Understanding the Automobile Slowdown

What is the issue?

- The automobile industry in India is apparently witnessing a slowdown. Click here to know more.
- Here is an overview on the reasons, the implications of the past reforms and the measures to be taken.

Why is the current slowdown so worrying?

- The current downturn is like nothing that the automobile industry has seen in a long, long time in terms of depth, scale and character.
- Every segment of the auto industry has been hit as the slowdown this time is all-encompassing.
- These range from two-wheelers to passenger cars, light commercial vehicles and heavy commercial vehicles, and even tractors.
- Secondly, the natural, cyclical downturn has been amplified by extraordinary circumstances unleashed by government's reform measures.
- Lastly, the approach to a critical policymaking area such as electric vehicles has only intensified and prolonged the slowdown.
- Notably, government is now starting to reassure the industry that the electric motor will not be privileged over the internal combustion engine.
- However, this is too late to make a big change.
- Moreover, the slump in production in market leaders such as Maruti and Hyundai further weakens the sentiment among other players.

What was the recent measure on commercial vehicles (CV) industry?

- **Axle-load norms** - In July 2018, the government revised *axle-load norms* for the first time since 1983 for cargo carriers.
- It increased the official maximum load carrying capacity of heavy vehicles, including trucks, by 20-25%.
- The idea was to legalise over-loading which is a common practice.
- In effect, the government, in one stroke, raised the existing carrying capacity by up to a quarter, forcing per-tonne freight rates down.
- Operators were able to keep the trucks gainfully deployed for 25% more days in a month than before.
- The point is that the higher cargo rules were applied to all trucks on the

roads, instead of only trucks to be produced after a given date.

What was the implication?

- The reform measures only served to advance the cyclical slowdown which was on its way.
- The CV industry is known for sharp practices such as steep-price discounting and dealer dumping by vehicle manufacturers.
- With the recent change, vehicle manufacturers (CVs and cars) over-produced vehicles without a care for demand.
- With their past experience, they dumped them on dealers to sell.
- But, this became problematic because of the approaching deadline for the transition to BS-VI norms from April 1, 2020.
- Dealers are now burdened with stocks of BS-IV vehicles that they need to clear out before the deadline.
- For the manufacturers, the problem is that they are unable to plan their production schedules for BS-VI vehicles.
- The buyers - freight operators - are waiting for the steep discounts that would come as the deadline nears.
- Also, they are not in a hurry anyway to add new trucks given the slowdown in goods movement.

What should be done?

- The onset of festival season sales and the impact of recent measures by the government may help the cycle revive on its own.
- However, the government can quicken this process probably by reducing GST on automobiles from 28% to 18% as per the demand of the industry.
- It could consider dropping GST only for BS-IV vehicles (CVs, cars and two-wheelers) that are now idle in stockyards of vehicle manufacturers and dealers.
- It should consider a scheme where all BS-IV vehicles sold until March 31 2020 will attract only an 18% GST.
- For the industry, this will help clear the stocks, and for the government, it will help contain the fallout on its revenue.
- As, the lower rate will apply only on a limited stock and until a specified time.

Source: The Hindu

Quick Facts

Axle Load Norms

- The gross vehicle weight of a two-axle truck (two wheels in the front axle and four wheels in the rear) has been increased to 18.5 tonne from the existing 16.2 tonnes (increased load carrying capacity of over 20%).
- The gross vehicle weight for a three-axle truck has been increased to 28.5 tonne from 25 tonne.
- For a five-axle truck, the vehicle weight has been increased from 37 tonne to 43.5 tonne, increasing the load carrying capacity by more than 25%.
- The load carrying capacity for other categories of multi-axle trucks has also been increased.

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