

Case study: indian automobile industry



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Despite economic slowdown that has affected the automobile industry, production and exports of the sector went up last fiscal, said the Economic Survey 2008-09, and underlined that the industry employs over one crore people.

While the overall automobile production went up by 3 per cent to reach 1.11-crore, exports increased by over 23 percent to over 15-lakh. The domestic turnover of the sector stood at Rs. 2.19-lakh crore, while exports totalled at Rs. 31,782 crore,

WHY INDIA IS GROWING AND EMERGING MARKET?

India is growing to be the growing and emerging as the most attractive sector in automobile sector. The major reason which has led the automobile to take a new pace is

The Industrial Policy of 1991 de-licensed the Automobile Industry in India, but

passenger car was de-licensed in 1993.

This took the Indian automobile production from 5.3 Million Units in 2001-02 to 10.8

Million Units in 2007-08. The other reasons attracting global auto manufacturers to India are the country's large middle class population, growing earning power, strong technological capability and availability of trained manpower at competitive prices. These are the major findings of our report, " Indian Automobile Sector – A Booming Market".

Now, no license is required for setting up of any unit for manufacture of Automobiles

except in some special cases. Further, 100 per cent Foreign Direct Investment (FDI) is

permissible.

This liberalization has helped this sector to restructure itself, absorb newer technologies, and keep pace with the global developments realizing its full potential.

MARKET SHARE OF AUTOMOBILE INDUSTRY

Market Size

The Indian Automotive Industry after de-licensing in July 1991 has grown at a spectacular rate on an average of 17% for last few years. The industry has attained a turnover of USD 35.8 billion, (INR 165,000 crores) and an investment of USD 10.9 billion. The industry has provided direct and indirect employment to 13.1 million people. Automobile industry is currently contributing about 5% of the total GDP of India. India's current GDP is about USD 650 billion and is expected to grow to USD 1,390 billion by 2016. The projected size in 2016 of the Indian automotive industry varies between USD 122 billion and USD 159 billion including USD 35 billion in exports. This translates into a contribution of 10% to 11% towards India's GDP by 2016, which is more than double the current contribution.

(Source: Department of Heavy Industry & Public Enterprises Government of India)

MARKET SEGMENTATION

The automotive industry of India is categorized into passenger cars, two wheelers, commercial vehicles and three wheelers, with two wheelers dominating the market. More than 75% of the vehicles sold are two wheelers. Nearly 59% of these two wheelers sold were motorcycles and about 12% were scooters. Mopeds occupy a small portion in the two wheeler market however; electric two wheelers are yet to penetrate.

The passenger vehicles are further categorized into passenger cars, utility vehicles and multi-purpose vehicles. All sedan, hatchback, station wagon and sports cars fall under passenger cars. Tata Nano, is the world's cheapest passenger car, manufactured by Tata Motors – a leading automaker of India.

Multi-purpose vehicles or people-carriers are similar in shape to a van and are taller than a sedan, hatchback or a station wagon, and are designed for maximum interior room. Utility vehicles are designed for specific tasks. The passenger vehicles manufacturing account for about 15% of the market in India.

Commercial vehicles are categorized into heavy, medium and light. They account for about 5% of the market. Three wheelers are categorized into passenger carriers and goods carriers. Three wheelers account for about 4% of the market in India.

Product and Service Segmentation

Source: Society of Indian Automotive Manufacturing (SIAM)

Trends in market segmentation:

Domestic Market Share for 2009-10 2008-09 2007-08

Passenger Vehicles 15. 86

15. 96 16. 05

Commercial Vehicles 4. 32

3. 95 5. 08

Three Wheelers 3. 58

3. 6 3. 78

Two Wheelers 76. 23

76. 48 75. 08

COMPETITION AND MAJOR PLAYERS

Competition in this industry is high.

Competition in this industry is increasing

Automotive industry is a volume driven industry and certain critical mass is a pre-requisite for attracting the much needed investment in research and development and new product design and development. Research and development investment is needed for innovations which is the lifeline for achieving and retaining competitiveness in the industry. This competitiveness in turn depends on the capacity and the speed of the industry to innovate and upgrade. The most important indices of competitiveness are productivity of both labour and capital.

The concept of attaining competitiveness on the basis of low cost and abundant labour, favourable exchange rates, low interest rates and concessional duty structure is becoming inadequate and therefore, not sustainable. A greater emphasis is required on the development of the factors like innovation which can ensure competitiveness on a long-term basis.

India with a rapidly growing middle class (450 million in 2007 as per NCAER Report), market oriented stable economy, availability of trained manpower at competitive cost, fairly well-developed credit and financing facilities and local availability of almost all the raw materials at a competitive cost has emerged as one of the favourite investment destinations for the automotive

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manufacturers. These advantages need to be leveraged in a manner to attain the twin objective of ensuring availability of best quality product at lower cost to the consumers on the one hand and developing and assimilating the latest technology in the industry on the other hand.

As per Automotive Mission Plan 2006-2016 (2008), the Indian Government recognises its role as a catalyst and facilitator to encourage the companies to move to higher level of competitive performance. The Indian Government wants to create a policy environment to help companies gain competitive advantage. The government aims that with its policies its encourage growth, promote domestic competition and stimulate innovation.

(Source: Department of Heavy Industry & Public Enterprises Government of India)

Major Automobile Players

The significant growth in the Indian automobile market as a result of growing income and purchase power has provided opportunities to all the global automobile players to set up their base in India in the last one decade. The setting up of new plants has provided cluster development of automobile and automotive component market in India. The exhibit below shows the major players in the Indian market who have manufacturing units in India:-

AREA OF OUR STUDY

Passenger vehicles

The passenger vehicle segment comprises passenger cars and multi-utility vehicles (MUVs, which includes sports utility vehicles). Post delicensing, this sector witnessed entry of foreign carmakers through JVs, collaborations and <https://assignbuster.com/case-study-indian-automobile-industry/>

wholly-owned subsidiaries. This has not overwhelmed domestic players (such as Maruti, Tata or M&M) which have emerged as market leaders, adapting through alliances with foreign companies for technology. Now some domestic players have also started entering foreign markets.

Passenger vehicle production and sales have more than doubled over the past seven years, while exports have trebled. Production has grown at a CAGR of 16%, sales at 14%, and exports by a massive 23% — all highlighting the euphoria in the sector over the past few years. And what's better, the trend seems to be strengthening as market penetration in India is still very low at eight cars per 1, 000 persons. Vigorous competition among companies has proved better for customers as prices have remained competitive. Sales, which had remained stagnant during the recent slowdown, picked up impressively in 2009-10 — by 26% — owing to positive customer sentiment.

Reasons for growth:-

Governments of some European nations, such as the UK, introduced the scrappage scheme in May 2009 to boost their ailing car industry and remove polluting vehicles from the road. It was declared to have ended successfully in March 2010. The UK government declared a grant of £2, 000 for scrapping an old car in exchange for a new one. This pushed up sales and accounted for one fifth of the total new car registrations. The scheme was successful in Germany and France too. Compact cars account for the major chunk of the sales (at present 72%) as India has been a small-car market, owing to high demand for cost-effective means of transport. But now, customers are upgrading, driven by higher personal disposable incomes, changing

preferences in the process. Nine and seven seaters account for three-fourth of total MUV sales

The major car-makers operating in India are Maruti Suzuki (market leader), Hyundai, Tata Motors, General Motors, Ford, Skoda Auto, Honda, Toyota, Fiat, Mahindra Renault, Hindustan Motors etc.

The major MUV players are Mahindra & Mahindra (market leader), Toyota Kirloskar, Tata Motors, General Motors, Maruti Suzuki, Force Motors, Ford, Hindustan Motors etc.

Insights to the company.

Maruti Suzuki India.

This is the first fiscal in which Maruti Suzuki India's (MSI) market share fell below 50 per cent. The company's loss is mainly due to Tata Motors, Ford India and General Motors India catching up following a good response to their respective small cars — Nano, Figo and Beat.

In July this year, MSI sold 90, 114 units, which included multi-purpose and utility vehicles, besides passenger cars, a 33. 45 per cent rise from 67, 528 units in July, 2009. This was an all-time high for MSI in any month in the domestic market. According to SIAM data, MSI's main rival Hyundai Motor India's market share in the car segment also declined to 18. 88 per cent in April-July from 20. 89 per cent in the comparable period last year.

As per the SIAM data, MSI enjoyed a market share of 47. 94 per cent in the cars segment in July, compared to 52. 15 per cent in the same month last

year. It sold 76, 111 cars last month against an industry total of 1, 58, 764 units.

In order to defend its market share, MSI has started taking many initiatives, like launching a new version of its best selling model, Alto, last week at an introductory price between Rs 3. 03 lakh and Rs 3. 16 lakh (ex-showroom Delhi).

In addition, in an unprecedented move, the company has geared up to launch five vehicles — Alto, Estilo, WagonR, Eeco and SX4 — in CNG variants in a single day this week.