers will continue to distribute a rising proportion of their FDI into India, growing auto manufacturing first and later on auto engineering and R&D services. India's manufacturing economy is based on labour productivity, quality of the product and investment in India. During Pre-Recession production and sales of automobile industry is growing continuously while during the recession production and sales of automobile industry fall due to market fluctuation. Post-recession show the improvement in automobile industry and its growing due to demand of the product. In manufacturing industry, Automobile sector is rapidly growing and it generates high employment in the Indian market.

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