



Crisis in the Automobile Industry

Description

Context:

- The crisis in the automobile industry from the past few months has resulted in cutting down of more than 2 lakh jobs.

Reasons for the crisis in the Automobile industry:

- India's push for electric vehicles made the potential buyers to postpone their plans to buy their own car.
- In December 2018, the collapse of IL&IF resulted in the crisis in NBFC (Non-Banking Financial Companies). So Non-Banking Financial companies have started implementing stricter rules in issuing loans. On the other hand, banks are also fighting with NPAs (Non-Performing Assets) and hence implementing stringent lending forms. In general, many people buy vehicles by taking loans. So, lack of loans and rising interest rates are discouraging consumers and hence resulted in low demand for vehicles.
- Traffic Jams in India are becoming worse than ever. Due to this, more and more people are taking advantage of taxi services and sharing ride services, instead of buying their own vehicles. With the introduction of cab aggregator services like Uber and Ola, demand for private vehicles has decreased.
- At present, GST (Goods & Services Tax) on motor vehicles is 28%. And the insurance costs of vehicles, emission-related compliance costs have also gone up. On top of that fuel prices are increasing. So, by adding all these things buying and maintaining vehicles has turned costlier. And hence resulted in the low demand for vehicles.
- Floods in 2018 & 2019 is also another reason for the low demand for cars.
- As more startups are focusing on buying and selling pre-owned cars, they have become attractive to middle-class people. Despite the slowdown of automobile sectors, the pre-owned car market has witnessed double-digit growth. Thereby, the second-hand car market boom has also contributed to the crisis in the automobile industry.

- In October 2018, Supreme court announced that only BS-VI vehicles should be sold after April 2020 in a move towards using cleaner fuel. So, the automobile companies are trying to sell the unsold stock of BS-IV vehicles before the deadline. They are offering discounts to attract buyers, but that is not working. That's maybe because people are waiting for more discounts in the coming days.

What needs to be done:

- The government should bring scrappage policy by giving incentives to buy new vehicles in exchange for old vehicles. This will help the automobile industry to a great extent and also will help the government in its goal of phasing out fuel-based vehicles and replacing them with electric vehicles.
- The demands to reduce GST rates for cars should be analysed thoroughly.
- The industry should focus more on converting fuel-based vehicles into electric cars.
- The Indian government should take steps to increase the availability of funds for issuing loans to potential buyers.
- As the demand for public transport and cab sharing services is rising, the automobile industry should focus on manufacturing buses and other suitable vehicles in accordance with the growing demand instead of manufacturing more cars. This will help in reducing vehicular pollution and also will boost the automobile industry.

Conclusion:

Crisis in the automobile industry can worsen India's economy because it contributes to half of the manufacturing GDP. Moreover, some industries depend on the automobile industry by supplying input goods. The government needs to bring policies to improve the situation of the automobile industry to prevent more job losses.

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