

RECENT FINANCIAL CRISIS & ITS IMPACT ON AUTO SECTOR

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ABSTRACT

Auto sector is one of the important sector for the development of Indian Economy. It provides employment directly and indirectly, contributes around 7% in GDP. Recently we noticed, this sector is facing worst crisis and around 2.30 lakh jobs have been lost also 10 lakh jobs have been hit in the auto component manufacturing industry. Economic conditions had changed after implementation of demonetisation, GST and Bankruptcy code. But the biggest factor is liquidity provided by shadow banks to an auto sector. The banking sector is one of the reasons that had affected the growth of the auto industry. This sector is facing crisis not only for decreasing demand but also for regulation and technical changes. This paper focuses the recent financial crisis and its impact on auto sector. Also this paper recommended some suggestion for the improvement of auto sector. In this paper, we are discussing the steps taken by government to handle economic slowdown.

KEYWORDS: *Auto Sector, Financial Crisis, Indian Economy Shadow Banks, Economic Growth.*

Introduction

Auto sector is one of the most important sectors for the development of Indian Economy. It provides employment to 37 million people directly and indirectly, contributes around 7% in GDP and accounting for 49% of its manufacturing GDP. Auto sector is contributing around 11% GST revenue of the country. Auto sector includes commercial vehicles, passenger vehicles and two and three wheelers. The auto sector of India became the 4th largest sector in the world with sales increasing 9.5% in 2017. It became 7th largest manufacturer of commercial vehicles in 2018.

The Auto sector has a strong link with economic growth. Also the auto production has a link with the demand of automotive parts and production of intermediary materials like steel, rubber, plastic, glass, electronics and other services. Economic conditions had changed after implementation of demonetisation, GST, Bankruptcy code and implementation of BS VI standards. Recently we noticed, auto sector is facing worst crisis and around 2.30 lakh jobs have been lost also 10 lakh jobs have been hit in the auto component manufacturing industry. But the biggest responsible factor is liquidity provided by shadow banks or NBFC to an auto sector.

The banking sector is one of the reasons that had affected the growth of the auto industry. This sector is facing crisis not only for auto sales collapse but also implementation of new regulation and technical changes. Due to various safeties, insurance and emission norms, vehicles prices increased. So this factor is also responsible for sales slowdown in auto sector. In July 2018, the government increased the load carrying capacity of heavy vehicles by 20-25% with the aim of bringing down logistics costs. This decision is also responsible for the decline in the auto sales especially in commercial vehicles.

In the past few years there is a trend of use of rentals vehicles instead of buying them. One more reason is, people use to ride by Uber and Ola. It has also decreased the demand in auto sector. Also the lack of a clear migration policy towards Electric vehicles creates confusion among buyers and it reduced auto sales. According to the report, the major decline in auto sector is in rural areas. So the crisis in this sector affected the economic growth of Indian economy.

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Objectives of the Study

The main objectives of the study are listed as follows:

- To observe the recent financial crisis and its impact.
- To study the impact of crisis on auto sector.
- To recommended suggestion for the improvement of auto sector.
- To discuss the steps taken by government for the economic slowdown.

Research Methodology

• **Area of the Study**

In this present study, an effort had been taken to examine the recent financial crisis and its impact on auto sector and manufacturing units.

• **Sources of the Data**

This empirical and exploratory study is based on secondary which is collected through different web sites, journals and publications.

• **Hypothesis**

Hypothesis tested for the research is H_0 : There is positive impact of recent financial position on auto industry. H_1 : There is negative impact of recent financial position on auto industry.

• **Tools for Analysis**

The data were mainly collected through different websites and were analysed with the help of charts, tables ranks and percentages.

Review of Literature

- Niti Aayog Vice-Chairman Rajiv Kumar (August 2019) has said the ongoing financial crisis in India is "unprecedented". He said the government must take steps to handle the economic crisis. He said the entire economic situation had changed after implementation of demonetisation, GST and Bankruptcy Code. He said India is facing such an economic slowdown for the first time in 70 years, a liquidity crisis where lenders had stopped funding to businesses, resulting in a situation where they had to survive on cash.
- State Bank of India (SBI) Chairman Rajnish Kumarsaid that the next two months will be very critical in terms of improving the economy. He also said that the growth of April- June quarter declined to 5% because of weak consumer demand. Kumar hopes that demand will go up once the festive season will start. He feels that strong policy reforms are needed to handle the slowdown, which seems to be a mix of structural and cyclical factors.
- Shubhada Rao, chief economist at YES BANK told that for the supply side changes to yield benefits, people need to have cash in their hands. However, the current spree of job losses combined by record-high unemployment rate has severely affected the supply-demand ratio in India is a key reason behind the economic slowdown.
- A.M. Karthik, financial sector head at ICRA said that the slowdown in the Non Banking Financial Company sector has declined vehicle sales growth. Now the auto slowdown is becoming more visible as the liquidity squeeze continues.
- R.C. Bhargava, chair person of Maruti Suzuki said that the banking sector is one of the most important factors that has affected the growth of the auto industry. He also said that central bank cut the bank rates but still the interest of car buyers had not increased in the last 12 months.

Reasons behind Crisis in Auto Sector

India is facing financial crisis after implementation of demonetisation, GST and insolvency and bankruptcy code. This is a critical situation for the government of India. In the last 70 years nobody had faced this sort of situation where the entire financial system is under threat. The auto sector is playing a significant role in Indian economy and recently this sector is facing crisis. The financial crisis in auto sector will affect the manufacturing units of tyre, steel and steering also. Due to domestic sales slowdown of vehicles, this sector is facing crisis.

In 2017-18 sales of four wheelers had increased at 14% and two wheelers sales were increased at 15%. But in 2019 the sales of four wheelers and two wheelers decreased to 5% only. The targets of commercial vehicles and tractors sales were achieved under automotive mission plan 2016 but the

manufacturing units were affected negatively. Around 70% of vehicles are financed by NBFC or shadow banking. Due to shadow banking crisis, consumers are unable to buy vehicles. So auto sector was affected negatively. Also this sector is facing problems because of regulations and technical changes.

One of the important reason for this crisis is according to the supreme court now it's a necessary to implement BS VI standard in every vehicles so there is a need to do technical changes. Due to technical changes the cost of vehicles will increased. It will affect diesel cars. Some customers are waiting to buy the latest BS VI emission standard compliant vehicles. It is expected that in the month of June, 2019 around 2.50 lakh people lost their jobs. The GDP rate for 2018-19 was 6.8% and decreased in March 2019 to 5.8%.

According to the Society of Indian Automobile Manufacturers (SIAM) report, 300 dealerships have shut down in last 18 months. Sales of cars, tractors, two-wheelers have declined. According to SIAM about 10 lakh jobs have been hit in the auto component manufacturing industry. When government was busy announcing bank mergers and minor policy reforms, economists mentioned that these measures will not play a decisive role in economic improvement. They also mentioned that the decision to merge non performing banks with anchor banks would be fruitless move and it will increase complications only.

Empirical Results and Discussions

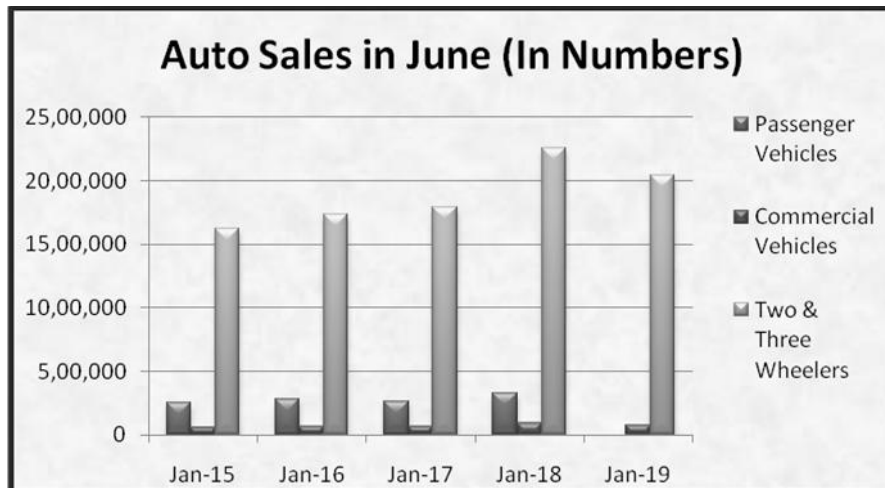
The following figures and tables show the Auto sales in June month of last five years, Auto production of last five years and Auto sales of last five years.

Table 1: Auto Sales in June (In Numbers)

	Passenger Vehicles	Commercial Vehicles	Two & Three Wheelers
Jun-15	2,57,613	61,724	16,19,309
Jun-16	2,77,155	66,265	17,35,057
Jun-17	2,61,437	63,489	17,92,922
Jun-18	3,30,706	90,834	22,52,809
Jun-19	2,82,704	75,978	20,38,498

Source: CMIE

Figure 1



Interpretation

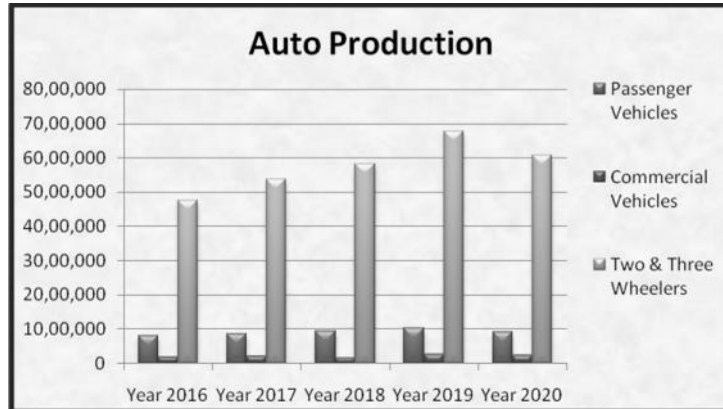
It was analysed by taking five year data of auto sales for the month of June that passenger vehicle sales were increased in the year of 2015 & 2016, in 2017 it were declined by 5.7% again in 2019 it were declined by 14.5%. In commercial vehicles, sales were increased in the year of 2015 and 2016 but it were declined in 2017 by 4.2% than in 2018 it was again increased but in 2019 it were again declined by 16.4%. In two and three wheelers, also there were increasing trends from 2015 to 2018 but auto sales were decline in 2019 by 9.5%.

Table 2: Auto Production (In Numbers)

	Passenger Vehicles	Commercial Vehicles	Two & Three Wheelers
Year 2016	8,17,574	1,76,598	47,61,466
Year 2017	8,51,383	2,05,612	53,74,943
Year 2018	9,30,744	1,62,114	58,26,541
Year 2019	10,26,885	2,72,125	67,65,734
Year 2020	9,04,937	2,32,759	60,77,817

Source: CMIE

Figure 2



Interpretation

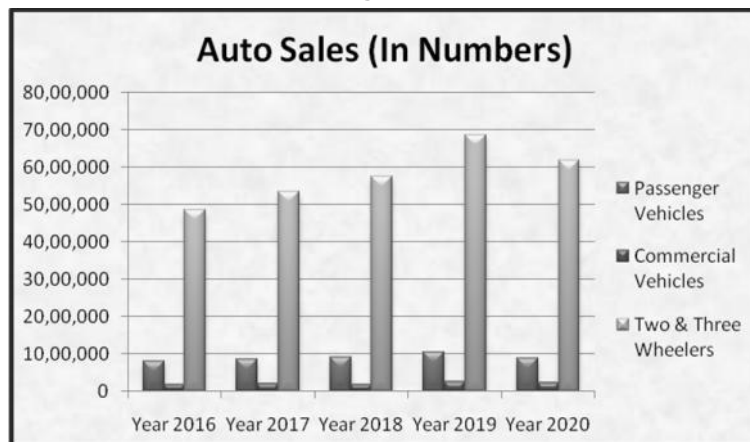
It was analysed by taking five year data of auto production that passenger vehicle production were increased in the year of 2016 to 2019, but in 2020 it were declined by 11.9%. In commercial vehicles production were increased in the year of 2016 and 2017 but it were declined in 2018 by 21.2% than in 2019 it were again increased but in 2020 it were again declined by 14.5%. In two and three wheelers also there were increasing trends from 2016 to 2019 but auto production were decline in 2020 by 10.2%.

Table 3: Auto Sales (In Numbers)

	Passenger Vehicles	Commercial Vehicles	Two & Three Wheelers
Year 2016	7,95,188	1,72,154	48,40,821
Year 2017	8,56,748	1,93,220	53,25,601
Year 2018	9,09,255	1,69,127	57,47,135
Year 2019	10,41,473	2,54,629	68,41,447
Year 2020	8,87,764	2,19,906	61,74,453

Source: CMIE

Figure 3



Interpretation

It was analysed by taking five year data of auto sales that passenger vehicle sales were increased in the year of 2016 to 2019, but in 2020 it were declined by 14.8%. In commercial vehicles sales were increased in the year of 2016 and 2017 but it were declined in 2018 by 12.5% than in 2019 it were again increased but in 2020 it were again declined by 13.6%. In two and three wheelers also there were increasing trends from 2016 to 2019 but auto sales were declined in 2020 by 9.7%.

Findings and Suggestion

Some steps are needed by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the two-wheeler and four wheeler market in the world by 2020. Economists at India Ratings and Research said that there is a need of short and long-term measures for increase the demand in auto sector. Especially during the festival season, it will help to increase demand.

The main reason of auto sales slowdown is liquidity problem. The NBFC or shadow banking sectors play an important role for the development of Indian economy. These banks are providing liquidity facility but because of bank mergers and shots of recapitalisation, the banking sector is facing the problem of NPA. So there is a need to reviving medium and small scale enterprises by proving liquidity facilities. The government should focus on some steps which will enhance bank and NBFC lending facility.

The second biggest reason was implementation of GST. It is expected that government will come out with some steps in festive season. There is a need of reduction in GST to 18% from 28% which will help in price reduction. Also government should reduce the tax burden on individuals and companies. It will provide help to auto sector for short term start. One more suggestion is government has to reduce registration fees, which have gone up after implementation of GST. Also banks should reduce the rates to the consumers so that demand is revived.

Electronic Vehicles would increase the import cost and damage the current components manufacturing ecosystem. So there is a need of stable technology agnostic e- mobility policy for smooth transaction. Real estate and construction sectors are most important sectors and economists believe that the government should introduce some steps to help the real estate sector to boost the economy. Due to economic slowdown many construction workers and daily labourers who work in real estate have been unemployed and this is the main reason for demand in auto sector is declined. So there is a need to take some steps in real estate and construction sectors.

Conclusion

Auto sector is most important sector in Indian Economy so government should take some steps to revive auto sector and economy. There is need that government should focus to promote investments. For this the government encouraged foreign investment and allowed 100% FDI in auto mobile sector. The next two months will be important for the government to improve the Indian economy. The Indian government aims to develop India as a global manufacturing hub, so the government took some initiatives for improvement in auto industry. Government should monitor sales during the festive season. It is expected that consumer demand will go up during festive season and it will boost economy. Automakers are hopeful of a recovery in the months ahead.

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