



# AUTOMOTIVE INDUSTRY

## SECTOR OVERVIEW

The automotive industry in India is fast moving and very large. It is the sixth largest vehicle producer country in the world with an average annual production of 24 million vehicles in 2016, of which 3.64 million are exported. The Sector contributes to 7.1 % of India's Gross Domestic Product (GDP) by volume. India has the fifth largest passenger vehicle and commercial vehicle market and presence of four large auto manufacturing hubs across the country: Delhi-Gurgaon-Faridabad (North India), Mumbai-Pune-Nashik-Aurangabad (West India), Chennai- Bengaluru-Hosur (South India) and Jamshedpur-Kolkata (East India). India is also the second largest Two-wheeler (2W) manufacturer and the largest motorcycle manufacturer. The 2W production has grown from 8.5 million units annually to 15.9 million units in the last seven years. Several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the 2W and Four Wheeler (4W) market in the world by 2020.

## REASONS TO INVEST

- A Research & Development (R&D) hub: strong support from the Government in the setting up of National Automotive Testing and R&D Infrastructure Project (NATRiP) Centres. Private players such as Hyundai, Suzuki and General Motors (GM) are keen to set up an R&D base in India.

- By 2026, India is expected to be the third largest automotive market by volume in the world.
- Tractor sales in the country are expected to grow at Compound Annual Growth Rate (CAGR) of 8-9% in the next five years, enhancing India's market potential for international brands. Significant opportunities exist in rural markets.
- Global car majors have been ramping up investments in India to cater to growing domestic demand. These manufacturers plan to leverage India's competitive advantage to set up export-oriented production hubs.
- Six million-plus Hybrid and Electric Vehicles (xEV) to be sold annually, by 2020.
- The overall Passenger Vehicle (PV) segment has 13 per cent market share.
- Huge demands for low-cost electric vehicles that are suited for safe short-distance urban commutes (averaging 50-100 km/trip) that are rugged enough to perform reliably through India's summers and monsoon. It is estimated that total electric vehicles sales would amount to 6-7 million units by 2020.

## STATISTICS



1. Domestic Market Share : 2015-16
  - Passenger Vehicles 13%
  - Commercial Vehicles 3%
  - Three-wheelers 3%
  - Two-wheelers 80%
2. The automotive industry accounts for 45% of the country's manufacturing gross domestic product (GDP), 7.1 % of the country's GDP and employs about 19 million people both directly and indirectly.

3. Passenger vehicle production is expected to grow to 9.4 million units annually by 2026
4. Commercial vehicles production is expected to grow to 2.0 million units annually by 2026
5. Two wheelers production is expected to grow to 50.6 million units annually by 2026
6. Three wheelers production is expected to increase to 0.95 million units by 2026.

### **AGENCIES**

- Department of Heavy Industries, Ministry of Heavy Industries and Public Enterprises
- Society of Indian Automobile Manufacturers

### **GOVERNMENT INITIATIVES**

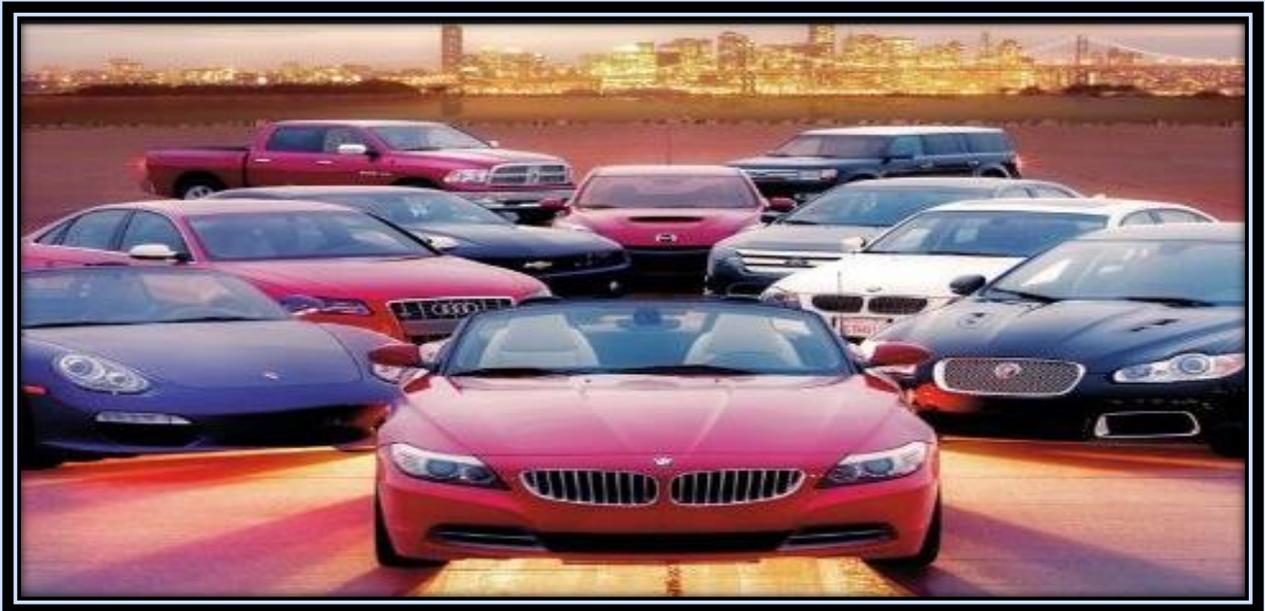


Some of the major initiatives taken by the Government of India are:

- The Government of India plans to introduce a new Green Urban Transport Scheme with a central assistance of about Rs 25,000 crore (USD 3.75 billion), aimed at boosting the growth of urban transport along low carbon path for substantial reduction in pollution, and providing a framework for funding urban mobility projects at National, State and City level with minimum recourse to budgetary support by encouraging innovative financing of projects.
- Government of India aims to make automobiles manufacturing the main driver of 'Make in India' initiative, as it expects passenger vehicles market to triple to 9.4 million units by 2026, as highlighted in the Auto Mission Plan (AMP) 2016-26.
- The Government plans to promote eco-friendly cars in the country i.e. Compressed Natural Gas (CNG) based vehicle, hybrid vehicle, and electric vehicle and also made mandatory of 5 per cent ethanol blending in petrol.

## FDI AND SECTOR POLICY

100% Foreign Direct investment (FDI) is allowed under the automatic route in the Auto Sector, subject to all the applicable regulations and laws.



### Auto Policy

- Manufacturing and imports in this Sector are exempt from licensing and approvals.
- The encouragement of R&D by offering rebates on R&D expenditure.

**Automotive Mission Plan 2016-26:** Salient points of AMP-2026 are:-

- The Indian Automotive industry to be a top job creator – 65 million additional jobs.
- The Indian Automotive industry to be one of the prime movers of Manufacturing Sector and “Make in India” initiative.
- The Indian Automotive industry aims to increase exports of vehicles by 5 times and components by 7.5 times.
- Specific interventions are envisaged to sustain and improve manufacturing competitiveness and to address challenges of environment and safety.

**National Automotive Testing and R&D Infrastructure Project (NATRiP):** The project has been set up at a total cost of USD 585 million to enable the industry to adopt and implement global performance standards. It focuses on providing low-cost manufacturing and product development solutions.

**The National Electric Mobility Mission Plan 2020 (NEMMP):** The objective of this body is to encourage reliable, affordable and efficient xEVs that meet consumer performance and price expectations through Government-industry collaboration

- Promotion and development of indigenous manufacturing capabilities, required infrastructure, consumer awareness and technology are additional objectives of NEMMP 2020.
- India to emerge as a leader in the two-wheeler and four-wheeler xEV market in the world by 2020, with total xEV sales of 6-7 million units thus enabling the Indian automotive industry to achieve global xEV manufacturing leadership and contributing towards national fuel security.
- Target of putting 6 million electric and hybrid vehicles per year on the road by 2020 under NEMMP 2020.
- A pilot scheme for the initial period of two years in the name of Faster Adoption and Manufacturing of xEVs, implemented from 1<sup>st</sup> April 2015 for the initial period of two years.
  1. It covers all vehicle segments i.e. two- three- and four-wheelers, cars, LCVs, buses etc. and all forms of hybrid (Mild/Strong/Plug-in) and pure electric vehicles.
  2. It also seeks to provide demand incentives to electric and hybrid vehicles from two-wheeler to buses.

**Pilot Electric Vehicle Projects:** The Department of Heavy Industry (DHI) is launching pilot projects on electric vehicles in various metros and cities all across the country under the NEMMP 2020 with a dual purpose - demonstrating and disseminating the benefits of adopting cleaner, greener modes of transportation as also to explore the viable operational modalities.

- The DHI will provide viability gap funding through subvention to support the extra cost of acquisition and operation of these vehicles by State Governments or designated bodies.
- In the first phase, a pilot project to provide last mile connectivity to the through electric passenger vehicles will be promoted.
- All the other States have been brought on board and different States have already appointed nodal officers to co-ordinate with DHI and vehicle manufacturers for the implementation of those pilot projects.
- The uptake of electric vehicles will depend in large part on the adequate deployment of Electric Vehicle Supply Equipment (EVSE) needed to recharge electric vehicle.

## **GROWTH IN THE AUTOMOTIVE SECTOR**

- The Indian automotive aftermarket is estimated to grow at around 10-15 per cent to reach USD 16.5 billion by 2021 from around USD 7 billion in 2016. It has the potential to generate up to USD 300 billion in annual revenue by 2026, create 65 million additional jobs
- Leading auto maker Maruti Suzuki expects Indian passenger car market to reach four million units by 2020, up from 1.97 million units in 2014-15.

- Mr. Young Key Koo, Managing Director, Hyundai Motor India Ltd, has stated that India is a key market for the company, not only in terms of volumes but also as a hub of small products for exports to 92 countries.
- Mr. Joachim Drees, Global CEO, MAN Trucks and Bus AG, has stated that India has the potential to be among the top five markets, outside of Europe, by 2020 for the company, which is reflected in the appointment of its most experienced managers to India for increasing volumes and exports out of India.



- According to Mr. Guillaume Sicard, president, Nissan India Operations, the income tax rate cut from 10 per cent to 5 per cent for individual tax payers earning under Rs 5 lakh (USD 7,472) per annum will create a positive sentiment among likely first time buyers for entry level and small cars.
- Several automobile manufacturers, from global majors such as Audi to Indian companies such as Maruti Suzuki and Mahindra and Mahindra, are exploring the possibilities of introducing driverless self-driven cars for India.

## FOREIGN INVESTORS

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Suzuki (Japan), Nissan (Japan), Piaggio (Italy), Volkswagen (Germany), Renault (France), Hyundai (South Korea), General Motors (USA), BMW (Germany), Ford (USA), Toyota (Japan), Mercedes (Germany), Daimler (Germany), FIAT (Italy) and Honda (Japan).

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Some of the major investments and developments in the automobile Sector in India are as follows:

- Electric car maker Tesla Inc. is likely to introduce its products in India sometime in the summer of 2017.
- South Korea's Kia Motors Corp is close to finalising a site for its first factory in India, slated to attract USD1 billion (Rs 6,700 crore) of investment. It is deciding between Andhra Pradesh and Maharashtra. The target for operationalising the factory is the end of 2018 or early 2019.
- BMW plans to manufacture a local version of below-500 CC motorcycle, the G310R, in TVS Motor's Hosur plant in Tamil Nadu, for Indian markets.
- Honda Motorcycle and Scooter India (HMSI) has inaugurated its 900th Honda Authorised Exclusive Dealership in India, thereby taking its total dealership network to 4,800 across the country and further plans to increase its network to 5,300 by end of 2016-17.
- Hero MotoCorp Ltd seeks to enhance its participation in the Indian electric vehicle (EV) space by pursuing its internal EV Programme in addition to investing Rs 205 crore (USD 30.75 million) to acquire around 26-30 per cent stake in Bengaluru-based technology start-up Ather Energy Pvt Ltd.
- Ford Motor Co. plans to invest Rs 1,300 crore (USD 195 million) to build a global technology and business Centre in Chennai, which will be designed as a hub for product development, mobility solutions and business services for India and other markets.
- Cummins has plans to make India an export hub for the world, by investing in top components and technologies in India.
- Suzuki Motor Corporation, the Japan-based automobile manufacturer, plans to invest Rs 2,600 crore (USD 390 million) for setting up its second assembly plant in India and an engine and transmission unit in Mehsana, Gujarat.
- Mr. Masayoshi Son, Chief Executive Officer, SoftBank Group, has stated that Ola Cabs may introduce a fleet of one million electric cars and the Government of India, which could help reduce pollution and thereby transform the electric mobility Sector in the country.

- China's biggest automobile manufacturer, SAIC Motor, plans to invest USD 1 billion in India by 2018, and is exploring possibilities to set up manufacturing unit in one of three States – Maharashtra, Andhra Pradesh and Tamil Nadu.
- Suzuki Motorcycle India Pvt Ltd has started exports of made-in-India flagship bike Gixxer to its home country of Japan, which will be in addition to current exports to countries in Latin America and surrounding countries.
- General Motors plans to invest USD 1 billion in India by 2020, mainly to increase the capacity at the Talegaon plant in Maharashtra from 130,000 units a year to 220,000 by 2025.
- FIAT Chrysler Automobiles has recently invested USD280 million in its Ranjangaon plant to locally manufacture Jeep Compass, its new compact SUV which will be launched in India in August 2017.

## FINANCIAL SUPPORT

**State Incentives:** Apart from the above, each State in India offers additional incentives for industrial projects. Incentives are in areas like rebates in land cost, relaxation in stamp duty exemption on sale or lease of land, power tariff incentives, a concessional rate of interest on loans, investment subsidies/tax incentives, backward areas subsidies and special incentive packages for mega projects.

**R&D Incentives:** Industry/private sponsored research programs such as:-

- A weighted tax deduction is given under section 35 (2M) of the Income Tax Act. A weighted deduction of 150 % is granted to assess for any sums paid to a national laboratory, university or institute of technology, or specified persons with a specific direction, provided that the said sum is used for scientific research within a program approved by the prescribed authority.
- Concessional excise duty of 6% has been extended without any sunset clause Union Budget 2015-16 for manufacturers of batteries supplying to producers of electrically operated vehicles.
- Exemption from Basic Custom Duty (BCD) on lithium ion automotive batteries for the manufacture of lithium ion battery packs for supply to manufacturers of xEVs vehicles.

**Export Incentives:** Support to major markets has been given to the auto components and automobiles Sectors under the new "Merchandise Exports from India Scheme" (MEIS).

**Area-based Incentives:** Incentives for units in Special Economic Zone (SEZ)/ National Investment and Manufacturing Zones (NIMZ) as specified in respective Acts or the setting up of projects in special areas like the North-east, Jammu and Kashmir, Himachal Pradesh and Uttarakhand.

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