Chapter 1: Introduction

1.1 Automotive Industry in India

The automotive industry is globally one of the largest industrial sectors and a key sector of any economy. Owing to its deep forward and backward linkages, it has a strong multiplier effect and acts as one of the important drivers of economic growth. With the gradual liberalisation of the sector in India since 1991, the number of manufacturing facilities has grown progressively into one of the most vibrant industrial sectors. It produces a wide variety of vehicles: passenger cars, light, medium and heavy commercial vehicles, multi-utility vehicles such as jeeps, two-wheelers such as scooters, motorcycles and mopeds, three-wheelers, tractors and other agricultural equipment. The contribution of this sector to the National Gross Domestic Product (GDP) rose from 2.77 per cent in 1992-93 to close to 6 per cent in mid-2012[1].

As of August 2012, there were 19 manufacturers of passenger cars and multi-utility vehicles, 14 manufacturers of commercial vehicles, 16 manufacturers of two and three wheelers and 12 manufacturers of tractors besides 5 manufacturers of engines in India. This includes most major global Original Equipment Manufacturers (OEMs) besides Indian companies. The auto industry's contribution to manufacturing GDP is approximately 25 per cent while its share to the Central Excise revenue is around 18 per cent.[2]

1.2 Auto component Industry in India

The Indian auto components industry is one of the fastest growing industries in the country. Revenue have risen from US$ 26.5 billion (` 1,59,159 crore) in FY08 to US$ 40.6 billion (` 2,43,844 crore) in FY13 - a Compound Annual Growth Rate (CAGR) of 8.9 per cent.[3] The industry has a distinct global competitive advantage in terms of cost and quality and this has aided in its transformation from a local supplier to a global auto parts supplier. The cost advantage stems from the cost-competitiveness in raw material and labour, while its established manufacturing base is a compelling attraction for global OEMs to outsource components from India.

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[1] National Electric Mobility Mission Plan, 2020, Department of Heavy Industry, Ministry of Heavy Industries and Public Enterprises, Government of India

[2] Pre Union Budget 2014-15 Society of Indian Automobile Manufacturers (SIAM)'s Memorandum of Suggestions on Policy Issues*:* SIAM and the Automotive Component Manufacturers Association of India (ACMA) are two apex bodies appointed by the Government of India to work for the development of the automobile industry in India.

[3]www.ibef.org

Investments in this sector were estimated to have been around ` 10,000 crore during FY11. Major foreign companies have been investing in the domestic industry through joint ventures and partnerships or by setting up their own production plants. Domestic component players are also investing heavily in the industry to reap benefits of long-term growth prospects.

1.3 Why we chose this topic

Automobile majors alongwith the auto component suppliers to the OEM manufacturers contribute to nearly 70-80 per cent of the industry's turnover. Most of the OEM manufacturers fall under Chapter 87 of Central Excise Tariff, Act, 1985. Keeping in view the significant contribution of this sector and its continuing growth, it was felt that coverage of departmental initiatives, exemptions as well as examination of records of selected assessees in this sector would enable a holistic analysis of the indirect tax administration of this important industrial segment.

1.4 Tariff Structure

With effect from 28 February 1985[4], vehicles other than railway or tramway rolling stock, parts and accessories thereof are classifiable under Chapter 87. The major products covered under Chapter 87 are tractors, motor vehicles for transport of persons and goods, motor cycles, cycles, chassis fitted with engines, bodies and other parts and accessories of these vehicles. Most of the goods manufactured under this Chapter attract 12 per cent rate of Central Excise duty and in some other cases, the rate of duty ranges from 14 per cent to 27 per cent. From 9 July 2004, education cess at the rate of two per cent of the duty and from 1 March 2007 secondary and higher education cess at the rate of one per cent of the duty is also leviable. As per Section 136 of Finance Act, 2001 a surcharge by way of duty of excise of one per cent (called the National Calamity Contingent Duty) is also leviable. An automobile cess of 1/8 per cent *ad valorem* is also leviable on automobiles (except those exported or manufactured in Government ordnance factories for use by armed forces).

1.5 Audit objectives

We conducted the performance audit to seek assurance that indirect tax administration is adequately placed to safeguard the interests of revenue relating to the automobile and auto component manufacturers through: -

[4] Introduction of Central Excise Tariff Act, 1985.

a) annual analysis of tax payers and defaulters,

b) identification of specific risks relating to the sector,

c) compliance verification mechanisms such as detailed scrutiny of returns, internal audits and anti-evasion,

d) collective sharing of intelligence reports,

e) careful monitoring of exemptions,

f) efforts to ensure adjudications without delay, and

g) widening of tax base by cross verification of services availed.

Besides, we also looked into the adequacy of rules, circulars, notifications, other extant instructions etc. in this connection.

1.6 Scope and Coverage

We carried out examination of records at selected Commissionerates (including subordinate offices) as well as at premises of automobile manufacturers besides manufacturers/ suppliers of auto components. 30 per cent of the total number of Commissionerates, Divisions and Ranges were covered during the performance study. Two hundred and thirty-nine[5] assessees who were manufacturing automobiles, automobile components and those supplying to the OEMs were selected, restricting the coverage to those who are the manufacturers/dealers of Engine Parts and Drive Transmission and Steering Parts.

The period covered in this study was 2010-11 to 2012-13. However, depending on the issues involved, we examined records of preceding years also, wherever it was felt necessary.

1.7 Acknowledgement

We acknowledge the co-operation extended by Central Board of Excise and Customs (CBEC) and its subordinate formations, in providing the necessary records for the conduct of this audit.

We discussed the audit objectives and scope of the performance audit in an entry conference with CBEC officers on 12 December 2013. We conducted the Exit Conference with CBEC on 21 October 2014.

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[5] A category units (paying duty more than ` 100 crore annually) – 36, B category units (paying duty between ` 100 crore and ` 50 crore annually) – 26, C category units (paying duty between ` 50 crore and ` 10 crore annually) – 80 and D category units (paying duty between ` 10 crore and ` 1 crore annually) – 97.