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An overview of foreign direct investment in Indian automobile industry

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Abstract
The Automobile sector of India is one of the largest in the world and accounts for over 7.1% of India's gross domestic product (GDP). It also contributes to nearly 22% of the country's manufacturing GDP. The sector was first opened to foreign direct investment (FDI) in the year 1991 during the liberalisation of the Indian economy and has come a long way since. The Foreign Direct Investment in Indian Automobile Industry has opened up new avenues for the development of this important sector of Indian industries. The liberalization of government policies regarding FDI in the automobile industry of India has increased the scope of this industry. The first FDI player in the Indian automobile industry was Suzuki. In 1980s this company entered into a joint venture with Maruti Udyog, a state run enterprise. The then Indian government permitted this company to enter the Indian automobile market in 1983.In 1991, the government of India liberalized its policies regarding the automobile industry of India Foreign Direct Investment in the automotive industry of India was permitted. In 1993, FDI was also allowed in the passenger car segment of Indian automobile industry. This paper analysis the progress so far made through FDI in Indian automobile industry.

Keywords: FDI, liberalisation, economy

Introduction
Sector Overview
The automobile industry is one of India's major sectors, accounting for 22% of the country's manufacturing GDP. The Indian auto industry, comprising passenger cars, two-wheelers, three-wheelers and commercial vehicles, is the seventh-largest in the world with an annual production of 17.5 million vehicles, of which 2.3 million are exported. Two-wheelers dominate the Indian market; more than 75% of the vehicles sold are two wheelers.
According to Ministry of Heavy Industry and Public Enterprises, the total turnover of the Indian automobile industry was estimated at USD 73 billion and exports were estimated to be USD 11 billion in the year 2010–11. The announced cumulative investments in this sector were USD 30 billion during this period. The main automobile hubs in India are based at Chennai, Gurgaon, Manesar, Pune, Ahmedabad, Halol, Aurangabad, Kolkata, Noida and Bangalore. Chennai is the biggest hub accounting for 60% of Indian auto exports. The auto components industry, although largely concentrated near automobile hubs, is fairly widespread in other parts of the country too.
According to the Department of Industrial Policy and Promotion (DIPP), the auto sector accounts for 4% of total foreign direct investment (FDI) inflow into India. As per the DIPP's FDI figures for May 2012, FDI inflow into the auto sector for the period April 2011 to March 2012 totaled USD 923 million; cumulative FDI into the sector for the period April 2000 to May 2012 stood at USD 6,853 million. The DIPP is part of the Government of India's Ministry of Commerce and Industry; it is responsible for formulating and implementing the country's FDI policy.

Major Players
The size and high growth potential of the Indian car market has attracted several foreign players, such as Mercedes Benz, BMW, Volkswagen, Toyota, Honda, Ford, Hyundai and General Motors, among others. Several of these players have expanded operations in India. Here is a quick look at some of the major foreign players who have been ramping up investments in India.

Hyundai

Hyundai Motor India Limited (HMIL) is a dominant passenger car manufacturer in India, controlling 14% market share in the passenger vehicles segment. It is the largest passenger car exporter and the second-largest car manufacturer in India. The company sold a total of 6, 16, 039 vehicles 2010–11. It has a fully integrated, state-of-the-art manufacturing plant near Chennai and has also set up a modern multi-million dollar R&D facility at Hyderabad. HMIL currently exports cars to more than 115 countries across the EU, Africa, the Middle East, Latin America and Asia-Pacific. It further plans to invest USD 250 million by 2013 — its cumulative investment in India by then will touch USD 1 billion.

Another success story is Honda Siel Cars India Limited (HSCIL). The company was incorporated in December 1995 as a joint venture between Honda Motors of Japan and Siel Limited, an Indian company. The total investment made by the company in India until now is INR 1,620 crore in a plant at Greater Noida in Uttar Pradesh and INR 784 crore in its Tapukara plant, in the state of Rajasthan. HSCIL's first state-of-the-art manufacturing unit at Greater Noida was a greenfield project spread across 150 acres (over 600,000 sq. m.). The annual capacity of this facility is 100,000 units. The company's second manufacturing facility at Tapukara is spread over 600 acres and is expected to have an initial production capacity of 60,000 units per annum.

Mercedes Benz

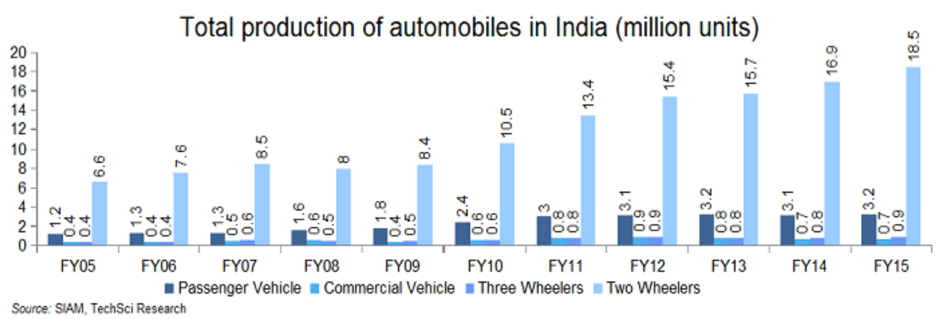
The high-end luxury car maker Mercedes Benz is also growing at a healthy pace in India, being driven by demand for its C-Class and E-Class vehicles. It sold 7,430 units during the period January 2011 to December 2011. The strong sales in 2011 of SLS AMG at INR 2.5 crore, G 55 AMG at INR 1.1 crore and the new SLK 350 and E-Class Cabriolets reaffirms the high demand for sports cars from the Mercedes-Benz portfolio and also the growing preference for the brand among Indian consumers.

Nissan

Nissan has doubled the production its small car Micra to 500 units/day and further plans to invest USD 1 billion in its Chennai plant, which has an annual production capacity of 0.4 million units.

General Motors

GM has expansion plans for its factory in Gujarat which is worth USD 250 million; it aims to launch five new car models in India. The major Indian companies present in the automobiles market include Tata Motors, Maruti Suzuki India, Mahindra & Mahindra, Ashok Leyland, Hero MotoCorp and Bajaj Auto. Tata Motors is India's largest automobile company; the company manufactures commercial and passenger vehicles, and is the world's fourth-largest truck manufacturer and the second-largest bus manufacturer. Maruti Suzuki is India's largest passenger car company, accounting for 45% share of the Indian car market. Hero MotoCorp is the world's largest two-wheeler manufacturing company in the world. Its market share in the Indian two-wheeler segment is 41%. Bajaj Auto is the world's fourth-largest two-wheeler and three-wheeler manufacturer.



Government Initiatives

The Government of India encourages foreign investment in the automobile sector and allows 100 per cent FDI under the automatic route.

Some of the major initiatives taken by the Government of India are:

- Mr Nitin Gadkari, Minister of Road Transport, Highways & Shipping has announced plans to set up a separate independent Department for Transport, comprising of experts from the automobile sector to resolve issues such as those related to fuel technology, motor body specifications and fuel emissions, apart from exports.
- Government of India aims to make automobiles manufacturing the main driver of 'Make in India' initiative, as it expects passenger vehicles market to triple to 9.4 million units by 2026, as highlighted in the Auto Mission Plan (AMP) 2016-26.
- In the Union budget of 2015-16, the Government has announced to provide credit of Rs 850,000 crore (US$ 124.71 billion) to farmers, which is expected to boost the tractors segment sales.
- The Government plans to promote eco-friendly cars in the country i.e. CNG based vehicle, hybrid vehicle, and electric vehicle and also made mandatory of 5 per cent ethanol blending in petrol.
- The government has formulated a Scheme for Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India, under the National Electric Mobility Mission 2020 to encourage the progressive induction of reliable, affordable and efficient electric and hybrid vehicles in the country.
- The Automobile Mission Plan (AMP) for the period 2006–2016, designed by the government is aimed at accelerating and sustaining growth in this sector. Also, the well-established Regulatory Framework under the Ministry of Shipping, Road Transport and Highways, plays a part in providing a boost to this sector.

Policy and Promotion
The Indian government encourages foreign investment in the automobile sector and allows 100% FDI under the automatic route. It is a fully delicensed industry and free imports of automotive components are allowed. Moreover, the government has not laid down any minimum investment criteria for the automobile industry. Besides offering a liberal FDI regime, the government has made successive policy changes that allow for stronger growth in the automotive sector. Major among these are:

Automotive Mission Plan
Prepared by the Ministry of Heavy Industries and Public Enterprises, the Automotive Mission Plan aims to accelerate and sustain growth in the sector over the period 2006 to 2016. Under the plan, it is aimed to make India a global automotive hub, with special emphasis on the export of small cars, MUVs, two- and three-wheelers and auto components. The plan also aims to double the contribution of the automotive sector to the country's GDP by taking its turnover to USD 145 billion and providing additional employment to 25 million people by 2016

National Automotive Testing and R&D Infrastructure Project
This is a USD 388.5 million initiative of the Government of India and various state governments; it is aimed at creating a state-of-art and dedicated testing, validation and R&D infrastructure across the country. Apart from the policies introduced by the government for the auto industry, another positive step taken by the Government of India has been the tax relief provided in the 2012 budget. According to the new tax laws, excise duty on specified parts of hybrid vehicles has been reduced to 6% from 10%. Excise duty on lithium ion battery packs for supply to electric vehicle or hybrid vehicle manufacturers has also been reduced to 6% from 10%. Besides, the full exemption from basic customs duty and special countervailing duty (CVD) with concessional excise duty or CVD of 6% on some parts of hybrid vehicles is being extended to specified additional items and lithium ion batteries imported to make battery packs for electric or hybrid vehicles. Therefore, the reduction in excise duty on specific parts supplied to manufacturers of electrical and hybrid vehicles will promote the growth of environment-friendly cars.

Present Situation
India is currently the 6th largest motor vehicle producing country in the world [3]. The industry produced a total of 2,39,60,940 vehicles* in April March 2016 as compared to 2,33,58,047 in April March 2015, registering a growth of 2.58% over the same period last year [4]. Hence, it has registered a remarkable growth of 8.68% over the same period last year [5]. As per the Automotive Components Manufacturers Association of India (ACMA), the world standings for the Indian automobile sector are as follows:

- Largest tractor manufacturer
- 2nd largest two wheeler manufacturer
- 2nd largest bus manufacturer
- 5th largest heavy truck manufacturer
- 6th largest car manufacturer
- 8th largest commercial vehicle manufacturer
- Seventh largest producer in the world with an average annual production of 24 Million vehicles.
- Third largest automotive market by volume, by 2016-17.
- Fifth largest passenger vehicle and commercial vehicle market
- Fourth large auto manufacturing hubs across the country.
- 7.1% of the country's GDP by volume.
- Six Million-plus hybrid and electric vehicles to be sold annually, by 2020

Today, 100% FDI is allowed in the sector through the automatic approval route which means that foreign investors do not require the prior authorization of the Government of India. The impact of this decision can be seen in the data released by Department of Industrial Policy and Promotion (DIPP) which states that the industry has attracted FDI worth USD 15.065 billion during the period April 2000 to March 2016.

Road Ahead
India's automotive industry is one of the most competitive in the world. It does not cover 100 per cent of technology or components required to make a car but it is giving a good 97 per cent, as highlighted by Mr Vicent Cobee, Corporate Vice-President, Nissan Motor's Datsun. Leading auto maker Maruti Suzuki expects Indian passenger car market to reach four million u nits by 2020, up from 1.97 million units in 2014-15. The Indian automotive sector has the potential to generate up to US$ 300 billion in annual revenue by 2026, create 65 million additional jobs and contribute over 12 per cent to India's Gross Domestic Product

Conclusion
India is also a prominent auto exporter and has strong export growth expectations for the near future. In April-January 2016, exports of Commercial Vehicles registered a growth of 18.36 per cent over April-January 2015. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the Two Wheeler (2W) and Four Wheeler (4W) market in the world by 2020. The country is also currently the 6th largest market in the world for automobiles and is expected to become the world's third-biggest car market by the year 2020.

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