

Impact Of Demonetisation On Indian Automobile Industry (Special Reference To Car Industry)

¹SIDDESH REDDY K R

LECTURER, DEPARTMENT OF COMMERCE, SMSF COLLEGE, HONNALI. DAVANGERE UNIVERSITY.

Abstract: Demonetisation is a tool to battle inflation, black money, corruption and crime. It is a rational decision which affects the nation at a whole. This policy of government by banning Rs 500 and Rs 1000 currency notes has induced almost all the corner of the economy. The present study is made out of available literature on post demonetisation on automobile industry gradually.

Indian demonetisation has shaken the economy lots of mix response has recorded. According to various survey, few industries are hoping to get positive impact whereas few fear to get hard hit. Automobile industry is one such which has negative impact. Sudden announcement of demonetisation has resulted into insecurity and fear among car buyers where major part is cash sales. The hatchback, sedan, and SUV were the harder hit. Car industry lists into major industry contributing to economic wealth for country. In this conceptual study attempt is made to understand impact of demonetisation on car industry.

Keywords: Demonetisation, automobile industry, economy.

INTRODUCTION:-

India is no new to demonetisation because it has implemented first currency ban in 1946 and second time currency ban in 1978 and now we are talking about third time currency demonetised in 2016 by prime minister of India – Mr Narendramodi has disclosed on 8 November-2016 by issuance of new 2000 and 500 notes at the place of 1000 and 500 notes.

According to the Reserve bank of India annual report for April 2015 to March 2016 these two notes combined to form 86.4% of the total value of the currency at the end of March 2016 which came to 16.42% trillion Indian rupees. Demonetisation gives a big stroke to all sectors of the economy especially to automobile industry in our country. India hope that next 10 years, if there is a decision like this, definitely our country can be a developed country. Before going to take any decision like this the government should take necessary measures or actions towards solving of public problems regarding the issue.

In the present Indian economic conditions the long term impacts are yet to record and register. The short term impact has brought the negative result to various economies of India. It has frozen the unaccounted and illegal transactions. Major problem was it has injected fear psychosis among buyers of luxury goods. As a result it has harder hit to luxury goods and bullion industry.

Agriculture sector which got bad results due to socio-economic issues of demonetisation. This study deals with impact of demonetisation on auto industry, which special reference to car industry as most of the purchases are made through cash transactions.

INDIAN AUTO INDUSTRY:-

Indian auto industry attracts major global players from all segments. FIAT, VOLKSWAGEN, HONDA, NISSAN, become the common brands seen on Indian roads. Increasing GDP has further rural aspect them to expand product line in India. An indigenous player, Maruthi Suzuki and TATA Motors has their share of market from passenger car segment.

IMPORTANCE OF THE STUDY:-

Indian car industry transactions are predominantly characterised by the cash transactions. With the growing industry and world's largest market for automobile product, it is important to study demonetisation impact on auto industry. It is not only the current sales that has impacted but the consumer perception about changing government policies which has injected the fear which will have greater impact on long term demand for car (especially luxury cars).

SCOPE OF THE STUDY:-

The scope of the study is limited to car industry. This conceptual study focuses on few aspects such as, impact on sales and customer perception about the car purchase post demonetisation. It is too early to come to conclusion on the impact on industry, however the scope does not cover the long term impact.

LITERATURE REVIEW:-

Nishantp(2016) has enlisted industries top executives mixed response towards the impact of demonetisation. Considering the current state of the industry being organised the more will help to curb a lot of unaccounted cash transactions.

Balachander (2016) briefs that 35- 40 % of the prices of SUV's and premium vehicles are paid through cash, black economy gets heavily invested SUVs and premium vehicles. Hence these categories will also face the heat in the short term.

Singh (2016), the demonetisation of rupees 500 and rupees 1000 notes was quite a surprise for the entire nation and the immediate ripple effect of this on the automotive industry was a DIP in the BSE auto index of 2.5% on December 10, 2016. This is due to the fact that a number of potential buyers offer down payment in cash or sometimes, purchase a two wheeler with the complete cash payment.

Ray and Dewan (2016), over the past two months, commercial vehicle sales, especially heavy vehicles have been on a declining trend on account of waning replacement demand, weak industrial activity and uncertainty related to the impact of goods and services tax (GST) regime on vehicle prices. With the recent demonetisation move, the demand for commercial vehicles is expected to come under further pressure from April 2017 onwards.

Banerjee and chatterjee(2016), writes in their blog about impact of demonetisation on Indian auto industry and its impact on car market. The major factor like non cash transactions has considered to be harder hit for the sale of car. The impact in inventory piling issue, increased fear among the end customer regarding changing government norms for possession of wealth and assets.

Mukerjee(2016)demonetisation has badly hit the automobile sector, with demand in gujrath, Punjab, the national capital region and north east being worse than the rest of the India. Further he reveals the significant drop in inquiry and bookings.

Mjeed(2016) writes, demonetisation has already dented the sales across the country. Be it is motor cycle segment, small cars or even luxury cars, customers are not going to ahead with the decision to buy. They are waiting for the whole issue to settle down before any major spending. Recovery of the market is expected only by the end of this financial year.

Vora and sahadeo(2016), though it has been expected that the rural segment would be least impacted due to black money erosion drive as tax exempted rural income constitutions to be a larger chunk of rural economy, cash crunch and weak consumer sentiments may hurt demand cycle, in near term as our dealer check indicates a high cash component in rural witnessing 12.9% year on year and 23.5% respectively decline in motorcycles and tractors volume in November, 2016.

OBJECTIVES:-

- To study the demonetisation impact on Indian auto industry- specially car industry
- To know the sales volume and demand at the time of demonetisation.
- To study the customer buying behaviour post demonetisation.

RESEARCH METHODOLOGY:-

This is conceptual analytical study basically considering the literature available on internet. Most of the literature review consist on the assumptions and predictions made by experts of automobile industry which has been analysed and presented. This study focused on only two dimensions of demonetisation impact – impact on sale and impact on consumer behaviour of car buyers. This study is based on secondary data information collected from different websites in order to make the study more effective.

IMPACT OF DEMONETISATION HAS MENTIONED AS FOLLOWS:-

IMPACT ON SALES:-

Normally the car sales pick up in the last quarter of the year especially in November and December, but due to the demonetization policy taken by the government. The overall auto sales in November 2016 drop by 5.48% as compared to last year (auto car India 2016)

Booking have plummeted:-

The sudden hit of demonetisation during the peak booking time in November month has drastically impacted on vehicle bookings. Car booking have dropped both in urban and rural areas- the impact has started from December and could last till Q4FY17. Its impact has extended even to the used cars also expected to drop, there by discouraging demand from repeat customers. It might even influence over the FY18 volumes, as a recovery depends on how soon the industry and consumers adapt to higher non cash transactions.

Inventory piling up:-

Lower sales have led to higher inventory levels across dealers at 45-60 days from normal levels of 30 days. The cash crunch has fuelled a 30% revenue drop even for repairs and services. FADA is requesting manufacturers and financial institutions to increase the credit period for dealers. It is predicted that manufacturers would reduce production and dealers might offer higher discounts towards the year end to clear stocks.

CV's and premium PVs to bear the brunt:-

Sales of commercial vehicles will be affected the most as the payment mostly made through cash transactions. Entry level PVs could be the least affected as a higher proportion of sales in this segment is to the salaried class and government employees. Moving on the premium category, it includes the premium hatches, C-segment sedans, crossover SUVs and everything about that. And the sales have dipped for all of them. More expensive the car, the harder it got hit. continuing with Honda, the city has had one of the worst months in this year. Even the ciaz and vitarabrezza were hit by the cash crunch. So were the Hyundai Elite I20 and the JAZZ. only Baleno bucked the trend to sell more cars in November than October.

Mahindra and Mahindra :-

India's top maker of sport utility vehicle had domestic sales of 29.814 in November, down 38.8% from October and 24.3% year on year. Domestic sales at TATA motors, India's biggest auto maker by revenue, fell 28.4% month on month to 33,274 vehicles. TVS Motors company reported sales of two wheelers last month dropped 27.9 from October. Other auto makers also reported double digit percentage declines from October's sales.

IMPACT ON CONSUMER BUYING BEHAVIOUR:-

Demonetisation has brought in fear and uncertainty among the consumers of luxury product. As a result of which following outcome can be recorded.

Postponement of car booking:-

People have been postponing the purchase and delaying taking the delivery of their vehicles due to various reasons the cash crunch and uncertainty in the government policy.

The fear psychosis of increased government scrutiny on high value transactions is likely to dent demand for premium PV's in the near term.

FINDINGS:-

The government's demonetisation programme has had a very negative impact on the sales of automobiles in November, 2016. Society of Indian automobile manufacturers (SIAM) is calling it a temporary disruption.

India being the growing economy, the global auto players have penetrated into Indian market, which basically characterised by demand for hatchback and above car variants, for which most of the sales happen through money transaction.

CONCLUSION:-

Socio economic factors are the determinants for car purchase. Demonetization act only posed economic problem but also penetrated psychological fear. Long run may generate positive impact but again the demand for sedan and SUV will be in question as most of the transactions are from unaccounted sources. There needed some changes in taxation policies to keep the industry growing, car is no more luxury for Indian , it is necessity due to improper communication facilities provided by many state government across the country.

“Remedy is worse than the disease”, If it is aimed at eradication of black money.

REFERENCES:-

1. Balachandar ,G (2016) “ban on rupees 500, 1000,notes to impact two wheelers, SUVs premium vehicles sales, retrieved from <http://www.thehindubusinessline .com/economy>.
2. Banerjee , A and chatterjee S (2016) THE Impact of demonetisation on India <http://www.autocarindia .com /auto news /demonetisation> .
3. Majeed A www.businessstandard.com on 9-1-2017.
4. Parekh N from www.auto.ndtv.com on 10-1-2017
5. Ray s and dewans from <http://www.slideshare.net/sagar 1122/impact of demonetisation on auto industry press release on 7-1-2017>.
6. The times of India, Banglore THURSDAY (DECEMBER 8 2016) times nation note bandi. a month on retrieved on 7-1-2017.