

What the Industry wants?

Findings from our survey of Indian automotive industry stakeholders to gauge the industry's expectations from the new government

Over the last few weeks we have been running a survey on [IndiaAutoReport](#) seeking the opinion of Indian automotive industry participants / stakeholders. We asked respondents their opinion on what the new government should do to revitalise the automotive industry.

With the Indian automotive market going through a downturn during the last six quarters, the industry is hopeful that the new government would correct things fast. In many ways, the slowdown of the last few years has been because of a policy and action paralysis on the part of the earlier government.

A sense of optimism with the new government is already reflected in the May sales numbers where most manufacturers were able to shrug off the slowdown and deliver growth in dispatch numbers.

About the survey

The survey comprised of seven questions in all. All questions were multiple choice and most participants needed about three minutes to complete the survey.

Organisation
Continental automotive
Daimler
Lakshmi Precision Screws Limited
OTTDEGG - The Automotive Communication Company
Valeo India
Green Champ
Maruti Suzuki India Ltd
Continental Automotive
PAI CRESTAL INDIA PRIVATE LIMITED
WABCO INDIA
Frost n Sullivan
Defiance Technologies Ltd
Renault India
Club Tarapur
Johal Logistics
Johnson Controls Automotive Ltd
Automobile Trainer
Mercedes Benz R & D India
Valeo
Audi India
PI&S Pharmaceut Private Limited
IAV India Pvt. Ltd.
Bhagat
sandhar technologies ltd
Mercedes-Benz
SPN
AMBA India
Tata Motors
Bajaj Auto Limited
Participating as Individual
MNC Auto ancillary
Tube Products of India (A Unit of Tube Investments of
New car dealership luxury
Honda SIEL Cars India Limited
Maruti Suzuki India Limited

*Respondents
snapshot
(Click to
enlarge all
images)*

Further, respondents were allowed to select multiple choices in every question to best provide their opinion. This is the reason why the sum total of percentage respondents for all options in a question exceeds 100.

Response

Over a period of four weeks, we received 140 responses to the survey. Respondents included executives, across levels, from Maruti-Suzuki India, Continental Automotive, Daimler, Valeo, WABCO, Defiance Technologies, Renault, Johnson Controls, Mercedes-Benz R&D India, Audi, IAV, Tata Motors, Bajaj Auto, Bosch, Ma Foi, Honda-SIEL, and many other OEMs, suppliers and consulting concerns.

Respondents included marketing, sales, finance, and engineering professionals as well as consultants & entrepreneurs. The senior-most respondents included CFOs and Head of R&D departments of major OEMs.

Three students and one EMMAAA employee also responded to the survey and their responses were discarded in calculating the

final analysis to maintain high quality of responses. We do not consider students as stakeholders (for now) and EMMAAA employee response was discarded for obvious reasons.

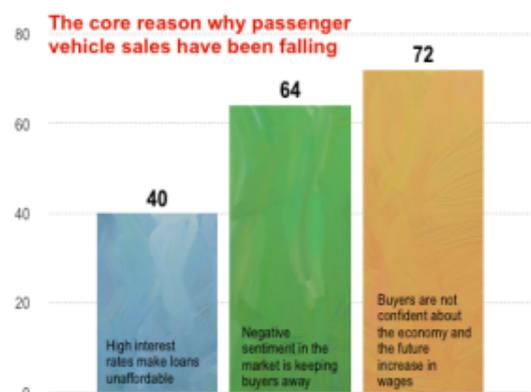
Survey Analysis

We asked stakeholders the reasons for the slowdown in passenger vehicle sales. More than half of the respondents (72 respondents) felt that car buyers are not confident about the economy and the future increase in their wages. This creates an atmosphere of uncertainty around the economic future of the buyer and he is inclined to delay his car purchases.

Q1. According to you, the core reason why passenger vehicle sales have been falling is...

- High interest rates makes loans unaffordable
- Negative sentiment in the market is keeping buyers away
- Buyers are not confident about the economy and the future increase in wages
- Other:

Car buying in India is still a highly emotional decision, even if the buyer does need the car for his daily commute. In an atmosphere of uncertainty, a prospective car buyer can easily turn into a long-term fence-sitter and that spoils the industry's sales numbers.



The core reason why

*passenger vehicle sales
have been falling*

Apart from this, 64 respondents also felt that the negative sentiment in the market is keeping buyers away. This negative sentiment is a mix of political as well as economic issues. While the political side of the negativity is seemingly resolved with a new government at the centre, coming with a clear mandate, the economy is still sluggish and will take time to recover.

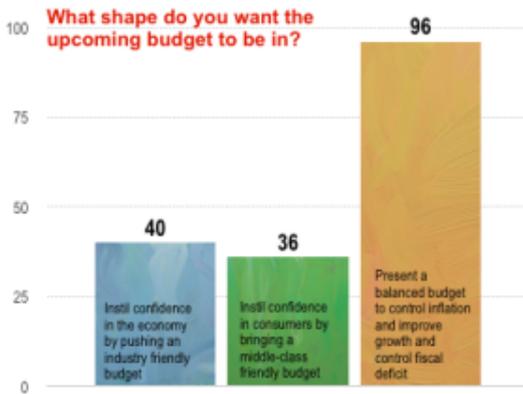
Car sales have also been hit by high interest rates, felt 40 respondents. With car loan rates for most buyers close to double digits, buying a car on loan is a costly option. It is estimated that about 80% of all car purchases are funded by financial institutions, and a high interest rate drives the acquisition price beyond reach for most car buyers.

The Union Budget is a keenly watched exercise every year. It is even more important this year as the new government would be presenting it, and the industry as well as the consumers have high hopes from the budget.

Q2. After assuming charge, one of the foremost responsibilities of the government would be to present a budget for the year. What shape do you want the budget to be in?

- Instill confidence in the economy by pushing an industry friendly budget
- Instill confidence in consumers by bringing a middle-class friendly budget
- Present a balanced budget to control inflation and improve growth and control fiscal deficit
- Other:

We asked respondents their expectations from the budget. We asked them what shape they wanted the budget to be in.



What shape do you want the upcoming budget to be in?

Nearly 70% of respondents (96 respondents) were of the opinion that the government should present a balanced budget to control inflation and improve growth and control fiscal deficit.

Inflation has a direct impact on interest rates and eventual economic growth and the industry has its priorities right when seeking a balanced budget to curb inflation.

Further, 40 respondents wanted the Budget to instil confidence in the economy by pushing an industry friendly budget.

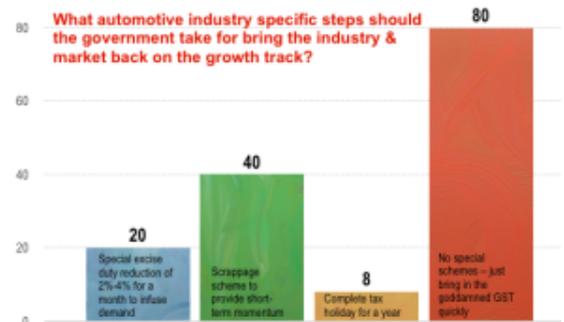
A nearly similar number (36 respondents) sought a budget to instil confidence in consumers by bringing a middle-class friendly budget, as this will automatically boost sales.

Moving on from the Budget, the Indian automotive industry also has expectations that the government would take some steps to directly impact the industry. We asked stakeholders about the automotive industry specific steps the government should take to bring the industry & market back on the growth track.

Q3. What automotive industry specific steps should the government take for bring the industry & market back on the growth track?

- A special further excise duty reduction of 2%-4% for one year to infuse demand
- Scrappage scheme to provide short-term momentum
- Complete tax holiday for one year
- No special schemes – just bring in the goddamned GST quickly
- Direct tax regulation (Income tax new rules) which will put more money in customer's pockets
- Other:

While asking the question, we threw up multiple incentive options, including scrappage schemes, excise duty reduction and



What automotive industry specific steps should the government take for bring the industry & market back on the growth track?

even a one-year tax holiday for the industry. However, nearly 60% of the respondents (80 respondents) were of the opinion that the long debated and contemplated Goods & Services Tax (GST) is the most needed step that the government needs to take.

The present tax structure governing the manufacturing sector is archaic in nature. Highly confusing and complicated in nature, it is extremely difficult for a manufacturing organisation to navigate through the maze of taxes, both at the central and state levels.

This situation becomes even more confusing when a

manufacturing company has plants spread across multiple states as each plant needs to follow separate tax compliance. At times the compliance following is costly for companies, as they have to employ a battery of accountants and consultants to help them navigate the tax maze. Non-compliance is costly anyways due to the high penalties on late payment of taxes.

The GST seeks to replace everything with a single tax. More than any tax savings that would be derived from the system, the GST will simplify things and that itself is a strong enough reason for the government to rush through the same.

Scrappage scheme to provide short-term momentum to car sales is also an option that many respondents favoured. 40 respondents favoured that a scrappage scheme will have a strong positive impact in the short-term.

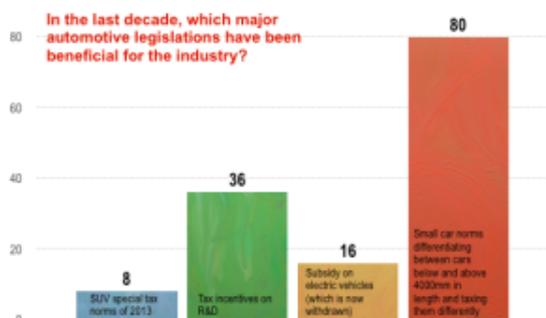
Another 20 respondents felt that a 2%-4% reduction in excise duties may help sales while 8 respondents also sought a one-year tax holiday for the industry.

The Indian government has framed some very important automotive industry specific regulations in the last two decades. Some of these regulations have been crucial in forming the present shape of the industry. We asked stakeholders their opinion on the major automotive legislations during the last decade that have proved beneficial for the industry.

Q4. In the last decade, which major automotive legislations have been beneficial for the industry?

- Small car norms differentiating between cars below and above 4000mm in length and taxing them differently
- SUV tax norms of 2013 which classified everything with ground clearance exceeding 170mm and exceeding 4000mm in length and taxed them higher
- Tax incentives on R&D
- Subsidy on electric vehicles (which is now withdrawn)
- Other:

Nearly 60% (80 respondents) of the survey participants felt that the Small Car norms that differentiated between cars below and above 4000mm in length and taxed them differently was the best things to happen to the Indian automotive industry.



Which major automotive legislations have been beneficial for the industry?

The regulation effectively created a large price gap between small (below 4000 mm) cars and big (above 4000 mm) cars. The customer, always looking for value for money, decided that small cars made a lot of sense. The market, already inclined to small cars, shifted convincingly towards A and B segment cars, as a result of which more than 80% of all passenger car sales in India are small cars.

This effectively means that a very large volume of small cars is manufactured in India every year. This gives OEM and suppliers the scale and efficiencies to position their Indian operations as the most competent cost manufacturing option for small cars across the world. This is valuable for global volume planners as well since they can plan production around one large volume plant and supply globally.

The large volumes of small cars also mean that the Indian market has become the core of product planning for OEMs like Suzuki and Hyundai. These two, along with Renault-Nissan and

Ford are exporting significant volumes out of India.

Another 36 respondents found Tax incentives for R&D in the past as a positive regulation. This is despite the fact that most global OEMs are at very basic levels of research and development in India and most new vehicle programs are global in nature with the majority of development happening outside India.

At the same time, Indian suppliers are experts at value engineering and not fundamental research. Most of the publicly traded suppliers whose detailed financials are available in the public domain spend very little on R&D as a ratio to sales. While the global average for suppliers is 5%-6% with Bosch spending nearly 10% of its annual revenues on R&D, most big Indian suppliers fare around 0.2%-0.5%. Even then, some of the R&D expenditure is in the form of process engineering and application development, not really core research & development.

The only OEMs spending heavily on R&D in India are Tata Motors, Mahindra, Ashok Leyland, Maruti-Suzuki and some of the two-wheeler manufacturers. In such a scenario, respondents rating R&D tax incentives by the government as important is surprising. It is also an indicator that the industry is optimistic of the role of local R&D in Indian automotive sector.

Only 16 respondents felt that the subsidy on electric vehicles (which is now withdrawn) was an important and useful government input for the industry. The EV industry in India is nascent and the subsidy was a half-baked effort by the government to bring focus on development in the country. It benefitted only one manufacturer and made little sense considering the EV charging infrastructure in the country is non-existent. It is also surprising that the government was incentivising EVs at a time when the grid does not have enough juice to power households, far less charge EVs.

In such a scenario, not many respondents favouring EV incentives is not surprising.

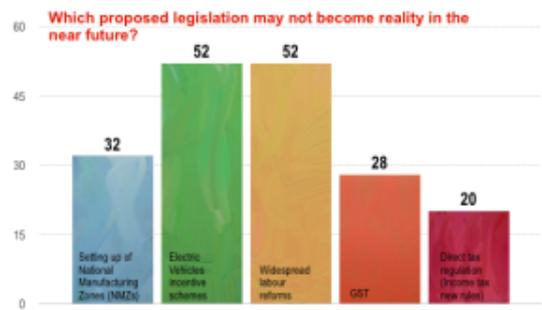
Also not surprising is the fact that only eight respondents found beneficial the SUV norms of 2013, which classified vehicles on the basis of length and ground clearance, and taxed them differentially. This created a big confusion in the industry as vehicles like the Toyota Corolla and Suzuki SX4 also ended up being classified as SUVs and got taxed in a higher bracket.

There are a number of legislations that are being talked about in the media as under consideration by the government. We asked respondents their opinion on the proposed legislations and which they thought had little chances of becoming reality in the near future.

Q5. Which proposed legislation may not become reality in the near future?

- Setting up of National Manufacturing Zones (NMZs)
- Electric Vehicles incentive schemes
- Widespread labour reforms
- GST
- Direct tax regulation (Income tax new rules)
- Other:

Electric vehicle incentives are something that 52 respondents felt had little chances of returning in the near future. While the government did play around with subsidies for EVs over a period of time, a large number (nearly 40%) of respondents felt that the incentives had little chance of returning.



Which proposed legislation may not become reality in the near future?

A similar number of respondents felt that widespread labor reforms, although critical for the industry, had little chance of becoming reality in the future. Labor reforms are a critical, yet sensitive issue, for the manufacturing sector. However, with labor unions being politically influenced and the manufacturing sector labor constituting a large vote bank, the government will have to work on the issue carefully and through consensus building.

Which is easier said than done.

Nearly 25% (32) of respondents felt that the proposal of setting up National Manufacturing Zones (NMZs) had little chances of becoming reality. Proposed a few years back, NMZs were a half-baked idea on which little has been done till date. With a new government at the centre, it is likely that they would like to formulate their own policies about NMZs.

Despite, GST being discussed actively in recent months, 20% (28 respondents) of the survey's respondents felt that GST had little chance of becoming reality. While no government, state or centre, denies the importance of GST and its potential benefits, continued differences between various state governments and the centre have been delaying the implementation. A significant share of respondents felt that GST would be perennially delayed and may not become a reality anytime soon.

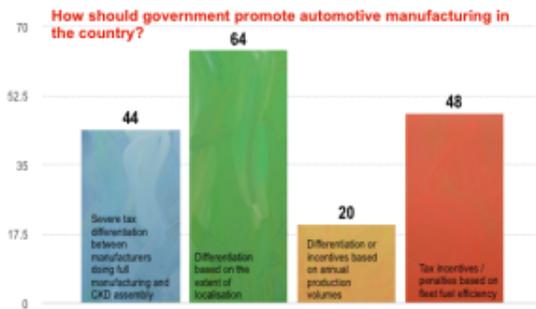
The Direct Tax Code (Income tax new rules) has also been discussed for the last few years but has not become a reality till date. The new government has indicated that some tax exemptions may be offered in the new budget to put more money into middle class pockets, it may still fall short of the proposed Direct Tax Code. The government is also under pressure to bridge the current account deficit and a generous income tax cut is not prudent. Nearly 15% (20) respondents feel that the DTC may not become reality in the near future.

Considering that the automotive industry is a significant employment generator, what should the government do to ensure more manufacturing happens inside the country? We asked respondents for their opinion regarding the actions the government should take to encourage more manufacturing inside the country.

Q6. The automotive industry is a major employment generator. With the new government's expected emphasis on the manufacturing sector, there may be specific, concrete steps taken in the form of legislations to support the automotive industry. What would you like them to be?

- Severe tax differentiation between manufacturers doing full manufacturing and CKD assembly
- Differentiation based on the extent of localization
- Differentiation or incentives based on annual production volumes
- Tax incentives / penalties based on fleet fuel efficiency
- Other:

45% of respondents feel that the government should have differential taxation based on the extent of localisation and not just the type of manufacturing. Higher localised vehicles should attract lower taxes.



How should the government promote automotive manufacturing in the country?

Nearly 35% (48) of respondents felt that the government should offer tax incentives (or penalties) based on the fleet fuel efficiency of manufacturers, akin to the US CAFÉ standards.

More than 30% (44, to be exact) of respondents felt that the government should impose a more severe tax differentiation between manufacturers doing full manufacturing and CKD assembly.

This would be stricter than the prevailing tax structure and force manufacturers to convert kit assembly into complete manufacturing.

Another 20 respondents, representing nearly 15%, supported the suggestion that the government should differentiate taxes on the basis of annual production volumes. The higher the manufacturing volumes, the lower the taxes on the same.

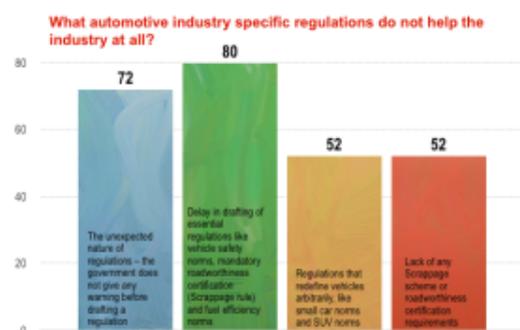
We asked respondents about automotive industry related regulations that they disliked, as they do not help the industry at all.

Q7. What aspects of automotive industry related regulations do you dislike, as they do not help the industry at all?

- The unexpected nature of regulations – the government does not give any warning before drafting a regulation
- Delay in drafting of essential regulations like vehicle safety norms, mandatory roadworthiness certification (Scrappage rule) and fuel efficiency norms
- Regulations that redefine vehicles arbitrarily, like small car norms and SUV norms
- Lack of any Scrappage scheme or roadworthiness certification requirements
- Other:

Nearly 60% (80) respondents were of the opinion that the delay in drafting of essential regulations like vehicle safety norms, mandatory roadworthiness certification (Scrappage rule) and fuel efficiency norms hurts the industry badly.

More than 50% (72 respondents) said that the unexpected nature of regulations is a major problem. The government often does not give any warning before drafting a regulation and the industry is left responding and making changes after the regulations are announced.



What automotive industry specific regulations do not help the industry at all?

Nearly 40% (52 respondents) felt that regulations that redefine vehicles arbitrarily, like small car norms and SUV norms, are a problem for the industry. These regulations, often being announced suddenly, mean that the industry has to prepare products for India separately and global platform programs often find it difficult to adapt to Indian requirements.

A similar number found the lack of any scrappage scheme or roadworthiness certification requirements quite disturbing. Without the lack of any scrappage norms, vehicles can ply on the roads till they fall apart and this effects the condition of the roads, environment and also has a negative impact on sales.