



GANDHIS DREAM OF CAPABLE INDIA: THE STANDING OF INDIAN AUTO MANUFACTURING INDUSTRY

Raman Solanki¹, Biny Pal Singh²

^{1,2}IT, Guru Gobind Singh Indraprastha University, (India)

ABSTRACT

Hironori Kanayama, former CEO and President of Honda Motors India after attending the Auto Expo in New Delhi pondered on how the event went and where Honda Motors India were headed in future. Honda Motor was trying to gain market share in the India Auto Industry. The industry was facing a current slowdown. Recent events led to the thinking among the executives about the chunk of market share they hold. 7th February 2014 which was the day when Honda had a big showing in the Auto Expo India with hopes of changing and revolutionizing the Indian Automobile Industry. They believed that they will be able to boost sales as an easement on the excise duty which was approved by the Government of India. Honda India faced many challenges in the Indian Automobile Market. The debate continues on how the middle class would affect the auto industry. Hironori Kanayama also looked into the other forms of transportation that could be preferred by many in the Indian subcontinent. Honda Motors needed a plan that would position Honda Automobiles for the most market share. To accomplish this Honda needed to act fast and take advantage of the current and future market conditions.

Keywords: *Automobile Industry, Honda Motors , Indian Market*

I. INTRODUCTION

The Automobile Industry in India is currently slowing down. The year 2014 was also off to a slow start. The growth rate for domestic sales from 2011 to 2012 was growing at 12.24%. The industry sales were down 7.59% in January from the previous year.[2] The automobile industry only had sales of 160,289 units from 173,449 units the year before. Regardless of this slowed growth; experts speculated that Indian Automobile Industry will see the most growth in the years to come. 3.23 million cars were produced in the year 2013 in India and the number is expected to grow over 10 million by the year 2020-2021. The Chinese market is one of the major reason for this increased production. Many of the high end vehicle that were produced in India were shipped to China. While India had exports of cars from companies like Honda, BMW, GM, Chevrolet, Toyota and others, India has exported many of the cars sold in Europe such as Audi, Hyundai, Mercedes-Benz, and Volvo. Tesla is considering an assembly unit for its upcoming Tesla Model 3, The U.S. firm is also in talks with Indian authorities to rationalize the import duty imposed on the electric cars, and seeks to develop a separate category for the electric vehicles in the Indian Subcontinent. Tesla's assembly unit in India is expected to act as a gateway for Tesla's Asian markets, but a full-fledged manufacturing unit could still be far off for now. Tesla, in

its initial market research, found India to be its hub in Asia, The company plans to launch the Tesla Model 3 in India. Currently, the Model S is sold in only two Asian countries – China and Japan.[1][2][19]

II. INDIAN AUTOMOBILE INDUSTRY

Most people in India own a two wheeler as opposed to the passenger automobiles. This industry was also growing. The motorcycles sales grew by 4.04 percent in January 2014 from January 2013. One of the reason to this was as they are cheaper to own and operate as gas costs were very high in India. Because of the high number of two-wheeler consumers, much of the growth in the passenger vehicle market was from consumers who were trading in their two-wheelers to get a passenger automobile. The market for passenger cars only grew by 2.19% in 2012. Consumer's driving this growth were likely looking at many of the entry level models that were very popular and affordable by the consumers.

While there is growth predicted In the future for the Indian Automotive market, many of the cars built in India are exported to other countries. Indias' biggest customers are the UK followed by Italy, Germany, Netherlands, and South Africa. These sales are expected to reach \$13billion in sales by the end of 2015. Indian cars are popular around the globe, one reason is as they are manufactured at a low cost, have high fuel efficiency ad high quality. Companies like Honda have manufacturing facilities in India to take advantage of the same and also to lower the shipping and tariff costs. Honda Motors like any other automobile company faced different forms of Competition in India. First was the use car market. This market is expected to see 16% growth from 2013-2017. Honda Motors had competition not only from domestic market but from foreign market, Mercedes-Benz, was the fastest growing demand worldwide. Demand for these cars ad SUV's in the premium India Market was also growing. In the domestic market Honda had to compete with the market leader Maruti Suzuki India. They had sales of 84,461 units in January 2014. Although they had seen the impact of the overall market demand downturn as their sales were down from 88,557 in January 2013. Hyundai Motors was the second market leader selling 33,351 in January 2014 which was also down from 34,247 units in January 2013.[3]

Maruti Suzuki had been in business in India for more than 30 years. They started in Gurgaon, Haryana. They first started making only 40,000 cars every year and in 2014 are projected to build 1.5 million cars for India. Maruti has 17 cars that have over 150 variants in the models. This has given them success to help Indians customize their cars to their lifestyle and their budget. Maruti also has over 1436 service station in India and 917 sales offices. In 2014 they had 2 factories that produce their cars, one in Manesar and other in Gurgaon. The most popular car they sell is the Alto 800 which has 10 variations in the model and starts at 241137 rupees.

Hyundai India established in 1998; finished building its first plant in the same year. Hyundai has seen a recent surge in sales in India. In 2005, Hyundai Click was given the India's Best Car award. The Hyundai Verna won the Best Car of the Year award in 2007 from the Indian Auto Magazine, Overdrive. They are constantly developing new cars, with their latest car EON. Hyundai is also committed to the service of their vehicle and also take various steps in the "after sale" of their product. They recently released the mobile care program that lets consumers find the Hyundai Service center that is closest to them. This service allows consumers to access vehicle service history, schedule maintenance, provide service reminders, and many other features.

The two wheeler industry is growing. The motorcycle sales in India increased 8.85% in January 2014 from the sale in January 2013. Honda Motors is competing in this industry as well. Some of the most popular two



wheelers on the market are the Hero Honda Karizma and the Honda Unicorn. Honda also competes with several other two wheeler manufacturers like Suzuki, Kawasaki, and Bajaj. Consumers are buying these two wheelers because they are economically priced, the good safety ratings, highly fuel efficient and the decent comfort level. Most consumers do not want the high end performance bikes not only because of the cost, but they prefer cheaper two wheelers that are less expensive and easier to maneuver.[4]

III. CONSUMERS

As of 2014 India had an overall population of 1.2 billion people. From the overall population there are only 40 million passenger vehicles in India. The ratio of people to passenger vehicles was only 30:1. India's population historically grows 15-20 million every year. The overall population is expected to grow to 1.4 billion by the year 2025. Of these consumers in the auto industry approximately 77% of consumers using some form of transportation use two-wheelers.⁶ The two-wheeler industry is very popular in India. The focus of many companies in India was their rapidly growing middle class. It was estimated that the middle class population was 267 million people. This middle class is expected to grow to 583 million by the year 2025. Indias middle class prefer to drive automobiles because of the poor public transportation. With the middle class growing the other factor that had automobile companies targeting this group was their disposable income. Fig. 4 shows what number of households projected levels of income. As seen in 2005 the majority of households are in the Aspirers or Deprived category. In 2005 the middle class which was the Seekers and Strivers in the chart only make up 13.3 million households and have a very small amount of disposable income which they use and even smaller amount for actual consumption. In just 10 years, 2015, many of the Deprived have moved into a high level with the Seekers growing the most from 10.9 million to 55.1 million. This trend also continues as this class had more disposable income 15.2 trillion Rupees from 3.1 trillion Rupees. Most importantly consumption also rises from 2.1 trillion Rupees to 11.8 trillion Rupees. Projected in 2025 the middle class gets even larger; with the strivers having the biggest increase from 5.5 million in 2015 to 33.1 million in 2025. Also in this year the Deprived only represent 49.9 million households down from 2005 of 101.1 million households. By 2025 the middle class was projected to have 128 million household in India, which was up from 13.3 million in 2005. They also have 51.5 trillion Rupees in disposable income, of which they are expected to use 30.6 trillion Rupees for consumption. [7] The overall economy in India last year was 8.3%, which was one of the fastest growing economies in the world.[8] Since India had such a fast growing economy thus middle class was projected to continue to grow; also have more disposable income to be able to purchase automobiles among many other items. As consumers rise from the lower class to the middle class and gain more disposable income, they will be looking to trade in their two-wheelers for a passenger vehicle.[8][9]

India's consumers also use many different modes of transportation. Fig. 5 shows different cities in India and the percentage of consumers that use different modes of transportation. The consumers are assumed to walk, use non-motorized vehicles, use private motorized vehicles, or take the public transit. The transportation preference differs widely from city to city. In the highly populated Delhi, most consumers use the public transit system by using Metro or simply walk. In other cities like Pune all four methods of travel are widely used.[10]

IV. OTHER FACTORS

Another factor for Honda Motors was the Indian government. The government was currently concerned about air pollution in many of India's cities. Delhi is the world's most polluted city and the Indian government believes that it was partly due to car emissions. Since the government wants to cut down on the emissions from the cars they have developed fuel-efficiency ratings for automobiles. The government hopes that this encourages car owners to consume less petrol or diesel. The government had also raised the basic customs duty from 75% to 100% on cars and motor vehicles with a value of \$40,000 or more.

To increase domestic sales, the government had lowered the excise duty tax. This was an indirect tax that was levied on goods which are manufactured in India and are sold within the country. The government had lowered this tax as seen in Table 1. [10] This tax was paid by the manufacturer which then passes on the cost to the consumer. Lowering this tax should reduce the overall costs to Honda Motors in India so they may be able to lower prices for their customers. This tax reduction should also help with Honda Motors inventory. The tax was payable on any excisable goods, or places that store those goods, and they have to pay the duty on these goods regardless of sale. The reduction that Honda would be interested in was the SUV reduction to 24%, the mid-sized car reduction to 20%, and the small size car reduction to 8%. While Honda gets the benefits of the cost reduction from the excise tax, this benefit should be realized throughout the industry. However, this duty reduction also means that two wheeler companies also receive a reduction in costs.

The Society of Indian Automobile Manufacturers (SIAM) a group that represents 46 leading vehicle and vehicular engine manufacturers in India. SIAM works with the government and automobile manufacturers in the formulation of rules and regulations for the automobile industry in India. All of the car manufacturers work closely with SIAM to ensure that the companies are represented when the government is creating rules and regulations for the automobile manufacturers. SIAM tries to promote the Indian automobile industry with worldwide standards. In some situations this is positive for the manufacturers because of standardization; however it can present problems because of the specific needs and differences of the Indian market. SIAM also tries to increase the overall market of the Indian auto industry. A recent example; SIAM had asked the government to support the automobile industry during this time where the growth seems to be slowing down by asking for support from the government budget.[11]

The Automobile Expo had just concluded in India. Hosted in New Delhi, this was the 12th annual edition of the biannual show. Many of the car manufacturers were at the show, including Honda Motors. This year's show focused on cars that the rising middle class was able to afford. Honda focused on their Amaze model car and many other car manufacturers showed cars that are in similar price range. Hyundai focused on the Xcent, Maruti Dzire, and Ford on the Figo Concept. Also in competition with Honda was the locally produced Cerelio from Tata Motors.[12]

The roads in India are also need of repair. This was another reason that many consumers own two-wheelers as it was easier to maneuver bad roads with two wheels than it would be with a larger vehicle. Consumers who have passenger vehicles could have more repairs on their cars as a result of bad road conditions, which increase their cost of overall ownership. The cost of ownership can also increase not only from these road conditions but also the amount of accidents in India. Since the road conditions are bad it results in higher volumes of traffic and



increases the chances of consumers getting into an accident and having to repair their vehicles. This could have been affecting consumers' attitude towards purchasing any type of passenger vehicle, but in particular would make consumers want to focus on the quality and durability of their car.

The public transportation in India is not the preferred method of travel by most consumers. The current state of the public transit system is old and usually overburdened with too many people and not enough trains or stops.[13] The public transit system consists of buses, taxis and a metro system in Delhi, Bangalore and Kolkata. The buses can be a challenge to negotiate getting from place to place. They are usually the cheapest fare, but can get very crowded during peak hours. The metro is usually the quickest way to get around, especially during the peak hours of travel. The metro system is not yet fully developed. It was estimated that for the city of Delhi that the metro should cover 100 kilometers and currently was only at 65.1 kilometers.[14] A new 9 kilometers monorail just went in that could start the change of the public transit system. If the public transit system starts to improve then it could become more popular with consumers that are in the middle class. Currently, the preferred method of transportation for the middle class was by passenger vehicle. [15]

India's workforce also faced some questions. If the middle class does grow and the demand for these cars increases then the workforce needs to adapt. It is estimated that by 2022, India could need 35 million workers to sustain growth. Fig. 6 shows what the percentages of workers are in certain industries with India. This chart put the Motor Vehicle industry in with Machinery and Equipment and transport for a total of 13.3% of the workforce in this sector in 2010.[16] The chart shows Motor vehicles and trailers in the 4th highest paid hourly wage in Indian manufacturing. However that wage, for comparison purposes, was slightly over US \$2.00 per hour. Included in that wage was the Social Insurance and directly paid benefits, meaning that the worker was only making around \$1.50 per hour while the .50 was being used for these other benefits.

V. HONDA MOTORS INDIA

Honda Motors India was established in 1997 in Greater Noida. Every year they increased production to fill the demand of the growing Indian market. In 2013, Honda was the 4th largest carmaker in India. They produce 4 different models in India. The Brio was Honda's entry level car selling at 399,900 Rupees to 599,900 Rupees. The Honda Brio was only offered in petrol models. The Amaze was the next level up selling from 499,900 Rupees to 755,000 Rupees for the petrol models and from 597,500 Rupees to 749,500 Rupees for the diesel models. The Honda City was the high end 4 door car starting at 719,000 Rupees to 1,080,000 Rupees for petrol and 837,000 Rupees to 1,089,000 Rupees for Diesel. Honda India also sells a sport utility vehicle (SUV) called the CR-V. The CR-V starts at 2,025,000 Rupees to 2,436,000 Rupees and only comes in petrol. [17]

Honda Motors is coming off of strong January sales. Where all of the other top market share automobile manufacturers' sales went down compared to the year before, Hondas sales went from 5,421 units in January 2013 to 15,597 units in January 2014.

Honda is currently trying to make their vehicles less expensive by investing in locally-made components so they don't have to spend money on tariffs and duties. They are also investing heavily in research and development to manufacture cars made specifically for India.[18] Cars that sell in Japan and the United States don't necessarily work in India.

The roadways and driving norms are different from country to country. Honda wanted to design cars that fit the needs of the Indian consumer. One example is the impact of the diesel cars. Honda has recognized; it has seen an increase in sales after they introduced the diesel cars into the market.

Honda also struggled to find itself in the top ten passenger cars for India. As seen in Table 2, the top 4 models came from Maruti. Three out of ten came from Hyundai and Mahindra, Tata, and Toyota rounded out the top ten cars list. Table 4 shows the sales for the past 12 months. Honda is the 6th largest passenger car manufacturer in India with a market share of 5.33%. They are ahead of many of the American and German made vehicles, but fail to surpass many of the Asian car manufacturers. Also shown in Table 4 is the percentage of increase or decrease in sales from month to month. Hondas' sales varied in large quantities from month to month. The largest decrease in sales came in December of 2013, a drop of 41.14%. However in January, the sales were extremely high with an increase of 186.07%. While seasonal sales are expected, many of the other car manufacturers didn't have large fluctuations like Honda.

While Honda had some troubles breaking into the top 10 sold passengers cars in India, Honda Motors had a worldwide presence among the top brands. In table 3, Honda is shown as the 7th highest selling car manufacturers in the world. Honda Motors is doing something right in the rest of the world and needed to transfer that success it had globally into the Indian Market. Honda is globally known for the high quality cars that it produced at a price that was reasonable for people to afford. Honda also have the reputation of having cars that lasts a long time and got good gas mileage compared to some of their competitors. The Honda Civic and Accord are Honda's most popular cars around the world.

In February of 2014 Honda Motors started production in a new facility in Rajasthan. The plant was capable of producing 1.2 million units per year.[19] The facility spread across 450 acres. This was the 2nd plant for Honda Moto Company in India. With this new plan in place Honda Motors hopes to take advantage of the increase in demand that it had seen over the last year. This plant also brought more jobs to the area. Approximately 3200 associates are employed at the plant full time. This plant also gave Honda the ability to produce more cars that were built locally to India and allow them to ship cars easily. The transportation and shipping system in India made it difficult for cars to be shipped all across the country. By Honda opening its second plant, it meant that cars could then be shipped from the closest production plant instead of the one that was very far away.

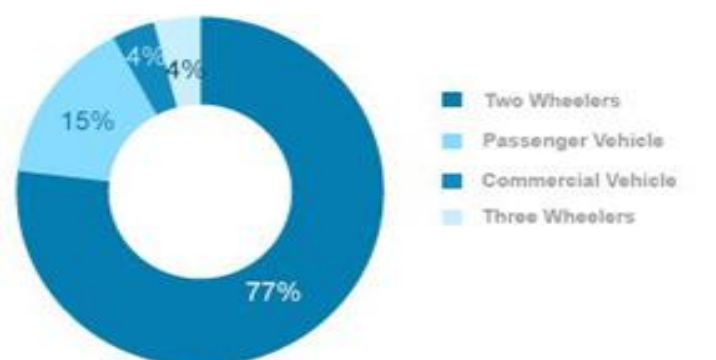


Figure 1 Market Segments-Two wheelers segment accounted for about three quarters of the total automotive production in the country during FY13.

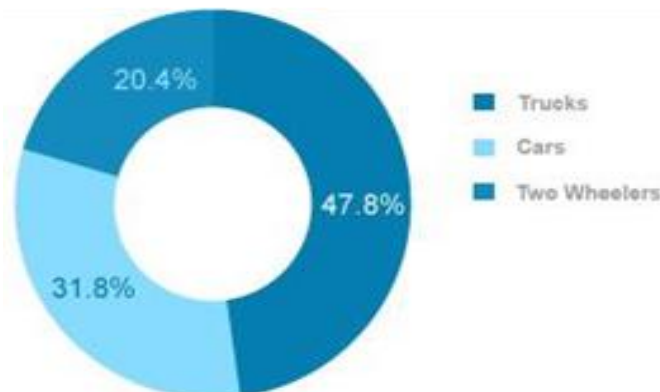


Figure 2 Market Segments- Excluding three wheelers, trucks accounted for the largest share of revenues (47.8% of 2011)



Figure 3 Revenues- The Gross turnover of automobile manufacturers in India expanded at a compound annual growth rate (CAGR) of 17.7% over FY07-11

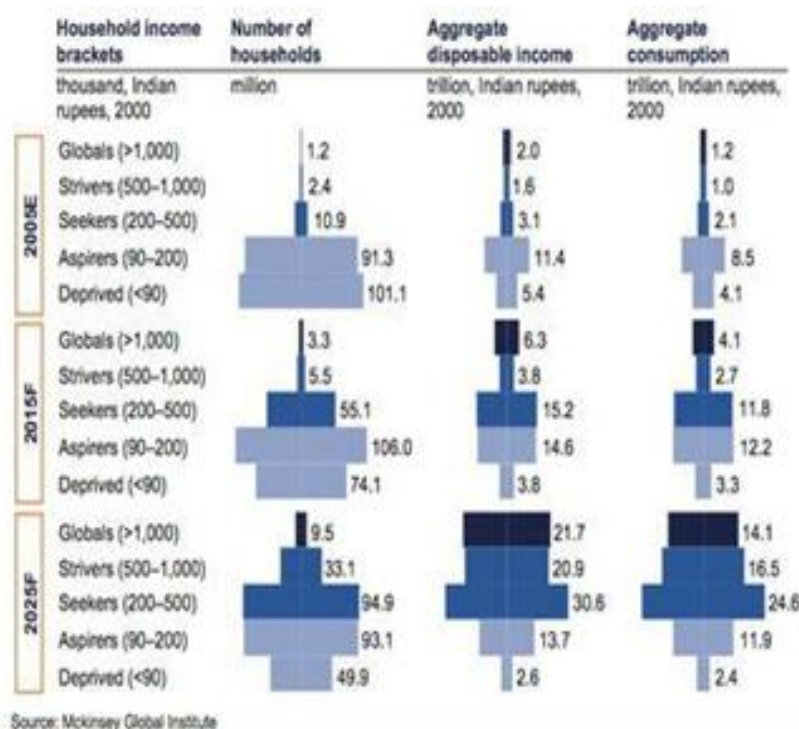


Figure 4 The Shape of Indias' Income Pyramid as Income grow (Expected)

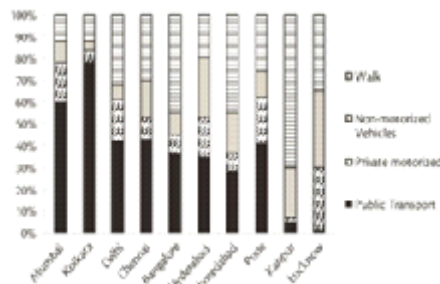


Figure 5 Different modes of Transportation used by Indian Consumers

Type of Automobile	Previous	After Reduction
Small Cars/Two Wheelers	12%	8%
Sport Utility Vehicles	30%	24%
Large Vehicles	27%	24%
Mid-Sized Cars	24%	20%

Table 1 Excise Duty

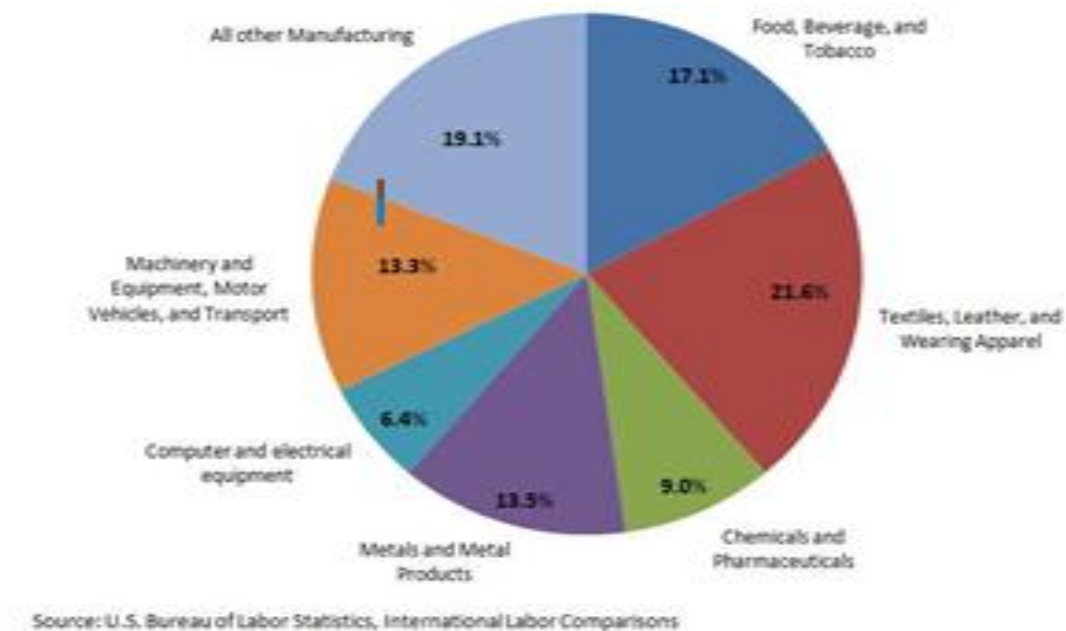


Figure 6 Industry employments as a percentage of employment in India's organized manufacturing sector 2010



Indias' Top 10 Selling Passenger Cars in 2013				
Rank	Model	Segment	Company	Number of Units Sold
1	Alto	Small	Maruti	266,785
2	Swift	Small	Maruti	184,897
3	Dzire	Small	Maruti	169,571
4	WagonR	Small	Maruti	135,694
5	Bolero	SUV	Mahindra	117,666
6	i10	Small	Hyundai	92,897
7	i20	Small	Hyundai	91,400
8	Eon	Small	Hyundai	88,836
9	Indica	Small	Tata	77,936
10	Innova	SUV	Toyota	77,062

Table 2 Indias' Top 10 Selling Passenger Cars in 2013

World's Top Car Manufacturers in 2012		
Rank	Group	Car Units Manufactured
1	Toyota	8,381,968
2	G.M.	6,608,567
3	Volkswagen	8,576,964
4	Hyundai	6,761,074
5	Ford	3,123,340
6	Nissan	3,830,954
7	Honda	4,078,376

Table 3 Worlds Top Car Manufacturer in 2012

Manufacturer	Mar'13	Apr'13	May'13	Jun'13	Jul'13	Aug'13	Sept'13	Oct'13	Nov'13	Dec'13	Jan'14	Feb'14	Total Units Sold	Market Share Among Top 10 (%)
Maruti	107,890	90,523	77,821	77,002	75,145	76,018	90,399	96,062	85,510	86,613	96,569	99,758	1,059,310	45.00
Hyundai	33,563	32,316	32,092	30,610	25,963	28,311	30,600	36,002	33,501	28,345	33,405	34,005	378,713	16.09
Mahindra	25,847	20,749	22,244	17,232	15,530	15,821	18,916	22,924	16,771	16,436	19,732	18,520	230,722	9.80
Toyota	19,452	9,007	10,023	11,010	11,515	12,007	12,015	13,162	10,208	10,648	10,910	10,100	140,057	5.95
Tata	12,347	11,570	11,134	11,804	10,824	11,564	12,839	14,133	10,376	9,272	10,974	11,325	138,162	5.87
Honda	9,931	8,455	11,316	9,270	11,202	8,851	10,308	11,154	9,332	5,493	15,714	14,543	125,569	5.33
Ford	5,271	4,003	4,002	7,145	7,867	8,008	10,640	9,163	7,909	5,871	6,706	6,799	83,384	3.54
Chevrolet	9,006	8,196	8,496	6,575	6,503	6,673	7,048	7,715	6,214	5,705	5,557	5,607	83,295	3.54
Renault	8,232	6,314	6,300	6,007	3,763	3,733	4,822	5,403	4,044	4,133	3,304	4,101	60,156	2.56
Volkswagen	6,398	4,521	4,975	5,352	4,550	4,779	4,503	4,828	4,206	3,034	4,106	3,512	54,764	2.33
													2,354,132	100
Honda	9,931	8,455	11,316	9,270	11,202	8,851	10,308	11,154	9,332	5,493	15,714	14,543		
		14.86%	33.84%	-18.08%	20.84%	-20.99%	16.46%	8.21%	-16.33%	-41.14%	186.07%	-7.45%		

Table 4 The Sale of the previous year with percentage increase or decrease

VI. CONCLUSION

As the plane landed, Hironori Kanayama wanted to get right to work. He knew of the challenges facing Honda Motors. While Honda was coming off of a great January sales, they recognize that in order to keep this success going they need to be ready for the changing automobile market in India. Honda is in position to take a leading role in the India auto industry. This industry was ever changing and Honda needed to be ready to handle the demands of the consumers to capture more market share. Hironori Kanayama wanted to have a short term plan to take advantage of the excise tax. He knew this would bring more consumers to the market and wanted Honda to be in a position to capture these consumers before their competition did. While Hironori Kanayama wanted this short term success, he also was focused on what Honda Motors could do to become a more consistent leader in the Indian automotive market. As he stepped off the plane he saw in the distance a group of people riding motorcycles. Hironori Kanayama knew that these were also potential customers. He thought about the changes that were coming for the Indian auto industry and recognized the opportunity that Honda had.

How should Honda handle the growth of the middle class? This class could ultimately determine who the market leader in the automobile industry was and Honda needs to make sure they capture their share of this market. How can Honda capitalize on what the government was currently doing? With the lower excise duty, should Honda Motors market share increase or decrease? With 77% of the market riding two-wheelers Honda



may have to convince consumers that upgrading to Honda vehicles is the next step. What can Honda do to capture the two wheeler market before their competitors? With what seems to be a cost driven decision making by the consumers in the India Auto Industry, what supply chain methods can be used in order to drive costs down and deliver a cheaper car to the market?

The Indian dream of owning a passenger vehicle and to be capable enough to function well in the current scenario is what an average middle class Indian wants. The increase in the disposable income of people along with help of the government; the Automobile Industry hopes to flourish; and to pave the road for the future ahead.

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