GO GREEN WITH FDI IN INDIAN TWO WHEELER AUTOMOBILE INDUSTRY

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ABSTRACT

The Middle East has become the prime target for foreign direct investment. India ranks 6th, which although not in the front line but has become an attractive destination for foreign investment in automobile industry. Expansion and diversification in today’s scenario has become a strong presence in two-wheeler sector. The automobile sector of India is growing at a pace of 18% per year. Apart from this growth rate the basic advancements includes the several areas such as technological advancements, cost effectiveness, and efficient manpower. India stands second in manufacturing of two wheeler around the world. Besides these, India has a well developed and competent auto ancillary industry and automobile testing and R&D centres. Mopeds, scooters and motorcycles constitute the two-wheeler industry in the increasing order of market share in India.

This paper will examine the two wheeler Industry potentials, potential benefits of increasing FDI for sustainable growth of two wheeler Indian automobile industry and concept of renovation & Go Green in automobile industry especially for two wheeler automobiles in promoting clean and green environment.

KEYWORDS: FDI, Two Wheeler Indian Automobile, Renovation, Environment Sustainability

INTRODUCTION

Post liberalization, globalization and privatization India has emerged as one of the fastest growing economy in world. With virtue of this, the automobile industry becomes the largest industry and the prime economy in the world. It is also known as the “industry of industries” with the considerate backward and forward linkages. Foreign Direct Investment (FDI) in the automobile sector has proved its way which is a significant contribution towards the growth of this sector specific and also developments and growth in the other related industries like, metal, paint, electrical / electronic gadgets, tube and tyre, auto components and original equipment manufacturers (OEM’s).

FDI in India

FDI plays an important role in the development process of a country. Developing countries like India need substantial foreign inflows to achieve the required investment to accelerate economic growth and development.

The FDI in India was started with changes in industrial policy (named as New Industrial Policy – NIP) which was announced on 24th July 1991 (Vijay Bhasker, Subrahmanyar Sarma, January 2013).

India has most liberal and transparent policies on FDI among the emerging economies. FDI up to 100% is allowed under the automatic route in all the sectors except the following, which require prior approval of Government such as-

- Sectors which are prohibited for FDI.
- Activities that require industrial license.
- All proposals falling outside notified sectoral policy in which FDI is not permitted.
• Proposals in which the foreign collaborator has an existing financial/technical collaboration in India in the same field.

**Potential Benefits of FDI**

Foreign Direct investments always play an important role in development of economy of a nation by providing the access to best resources, idea and technology around the world. The following are some important benefits of introducing the FDI practices in a particular nation especially in case of emerging and developing economies.

• FDI helps in transfer of best technology from one country to other country for the better development of domestic industries especially in case of developing countries.

• FDI act as one of the important and biggest source of financing especially from the developed countries.

• It promotes the transfer of knowledge, ideas, techniques and innovative practices from one country to other.

• FDI ensure better targeting and positioning of customers in different countries through delivery of quality products and services which actually meets their needs and preferences.

• It allows the movement of smartest money to the best businesses all over the world.

• FDI provides the opportunity for transfer of best management practices including Human resource practices, operation management practices, marketing and international business practices & development of better corporate culture.

• FDI also helps to improve the quality of standard of living in the recipient country by creating more income generating prospects through the employment development practices.

• It also helps strengthen the political relationships & understanding between various nations etc

**AUTOMOBILE SECTOR IN INDIA**

In 1991, the government of India liberalized its policies regarding the Foreign Direct Investment in the automotive industry. The liberalization of governance policies with regard to FDI in Indian automobile industry has resulted in the rapid growth of this industrial sector post 1993. The delicensing (passenger car), automatic approval for foreign holding of approx. 51% in Indian companies, abolition of phased manufacturing programme (PMP), reduction of excise duty to 40% and reducing import duties of Completely Knocked Down (CKD) to approx. 50% and of Completely Built Unit (CBU) to 110%, and commitment to indigenization schedules (Sharma , B.2013).

The last two decades of the 20th Century witnessed a dramatic world-wide increase in Foreign Direct Investment (FDI).The automobile industry in India is growing by approx. 18% per year (Dr Ponnuswamy, B. 2012).The production level of the automobile sector has increased from 2 million to 9.7 million after the participation of global players in the sector.

**Two Wheeler Class in India**

India is seeing the penetration of two-wheelers increasing at a rapid pace driven by the rise in the household incomes, reducing trend in excise duties and hitherto easy availability of two-wheeler finance. Though the two wheeler industry is presently passing through a rough patch, one can project the long term outlook to be healthy with increase in penetration levels.
Market Size and Segment Growth

With the increase in automobile sector, the market size and the segment-wise growth in two wheeler industry is also growing. The total sales of the Indian market is grown at compound annual growth rate (CAGR) of 14.5% between 2006-07 and 2011-12. The four sub-segment of two wheeler in India are:

- Scooter: Two wheeler having wheel size less than or equal to 12 inches.
- Motorcycles: Two wheeler having wheeled size more than 12 inches.
- Mopeds: Two wheeler having engine capacity of 75cc with fixed transmission and wheel size more than 12 inches.
- Electric two wheeler: These are electrically driven bikes.

Motorcycles contribute approx. 84% of the total market and it is having the fastest growing market. Domestic sales as well as exports market has grown by 19.4%.

Genre of Indian Automotive Industry

![Figure 1 Source: Automotive Component Manufacturers Association of India (ACMA), India](image)

Market Shares and Brands of Key Players

In the Indian two wheeler market, competition is intense with around 10 players competing for the share in the industry. These players include global giants like Honda, Suzuki and Yamaha as well as Indian players like Bajaj and TVS. The market leader in the domestic two wheeler industry is Hero Honda Motors, with approx. 42 percent market share. It is the largest two wheeler manufacturer in the world and is closely followed by Bajaj Auto, which has a 27 percent market share. TVS Motor is the third largest two wheeler manufacturer in the country & it has also established a manufacturing facility in Indonesia. Honda Motors is present in India as Honda Motorcycles and Scooters India Limited (HMSIL), a 100 percent subsidiary, in addition to its joint venture, Hero Honda. Another international player, Suzuki, has recently entered the Indian market through its direct subsidiary. The industry is characterised by frequent product launches, with over 20 models launched.

Key Benefits of FDI in two Wheeler Market in India

- FDI in India will helps to introduce the most cost effective manufacturing technology which will better suit the Indian pockets and will helps the people to improve their standard & quality of living & will create the ample number of choices in terms of designs for Indian consumers.
- The FDI will play an important role in handling issues and challenges faced by two wheeler industry in India including fuel technology, development of nurturing practices for working manpower, need for innovation for keeping low cost & sustaining the growth rate.

- FDI will induce the benefits like fuel efficiency & sound technology which is eco friendly for all small & major players in Indian two wheeler industry.

- FDI can be beneficial for overall Segmental Structure of the two wheeler industry in India including bikes, scooters & mopeds.

THE CONCEPT OF RENOVATION

Renovation is act of repairing, renewal, act of restoring to good condition from the older version. It is the process of improving an existing structure. When one is talking about the renovation in two wheeler automobiles then one can measure a considerable change from the past.

Likewise, the foreign companies emerging in two wheeler segment in India are adopting the concept of renovation with the different models such as Honda has renovated the model of Honda CBR in India as it is available in foreign countries with the power of 1200cc but in India it has been launched in two variants that are 250cc and 350cc. The same concept is also adopted by Kawasaki as the model Ninja has been launched with two variants in 250cc and 650cc. Apart from it there are several modification centres available in Indian market where the bikes are being modified and renovated, Goa is holding the top position for bike modification and renovation. Youth is always interested in renovation of two wheelers as they want some new and unique features which makes their bikes look different from the other existing ones. The other foreign players are also adopting the same trend like Yamaha and Suzuki, BMW and Harley Davidson. The trend of renovation is a result of typical Indian market, the consumers are style oriented but at the same time they also consider the fuel efficiency of the two wheeler, so the foreign players in two wheeler segment are taking keen interest in developing or renovating the existing models of two wheelers to satisfy the Indian consumers. The scooters in two wheeler segments are totally renovated to lightweight scooters.

Go Green Concept

The 21st century brought new concerns and pressures to the way companies innovate. In past companies were looking for innovation because of meeting customer expectations, but now they have to better respond to the social and environment demands. (Nunes, B. & Bennett, D., Aston University, UK)

With regard to the environment, the major environmental concerns in the 21st century are: atmospheric pollution and its consequences for human health, global warming and ozone layer depletion, scarcity of freshwater, raw material and land availability. All these environmental impacts have a important role in how companies manage their business, and therefore, these all become the important source and driver of innovation. (Nunes, B. & Bennett, D., Aston University, UK)

According to Nunes, B. & Bennett, D., Aston University, UK one can define green innovation as those innovations in the products, processes or in the business model that lead the company to higher levels of environmental sustainability. A higher level of organizational environmental sustainability is reached by the minimization of environmental impacts, and by the creation of positive impact on the environment.

The automotive industry is one of those industries that have visibly suffered from a strong demand for higher
environmental performance. Definitely this industry is one of the important source of employment generation and socio-economic development of a nation. It has given lot of benefits to the public in form of door-to-door transportation system, the means to gaining access to life’s necessities and employment, and a source of joy & pleasure and social status. However, despite these benefits there are environmental burdens as well: local air pollution, greenhouse gas emissions, road congestion, noise, mortality and morbidity from accidents, and loss of open space to roads, and urban sprawl (Vergragt, 2006).

Thus, companies in the sector have been trying different strategies to overcome these challenges.

The mass production, Toyota Production System – “Just in Time” - and the modular consortium are important examples of significant innovations from the production system perspective. Also, the transfer of the assembly plants to developing countries and global outsourcing are evident changes in the industry’s business and operations strategy. In addition, the automobile industry was the pioneer in the use of robots and it still is the main destination of the use of robotics, still being responsible for approx. 60% of the total utilization of robots in the world (The Economist, 2008).

Nevertheless, these changes have been insufficient to make the sector more sustainable. As evidence of this the automotive industry is still struggling against economic, environmental and social challenges. Orsato and Wells (2006) point out the many economic challenges currently facing the industry: notably over-capacity; saturated and fragmenting markets; capital intensity; and persistent problems with achieving adequate profitability. (Nunes, B. & Bennett, D., Aston University, UK)

Strong dependence on fossil fuels and large consumption of raw material lead the environmental problems. As a result, in a near future, it is expected that the sector will face strong pressures and take initiatives in order to reduce the environmental burdens from car/bike use and its production process. Although the environmental impacts of the automotive industry are spread throughout the whole life cycle (e.g. production, use and the end of life of vehicles), the use of the cars is where there is the major energy consumption and emissions. Nevertheless, environmental pressures occur to reduce emissions and waste throughout production, use and end-of-life vehicles. (Nunes, B. & Bennett, D., Aston University, UK)

A project called “Project Green Stroke” was initiated by the Indian Auto LPG Coalition (IAC) – a non-profit organization regarded as a nodal body for the Auto-gas industry in India. The objective is not just to cut the fuel budget for the customer, but also to bring environmental benefits as Auto-gas out-performs gasoline and diesel, as well as some other alternative fuels, in the majority of studies comparing environmental performance. (L.K.S Chauhan –IOC, Mumbai-2011).

A two-wheeler conversion kit was successfully developed at an affordable price of about 5 000 to 5 500 rupees, and with the fuel tank fitted on the side of the vehicle. The kit includes an Explosives Department (PESO) approved Auto-gas tank of about five litres. A Multifunction valve is fitted on the tank to enhance safety. Vehicle performance when using Auto-gas, including mileage, is comparable to petrol. The two-wheeler remains dual-fuel, i.e. it can run on either petrol or Auto-gas. A series of programmes has already been launched at the retail outlets of oil marketing companies in various cities in Gujarat and Maharashtra to educate two-wheeler owners about the cost and environment benefits of using Auto-gas.

The Indian Auto-gas industry firmly believes that the prospects for two-wheeler conversions are very bright. This is supported by the fact that the number of two-wheelers throughput India exceeds 57.5 million, or three-quarters of all the road vehicles in the country. Coordinated and dedicated efforts by all stakeholders, including ALDS dealers, could lead to a huge success for the project. It really could become a “game-changer” for the entire Indian Auto-gas industry.
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Electric Two Wheeler

In the scenario of hue and cry in fuel prices, there are tremendous growth prospect in Electric Two-Wheelers (e2w) segment. The e2w market in India stood at 1, 10,000 units in 2008-09, or nearly Rs 350 crore in value as per data provided by Society of Manufacturers of Electric Vehicles. While it is still a too weak 1.5% of the entire two-wheeler market in India and it is expected to grow at 15-20% in current fiscal, we require a regulatory and policy to support the market, because potential e2w industry going to register a 35-40% growth for the next 2-3 years (Das subir,2012).

The key forces driving the e2w market growth need to improve the battery technology, which is alternative way of battle with so called energy consumption. There are near about 14 organized electric vehicle manufacturers in India and their combined market force is about 70% of the market.

Lohia Auto Brings Go Green Bikes Electric Bikes Concept Alive

Gone are the days, when riding the vehicles was such a central focus that people almost forgot to pay attention towards their duties towards environment. This is something, which keeps on adding towards excellence being asked by the experts and this is what offers supreme line of services to the solution seekers. It brings in finest advantages to the people living in this environment. They can enjoy a better and healthier life. This is the reason that India has started giving importance to the concept of go green bikes electric bikes introduced by the smart industries working in the field of manufacturing and supplying e-bikes to the marketplace. (PRLog (Press Release), 2012)

Lohia auto is a leading manufacturer of electric bikes in Indian marketplace. The company has been designing interesting and stylish bikes/scooty for its customers of different age groups. The go green bikes/scooty i.e. electric bikes/scooty are dedicated to provide excellent eco-friendly performance to end users. (PRLog (Press Release), 2012)

This type of electric bike/scooty has everything, whether style, excellence, technology, money saving, less fuel requirement and of course the pollution free attributes.

These types of vehicles are needed in the current phase, where environment purification has emerged as a challenge to the world. This is something, which keeps on adding excellence to the existing solutions and offers finest options like never before. (PRLog (Press Release), 2012)

DISCUSSIONS

This research article is an attempt to identify the potential benefits of the proposed Foreign Direct Investment in Two wheeler market segment in India. With the evolution of new Industrial policy, India has emerged as the most liberal and transparent policies maker on FDI among emerging economies. The Imports tariff’s of different countries for different players of automobile is used to increase the sales presence. To become the leader in technology, products and certain expertise the FDI is needed to converge on tax benefits provided by foreign players. Through FDI one can also reduced the inequality of cost and revenues. Just because India is growing with a pace of approx. 18% in two wheeler market it becomes essential to impose FDI, as growing demand for price, quality and design among Indian youths is prime concern. For this purpose the concept of renovation is introduced by several companies where the older version of bikes and mopeds are transmuted to newer version with some slighter changes according to user. The concept of “Go green” for the environmental sustainability also impacted the world where traditional vehicles are emitting harmful emissions evolving from the vehicles polluting the environment. Electric bikes come into consideration where fuel price is playing a major role especially in the country like India where subsidiary is so high. The battery technology also boosts up the market which is alternative to so called energy consumption.
FDI is really a good option not only for India but also for the whole world’s automobile manufacturers because it will lead to several cost related & technology driven benefits to the manufacturers. But out of all these benefits, the benefit of outsourcing innovative technology i.e. ecofriendly is an important one.

Remember if in this ever changing environment, any businessman start of thinking about being competitive & successful in business, then first he/she has to think about the survival and for successful survival one has to start to take constructive steps to protect and save the environment around us i.e. going for green.

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