AUTOMOBILE INDUSTRY IN INDIA - AN OVERVIEW.

India, the world's largest democracy, having a very large pool of scientific and engineering talent in the world has marched forward in critical areas of development - be it space or electronics. This pool of knowledge has enabled India to attain high levels of achievement in diverse high tech areas. The country has an open economy in the process of integrating with the world economy. Far reaching economic reforms aimed at deregulation and attracting foreign investment have moved India firmly into the front ranks of rapidly growing Asia-Pacific region in the automobile industry, the developing regions are the growth areas of tomorrow. In the dynamics of transition of the Indian economy, the automobile industry is emerging as a leading industry. The automotive industry's strong linkages with the capital equipment and the services industry, and, the potential for earning foreign exchange through exports also acted as an impetus for its growth.

The regulating environment in the country has now been decontrolled and the structure of cumbersome procedures dismantled. This has made the business environment market-oriented and investor friendly. Moreover, the size of the economy, its diversified industrial base, high economic growth rates since the 1980s, together with the demand for a wide-spectrum of manufactured products has placed India in the list of the few markets in the world which offer high prospects for growth and earning potential in all areas of business. The automobile and allied engineering industry is amongst the foremost business.

The automobile sector comprises of all vehicles, including 2-3 wheelers, passenger cars and multi-utility vehicles, light and heavy commercial vehicles, and the allied engineering sector comprises largely of the auto components sector. Agricultural tractors and earth moving machinery is an associated sector, which keeps the wheels of the agrarian economy moving. It is heavily reliant and aligned to the automobile and allied engineering sector and plays a significant role in India. The automobile and allied engineering industry may alternatively be termed the automotive industry.
The automotive industry in India is now working in terms of the dynamics of an open market. Many joint ventures have been set up in India with foreign collaboration, both technical and financial with leading global manufacturers. Also a very large number of joint ventures have been set up in the auto-components sector and the pace is expected to pick up even further. The government of India is keen to provide a suitable economic, and business environment conducive to the success of the established and prospective foreign partnership ventures.

The new liberal economic regime, the immense market potential and the presence of stable and cost competitive manufacturing base has led to a quantum jump in the rate of growth of the automobile industry in recent years 1993-1997 at an average rate of above 20%. The industry has achieved tremendous growth in the 1990’s. It achieved a turnover of rs.450 billion and contributed Rs.297.8 billion to the state exchequer in 1996-97. It gives direct employment of 200,000 and indirect employment to about 10 million people. The Indian automobile industry is characterized by a very high percentage (75%) of production in the 2/3 wheeler sector. India ranks as the second largest producer of 2/3 wheelers in the world, next only to Taiwan. India today is the largest manufacturer of tractors, as well.

The world automobile leaders have evinced keen interest in India and are making their entry through joint ventures and technology cooperation agreements. Rs.127 billion or US$ 3617 million is the investment envisaged in the new vehicle projects.

If one looks at the joint venture's list, he or she can observes that the equity participation in the joint ventures indicate a wide variation ranging from 10% to 100% i.e. Wholly owned foreign subsidiaries. The equity participation is not regulated by government but is market driven. It depends upon the market perceptions of the joint venture partners and their business perceptions primarily in terms of technological, financial and market strengths of the partners. The setting up of joint ventures has also led to enhanced capacity creation in the vehicle sector, particularly in the passenger car sector.
and the additional capacity is expected to mount by 1 million passenger cars in the next 4 -5 years.

The large volumes of investment including foreign direct investment in the automobile manufacturing ventures and technical collaboration are propelling a quantum jump in up gradation of technology. Domestic demand for passenger cars and multi utility vehicles is projected at 15,00,000 cars by 2010 A.D. With increased production and capacity creation in the passenger car sector, substantial growth in exports is envisaged. This tremendous growth in the vehicle sector is geared as well to accelerate the continuous growth of the auto-component industry.

The advent of the liberalized government policy in India has seen the removal of all industrial licensing and capacity constraints for setting up new projects or substantial expansion of existing units. This policy in the case of auto-component sector and vehicles other than passenger car was introduced in 1991, and in respect of passenger cars in 1993. For joint ventures in passenger cars, approval of Foreign Investment Promotion Board (FIPB) and the government of India is essential for any level of foreign equity participation. Since 1991, many proposals have been approved.

Commercial vehicles and auto components have been categorized as priority sector for foreign direct investment. For foreign equity participation up to 51% equity, the reserve bank of India accords automatic approval. For equity participation involving more than 51% proposals are considered for single window clearance by the FIPB in the union ministry of industry. The government has been liberal in approving such cases.

Similarly, for foreign technology agreements in the priority sectors involving lump sum technology payment of US$2 million and royalty @ 5% on domestic sales and 8% on exports over a period of 10 years from the date of agreement or 7 years from commencement of production, automatic approval is given by reserve bank of India. However, where higher payments are involved, one may approach the government of India's Ministry of Industry and these have been liberally considered by the FIPB. A
very large number of foreign collaboration proposals have been approved in the automotive sector.
The Indian passenger car industry was a staid, low growth market with very few players till early 1980’s. It had a sheltered existence due to the various controls and restrictions. The consequent lack of domestic competition meant that there were few changes made to the designs of the existing cars. For over two decades the Indian customer had to choose from The Ambassador, The Fiat, the Standard & Dolphin.

There was very little incentive to innovate or even plagiarize. Customer services and customer orientation were given a back seat. This resulted in a non marketing outlook with customer not having much choice.

The mid – 1980’s saw a revolution in the passenger car market when the Govt. decided to issue licenses to all automobile manufacturers to produce allied vehicles as well. This move saw the entry of Maruti Udyog Ltd. (MUL) which launched the Maruti- 800. This model was considered a modern car with contemporary styling & much better fuel efficiency. MUL very soon went on to become the market leader & has retained a dominant presence of Maruti’s model (primarily-800) and car sales from 62500 in 1984-85 to 178500 in 1989-90. Car sales stood at 445355 in 1997-98. Maruti’s spectacular success did not, however mean that its competitors failed to respond to the challenge. The late eighties & the early nineties at least saw the emergence of marketing orientation. Passenger car manufacturers tried to passion themselves into various segment. A few new models were introduced mostly with foreign collaboration following the liberalization of the Passenger cars market by the Govt. The mid 90’s saw hectic activity in the Passenger car industry. This can be called the second revolution in the Passenger car market.

For the first time, International car manufacturers began to evince keen interest in the Indian car market.