

Commercial vehicle market in india

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2010 Commercial Vehicle Market in India-Industry Report Commercial Vehicle Market in India-Industry Report Table of Contents Executive Summary3 Usage Segment6 Market share & Competition Situation8 Key Opportunities14 Key Success factors15 Financial Analysis17 Regulatory Advantage & legal frameworks22 Recent Mergers & Acquisitions26 Industry SWOT27 Market forecast with Macroeconomic assumptions28 PEST Analysis30 Annexure32 List of Industry Associations32 Executive Summary

India being the second most populated and seventh largest nation in the world provides a vast and untapped market for automobile giants. The de-licensing in 1991 provided the well-deserved growth essentials, which attracted international automobile majors to set up their production facilities in the country to take advantage of various facilities available. According to my research, the economic slowdown has had moderate negative effects on commercial vehicle market. The slowdown of commercial activities in infrastructure, construction, manufacturing and other sectors resulted in sluggish demand for commercial vehicles.

However, in 2009-10, the commercial vehicle segment regained its growth momentum, both in terms of production and sales, on the strong fundamentals of recuperating demand from almost all prominent sectors. Especially, passenger carriers registered notable sales momentum and boosted the overall commercial vehicle development outlook. In coming years, rapid expansion of cities to suburban areas will also create more demand for mass transportation vehicles in the country. It is expected that a major part of India will be well connected by 2013-14, which will fuel the demand for commercial passenger carriers in the country.

Keeping this in mind, we have projected the sales of commercial passenger carriers to register nearly 13% CAGR between 2010-11 and 2013-14. On utility vehicle front, the country posted one of the fastest year-on-year production growths in 2009-10. In 2008-09, manufacturers were forced to halt their production capacity amid falling domestic and export demand for utility vehicles. Consequently, the production saw a massive 11% drop in the same year. With recovering vehicle demand from schools, corporates and public sector organizations, the production grew strongly at the rate of 24. % in 2009-10. We anticipate this trend to continue in coming years also, thus enabling the country to become a dominant utility vehicle player in global arena. This report is an outcome of extensive research and objective analysis on Utility Vehicle, Multipurpose Vehicle and Commercial Vehicle markets in India. The report provides detailed data and statistics on production, sales and export trends for each of the abovementioned market segment. It studies all the past and present trends prevailing in the market to give the future market outlook.

Industry in India ----- KEY POINTS 1.
 ----- Automobile production and sales went up
 in 2007-08 as compared to 2002-03. 2. -----
 They reached a peak in 2009-10 3. ----- Sales
 of commercial vehicles are growing day by day due to the growing
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High economic growth of India has worked wonders for most of its industries. With advantages like low labor costs, easy availability of raw materials and well qualified employees, India has established many industries thereby marking the beginning of an era of rapid industrialization. This has led to the increase in employment rate and income levels, giving rise to a more affluent middle class in the country, which serves as an active consumer base for most of the industries, including the automobile industry.

India opened its automobile industry to global players with the de-licensing of the industry in 1991. As a result, automobile production and sales went up strongly in 2007-08 from 2002-03 levels. Even amid global economic slowdown, the industry was able to sustain its positive growth momentum. Moreover, in 2009-10 automobile production and sales surged phenomenally and India emerged as a potential competitor of the largest automobile markets such as China and Japan. Sales of commercial vehicles, particularly light commercial goods carriers are touching new heights, both in domestic and export markets.

The growing construction industry and commercial developments have opened new vistas for light commercial goods carriers. But medium and heavy commercial vehicles will also see high demand in the domestic market due to infrastructure development like hydro power projects, port

development and mining industry. Commercial passenger vehicles will also hit the peak due to increasing urbanization and growing need to commute from rural and sub-urban areas to industrial areas for work. All these are creating suitable conditions for India to emerge as an automobile production hub in the future.

The sectors which have major contribution in LCV sales in the country are expected to see sustained capital expenditure in coming years. For instance, the organized retail sector which is growing at an annual pace of 30% is highly untapped and the players are planning to aggressively increase their presence in Tier-2 and Tier-3 cities. This will further boost the demand of commercial vehicles as they are largely deployed in redistribution of consumption goods. Usage Segment * Transport operators: This segment includes all fleet operators and owner-operators.

There are around 200, 000 road transport operators in India. However, most of them are small owner-driven firms. Road freight transportation is highly fragmented with the truck operators owning less than five trucks estimated to account for over 75% of the truck fleet. It is estimated that 77% of truck fleet is under operators who own 5 trucks or less; 10% belonged to those with 6-10 trucks; 4% belonged to those with 11-15 trucks; 3% belonged to those with 16-20 trucks; and only 4% of fleet belonged to those with more than 20 trucks. Thus, the industry is characterised by intense competition.

The high competition is the result of relatively lower capital requirement, ease of obtaining driving licenses and permits. The small operators are involved mainly in the physical movement of goods and depend on brokers and other fleet operators who in turn depend on the booking agents for

obtaining business. These operators do not have the geographical reach and necessary infrastructure to tap business on a continuous basis, and thus rely on brokers. Fleet operators are the medium and large, organised-sector players in the transportation industry. The large fleet operators are small in number, and generally operate throughout the country. These fleet operators primarily work on a hub and spoke model. The hub and spoke distribution system enables optimisation of costs and higher revenues for the transport companies/ fleet operators. These transport companies generally have formal contracts with the users, which is very rare in the case of small operators. Some larger fleet operators have ventured into offering value-added services such as courier and express cargo business and providing third party logistic services. Companies: This segment accounts for a small proportion of CV sales. Some companies located in industrial areas use these vehicles primarily for employee and material transportation while a few companies use them for secondary distribution of the goods from warehouses to distributors, such as wholesalers and retailers. * Government organisations: The vehicle purchases made by municipal authorities, State transport undertakings, and various other Government departments primarily include LCVs and special application vehicles. Private bus operators: There has been a significant increase in the number of private bus operators in the country as State transport undertakings have proved inadequate in meeting the increasing demand for transportation. These vehicles are used as passenger carriers or chartered buses.

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----- Key points Market Structure &
 Segmentation ----- Enter key points:

----- Enter key points: The commercial vehicle market can be divided into four segments: 1. Segment A-High performance and image sensitive- The consumers in segment A are brand conscious and are willing to pay any price for that brand.

But, they usually don't compromise on quality. However, that doesn't means they are loyal to one brand. To target such type of consumers, companies have to concentrate on performance as the main criteria. 2. Segment B-Balanced perspective-The consumers in segment B are the most difficult ones to please. They want both price and performance rolled into one product. To target such type of consumers, companies have to concentrate on delivering high performance at the best prices. Hence, they have to keep their operating costs to a minimum. 3. Segment C-ROI and quick payback period sensitive- .

Segment D-Extremely price sensitive-The consumers in segment D want a product at an economical price and for this, they are ready to compromise on performance if they are offered a good price. To target such type of consumers, companies have to design products keeping costs at a minimum

even if that means a medium or low performance but the main criteria is that price should be the best in the industry. Market share & Competition Situation The following are the main players in the Production of Commercial Vehicles in India; * Ashok Leyland Ltd. * Hindustan Motors Ltd. * Telco Force motors Ltd. (Previously known as Bajaj Tempo Ltd) * Eicher Motors Ltd. * Mahindra & Mahindra Ltd. * Swaraj Mazda Ltd. * Tata Motors * Ashok Leyland Ashok Leyland Ashok Leyland is one of the biggest players in the Production of Commercial Vehicles in India. Ashok Leyland is one of the oldest automotive company of India. It was set up in 1948 in Madras (now called Chennai) to assemble Austin cars. However, the company's future changed after British Leyland made equity participation. Hence the company became Ashok Leyland in 1955 and started the Production of Commercial Vehicles.

They offer a wide range of in Heavy and Light Commercial Vehicles varying from buses, trucks, engines to special application vehicles. They were the first company in the history of Indian to win the ISO 9002 Certification in 1993. Again it became the first Indian company to receive ISO/TS 16949 Corporate Certification. Their global ambition is very simple, it is; Global Standards, Global Markets. Hindustan Motors Ltd Hindustan Motors Ltd is one of the oldest car manufacturing company of India. It was founded in 1942. It manufactures a wide range of vehicles from cars to trucks to school buses to trekker to porter.

However, it is more popular for one of its particular car model called the Ambassador. But, at the same time it does manufacture a lot of Commercial Vehicles as well. It was one of the leading players in cars till the early 80's but could not maintain its position after globalization came into effect and the

markets were opened. It has its manufacturing plants in Uttarpara- West Bengal, Pithampur- Madhya Pradesh, Thiruvallur- Tamil Nadu and Hosur- Tamil Nadu. Telco deals with Heavy Commercial Vehicles, Light Commercial Vehicles, Multi-Utility Vehicles etc.

Telco was set up in 1945 to manufacture steam locomotives. Now it's the largest private sector company in Commercial Vehicle manufacturing. The four manufacturing plants of Telco are located in Jamshedpur in Jharkand, Pimpri and Chinchwad in Pune (Maharashtra) and Lucknow in Uttar Pradesh. It has a market share of 31. 2% in Multi Utility Vehicle Segment. Force motors Ltd. (Previously known as Bajaj Tempo Ltd) Force motors Ltd. (Previously known as Bajaj Tempo Ltd) is a promising company in the Commercial Vehicle segment. The company is now working on the project of introducing state-of-the-art range of trucks.

The company has different technological collaboration with many international giants. Hence, it has an upper edge with new and modern technology. They are also working on eco friendly CNG bus engines. They are the only company to have a full range of Commercial Load carrying vehicles. Eicher Motors Ltd. Eicher Motors Ltd. deals with the manufacturing of Commercial Vehicles. They mainly deal with buses, trucks and chassis. These products comply with all the specifications of BS II norms. Its CNG Technology is also known to be the very best in the market. Mahindra ; amp; Mahindra Ltd.

Mahindra ; amp; Mahindra Ltd. has a huge Indian market with Multi Utility Vehicles. It was originally set up in 1945 to cater to general purpose utility vehicles. However, today it is one of the top five manufacturers of tractors in <https://assignbuster.com/commercial-vehicle-market-in-india/>

the world. Swaraj Mazda Ltd. Swaraj Mazda Ltd. deals with the manufacturing of Light Commercial Vehicles. They mostly manufacture buses, trucks, police personnel carrier, ambulance, water tankers and special vehicles. The company was formed in 1983 and production started from 1985. Tata Motors Tata Motors is one of the most important fore runners of the Indian automobile industry.

They believe in focus and state-of-the-art facilities. They probably have the best infrastructure required for the assurance of manufacturing quality vehicles. They deal with M; amp; H Commercial Vehicles, Intermediate Commercial Vehicles, Light Commercial Vehicles, Small Commercial Vehicles, Utility Vehicles Etc. In the Commercial Vehicles segment, they mostly manufacture buses and trucks. They even have a good range of passenger vehicles as well. Market Share of Major Players: The Commercial Vehicle Market is divided into following categories: 1. Light Commercial Vehicles 2. Heavy Commercial Vehicles 3.

Medium Commercial Vehicles Table 1-Market share of different players in commercial vehicle industry

Type of Vehicle	TATA	Ashok Leyland	Mahindra	Eicher Motors	Force Motors	Swaraj Mazda	HindustanMotors	Volvo	Tatra
Trucks	64%	24%	-	8%	-	3%	-	1%	1%
Buses	40%	30%	7%	5%	10%	6%	1%	1%	-
Temposand Lorries	59%	1%	32%	4%	3%	3%	1%	-	-

In the MHCV goods carrier segment, TML is the market leader with a 68% share in 9MFY2010, which represents a sharp increase from 63% in FY2008. While new players have entered the MHCV segment, some of them have limited their presence to niche segments—e. . VIL in the higher tonnage RV and HT segment; Tatra in the higher tonnage

RV segment. Although the competitive intensity has increased with the entry of new players, TML and ALL continue to dominate on account of established product performance, strong brands and customer support, wide servicing network and availability of spares (ease of servicing). Although TML and ALL dominate nearly all sub-segments in MHCV goods carriers market, EML has a strong presence in the 7. 5-12 tonnes segment, with a market share of 39% in 9MFY2010. However, while EML's market share in the 7. -12 tonnes segment has declined from 53% in FY2003, TML's market share has increased from 27% to 47% in 9MFY2010.

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Key Drivers

1. Strong economic growth- A revival of economic reforms and better economic policy in first decade of the 21st century accelerated India's economic growth rate. The Gross Domestic Product (GDP) in India expanded at an annual rate of 8. 80 percent in the last reported quarter. From 2004 until 2010, India's average quarterly GDP Growth was 8. 37 percent reaching an historical high of 10. 0 percent in September of 2006 and a record low of 5. 50 percent in December of 2004. The economy has posted an average growth rate of more than 7% in the decade since 1997, reducing poverty by about 10 percentage points. In recent years, Indian cities have continued to liberalize business regulations. By 2008, India had established itself as the world's second-fastest growing major economy. Economists predict that by 2020, India will be among the leading economies of the world. According to the BRIC report, published by Goldman Sachs, India will be the second largest economy after China by 2043. . Robust industrial growth -The industrial sector is one of the

main sectors that contribute to the Indian GDP. The country ranks fourteenth in the factory output in the world. The industrial sector is made up of manufacturing, mining and quarrying, and electricity, water supply, and gas sectors. The industrial sector accounts for around 27.6% of the India GDP and it employs over 17% of the total workforce in the country.

3. Low interest rates -Although the interest rate has been a little high this year, it has been around 6.0% on an average for the past 5 years which has boosted trade.

4. Road and Infrastructure development -The most distinct part of India's physical infrastructure development in recent years is the development of road network across the country; per sq. km. of surface area in India is now endowed with one km of roadways. India has one of the largest road networks in the world, aggregating to 3.34 million km. The country's road network consists of Expressways, National Highways, State Highways, Major District Roads, Other District Roads and Village Roads.

The road network, as on December 2007, comprises 66,590 km of National Highways, 128,000 km of State Highways, 470,000 km of Major District Roads and about 2.65 million km of other District and Rural Roads. The National Highways Development Project (NHDP), the largest highway project ever undertaken by the country, is being implemented by the National Highway Authority of India (NHAI). NHDP Phase I ; amp; II envisage 4/6 laning of about 14,279 km of National Highways, at a total estimated cost of Rs. 650 million (at 2004 prices).

These two phases 109 comprise of Golden Quadrilateral (GQ), North-South and East-West Corridors, Port Connectivity and other projects. The Golden Quadrilateral (GQ-5, 846 km) connects the four major cities of Delhi,

Mumbai, Chennai and Kolkata. The North-South and East-West Corridors (NS-EW-7, 300 km) connect Srinagar in the North to Kanyakumari in the South, including spur from Salem to Kochi and Silchar in the East to Porbandar in the West. 5. Good Agricultural production -Today, India ranks second worldwide in farm output. Agriculture and allied sectors like forestry and logging accounted for 16. % of the GDP in 2007, employed 52% of the total workforce and despite a steady decline of its share in the GDP, is still the largest economic sector and plays a significant role in the overall socio-economic development of India. India is the largest producer in the world of fresh fruit, anise, fennel, badian, coriander, tropical fresh fruit, jute, pigeon peas, pulses, spices, millets, castor oil seed, sesame seeds, safflower seeds, lemons, limes, cow's milk, dry chillies and peppers, chick peas, cashew nuts, okra, ginger, turmeric guavas, mangoes, goat milk and buffalo milk and meat.

It also has the world's largest cattle population (281 million). It is the second largest producer of cashews, cabbages, cotton seed and lint, fresh vegetables, garlic, egg plant, goat meat, silk, nutmeg. mace, cardamom, onions, wheat, rice, sugarcane, lentil, dry beans, groundnut, tea, green peas, cauliflowers, potatoes, pumpkins, squashes, gourds and inland fish. It is the third largest producer of tobacco, sorghum, rapeseed, coconuts, hen's eggs and tomatoes. India accounts for 10% of the world fruit production with first rank in the production of mangoes, papaya, banana and sapota. 6.

Good replacement demand- There has been good replacement demand recently for commercial vehicles. Decisions about replacing vehicles are relatively complicated: people compare the transportation services they get

from their present vehicle and the costs associated with running it, with the services they could get from another vehicle, given the costs of buying and selling vehicles and of running the new one. Replacement decisions are also affected by developments in the used-vehicle market: when people replace vehicles, they may buy either new or used, and they very often sell a vehicle on the used-vehicle market when they acquire another.

Thus, although only production and sales of new vehicles affect the industry's contribution to GDP, demand for new vehicles is influenced by prices, quantities, and qualities in the used-vehicle market. Key Challenges / Barriers 1. Increasing Competition and WTO Regime 2. Cyclicity of businesses 3. Increasing Customisation and Application Proliferation-While the earlier paradigm aimed at meeting the needs of segments of consumers, the new paradigm treats every customer as unique.

The development of technology has made it possible to address the needs of individual customers, the day may not be very far off when a customer wanting to buy a toilet soap may have to put his/her hand into a scanner which will sense the skin complexion and pop out a pouch of liquid soap that is ideally formulated to suit his/her skin. Also, innovation is more than creativity; it is the commercial realization of creativity. Consumers like what they have but also crave change. The word " New, Improved, Better" can influence the customer preference.

Innovation is the life blood of Marketing. Creative ideas are valuable but the greater part is harnessing them to profitable productive change. 4. Competition from alternative modes- The alternative modes of transport are the telecom, air and port services. These services have grown exponentially
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as compared to the traditional commercial vehicle sector. Container port traffic has increased from less than a million in 1991 to about 5 million in 2005 with an annual growth rate of about 266 percent since 1991.

Also, the increase in air freight and air transport has been around 15% whereas the increase in fixed line and mobile phone subscribers has been around 150% from 1991-2005. 5. Stiff Emission and other Regulatory Changes- The emission norms have become really strict these days. From the earlier emission norms of Euro 3 in metro cities and Euro 2 in rest of the country, the automobile companies have to ensure that the automobiles produced in or after 2009-10 adhere to Euro 4 in metro cities and Euro 3 in rest of the country. 6. Operating Cost Pressures 7.

Increased Customer Awareness- In the 21st century, the customer has become very aware due to the various sources of information available to him. Now, it is very difficult to fool the customer as he can get the full information with the click of a button. Hence, companies have to keep the customer needs in mind while designing a product. 8. Accelerated Technology upgradation requirements and other change needs Key Opportunities Enter key points Enter key points • Vibrant Indian Economy • Automotive Industry showing double digit growth in all segments • Growing engineering and IT capability for manufacturing Auto Component Industry : Culturally compatible-Quality, Experience and Values Key Success factors * Ability to enhance and vary product mix - A diverse and broad product mix enables a manufacturer to serve a wide variety of transportation solutions across different load levels. * Sales and distribution service network * Balance between outsourcing and in-house production * Quality: A company

must have good quality product to gain a customer trust. This would also help in building long term relationship with the consumer and also gain viral marketing. Environment: A company need to adapt to the surrounding environment and must act in a way to improve and sustain environment around it. ----- Enter key points:

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Enter key points Market Entry Strategy * Collaboration for Manufacturing Excellence and Process Design * Production Sharing in India & Europe for a Holistic Service Capability * Partnering for Global Requirements * Merger & Acquisition * Establish JV ----- Enter key

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----- 3 Financial Analysis Commercial

Vehicles- Recent Trends During FY2004-07, CV sales volumes growth in the domestic market had been healthy led by buoyant economic activity, easy access to finance, entry of new truck financing companies, increased momentum in highway construction, better operating economics of new trucks, and a Supreme Court (SC) order prohibiting overloading of trucks.

However, continued hardening of interest rates and a slowdown in economic activity has impacted CV sales volumes since FY2008.

Since mid-2008, domestic CV sales volumes have declined significantly because of an economic slowdown, slowdown in index of industrial production (IIP), tighter credit conditions and constraints in the availability of vehicle finance from banks and non-banking finance companies (NBFCs). Though in-house vehicle financing of major manufacturers has increased, the additional credit flow was unable to fully offset the decrease in credit availability from outside sources. As compared with a year on year (yoy) growth of 9.2% in Q1FY2009, domestic CV sales declined 1.8% (yoy) during Q2FY2009, and by a sharp rate of 47. % (yoy) in Q3FY2009, and 35.7% (yoy) in Q4FY2009. The rate of decline was lower at 12.1% (yoy) in Q1FY2010 primarily because of 16% (yoy) growth in LCV segment. A significant proportion of trucks are purchased by small truck operators in the unorganised sector, who may have to pay a relatively higher rate of interest as compared with large-fleet operators, and are more vulnerable to interest rate fluctuations and slowdown in economic activity. Production: The Indian automobile sector, described as the sun rise sector, had been growing at a healthy double digit rate till 2006-07.

However, it witnessed a downturn during the later half of 2007-08 and 2008-09 due to global economic slowdown. To tide over the situation, the Government of India took immediate remedial action and announced three stimulus packages. As a result of this, the overall position has improved since July, 2009 onwards. In the year 2008-09 the industry witnessed a modest growth in production at 2.96% over 2007-08. In the year 2009-10

(April 2009 to December, 2009), passenger vehicle segment, two-wheeler segment, three-wheeler segment and commercial vehicle segment have all recorded a growth of 24.55%, 19.0%, 16.04% and 15.10% respectively over the corresponding period last year (CLPY). The details of actual production of various automobile segments during the year 2006-07 to 2009-10 (upto December, 2009) are given below:

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Automobile Production Trends: Segment| 2006-07| 2007-08| 2008-09| 2009-10|
 Passenger Vehicles| 1, 545, 223| 1, 777, 583| 1, 838, 593| 2, 351, 240|
 Commercial Vehicles| 519, 282| 549, 006| 416, 870| 566, 608| Three
 Wheelers| 556, 126| 500, 660| 497, 020| 619, 093| Two Wheelers| 8, 466,
 666| 8, 026, 681| 8, 419, 792| 10, 512, 889| Total| 11, 087, 997| 10, 853,
 930| 11, 172, 275| 14, 049, 830| Table 2-Automobile Production Trends
 Exports:

The period from April-December 2009 saw growth in automobile exports sliding sharply to 10.4% (yoy) with deceleration in almost all segments. Although CV exports declined 14.6% (yoy) in 9MFY2010, the decline was lower than the decline of 28% (yoy) in FY2009. CVs and 3Ws segments recorded declines of 14.6% (yoy) and 1.9% (yoy) respectively during

9MFY2010. Although exports of 4Ws increased at a high rate of 30% (yoy) in 9MFY2010, this represented a decline from the high rate of 54% in FY2009. 2W export growth slid from 22.5% (yoy) in FY2009 to 7. % (yoy) in 9MFY2010 attributable to a sharp decline in growth of motorcycle exports. Although export growth has decelerated sharply in 9MFY2010, there has been a recovery in Q3FY2010 attributable partly to the base effect. The key reason for the decline in export growth was the fall in auto sales especially the CVs in the major destination markets of Asia, Africa, US, and Europe.

Automobile Exports Trends Segment| 2006-07| 2007-08| 2008-09| 2009-10|
 Passenger Vehicles| 198, 452| 218, 401| 335, 729| 446, 146| Commercial
 Vehicles| 49, 537| 58, 994| 42, 625| 45, 007|

Three Wheelers| 143, 896| 141, 225| 148, 066| 173, 282| Two Wheelers| 619, 644| 819, 713| 1, 004, 174| 1, 140, 184| Total| 1, 011, 529| 1, 238, 333| 1, 530, 594| 1, 804, 619|

Table 3-Automobile Exports Trends Figure 1-Monthly Exports of Commercial Vehicles The exports of CVs which were growing till FY2008, registered a decline in early FY2009, though there was minor recovery in Q2FY2009, due to the growth in LCVs exports but that was also short-lived. The rate of decline was lower in Q2FY2010, and subsequently CV exports increased 50% (yoy) in Q3FY2010. However, this was largely due to the base effect.

CVs segment was the worst hit by the economic downturn in the American and European countries, but the decline after peaking in Q3FY2009, has been showing some signs of recovery. Evidence for the US and Canada suggests that the sharp reduction in CV sales since mid-2008 has been magnified by the lack of access to credit, leading many firms to postpone

their CV purchases. This implies that continued improvement in financial market conditions could provide an impetus to CV sales. Domestic Sales: Overall production growth declined from 0% (yoy) in Q2FY2009 to sharp declines of 50. % (yoy) in Q3FY2009, and 43. 5% (yoy) in Q4FY2009. However, production declined at a lower rate of 19. 5% (yoy) in Q1FY2010, because of recovery in LCV production. MHCV production continued to decline at a high, albeit lower rate through Q2FY2010. Overall CV production actually increased 4. 4% (yoy) in Q2FY2010, followed by an exceptionally high increase of 95. 4% (yoy) in Q3FY2010, albeit on a low base. Domestic MHCV sales increased at a 3-year CAGR of 10. 4% to 270, 994 units during FY2008, followed by sharp declines thereafter till Q1FY2010. The less than 3. tonnes category is the largest segment, accounting for 84% of domestic goods LCV sales in 9MFY2010. This segment has reported very high growth rate during FY2005-08, primarily because of the superior price-performance ratio, and the launch of ACE by Tata Motors Ltd. (TML). The LCV segment is dominated by TML and the high growth in goods carrier segment during the last few years has been driven by the launch of Tata Motors' 207DI (a 2-tonne pick-up vehicle), which enabled the company to strengthen its presence in this segment. During FY2006-07, growth was driven by the launch by TML of a mini-truck—the TATA ACE (with a GVW of 1. 5 tonnes). Since FY2006, the demand growth for this LCV goods carrier has been higher than other sub-segments, driven by the trend of increase in consumption of consumer goods and durables in smaller cities/towns and restrictions on goods movement by bigger vehicles in metros/bigger cities especially during daytime. The increasing popularity of the lower tonnage LCVs can be

attributed to the increasing distribution of goods inside Indian towns and villages that need small vehicles because of disaggregated nature of freight generation and narrow roads.

The increasing popularity of door-to-door service has contributed to the growth of LCVs in the recent past. As these vehicles have relatively lower acquisition costs, the fleet operators may prefer them to carry small cargo. The corporates not only look for speedy, reliable, door- to- door services, but also for a complete logistic solution that minimises the costs of transport, logistics and inventory. With the share of the high value consumer goods (which call for timely transportation and better handling) increasing, lower tonnage LCVs are expected to witness higher growth in the medium-term.

Automobile Domestic Sales Trends Table 4 -Automobile Domestic Sales Trends Segment| 2006-07| 2007-08| 2008-09| 2009-10| Passenger Vehicles| 1, 379, 979| 1, 549, 882| 1, 552, 703| 1, 949, 776| Commercial Vehicles| 467, 765| 490, 494| 384, 194| 531, 395| Three Wheelers| 403, 910| 360, 781| 349, 727| 440, 368| Two Wheelers| 7, 872, 334| 7, 249, 278| 7, 437, 619| 9, 371, 231| Total| 10, 123, 988| 9, 654, 435| 9, 724, 243| 12, 292, 770| Figure 2- Monthly Domestic Sales of Commercial Vehicles

Regulatory Advantage & legal frameworks In India the Rules and Regulations related to driving license, registration of motor vehicles, control of traffic, construction & maintenance of motor vehicles etc are governed by the Motor Vehicles Act 1988 (MVA) and the Central Motor Vehicles rules 1989 (CMVR). The Ministry of Shipping, Road Transport & Highways (MoSRT& H) acts as a nodal agency for formulation and implementation of various provisions of the Motor Vehicle Act and CMVR.

Figure 4 -Regulatory Framework of Indian Automobile Industry In order to involve all stake holders in regulation formulation, MoSRT& H has constituted two Committees to deliberate and advise Ministry on issues relating to Safety and Emission Regulations, namely - * CMVR- Technical Standing Committee (CMVR-TSC) * Standing Committee on Implementation of Emission Legislation (SCOE) CMVR- Technical Standing Committee (CMVR-TSC) - This Committee advises MoSRT& H on various technical aspects related to CMVR.

This Committee has representatives from various organisations namely; Ministry of Heavy Industries & Public Enterprises (MoHI& PE)), MoSRT& H, Bureau Indian Standards (BIS), Testing Agencies such as Automotive Research of India (ARAI), Vehicle Research Development & Establishment (VRDE), Central Institute of Road Transport (CIRT), industry representatives from Society of Indian Automobile Manufacturers (SIAM), Automotive Component Manufacturers Association (ACMA) and Tractor Manufacturers Association (TMA) and representatives from State Transport Departments. Major functions the Committee are: To provide technical clarification and interpretation of the Central Motor Vehicles Rules having technical bearing, to MoRT& H, as and when so desired. * To recommend to the Government the International/ foreign standards which can be used in lieu of standard notified under the CMVR permit use of components/parts/assemblies complying with such standards. * To make recommendations on any other technical issues which have direct relevance in implementation of the Central Motor Vehicles Rules. * To make recommendations on the new safety standards of various components for notification and implementation under

Central Motor Vehicles Rules. To make recommendations on lead time for implementation of such safety standards. * To recommend amendment of Central Motor Vehicles Rules having technical bearing keeping in view of Changes in automobile technologies. CMVR-TSC is assisted by another Committee called the Automobile Industry Standards Committee (AISC) having members from various stakeholders in drafting the technical standards related to Safety. The major functions of the committee are as follows: * Preparation of new standards for automotive items related to safety. * To review and recommend amendments to the existing standards. Recommend adoption of such standards to CMVR Technical Standing Committee * Recommend commissioning of testing facilities at appropriate stages. * Recommend the necessary funding of such facilities to the CMVR Technical Standing Committee, and * Advise CMVR Technical Standing Committee on any other issues referred to it The National Standards for Automotive Industry are prepared by Bureau of Indian Standards (BIS). The standards formulated by AISC are also converted into Indian Standards by BIS. The standards formulated by both BIS and AISC are considered by CMVR-TSC for implementation.

Standing Committee on Implementation of Emission Legislation (SCOE) - This Committee deliberates the issues related to implementation of emission regulation. Major functions of this Committee are - * To discuss the future emission norms * To recommend norms for in-use vehicles to MoSRT& H * To finalise the test procedures and the implementation strategy for emission norms * Advise MoSRT& H on any issue relating to implementation of emission regulations. Based on the recommendations from CMVR-TSC and

SCOE, MoSRT& H issues notification for necessary amendments / modifications in the in Central Motor Vehicle Rules.

In addition, the other Ministries like Ministry of Environment & Forest (MoEF), Ministry of Petroleum & Natural Gas (MoPNG) and Ministry of Non-conventional Energy Sources are also involved in formulation of regulations relating to Emissions, Noise, Fuels and Alternative Fuel vehicles. Tax Structure 1. State VAT Rate and Classification of goods Uniform rate structure across the country helps in avoiding diversion of trade from one State to another, checks unhealthy competition and reduces tax evasion. It helps automobile industry to plan and commit long term investments.

Basic rationale needs to be developed for generation of revenue from industrial products. This should be long term and the share of taxation in the total value of the ultimate customer needs to be defined. SIAM recommends such a policy in taxing goods and services under VAT. Total taxes from both Centre and State as proposed by SIAM not to exceed 25%. Considering Cenvat at 16%, Designated rate should not exceed 9%. The classification of goods should be aligned to central taxes to reduce litigation. Uniform classification across all States and central taxes would create favourable environment for growth of industry.

No separate classification of Capital Goods 2. Multiple levies and Industrial input One of the stated objectives of VAT is to reduce multiple levies. Number of rates under VAT should be 0%, 4% & RNR in addition to 1% on precious metal and 20% on petroleum products. All other levies like Octroi, Entry Tax should be abolished. Inputs used in the manufacturing should be taxed at 4% against issue of declaration. There should not be any specific list

of industrial input, as it will deprive the benefit to the industry using input other than the one mentioned in the list.

Reduced rate on industrial input will avoid refund problem and avoid unnecessary interaction with the Department. Further when interstate transactions are zero rated, manufacturer selling predominantly in interstate ends up having huge input tax credit without set-off. Automobile manufacturers having one manufacturing facility in the country sells more than 80% of the production outside the State and forced to seek refund from the State Government for excess input tax credit. SIAM suggests VAT rate of 4% on all industrial input to mitigate the refund issue.

3. Set-off mechanism
Set-off of tax paid should be allowed for all inputs including raw material, components, consumables, fuel and capital goods. Tax paid on services should be allowed to be set-off. Tax paid on capital goods should be allowed as set-off in full in the same year to avoid confusion and litigation later.

4. Interstate transactions
All interstate transactions should be at zero rate. Further automobile manufacturers 'Stock Transfer' goods by setting up huge facilities to strengthen distribution net work in order to reach the product to the customer at the earliest and at least cost.

This mechanism should not be affected even under VAT.

5. Sales Tax Incentives
Automobile manufacturers have made huge investments, which are in phases in unviable locations. These locational disadvantages are partially offset by fiscal incentives. Any detrimental variations or withdrawal will affect the viability of such investments. This may adversely impact the country's image as an attractive investment destination. It is heartening to

note that all States have agreed in principle to honour all existing incentives under VAT SIAM suggests the following: Incentive| SIAM Suggestion|

Input Tax Exemption| Refund Input Tax separately - adopt Maharashtra model| Output Tax Exemption| Continue exemption, Option to Defer output tax| Output Tax Deferral| Continue Deferment, refund input tax separately| Input Tax Exemption ; amp; Output Tax Exemption| Refund Input Tax separately, Option to Defer output tax| Input Tax Exemption ; amp; Output Tax Deferral| Refund Input Tax separately, Option to Defer output tax| Table 5-Tax Structure in Automobile Industry 6. Refunds Due to various reasons there is no alternative but to seek refund from the Government in case of excess credit.

Given the state of finances, refunds will be difficult and uncertain while locking up working capital for industry. Refunds should be honoured within 15 days from the date of filing returns and credited to the assessee's account. Alternatively, VAT Entitlement Certificate on the lines of freely tradable DEPB may be considered

Recent Mergers & Acquisitions

1. Merger of Ashok Leyland and IVECO, Italy
2. Merger of Eicher and Mitsubishi, Japan
3. Merger of M& M and Nissan Motor Company, Japan
4. Merger of Swaraj Mazda and Mazda Motor Company, Japan

Industry SWOT

Strengths:

Automobile industry is an established and an evergreen industry. * India is the strongest player in the small car segment of the global automobile market. * Indian companies are the best cost innovators. * The automotive industry has long been known for its development and promulgation of the assembly-line. * Some of the greatest developments in the automotive supply chain lie in the development of Just-In-Time (JIT) inventory methods. *

Through the use of advanced technologies, assembly line manufacturing, and JIT inventory management, the automotive industry has been able to achieve significant gains in productivity

Weaknesses: * India is lacking in proper infrastructure. * This is slowing the pace of growth of auto industry. * Companies are not improving after sale services. Opportunities: * The automotive ecosystem is in the midst of significant change, with increasing challenges in consumer demands, technology development, and globalization. * While demand for incumbent technologies will remain strong, alternative power trains could capture more than 20 percent of the global market by 2020, depending upon boundary conditions such as fuel taxation and emissions regulation set by governments as well as oil price development. Storage is in the heart of the next generation of efforts for fuel economy. * More realistic scenario will emerge for technologies using Hydrogen as automotive fuel. * Intelligent use of NCES (Non conventional energy sources) for powering Public Transport. Threats: * Global Crisis * Companies not focussing on R& D are under great risk * High competition from foreign players * Lack of technology for Indian companies Market forecast with Macroeconomic assumptions Investments in future: The market is so large and diverse that a large number of players can be absorbed to accommodate buyer needs.

The sector not only has global players looking to invest and expand but leading domestic companies are also pumping in huge sums into expanding operation. Some of the investments made by various companies or organisations are as follows: * Investment Planning Commission has set target of attracting foreign investment worth US\$5 billion for the next five

years (in automobile industry). * Rasandik Motors, a group company of Rasandik Engineering Industries India plans to set up a three-wheelers unit at Nanjangud in Mysore district of Karnataka. Work on the project was expected to commence by July 2010. An Indian automotive site called wheelsunplugged. com suggests that Daimler is planning to invest US\$700 million-\$1 billion to increase the capacity of its planned truck assembly plant at the SIPCOT Industrial Park in Oragadam, near Chennai in Tamil Nadu. An initial capacity of 70, 000 units a year is planned from a 1, 000-acre site. * Mercedes-Benz plans to invest e700 million to increase the production capacity of its trucks in its manufacturing plant in Chennai. While the infrastructure is expected to address future expansion plans of the company, details of the time frame of investment were not disclosed.

The German car maker is also on course to increase its headcount three-fold at its R& D centre in Bangalore by next year and will invest close to Rs. 450 crore on infrastructure and people-related costs. * Bharat Forge invested US\$ 135 million in its Pune plant for increasing capacity to 240, 000 tonnes. * Amtek Auto is expanding capacity of its casting unit to 70, 000 tonnes per annum. * Rico Auto is investing Rs 350 million to expand its capacity. * Apollo Tyres plans to invest US\$469. 58m to increase production capacity in India and abroad. * Robert Bosch of Germany will invest U\$201. 0 million in its subsidiaries over the next two years. * Ceat has inaugurated the Radial tyre greenfield project in Gujarat with an investment of Rs 7, 000 million, which will create employment opportunities for 1, 000 people. Demand forecast: Before looking at the forecast demand of automobiles, specially, commercial vehicles, let us look at the demand forecasting process used in

automobile industry In forecasting the demand, we have used various statistical methods considering all the relevant demand drivers for each segment. Then, models were prepared considering an exhaustive list of variables such as: Macro-economic variables-GDP components, industrial production, inflation, interest rates, stock indices -Sector variables- model launches, vehicle price, inter-segment competition -Enablers/barriers- Finance availability, road connectivity Forecasts for 2010-11 Automobile

Segments| 2010-2011 growth over 2009-10(%)| Passenger Cars| 12-13| Utility Vehicles| 13-14| Commercial vehicles(goods)| 19-20|

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Commercial vehicles(buses)| 4-5| Two wheelers| 9-10| Three

wheelers(goods)| 5-6| Three wheelers(passengers)| 8-9| Table 6-Demand Forecast for 2010-11 Some of the key forecasts made with respect to growth

of commercial vehicle industry are: • Expected demand in Passenger segment to grow at 6% CAGR in volume terms over the period FY05-FY10.

Goods segment to show 4. 6% CAGR over the same period. • Light Commercial Vehicles to grow at a rate of 20% YOY. • Heavy Commercial

vehicles to grow at a rate of 12% YOY. PEST Analysis Economic Scenario The fortunes of the CV industry are closely related to the general economic

conditions prevailing in a country. The demand for transportation is directly proportional to the growth of the economy, mobility of population, and other

related factors. In nearly all countries, a close connection between growth in transport, goods traffic and economic growth can be observed.

The effects are two-fold: * Increasing economic development causes more traffic. Increasing amounts of goods, greater transportation distances, enhanced division of labour (globalisation), new production technologies (e. g. just-in-time production), higher levels of commuter traffic, and an increase in business travel are producing a growth in goods transport and production-related passenger transport. The increase in the prosperity of private households, together with the reduction in the working week and the working life, produce an increase in holiday and leisure transport. The mobility of people and goods is a precondition for greater productivity and economic growth. The latter result from enhanced division of labour, faster structural change, the exploitation of new raw and other materials and greater competitiveness in international trade.

POLITICAL SCENARIO: The government has taken many initiatives to promote foreign direct investment (FDI) in the industry; a few of them are given below: * Automatic approval for foreign equity investment up to 100 per cent of manufacture of automobiles and components is permitted. * The automobile industry has been delicensed. There are no restraints on import of components. Besides the above mentioned initiatives, the government has envisaged the Automotive Mission Plan 2016 to promote growth in the sector. It targets: * Emerging as the global favourite in the area of design and manufacture of automobiles and auto components. * Taking the output to US\$ 145 billion, accounting for more than 10 per cent of the GDP. * Offering additional employment to 25 million people by 2016. ?

TECHNOLOGICAL SCENARIO: Road Infrastructure

Development 52000 + Kms Road development project taken up under NHAI

- * 5851 Kms of Golden Quadrilateral (93% completed)
- 7300 Kms of NSEW corridor (Phase I& II) -(11% completed) - Target Date - Dec'09
- * 380 Kms of Port Connectivity (29% completed) - Target Date - Dec'12
- * 46000 KM Length of Road Development- US \$ 27Bn Project in progress - Completion by Dec'12
- Port Infrastructure Development
- * Port Infrastructure upgradation projects ~ US \$ 16 Bn. in progress
- * Upgradation of major ports through private sector involvement (13 projects are operational and 4 under implementation)
- * Development of container terminals (in 6 ports of total 15 million TEUs capacity) - Target Date - 2013-14
- * Projects worth US\$ 13.3 billion proposed under National Maritime Development Programme (NMDP) - Target Date - 2013-14
- * Additional port handling capacity of 530 MMTA in major ports

Annexure List of Industry Associations

The automobile industry like any other industry has a number of associations to look after its interests. They provide a greater bargaining power to the industry and act as a source of bridge between the industry and the government. They help in formulating laws for the industry and help in getting technology from abroad.

These associations enable the industry to lobby hard to get extra incentives in the Union budget in the form of reduced import duties etc. They also act as data banks and provide insightful researches into the industry and they also regularly conduct auto fairs and exhibitions. Some of the major automobile Manufacturers Association along with a brief description of their profiles is as follows: Society of Indian automobile Manufacturers (SIAM)-This is the apex body of the automobile industry in the country representing

nearly thirty eight vehicle and vehicular engine manufacturers in the country.

It is an important channel of communication between with the Government and other national and international organizations. It works with all quarters of the industry and helps in formulating policies for the automobile industry. It also enhances communication between all the stake holders of the industry and helps in technological up gradation through collaboration with foreign players. For more details of the organization log on to <http://www.siamIndia.com/> The Automotive Component Manufacturers Association of India (ACMA)-This organization is the nodal agency for all the automobile component manufacturers in the country.

They have nearly 500 hundred members and their supply form the majority of the components in the organized sector. Like SIAM, this association also helps in dissemination of information about the industry, enhances trade promotion, technological up gradation and quality enhancement thus playing an important role in the development of the industry. It also sends delegation to foreign countries and participates in international trade fairs and regularly publishes data about the sector. More information about the organization can be sought from <http://www.acmainfo.com/> Federation of automobile Dealers Association (FADA)-This association is the apex body of automobile dealers in India and it was established in 1964 to promote and protect the interests of the retail automobile market in the country. The four founder members of FADA which have played a key role in the formation of the association are as follows:

- The automobile Dealers Association of Maharashtra, Mumbai
- Motor Industries Association, Kolkata
- Automobile

<https://assignbuster.com/commercial-vehicle-market-in-india/>

Traders Association, Delhi • Motor Vehicles and Allied Industries Association , Chennai Click <http://www.adaweb.com/> for more details. Motor and Equipments Manufacturers Association (MEMA)-This association as the name suggests represents the interest of the automobile equipment manufacturers by making the companies associated with this trade more profitable and efficient. It provides useful information about the industry, valuable market research, government representation and other valuable commercial services. The body was established in 1904 and since then they have provided valuable service to the light motor vehicle and the heavy industries.

To know more click <http://www.mema.org/index.php> List of graphs and tables * Table 1-Market Share of Different Players in Automobile Sector * Table 2-Automobile Production Trends * Table 3-Automobile Domestic Sales Trends * Table 4-Automobile Exports Trends * Table 5-Tax Structure in the Automobile Industry * Table 6-Demand forecast for 2010-11 * Figure 1-Monthly Domestic Sales of Commercial Vehicles * Figure 2-Monthly Exports of Commercial Vehicles * Figure 3-Regulatory Framework of Automobile Industry