

# Impact of Demonetization on Indian Automobile Industry: A Special Reference to Car Industry

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**Abstract:** *Indian Demonetisation has shaken the economy and lots of mix response has recorded, 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, auto industry, demand, cars

## 1. Introduction

Major economic decision of demonetization of Indian currency notes of Rs 500 and Rs 1000 has posed many questions and challenges to several economic thinkers. Several guess in favour and against have floated since the Friday 8th November 2016 ever since demonetization initiative taken by BJP government.

There are multiple reasons why Indian government has taken initiation to demonetize units of currency. Some reasons include combating inflation, to combat corruption, and to discourage a cash system. Government wanted accountability in every monetary transaction made so as to strengthen economic conditions.

Many earlier demonetisation attempts made have resulted into good and few recorded adverse impact on economy. Most noted one is Zimbabwean government demonetization of its currency to curb the hyperinflation in 2006, 2008, & 2009. In 2015, The 3-month process involved expunging the Zimbabwean dollar from the country's financial system and solidifying the US dollar, Botswana pula, and South African rand as the country's legal tender in a bid to stabilize the economy.

Adverse impact was recorded by, Coinage Act of 1873 demonetized silver in favour of adopting the gold standard as the legal tender of the United States. The withdrawal of silver from the economy resulted in a contraction of the money supply, which subsequently led to a 5-year economic depression in the country. In response to the dire situation and pressure from silver miners and farmers, the Bland-Allison Act remonetised silver as legal tender in 1878.

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. And 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 socio-economic issues of demonetisation.

This study deals with impact of demonetisation on auto industry, with special reference to car industry as most of the purchases are made through cash transactions.

### Indian auto industry

Indian auto industry attracts major global payers from all segments. Fiat, Volkswagen, Honda, Nissan, become the common brands seen on Indian roads. Increasing GDP has further lured them to expand product line in India. An indigenous player, Maruti 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 auto mobile product, it is important to study demonetisation impact on auto industry. Its 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.

## 2. Literature Review

Banerjee & Chatterjee (2016). Writes in their blog about impact of demonetization 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 results in inventory piling issue, increased

fear among the end customer regarding changing government norms for possession of wealth and assets.

Nishant P (2016) Has enlisted industries top executives mixed response towards the impact of demonetisation. Bansal, the co-founder of virtual Marketplace for pre-owned cars 'Truebil' says "The used car industry is set to experience a positive turnaround by the currency withdrawal move. Considering the current state of the industry-being organised the move will help to curb a lot of unaccounted cash transactions.

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

Singh (2016), The demonitization 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 & Dewan (2016), Over the past 2 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 Demonitization move, the demand for commercial vehicles is expected to come under further pressure, which was otherwise expected to get a boost by the end of the fiscal term from pre buying following the implementation of BS-IV emission norms from April 2017 onwards.

Mukherjee (2016); Demonetisation has badly hit the automobile sector, with demand in Gujarat, Punjab, The national capital region and North east being worse than the rest of India. Further he reveals the significant drop in inquiry and bookings.

Majeed (2016) writes, demonetisation has already dented the sales across the country. Be it is motorcycle segment, small cars or even luxury cars, customers are not going 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 constitutes 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 purchases. This is corroborated by HMCL and M&M witnessing 12.9% year on year & 23.5

% respectively decline in motorcycles and tractors volume in November, 2016.

### 3. Objectives

- To Study the demonetization impact on Indian auto industry – specifically car industry
- To study the customer buying behaviour post demonetisation.

### 4. Research Methodology

This is conceptual 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 sales and impact on consumer behaviour of car buyers. This study focuses on short term results only.

#### Research 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 characterized by demand for Hatchback and above car variants, for which most of the sales happen through money transaction.

Impact of demonetisation has mentioned as follows;

**1. Impact on sales:** Normally the car sales pickup in the last quarter of the year especially in November and December, but due to the demonetisation policy taken by the govt. the overall auto sales in November 2016 drop by 5.48 % as compared to last year (Autocar India2016).

**1.1 Bookings 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 fast liquidity is infused back into the economy and on how soon the industry and consumers adapt to higher non-cash transactions

**1.2 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

**1.3 CVs and premium PVs to bear the brunt:** Sales of commercial vehicles (CV) will be affected the most as the payment mostly made through cash transaction. 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

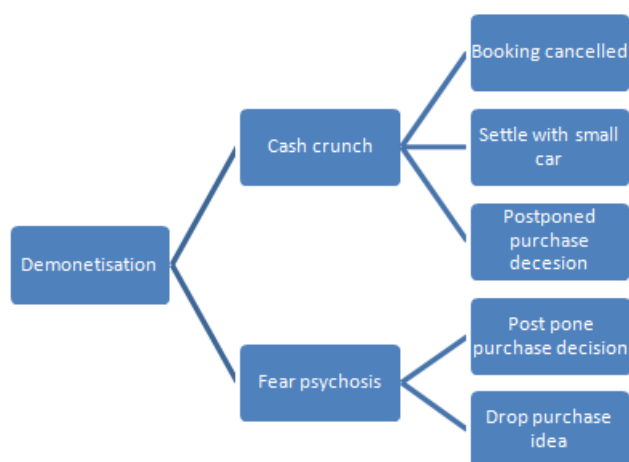
Moving on to the premium category, it includes the premium hatches, C-segment sedans, crossover SUVs and everything above that. And the sales have dipped for all of them. More expensive the car, the harder it got hit. Continuing with Honda, the City has had one of the worst months in this year. Even 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 (Autocar India 2016)

Mahindra & Mahindra: India's top maker of sport utility vehicles 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 Motor Co. 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 (Autocar India 2016).

The 8 November demonetization, which took out 86% of the currency in circulation by value, introduced uncertainty in the market at a time when Mahindra had expected a sales boost from a normal monsoon and softer interest rates.(Seth, 2016)

## 2. Impact on consumer Buying Behaviour

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



**Chart 1:** Consumer buying behaviour post demonetisation

**2.1 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.

**2.2** The fear psychosis of increased government scrutiny on high-value transactions is likely to dent demand for premium PVs in the near term.

## 5. Further Scope of Research

It is early to come to any conclusions. Few months results may not help to conclude long term impact. This study has further scope to study long term impact with more specific and wider factors covering the impact.

## 6. Conclusions

Socio-economic factors are the determinants for car purchase. Demonetisation not 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 commutation facilities provided by may state government across the country.

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