Summary

The dark side of India's vibrant automobile industry

India's automobile industry is one of the largest in the world. It accounts for over 7 percent of country's GDP, 49 percent of its manufacturing, employs over 35 million people and generally prides itself as one of the most conscientious and sustainable industries. Yet, there is a dark side to it. Its extensive supply chain--the back end of the glitzy car and bike manufacturers that makes the nuts and bolts of the vehicles, is unorganised, away from the spotlight and not quite as efficient as we would like to believe. Hundreds lose their life or limb while trying to produce any of the thousands of critical parts that makes our vehicles tick. In the Gurgaon-Manesar industrial belt alone, of the largest automotive clusters in the country, 1369 workers were grievously injured between 2015 and 2019.

This is a two part series that tells their story. The first part focusses on the problem-the faulty machines and why they are so, the injuries and how it alters lives, and their sheer numbers. The second part looks at the major companies for whom the parts are made in the first place and what, if at all, they are doing about it.

Auto slowdown and FM Sitharaman's bluff

In the middle of 2019, the automobile sectors started grabbing headlines as vehicle sales began thor downward spiral. A process that continues till date. Under pressure, it forced Finance Minister Nirmala Sitharaman to opine that the slowdown was nothing but due to millennials preferring to not buy cars or two wheelers but opt for shared mobility instead. She did not give out numbers and nobody had them. So we decided to not only dig deep but also analyse whether it made sense at all.

The story analyses the economics of mobility and whether using Ola Uber makes sense at all for the youth of this country over a sustained period. The conclusion was a resounding no, unless one needs to take short trips daily between office and home or elsewhere.

FIRST STORY

The dark side of India's vibrant auto industry; 1,369 injured in 4 years in trail of grave losses

Beneath the shimmer of one of world's largest automotive industries is a sordid tale of crushed bones, lost limbs, poverty and broken dreams

"It was April 24, 2018. I lost balance and my hand went into the machine," Manmohan Bajpai recounts. "When I pulled out, I saw only bones. I held my hand and ran to security which called HR. They admitted me immediately."

They grafted skin from his thigh, and for 31 days stitched his hand to his stomach to help the skin grow. "It was tough for a while because my wife was pregnant and my father had just had a heart attack."

Bajpai doesn't blame anyone for the accident and is rather pleased with how the company took care of him. "We think positive," he says. "God saved my hand, right?" He was retained by the company where he now weighs chemicals.

Not everybody is as lucky. Sameer, all of 26, migrated from Unnao to Delhi for work when he had no other choice: his father wasn't around, his brother died of dog bite, and his sister's wedding cost four lakh rupees. His job in an ancillary unit was supposed to be the pancea of all ills. Instead it turned out to be his worst nightmare when the machine he was working on came crashing down on him crushing three fingers of his right hand.

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GRAVE INJURIES IN AUTO SECTOR SUPPLY CHAIN IN GURGAON

Fingers	One lost	548
	Two lost	234
	Three lost	133
	Four lost	73
	Five lost	17
Forearm	Lost (12), Injured, Fractured	150
Hand	Lost (20), Injured, Fractured	89
Shoulder	Fractured	5
Palm	Lost (2), Injured, Fractured	8
Upper Arm	Fractured	1
Eyes	Damaged (1), Injured	3
Head	Injured	1
Leg, Lower Leg, Toe	Lost (12), Injured, Fractured	91
Others	Lost (2), Injured, Fractured	14
Total		1369

"I did not want to work on that machine. It had injured two workers already," Sameer says, describing how when he was home the contractor came and bullied him and took him to the factory. His aunt Been says she knows of companies, though thankfully not too many, who coerce their workers, at times even beat them up and not let them leave the factory.

Sameer passed out when the machine crushed his fingers. When he awoke in the hospital, in agony, he saw that the doctor was cutting his bone.

"Only when I said I was in a lot of pain did they give me injections." He says his phone was stolen from the hospital so he could not call his aunt. She got to know hours later. It took months for Sameer to learn to live without three fingers. When the company did not take him back, he found work elsewhere, sweeping floors for eight thousand rupees a month.

"I can't get married, when a girl looks at my hand, she rejects me," he says. "Who will look after my parents?"

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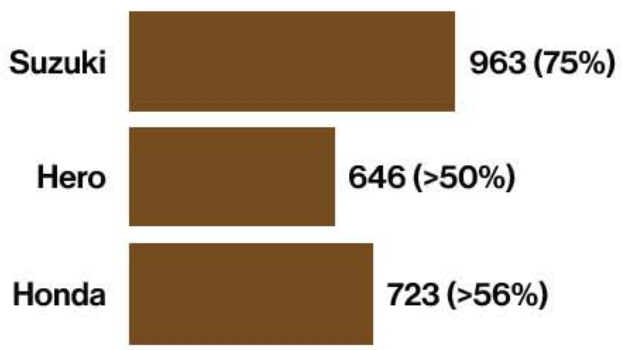
NUMBER OF INJURED WORKERS IN THE SUPPLY CHAIN OF OEM



The total of percentages above is more than 100% as several factories supply to more than one OEM.

People like Manmohan and Sameer are among the hundreds of thousands of migrants that work in factories that make automotive parts in the Gurgaon-Manesar automotive hub of India. The belt that starts from the outskirts of Delhi and stretches upto 80 kilometers into Dharuhera has over 200 automotive units and collectively accounts for 40 percent of all passenger vehicles and two wheelers produced in the country.

"This is the soft underbelly of the automotive industry that nobody is talking about. Our original equipment manufacturers (car, bike and truck makers) are world class and have implemented global best practices in their respective factories but the same cannot be said about the hundreds of other smaller firms that supply components to them," says Sandeep Sachdeva, co-founder and CEO, Safe in India Foundation. "There is a big supply chain of tier I, II, III and IV suppliers in this industry. The lower you go in this chain, awareness of safety becomes more lax and accidents more frequent."

The numbers are mind numbing. Sachdeva has chronicled 1,369 cases of serious injuries that workers have faced so far and the number is still rising at the rate of 2 per day. Of these 548 people have lost at least a finger, 234 have lost two, 133 have lost three, 73 have lost four and 17 have lost all five. Another 150 have either lost (12), injured or fractured an arm, and 89 have either lost (20), fractured or injured a hand. A majority (87 percent) were migrants, contractual (70 percent) and below 30 years of age (66 percent). 12 percent are below 20 years in age. Unlike permanent employees, contractual workers get much less compensation and enjoy a much lax social security net. They are also invariably not part of any union.

Bulk of the injuries-83 percent, happen because the machines either did not have safety sensors or they were malfunctioning. About 47 percent of the workers lacked or had poor quality of safety sensors and 52 percent of the accidents happen in only one type of machine--the power press. Ominously 48 percent of the workers felt excessive production pressure from their supervisors, an obvious fall out of the break neck speed at which the automobile industry has grown over the last two decades in India.

"The real tragedy is that these injuries are preventable. Companies at the bottom of the value chain where most of these accidents happen operate at much lower margins and they tend to cut corners wherever possible. Safety of the workers is not top priority," Sachdeva says. " Lack of awareness is the biggest issue. Companies need to be made aware about safety mechanisms in the machines, proper training of the workers before they operate on dangerous machines and provision for safety gear. Working in a factory and on the shop-floor has occupational hazards and accidents can happen but excessively long hours under tremendous production pressure enhances the chances of an accident."

The magnitude of the malaise is much bigger. A significant part of India's manufacturing sector is unorganised with small factories dotting the lanes and bylanes of industrial clusters that do not make their way into official records.

"And the Gurgaon-Manesar belt is just one of the clusters. There are big automotive clusters in Pune, Gujarat and Chennai. Who knows how many cases occur there on a daily basis? It could be less than Haryana but it could also be more," he adds. "The fact is if you are using a car in India, you can't escape the realization that you are connected to this sordid reality."

That is a sobering thought.

SECOND STORY

Suppliers to three major OEMs - Maruti, Hero MotoCorp and Honda account for bulk of 1,369 injured workers

Are the three auto majors doing enough to streamline their supply chain? Is there scope for them to do more? Views are divided and the jury is still out

While the supply chain industry in the big automotive belt of Gurugram-Manesar has been found to have an abysmal record on safety, almost 1400 cases of serious injuries reported in four years, an overwhelming number of these workers were from factories that supply to three main OEMs-Maruti, Hero MotoCorp and Honda Motorcycle and Scooter India (HMSI).

Of the 1,369 workers that have been chronicled by an NGO SafetyinIndia, 963 were in factories supplying to Maruti, 646 to Hero MotoCorp and 723 to HMSI. This does not really come as a surprise. The three are the predominant automobile companies functional in the region. There are two others-Harley Davidson and Suzuki Motorcycle, but they have significantly lower scale than the big three. The bigger question though, is whether the stink of bad safety standards for workers in the supply chain industry should extend to these auto majors as well?

"There is no one better placed than auto-sector brands to drive actions to prevent such accidents. It's them that we ask to take a lead in this initiative, individually and collectively. This is not only a humanitarian cause but also a strategic business issue for them," says Sandeep Sachdeva, founder CEO, Safe In India Foundation.

"In the last six months, we have had several discussions with all of them and the relevant government departments. Special mention must be made of Maruti Suzuki, who have been the most proactive in agreeing next steps with us. This is, however, just a start and all stakeholders need to do much more," he adds.

When contacted Maruti Suzuki and Hero MotoCorp agreed there was a problem in the supply chain and said they have take various steps to address the issue. For example, Maruti has set up DOJO centres at the factory premises of its various suppliers to upgrade skills and training of their workers. Honda Motorcycle and Scooters India did not respond to the questions sent to them and refused to participate in this story.

"We focus on promoting a culture of safety, employee well being and workplace ergonomics across the value chain. We are through several forums institutionalising 'zero accident' philosophy across the value chain. Presently more than 80% of our tier-1 supplier plants have OHSAS certification (international standard for health and safety management)," Maruti's spokesperson said.

"DOJO training centres located at the supplier's factory premises are part of the company's way of skilling and training suppliers' workmen. The workmen are required to mandatorily go through off-line training programs in the DOJO centre and they are introduced to the shop floor only after acquiring the required skills at this center. Safety is an important part of training at DOJO centres. Along with our partners we have set up 180 DOJO centres and plan to set up 400 by 2020," he added.

At an institutional level, the Automotive Component Manufacturers Association (ACMA), is also doing its bit with its cluster training programme where 10-15 per cent of the content is focused on safety related training.

"There is no denying there is an issue in the tier II and III suppliers that are very small in size and largely unorganized. All our members are tier I suppliers and there is no major issue with safety of the workers with this crop. It was brought into our knowledge about two-three years ago and since then we have undertaken safety training through our cluster programs," said Vinnie Mehta, director general, ACMA.

"We would have already conducted these programmes in at least 250-280 factories around the country and I can vouch for the safety record in all these factories. Still, it is just a drop in the ocean and a lot more needs to be done," he added.

Fixing the problem may not be as cumbersome as it may appear. Only a handful of factories err on a regular basis. Of the nearly 300 factories that SII has covered, 48 per cent of the accidents are accounted for by 16 per cent (47) factories. Sachdeva says if only 32 factories that have been identified as the most culpable are improved, over 300 workers can be saved from permanent disability.

To be sure, this is a peculiar problem for companies like Maruti, Hero or Honda as they have direct relations with the bigger tier I suppliers but very minimal contact with those at tier II and III levels.

"There are hundreds of such companies and they are all scattered in the region. If somebody expects to go into each of these factories and conduct audit or training programmes, you are asking for too much," said a senior HR executive from an auto firm in Manesar.

"There is a problem but some people tend to blow it up a bit. The scale of manufacturing each automobile is such that micromanaging the entire supply chain by the company is nearly impossible, he further said.

Is it fair then to expect the three companies to take a lead in this? Sachdeva thinks they should and cites the example of global textile and apparel brands to back it up.

"The end consumer only recognises the brand. He only sees a Maruti or a Honda in the logo on the car or a two wheeler and not the hundreds of companies that supply parts to it," he says. "Similarly he only sees a Nike, Adidas or a GAP on the shoe or t-shirt. When the Rana Plaza incident happened in Bangladesh, it was GAP that bore the brunt of the backlash. And later it was these big brands that got down to setting things right in the supply chain. That is the way it happens and should happen here. If the safety record of the supply chain remains lax, it is the brand image of these companies that will take a hit," Sachdeva articulates.

In April 2013, an eight storey Rana Plaza building in the capital Dhaka district collapsed killing more than 1100 garment workers and injuring another 2500. The incident brought to the fore vulnerabilities in the supply chain of labour intensive industries in developing countries and the need for better infrastructure and proper training of the workers.

"There has to be a top-down approach," agrees Mehta of ACMA. "These smaller factories will only start realising the real importance of safety once the bigger companies to whom they supply, start asking them questions about how many workers were injured and then take a stand that they would not do business with them if it is unsatisfactory," he states.

THIRD STORY

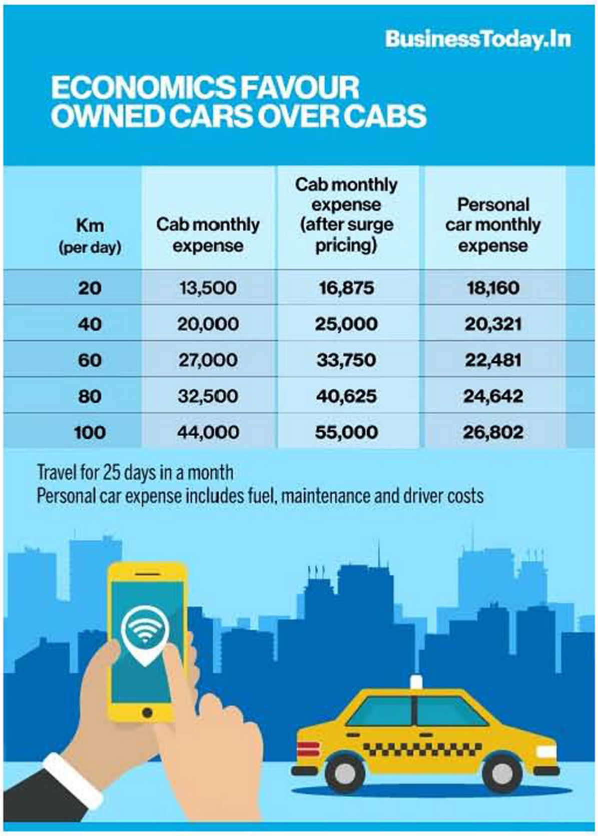
Auto Slowdown: Facts, numbers, economics belie FM Sitharaman's Ola-Uber argument

Sitharaman's argument that millennials' preference for Ola and Uber is responsible for dismal auto sales was perceived by the auto industry as an excuse for not slashing excise duties to prop up sales - something the government has been hinting at for a week at least

Facts, numbers and economics all belie Finance Minister Nirmala Sitharaman's unique -- if not bizarre-explanation to the slowdown in the country's automobile sector. Sitharaman blamed the proliferation of cab aggregators like Ola and Uber and a change in the mindset of millennials for the debilitating decline in car sales.

"The automobile and components industry has been affected by BS6 (emission norms) and the mindsets of millennial, who now prefer to have Ola and Uber rather than committing to buying an automobile," she said in Chennai.

This set the cat amongst the pigeons as the industry saw in the statement an excuse for not slashing excise duties to prop up sales - something the government has been hinting at for a week at least.



Km (per day)	Cab monthly expense	Cab monthly expense (after surge pricing)	Personal car monthly expense
20	13,500	16,875	18,160
40	20,000	25,000	20,321
60	27,000	33,750	22,481
80	32,500	40,625	24,642
100	44,000	55,000	26,802

Travel for 25 days in a month
Personal car expense includes fuel, maintenance and driver costs

But it appears a specious argument. First, sales to all cab companies account for a maximum of 8-10 per cent of overall passenger vehicle sales across companies. Sales to the entire taxi segment at Maruti, India's largest carmaker, is between 5-6 percent and it has not changed in the last one year, implying that sales to cab aggregators have fallen in proportion to the decline in overall car sales. At Hyundai, it is at 3 percent.

In this fiscal so far, passenger vehicles sales have declined by almost a quarter from a year ago. Sales have declined for 10 straight months so far and in 13 of the last 14 months. The industry has been clamoring for a 10 percent GST cut to tide over the crisis. But a number of states opposed a cut and with little elbow room for the centre as well on fiscal mathematics, Ola, Uber and the quirky millennial presents a good excuse.

Prima facie, the number of cabs and radio taxis on the road have gone up. Ola for example had 850,000 cars on the road and another 50,000 in the lease model. That number has gone up to 15,00,000 and 100,000 respectively. That is an addition of around 800,000 units. Yet, this does not mean all these are new cars--a substantial number of Ola and Uber vehicles are pre-owned and are often registered on both the platforms. Hence, they may not be displacing a private car that a millennial would have otherwise bought.

"The jury is still out on this. We cannot say anything conclusively," says Shashank Srivastava, head of sales and marketing at Maruti Suzuki India. "The status symbol is still very much there with a new car purchase. Shared mobility maybe having some impact in bigger cities but the broader effects need to be studied further."

Mahindra and Mahindra Managing Director, Pawan Goenka, also said the impact has not been very significant so far "but it may become big in future".

What is even more interesting is that the slowdown has impacted the business of Ola and Uber this year as well. The aggregators' growth in daily ridership has come down substantially from over 80 percent in 2016 to just 4.5 percent in 2019. The two companies cumulatively undertake about 3.65 million trips everyday today against 3.5 million trips in 2018.

Even car ownership economics do not favour the cab aggregators vs owned car argument. On a unit cost metric basis from an economic standpoint, using shared mobility over owning a car on a regular basis makes sense only for shorter trips of less than 40 kilometres or upto 1,000 kilometers in a month. Taking in account cost of maintenance, ownership, mileage and the salary of the driver, a 20 kilometer trip every day would cost Rs 740 in a personal car against Rs 540 in a cab. The monthly bill for the same trip in a cab will be Rs 13,500 against an expense of Rs 18,160 in a personal car. In the event of a 25 percent surge in price of the trip for a cab, which is not very uncommon during peak hours, the cab bill escalates to Rs 16,875. Beyond trips of 40 kilometers however, owning a car makes all the sense. Somebody who travels long distance of 100 kilometers everyday or 2,500 kilomteres every month would run up a cab bill of Rs 44,000 (Rs 55,000 in surge pricing) against Rs 26,802 in a personal vehicle.

This isn't the first time though that the government has used Ola and Uber as a shield to protect itself from sticky topics. In February this year, while countering a leaked NSSO report that highlighted India's unemployment rate had hit a 45 year high, Niti Ayog CEO Amitabh Kant had countered it saying Ola and Uber alone had created about 2.2 million jobs. When the NSSO report was finally released in May, it only corroborated the earlier leaked report.

The claim of cab aggregators creating 2.2 million jobs remains unsubstantiated till date. Just like the cab aggregators causing a slowdown in the automobile industry in the country.

Sitharaman is not alone in her belief though. At the annual Society of Indian Automobile Manufacturers conclave last week, one of India's top private sector bankers Uday Kotak also said cars have lost their status symbol and owning them is no longer attractive to the youth.

"A car was a status symbol when I started my career. But my son is more comfortable with Ola and Uber which is a classic example of capacity utilisation," he said.

Not everybody agrees with that theory though. For one, cab aggregators such as Ola and Uber are yet to reach India's hinterland. So, they can't be blamed for the drop in rural sales. On the contrary, every middle class Indian still aspires to buy a car. "We have 440 million millennials comprising, 30 percent of the overall population and 50 percent of the working population. These people are tech-friendly, value conscious and hence looking for deals, and they play a very influential role. They have very different priorities in life. A large part of the growth in used car sales is being driven by the millennials in the used eco system," says Sunny Kataria, Vice-President, OLX Auto.

"There is a demand for a car at all levels. So even for a 7-8 year old Alto that is going for Rs 70,000-80,000, there is demand for it," Kataria says. "Car at the end of the day is a great asset to have. It is not a product in India to get to merely from point A to point B but it is a statement of aspiration, that you have arrived in life at whatever level. India's personal mobility ratio at about 28 per 1,000 is way below the international average and in this kind of scenario the penetration of Ola or Uber is hardly anything."