THE ASIAN AGE
TUESDAY | 6 AUGUST 2019 | NEW DELHI

The auto sector's revival holds the key to India's $5 trillion economy

Chandrajit Banerjee

This financial year (FY2019) saw the Government of India set an ambitious target to make India a $5 trillion economy within five years. The country will need to grow at around eight per cent annually to reach the target by 2024-25.

Global growth slowed down considerably in the second half of 2018, after the strong growth seen in 2017 and early 2018. IMF estimates for 2019 has been revised down from 3.7 per cent to 3.3 per cent. Amidst all this, the silver lining is that the Indian economy remains a fast-growing major economy in the world. The moderation in GDP growth to 6.8 per cent in 2018-19 clearly indicates the softer underlying momentum.

Consumption trends are also showing moderation, especially in rural areas, and investments have stagnated at 28.9 per cent. However, reforms like the Ease of Doing Business, Insolvency and Bankruptcy, and bank recapitalisation will help firm up macro-economic fundamentals and help growth pick up later in 2019-20.

Hence, CII projects GDP growth for 2019-20 to be in the range of 7.0-7.4 per cent. The agriculture sector is projected to grow at 1.8-2.2 per cent, industry at 7.0-7.4 per cent and services at 7.8-8.2 per cent.

We believe it is the agriculture, manufacturing and services sector which will contribute to this growth and help the country reach the $5 trillion economy target. Industry is positive and is willing to go out all guns blazing to make the $5 trillion economy a reality, but it is important for the government to bring in enabling policies along with ensuring policy stability to establish a conducive ecosystem to attract investments.

The Indian automobile and auto components industry is a sector of focus in the "Make in India" programme of Prime Minister Narendra Modi. The automobile sector acts as the backbone for an economy, and the industrialisation and development of a manufacturing sector as it leads to development of industries from the raw material stage to intermediate stage. The Indian automobile and auto components industry is also such a story, which has transformed our economy into a vehicle and component producing country and contributing immensely to the Indian economy.

The Indian automobile industry is contributing 7.1 per cent to GDP right now and around 3.7 crore people are employed directly and indirectly by this sector. In the past 10 years, the total investment made by the automobile industry has been to the tune of $35 billion. This industry has become one of the leading ones in the world in all vehicle segments, which has been possible due to favourable government policies and a conducive business environment.

The automobile industry has been struggling over the past few months... Demand growth in most of the segments is down in double digits. Any further downside in demand may lead to the loss of jobs and an overall slowdown in the economy.

In the next decade, this sector is predicted to contribute over 12 per cent to the country's gross domestic product (GDP) and generate around 6.5 crore additional jobs over the next decade.

Along with the automobile sector, it is the auto ancillaries that have seen constant growth. The auto components industry accounts for 2.3 per cent of India's GDP, and employs as many as 1.5 million people directly and indirectly each. A stable government framework, increased purchasing power, large domestic market, and the ever-increasing development in infrastructure have made India a favourable destination for investments in the auto sector.

However, the automobile industry has been struggling over the past few months. The performance of the industry in Q1-FY20 has been far more discouraging, and demand growth in most of the segments is down in double digits. Any further downside in demand may lead to the loss of jobs and an overall slowdown in the economy.

Immediate relief is needed by the automobile and auto component sectors, struggling with low demand, low production and low capacity utilisation. The auto industry needs a series of measures to be taken by the government as a package to bring it back on the growth track.

IMMEDIATE MEASURES

• Reduction in GST Rates: GST rates for all vehicles and auto components to be reduced to 18 per cent from the current 28 per cent.

• Incentive Based Scrappage Policy: An incentive-based vehicle scrappage policy for removal of the old and polluting vehicles, registered between 1st April 1990 and 31st March 2000, from the Indian roads. This will help reduce pollution and also help with new vehicle demand generation.

• Purchase of Buses by STUs: In the past when the industry witnessed a similar slowdown, the government had announced various schemes to stimulate growth like JNNURM. CII would like to recommend similar scheme for purchase of buses by STUs be introduced to induce demand.

TAX-RELATED MEASURES

• Depreciation rate for Motor Cars, MUVs and two wheelers, other than those used in the business of hire, irrespective of the period of addition should be raised to 25 per cent from current 15 per cent under I-T Act.

• With a view to incentivising demand for vehicles, we propose that the depreciation should be increased to 25 per cent from current 15 per cent under I-T Act which will also be a step towards incentivising modernisation of vehicle fleet, which is one of the policy interventions suggested in the Automotive Mission Plan. Hence, depreciation rate should be increased to 25 per cent.

• Incentive for R&D: Automobile and auto components industry is in need for huge investment in R&D to adhere to safety and emission regulations and also for developing electric vehicles. Hence, we request for allowing 200 per cent weighted deduction for R&D expenditure.

• Investment Allowance: Considering the auto components industry is largely MSME, it is suggested that investment allowance under 32AC to be reintroduced at 15 per cent for manufacturing companies that invest more than ₹25 crores in plant and machinery and the minimum amount of investment to be considered at ₹5 crores for such MSMEs.

• Technology Development and Acquisition Fund for auto components industry: A fund for supporting R&D and indigenous technology development for the auto components sector needs to be considered

A prudent approach along with supportive policy initiatives will build investor confidence and allow for the development of a conducive transportation ecosystem in India which will be clean and sustainable.

The writer is the director-general of the Confederation of Indian Industry