

Automobile Industry: Driving the Growth Agenda

The automobile industry is one of the major industries that has expanded rapidly over the reform periods in India. India is one of the biggest automobile manufacturers in the world and has emerged as one of the major contributors to India's economy. The auto sector contributes nearly 7% to India's GDP (FY22) and occupies 49% of the manufacturing GDP. The industry is the major contributor of GST to the government as well and provides employment to four and a half crore people in India.

The Indian automobile industry has been growing remarkably since 1991, after India's growing openness and liberalisation, economic reforms, and subsequent increases in income. The sector is prone to global as well as domestic economic and climatic conditions, variations in global commodity prices and changing consumer preferences. After a dismal performance in the past decade, the industry has faced severe disruptions in FY20 and FY21 due to Covid-19, followed by global supply chain challenges, chip shortages, a spike in commodity prices amid geopolitical distress and an economic slowdown. Gradually recovering from these setbacks, the auto industry posted an impressive growth in production and sales in FY23. The arrival of new and existing models, easy availability of finance at a relatively low rate of interest, pent up demand and price discounts offered by the dealers and manufacturers supported the domestic demand. However, exports remained weak in FY23, as the international market for Indian vehicles such as Africa, Latin America and South Asia has reported a slowdown in demand. It is expected that with the recovery in these economies, there will be a revival in demand for Indian vehicles.

The global auto industry is rapidly evolving with higher regulatory focus on emission norms and a transition to electric vehicles. The Indian auto industry is also shifting towards electric vehicles from conventional vehicles, to adhere to the government's policy to meet climate change goals. The vehicle scrapping policy is expected to provide opportunities for fleet modernisation which will indirectly increase the capacity of the industry. According to the Ministry of Road Transport and Highways (MORTH), India currently has 2.1 crore vehicles that are older than 20 years. According to government estimates, the Voluntary Vehicle Fleet Modernisation Programme will create automatic demand for new vehicles by 30%, as more than 1 crore vehicles will move off of the roads by 2025. The domino effect is carried on by the PLI scheme with a push for manufacturing in India, which may attract additional foreign investments. Although India's vehicle penetration remains low, the demographic dividend supported by the young population could increase the demand for automobiles in the coming years.

In the last few years, the Government of India has been focussing on developing the EV industry by increasing the outlay for FAME II subsidies. The PLI and other schemes to boost semiconductor production are aimed at supporting domestic manufacturing companies. These measures are likely to boost foreign investments as well in the upcoming years.

The thrust towards green mobility indicates the growing demand for EVs in the upcoming years. The shift in consumer preferences is also forcing industry to adopt the latest technologies and features. The capital-intensive auto sector may require additional funding to cope with the transformation. Most of the Indian automobile companies are already on a capacity expansion phase to cater to the growing demand for new vehicles. Many automakers are also making huge investments in the electric vehicles segment, which is disrupting their business models to a certain extent. Hence, the profitability of companies may take a hit.

Overall, India's automobile industry is at an inflexion point and poised for steady growth, after withstanding the Covid-19 setback and global supply disruptions. Production has been improving by an average of 20% every year since FY21. The sale of automobiles has also followed the same growth pattern. The strong growth potential in production, sales, and exports led India to become one of the primary countries in automobile manufacturing.

The government's various measures such as the vehicle scrappage policy, FAME, and EVs further help the industry to move on a sustainable growth path. The convergence of government policies, steady economic growth, rising people's purchasing power and demand for exports foretells phenomenal growth potential ahead. As the automobile market continues to evolve, India's strategic focus on innovation, infrastructure development, and sustainable practices will position the country as a leading player in the international automotive arena by 2030 and beyond. Considering the growing importance of the sector, the Government of India intends to double the size of the auto industry to Rs 15 lakh crore by 2024. Although the target looks challenging, it may not be a distant reality. **B2K Analytics expects the automobile industry to maintain a growth rate of 20% to 25% annually in the next 3 to 4 years.**

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