

REVIEW OF AUTOMOTIVE MISSION PLAN 2006 - 2016

“To emerge as the destination of choice in the world for design and manufacture of automobiles and auto components with output reaching a level of US\$ 145 billion accounting for more than 10% of the GDP and providing additional employment to 25 million people by 2016.”



सत्यमेव जयते

**Ministry of Heavy Industries and Public Enterprises
(Government of India)**

The turnover of automotive industry was more than 45% of the manufacturing GDP of India during FY14. The importance of this industry to the national economy can be seen by way of the size of its turnover compared to India's GDP and contribution across several other parameters:

- 7.1% of India's GDP
- 27% of India's industrial GDP
- 4.3% of overall exports (second only to textiles & handicrafts)
- 13% of excise revenues
- Incremental employment generation in excess of 19 million since FY06
- Total investment in excess of US\$ 35 bn of which US\$ 24 bn is contributed by automobile companies while US\$ 11 bn is contributed by automotive component companies
- 8% of the country's R&D expenditure
- Improvement in fuel efficiency of passenger vehicles resulting in fuel savings of 8.6 bn litres between FY06 and FY14

The Indian automotive industry has witnessed significant growth during the first half of Automotive Mission Plan 2006-2016 (AMP 2016) i.e. FY06 to FY11. During this period all vehicle segments registered a Compound Annual Growth Rate (CAGR) in excess of 10%. However, from FY11 the slowdown in global economy coupled with weakness in the fundamental growth drivers has resulted in decline in growth across vehicle segments except for two wheelers, which posted a CAGR of 4.6%. This has resulted in gaps between actual performance of the industry vis-à-vis targets envisaged under AMP 2016.

Trends in key macro-economic parameters versus industry performance

PARAMETER	2005-06 TO 2010-11	2011-12 TO 2013-14	AMP 2016 TARGET/ PROJECTION	ACTUAL 2006-14
GDP Growth	8.6	5.3	8.0	7.4
Manufacturing GDP growth	9.1	2.6	-	-
Growth in Gross Fixed Capital Formation (GFCF)	11.4	4.3	-	-
Inflation	6.2	7.4	5.0	6.9
INR vs. US\$	44.8	54.2	45.0	47.6
Annual average crude oil prices (US\$/barrel)	72.2	90.1	-	-
Passenger Vehicles (PV) average growth in production (%)	17.9	(1.2)	13.0	11.3
Commercial Vehicles (CV) average growth in production (%)	14.2	(13.3)	10.0	7.5
Two Wheelers (2W) average growth in production (%)	11.9	4.6	16.0	10.5
Three Wheelers (3W) average growth in production (%)	13.0	(2.8)	11.0	8.4
Automotive Components (%)	16.5	(3.6)	14.3	9.5

Source: MOSPI, SIAM, ImaCS Analysis

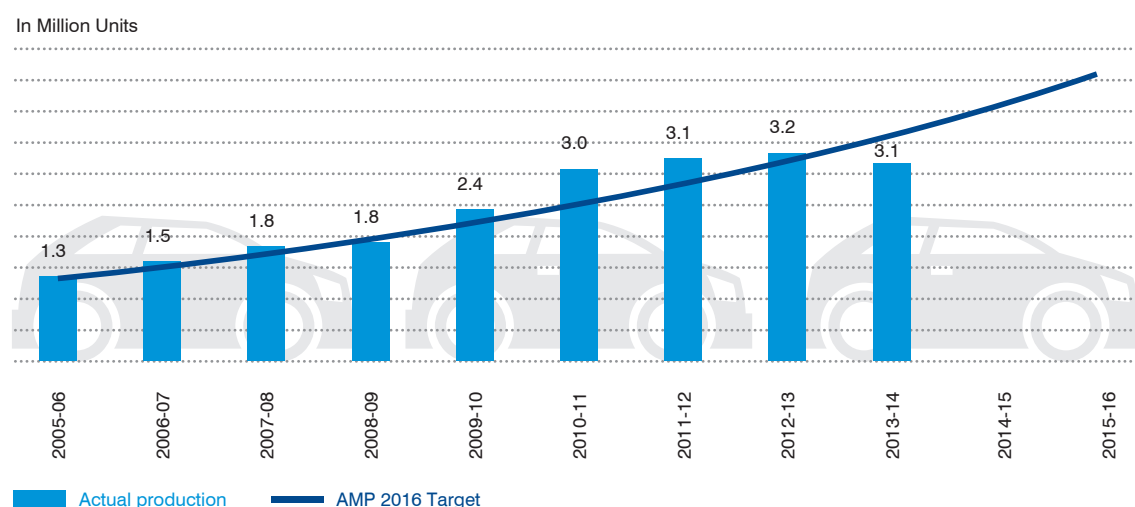
The variance in these assumptions along with high fuel prices and slowdown in global economy have led to lower sale of automobiles.

It is in this context that Ministry of Heavy Industries & Public Enterprises, Government of India formed an Inter-Ministerial Group and invited ACMA, SIAM, TMA to review the achievements and determine the areas of deficiencies that need to be addressed to reach AMP 2016 targets. ACMA and SIAM brought in an independent knowledge partner IMaCS who has conducted a review of the AMP 2016. An overview of this review is presented in this document as to what extent the targets set under AMP 2016 have been met or are likely to be met by FY16.

A segment wise snapshot of actual performance vis-à-vis stated targets under AMP 2016 is as follows.

Performance of key automotive segments vis-à-vis stated targets of AMP 2016

PASSENGER VEHICLES



PASSENGER VEHICLES	2005-06	2013-14
Total production (mn units)	1.3	3.1
PV global ranking	13th	6th
Small PV global ranking	5th	2nd
No. of players	13	17
No. of models	55	115
Inflation index	100	177
Basic price (net of taxes) of highest selling car (indexed)	100	111

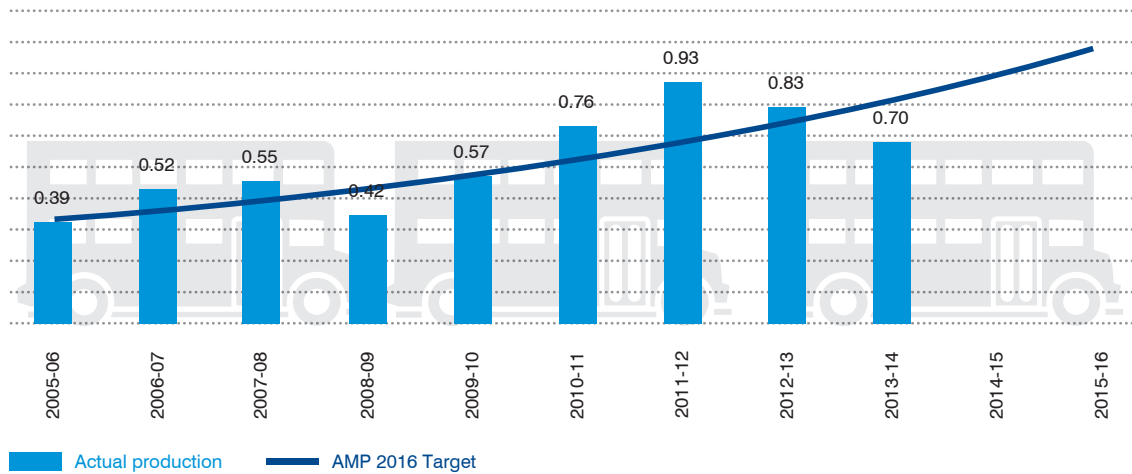
Source: SIAM, Industry, IMaCS analysis

- Improvement in average passenger vehicle fuel efficiency to the tune of 1.5% annually has led to cumulative savings in fuel consumption to the extent of 8.6 bn litres
- Efforts on policy stability for small passenger vehicle incentivisation has led to development of products like compact sedans and compact utility vehicles, which match customer aspirations and price points
- Industry significantly reduced cost despite inflation to maintain prices and help customer affordability
- Vehicles have become safer with increased introduction of air bags, side impact bars, ABS, ESP, etc.

COMMERCIAL VEHICLES



In Million Units



COMMERCIAL VEHICLES	2005-06	2013-14
Total production (mn units)	0.39	0.70
CV global ranking (LCV goods + MHCV goods)	9th	8th
Buses global ranking	2nd	2nd
Modal share of roads in primary goods transport (%)	61%	68%
No. of players	9	14

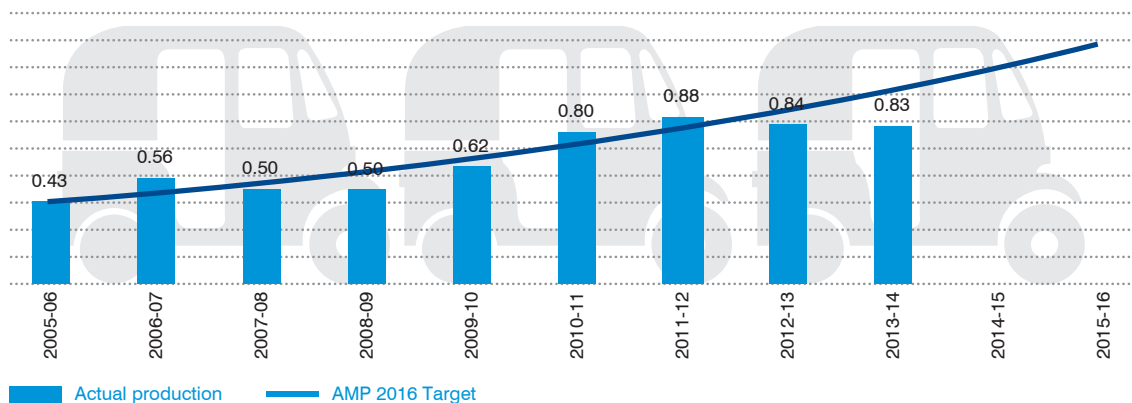
Source: SIAM, Industry, IMAcS analysis

- Creation of a new category – Small commercial vehicles (sub-one tonne payload) has been the primary driver of growth in sales of commercial vehicles
- Buses have also seen significant changes with introduction of coach buses for inter-city and low floor buses for intra-city transport
- Commercial vehicles with OEM built cabins and ready to use solutions are also available now, which have resulted in vehicles that are safer, lighter and comfortable to drive
- Telematics solutions have provided customers with real time vehicle tracking and state of the art fleet management solutions

THREE WHEELERS



In Million Units



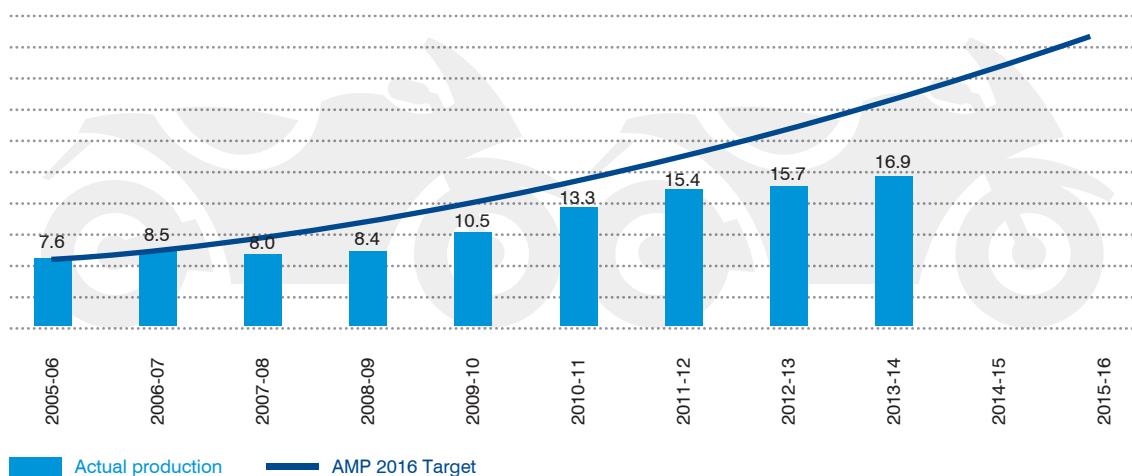
THREE WHEELERS	2005-06	2013-14
Total production (mn units)	0.43	0.83
Exports (mn units)	0.08	0.35
3-wheeler global ranking	1st	1st
No. of players	6	7

Source: SIAM, Industry, IMAcS analysis

- In the last ten years, 3Ws contributing to 20% of the personal daily commute has emerged as an important and safe last mile connectivity option. With improvements in fuel efficiency and a significant contribution to self-employment 3W segment has played a key role in generating direct employment
- Domestic three wheeler goods segment declined primarily because of shift to the sub- one tonne payload category in the Light commercial vehicles goods segment
- Domestic demand for Three wheelers passenger segment is limited by number of permits issued by local transport authorities. However growth in this segment has been driven by exports which registered a CAGR of 21% from FY06 to FY14

TWO WHEELERS

In Million Units



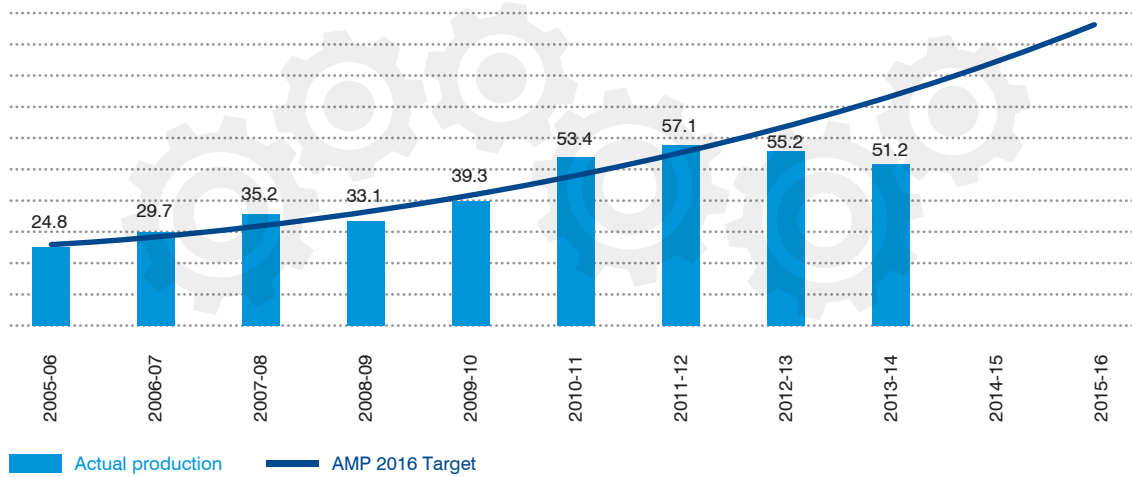
TWO WHEELERS	2005-06	2013-14
Total production (mn units)	7.6	16.9
Global ranking	2nd	2nd
Exports (mn units)	0.5	2.1
No. of players	11	10
No. of models	26	64
Inflation index	100	177
Basic price (net of taxes) of popular motorcycle (indexed)	100	126

Source: SIAM, industry, IMAcS analysis

- 2Ws have emerged as the symbol of affordability to Indian households
- In the last ten years, penetration of 2Ws doubled with 44% of incremental growth contributed by rural India. The number of households owning more than one two wheeler has also doubled.
- With active support from government, the average price of a two-wheeler has come down by 4% and the average number of new launches per year has increased from 10 to 14
- Gearless scooters have largely replaced geared scooters and have been the driver of growth for the entire two wheeler segment
- Demand for motorcycles has lagged targets envisaged in AMP 2016. There has also been an increasing trend in demand for motorcycles with higher engine capacity as compared to the traditional 100cc segment

AUTOMOTIVE COMPONENTS

In Billion US\$



AUTOMOTIVE COMPONENTS	2005-06	2013-14
Turnover (US\$ bn)	18.9	35.1
Exports (US\$ bn)	3	10.2
After market (US\$ bn)	~ 2.9	5.9
No. of organised players	500	700

Source: ACMA, Industry, IMAcS analysis

- Slowdown in the sale of automobiles over the last two to three years has led to deceleration in sale of auto components. However, after market sale of components has exceeded the envisaged target under AMP 2016
- India has emerged as the second largest manufacturer of sub-2 litre engines after Europe

Status of key interventions of AMP 2016

Interventions implemented

- Appropriate tariff policy
 - » *Government of India has decided to support investment, local value addition and employment as against trade of CBUs*
 - » *Key automobile CBUs and a select list of systems and parts have not been included in FTA / RTAs. This is expected to continue so as to attract investments into the country*
 - » *Long term tariff policy including defining CKD and announcing appropriate tariff regime has conveyed Government's intention*
- Improved infrastructure
 - » *Improved and expanded road network playing a major role in automobile demand creation*
 - » *Development of auto wagon rakes will help this industry move its products more efficiently in future*
 - » *Creation of few specialized ports in the private sector helping in trade*
- R&D infrastructure - Setting up of NATRIP to support testing, certification and homologation
 - » *Upgradation of existing centres is in an advanced stage. North centre – ICAT is already in place. Setting up of new centre in south is coming up*
- Specific measures were initiated for expansion of the domestic market
 - » *Basic excise duty rates were brought down from 16% to 12%. Incentives were offered from time to time. For example further reduction in excise duties at the time of recession, JNNURM schemes etc.*
- Rationalization and simplification of taxation on vehicles
 - » *Numerous procedural improvements have already taken place. GST could have been the final solution. However, it has been delayed and efforts are now to build consensus between Centre and States.*
- Encouragement of Automobile exports
 - » *Government has provided policy support for exports through various schemes including FMS, MLFPS, SIS etc. While DEPB has been withdrawn, Drawback rates (all industry) were introduced. Ministry of Commerce is working out and Action Plan for supporting automobile exports*
- Encouraging R&D through fiscal incentives
 - » *Weighted deduction upto 200% of expenditure on R&D for computation of expenses under Corporate Tax U/s 35 (2AB) has been implemented. However, recently the benefits have been effectively reduced.*
- Promotion of electric and hybrid vehicles
 - » *Government launched National Electric Mobility Mission Plan to promote hybrid and electric vehicles*
- Setting up National level board, to coordinate and monitor the regulatory standards and international harmonization activities
 - » *National Automotive Board (NAB) has been set up*
- Adoption of ITIs by OEMs and Tier I component makers
 - » *Several ITIs have already been adopted by OEMs*
- National Automotive Institute will be set up to look at Human resources training and ensure availability of trained manpower – Auto Skills Council
 - » *Automotive Skill Development Council (ASDC) has been set up as a public private project*
- Fiscal and promotion policies to make India a hub for manufacturing Small cars, 2Ws, MUVs etc.
 - » *Continued support for small cars and 2Ws through reduction in excise duty. Cars and MUVs which run as Taxis are getting Govt support*

Interventions in progress

- Incentivizing modernization of vehicle fleet
 - » *Proposal for fleet modernization has started moving with Ministry of Heavy Industries & Public Enterprises setting up a committee to look into the implementation aspects. This is a complex issue given the sensitivities involved*
- Institutional & infrastructural structure for networking of RTOs through IT backbone
 - » *VAHAN project is being implemented by Ministry of Road Transport & Highways. Government is taking several measures to make the user interface simple and user-friendly along with support from the industry*
- Long term emission road map beyond 2010
 - » *Report of the Expert Committee submitted with roadmap till 2025. Ministry of Petroleum is working on making sure future availability of fuel, which depends on upgrading of refineries. However, significant investment is needed for this*
- 100% grant for fundamental research, 75% for pre-competitive technology/application and 50% for product development.
 - » *Grant up to 50% of investment given to alternative fuel technology development*
- Promote alternative fuels
 - » *CNG as a fuel has supported vehicle sales but the overall benefit has been limited because of limited infrastructure. As compared to earlier plan of setting up CNG stations in around 200 cities by 2015-16 only 40 cities had CNG stations in 2013-14. Also other alternative fuels like Hydrogen have also not seen much progress. Recent move by Ministry of Heavy Industries & Public Enterprises on EV/HEV likely to facilitate popularization of such vehicles in India*
- Mandatory Inspection & Certification system - Public-Private Partnership.
 - » *10 pilot centres expected by 2016*
- Work has started on Bharat new vehicle safety assessment programme even though it was not envisaged in AMP 2016
 - » *Manufacturers are also complementing Government efforts by gradually introducing contemporary technologies*

Interventions yet to be taken up

- Investment support at national level:
 - » Tax holiday for auto industry with over Rs 500 crore
 - » Tax deduction of 100% for export profit
 - » Preferential allotment of land, ensuring availability of power
- Zero taxes/levies on technology transfers (products, features, alternate fuel, etc.)
- Provide excise duty concession for "Made in India" products
- Promoting technology acquisition (for manufacturing) through tax / levy exemption.
- Creation of special auto component parks and virtual SEZ
- Simplification and rationalization of labor laws to ensure availability of Human resources

Way forward

Many interventions as envisaged under AMP 2016 have been implemented but some of the interventions have progressed slowly or could not be taken up. Further, several new issues have emerged that need immediate attention of both the government and the industry.

The sluggish macro-economic factors during the last 3 years have led to a significant slowdown, which is amongst the worst that the Indian automotive industry has witnessed. This has impacted the pace of growth resulting in underachievement of some targets envisaged in AMP 2016, while a few more are on course to be achieved by end of 2016.

Based on the expected growth rate for the remaining period of AMP 2016, the overall performance of the industry will be short of the targets by around 20 to 25 per cent. However, this shortfall can be reduced to around 13 to 17 per cent if the government supports demand through a few interventions like:

- Continuation of current excise duty rates for cars, 2Ws, CVs and lowering of excise duty on key components
- Introduction of accelerated depreciation scheme
- Quick roll out of next phase of JNNURM
- Implementation of fleet modernization scheme
- Ban on overloading and strict enforcement of the same
- Facilitation of affordable vehicle finance
- Support for exports of automobiles through dedicated export promotion schemes

Other areas on which the industry and government should focus are:

- New and alternative vehicle technologies viz. Electric Vehicles, Hybrid, Hydrogen, Fuel Cells and others
- Setting up a technology acquisition fund for acquiring latest technologies and making it available to the industry for commercial purposes
- Regulations pertaining to automotive aftermarket to bring in minimum quality and qualification criteria for repair, service and spare parts
- Regulatory framework for setting up of independent garages and repair establishments
- Scheme for technology upgradation and R&D focused on increasing fuel efficiency, reducing emissions and improving vehicle safety

While the last decade was predominantly driven by domestic demand going forward, industry is geared up to meet both domestic and global demand. Considering this, Government of India has started working on the next phase of AMP i.e. AMP 2016-26 so as to address the unfinished agenda of AMP 2016 and target new initiatives keeping in mind the current and expected market dynamics. This will enable industry to plan and realize future potential thereby contributing more to the Indian economy.



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