

# “Make In India” Effect on Automobile Sector

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**Abstract-** The Indian automotive industry plays a central role in the country's economy, acting as a catalyst for economic development and reflecting the nation's economic well-being. This sector has witnessed substantial inflows of Foreign Direct Investment (FDI), emphasizing its global significance and attractiveness to international investors. The automotive industry's dynamic nature, characterized by its significant turnover and employment opportunities for millions, underscores its potential for future expansion. India's automotive landscape is diverse, covering a wide range of vehicles, including two-wheelers, passenger cars, commercial vehicles, and three-wheelers, positioning the country as a prominent global player in this sector.

Government-driven initiatives like "Make in India," the Automotive Mission Plan 2016-26, and tax incentives geared towards research and development underscore the commitment to bolster the growth of the Indian automotive industry. This sector continues to attract significant international investments, witnessed through expansions, technology collaborations, and production enhancements by global automotive companies, solidifying India's stature on the global automotive stage. In summation, the Indian automobile industry is a multifaceted driver of the nation's progress, contributing to economic expansion, technological advancements, and the creation of job opportunities, firmly establishing India as a major player in the worldwide automotive landscape.

**Keywords:** Make in India, Sales growth, Foreign Direct Investment (FDI), Startup program, FAME scheme.

## Introduction

The automobile industry holds significant importance in many economies around the world, including India. It is often considered a key driver of economic growth and development, with its performance and health closely monitored as an economic barometer. The industry not only contributes to employment and manufacturing but also has a substantial impact on related sectors, such as steel, plastics, electronics, and more.

In India, the Department of Industrial Policy and Promotion (DIPP) within the Ministry of Commerce has reported substantial foreign direct investment (FDI) inflow into the auto sector. According to available data, from April 2000 to November 2012, the cumulative FDI inflow into the Indian auto sector amounted to US\$7,518 million. This figure reflects the significant interest and investment from foreign entities in India's automotive industry.

The auto sector's share of 4 percent in the total FDI inflow, in terms of US dollars, underlines its significance in India's overall economy. This investment is indicative of the industry's potential and its role in contributing to economic growth, technological advancement, and employment opportunities within the country.

As a barometer of the economy, the performance and growth of the Indian automobile industry can reflect broader economic trends and consumer sentiment. When the auto sector is thriving, it often suggests a robust and expanding economy, while challenges or declines in the industry may signal economic headwinds.

Overall, the automobile industry in India, like in many other countries, remains a vital component of economic development and international investment, with the potential to impact various aspects of the economy, from manufacturing and trade to infrastructure and employment.

India holds a significant position in the global landscape for hybrid and electric vehicles, marking a noteworthy advancement in the automobile sector. The industry's substantial turnover, amounting to nearly \$59 billion US dollars, underscores its economic importance and its potential for future growth. Beyond its economic impact, the Indian automobile sector is a major contributor to employment opportunities, providing livelihoods to a vast workforce. Approximately 13 million people in the Indian working class are employed within the automobile industry, reflecting its significance in supporting livelihoods and sustaining a considerable portion of the labor force. As the industry continues to evolve, it has the potential to further contribute to economic growth and employment opportunities in India.

India's automobile sector exhibits a diverse landscape, segmented into four distinct categories: two-wheelers, passenger vehicles, commercial vehicles, and three-wheelers. Within this multifaceted industry, India stands out as one of the world's fastest-growing passenger car markets, highlighting its position as a key player on the global stage. Remarkably, India ranks as the second-largest manufacturer of two-wheelers and holds the prestigious position of being the fifth-largest manufacturer of commercial vehicles. These accomplishments underscore the country's significant role in the international automotive arena, both in terms of production and market growth.

## Methodology

The study to be conducted adopts a primarily descriptive approach with the intention of establishing and outlining the existing models used for evaluating the "Make in India" campaign. While the study will maintain a descriptive core, it will also incorporate exploratory elements, especially in its initial phases. Additionally, some segments of this thesis will take on a prescriptive nature.

This prescriptive aspect is concentrated on the development of a method aimed at identifying and measuring the benefits and effectiveness of investments made in the "Make in India" campaign.

The study employs a combination of primary and secondary data sources for decision-making. In this regard, primary data was gathered through structured interviews conducted with professionals representing both user and vendor organizations. This approach allowed for a direct and firsthand understanding of the perspectives and insights of individuals involved in the "Make in India" campaign.

In addition to primary data, secondary data was collected through various sources. These sources include Internet-based discussion forums, information on Enterprise Resource Planning (ERP) system products from suppliers, and company-specific materials like annual reports, accounting records, and auditing reports. These secondary data sources provide a broader context and additional insights to complement the primary data collected in the study.

**Discussion**

In the period of April to October 2015, the sales of passenger vehicles (PVs) witnessed a growth of 8.51 percent compared to the same period in the previous year. The commercial vehicles (CVs) segment also showed healthy growth, with an 8.02 percent increase during the same period. Notably, the Medium and Heavy Commercial Vehicles (M&HCVs) saw robust growth of 32.3 percent, while Light Commercial Vehicles (LCVs) experienced a decline of 5.24 percent from April to October 2015.

Furthermore, from April to October 2015, the overall automobile exports increased by 5.78 percent. Within this category, PVs, CVs, three-wheelers (3Ws), and two-wheelers (2Ws) exhibited growth rates of 6.34 percent, 17.95 percent, 18.59 percent, and 3.22 percent, respectively, compared to the same period in 2014 [1]. These figures indicate positive trends in the Indian automobile industry.

In April 2016, the sales of passenger cars grew by 1.87 percent, reaching 162,566 units. Meanwhile, the utility vehicles segment experienced substantial growth, with a 43 percent increase, totaling 62,170 units. Commercial vehicles also maintained strong sales momentum, with a 17.36 percent growth rate, resulting in 53,835 units sold. The two-wheeler industry performed well, as scooter sales increased by 35.86 percent, totaling 468,368 units, and the demand for motorcycles surged by 16.24 percent, reaching 1,024,926 units. These positive sales figures indicate the industry's resilience and potential for growth.

The Indian automobile industry has experienced significant growth over the years. Domestic vehicle sales showed a Compound Annual Growth Rate (CAGR) of approximately 9.6% from FY05 to FY15, indicating a robust expansion in the domestic market. During this period, exports also saw remarkable growth, with a CAGR of around 18.9%, highlighting the industry's increasing global footprint.

However, in recent years, the industry has faced challenges in maintaining such high growth rates. From FY13 to FY15, domestic sales growth slowed down, with a CAGR of just approximately 4.4%. The primary reason behind this slowdown was the subdued economic growth in India, which resulted in reduced consumer sentiment. Rising interest rates and fuel prices further dampened the demand for automobiles in the domestic market. Despite these challenges, the industry managed to achieve around 7.2% year-on-year growth in FY15, indicating its resilience in the face of economic headwinds. The industry continues to adapt to changing market dynamics and strives for sustainable growth.

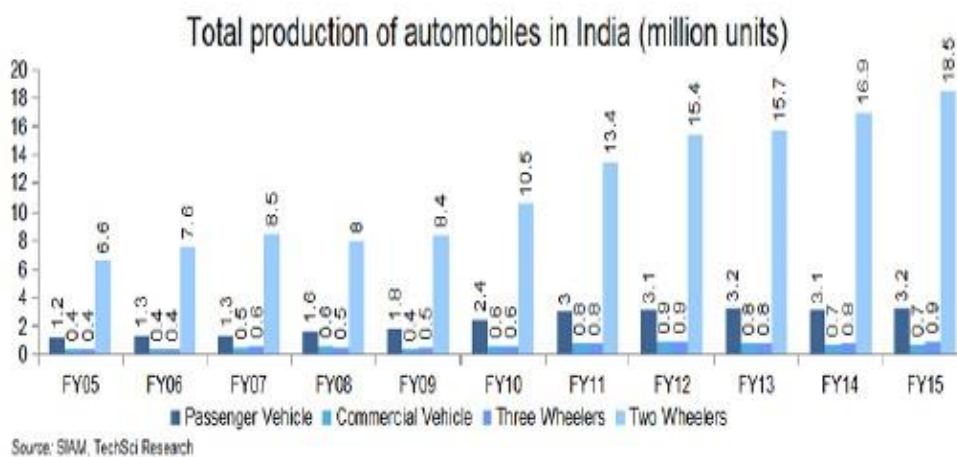


Figure 1: Automotive Production Report [2]

In India, a significant portion of the population continues to rely on two-wheelers and public transportation for their daily travel. Two-wheelers are particularly popular due to their cost-effectiveness and the limited availability of reliable public transport in some areas. They offer a means of saving time that would otherwise be spent waiting for buses or dealing with transportation delays.

The introduction and growth of ride-sharing and cab aggregator companies like Uber and Ola have provided another convenient and cost-effective alternative for commuters. This has led to an increase in the use of cab services, especially in urban areas where these services are widely available.

The Indian government has also shown interest in the four-wheeler industry, recognizing its potential for higher revenue generation compared to two-wheelers. Four-wheelers are becoming increasingly essential for international markets, and their production and development have been areas of focus.

To support and drive innovation in the automotive industry, organizations like the Automotive Research Association of India (ARAI) and the National Automotive Testing and R&D Infrastructure Project (NATRiP) have been established. These entities promote research and development, ensuring that the Indian automotive sector remains competitive and aligned with global standards.

#### “Make In India” initiatives for the automobile sector

The Indian government, recognizing the significance of the automotive industry, has launched several initiatives and policies to encourage its growth and development:

1. **Start-Up India Program:** This program highlights the opportunities for technological innovation and new solutions within the Indian automobile industry. The country's increasing digitization is driving innovation in areas such as advanced mobility, vehicle and component retail, connected cars, and technology-based cab aggregation and ride-sharing services.
2. **Automotive Mission Plan 2016-26 (AMP 2026):** This mission outlines the government's vision for the growth of the automotive sector, focusing on its size, contribution to national development, technological advancement, global competitiveness, and institutional structure. The plan aims to increase the industry's contribution to GDP to over 12%, generate an additional 65 million jobs, and grow the sector to USD 300 billion by 2026 [3]. According to this plan, the industry is anticipated to expand significantly, reaching an estimated value of around INR 16,16,000 crore by 2026. [4].
3. **R&D Deductions and Skills Development:** The industry is encouraged by the five-year extension of a 200% weighted deduction for R&D expenditure under the Income Tax Act. Additionally, a weighted deduction of 150% has been introduced for expenditure on skills development.
4. **Goods and Services Tax (GST):** The likely rollout of GST is expected to positively impact doing business and establishing new ventures in India. Industry players need to consider realigning their supply chains, especially the distribution network. This reform will influence vehicle pricing, sourcing strategies, distribution costs, and dealer profitability.
5. **Customs Duty and Local Manufacturing:** The increase in customs duty on high-value cars and multi-utility vehicles aims to encourage local manufacturing, value addition, and employment within the country.
6. **Department for Transport:** The government plans to set up a separate independent Department for Transport, comprising experts from the automobile sector. This department will address issues related to fuel technology, motor body specifications, fuel emissions, and exports.
7. **Promotion of Eco-Friendly Vehicles:** The government is keen on promoting eco-friendly vehicles such as CNG-based, hybrid, and electric vehicles. It has also made it mandatory to blend 5% ethanol in petrol.
8. **FAME Scheme:** The FAME Scheme, derived from the National Electric Mobility Plan 2020 (NEMMP), was introduced by the Department of Heavy Industry (DHI), Government of India, under the title "Faster Adoption and Manufacture of Electric Vehicles in India" (FAME). This initiative was launched with an initial budget allocation of INR 795 crore [5].

These initiatives and policies are aimed at fostering innovation, increasing production, creating employment opportunities, and promoting sustainable and eco-friendly transportation in India. The Automotive Mission Plan 2016-26 serves as a roadmap to guide the industry towards achieving these objectives.

#### Foreign Direct Investment (FDI) under “Make In India” scheme

Foreign Direct Investment (FDI) in the automotive sector experienced a notable increase of 89% from April 2014 to February 2015 [6]. India currently ranks as the 7th largest vehicle producer globally, with an annual output of 17.5 million vehicles. The sector allows for 100% FDI through the automatic route. The automobile industry contributes significantly to India's GDP, accounting for 7% of it [7].

Foreign investments in the industry surged from US\$830.69 million (October 2013 - April 2014) to US\$2189.15 million (October 2014 – April 2015). To encourage further investments in the manufacturing sector, the Union Cabinet has introduced composite caps to streamline the FDI policy.

Several international automotive companies are actively engaging in the Indian market:

1. Clean Motion, a Swedish electric vehicle manufacturer, plans to invest \$10 million in India over the next three years. They intend to expand their operations, including establishing an assembly unit for their Zbee three-wheelers in the country.
2. Honda Motorcycle and Scooter India (HMSI), a Japanese two-wheeler manufacturer, inaugurated its fourth and the world's largest scooter plant in Gujarat. Initially, the plant is set to produce 600,000 scooters annually, with plans to scale up to 1.2 million scooters per annum by mid-2016.
3. MV Augusta, a premium motorcycle manufacturer based in Italy, has entered the Indian market through an exclusive partnership with the Pune-based Kinetic group. They launched three luxury bikes to be sold through the 'Motoroyale' chain in Pune.
4. Nissan Motor Co. Ltd is in discussions with the Government of India to introduce electric and hybrid technologies to the country, aligning with the government's efforts to reduce vehicle-induced air pollution.
5. Major airbag suppliers like Autoliv Inc., Takata Corp, TRW Automotive Inc., and Toyoda Gosei Co. are setting up plants and expanding their production capacity in India.
6. Chrysler, a U.S.-based car manufacturer, has planned a significant investment of Rs 3,500 crore (approximately \$513.5 million) in Maharashtra to manufacture the Jeep Grand Cherokee model.
7. BMW's local unit in Germany has announced its intention to source components from seven Indian-based auto parts manufacturers.
8. Mahindra Two Wheelers Limited (MTWL) acquired a 51% stake in France-based Peugeot Motorcycles (PMTTC).
9. Mercedes-Benz has decided to manufacture the GLA entry-level SUV in India, doubling its India assembly capacity to 20,000 units per annum.

## Conclusion

In conclusion, the Indian automobile industry is a critical and dynamic sector that significantly influences the country's economic landscape and development. It serves as an essential barometer of economic health and has attracted substantial foreign direct investment (FDI), underscoring its global importance. India's automobile industry, boasting a substantial turnover and employing millions, holds the potential for substantial future growth. Its diverse landscape, including two-wheelers, passenger vehicles, commercial vehicles, and three-wheelers, positions India as a dominant player on the global stage.

The industry's evolution towards hybrid and electric vehicles demonstrates India's commitment to embracing innovative and sustainable transportation solutions. Its continuous growth and adaptability in the face of economic challenges indicate resilience and a dedication to sustainable development.

The "Make in India" campaign, supported by various government initiatives, aims to further strengthen the industry's position. These initiatives include programs like Start-Up India, Automotive Mission Plan 2016-26, R&D deductions, and the Goods and Services Tax (GST) reform, which aim to simplify doing business in India.

International automotive companies have been quick to recognize India's potential, with major players from around the world actively participating in the Indian market. This includes investments, expansion of manufacturing facilities, partnerships, and technology collaborations, all of which contribute to India's position in the global automotive landscape.

The substantial growth in FDI highlights the international community's interest in India's automobile sector. In summary, the Indian automobile industry plays a multifaceted role in the nation's development, encompassing economic growth, technological advancement, and employment opportunities. As the sector continues to evolve and adapt to global trends, it holds the potential to be a driving force behind India's economic success and sustainable development, making it a significant player on the global stage.

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