Report Summary
Downturn in Automobile Sector

- The Standing Committee on Industry (Chair: Dr. K. Keshava Rao) submitted its report on 'Downturn in Automobile Sector – its impact and measures for revival' in December, 2020. The Committee looked at the downturn in the sector in 2019-20, the impact of the COVID-19 pandemic on the sector, and recommended measures for facilitating the revival of the sector. Key observations and recommendations of the Committee include:
- **Impact of slowdown:** The Committee noted that the automobile sector has a turnover of Rs 8.2 lakh crore which constitutes 49% of India's manufacturing GDP and 7.1% of overall GDP. 8% of the total exports worth USD 27 billion come from the automobile industry. Further, the sector contributes to 15% of the total GST collection. The auto components industry is also worth nearly Rs 4 lakh crore (2.3% of GDP) and employs 50 lakh persons. Considering its size, the downturn in the automobile sector is having a cascading effect on the Indian economy. The drop in sales has forced manufacturers to cut production, including the production of auto components and ancillaries. As a result, there has been an estimated job loss of 3.45 lakh in the auto sector. Further, the loans to the auto sales sector has declined (from Rs 1,922 crore in FY 2018 to Rs 1,493 crore in FY 2019).

Table 1: Domestic automobile sales

Grade	April-Sept 2019	Change from 2018
Passenger vehicles	13,33,251	-23.6%
Commercial vehicles	3,75,480	-23.0%
3 Wheelers	3,30,696	-6.7%
2 Wheelers	96,96,733	-16.2%
Total	**1,17,36,976**	**-17.1%**

- **Financial issues for customers:** The Committee observed that customers are facing difficulty in getting automobile loans. This is because banks are following credit ratings rigorously and most two-wheeler customers are first time users who do not have any credit rating. Similarly, in rural areas, customers do not have any record of financial security which makes it difficult for them to get loans. The Committee held that auto loan is secured as the vehicle itself is collateral. Therefore, banks should not refuse loans to customers. It recommended that the Department of Heavy Industries should take up the matter with the Department of Financial Services to adopt a liberal policy in sanctioning of vehicle loans.
- **Rationalisation of GST rates:** Internal combustion engine (ICE) based vehicles (includes all petrol and diesel-engine based vehicles) attract the highest GST rate of 28% and an additional compensation cess ranging from 1% to 22%. The Committee noted that as the government has kept the GST rates on electric vehicles at 5% to promote demand, there is scope for reducing GST rates on ICE vehicles as well to spur demand to overcome the downturn in the sector. It recommended that a GST rate of 18% will help bring down the prices, therefore driving the demand up. The increased sales will compensate for the loss in GST revenue. Further, the Committee recommended that the GST rate on used cars should be reduced from the current 12% or 18% (depending on the type) to 4%.
- **Uniform road tax across the country:** Unlike the GST, the road tax and registration tax on vehicles vary from state to state. The Committee noted that there are many procedural difficulties with respect to road and registration tax when a vehicle is moved from one state to another. It recommended that a uniform road tax should be followed across all states.
- **Impact of COVID-19 lockdown:** The Committee observed that the sector was already under a prolonged slump in 2019-20. The national lockdown imposed due to the COVID-19 pandemic led to a complete shutdown of the industry, leading to a loss of approximately Rs 2,300 crore per day during the lockdown. As a result, the sector may continue to face contraction (negative growth) for another two years. The impact has been on both the demand and supply sides. On the supply side, the lockdown has led to logistics logjam, insufficient workforce, financial insecurity due to lack of sales and delayed payments, and shortage of imported components (mostly from China). The demand has been affected by negative consumer sentiments and lack of liquidity.
- The Committee held that the relief package announced by the government falls short of addressing the issues related to the automobile sector as the package is targeted to boost only the supply side of the economy. It recommended that the government should announce a stimulus package for demand generation in the sector. Further, it recommended several additional measures: (i) expenditure incurred by auto sector companies for making payments to temporary and contract labour during the lockdown should be eligible for corporate social responsibility (CSR) expense, (ii) self-certification by manufacturers should be allowed for regulatory requirements instead of testing and approval by government agencies.

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