

Goods & Services Tax (GST) and Two-Wheelers Market Segment in India: An Impact Study

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Abstract

One of the major tax reforms since independence in Indirect Tax regime has been introduced on 1st July 2017 by the Government of India is the Goods and Services tax replacing multiple indirect tax structure which Indian government used to follow over the years. All the major state and central indirect taxes are subsumed in GST regime which is creating simplicity in tax structure which will benefit both traders and consumers by reducing multiplicity of tax and elimination of cascading effect of tax or double taxation. Indian two-wheeler segment has emerged to be the largest producer and supplier over passing other countries. Owing to the growing population and ever increasing traffic congestion in the urban cities, two-wheelers have become most convenient choice for transportation. A GST rate of 28% for bikes below 350cc and for bikes above 350cc will attract a GST rate of 28% with an additional cess of 3% totalling the tax to 31% are being levied currently. While the previous practice of taxation was at the rate of 30% without any discrimination of cubic capacity. The study focuses on the before and after change in price of few two-wheelers of different companies. With change in tax structure every company has adopted GST and gradually increased and decreased the prices of their models. Models with cubic capacity of more than 350cc are getting costlier and models with cubic capacity below 350 are becoming cheaper in comparison to Pre-GST rates. Despite of the fact that prices of every bike under 350cc have decreased Indian economy is going through various structural changes and GST is not the mere representation of sales incline or decline. Other factors like ban of bikes which met the standards of Bharat Stage III, demonetisation can also be made responsible for gradual decline in sales of two-wheeler industry, market demand plays an eminent factor in deciding the sales of the market and taste and preference of the customer is also important to determine the demand of various model of various manufacturer.

Keywords: GST; Two-Wheelers Industry; Cubic Capacity; Bharat Stage III; Demonetisation.

Introduction

Two-wheelers are considered to be one of the most versatile forms of transportation. A motorised two-wheeler can be used in varying forms like just for commuting from one point to another in short time and using personal mode of transport in low cost. Motorised two-wheelers are an extended version of bicycles with no manual effort and with the benefit of fast and effortless traveling. Public transportation

may be the cheapest but two-wheelers meet many requirements of an Indian citizen like low cost of ownership and maintenance in comparison to other car, compact size which helps in parking and travelling in worst terrains and learning to ride a motorcycle and use it in proper way is the easiest task of the all. Under the provisions of the Motor Vehicle Act, 1988, the eligibility criteria for

Permanent License is 18 years and above. Owing to the growing population and ever increasing traffic congestion in the urban cities, two-wheelers have become most convenient choice for transportation.

Journey of Two Wheeler Industry in India

Two-wheeler industry can be divided into three major segments which are Motorcycles, Scooters and Mopeds. The journey of the Indian Two-wheeler industry is based on the advancements in these segments through the years.

Indian government led the path of foreign collaborations in 1955 as they required rough and tough motorcycles for the Indian Army. These helped the two-wheeler industry received encouragement for foreign Collaborations. The production was controlled by the government with limitations of licensing, to curb the production and regulate the industry. Table1 reveals the major players in the industry during the time-frame of 1955-1969.

Table #1: Period of Entry 1955-1969

INDIAN FIRM	FOREIGN COLLABORATOR	SEGMENT	BRAND NAME
Enfield India Ltd (EIL)	Enfield Ltd, U.K.	Motorcycle	Royal Enfield 350 cc
Automobile products of India (API)	Innocenti Ltd., Italy	Scooter	Lambretta
Bajaj Auto Ltd. (BAL)	Piaggio Ltd., Italy	Scooter	Vespa
Ideal JawaPvt. Ltd.(IJPL)	Jawa Ltd., Czechoslovakia	Motorcycle	Yezdi, 250 cc
Escorts Ltd. (EL)	CEKOP, Poland	Motorcycle	Rajdoot, 175 cc

Source :-www.spareaze.com last assessed on 12.08.2017

The period of 1970 to 80 depicted a 15% increase per annum in the overall growth of the industry. Whereas from 1974-79, sales of two-wheelers increased by 60%, while that of cars declined by 21% and jeeps grew only by 11% the main contributing factor to this increase in two-wheeler industry and downfall of car industry was the hike in the oil prices

in 1974. This converted most of the prospective car users of this segment to two-wheeler users as bikes could provide better fuel efficiency over cars or jeeps. This era emerged to be a significant motivator of the two-wheeler industry and bikes became a popular mode of personal transport.

Table #2: Period of Entry 1970-1980

INDIAN FIRM	SEGMENT	BRAND NAME
Kinetic Engineering Ltd. (KEL)	Moped	Luna
Scooters India Ltd. (SIL)	Scooter	Vijay
Maharashtra Scooters Ltd. (MSL)	Scooter	Priya
Majestic Auto Ltd. (MAL)	Moped	Hero Majestic
Sundaram Clayton Ltd.(SCL)	Moped	TVS 50cc

Source :-www.spareaze.com last assessed on 12.08.2017

This period noticed the emergence of the local players of manufacturing units in India. In between this period local manufacturers were encouraged and small utility vehicles were produced to meet the demand of low budget customers. Again from 1980-90's, the policies again saw a shift towards allowing foreign collaboration for below 100cc. This brought a whole new realm into the industry by providing

advanced technologies to the motorcycle segment. Fuel-efficiency improved by 60-100 % in comparison to old vehicles. In the seventies, motorcycle mileage was on an average between 25 to 50 kilometres per litre, change in technology improved to 50 to 80 kilometres per litre. The adverse effect resulted in winding up of several existing but weaker players due to new entrants and superior products.

Table #3: Period of Entry 1981-1990

INDIAN FIRM	FOREIGN FIRM	SEGMENT	BRAND NAME
Tvs	Suzuki, Japan	Motorcycle	Ind-Suzuki 110 Cc
Bajaj Auto Ltd	Kawasaki, Japan	Motorcycle	Kawasaki Bajaj 100 Cc
Escorts Ltd	Yamaha, Japan	Motorcycle	Yamaha Rx 100 Cc
Hero Majestic Ltd	Honda, Japan	Motorcycle	Hero Honda 100 Cc
Kinetic Engineering Ltd	Honda, Japan	Scooter	Nh 100 Cc
Lohia Machinery Ltd	Piaggio, Italy	Scooter	Vespa Xe
Enfield India	Zundapp-WerkeGmbh	Moped	50 Cc
		Motorcycle	50 Cc
		Motorcycle	80 Cc
		Motorcycle	100 Cc

Source :-www.spareaze.com last assessed on 12.08.2017

The decade leading up to the end of the millennium saw a complete liberalisation of the economy. Resulting in deregulation of the industry, with several reforms to make Indian exports competitive. Increment in the number of brands was noticed and it led to higher competition. This also led to reduction in the sales for each individual brand. Due to increase in fuel prices, high input costs and reduced purchasing power due to significant rise in general price level and credit crunch in consumer financing the industry faced recession of 1993-94, gave way for a decline in the sales numbers. The market improved and made tremendous progress towards the end of the millennium, nearing the year 2000.

As an overview, the increase in sales volume of this industry is proof of its high growth. But by the end of 2000, sales figure had risen to 3 million units per annum. Similarly, capacities of production of these companies have also increased from about 0.2 million units of annual capacity in the seventies to more than 4 million units in the late nineties.

Indian Two-Wheeler Industry in the Global Scenario

A steady growth in past few years has been noticed by Indian automobile manufacturers and is now

expected to grow at an accelerating pace within 2014-2019. The major contributors to the demand of two wheelers are the countries in Asia-Pacific region which will continue to dominate the worldwide demand in future. Asia –Pacific alone consist of six major players of the world.

China was the largest national market of two wheeler industry and followed by India and Indonesia in future. But now India has surpassed China in terms of production and sale. The demand for two wheelers is highly dependent on the economic stability and the average income levels of the country and many other factors which affect capital asset buying decision. The rising fuel prices can also be a growth driver for two-wheelers due to their higher fuel efficiency.

Post economic liberalisation, with reforms and policies allowing Foreign Direct Investments into India, two wheelers industries has seen drastic increase in domestic sales within the country. Local companies are also exporting their products to other countries which resulted in top two wheelers industries in the world. Major players in this market currently are Honda, Yamaha, Hero Moto Corp., Bajaj Auto, and Suzuki.

Table #4: Two wheelers industry trends in India

SALES	2010-11 (Units)	2011-12 (Units)	2012-13 (Units)	2013-14 (Units)	2014-15 (Units)	2015-16 (Units)
Export Sales	15,31,619	19,75,111	19,56,378	20,84,000	24,57,466	24,81,193
Domestic Sales	1,17,68,910	1,34,09,150	1,37,97,185	1,48,06,778	1,59,75,561	1,64,55,911

Total Production	1,33,49,349	1,54,27,532	1,57,44,156	1,68,83,049	1,84,89,311	1,88,29,786
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Source :-www.spareaze.com last assessed on 12.08.2017

Review of literature

Singh Surjeet, and Khan Ahmed Irshad (1991) studied the development of automobile industry which has been a powerful stimulant to the industrial growth of both the economically developed as well as developing countries. Previously the industry have been limited to production and sales, dependence on import of vehicles and components, cost in efficiency, low quality and reliability, backward technology, lack of modernization, fuel inefficiency, existence of seller's market, and almost indifferent attitude of the government.

Biswajit Mahanty and Virupaxi Bagodi (2007) studied that more than 55 million two-wheelers are being availed on Indian roads. On that basis, service sector of two-wheelers should have generated revenue amounting to INR 100,000 million per year, but the reality was different, the Indian two-wheelers service industry has not considered servicing as a line of business and providing conveniently reliable services is most important in two-wheelers services in India to capture the market and accelerate the growth of this industry.

Biswajit Mahanty and Virupaxi Bagodi (2008) considered it as an era of customer delight for the two wheelers industry and the conventional measures implemented by the service organizations tend to be inadequate to attract customers persistently. Focus must be made on modernisation of services.

Pawan Chabra (2011) analysed that every second bike sold in India in the premium segment is a pulsar and this shows the dominance of Bajaj in the market place, the company has been regularly making the alterations to make the bikes attractive and consumer based at all times and Bajaj today holds over 50% market in the premium segment (for FY 2010-2011) followed by a distant second largest player Honda Motorcycle & scooter India with a 19% market share.

Philip Kotler (2012) Harley – Davidson dealers ranging from the CEO to the sales staff, maintain personalized relationships with customers through direct and social media contact. Relationships with the customers as individuals and conducting on-going research to keep up with their changing expectations and experiences which help Harley – Davidson to identify their customers' needs better.

Dr. Kadambini Katke, Abhay Kamat and Manish Kalal (2017) demonetisation posed economic problem along with psychological fear. It affected the market currently but things could stabilise in the long run with some changes in taxation policy. Cash sales have come down whereas the hire purchase method of buying cars remains constant. The market is unstable and currently adopting changes required.

Objective of the study

- Price changes made by various two-wheelers manufacturers post GST on the basis of cubic capacity.
- Top selling models of current market leaders in two-wheelers industry for last few months.
- To analyse the pre and post GST effect on two wheelers industry with comparison to previous year sales.
- Other factors that are currently affecting the sales and factors to be considered before purchasing a capital asset.
- Evaluating the reasons for incline or decline of sales.

Research Methodology

This is a desk-based study based on secondary data collected from various web-based reports on two wheelers market segment. After collection of data appropriate research tools have been used to evaluate the sales of various two wheelers manufacturers in Indian market. Assessment of sales after implication of GST is made on the basis of secondary data collected from various annual reports and websites like motorbeam, auto.ndtv, financial express etc. Moreover to understand and assess the actual reason for changes in sales of two wheelers at the aftermath of GST regime, the sales figure of March, April, May, June and July of various two wheelers manufacturers have been assessed in detail in this study.

Introduction of GST

Goods and Services tax was introduced on 1st July 2017 by the current Union Government of India, replacing multiple indirect tax structure which Indian government used to follow over the past years. All

major state and central indirect taxes are subsumed in GST regime like:

State taxes which will be subsumed in SGST:

- VAT/Sales tax
- Entertainment tax (unless it is levied by local bodies)
- Luxury tax
- Taxes on lottery, betting and gambling
- State cess and surcharges to the extent related to supply of goods and services.
- Entry tax not on in lieu of octroi
- Electricity Duty

Central taxes which will be subsumed in CGST:

- Central Excise
- Services Tax under Finance Act, 1994
- Central Sales Tax – CST
- Value Added Tax – VAT
- Additional duty of customs
- Special Additional duty
- Education Cess
- Higher Secondary education Cess
- Swachha Bharat Cess – SBC
- KrishiKalyan Cess – KKC
- Cess collected by Central Government under various heads like Automobile Cess, Tractor Cess, Textile Cess etc.
- Medicinal Excise
- Entry Tax on Goods Under Entry of Goods into Local Areas Act
- Entry Tax on Motor Vehicles Under Entry Tax of Motor Vehicles into Local Areas Act
- Purchase Tax
- Taxes on Lottery Betting gambling Under Betting Tax Act of respective State
- Luxury Tax Under Luxuries Act of respective States
- Entertainment Tax Under Entertainment tax Act of respective States
- State Cess / surcharges
- LBT – Local Body Tax
- Octroi
- Tax on sale of Forest Produce by Government or Forest Development Corporation.

List of Taxes Not Included in GST:

- Taxes That May or May Not Be Subsumed Due To No Consensus Between The Central And The State Governments and various other reasons
- Basic Customs Duty – BCD

- Surcharge on Customs duty Surcharge at the rate of 10% of the Basic Customs Duty is levied on imported goods under Section 90 of the Finance Act, 2000 (unless exempted by a notification).
- Customs Cess –
- Safeguard duty under Section 8B of the Customs Tariff Act, 1975
- Anti-dumping duty under Section 9A, Customs Tariff Act 1975
- State Excise
- Stamp Duty
- Property Tax levied by Local Bodies
- Central Excise as respects goods included in entry 84 (Alcohol for human consumption) of the Union List of the Seventh Schedule to the Constitution
- Central Excise on Petroleum Products – GST applicability date on petroleum products will be notified subsequently
- VAT on Petroleum Products – GST applicability date on petroleum products (i.e. petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel) will be notified subsequently
- Profession Tax
- License fee on entry of vehicles under THE CANTONMENTS ACT, 2006
- Securities Transaction Tax (STT)

GST is creating simplicity in tax structure which will benefit both traders and consumers by reducing multiplicity of tax and elimination of cascading effect of tax or double taxation. Uniform rates are achieved throughout the country by implementation of GST. Business is going through structural changes due to GST and adaptation is just a matter of time. With reduction of taxes corruption is expected to be reduced as the number of tax departments will be reduced.

Two-wheelers manufacturer will charge uniform price across India. Resulting in ex-showroom price uniformity in every state with a GST rate of 28% for bikes below 350cc and bikes above 350cc will attract a GST rate of 28% with an additional cess of 3% totalling the tax to 31%. Tax rate before GST was 30% for all kind of two-wheelers and varied from state to state as the states used to impose different tax rates. The changes unwraps that basic motorcycles are becoming cheap for rational

consumers and luxurious and high end bikes are getting costly.

Table #5: Price Comparison Pre and Post GST

COMPANY	MODEL	PRE GST (Rupees)	POST GST (Rupees)
BAJAJ	PULSAR	82,147 – 1,37,862	78,861 – 1,32,347
	DISCOVER	57,326	55,033
	DOMINAR(400CC)	1,54,503	1,55,739
ROYAL ENFIELD	CLASSIC(350CC)	1,52,865	1,54,087
	HIMALAYAN(400CC)	1,82,364	1,83,822
TVS	STAR CITY	51,888	49,812
	APACHE	1,05,609	1,01,304
HONDA	UNICORN	85,215	88,623
	SHINE	70,147	67,341
	CBR (650CC)	8,64,249	8,71,162

Source :-www.fianacialexpress.comlast assessed on 12.08.2017

The above table 5 represents the before and after change in price of few two-wheelers of different companies. With change in tax structure every company has adopted GST and gradually increased and decreased the prices of their models. India is a vast market with various kinds of customer with various kinds of demand. Most of the manufacturer

deals with high end costly models and basic low end featured motorcycles for every day customers. Models with cubic capacity of more than 350cc are getting costlier and models with cubic capacity below 350 are becoming cheaper in comparison to Pre-GST rates.

Table #6: Sales for The Month of May and June 2017 of Top Selling Models.

RANK	MODEL	SALES JUNE'17 (Units)	SALES MAY'17 (Units)	PERCENTAGE GROWTH OR DECLINE
1	HONDA ACTIVA	2,34,767	2,82,478	-17
2	HERO SPLENDOR	2,19,103	2,35,832	-7
3	HERO DELUX	1,54,655	1,40,769	9
4	HERO GLAMOUR	78,889	67,515	17
5	HERO PASSION	76,605	89,399	-14
6	HONDA SHINE	69,108	86,600	-20
7	TVS XL SUPER	65,302	70,253	-7
8	TVS JUPITER	60,570	57,068	6
9	ROYAL ENFIELD CLASSIC 350	42,149	39,721	6
10	HERO MAESTRO	38,822	35,795	8
11	BAJAJ PULSAR SERIES	37,503	50,009	-25
12	TVS APACHE SERIES	32,742	37,151	-12
13	HONDA DIO	26,890	41,303	-35
14	SUZUKI ACCESS	26,511	31,895	-17
15	BAJAJ CT100	24,776	38,947	-36
16	HONDA DREAM SERIES	23,126	26,060	-11
17	HONDA LIVO	22,598	23,858	-5
18	BAJAJ PLATINA	20,689	30,726	-33
19	HERO DUJET	20,341	19,194	6
20	TVS SPORTS	18,135	24,424	-26

Source :-www.motorbeam.comlast assessed on 12.08.2017

The above table 6 depicts the growth or decline rate of bestselling two-wheelers in India. The major objective behind this table is to reveal the changes that took place due to GST involvement in tax structure. Major players of this industry and their famous models like Honda Activa, Hero Splendor, Hero Passion Honda Shine, Bajaj Pulsar Series, Tvs Apache Series, Honda Dio, Bajaj Ct100, Bajaj Platina, Tvs Sports, etc. shows a decline in sales of June despite of the fact that every model in this table is under 350cc which means that prices of every bike in this table has decreased. Indian economy is going through various structural changes and GST is not the mere representation of sales incline or decline. Other factors like ban on bikes which met the standards of Bharat Stage III let to incremental sales in the month of March resulting in decline in sales of May and June respectively. Demonetisation can also be made responsible for gradual decline in sales of two-wheelers industry. Hero Delux, Hero

Glamour, Tvs Jupiter, Royal Enfield Classic 350, Hero Maestro have shown an increase in sales in the month of June in respect of May. Market demand plays an eminent factor in deciding the sales of the market. Whereas taste and preferences of the customer are considered the most important factor is to determine the demand of various models of different manufacturer.

Purchasing a Capital Asset requires decision making. Which not just involve the price of the two-wheelers but other factors like:-

- Amount of investment
- Cost benefit analysis
- Season
- Maintenance cost
- Price of substitute goods
- Price of complementary goods
- Resale value

Table #7: Sales Comparison of July 2016 and 2017.

COMPANIES	JULY 2017 (Units)	JULY 2016 (Units)	DIFFERENCE (Units)	PERCENTAGE GROWTH
HERO	6,23,269	5,32,113	91,156	17.3
HONDA	5,11,939	4,29,551	82,388	19.18
TVS	2,19,396	2,06,605	12,791	6.19
BAJAJ	1,64,915	1,74,324	-9,409	-5.40
ROYAL ENFIELD	63,157	52,128	11,029	21.16
SUZUKI	40,038	24,703	15,335	62.08

Source :-www.auto.ndtv.com last assessed on 12.08.2017

Above table 7 represents sales of July 2017 in comparison to July 2016. There is a growth in sales by every manufacturer except Bajaj and the reason for growth is quiet obvious as the current Indian market is growing and expanding. Purchasing power of Indian citizens has gone up and every new

customer is not a new rider, most people exchange their old bike for new one so the sales market keeps on expanding. Technology plays an eminent role in increment of sales like better fuel efficiency, better handling, tubeless tyres etc.

Table #8:Trend of Sales between March to July 2017.

COMPANIES	JULY 2017 (Units)	JUNE 2017 (Units)	MAY 2017 (Units)	APRIL 2017 (Units)	MARCH 2017 (Units)
HERO	6,23,269	6,24,185	6,33,884	5,91,306	6,09,951
HONDA	5,11,939	4,16,498	5,37,035	5,78,929	3,65,973
TVS	2,19,396	2,28,518	2,82,007	2,46,310	2,56,341
BAJAJ	1,64,915	1,08,109	1,79,822	1,61,930	2,44,235
ROYAL ENFIELD	63,157	52,128	60,696	60,142	60,113
SUZUKI	40,038	33,573	38,923	36,289	36,029

Source:-www.auto.ndtv.com last assessed on 12.08.2017

A mixed reaction is noticed in the above table. Few manufacturers noticed growth in sales whereas few

manufacturers noticed decline in sales. Hero, TVS and Bajaj are the market leaders in India specially in

rural market and urban market also but all these companies notice a decline in sales in respect to previous months despite of reduction in prices. Whereas urban players like Honda, Suzuki and Royal Enfield have noticed growth in sales. A personal asset in urban world is considered as a status symbol whereas it is a utility product for rural population. Weather condition also plays an important role in

determining the sales of two wheelers. In monsoon season people decreases the demand as these mode of transportation doesn't protect from rainfall and the depreciation is highest in the month of monsoon. The above table represents a mixed reaction of sales and no particular trend could be analysed.

Limitations of the study

- The study is a sample study conducted on the secondary data available in different websites and quarterly report.
- GST was applied on July 2017 so the impact could not be judged within 2 months of its launch.
- Future study can be conducted by collection of primary data.
- The study is conducted on secondary data so the accuracy and validity needs to be validated in real field.
- Annual reports of 2016-17 can provide a specific idea about the actual scenario of GST, which is a time concerned factor in this study.

Conclusion

GST has been implemented successfully in India and reduction of taxes had led to decreasing the price of utility vehicles but purchasing a capital asset only on the basis of price is not the actual behaviour shown by a rational consumer. A consumer shows a complex buying behaviour in case of purchasing a two-Wheelers by evaluating factors like prices of complementary goods and supplementary goods, weather, taste and preferences etc. The actual scenario depicts that the law of demand fails in case of various manufacturer because factors like demonetisation, rejection of BSIII, weather conditions, price of related goods and many other factors has made a cumulative effect on the market resulting is less price elasticity of demand. Two-wheelers industry is growing day by day and India has become the largest manufacturer and seller in the world. The effect of GST for the time of two month is not the accurate measure of what is yet to be noticed in coming days.

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