

# The Study of Impact of Demonetization on Automotive Industry

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**Abstract:** *Demonetization Play an adverse role on automotive industry in Indian economy. The aim of this research is to accent effect of Demonetization on automotive industry in Indian economy. Include two wheeler, three wheeler, four wheeler, heavy vehicles etc. For this research, methodology adopted was to study the decline of sale in the area of Passenger Car segment, study the purchase decision process and its interaction with behavior parameters across all the segments of car. To study the impact of demonetization on Banking & Insurance sector related to automobile sector in Indian economy. Find out the customer preference for purchase of car. Analysis of data with the help of statistical chart. This paper also attempts to consolidate findings & suggestions to overcome present scenario of stagnancy in sales and cultivate future demand for automobile car market.*

**Keywords:** Demonetization, Indian economy, Automobile Industry

## 1. Introduction

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. **Demonetization announced by the Prime Minister of India on November 8th might have been one of the largest self-inflicted macroeconomic shocks in a country.**

Demonetization of currency means discontinuity of the particular currency from circulation and replacing it with a new currency. In the current context it is the banning of the 500 and 1000 denomination currency notes as a legal tender. Government of India announced demonetization of the high value currencies of Rs. 500 and 1000 with an objective to unearth the black money and to curb the corruption, counterfeit currency as well as terror funding. This decision is considered as biggest cleanliness drive against the black money in the history of Indian economy whose benefits will be reaped in the long run.

## 2. Meaning

### What is the Meaning of Demonetization?

Demonetization refers to an economic policy where a certain currency unit ceases to be recognized or used as a form of legal tender. In other words, a currency unit still loses its legal tender status as a new one comes into circulation.

### Effect on Indian economy

Growth in the Indian economy remained solid in the quarter from April to June 2016 (the latest available). In India, a financial year begins in April and ends in March of the following year. The previously mentioned quarter is the first quarter of fiscal 2016–2017.

During that period, the GDP (gross domestic product) rose 7.1%, while the GVA (gross value added) rose 7.3%. The relationship between the GDP and GVA is:-

$GDP = GVA + \text{taxes on products} - \text{subsidies on products}$

The base year for calculating the GVA is 2011–2012.

The fall in economic activity due to demonetization could last from two to three quarters. As a result, GDP and GVA growth in the quarters from September to December 2016 and January to March 2017 could be significantly lower than previous years. Some bounce back should be seen in the first quarter of fiscal 2017–2018. In the medium term, the Indian economy can grow considerably after curbing the debilitation caused by counterfeit money and an increase in economic activity.

### Effect on Automotive Industry

Reflecting challenges faced by automobile industry in the wake of demonetization, auto majors Hyundai Motor India, Mahindra & Mahindra and Ford India on Monday reported decline in their domestic sales in December. Other firms such as Tata Motors, Renault, Nissan and Volkswagen, however, reported increase in their Indian sales in December. Hyundai Motor India Ltd (HMIL) said its domestic sales in December were at 40,057 units as against 41,861 units in the same month previous years, down 4.3%.

HMIL Senior Vice-President, Sales and Marketing, Rakesh Srivastava had stated that demonetization impacted consumer sentiment creating a challenge and walk-ins at showrooms were down by around 40% while overall retail sales were down by 24-25% immediately after the note ban. Retail sales had, however, picked up in December by 5% as compared with the same month previous year, he said while adding it might take a quarter to normalize. Mahindra & Mahindra's sales in the domestic market were down 1.5% to 34,310 units last month as compared to 34,839 in the year-ago period.

"The auto industry continues to go through challenging times, grappling with the short-term effects of demonetization as well as reduced and postponed purchase decisions. However, we believe there will be a gradual pick-up in demand starting next few months," M&M Chief Executive (auto division) Pravin Shah said in a statement. Likewise, Ford India also saw its domestic sales dip by 6.04% to 5,566 units last month as against 5,924 units in the

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same month a year ago. "As we move in 2017, the industry does face some short-term headwinds given the uncertainty regarding the impact of demonetization and GST, while the medium to long term outlook continues to be positive," Ford India Executive Director (Marketing, Sales & Service) Anurag Mehrotra said.

Hinduja Group flagship company Ashok Leyland reported a 12% decline in total sales at 10,731 units in December 2016. The company had sold 12,154 units in December 2015. Yesterday, the country's largest car maker Maruti Suzuki India had posted December domestic sales at 1,06,414 units, down 4.4% from 1,11,333 units in December 2015. Some companies, however, managed to increase their sales in December. Tata Motors reported 35% increase in its domestic passenger vehicles sales at 10,827 units last month as compared to 8,069 units sold in December 2015, Tata Motors said.

"We continued our growth momentum in December on the back of robust sales, led by positive response for the Tata Tiago. This has resulted in planned stock reduction in the network," Tata Motors President, Passenger Vehicle Business, Mayank Pareek said. However, Tata Motors' combined sales of commercial and passenger vehicles increased by just 1% to 35,825 units in December over 35,416 units a year ago. German auto major Volkswagen reported a 68.72% increase in sales in India at 4,348 units last month as compared with 2,577 units in December 2015. Similarly, Renault India reported a 9.2% increase in domestic sales at 11,244 units in December as compared with 10,292 units sold in the same month a year ago.

Nissan Motor India also reported a 21% increase in domestic sales in December 2016 at 3,711 units as against 3,065 units sold the same month a year ago. Commenting on the sales performance, Nissan Motor India Managing Director Arun Malhotra said: "Nissan India achieved healthy sales in December by posting 21% year-on-year growth despite the challenges of the demonetization issue. This strong performance came on the back of continued success of Datsun redi-GO and the great customer response to the redi-GO SPORT."

In the two wheeler segment, Bajaj Auto reported 22% decline in total sales in December at 2,25,529 units as against 2,89,003 units during the same month a year ago. The company's sales of motorcycles in the domestic market dipped by 11% at 1,06,665 units as against 1,20,322 units in the year-ago month. India Yamaha Motor reported a 28% increase in domestic sales to 49,775 units in December. Royal Enfield had reported 41% increase in its domestic sales at 56,316 units in December as against 40,037 units in the same month previous year.

### 3. Objective of Study

- To study the impact of demonetization on automotive industry in Indian economy.
- To study the impact of demonetization on Banking & Insurance sector related to automobile sector in Indian economy.

- To find out the solution for decline in the sale of car in automotive industry.
- To find out the customer preference for the purchase of car in the year 2017.
- To study the sale data of year 2015&2016.

### Data Collection

This Study is based on secondary data which is collected from secondary source via-various journal, magazine, newspaper and annual reports and website of automotive industry.

### Sample size

- The sale Data related to four wheeler sector has been taken for research.
- Sale data of two year has been taken of Maruti's, Hyundai, Tata, Mahindra & Honda etc.

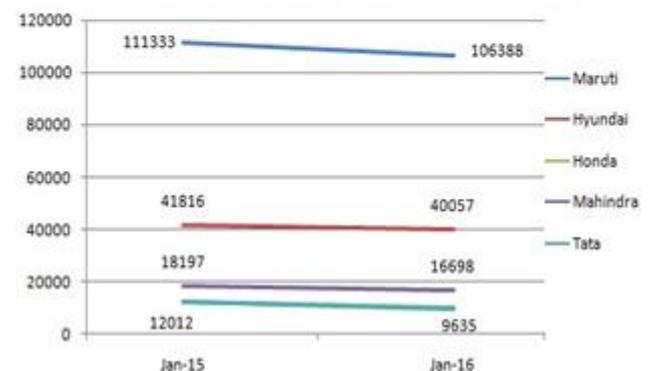
### Tools of Data

This research is based on secondary data and in this research tool of data is Chart. Due to demonetization of high-value currency notes, the car market has seen a significant sales dip, where most manufacturers have reported negative growth. Sales of cars are generally affected in the month of December due to demonetization and customers preferring to buy in the new calendar year. However, comparison with the December last year sales also show that reduced sales for major manufacturers.

### Data Analysis

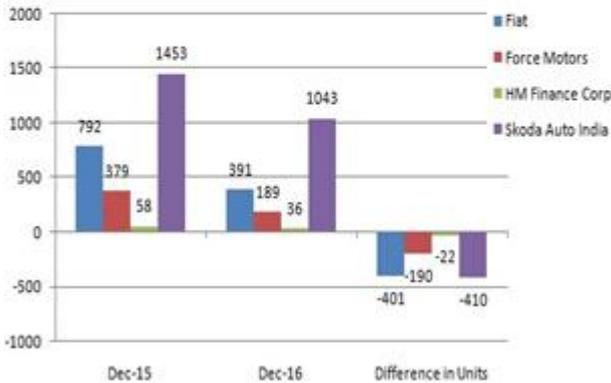
Top manufacturers, Maruti and Hyundai saw a drop of 4.4% and 4.2% respectively. While Tata was the biggest loser among top manufacturers and saw a drop of 19.8%. Honda's sales were down by 18.6% while Mahindra observed dip of 8.2%.

Manufacturer	Dec-15	Dec-16	Difference in Units	Percentage Change
Maruti	111333	106388	-4945	-4.4
Hyundai	41816	40057	-1759	-4.2
Honda	12379	10071	-2308	-18.6
Mahindra	18197	16698	-1499	-8.2
Tata	12012	9635	-2377	-19.8



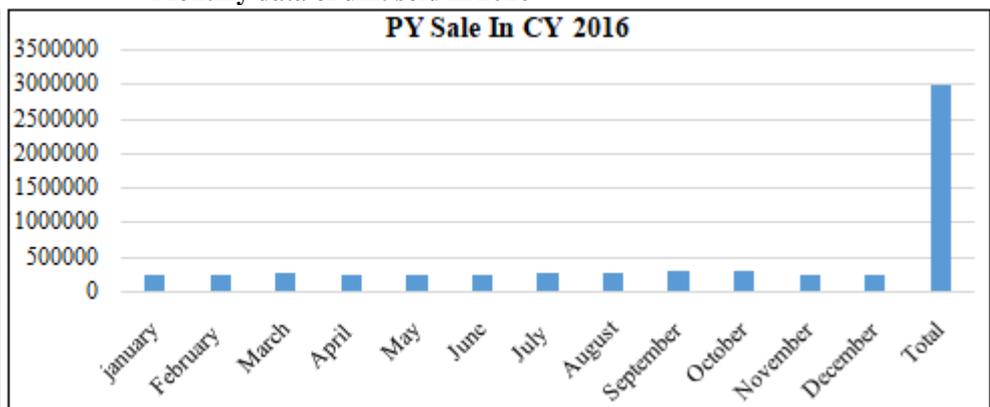
Biggest Change	Dec-15	Dec-16	Difference in Units	Percentage Change
Fiat	792	391	-401	-50.6
Force Motors	379	189	-190	-50.1
HM Finance Corp	58	36	-22	-37.9
Skoda Auto India	1453	1043	-410	-28.2

The biggest drop (50.6%) has been registered by Fiat followed by Force Motors (50.1), HM Finance Corp (37.9%) and Skoda Auto India (28.2%)



Monthly data of unit sold in 2016

2016	Unit sold
January	232016
February	234154
March	256942
April	242060
May	231640
June	223454
July	259685
August	258722
September	278428
October	280677
November	240979
December	230000
Total	2968757



**Limitations of the study**

- This study is mainly based on secondary data from the published Report, websites and magazine.
- In this study only 2years data are taken by me and then compare to each-other with chart.

**4. Conclusion**

We conclude that, There are approx. 35 automobiles sector dealing in four wheeler in India as well as in foreign countries where affected by demonetization. Implementation of demonetization impacts negatively not only on automotive industry (selling car) but also on banking and insurance sector as well as on RTO, PUC, and losses tools and on educated employment as they are co related with each other. Thus automotive industry suffer biggest loss in December 2016 as compared to December 2015. finally, Automotive 2industry start constant sale of car in the month of January and February 2017. The GDP ratio also create adverse effect on Indian economy due to demonetization as it also become stable in January 2017 as compare to the December 2016.

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