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CONTENTS

| Sr. No. | TITLE & NAME OF THE AUTHOR (S) | Page No. |
|---------|--|----------|
| 1. | THE INTERMEDIATE COMMUNITY: A BEHAVIORAL/BARGAINING APPROACH FOR CONFLICT RESOLUTION AT THE LOCAL LEVEL/BAYESIAN ANALYSIS <i>DR. LEONIDAS A. PAKONSTANTINIDIS</i> | 1 |
| 2. | IMPACT OF NEW REFORM ON PRODUCTIVITY OF ETHIOPIAN COTTON TEXTILE INDUSTRY <i>DR. BREHANU BORJI AYALEW</i> | 7 |
| 3. | SIGNIFICANCE OF TOTAL QUALITY MANAGEMENT IN ORGANIZATIONAL PERFORMANCE: AN EMPIRICAL ANALYSIS FROM SMES SECTOR <i>FAROOQ ANWAR, IRFAN SALEEM & AYESHA ZAHID</i> | 13 |
| 4. | INDEPENDENCE AND IMPARTIALITY OF AUDITORS FROM THE VIEWPOINTS OF INDEPENDENT AUDITORS AND INVESTMENT COMPANIES <i>MOHAMADREZA ABDOLI</i> | 17 |
| 5. | COMPARATIVE ANALYSIS OF SELECTED HOUSING FINANCE COMPANIES IN INDIA <i>DR. D. GURUSWAMY</i> | 20 |
| 6. | MUNICIPAL SERVICE QUALITY IN SOUTHERN THAILAND: AN EMPIRICAL INVESTIGATION OF CUSTOMER PERCEPTIONS <i>SAFIEK MOKHLIS</i> | 30 |
| 7. | THE IMPERATIVES OF LEADERSHIP QUESTION IN MEDIA MANAGEMENT <i>BELLO SEMIU & KASALI TAOFEK</i> | 36 |
| 8. | PERCEIVED PURCHASE RISK IN THE TECHNOLOGICAL GOODS PURCHASE CONTEXT: AN INSTRUMENT DEVELOPMENT AND VALIDATION <i>IMAM SALEHUDIN</i> | 41 |
| 9. | STUDY ON TRADITIONAL VERSUS CONTINUOUS ACCREDITATION PROCESS & EXPLORING LEADERSHIP DISPARITY <i>HARINI METHUKU & HATIM R HUSSEIN</i> | 49 |
| 10. | VOLATILITY OF AGGREGATE MARKET INDICES <i>NALINA K B & B SHIVARAJ</i> | 56 |
| 11. | STUDENT FEED BACK: A TOOL TO ENHANCE QUALITY IN ENGINEERING EDUCATION <i>VEERANNA.D.K & DR. ANAND.K.JOSHI</i> | 63 |
| 12. | JOB SCHEDULING OF NURSE STAFFING: A DYNAMIC PROGRAMMING APPROACH <i>KAVITHA KOPPULA & DR. LEWLYN L. RAJ RODRIGUES</i> | 66 |
| 13. | INFLUENCE OF PERSONAL FACTORS ON ORGANISATIONAL CLIMATE IN IT COMPANIES <i>R. DARWIN JOSEPH & DR. N. PANCHANATHAN</i> | 70 |
| 14. | ANALYSIS OF CUSTOMER SATISFACTION OF THE HOTEL INDUSTRY IN INDIA USING KANO MODEL & QFD <i>PARUL GUPTA & R. K. SRIVASTAVA</i> | 74 |
| 15. | BEHAVIOUR OF STOCK MARKET VOLATILITY IN DEVELOPING COUNTRIES <i>DR. S. S. CHAHAL & SUMAN</i> | 82 |
| 16. | FINANCIAL DERIVATIVES IN INDIA: DEVELOPMENT PATTERN AND TRADING IMPACT ON THE VOLATILITY OF NSE <i>E.V.P.A.S.PALLAVI & DR. P. S. RAVINDRA</i> | 89 |
| 17. | CHANGING FACE OF CAR MARKET: A REVIEW OF MARKET GROWTH AND CHANGING SALES TRENDS IN INDIAN PASSENGER CAR MARKET <i>DEEPTHI SANKAR & DR. ZAKKARIYA K.A.</i> | 94 |
| 18. | PERFORMANCE APPRAISAL: ALIGNING PERSONAL ASPIRATIONS TO ORGANIZATIONAL GOALS (A SPECIAL REFERENCE TO DAIRY SECTOR IN RAJASTHAN) <i>DR. SHWETA TIWARI (MISHRA)</i> | 99 |
| 19. | INDIA'S BANKING SECTOR REFORMS FROM THE PERSPECTIVE OF BANKING SYSTEM <i>RAJESH GARG & ASHOK KUMAR</i> | 103 |
| 20. | INFORMATION TECHNOLOGY AND COMMUNICATION IN BUSINESS <i>C. ARUL VENKADESH</i> | 108 |
| 21. | IMPACT OF ORGANIZED RETAIL ON UNORGANIZED SECTOR: A STUDY IN JAMMU REGION <i>URVASHI GUPTA</i> | 112 |
| 22. | ISLAMIC BANKING IN INDIA: RELIGIOUS AND SOCIO-ECONOMIC PERSPECTIVES AFFECTING MUSLIM INVESTORS OF AHMEDABAD DISTRICT IN GUJARAT <i>URVI AMIN</i> | 116 |
| 23. | ICT DEVELOPMENT IN INDIA: A CASE STUDY OF INFOSYS LTD. <i>MUNISH KUMAR TIWARI</i> | 122 |
| 24. | DATA WAREHOUSING AND TESTING <i>VENKATESH RAMASAMY & ABINAYA MURUGANANDHAN</i> | 130 |
| 25. | POLITICAL IMPACT OF MICRO FINANCE ON RURAL POOR IN ANDHRA PRADESH <i>DR. NANU LUNAVATH</i> | 135 |
| | REQUEST FOR FEEDBACK | 151 |

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CHANGING FACE OF CAR MARKET: A REVIEW OF MARKET GROWTH AND CHANGING SALES TRENDS IN INDIAN PASSENGER CAR MARKET

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ABSTRACT

Indian car market has undergone drastic change during last one decade in terms of volume of sales and variety of options available to the consumers. This paper examines the growth of the Indian passenger car market in relation to the factors facilitated the growth and analyses the sales trends in the recent past. Authors viewed that the change in economic vibrancy due to the change in Government policy after 1991, increase in purchasing power, changes in lifestyle and availability of car finance had encouraged the change and growth of Indian car market. The sale of the passenger car increased to 1,48,681 units in December 2010 from 1,15,337 units in the same month in 2009ⁱ. Based on the length SIAM has classified the passenger cars into six categories and all segments have been showing increase in sales. Increase in sale of compact car segment is comparatively large when compared to other segments. Maruthi is maintaining the market leadership and far ahead from other competitors in terms of market share. Other important brands such as Hyundai Motors, Tata Motors, etc., are showing a fluctuating trend in their sales. It is sure that the Indian car market is going to be highly competitive and promising to both sellers and buyers as many foreign players are putting a lot of capital investment to grab the growing potential of Indian Car market.

KEYWORDS

Car, car market, passenger car.

INTRODUCTION

Transport sector is the backbone of country's economic growth and development. It satisfies one of the most basic needs of the human being i.e. the mobility. Automobile industry is a major constituent of surface transport. Automobiles as a commodity include passenger cars, commercial vehicles, three wheelers and two wheelers. The automobile industry is one of the largest sectors and plays a vital role in the economic growth of any region. The famous Management Thinker Peter F Drucker called the automobile industry as "The Industry of Industries"ⁱⁱ. It is the auto industry which paves the way for reforms in foreign trade; gets in foreign investment and facilitates exposure of the country on a very broad international stage. It is the backbone of petroleum, steel and various manufacturing sectors. It employs everyone from Engineers to Managers; from Shop floor work men to Advertising experts. Indian Automobile Industry is also playing the same role in the Indian economy. Today, Indian Automobile Industry is one of the most modern, growing and vibrant industry in the world. India is the second largest manufacturer of two-wheelers in the worldⁱⁱⁱ. The four-wheeler market is also one of the fastest growing and most promising industries in India. The industry currently contributes about 5 percent of the GDP and it is targeted to grow five fold by 2016 and account for over 10 percent of India's GDP^{iv}.

STATUS OF INDIAN AUTOMOBILE INDUSTRY

ORIGIN AND GROWTH

The Indian automobile industry is now almost more than 60 years old. Its growth can be broadly viewed in three phases namely Autarkic Phase, Mass Car Phase and Globalization Phase^v. The automobile era in India began in 1898 when the Bombay Cycle and motor agency imported four cars into the country. It all started in 1940s for the first embryonic automotive industry to emerge in the pre-independent India. In 1947, the indigenous Birla group set up the first factory in Kolkata to assemble cars and commercial vehicles from imported components.

Similarly Tata Group in collaboration with Daimler Benz of Germany namely TELCO, Ashok Leyland, Mahindra & Mahindra, Hindustan Motors, Premier Automobiles, and Bajaj Auto started production. In 1970s, the world has faced a dramatic change in the oil economy and in the prices of petrol. The 1970s was an era of fuel price increases, rising insurance rates, safety concerns, and emissions controls. The 1973 oil crisis caused a move towards smaller, fuel-efficient vehicles. Attempts were made to produce electric cars, but they were largely unsuccessful. However, the growing demand for more cars since 1980s has changed the whole growth scenario.

During 1980-1985 the first major change was sighted as Japanese manufacturers began to build car and commercial vehicle factories in India in partnership with Indian firms. The advent of foreign technology collaboration came with the inception of Maruti Udyog in collaboration with Suzuki of Japan in the passenger car segment. Indian roads saw the launch of Maruti 800. With the advent of liberalization some more Japanese manufacturers entered the two-wheeler and the commercial vehicle segment in a collaborative arrangement. This period characterized joint ventures in India and the market started opening up. Automobile Industry was delicensed in July 1991 with the announcement of the New Industrial Policy. The passenger car industry was delicensed in 1993. The abolition of the controls led to an overwhelming of demand. The era of controls and protection came to an end. Curbs on capacity were done away with; decrease in customs and excise duties led to situation that vehicles started getting affordable.

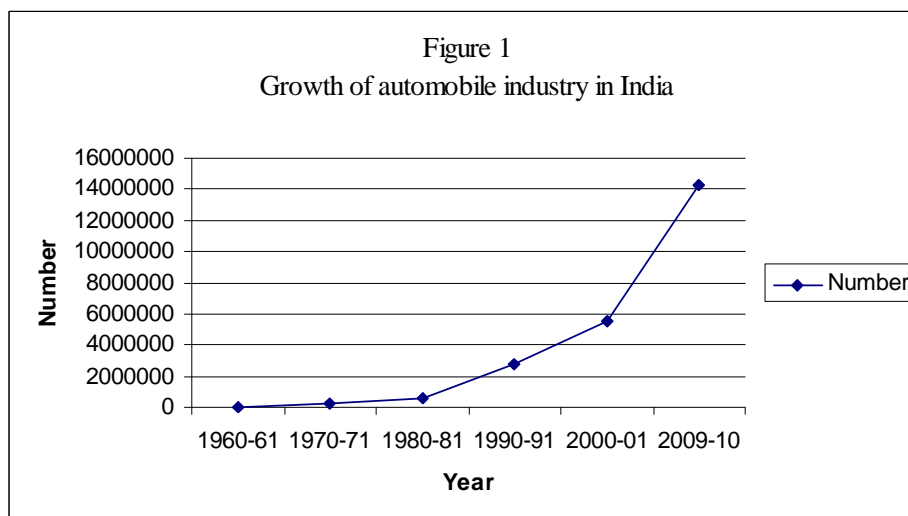
The entry of foreign banks with attractive auto finance schemes helped garner a huge base of middle class population. Early 2000 however saw globalization of Indian auto industry. Several policy changes were introduced with focus on boosting the auto exports. Foreign manufacturers started looking at India for sourcing auto components. The buyers started ruling the market due to the availability of choices in the form of models, price points and brands. For the commercial vehicles, the steady growth in Indian economy led to demand for trucks, tempos, buses etc. The IT and BPO culture boosted exports and employment also pushed the sales of vehicles. The retail boom in India saw malls, supermarket chains mushrooming all over the urban areas, pushed the demand for efficient logistics and that in turn increased the number of commercial vehicles.

CURRENT SCENARIO OF AUTOMOBILE INDUSTRY IN INDIA

The Indian Automobile industries have good potential in the existing and future scenario. All the leading automobile manufacturers have become major players and are manufacturing a wide range of automobiles in various categories in India. Moreover the globalization and liberalization impact on automobile industry is

huge and significantly contributes to increase the levels of the usage of automobile at grassroots levels. The companies operating in automobile industry in India are classified into four categories:

- Commercial Vehicles
- Passenger Vehicles (Passenger Cars & Multi Utility Vehicles)
- Two-Wheelers
- Three Wheelers



Source: Data Compiled from SIAM

Figure-1 shows growth of Indian Automobile Industry during the last seven decades. Chart shows that in 1960 the production of automobile stood at 41535. Between 1970 to the economic liberalization of 1991, the automobile industry continued to grow. A number of Indian manufactures appeared during 1970-1980. The year 1991 is the most important in the history of India, as well as auto mobile industries and other segments. In 1991 India accepted the global policies and FDI (Foreign Direct Investment) to improve the National and per capita income of the country. The growth of the Indian automobile industry during last two decades has been significantly influenced by the growth of the passenger car market. This paper is focused on the changing face of the Indian passenger car market and the detailed discussions are given below.

INDIAN CAR MARKET

Before 1991 India had very less number of cars and car makers, people used to import luxury cars from international car makers. In 1991 there was a sudden shift, international automobile manufactures entered Indian market and dominated Indian brands like Ambassador and Premier Padmini. The international car makers changed the taste of Indian customers by manufacturing with superb quality cars. They have made Indian car market highly competitive and lead to give better car models day by day. Power, interior, safety, exterior of the cars got modern designs and changed the scenario of car models in India.

Actually the transformation of Indian car market from a stagnant stage to a real competitive one started with the introduction of Maruthi cars in 1983. Around 1970, Sanjay Gandhi, the then Prime Minister of India Indira Gandhi's younger son, envisioned the manufacture of an indigenous, cost-effective, low maintenance compact car for the Indian middle-class. Indira Gandhi's cabinet passed a unanimous resolution for the development and production of a "People's Car". Sanjay Gandhi's company was christened Maruti Limited. The name of the car was chosen as "Maruti", after a Hindu deity named Maruti.

At that time Hindustan Motors' Ambassador was the chief car, and the company had come out with a new entrant, the Premier Padmini which was slowly gaining a part of the market share dominated by the Ambassador. For the next ten years, the Indian car market had stagnated at a volume of 30,000 to 40,000 cars for the decade ending 1983. Till the end of 1970s, Maruti had not started the production and a prototype test model was welcomed with criticism and skepticism. The company went into liquidation in 1977. Unfortunately, Maruti started to fly only after the death of Sanjay Gandhi, when Suzuki Motors joined the Government of India as a joint venture partner with 50% share. After his death, Indira Gandhi decided that the project should not be allowed to die. Maruti entered into this collaboration with Suzuki Motors, The collaboration heralded a revolution in the Indian car industry by producing the Maruti 800.

The introduction of the Maruti 800 in 1983 marked the beginning of a revolution in the Indian car industry. Maruti Udyog brought in the latest technology then available, more fuel-efficient cars, and brought down the prices of cars in India. This led to the creation of a huge market for all car segments as the Indian middle class grew in size. This in-turn brought in more players to this segment. A number of auxiliary car parts making units were setup as most car manufacturers realised it was more cost effective to make their car parts in India rather than import them. Maruti's most major influence was in helping the component industry in the country because of its emphasis on localization and indigenization. It also brought in better methods of financing that allowed more people, who could not afford to buy a car on their own, to buy cars^{vi}.

CHARACTERISTICS OF INDIAN PASSENGER CAR MARKET

PRODUCT PENETRATION

The penetration of passenger cars in India stood at five per thousand persons as against 27 for two-wheelers. Significantly, the Indian figures are lower than even those for economies like Indonesia (14 and 62). The relatively high penetration of two-wheelers in India reflects the population's need for mobility and their limited affordability^{vii}.

TABLE-1: AUTOMOTIVE PENETRATION (VEHICLES IN USE PER THOUSAND PERSONS)*

| Country | Passenger Cars | Two wheelers |
|----------------|----------------|--------------|
| USA | 478 | 14 |
| United Kingdom | 373 | 12 |
| Japan | 395 | 115 |
| Germany | 508 | 36 |
| China | 3 | 8 |
| Indonesia | 14 | 62 |
| South Korea | 167 | 59 |
| India | 5 | 27 |

* Source: World Bank

PASSENGER CAR PRODUCTION DURING PAST TEN YEARS

Table-2 depicts the percentage change in passenger car production from 2001 to 2010 for a period of 10 years. In 2001 the production increased by 26.37 percent over 2000. Even though the percentage change is showing a fluctuating trend through out the ten years the production is showing an increasing trend. The buoyancy in the sector is derived primarily from economic vibrancy, changes in Government policies, increase in purchasing power (especially of the upper middle class), improvement in life styles, and availability of car finance. Although there was a slowdown in 2008, the recent high growth in 2010 has been on the strength of an increase in the disposable income of middle-income salaried people, release of pent-up demand, and easy availability of credit^{viii}.

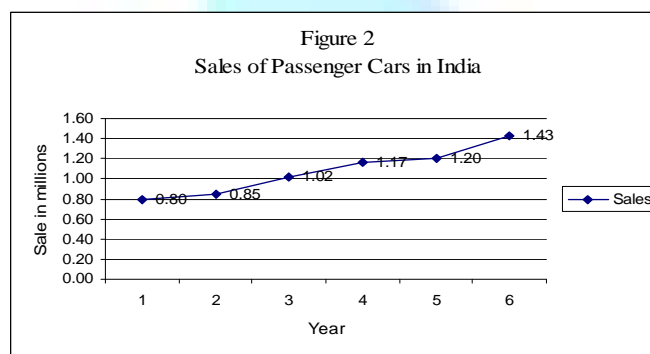
TABLE-2: PASSENGER CAR PRODUCTION DURING 2001 TO 2010

| Year | Production | % Change |
|------|------------|----------|
| 2001 | 654,557 | 26.37 |
| 2002 | 703,948 | 7.55 |
| 2003 | 907,968 | 28.98 |
| 2004 | 1,178,354 | 29.78 |
| 2005 | 1,264,000 | 7.27 |
| 2006 | 1,473,000 | 16.53 |
| 2007 | 1,713,479 | 16.33 |
| 2008 | 1,846,051 | 7.74 |
| 2009 | 2,175,220 | 17.83 |
| 2010 | 2,814,584 | 29.39 |

Source: en.wikipedia.org

SALE OF PASSENGER CARS IN INDIA

Figure-2 below exhibits the sale of passenger cars in India from 2004 to 2009. In 2004 the sale of passenger car was 0.80 million. Sales totaled 1.43 million units in 2009, 18.7 percent more than 2008. So the growth trend in the passenger car sales is highly obvious and giving a clear idea about the market potential. There was a slight decline in the growth rate during 2008 period but the rate came back strongly in 2009. The growth rate came down in 2008 may be largely due to the impact of economic recession happened during that period.



Source: SIAM

PROJECTION OF FUTURE SALES OF PASSENGER CARS

To understand whether the growth trend in the passenger car sales will continue in the same phase or better manner, authors have attempted for a trend projection of future sales for the period from 2010 to 2015 based on the data provided in table-3. A time series method of forecasting was used with sales data for the past six years for projecting the future sales. The data was plotted and using the curve estimation method in the regression model and a linear trend line was fitted. The fitted model was found significant with close fit (R square = 0.957). From the table-4 it is clear that the model developed is highly significant. The Linear regression model developed is Predicted yearly sales = $0.643 + 0.124 \times \text{time}$ (year in numbers 1, 2, 3,...). Annual sales predicted for another six years using the Linear regression model is given in table-5.

TABLE-3: ANNUAL PASSENGER-CAR SALES IN INDIA FROM 2004-2009

| Year | Sales in millions |
|------|-------------------|
| 2004 | 0.8 |
| 2005 | 0.85 |
| 2006 | 1.02 |
| 2007 | 1.17 |
| 2008 | 1.2 |
| 2009 | 1.43 |

Source: SIAM

TABLE-4: REGRESSION MODEL FOR TREND ANALYSIS FOR PREDICTING FUTURE SALES

| MODEL SUMMARY | | | | | |
|---------------|-----------------------------|-------------------|----------------------------|---------|------------|
| R | R Square | Adjusted R Square | Std. Error of the Estimate | | |
| .983 | .966 | .957 | .049 | | |
| ANOVA | | | | | |
| | Sum of Squares | df | Mean Square | F | Sig. |
| Regression | .270 | 1 | .270 | 113.083 | .000 |
| Residual | .010 | 4 | .002 | | |
| Total | .280 | 5 | | | |
| COEFFICIENTS | | | | | |
| | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | B | Std. Error | Beta | B | Std. Error |
| year | .124 | .012 | .983 | 10.634 | .000 |
| (Constant) | .643 | .046 | | 14.134 | .000 |

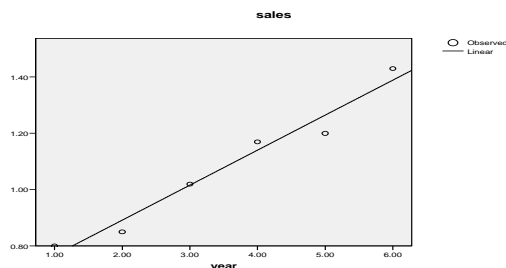
The independent variable is year.

Predicted yearly sales = $0.643 + 0.124 \times \text{time}$ (year in numbers 1,2,3,...)

TABLE-5- SALES PREDICTED USING LINEAR REGRESSION MODEL FOR SIX YEARS FROM 2010

| Year | Sales in Millions |
|----------|-------------------|
| 1 (2010) | 1.511 |
| 2 (2011) | 1.635 |
| 3 (2012) | 1.759 |
| 4 (2013) | 1.883 |
| 5 (2014) | 2.007 |
| 6 (2015) | 2.131 |

FIGURE-3: PROJECTED SALES OF PASSENGER CARS



Results of annual sales prediction using linear regression model clearly shows a continued upward trend in the sales growth of passenger cars in India. The result for six years starting from 2010 to 2015 predicts a consistent growth of sales of cars from 1.511 million to 2.131 million. These results clearly indicate the prospects of Indian passenger car industry in the coming years. The predictions are also graphically plotted in the Figure-3.

SEGMENT-WISE CLASSIFICATION OF THE INDIAN CAR MARKET

Affordability is the most important demand driver in India; the domestic car market has been segmented on the basis of vehicle price till SIAM introduced the length-based classification of passenger cars. SIAM classification of motor cars is discussed in detail in following section. Based on length cars can be classified into six categories. The models in the car market can be fitted to different segments as given below:

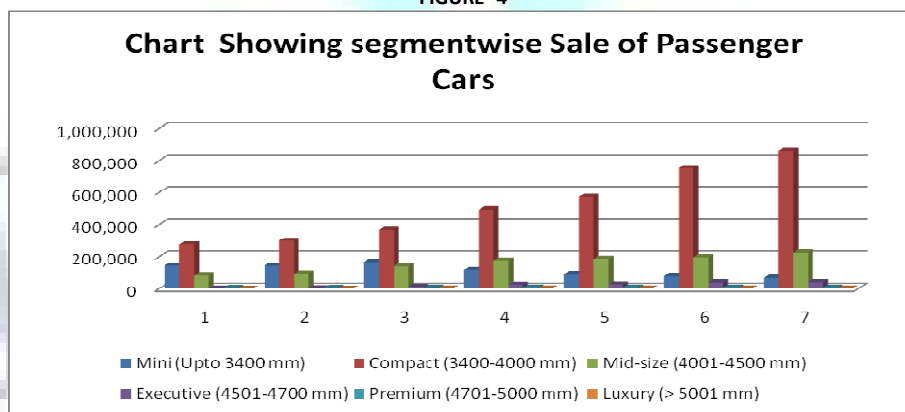
TABLE NO- 6: MODELS IN THE CAR MARKET ACCORDING TO DIFFERENT SEGMENTS

| Category | Length (in mm) |
|-----------|----------------|
| Mini | Up to 3400 |
| Compact | 3400-4000 |
| Mid-size | 4001-4500 |
| Executive | 4501-4700 |
| Premium | 4701-5000 |
| Luxury | >5001 |

SEGMENT WISE SALE OF PASSENGER CARS IN INDIA

Figure- 4 depicts the segment wise sale of passenger cars in India from 2002 to 2008. The chart indicates that all segments are showing an increase in sales. Mini car segment exhibited an increase in sale in the beginning but sales declined in the last three years. Compact segment is showing an increase in all the seven years. The increase in sale of this segment is comparatively large when compared to other segments.

FIGURE -4



Compiled by INGRES

MARKET SHARE OF MAJOR PLAYERS IN CAR MARKET IN INDIA

Table- 7 indicates the market share of major companies in the car market. Table indicates that Maruti Suzuki India Ltd is the player with the major share of market as they have secured almost half of the market share, followed by Hyundai and Tata Motors. Market share of these players is showing a fluctuating trend^{ix} and they are having nearly one-third or less market share of Maruti. That is, Maruti is still the market leader and no other car marketer has grown up to challenge that position, even though some are showing potential for the same.

TABLE-7: MARKET SHARE OF MAJOR PLAYERS IN CAR MARKET IN INDIA

| Manufacturer | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Ford India Pvt Ltd | 4.43 | 4.39 | 4.56 | 5.81 | 4.46 | 3.37 | 2.25 | 4.81 |
| General Motors India Pvt Ltd | 3.56 | 2.72 | 1.82 | 1.76 | 3.5 | 3.01 | 4.62 | 4.40 |
| Honda Sael Cars India Ltd | 6.11 | 8.12 | 8.66 | 11.21 | 9.86 | 7.58 | 4.01 | 2.97 |
| Hyundai Motor India Ltd | 22.12 | 22.28 | 23.28 | 22.46 | 22.8 | 29.56 | 20.61 | 18.10 |
| Maruti Suzuki India Ltd. | 41.71 | 39.89 | 40.63 | 38.8 | 39.88 | 38.34 | 50.09 | 48.74 |
| Tata Motors Ltd | 13.95 | 15 | 15.24 | 14.76 | 12.43 | 12.85 | 13.18 | 12.92 |
| Toyota Kirloskar Motor Pvt Ltd | 2.93 | 2.34 | 2.34 | 1.58 | 1.31 | 1.46 | 2.43 | 3.3 |

Source: CMIE April2010

CONCLUSION

From the above analysis it is evident that passenger car market is exhibiting a growth and there is untapped potential. India has been one of the few markets globally to resist the recessionary trend and record a strong 25.6 percent volume growth in financial year 2010. The growth momentum continues to be on track with first eleven months of financial year 11 registering a growth of 29.8 percent over the corresponding period in the previous year. Though the growth rate has been reduced it is still among the world's fastest growing auto market. India's passenger vehicle market ranks as world's seventh largest; larger than markets like United Kingdom, France and Spain by volume. Moving from "Roti, kapda aur makaan" to "Roti kapda, makaan aur gaadi" evidently says the Indian passenger car story. From being a product owned by a selected few 25 years back it is now a necessity. The passenger car has always been an aspirational and emotional product for Indians which is evident from the data above. The percentage change in passenger car production is showing a fluctuating trend through out the ten years but the production is showing an increasing trend. Similarly the sale of passenger car is also showing an upward trend. Segment wise sale of passenger car indicates that sales in compact car segment are comparatively larger than any other segments. Today's Indian consumer is different from the one a decade ago. The vibrancy in the market and many brands vying with each other to grab consumer's attention inculcate the feeling that future of passenger car market in India is extremely promising^x.

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