AUTOMOTIVE INDUSTRY

SECTOR OVERVIEW

The Automobile Industry in India is a significant driver of macroeconomic growth and technological development. This Industry holds a 7.1% share in India's GDP[1]. India is projected to be the world's third-largest automotive market in terms of volume by 2026[2].

India has 4 large auto manufacturing hubs: Delhi-Gurgaon-Faridabad in the North, Mumbai-Pune-Nashik-Aurangabad in the West, Chennai- Bengaluru-Hosur in the South and Jamshedpur-Kolkata in the East.

The Automobile Industry manufactured 30.9 Million vehicles including passenger vehicles, commercial vehicles, three-wheelers, two-wheelers and quadricycle in FY 2018-19[3].

India became the fourth largest auto market in 2019 displacing Germany with about 3.99 Million units sold in the passenger and commercial vehicles categories. India is expected to displace Japan as the third largest auto market by 2021.

The two wheelers segment dominates the market in terms of volume owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the Sector.

India is also a prominent auto exporter and has strong export growth expectations for the near future. In addition, several initiatives by the Government of India and major

[1] "Year Ender 2019 Ministry of Heavy Industry", PIB, https://pib.gov.in/PressReleseDetailm.aspx?PRID=1597099
[2] Mckinsey & Company, The future of mobility in India's passenger vehicle market, https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/the-future-of-mobility-in-indias-passenger-vehicle-market
[3] Department of Heavy Industries, Annual Report, https://dhi.nic.in/writereaddata/DHI_2018-19_annual_report/ENGLISH/mobile/index.html

automobile players in the Indian market are expected to make India a leader in the two-wheeler and four-wheeler market in the world very soon.

MARKET SIZE

Domestic automobiles production increased at 2.36% CAGR between FY16-20 with 26.36 Million vehicles being manufactured in the country in FY20. Overall, domestic automobiles sales increased at 1.29% CAGR between FY16-FY20 with 21.55 Million vehicles being sold in FY20.

Two wheelers and passenger vehicles dominate the domestic Indian auto market. Passenger car sales are dominated by small and mid-sized cars. Two wheelers and passenger cars accounted for 80.8% and 12.9% market share, respectively, accounting for a combined sale of over 20.1 Million vehicles in FY20.

As per the Society of Indian Automobile Manufacturers **(SIAM)**, passenger vehicle wholesales in India increased by 26.45% to 2, 72,027 units in September 2020, up from 2, 15,124 in September 2019.

Overall, automobile export reached 4.77 Million vehicles in FY20, growing at a CAGR of 6.94% during FY16-FY20. Two wheelers made up 73.9% of the vehicles exported, followed by passenger vehicles at 14.2%, three wheelers at 10.5% and commercial vehicles at 1.3%.
EV sales, excluding E-rickshaws, in India witnessed a growth of 20% and reached 1.56 lakh units in FY20 driven by two wheelers.

Premium motorbike sales in India recorded seven-fold jump in domestic sales, reaching 13,982 units during April-September 2019. The sale of luxury cars stood between 15,000 to 17,000 in the first six months of 2019.

FOREIGN DIRECT INVESTMENT (FDI) POLICY

Under the Automatic Route, 100% Foreign Direct Investment (FDI) is permitted along with full delicensing.

SECTOR PLOICY

NATIONAL ELECTRIC MOBILITY MISSION PLAN 2020 (NEMMP)

- ✓ The NEMMP initiative has been taken up to encourage consistent, affordable and competent xEVs (hybrid and electric vehicles) 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 is expected to emerge as a leader in the two-wheeler and four-wheeler xEV market in the world by 2020. The total xEV sales projected as 6-7 Million units, thus, enabling the Automobile Industry to achieve global xEV manufacturing leadership and contributing towards national fuel security.

- ✓ The aim is to have 6 Million electric & hybrid vehicles per year on the road by 2020 under NEMMP 2020. A cumulative cost of USD 2.15 Billion is estimated for this paradigm initiative, which also includes industry collaboration.

INVESTMENTS

In order to keep up with the growing demand, several auto makers have started investing heavily in various segments of the industry during the last few months. The industry has attracted Foreign Direct Investment (FDI) worth USD 24.53 Billion between April 2000 and June 2020, according to the data released by Department for Promotion of Industry and Internal Trade **(DPIIT)**.

Some of the recent/planned investments and developments in the Automobile Sector in India are as follows:

- In October 2020, Kinetic Green, an electric vehicles manufacturer, announced plan to set up a manufacturing facility for electric golf carts besides a battery swapping unit in Andhra Pradesh. The two projects involving setting up a manufacturing facility for electric golf carts and a battery swapping unit will entail an investment of Rs. 1,750 Crore (USD 236.27 Million).

- In October 2020, Japan Bank for International Cooperation **(JBIC)** agreed to provide USD 1 Billion (Rs. 7,400 Crore) to State Bank of India (SBI) for funding the manufacturing and sales business of suppliers and dealers of Japanese automobile manufacturers and providing auto loans for the purchase of Japanese automobiles in India.

- In October 2020, MG Motors announced its interest in investing Rs. 1,000 Crore (USD 135.3 Million) to launch new models and expand operations in spite of the anti-China sentiments.

- In October 2020, Ultraviolette Automotive, a manufacturer of electric motorcycle in India, raised a disclosed amount in a series B investment from GoFrugal Technologies, a software company.

- In September 2020, Toyota Kirloskar Motors announced investments of more than Rs 2,000 Crore (USD 272.81 Million) in India directed towards electric components and technology for domestic customers and exports.

- During early September 2020, Mahindra & Mahindra singed a MoU with Israel-based REE Automotive to collaborate and develop commercial electric vehicles.

- In April 2020, TVS Motor Company bought UK's iconic sporting motorcycle brand, Norton, for a sum of about Rs. 153 Crore (USD 21.89 Million), making its entry into the top end (above 850cc) segment of the superbike market.

- In March 2020, Lithium Urban Technologies partnered with renewable energy solutions provider, Fourth Partner Energy, to build charging infrastructure across the country.

- In January 2020, Tata AutoComp Systems, the auto-components arm of Tata Group entered a joint venture with Beijing-based Prestolite Electric to enter the electric vehicle (EV) components market.

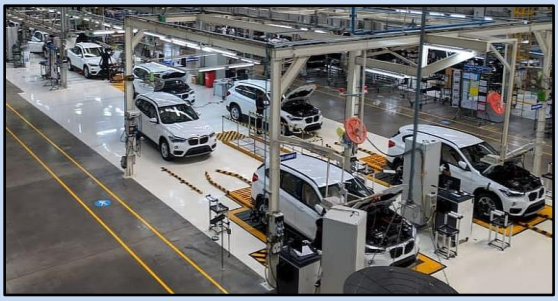
- In December 2019, Force Motors planned to invest Rs. 600 Crore (USD 85.85 Million) to develop two new models over the next two years.

- In December 2019, Morris Garages (MG), a British automobile brand, announced plans to invest an additional Rs. 3,000 Crore (USD 429.25 Million) in India.

- ❖ Audi India planned to launch nine all-new models including Sedans and SUVs along with futuristic E-tron EV by end of 2019.

- ❖ MG Motor India planned to launch MG ZS EV electric SUV in early 2020 and have plans to launch affordable EV in the next 3-4 years.

- ❖ BYD-Olectra, Tata Motors and Ashok Leyland will supply 5,500 electric buses for different state departments.



GOVERNMENT INITIATIVES

The Government of India encourages foreign investment in the Automobile Sector and has allowed 100% Foreign Direct Investment (FDI) under the Automatic Route.

Some of the recent initiatives taken by the Government of India are –

- ✓ Under Union Budget 2019-20, the Government announced to provide additional income tax deduction of Rs. 1.5 lakh (USD 2,146) on the interest paid on the loans taken to purchase EVs.

- ✓ The Government aims to develop India as a global manufacturing centre and a Research and Development (R&D) hub.

- ✓ Under NATRiP, the Government of India is planning to set up R&D centres at a total cost of USD 388.5 Million to enable the industry to be on par with global standards.

- ✓ The Ministry of Heavy Industries, Government of India has shortlisted 11 cities in the country for introduction of EVs in their public transport systems under the FAME (Faster Adoption and Manufacturing of (Hybrid) and Electric Vehicles in India) scheme. The Government will also set up incubation centre for start-ups working in the EVs space.

- ✓ In February 2019, the Government of India approved FAME-II Scheme with a fund requirement of Rs. 10,000 Crore (USD 1.39 Billion) for FY20-22.

- ✓ Under the Union Budget 2021-22, the Central Government has decided to raise the share of public transport in urban areas through expansion of metro rail network and augmentation of city bus service. In pursuant to this, a new scheme will be launched at a cost of `18,000 Crores to support augmentation of public bus transport services. The scheme will facilitate deployment of innovative PPP models to enable private sector players to finance, acquire, operate and maintain over 20,000 buses. The scheme will boost the automobile sector, provide fillip to economic growth, create employment opportunities for our youth and enhance ease of mobility for urban residents.

ACHIEVEMENTS

Following are the achievements of the Government in the last four years:

- ➢ In H12019, automobile manufacturers invested USD 501 Million in India's auto-tech start-ups according to Venture intelligence.

- ➢ Investment flow into EV start-ups in 2019 (till end of November) increased nearly 170% to reach USD 397 Million.

- ➢ On 29th July 2019, Inter-Ministerial Panel sanctioned 5,645 electric buses for 65 cities.

- ➢ NATRiP's proposal for "Grant-In-Aid for test facility infrastructure for EV performance Certification from NATRIP Implementation Society" under the FAME Scheme was approved by Project Implementation and Sanctioning Committee (PISC) on 3rd January 2019.

- ➢ Under NATRiP, following testing and research centres have been established in the country since 2015.

    1) International Centre for Automotive Technology (ICAT), Manesar

2) National Institute for Automotive Inspection, Maintenance & Training (NIAIMT), Silchar

3) National Automotive Testing Tracks (NATRAX), Indore

4) Automotive Research Association of India (ARAI), Pune

5) Global Automotive Research Centre (GARC), Chennai

6) SAMARTH Udyog - Industry 4.0 centres: 'Demo cum Experience' Centres are being set up in the country for promoting smart and advanced manufacturing helping SMEs to implement Industry 4.0 (automation and data exchange in manufacturing technology).

FOREIGN INVESTORS

- ✓ BMW (Germany)
- ✓ Borgward Automotive India Private Limited (Germany)
- ✓ Daimler India Commercial Vehicles Pvt Ltd (Germany)
- ✓ FIAT (Italy) Ford (USA)
- ✓ General Motors (USA)
- ✓ Honda (Japan)
- ✓ Hyundai (South Korea)
- ✓ Kia Motors (South Korea)
- ✓ Mercedes (Germany)
- ✓ Nissan (Japan)
- ✓ Piaggio (Italy)
- ✓ Renault (France)
- ✓ Sumitomo Corporation (Japan)
- ✓ Suzuki (Japan)
- ✓ Toyota (Japan)
- ✓ Volkswagen (Germany)
- ✓ Volvo (Sweden)

AGENCIES

- ❖ Ministry of Heavy Industries & Public Enterprises, Government of India
- ❖ Automotive Research Association of India (ARAI)
- ❖ Society of Indian Automobile Manufacturers (SIAM)

ROAD AHEAD

The Automobile Industry is supported by various factors such as availability of skilled labour at low cost, robust R&D Centres, and low-cost steel production. The Industry also provides great opportunities for investment and direct and indirect employment to skilled and unskilled labour.

Indian Automotive Industry (including component manufacturing) is expected to reach Rs. 16.16-18.18 Trillion (USD 251.4-282.8 Billion) by 2026.

CONTACT PERSON:

Sushila Ram Varma
Chief Legal Consultant
Ph: +91 98111 91142, +91 78930 87474
Email - sushilaram@theindianlawyer.in contact@theindianlawyer.in sushilaram@gmail.com

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