



## The Big Picture - Speed Bump for Auto Sector

Automobile sales in India witnessed its sharpest decline in nearly 19 years in July 2019, dropping 18.71%, rendering almost 15,000 workers jobless over the past quarter. As per the data released by the Society of Indian Automobile Manufacturers, vehicle sales across categories, including Passenger Vehicles (PV) and two-wheelers, stood at 18.2 lakh units in July 2019 as against 22.4 lakh units in July 2018, down by nearly 19%. The previous biggest decline across overall domestic automobile sales was recorded in December 2000 when it fell 21.81%.

Similarly, domestic PV sales also saw the biggest fall in nearly 19 years, slumping by 30.98% from July 2018 to 2019. Previously, the worst decline was registered in December 2000, when wholesales had fallen 35.22%. The fall in PV sales in July 2019 was also the ninth consecutive month of decline.

### Reasons Behind the Slowdown

- **Reduced Economic Growth:** Growth in Gross Domestic Product (GDP) has slowed to a near five-year low of below 6%, with consumer demand far weaker than seen in recent years.
- **Global Slowdown:** This year, in major parts of the world, the automobile sector is witnessing slowdown, sale figures are low in Europe and in the USA, only from the month of July, the situation has improved a little.
- **Disturbed Ecosystem:** In the past two years, when the market was good, auto sales in cities like Delhi, Mumbai and Bangalore were declining. The growth was coming from the small town India. The ecosystem in the small towns has got disturbed, may be due to demonetisation and transition to the Goods and Services Tax (GST).
  - Black economy used to spur lot of growth in consumption.
- **Cost Hikes:** The Supreme Court has made long-term third party insurance on cars mandatory, thus making the cars expensive to buy.
  - The tax rate, even on the small car, is 28%. India has a road tax which is a state government's subject and varies from 8-11%, so in a way, entry level cars are taxed at 38% which is quite high.
  - The government is also thinking about increasing the registration charges.
- **Uncertainty over BS VI norms:** India has decided to go to BS VI by next April-June.
  - As of now, if someone buys a BS IV car, that person is buying a machinery which will not be serviced by the BS VI compliant fuel, thus, the person has to get his car upgraded accordingly, otherwise, he will be holding a car which has got no resale value in future. The consumers, therefore, are not interested in buying cars.
  - **BS VI may also lead to a reduction in the sale of diesel cars:** The diesel cars having BS VI compliant engines will be priced high. With the gap in the prices of diesel and petrol cars narrowing, there will be little incentive for buyers to opt for diesel cars.
- **Electric Vehicles:** The government's aggressive push for the adoption of electric vehicles (EVs) is another reason behind declining auto sales.
- **Shared Cars:** Over the past three-four years, India has seen the rapid rise of ride-share apps like OLA, Uber, etc. These apps make travel far more convenient without the hassle of driving through rigorous traffic and avoiding maintenance cost of owning a vehicle, all at affordable rates. This has certainly challenged the concept of ownership and thus affected sales.
- **Tight Credit Availability:** 80-85% of vehicles in the country are financed by the nationalised banks, private banks or NBFCs. Banks have become extra-cautious in supplying credit to the

people for purchasing a car.

## Impact of the Slowdown

- Impact on **steel, glass and rubber industries** and that on the stores of second-hand cars.
- Front-end sales jobs and those related to technical, painting, welding, casting, production technology and services are primarily at risk.
  - It is estimated that automakers, auto part manufacturers, and dealers taken together have laid off about 3,50,000 workers in the last three months.
- Further, BS VI norms would require reskilling of existing manpower.

## Way Forward

- The present slump in the automobile industry seems to be a temporary phase. Festive season and good monsoon will provide a much needed trigger.
- At least for some time, there is a **need to reduce GST on entry level cars** and that on the two wheelers. The state governments also need to reduce the road tax.
- Liquidity needs to be converted into aggressiveness or willingness to finance. **The NBFCs need to be encouraged to provide finance to people for buying cars.** This would help in increasing sales of cars at retail level.
- The market is large enough to accommodate both internal combustion engines as well as Electric Vehicles. The government just needs to frame its policies accordingly.
- Overall, there is a **need to provide a boost to the economy**, so that disposable income of people increases and thus the overall demand.
- The government needs to ensure that the auto industry does not bear the brunt of transition to more environment-friendly fuels i.e. BS VI compliant fuels.

*As a short term measure, there is a need to bring liquidation into the market and also some kind of tax relief as far as the auto sector is concerned. In the long term, a holistic approach needs to be undertaken to kickstart the economy which would automatically boost the auto sector.*

PDF Refernece URL: <https://www.drishtias.com/printpdf/the-big-picture-speed-bump-for-auto-sector>