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Fall of Automobile Industry

Dr. S. Poongavanam[1], Dr. S. Hemalatha[2], Dr. D. Arivazhagan[3]
[1]Associate Professor, AMET Business School, AMET University, Chennai.
[2]Associate Professor, Department of Maritime Commerce, AMET University, Chennai
[3]Professor, AMET Business School, AMET University, Chennai.
s.poongavanam@gmail.com[1]

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Abstract

The slowdown in auto industry shows how urgent there is a need for revival package from the Government of India. The industry also started from their side to promote their sales. The current slowdown in the auto industry poses a great threat to financial arithmetic of the government and there is a need for a short term measure like the GST cut or a cess removal to catalyse consumption. Industry also expects that government must re-look at the registration fees which have gone up very substantially and a rollback of the increases in road tax mandated by state governments.

Keywords; *Slowdown, Inflation, Prediction & Opportunity*

I. BACKGROUND OF THE STUDY

Auto mobile industry facing major crisis in the last two decades, decline in auto sales have led to huge job cuts. Every crisis is an opportunity. The crisis auto industry's faces today is sever and it is tough to predict how far the industry going to encash it as an opportunity. The industry has been in the doldrums as passenger vehicle sales plummeted by almost 30% on a year-on-year basis in July 2019.

Share of auto industry	Declined	GDP of manufacturing sector	Manufacturing sector	Biggest decline in Auto mobile Industry	
50% of manufacturing sector	by 30%	grew by 0.6% in May – July 2019	grows by 31.2% in May – July 2019.	Fell by 21.8% in the end of 2000	

Industry have pleaded for help on the ground that this sector accounts for 50% of all manufacturing and has declined by 30%. Ministry of Statistics and Program Implementation (MOSPI) reports that GDP of the manufacturing sector grew by 0.6% in the first quarter of 2019-20, but the manufacturing sector other than auto grew by 31.2% during the same quarter. In sector like auto where employment is concentrated in large companies, it would be very easy to pinpoint the percentage of layoffs. The previous biggest decline in automobile sales is in December 2000, it fell 21.81 per cent. The slide in the industry comes due to the weak consumer demand and low economic growth projection.

II. SNAPSHOT OF AUTO MOBILE INDUSTRY

- Witnessed 10-15% loss in employment.
- Turnover has slowed down to just 14.5% to 3,95,902crore in FY19 .
- In FY18, the revenue of the sector grew by 18.3% to ₹3,45,635crore.
- In the first half there was 40-50% growth in revenues till September and ever since there has been a huge slowdown.

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March - April 2020
ISSN: 0193-4120 Page No. 9336 - 9338

- Sector faced the production cut of 20% .
- Production cuts are resulting in mounting fixed costs and loss of jobs, smaller businesses are beginning to default on loans.
- The vehicle sales in the domestic market have been on a continuous decline in the last ten months.
- Exports is 26% of its total production and growth in revenues from exports also slowed down to 17.1%. when compared to a growth of 23.9% in FY18.
- Possible loss of revenue and employment, if the government asks the auto industry to shift abruptly to electric vehicles.
- Vendors are either temporarily shutting plants or adjusting output by reducing daily shifts in factories.
- Maruti Suzuki Ltd, Tata Motors Ltd, Mahindra & Mahindra Ltd (M&M), Ashok Leyland Ltd and Honda Motorcycle & Scooter India Ltd have temporarily closed plants in the past few months.
- Suspended the operations to avoid unnecessary build-up of inventory

III. AGENCIES REPORT

Reuters report/Federation of Automobile Dealers Association(FADA) shows automakers, spare parts manufacturers and dealers had laid off nearly 3,50,000 workers since April 2019 due to fall in demand. It also adds that few companies had a plan to cut hundreds of jobs, mainly from their temporary labour force. If the crisis is taken as an opportunity for establishing one's business it will surely restore the competitiveness of the Industry. Cash worth of Rs.35,000crore remain tied up in unsold inventories as of June 2019. Maruti sales fell by 36% in July while other major players like Tata and Honda faced de-growth rates of 39% and 49% respectively. Now the auto industry needs much relief from regulatory bodies which gives undue power to bureaucrats, who also undermine the productivity growth. The market share of diesel cars in the European Union fell to 36.5 percent in the first half of 2018 from 42.5 percent in the first half of 2017 as a result demand for diesel in Europe is also faltering down. Automobile component manufacturers association the auto component industry is expected to face a workforce reduction of between 15-20% unless the slowdown eases soon. Periodic labour force survey predicts that unemployment rate is high of 6.1% and the situation will worsen if the industry is not reversed. According to FADA data vehicle registration in India fell by6% year-on-year in June 2019.

IV. ECONOMIST PREDICTION

Economist predicts if the slump is structural, it requires immediate restructuring of the economy. In such situation, the government must not delay the restructuring process through its intervention. If the slump is temporary, than the counter cyclical action should be macro-economic in nature, which is not targeted to specific sectors. Measures announced in the three successive packages are mostly in line with these principles. To speed up restoration of growth, the industry also expects from RBI to cut the interest rate by another half per cent and also expects the interest rate on small savings to drop to aid transmission of reductions in policy interest rates to borrowers. But the interests of one specific group cannot be allowed to compromise the recovery of the entire economy.

V. LIQUIDITY CRISIS

One of the most significant reasons for the slowdown in the automobile industry is the current liquidity crisis in the Indian economy. Liquidity is continues to be a worry both at retail front and deer working capital. NBFC and commercial banks are still in a cautious mode, the normalcy in lending which is required to get us back to growth is still not seen. NSBC sector are in crisis since 2015 and the banking system is on excess liquidity due to NPA crisis. The growth rate for retail loan disbursement has fallen continuously for the past five years, so the

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banks are looking to reduce their exposure to the automobile industry.

VI. INFLATION

Now it is time for the government to evaluate whether the targeted inflation rate needs to be revised upward. The current inflation target is 4% with 2% deviation on either side of it. But going by RBI actions during the last few years, it is difficult to avoid speculation that it has interpreted the target as 4% or less. For the last two years, inflation rate has been consistently below 4% with the average in 2018-19 being just 3.4%.

VII. RESTRUCTURING

Developing economy undergoes rapid and constant restructuring. Changes in relative prices of different activities provide critical signals for this restructuring. Downward rigidity in prices and low inflation, limits the space for relative prices to move. So moderate inflation is needed at 5-6%. Higher inflation is also justified by the possibility of money illusion on the part of entrepreneurs and observe profits in nominal terms. As a result, the growth in nominal profits declines due to fall in inflation rate, even though growth in real profits may have been unchanged. This is the only way to understand widespread complaints of weak corporate profits when they have held up between 11% and 12% of GDP in recent years.

VIII. CUSTOMERS

Auto industry has been facing a downturn as the sales have fallen, Customer enquiries are not as warm as they used to be and higher percentage of enquiries are not maturing to sales. Customers are increasingly looking to postpone their purchase until the market starts to look better.

IX. CONCLUSION

Auto Industries has its own challenges, it depends more on government, private capital and demand creation. But this is the time industry really needs the support of government in the form of revival package. If the slump in the domestic automobile industry continues it will have a impact on steel sector. More than 300 dealerships have been forced to close down leading to loss of more than two lakh jobs. The stakeholders of auto industry have unanimously sought a reduction in Goods and Services Tax (GST) to 18 per cent from 28 per cent due to a major slowdown. The revival of the auto industry would lead to the revival of freight; the revival of freight would lead to the revival of trucks; all this revival would lead to the revival of jobs; the revival of employment would lead to a revival of consumption.

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