

## **Demonetisation and the Impact on Passenger Car Market in Coimbatore City**

**Dr. R. Rajasekaran**

Associate Professor

Department of Commerce

PSG College of Arts and Science

Coimbatore, Tamil Nadu, India.

**Ms. Umamaheswari Sankar**

Full time Research Scholar

Department of Commerce

PSG College of Arts and Science

Coimbatore, Tamil Nadu, India.

### **Abstract**

The demonetisation move by the government has an impact on the day today regular activities of people and also it creates a positive as well as negative impact on automobile industry which leads to market fluctuation and its business output. It not only creates vibration on the entire nation and it also affects the countries stock market. The BSE auto index shows a decreasing trend to the level of 2.5 % as on 10th Dec 2016. Because of this trend the automobile industry faced challenges and has directed to go for different market strategy more specifically with passenger car market. The demonetisation policy creates some of short-term impact on the sale of cars, SUVs and also on two wheelers. This study has been taken to understand the impact of demonetisation on automobile industry more specifically with passenger car market in Coimbatore city. Present research is a descriptive study, primary data and secondary data has been used. Objectives were framed, research design prepared, required data have been collected and suitable analysis were made. Findings of the study reveal that there is an impact of demonetisation on passenger car market which affects car manufacturing units, dealers and banks and how they back to normalcy after the overhang of demonetisation policy.

### **Keywords**

Demonetisation, Automobile, Challenging, Strategy, Impact.

### **1. Introduction of Demonetisation**

Demonetisation is the course of action that involves a revolution of national currency where old currency is replaced with new currency. The flow of a particular currency notes come to an end, by the withdrawal of existing currency notes or coins. Demonetization is the take action of divest a currency unit of its status as officially authorized tender. In

November 2016, the Indian government strong-willed to replace the 500 and 1000 rupee notes. The two denominations in currency system were accounted the maximum of 86% of total currency circulating cash in the country. Honourable Prime Minister of India Narendra Modi announced the public on November 8, 2016 that those notes were worthless effective immediately and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee. The confusion ensued in the cash dependent economy some 78% of all Indian customer transactions are in cash as long twisting lines formed outside ATMs and banks which had to close up the new currency notes have different specifications including size, thickness and colour. The currency management by ATM is only 60% of the country that is 2 lakhs ATMs are in operational condition. The daily withdrawal and financial transactions in the bank are restricted by the government and it influence on automobile industry. The impact of demonetisation moves in the month of November it results that bookings were turn down in the same month. It has made a shock for the auto makers.

Demonetization affected auto industry, sales decrease to the lowest in 16 years. In December 2016, vehicle sales reduced to 12, 21, 929 units which shows 18.66% decline in automobile industry. Dealers all over the country expressed their opinion on the sale of automobile units both in rural and urban areas they face extreme drop in walk-ins and enquiries. Automobile Business has been more affected with buyers preferring to make payments by cash. Customers preferred for loan options also make down payments in cash which also brought down the passenger car sale, even higher end cars also faced the same situation. The sale of passenger cars has been dropped by 40% and the situation continues it may drop to 60%. Farmers prefer cash payments knowing that automobile dealers decided to introduce several schemes to increase sales. On the spot discounts to customers and hefty incentives to company sales teams who switch enquires to sales have also been offered. The auto manufacturers hold their production because of the stimulation by the drop in sale. Even two wheeler market, auto components suppliers, used car market and service stations were hit by the demonetisation policy.

- **Passenger Car Market in Coimbatore**

India's first indigenous motor was developed by GD Naidu in 1937. India's first diesel engine car was manufactured in the city by the year 1972. The city is hub for automobile manufactures they deals with small auto component maker's automobile industry, personal to commercial and farm vehicles. Coimbatore city was a large and facilitated large manufacturing sector like Larsen Toubro, Suzlon, Pricol, LMW, ROOTS etc. It is a major centre for the manufacture of automotive components in India with car manufacturers such as Maruti Udyog and TATA motors sourcing up to thirty percent of their automotive components to automobile industry. Coimbatore city has industrial associations such as CODISSIA, COINDIA etc. representing the industries in the city.

The following are the details related to the available distributors of the Passenger Car in Coimbatore city

1. ABT Maruti (MARUTI SUZUKI)
2. Sundaram Motors (HONDA, MERCEDES BENZ & CHEVROLET)
3. CAI Industries (MAHINDRA, FORD & FIAT)
4. Chandra Hyundai (HYUNDAI)
5. TAFE Access Limited (TATA)
6. Audi Coimbatore(AUDI)
7. SKG Cars (SKODA)
8. Ramani (WOLKSWAGEN AND NISSAN)

## **2. Problem Statement**

Demonetisation has worse hit the automobile sector which is influenced the performance of manufacturer, dealers and the bankers. Customers visiting to dealers and even the retail sales tremendously reduce more than 30% in turn the business and trading communities avoiding from purchase decisions because of the cash crunch. It is especially visible not only in the cities it also create an impact on rural market. Automobile dealers in India have faced the consequences and request the manufacture to reduce the dispatch of units and keep eye on the market situation. There is a strong impact is also seen in the unorganised used car market, which is driven mostly by cash based dealing. Keep it in a mind, the researcher eager to know the exact condition, the level of impact on sales in Passenger car market, the strategy adopted to overcome the issue and with reference to the study area Coimbatore city.

### **3. Objectives of the Study**

- To study the performance of passenger car market during demonetisation period.
- To find out the level of demonetisation impact on sales of passenger car.
- To identify the strategy adopted in passenger car market.
- To offer suggestions and recommendation.

### **4. Scope of the Study**

The government's demonetisation move has had an impact on both industries and individuals. The industry as a whole has seen a sales slowdown. Passenger car sales slipped in December despite an aggressive sales push to beat the year-end lethargy. The new ruling, many dealers have started shying away from accepting cash payments, including those for the booking amounts, which will largely be in the Rs.500/ 1000 denominations. No matter the financial status of a person, buying a new car is probably the last thing on everyone's mind right now. People are busy depositing, withdrawing or exchanging cash these days. Major carmakers have also issued statements that November sales have witnessed a decline and that dealerships are struggling to clear out the existing stock. Hence, the researcher needs to identify the performance of the passenger car market during demonetisation period and also highlight how the Passenger car markets triumph over demonetisation impact and try to give strategy to manage and overcome the issue.

### **5. Research Methodology**

For the purpose of the study, required data have been collected through the primary sources by questionnaire and from the secondary sources like books, periodicals, research articles, seminar reports, and newspapers, study reports of expert committees, departmental publications, plan documents, unpublished dissertations, broacher, pamphlets and advertisements. Period considered for the study is three months from the October 2016 to December 2016 and geographical area of the study focused only at Coimbatore City, Tamil Nadu state.

## **6. Literature Review**

The following are literature review to understand more about the study problem as well as high light the research gap in the respective field.

1. **Banerjee & Chatterjee (2016)**; The major factor like cash less transactions has considered being harder hit for the sale of car. The impact results in inventory piling issue, increased fear among the end customer regarding changing government norms for possession of wealth and assets.
2. **Nishant P (2016)**; Bansal, the co-founder of virtual marketplace for pre-owned cars, Truebil says “The used car industry is set to a positive turnaround.” Considering the current state of the industry-being organised the move will help to reduce a lot of unaccounted cash transactions.
3. **Balachandar, (2016)**; 35 - 40% of the prices of SUVs and premium vehicles are paid through cash, black economy gets heavily invested SUV’s and premium vehicles. Hence, these categories will also have an impact for the short-term.
4. **Singh (2016)**; The demonetization was quite a surprise for the entire nation and the immediate ripple effect of this on the automotive industry was a DIP in the BSE auto index of 2.5 % on December 10, 2016. This is due to the fact that a number of potential buyers offer down payment in cash or sometimes, purchase a two wheeler with the complete cash payment.
5. **Ray & Dewan (2016)**; Over the past 2 months, commercial vehicle sales, especially heavy vehicles have been on a declining trend on account of waning replacement demand, weak industrial activity and uncertainty related to the impact of goods and services tax (GST) regime on vehicle prices.
6. **Mukherjee (2016)**; Demonetisation has badly hit the automobile sector, with demand in Gujarat, Punjab, The national capital region and North east being worse than the rest of India.
7. **Majeed (2016)**; Demonetisation has already smashed the sales across the country. Be it is motorcycle segment, small cars or even luxury cars, customers are not going ahead with the decision to buy. Recovery of the market is expected by the end of this financial year.
8. **Vora and Sahadeo (2016)**; Though it has been expected that the rural segment would be least impacted due to black money erosion drive as tax-exempted rural income constitutes to be a larger chunk

of rural economy, cash crunch and weak consumer sentiments may hurt demand cycle, in near term as their dealer check indicates a high cash component in rural purchases.

9. **Lokesh Uke (2017)**; "Demonetization and its effects in India", SSRG International Journal of Economics and Management Studies (SSRG - IJEMS), V4 (2), 18-23 February 2017. ISSN: 2393 - 9125. [www.int-ernationaljtheirnalsrsg.org/IJEMS/index.html](http://www.int-ernationaljtheirnalsrsg.org/IJEMS/index.html). Published by: Seventh Sense Research Group.
10. **Dr. Kadambini Katke1 (2017)**; Impact of Demonetization on Indian Automobile Industry: A Special Reference to Car Industry. Indian Demonetisation has shaken the economy and lots of mix response has recorded, few industries are hoping to get positive impact whereas few fear to get hard hit. Automobile industry is one such which has negative impact (IJSER).

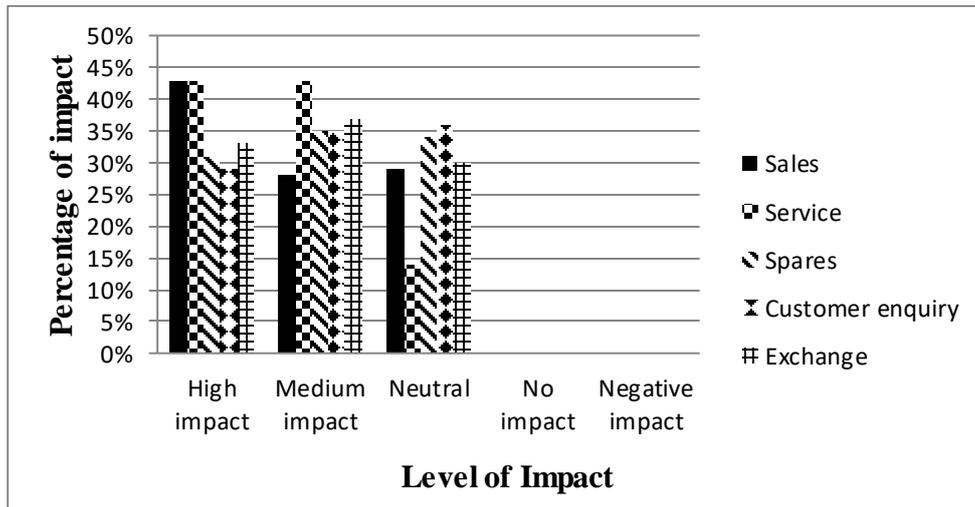
## 7. Data Analysis and Findings

### 1. Percentage Analysis

**Table 1: Impact of Demonetisation on Passenger Car Business.**

1	Total no. of respondents	High impact	Medium impact	Neutral	No impact	Negative impact	Total (%)
Sales	10	43%	28%	29%	0%	0%	100%
Service	10	43%	35%	22%	0%	0%	100%
Spares	10	31%	35%	34%	0%	0%	100%
Customer inquiry	10	29%	33%	36%	0%	0%	100%
Exchange	10	33%	37%	30%	0%	0%	100%

**Chart – I**  
**Demonetisation Impact on Passenger Car Business**



*Source: Primary data*

From the above table as well as the chart it is understood that out of total respondent taken for the study 43% respondent face high impact on sales and services, 35% of the respondent face medium impact on spares, 36% of the respondent face neutral impact on customer inquiry and 37% of them face neutral impact on exchange, hence the majority of the respondent face high impact on sales and services during the demonetisation.

## 2. Chi-Square Analysis

**Table - 2: Chi-Square analysis between year of Experience and Strategy adopted to manage the Impact of Demonetisation.**

Test Statistics	
Chi-Square	7.000
Degree of Freedom	5
Asymp. Sig.	0.221

**Null Hypothesis:** There is no significant relationship between year of experience and strategy adopted to manage the impact of demonetisation. Since the table significance 0.221 is greater than 0.05 the level of significance, there is no significant relationship between year of experience and strategy adopted to manage the impact of demonetisation, hence the null hypothesis is accepted.

### 3. Chi-Square Analysis

**Table 3: Chi-square Analysis between Year of experience and Opinion on Demonetisation**

Test Statistics	
Chi-Square	3.325
Degree of Freedom	3
Asymp. Sig.	0.344

**Null Hypothesis:** There is no significant relationship between year of experience and opinion on demonetisation.

Since the table significance 0.344 is greater than 0.05 the level of significance, there is no significant relationship between year of experience and opinion on demonetisation, hence the null hypothesis is accepted.

### 4. T-test (Paired Samples t-test)

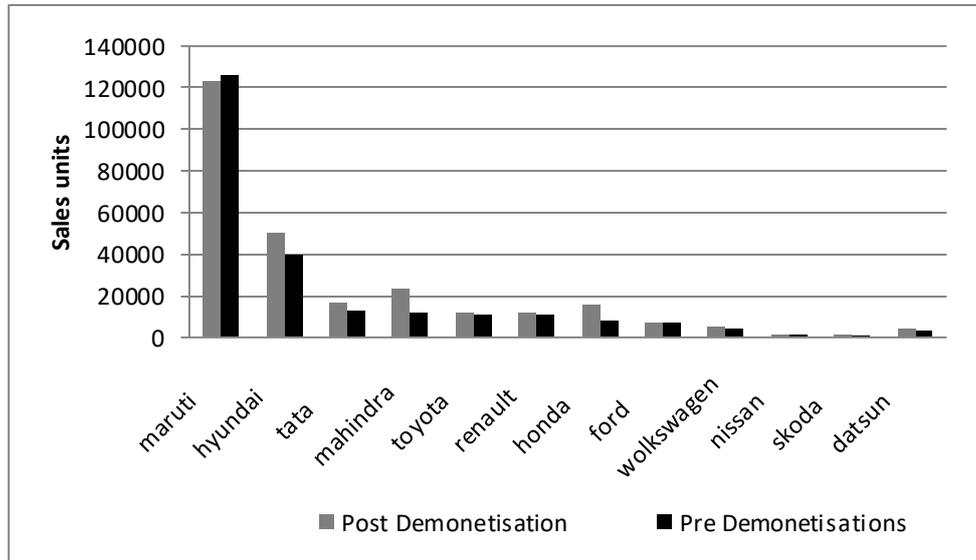
**Table 4: A paired-samples t-test was conducted to compare the sale of vehicles in India pre-demonetisation and post demonetisation.**

Construct	Mean	Std. Deviation	t	Significance
Impact	2.990	4195.857	2.468	0.031

**Null Hypothesis:** There is no significant relationship between the sale of vehicle pre-demonetisation and post demonetisation.

Chart – 2

Sale of Vehicles Pre Demonetisation and Post Demonetisation



Source: (Team – BHP)

Since the table significance 0.031 is less than 0.05, there is significant relationship between the sale of vehicle pre-demonetisation and post-demonetisation; hence the null hypothesis is rejected.

### 8. Suggestions

Based on the study conducted by the researcher and understand the impact of demonetisation policy of the government on passenger car market the analysis has highlighted certain findings in the field and also listed certain suggestions. Those suggestions are clearly given as follows, so that it may help the manufacturer, distributors and customers to take any business related decisions.

- It is suggested that the passenger car distributors are need to be adopt suitable market strategy to face the recent changes raised by demonetisation policy.
- It is also suggested to the customers to clearly understand the impact of demonetisation and maintain transparent digital transactions, which is the ultimate aim of demonetisation.

- The car manufacturers are requested to create a complete awareness through their distributors to the consumer market, so that the consumers for passenger car can have clear idea on their purchase.
- It is suggested to the government to consider the bank rate through RBI the government central bank instructions to manage and smooth passenger car business.
- It is felt that the distributors are requested to introduce Point of Sale machine (POS) to encourage digital transactions.
- It is also suggested to concentrate more on rural marketing and catch hold the rural consumers and expand business.
- Offers like exchange of car, discount, extra fittings and accessories, insurance incentive to staff and after sales service need to be improved and encouraged for more sales.
- The union government has introduced demonetisation policy to manage, control and monitor the complete financial transactions of the country and focus more on transparency and accountability hence it is suggested that manufacturers, distributors and consumers are requested to follow and cooperate for the smooth economic transactions.

## **9. Conclusion**

The demonetisation policy of the government has changed the regular and routine business transactions in our country during the period from November 2016, to till date. The above study is clearly shows that, there is an impact of demonetisation on automobile industry and more specifically on passenger car market. Nearly 78% of the respondent clearly says that there is an impact on sale of passenger car during the period. As far as Coimbatore passenger car market is concern there are eight distributors doing their passenger car business in the city in which Maruti stands no.1 in the market share. The study also reveals that the distributors started adopting new methodology of business in order to boost the sales, compete the market competition and maintain sustainability even after the impact of demonetisation.

## References

1. Banerji, N(2016) “*Demonetisation impact on auto industry*”  
[http://www.-autocarindia.com/auto-news/demonetisation-impact-n auto industry- 403495.aspx](http://www.-autocarindia.com/auto-news/demonetisation-impact-n-auto-industry-403495.aspx)
2. Majid, A, (2016) “*Demonetisation drive dents automobile sales*”  
Retrieved from, [www.businessstandard.com](http://www.businessstandard.com) on 9/1/2017
3. Mukherjee, S, and Shukla, S( 2016) “*Post demonetisation, auto industry fears 30% drop in November retail sales*”, Retrieved from [www.economicstimes.indiatimes.com](http://www.economicstimes.indiatimes.com) on 7/1/2017
4. Parekh, N, (2016), Autocar, Automobile Magazine “*Reviews on car sales*” Retrieved from [www.autocarindia.com](http://www.autocarindia.com) on 11/1/2017
5. demonetization-on-auto-industry-press-release on 7/1/2017
6. Vora, S and Sahadeo, N (2016) “*Indian Automobiles Uncertainty looms, expect pain till Q4FY17*” Religare Institutional Research, Retrieved from [Market\\_Automobile\\_Religare\\_24.11.2016](http://Market_Automobile_Religare_24.11.2016) on 6/1/2017
7. [http://www.autocarindia.com/auto-news/demonetisation-impact-on auto industry- 403495.aspx](http://www.autocarindia.com/auto-news/demonetisation-impact-on-auto-industry-403495.aspx)
8. [http://economicstimes.indiatimes.com/articleshow/56918028.cms?utm\\_s theirce=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](http://economicstimes.indiatimes.com/articleshow/56918028.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)
9. <http://www.dnaindia.com/money/report-demonetization-effect-automobile-sales-at-16-year-low-in-december-2291031>
10. <http://www.livemint.com/Industry/SIK34NIedgYQjLwFHmy6BI/Demonetisation-takes-a-toll-on-automobile-sales-in-December.html>
11. [http://www.business-standard.com/article/economypolicy/note-ban-has negatively impacted-auto-asset-backed-loan- moody-s-117021300-217\\_1.html](http://www.business-standard.com/article/economypolicy/note-ban-has-negatively-impacted-auto-asset-backed-loan-moody-s-117021300-217_1.html)
12. [www.Team-BHP.com](http://www.Team-BHP.com)