

4 Automotive Industry



4.1 Overview of the Automotive Industry

4.1.1 Automotive Industry globally is one of the largest industries and is a key driver of economy. Owing to its deep forward and backward linkages with several key segments of industry, automotive industry has a strong multiplier effect on the economy. A sound transportation system plays a pivotal role in the country's rapid economic and industrial development. The well-developed Indian automotive industry of India ably fulfills this catalytic role by producing a wide variety of vehicles such as passenger cars, light, medium and heavy commercial vehicles, multi-utility vehicles, scooters, motor-cycles, mopeds, three wheelers, etc.

4.1.2 Automobile Industry was delicensed in July 1991 with the announcement of the New Industrial Policy. The passenger car was however delicensed in 1993. No industrial license is required for setting up any unit for manufacture of automobiles except in some special cases. The norms for foreign investment and import of technology have also been progressively liberalized over the years for vehicles manufacture, including passenger cars, in order to make this sector globally competitive. At present, 100% Foreign Direct Investment (FDI) is permissible under automatic route in this sector including passenger car segment. With the gradual liberalization of the automobile sector since 1991, the number of manufacturing facilities in India has grown progressively.

4.1.3 The automotive industry, comprising the automobile and the auto component sectors, has made rapid strides since delicensing and opening up of the sector to FDI in 1991. The auto industry currently employs about 12.5 million people both directly and indirectly, and contributes nearly 5% to the national GDP.

The industry is also making a contribution of nearly 20% to the kitty of indirect taxes of the Government.

4.1.4 By 2009, India became the 7th largest vehicle manufacturer globally, second largest manufacturer of two wheelers, largest manufacturer of tractors, 5th largest manufacturer of commercial vehicles and the 4th largest passenger car market in Asia. During 2009, India was the second fastest growing automobile market in the world and also exported vehicles to more than 40 countries.

4.2.1 Production:

4.21 The Indian automobile sector, is described as the sun rise sector. During the last decade, the sector had been growing at approximately 12-15% per annum, however, in 2008-09 the automobile sector was badly hit due to the global economic slowdown. In order to tide over the situation, Govt took immediate remedial action and announced three stimulus packages. These stimulus measures resulted in the Indian automotive industry bouncing back on the high growth track as enshrined in the Automotive Mission Plan (AMP) 2006-16. During the year 2009-10, the overall production has recorded a growth of 25.76% over the corresponding period in 2008-09. The positive trend is continuing and in January, 2011, the overall production of vehicles has recorded a growth of 19.86% over the previous year same month. In the year 2010-11 (April 2010 to January, 2011), passenger vehicle segment, two-wheeler segment, three-wheeler segment and commercial vehicle segment have all recorded a growth of 26.61%, 28.69%, 31.6% and 38.8% respectively over the corresponding period last year (CLPY). The details of actual production of various automobile segments during the period 2006-07 to 2010-11 (upto January, 2011) are given below:

Automobile production: (in ₹ thousands)

Segment	2006-07	2007-08	2008-09	2009-10	2010-11(upto January,2011)
Passenger vehicle	1323	1426	1517	2351	2394
Total Commercial Vehicles	520	549	417	566	603
Three Wheelers	556	501	501	619	654
Two Wheelers	8444	8027	8419	10513	10991
Total	11065	10854	11175	14050	11604
Percentage growth	13.57	(-) 2.29	2.96	25.76	14642

(Source: SIAM)

4.2.2 Export: In the year 2010-11 (April 2010 to Jan. 2011), the export Commercial Vehicle, of two-wheelers three wheelers recorded a growth of 37.77%, 64.03% and 75.80% respectively, however, the export of passenger vehicles has recorded a growth of (-) 2.87% during the corresponding period last year (CPLY). The details of export of various automobile segments during the period 2006-07 to 2010-11 (upto Jan., 2011) are given below:

Automobile Export: (in ₹ thousands)

Segment	2006-07	2007-08	2008-09	2009-10	2010-11(upto January,2011)
Passenger vehicle	194	218	336	446	359
Total CVs	50	53	37	45	61
Three Wheelers	619	141	148	173	224
Two Wheelers	144	819	1004	1140	1293
Total	1011	1238	1530	1804	1936
Percentage growth	25.43	22.45	23.61	18.05	

(Source: SIAM)

4.2.3. Auto Components Industry:

4.3.1 Auto Component Manufacturers Association (ACMA) represents over 600 companies. In the domestic market, they supply components to vehicle manufacturers, tier-one suppliers, state transport undertakings, defence establishments, railways and also to the replacement market. A variety of components are also being exported to OEMs and after-market worldwide. The overall details of this segment are given below:

Automotive Component Industry- Statistics (in ₹ Crores)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Turnover	38,500	53,400	64,500	72,000	76,320	103,400
% Growth	25.7	38.7	20.8	11.6	6.0	35
Exports	7,937	11,198	13,184	14,132	16,522	17,860
% Growth	37.0	41.1	17.7	7.2	17	8
Imports	9,504	12,115	15,974	20,998	28,160	38,352
% Growth	46.2	27.5	31.9	31.5	34	36
Investment	16,800	19,500	24,400	28,800	32,000	42,300
% Growth	15.9	16.1	23.1	20.0	11.1	32
Import as % of Turnover	24.7	22.7	24.8	29.2	36.9	32
Export as % of turnover	20.6	21.0	20.4	19.6	21.6	15

*calculated @ ₹ 47 for 2009-10

* @ ₹ 43.2 for 2008-09

(Turnover includes supplies to OEMs, after-market sales and exports but sans (excludes) imports. It does not take into account production for captive consumption by OEMs, components manufactured by non ACMA members whose majority supplies are non-automotive and to the unorganized sector)



Release of ACMA's 20-20 Vision Document

4.3.2 Export represents about 15% of the total turnover. Due to the global recession in the recent past, export from India also took a beating and the export stagnated in the fiscal 2009-10. Import represents about 32 % of the total turnover of the industry and registered a growth of 35% over the previous year. Till now, industry has been recording a double digit annual growth in investments. Despite the global economic slowdown, industry continued to add new capacity. The year

witnessed ₹.7990 crore of capacity addition, green field and expansion taken together.

4.4 Agricultural machinery

4.4.1 Agricultural Machinery mainly consists of Agricultural Tractors, Power Tillers, Combine Harvesters and other agriculture machineries & implements. Due to negligible production of Power Tillers, Combine Harvesters and other agricultural machineries, this sector is mainly dominated by agricultural tractors. Indian Tractor Industry is the largest in the world (excluding sub 20 HP belt driven tractors used in China), accounting for one third of the global production. The other major tractor markets in the world are China and United States. The production figures for the period April to December 2010 stands at 3,30,108 tractors and the sales figure at 3,53,737.

4.4.2 Indian Tractors were exported to US and other countries like Malaysia, Turkey etc. Indian players have aggressively started exporting to African countries by bidding for government tender requirement. As such, Indian tractors are gaining acceptance in international markets. During the period April-December, 2010, 39,460 number of tractors of various makes have been exported. As the cost of tractors in India is the lowest in the

world, there is tremendous scope for improvement of export of tractors in the future.

4.5. Earth Moving and Construction Machinery

4.5.1 Earthmoving and Construction equipment (ECE) industry constitutes a major background linkage of construction along with the building material manufacturing industry. Construction materials account for nearly two-third of the average of the construction cost. Construction equipment cover a variety of machinery such as hydraulic excavators, wheel loaders, backhoe loaders, bull dozers, dump trucks tippers, graders, pavers, asphalt drum/wet mix plants, breakers, vibratory compactors, cranes, forklifts dozers, off-highway dumpers (20T to 170T), drills scrapers, motor graders, rope shovels etc. They perform a variety of functions like preparation of ground, excavation, haulage of material dumping/laying in a specified manner, material handling, road construction etc. The Indian earthmoving and construction equipment industry has been undergoing a silent revolution over the past few years, expanding volumes at a compounded annual rate of 40 per cent.

4.5.2 The Indian earthmoving and construction manufacturing industry serves key sectors relating to urban infrastructure, mining, power, construction, irrigation, roads and highways, heavy infrastructure etc. Huge investments are being made in these sectors which have created high demand for construction and earthmoving equipment. As per the information furnished by the industry association, the construction equipment requirement has grown at 19.3% from FY 2006 to FY 2010 and this is expected to continue to double every four years. Similarly, the demand for earthmoving equipment is also expected to remain buoyant in the near term.

4.5.3 The global meltdown has resulted in the increase in import of equipments from idle global capacities and also in sharp rise in import of used and obsolete machineries as second hand equipments. The import of used crawler cranes and mobile cranes is almost 50% to 80% of the total consumption in

Indian market during the last three years. Therefore, one of the biggest problem being faced by the domestic construction and earthmoving equipment manufacturing industry is the lack of level playing field.

4.6. Important initiatives taken in respect of auto sector by the Department of Heavy Industry (DHI):

DHI, being the nodal Department for automobile and auto component industry, takes up a range of issues relating to automobile sector at various platforms for its growth. In this regard, DHI has taken various important initiatives, as outlined below:

4.6.1 Development Council for Automotive and Allied Industries (DCAAI):

The last meeting of the DCAAI held in 2010-11, under the chairmanship of Secretary, Heavy Industry, was on 28th August, 2010. The issues relating to the growth of the sector and achieving the AMP targets were focussed upon. This forum provides an opportunity to identify key areas of concern for which appropriate policy modulations and other identified areas of action can be taken by various Ministries/Departments of the Government of India.

4.6.2 Meeting of the Indo-German Joint Working Group (JWG) on Automotive Sector:

Indo-German Joint Working Group (JWG) on automotive sector was established under the aegis of Indo-German Joint Commission on Industrial and Economic Cooperation (JCM). This is the fifth JWG; the other four groups are in the areas of Agriculture, Coal, Infra-structure and Tourism. The first meeting of the JWG was held on 6.2.2009 in New Delhi. During the first meeting, three working sub-groups were constituted on (i) Technology; (ii) Commercialization & Framework Development; and (iii) Institutional Cooperation, Training & Skill Development. The second meeting of the JWG and its working sub-groups was held at Frankfurt, Germany during 21st to 22nd September, 2009 herein modalities of scope for cooperation and exchange of information etc. were agreed upon. The third meeting is scheduled to be held in New Delhi in April, 2011.



Secretary, Department of Heavy Industry at ACMA's 50th Annual Convention at New Delhi.

4.6.3 Informal group on EFV: The Chairmanship, Co-chairman and Secretariat for the Informal Group on EFV under GRPE (WP-29), UNECE have been conferred on India. As per WP-29 norms, the informal group is required to meet on the sidelines of GRPE/WP-29 meetings and also report progress to GRPE/WP-29. DHI is also functioning as the Secretariat for the informal group till 2012 i.e., the period till the next EFV Conference to be held in USA.

4.6.4 Electric Mobility: In terms of the recommendations of the Prime Ministers Group on Technology and on the initiatives taken by National Manufacturing Competitive Council (NMCC), the Department of Heavy Industry has initiated the task of finalizing policy recommendations for moving ahead in the field of electric mobility in the country. Based on the various discussions held at NMCC, and inputs obtained from all stakeholders, an elaborate policy document was prepared by DHI. The Department is in the process of obtaining the approval of GoI for setting up of the fully empowered apex body viz. National Council for Electric Mobility (NCEM) and National Board for Electric Mobility (NBEM), at a very senior level with members from all stakeholders and for expeditious implementation of this initiative, encompassing all policy related matters on various issues, on a mission mode basis.

4.6.5 Automotive Skill Development Council (ASDC): Department of Heavy Industry has

taken an initiative for formulation of a Skill Development Plan with a view to make available adequate, trained manpower for sectors like machine tools, heavy electrical, auto industry etc. so as to ensure proper, streamlined and high growth rate during the current fiscal and in the future. As far as auto sector is concerned, the task of identifying the skill gaps in the industry was undertaken through the specialized group formed during the framing of AMP 2006-16, as per which the industry is expected to require an additional 25 million workforce by 2016. Based on the deliberations held in the Department on various occasions, the Society of Indian Automobile Manufacturers (SIAM) prepared a Detailed Project Report (DPR). Based on this, an Automotive Skill Development Council (ASDC) is envisaged to be set up. The proposal of ASDC has been approved, in principle, by NSDC and an initial sum of ₹. 75 lakh has also been made available for the initial pilot project for the 1st year.

4.6.6 Release of grant from Cess Fund: Department of Heavy Industry has a budget provision of ₹ 25 crores under auto cess fund which is sanctioned to different institutions for carrying out R&D activities in automobile sector. During the year 2009-10, a total of 8 automobile R&D projects were approved by the Cess Committee and a sum of ₹. 1403.25 lakhs was released.

4.6.7 UNIDO-ACMA Cluster Development Project: The Cess Committee has also given in principle approval to Phase-I of UNIDO ACMA Cluster Development Project in the year at a cost of ₹. 9.3 crore spread over the next three years. The project aims to provide practical services to SMEs for enhancing the performance of domestic SMEs in the automotive component industry to facilitate their inclusion into national, regional and global supply chains and meeting relevant supply chain requirements (quality, cost and delivery), to upgrade and enhance the competitiveness of an increasing number of target companies along the entire supply chain in India, including lower tier suppliers.