

FDI Inflows Towards Selected Indian Manufacturing Industries – An Analytical Study

Paper ID	IJIFR/V3/ E9/ 010	Page No.	3248-3252	Subject Area	Commerce
Key Words	Foreign Direct Investment, Automobile Sector, Trends And Determinants, Domestic Market				

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Abstract

India is been identified as one of the most attractive long-term investment destinations. The presence of large domestic market, fairly well developed financial architecture and skilled human resources are attracting the FDI inflows to the country. The automobile sector is also in the race of receiving FDI inflows from foreign countries. This paper is an attempt to show the trends and determinants of FDI inflows to the automobile sector of India. It is been identified that even though the FDI inflows to the automobile sector is fluctuating year after year the sector is developing and is able to receive good amount of capital inflows.

1. INTRODUCTION

Foreign Direct Investment (or FDI) is an investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.

2. FDI IN INDIA

Published Online On: 17th May, 2016
Available online through - <http://ijifr.com/searchjournal.aspx>
www.ijifr.com

Foreign Direct Investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment. The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

2.1 Profile of Indian Automobile Industry

The Indian auto industry is one of the largest in the world with an annual production of 23.37 million vehicles in FY 2014-15, following a growth of 8.68 per cent over the last year. The automobile industry accounts for 7.1 per cent of the country's gross domestic product (GDP). The Two Wheelers segment with 81 per cent market share is the leader of the Indian Automobile market owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector. The overall Passenger Vehicle (PV) segment has 13 per cent market share. India is also a prominent auto exporter and has strong export growth expectations for the near future. In FY 2014-15, automobile exports grew by 15 per cent over the last year. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the Two Wheeler (2W) and Four Wheeler (4W) market in the world by 2020.

2.2 Investments

In order to keep up with the growing demand, several auto makers have started investing heavily in various segments of the industry during the last few months. The industry has attracted foreign direct investment (FDI) worth US\$ 13.48 billion during the period April 2000 to June 2015, according to data released by Department of Industrial Policy and Promotion (DIPP).

Some of the major investments and developments in the automobile sector in India are as follows:

- Global auto major Ford plans to manufacture in India two families of engines by 2017, a 2.2 litre diesel engine codenamed Panther, and a 1.2 litre petrol engine codenamed Dragon, which are expected to power 270,000 Ford vehicles globally.
- The world's largest air bag suppliers AutolivInc, Takata Corp, TRW Automotive Inc and Toyoda Gosei Co are setting up plants and increasing capacity in India.
- General Motors plans to invest US\$ 1 billion in India by 2020, mainly to increase the capacity at the Talegaon plant in Maharashtra from 130,000 units a year to 220,000 by 2025.

- US-based car maker Chrysler has planned to invest Rs 3,500 crore (US\$ 525 million) in Maharashtra, to manufacture Jeep Grand Cherokee model.
- Mercedes Benz has decided to manufacture the GLA entry SUV in India. The company has doubled its India assembly capacity to 20,000 units per annum.
- Germany-based luxury car maker Bayerische Motoren Werke AG's (BMW) local unit has announced to procure components from seven India-based auto parts makers.
- Mahindra Two Wheelers Limited (MTWL) acquired 51 per cent shares in France-based Peugeot Motorcycles (PMTC).

2.3 Government Initiatives

The Government of India encourages foreign investment in the automobile sector and allows 100 per cent FDI under the automatic route.

Some of the major initiatives taken by the Government of India are:

- Government of India aims to make automobiles manufacturing the main driver of 'Make in India' initiative, as it expects passenger vehicles market to triple to 9.4 million units by 2026, as highlighted in the Auto Mission Plan (AMP) 2016-26.
- In the Union budget of 2015-16, the Government has announced to provide credit of Rs 850,000 crore (US\$ 127.5 billion) to farmers, which is expected to boost the tractors segment sales.
- The Government plans to promote eco-friendly cars in the country i.e. CNG based vehicle, hybrid vehicle, and electric vehicle and also made mandatory of 5 per cent ethanol blending in petrol.
- The government has formulated a Scheme for Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India, under the National Electric Mobility Mission 2020 to encourage the progressive induction of reliable, affordable and efficient electric and hybrid vehicles in the country.
- The Automobile Mission Plan (AMP) for the period 2006–2016, designed by the government is aimed at accelerating and sustaining growth in this sector. Also, the well-established Regulatory Framework under the Ministry of Shipping, Road Transport and Highways, plays a part in providing a boost to this sector.

2.4 Road Ahead

India's automotive industry is one of the most competitive in the world. It does not cover 100 per cent of technology or components required to make a car but it is giving a good 97 per cent, as highlighted by Mr Vicent Cobee, Corporate Vice-President, Nissan Motor's Datsun. Leading auto maker Maruti Suzuki expects Indian passenger car market to reach four million units by 2020, up from 1.97 million units in 2014-15. The Indian automotive sector has the potential to generate up to US\$ 300 billion in annual revenue by 2026, create 65 million additional jobs and contribute over 12 per cent to India's Gross Domestic Product, as per the Automotive Mission Plan 2016-26 prepared jointly by the

Society of Indian Automobile Manufacturers (SIAM) and government. (Exchange Rate Used: INR 1 = US\$ 0.0151 as on November 15, 2015)

3. OBJECTIVE OF THE STUDY

The study is conducted with the objective of analysing the trends and determinants of FDI inflows to Indian Automobile sector.

4. DATA AND METHODOLOGY

In pursuance of the above mentioned objective, the data required for the study are collected through secondary sources like official publications, publications of Government of India, Department of Industrial Policy and promotion, RBI publications etc. The collected data is analysed using the appropriate statistical tools.

5. ANALYSIS AND INTERPRETATION

Table 1: Trends in FDI inflows to India

Year	FDI Inflow (US \$ millions)	Percentage growth
2010-11	34847	-8%
2011-12	46556	+34%
2012-13	34298	-26%
2013-14	36046	+5%
2014-15	44877	+24%

Source: Department of Industrial Policy and Promotion

The above table shows that the FDI inflows to India have fluctuated year after year from -8% to 24%. During the recent year 2014-15 the FDI inflows have increased from US\$ 36046 million to US\$ 44877 million due to the expectations of Make in India Policy towards developing the nation which may yield more income to the investors.

Table 2: FDI inflows to Indian Automobile industry from 2010-11 to 2014-15

Year	FDI Inflow (US \$ millions)	Percentage growth
2010-11	1331	+10%
2011-12	923	-31%
2012-13	1537	+67%
2013-14	1517	-1.3%
2014-15	2570	+69%

Source: Department of Industrial Policy and Promotion

The FDI inflows to the automobile sector has also fluctuated a lot with highest amount of US\$ 2570 million in the year 2014-15 and lowest being at US\$ 923 million in the year 2011-12. This shows that there is a drastic change in the automobile sector and new investments are taking place which may lead to new innovations in the sector and the development of the nation.

Table 3: Percentage share of FDI of Automobile Industry in total FDI inflow

Year	Total FDI Inflow (US \$ millions)	FDI inflow to Automobile Industry (US \$ millions)	Percentage Share
2010-11	34847	1331	3.8%
2011-12	46556	923	1.9%
2012-13	34298	1537	4.4%
2013-14	36046	1517	4.2%
2014-15	44877	2570	5.7%

From the above table it can be said that 5.7% of the total FDI inflow is been catered towards to the automobile sector. This indicates that the more amounts of FDI are flowing to the automobile sector leading to the development of the sector.

6. CONCLUSION

FDI has helped the Indian economy grow and the government continues to encourage more investments of this sort. Attracting foreign direct investment has become an integral part of the economic development strategies for India. FDI has been a booming factor that has bolstered the economic life of India. Over the years FDI flow is increasing. However India has tremendous potential for absorbing greater flow of FDI in the coming years. Due to the introduction of Make in India policy the Government of India is expecting to receive more amounts of FDI inflows and thus the country can develop in all the sectors.

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