



Study on Demonetization and its impact on Automobile Sector

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ABSTRACT

It was the night of 8th November '2016 when the honorable prime minister of the country Mr. Modi proclaimed surprisingly that the old currency will no more be valid in the economy and new notes will be brought into circulation. The defunct Rs 500 note will be replaced by a new note, while the Rs 1,000 note will altogether be a ceased tender in the economy. New Rs 2,000 notes will be supposedly liquidated into the system. The entire country was hit by this storm within a day. This sudden announcement leading to ramifications would be felt throughout various sectors. Just at the time when India's automobile sector straddling passenger cars, SUVs, two- and three-wheelers, and commercial vehicles, was opening the base to gather speed it came across a pace breaker in the form of demonetization. The automobile sector got a huge blow right after the scrapping of the currency. The month of November saw the bookings swooping down by 50%. However the subsequent month for December 2016 showed even more shocking results for the auto makers in the economy. The sale of vehicles in India dropped down to a 16 year low. The objective of the paper is to understand the concept of demonetization and its impact on the automobile sector. The sub objective of the study is to provide a base for the future researchers in this area. Additionally, it will aid the people engaged in the business. The study is basically descriptive in nature and is based on secondary data.

KEYWORDS: Demonetization, automobile, wheelers, government.

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INTRODUCTION

Demonetization is the act of stripping a currency unit of its status as legal tender. It takes place whenever there is a change of national currency. The current form or forms of money is pulled from circulation and is often replaced with new notes or coins. Sometimes, a country wholly replaces the old currency with new currency. In India, all currency denominations of 500 & 1000 ceased to be legal tenders, effective 9th November 2016. This surprise move taken by Honorable Prime Minister Narendra Modi was to scrap the trouble of black money and corruption so as to speed up the move to a cashless economy.

OBJECTIVES OF THE STUDY

The following are the objectives of the study:

- I. To understand the concept of Demonetization.
- II. To know the impact of demonetization on the automobile sector.

RESEARCH METHODOLOGY

For the fulfillment of the above objectives, data is collected basically on secondary basis. The secondary data for the study was collected from different web sources. The study is basically descriptive in nature. The period and data of the study is selected on convenience basis in order to fulfill the objectives of the study.

CONCEPT OF DEMONETIZATION

The honorable prime minister of the country Mr. Modi proclaimed surprisingly that the old currency will no more be valid in the economy and new notes will be brought into circulation. The defunct Rs 500 note will be replaced by a new note, while the Rs 1,000 note will altogether be a ceased tender in the economy. The government's sudden move on demonetization might have its impact on the regular day to day working of the citizens of the country but the automotive industry too will suffer the consequences of this sudden tornado.

IMPACT OF DEMONETIZATION ON AUTOMOBILE SECTOR

The Indian government's bold move to invalidate large currency denominations in November has led to a severe liquidity crunch across the nation. In an economy where trade in hard cash is deep-rooted; this move of demonetization customarily resulted in a slowdown across several sectors. The automotive sector is among one such cash-starved sector which is bearing this brunt and coping with this blow. In the automobile sector, the scrapping of currency had a big effect. The month of November saw the bookings swooping down by 50%. However the subsequent month for December 2016 showed even more shocking results for the auto makers in the economy. The sale of vehicles in India dropped down to a 16 year low. In December, the Society of Indian Automobile Manufacturers (SIAM) termed this decision of demonetization as a temporary disturbance in the healthy industry and has anticipated that it'll pass quickly but



evidently throwing the impact which will be deeper and might bring down a few hopes. Automobile sales saw their biggest monthly fall in 16 years in December after Prime Minister.

Two-wheelers: This decision has affected the manufacture of two-wheelers. The biggest struggle for two-wheeler sales is taking place in the villages where the bike/scooter purchases happen majorly via cash transactions, which have now are completely idle. Considering that only a limited amount of cash withdrawals from ATMs and banks will take place, most of the customers have decided to wait or drop the idea of purchasing. While some producers are preparing to stop production for few days to reduce inventory pressure; there are companies like Honda which is delaying production. However, other manufacturers like Suzuki Motorcycle India Private Limited (SMIPL) have come out with cashless schemes to get some hike. Two-wheeler market leader Hero Moto Corp Ltd's sales during the month of December declined to 34% to 330,202 units. Motorcycle volumes at Bajaj Auto Ltd dropped 11% to 106,665 units. Sales at TVS Motor Co. Ltd also fell 8% to 153,413 units, inclusive of scooters' sales.

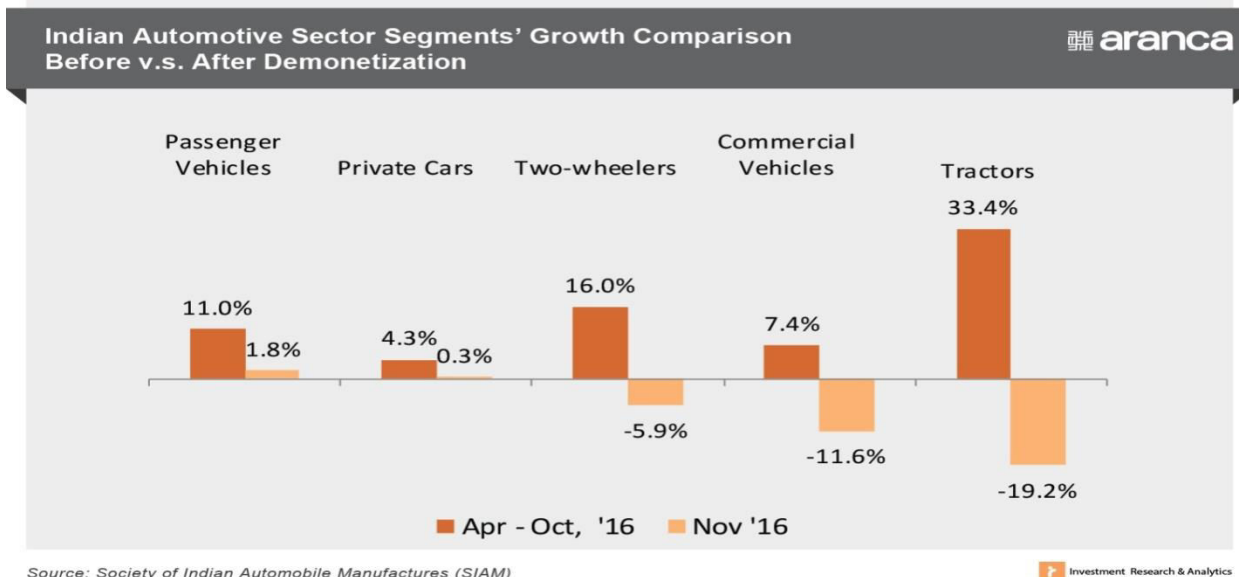
Commercial vehicles including Tractors have also shown a decline of 31% approximately between the months of October to November 2016. November was not good for the commercial vehicles and transport industry. Haulage trucks were hit the hardest in this segment. A huge decline in the used truck market as well, as second-hand truck sales are done almost entirely in cash.

Passenger vehicles and private car sales were flat comparatively.

- + Passenger vehicle sales at Mahindra and Mahindra Ltd, market leader in utility vehicles (UV), dropped 8% to 18,197 units.
- + Sales at Maruti Suzuki India Ltd and Hyundai Motor India Ltd fell 4% each during the month.
- + Hyundai Motor India Ltd (HMIL) domestic sales got down by 4.3% in December were at 40,057 units as against 41,861 units in the same month in previous years.
- + Mahindra & Mahindra's sales in the domestic market were down 1.5% to 34,310 units compared to 34,839 in the year-ago period.
- + Ford India also saw its domestic sales dip by 6.04% to 5,566 units last month as against 5,924 units in the same month a year ago
- + Hinduja Group flagship company Ashok Leyland reported a 12% decline in total sales at 10,731 units in December 2016.
- + Country's largest car maker Maruti Suzuki India saw domestic sales in December at 1,06,414 units, down 4.4% from 1,11,333 units in December 2015.
- + The overall retail sales were down by 24-25% immediately after the note ban and the walk-ins at showrooms were down by 40%.

- + Car manufacturers had to either shut down or delay production lines for 7 to 15 days in December, in an effort to correct surplus inventory levels.
- + A huge blow is felt in the second hand car market. Second-hand car purchases have slowed down as well. Around 60% second-hand car sales have been affected due to the lack of liquid cash with the buyers. Dealers across the country have reported that the purchase of used cars has come to a virtual halt.
- + The sale of luxury cars were down 30-50% just after demonetization.
- + In rural areas, sales of automobiles have dipped by around 40% and are expected to go down 60% as farmers prefer to make payments by cash.
- + The sale of vehicles in December 2016 declined to 1,221,929 units which is a 18.66% decline.
- + Major carmakers have also issued statements saying that November sales have witnessed a decline and that dealerships are struggling to clear out the existing stock.
- + The instant impact of demonetization on the automobile sector was a dip in the BSE Auto Index by 2.5 percent in December, 2016.
- + As per the Federation of Automobile Dealers Associations (FADA), which represents almost 11,000 automobile dealers, accounting for more than 90 percent of automotive retail trade and services industry in India, stated that the entire auto retail trade has come under severe stress.
- + Sale for cars without waiting period fell down to 30-50%. Overall, 25% fall in the sales was witnessed month wise.
- + As cash fuels many transactions, supply chains were hit badly.
- + Many consumers were unable to dispose off their old vehicles straightforwardly.
- + The accessories segment has also felt the heat of demonetization as it runs on cash majorly. The market for components fell down by 60-70% in India.

The following chart shows the year-on-year volume growth of various segments during April-October (before demonetization) as compared to month of November's figures.



Two-wheelers, commercial vehicles, and tractor sales declined after demonetization, while passenger vehicle and private car sales were flat as compared to the months preceding November.

CONCLUSION

Demonetization's impact on the Indian automobile markets was a severe and sudden hit on the head. Though it was a short-term damage for the automotive sector but its sales should climb back to normal levels once new currency is infused into the cash-starved economy. In a nutshell, although the car buyers and the industry have suffered a setback, it seems to be a short-term hardship. Already, most new cars bought in the country have been purchased using cashless payment options. However, entry level designs, two-wheeler and used car sales are expected to remain shallow for a long period. The results however show that domestic passenger vehicle sales in the country which was shaken due to the impact of demonetization in November and December 2016 has somewhere managed to recover quickly. This leaves only two-wheelers and commercial vehicle sales; which are still trying to get the wounds healed which are left by demonetization.

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