INDIAN AUTOMOTIVE INDUSTRY ANALYSIS

February - 2024

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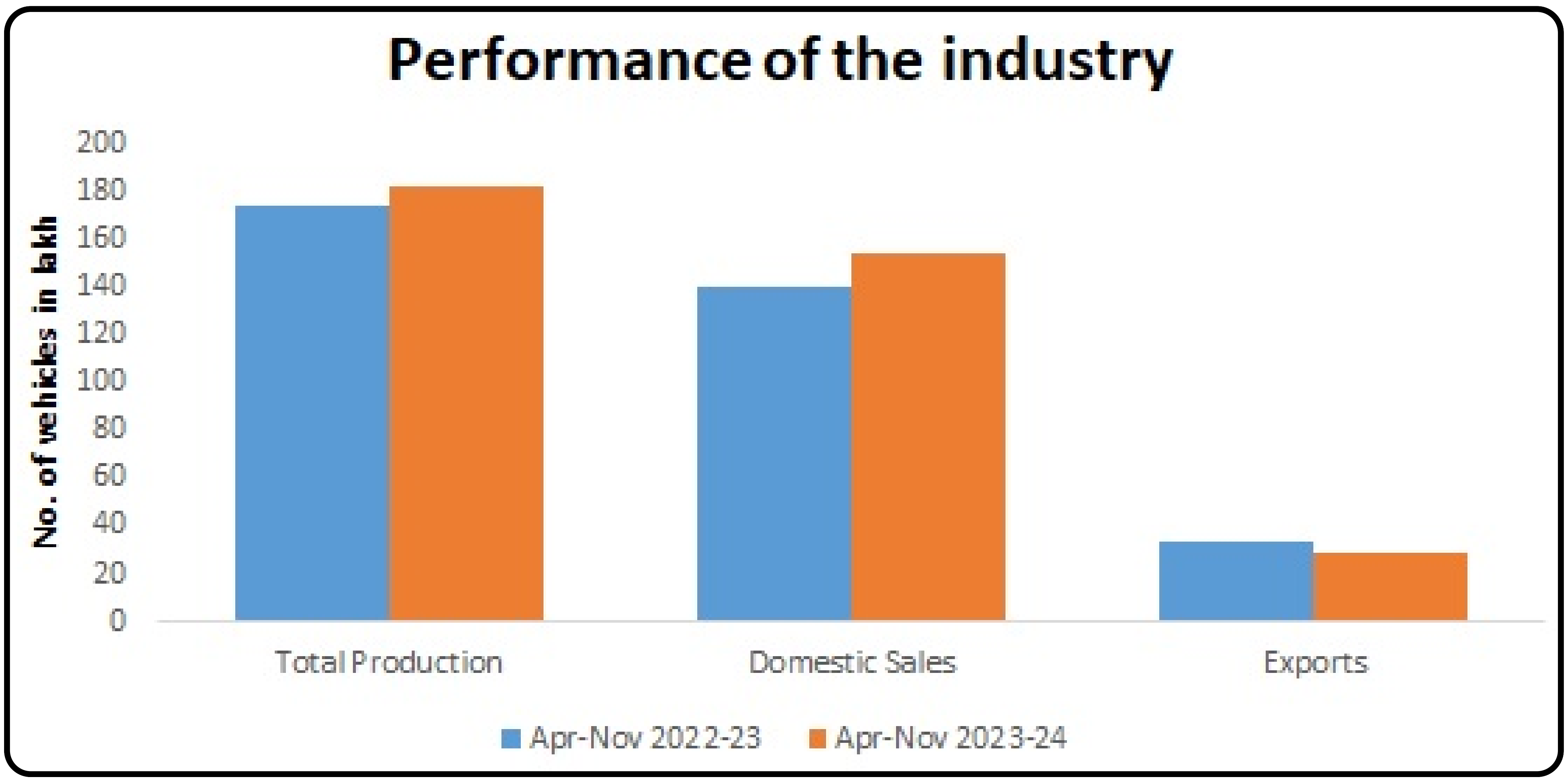
The automotive industry is a pillar of Indian economy and one of the key drivers of macroeconomic growth and technological advancement. The economic contribution of this sector is immense, with significant linkages to the manufacturing and services sectors. Automobile industry in India is one of the core industries that has expanded rapidly over the reform periods and typically accounts for a large and increasing share of industrial production, output, exports, and employment and also has made its significant position in the world market. Currently, the automotive industry contributes more than 7 per cent to the total Gross Domestic Product (GDP) and provides employment to over 32 million people, directly and indirectly. In the Automobile market in India, Two-wheelers and passenger cars accounted for 76 per cent and 17.4 per cent market share, respectively. Passenger car sales are dominated by small and midsized cars.

Many developing countries regard the automobile industry as an economically strategic sector in the context of its contribution to national production, employment and technology, reinforced through magnitude of upstream and downstream activities. Because of its deep forward and backward linkages with various segments of the economy and large employment potential, changes in this sector largely affects the industrial development process of a country. India holds a strong position in the international heavy vehicles arena as it is the largest tractor manufacturer, second-largest bus manufacturer, and third largest heavy trucks manufacturer in the world. India has beaten Japan to become the third largest vehicle market in 2022 after China and the US.

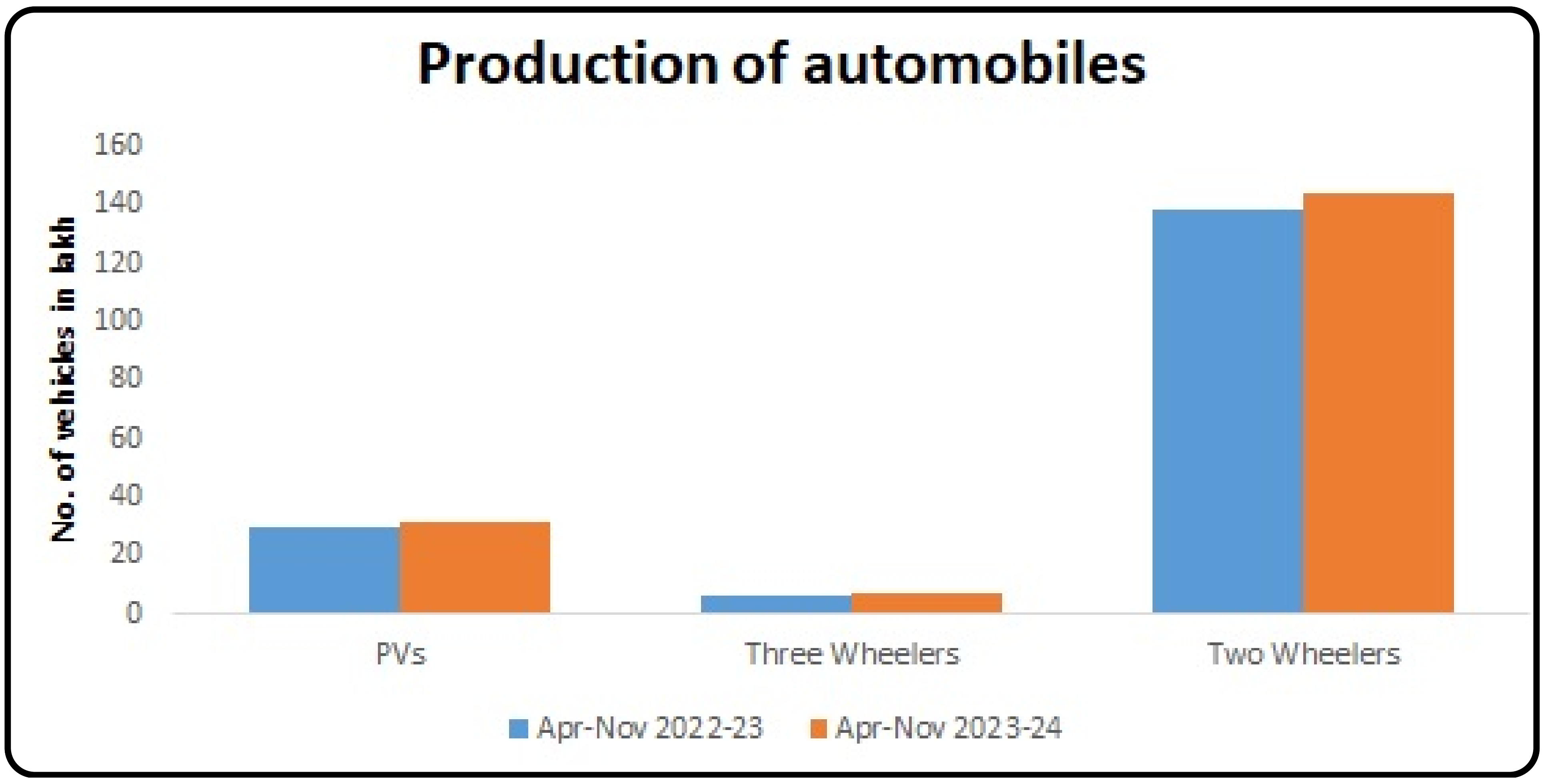
PERFORMANCE OF THE INDUSTRY

The Indian automobile industry has showed a decent performance in April-November 2023-24, as compared to April-November period of 2022-23. Total production including Passenger Vehicles (PVs), three and two wheelers, and quadricycle in the eight-month period (April-November) of FY24 rose 4.74 per cent to 182.31 lakh vehicles as against 174.05 lakh vehicles in the same period of previous year. On the other hand, total domestic sales of the industry registered a growth of 10.15 per cent at 154.36 lakh vehicles in April-November period of FY24, as against 140.14 lakh crore vehicles sold in April-November of FY23. However, overall exports declined 13.91 per cent to 29.09 lakh vehicles in April-November period of FY24, as against 33.80 lakh vehicles exported in the same period of last year. Automobile shipments from India declined as many overseas markets continued to face monetary and geopolitical crises.



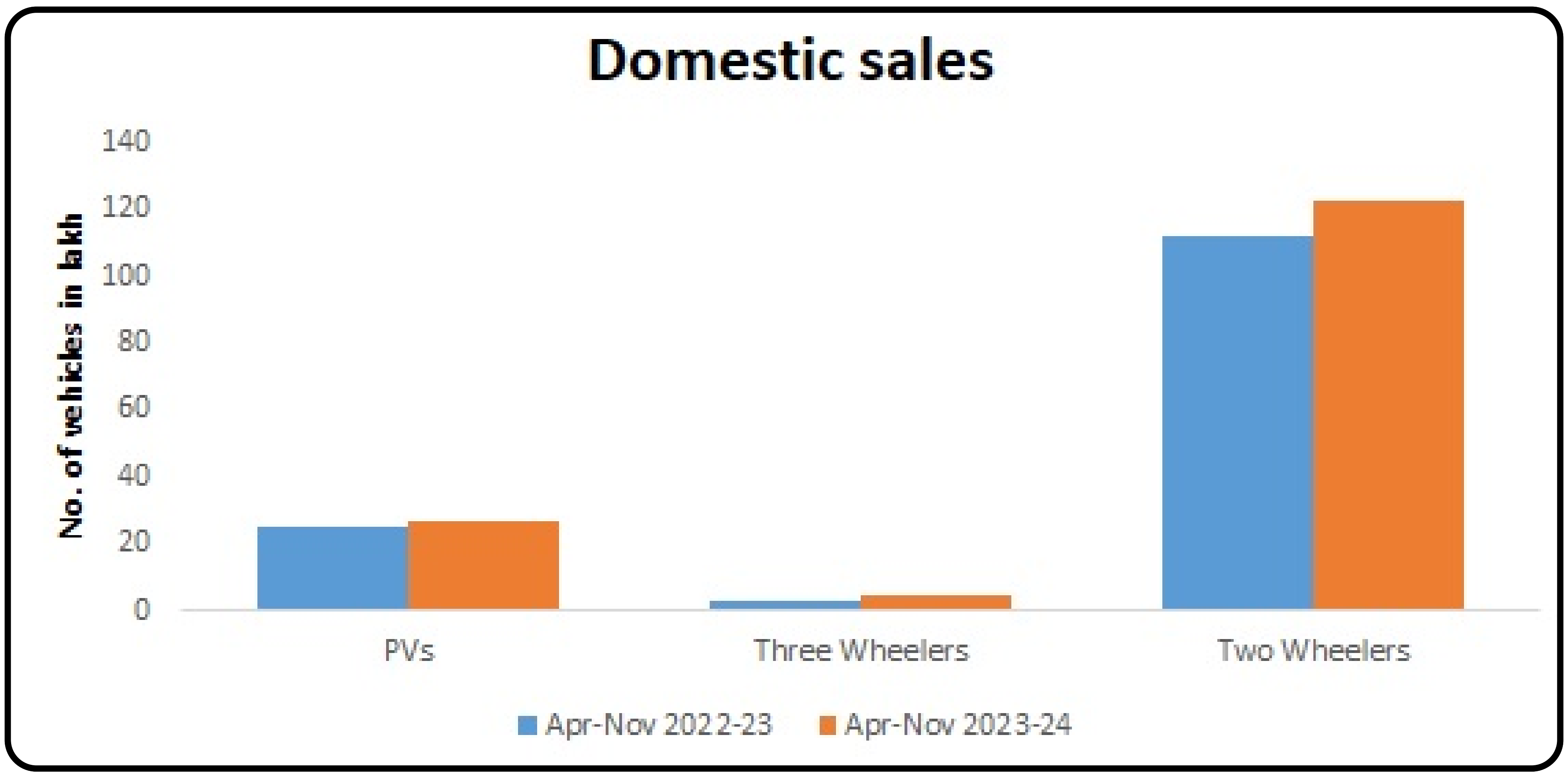
PRODUCTION OF AUTOMOBILES

All the segments of the industry have registered positive growth in their production. During the eight-month period of the current year, out of total production, PVs segment recorded a decent growth of 6.11 per cent at 31.31 lakh vehicles against 29.51 lakh vehicles in the same period of previous year. Under PVs segment, Passenger Cars was 13.21 lakh units, Utility Vehicles was 17.14 units and Vans was 96,102 units. Production of three wheeler segment in April-November period of FY24 jumped 20.05 per cent at 6.89 lakh vehicles as compared to 5.74 lakh vehicles in the corresponding period of previous year. Under three wheeler segment, Passenger Carrier production increased by 19.97 per cent, Goods Carrier rose 13.64 per cent, E-Rickshaw jumped 52.84 per cent, while E-Cart was down by 8.08 per cent during the reporting period. Besides, two wheeler segment registered 3.81 per cent growth at 144.08 lakh vehicles against 138.80 lakh vehicles in the previous year. Within two wheeler segment, Scooter/Scooterettee, Motor cycles/Step-Throughs and Mopeds grew by 7.50 per cent, 2.24 per cent and 5.06 per cent, respectively.



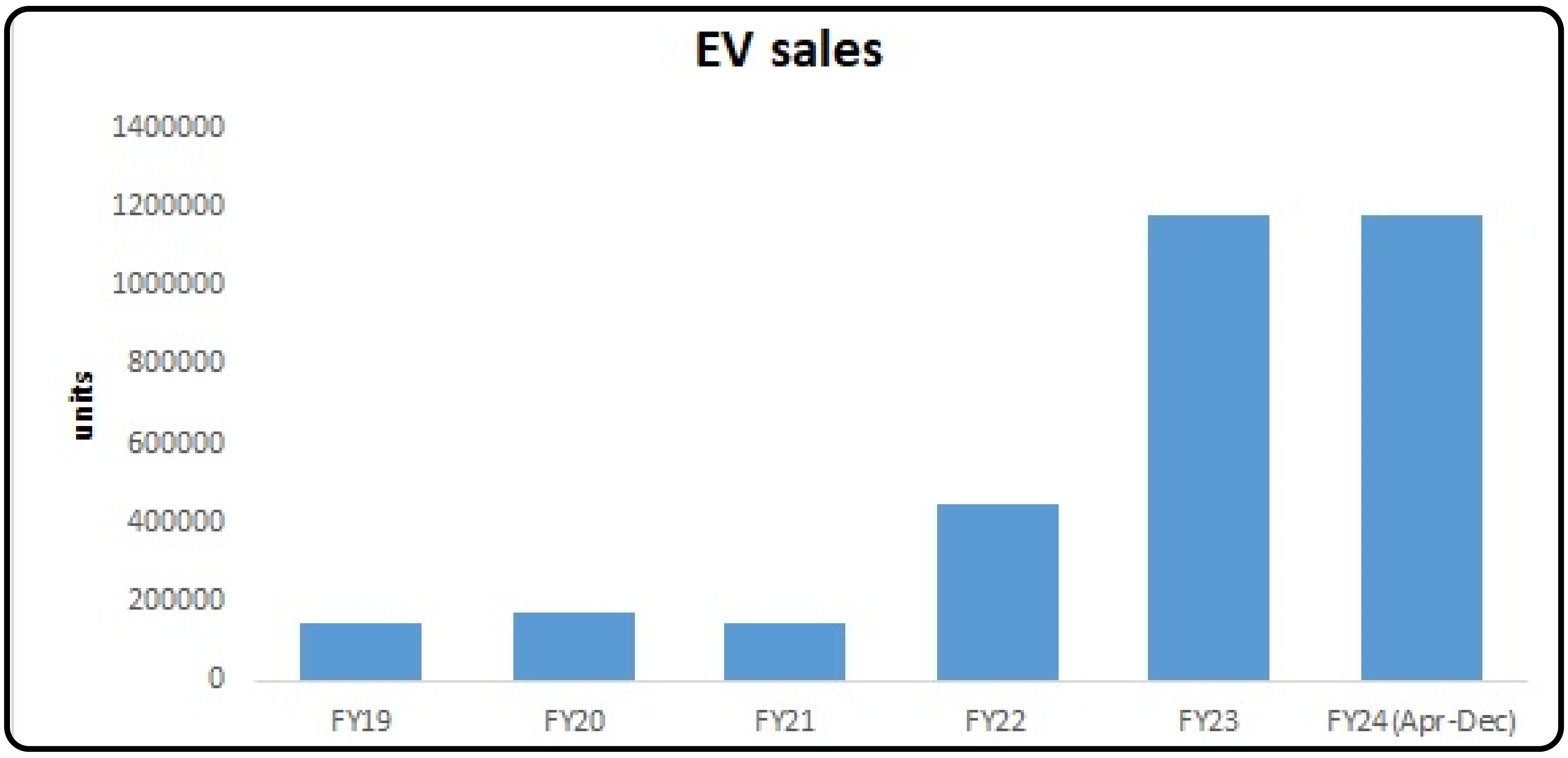
DOMESTIC SALES

The sales of PVs grew by 7.84 per cent at 27.00 lakh units in April-November period of 2023-24 over the same period last year. Within the PVs, sales of Utility Vehicles surged 23.61 per cent to 15.61 lakh units, Vans grew by 7.08 per cent 0.97 lakh units, while Passenger Cars sales declined by 9.41 per cent to 1.04 lakh units Y-o-Y. Three wheelers sales jumped 60.70 per cent to 4.76 lakh units in reporting period over the same period last year. Within three-wheelers, Passenger Carrier sales soared 74.80 per cent, while Goods Carrier sales grew by 13.52 per cent in April-November period of 2023-24 over April-November period of 2022-23. E-Rickshaw sales grew by 60.76 per cent and that of E-Cart inched up by 6.08 per cent. Two Wheelers sales registered a growth of 9.32 per cent at 122.58 lakh units. Within the Two Wheelers segment, Scooters, Motorcycles and Mopeds grew by 7.42 per cent, 10.52 per cent and 4.18 per cent, respectively in April-November period of FY24 over the corresponding quarter of last year.



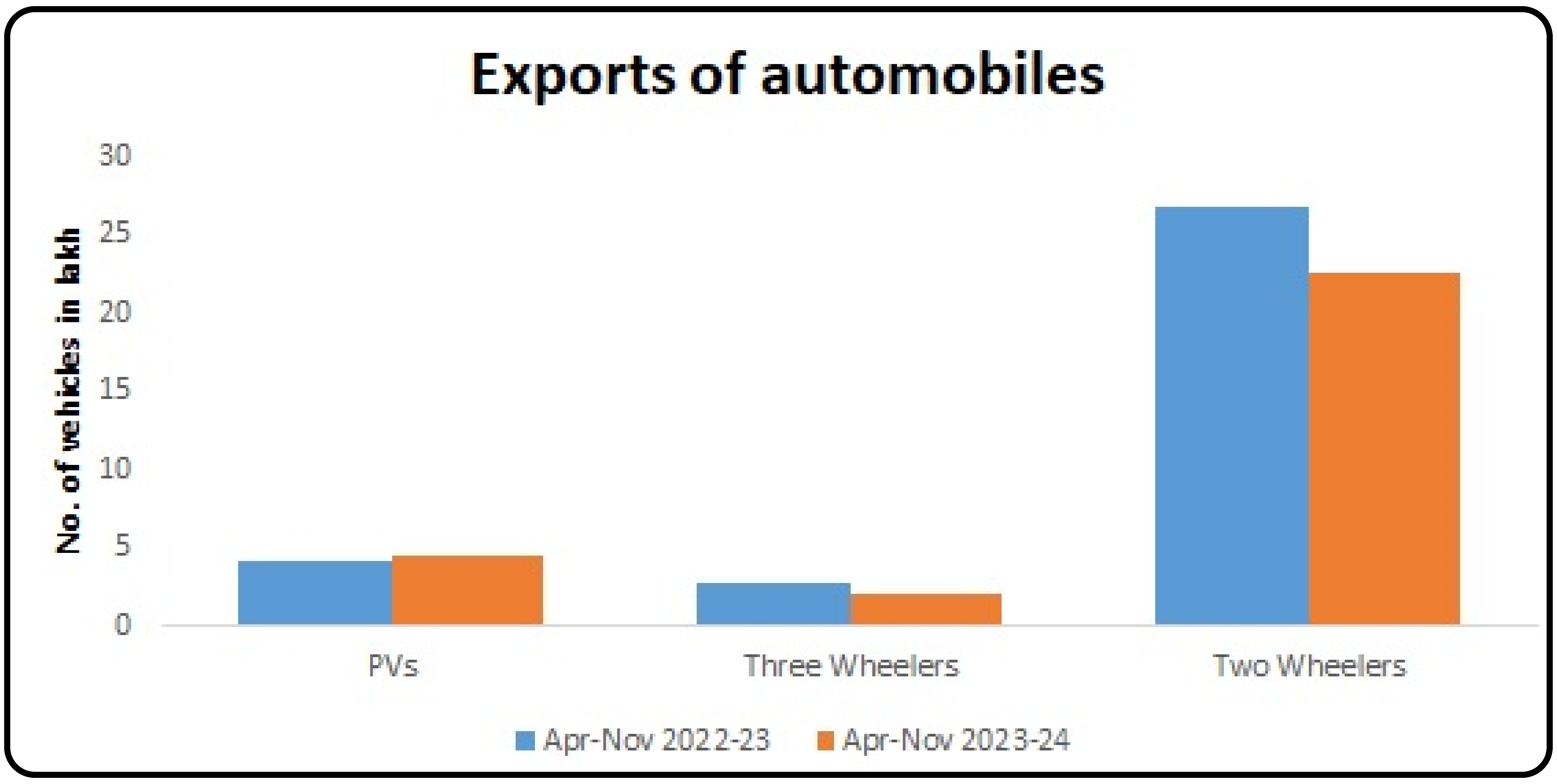
SALES OF EVS

The electric vehicles (EV) sales showed over 2-fold jump at 1179958 units sold in FY23 over 446164 units sold in FY22. During April-December period of current fiscal year (FY24), the EV sales was 1179507 units. Of the total EV sales in April-December period of FY24, sales of E-2 Wheelers were 642473 units, E-3 Wheelers 467129 units, E-4 Wheelers 67565 units and E-Buses 2340 units. The recent growth in sales of EV is likely to continue in coming and is likely to aid automobile industry. There are expectations of a robust 49 percent compound annual growth rate (CAGR) in India's domestic electric vehicle market between 2022 to 2030, with an estimated 10 million annual sales by 2030. Projections indicate that the EV industry is set to generate around 50 million direct and indirect employment opportunities within the next seven years.



EXPORTS OF AUTOMOBILES

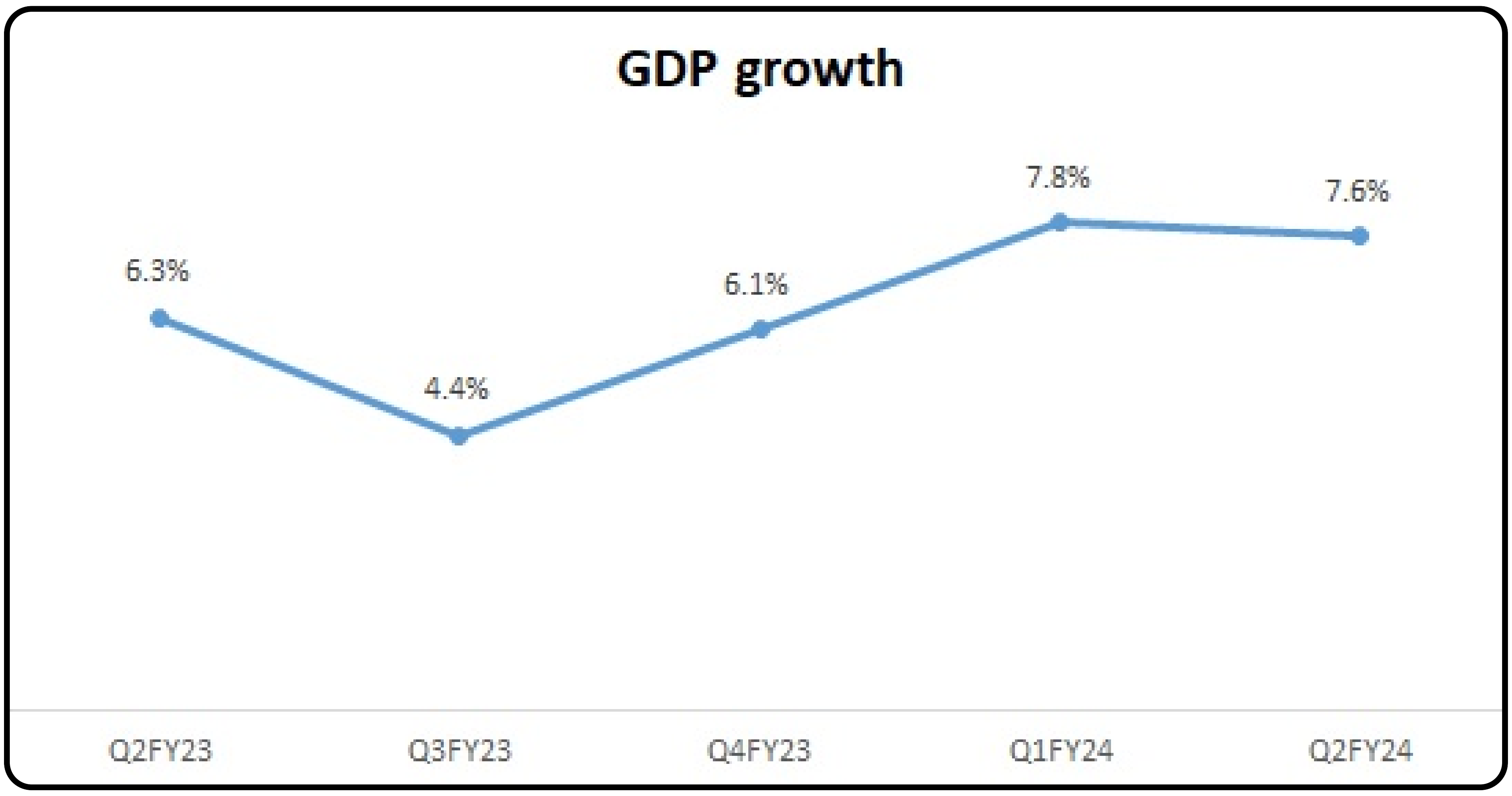
Barring PVs segment, three and two wheelers segments have recorded negative growth in exports for the April-November 2023-24 over same period of the last year. Exports of Three Wheelers segment registered a fall of 25.40 per cent in April- November 2023-24 to 2.07 lakh units as against 2.77 lakh units in the same period last year. Within the three wheeler segment, Passenger Carrier and Goods Carrier slipped 25.44 per cent and 21.38 per cent, respectively in April-November 2023-24. Besides, exports of two wheelers decreased by 15.82 per cent in the reporting period to 22.55 lakh units as against 26.79 lakh units in corresponding period of the previous year. Under the two wheeler segment, only Scooters recorded positive growth of 23.36 per cent, while Motorcycles and Mopeds reported a fall of 20.42 per cent and 51.72 per cent, respectively. However, the country's exports of PVs rose by 5.36 per cent to 4.45 lakh units in the reporting period as against 4.22 lakh units in corresponding period of the previous year. In the PVs segment, Passenger Cars exports grew by 5.35 per cent, Utility Vehicles exports was up by 2.01 per cent and Vans exports recorded multi-fold jump by exporting 5,343 units over 268 units sold a year ago.



FACTORS PROVIDING THRUST TO THE INDUSTRY

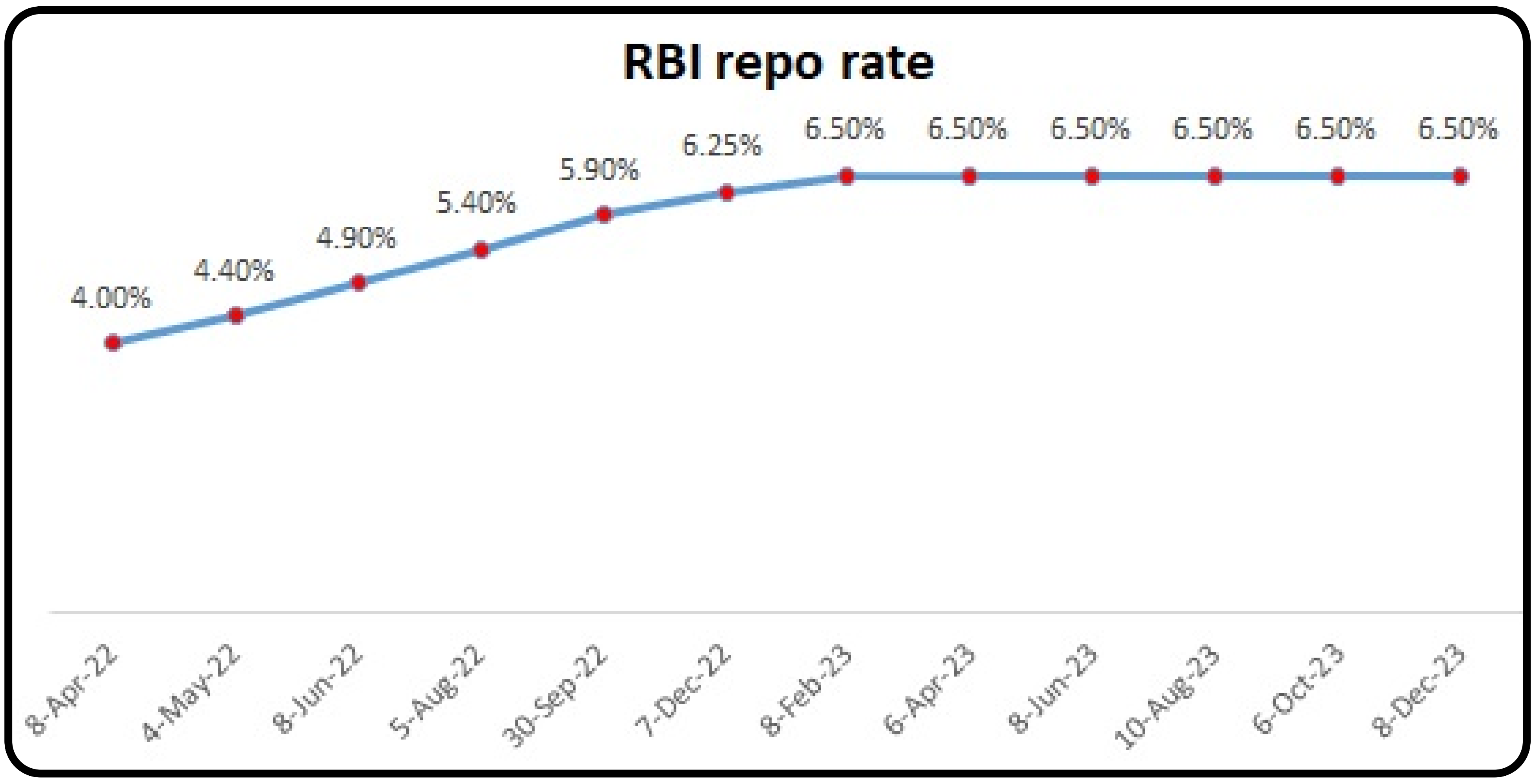
- ### Robust GDP growth:

The auto industry growth is largely dependent on the growth in the overall economy. There's a very high correlation between the two. Pick up in the country growth indicates increasing consumption and which in turn helps the automobile industry to perform better as it generates demand. The Indian economy has shown robust growth in last two quarters as the country's GDP grew from 4.4 per cent in Q3FY23 to 7.8 per cent in Q1FY24 and it remained almost stable at 7.6 per cent in Q2FY24. This will improve future demand in the industry and will help to grow. Further, the Indian economy is estimated to grow by 7.3 per cent in the 2023-24 fiscal against 7.2 per cent a year ago, mainly due to good show by mining and quarrying, manufacturing and certain segments of services sectors. As per the first advance estimates of national income released by the National Statistical Office (NSO), the manufacturing sector output is estimated to grow to 6.5 per cent in the current fiscal compared to 1.3 per cent in 2022-23.



- **Stable repo rate:**

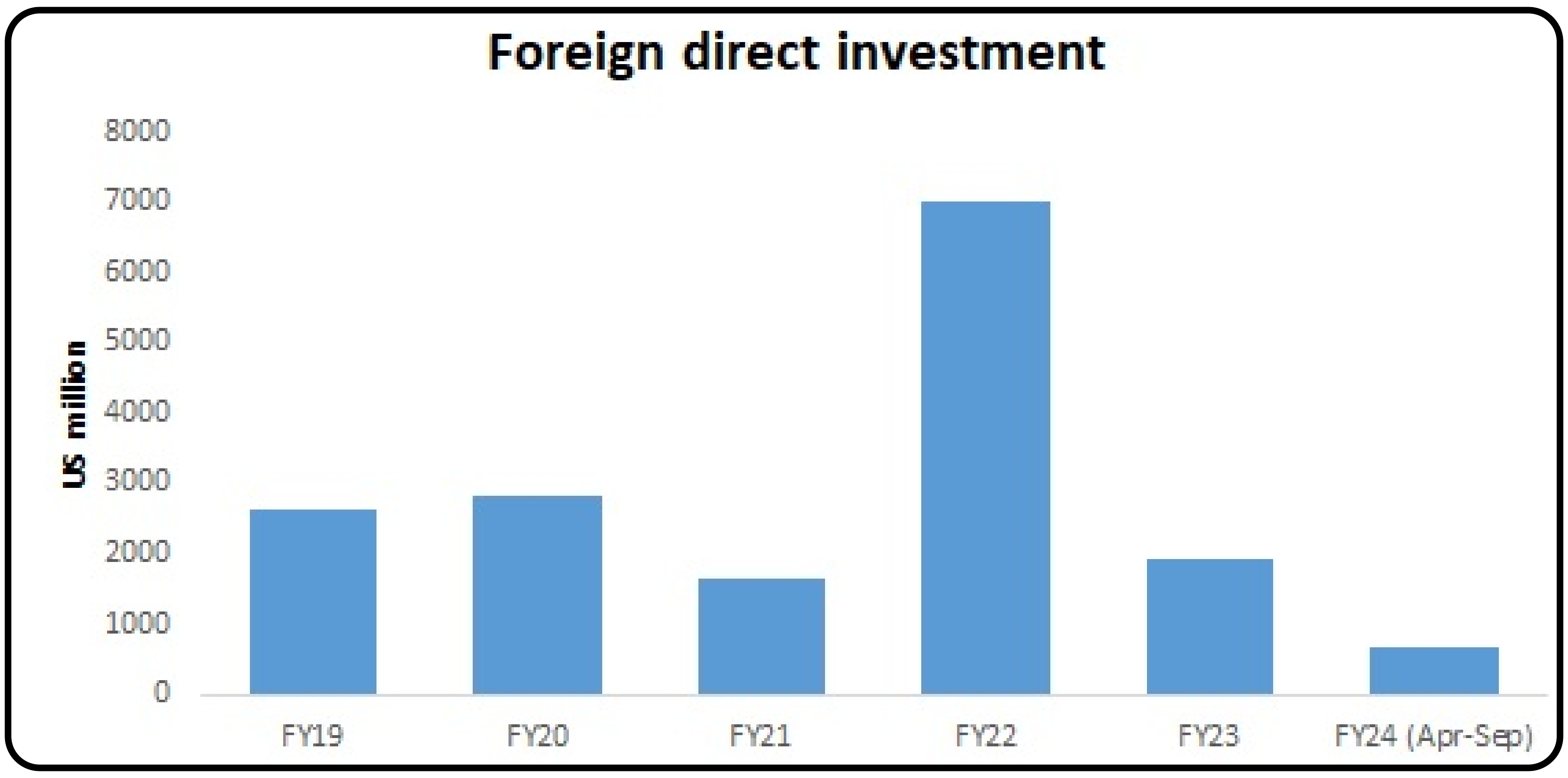
The Reserve Bank of India (RBI) has kept key repo rate unchanged from the starting of the current fiscal year at 6.50 per cent. The unchanged repo rate would be positive for vehicle buyers, as the stable repo rate will result in stable loan interest rates. A possible increase in auto loan rates could have an impact on future demand. There is need to reduce repo rate going forward, this in turn will help to ease interest rate on auto loan and will provide some support to demand in the industry. Earlier, the auto industry suffered due to continued hike in repo rate in 2022. The RBI increased repo rate to 6.50 per cent in February 2023 constantly from 4.00 per cent in April 2022. There is no significant impact on auto loan EMIs if RBI leaves the repo rate unchanged. When the repo rate remains unchanged the cost of funds for banking institutions also does not change implying that the interest rate for loans remains the same.



BARRIER TO GROWTH OF THE INDUSTRY

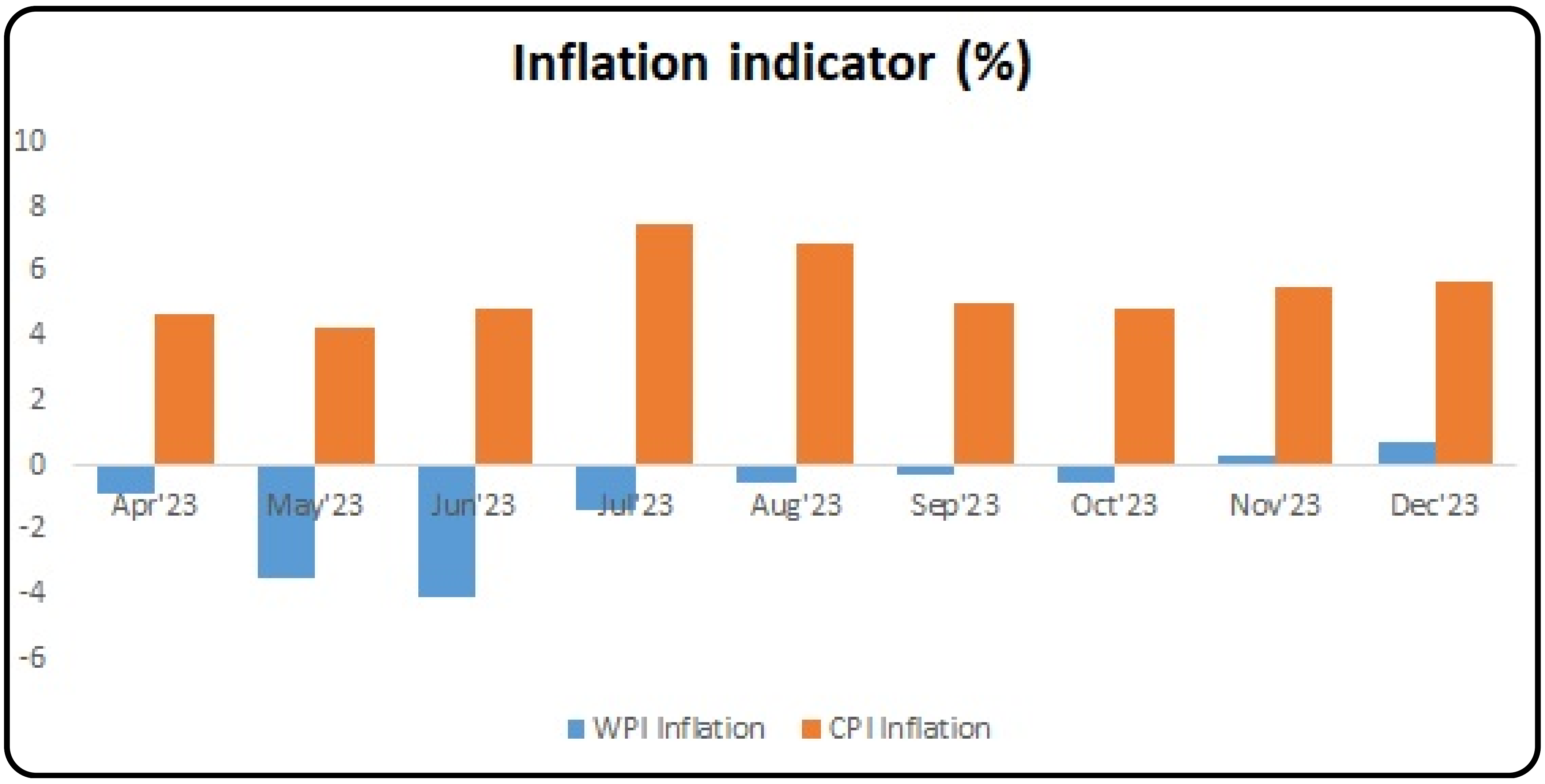
• Fall in foreign direct investment (FDI):

The Indian automobile industry garnered FDI of $663.79 million in the April-September period of current fiscal year (FY24) as compared to $932 million in the same period of the last year, registering a fall of 28.78 per cent. In rupee terms, the industry garnered FDI worth Rs 7,204 crore in the April-September period of current fiscal year. Automobile industry contributes 5 per cent out of total FDI equity inflow (in terms of USD) and it ranks fifth among all the industries. Besides, during FY23, FY22, FY21 and FY20 FDI inflows in the automobile industry stood at $1902.23 million, $6993.54 million, $1637.45 million and $2824.03 million, respectively.



• Rising inflation:

With crude oil prices continuing to remain near $80 per barrel, the inflation is rising and this could lead to a further increase in interest rates. Since automobile retail (around 80 per cent) is largely enabled by lending, the high interest rates will eventually impact vehicle sales. It remains a major headwind going forward. India's retail inflation surged to a four-month high of 5.69 per cent in December on an annual basis as against 5.55 per cent in November. India's Wholesale Price Index-based (WPI) inflation registered an increase in December at 0.73 per cent, up from 0.26 per cent in November. This is the highest wholesale inflation registered in the past nine months. Meanwhile, some of the auto industry players are increasing their prices of vehicles to offset impact of inflation, which could impact sales and demand of the vehicles in coming time. Maruti Suzuki announced a price hike across models to the tune of 0.45 per cent citing increased cost pressure driven by overall inflation and increased commodity prices. The price hike was effective from January 16, 2024. Tata Motors announced price hike across models including Electric Vehicles (EVs) effective from February 1, 2024. The company is set to increase prices by 0.7 per cent (on average) across its passenger vehicles portfolio to partially offset the rise in input costs.



INTERIM BUDGET 2024-25 PROPOSAL FOR ELECTRIC VEHICLE (EV) SEGMENT:

Finance Minister Nirmala Sitharaman in her interim budget 2024-25 has said that government will expand and strengthen the e-vehicle ecosystem by supporting manufacturing and charging infrastructure. Greater adoption of e-buses for public transport networks will be encouraged through payment security mechanism.

These budget proposals to strengthen e-vehicle ecosystem is expected to boost the development and adoption of EVs in the country. This may help India's net zero emission target by 2070. The government's focus on expanding the EV charging network is also expected to increase opportunities for a large number of small vendors for manufacturing, installation and maintenance of EV charging networks.

GOVERNMENT INITIATIVES & RECENT DEVELOPMENTS

- **Govt's mission is to be world's top automobile manufacturing hub**

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The government's mission is to make India the number one automobile manufacturing hub in the world and make the auto sector a Rs 25 lakh crore industry. The size of the industry is Rs 12.5 lakh crore at present. This is the industry which has Rs 4 lakh crore from exports and this is the industry which has already created 4 crore jobs. This is the industry which is giving the maximum revenue as part of GST to state governments and the Central government. The government has taken up several measures, including the FAME scheme, PLIs for auto and Advanced Chemistry Cell (ACC) battery, to promote electric vehicles and their manufacturing in India. He said the production of ACC battery in India under the PLI scheme is expected to start by around February.

- **Govt evaluating 9 proposals on semiconductor manufacturing**

Crediting the Micron investment for sparking manufacturing interest in India, the government said that at least nine semiconductor manufacturing proposals were undergoing the analysis stage. The government said ‘We have received two fab proposals, four OSAT proposals and three proposals for compound fabs, and all of them are very high-quality proposals which are currently undergoing an analysis’. It also said that the country will see many startups in emerging spaces like semiconductors, electronics, artificial intelligence, and high-performance computing, among others, in the coming days. Recently, Tata group announced setting up a semiconductor fabrication unit in the state of Gujarat.

- **Govt extends tenure of PLI scheme for Auto industry by a year with partial amendments**

The government has extended the tenure of Production Linked Incentive (PLI) Scheme for Automobile and Auto Components by one year with partial amendments to provide clarity and flexibility to the scheme. This decision has been made after receiving the approval of the Empowered Group of Secretaries (EGoS). As part of the amendments to the scheme, the incentive will be applicable for a total of five consecutive financial years, which commence from the FY24. In other words, the extension of the five-year scheme, originally in place from 2022-23 to 2026-27, will be active until 2027-28. Moreover, the government has also said that if an approved company fails to meet the threshold for an increase in Determined Sales Value over the first year's threshold, it will not receive any incentive for that year.

- **Govt not considering proposal to provide duty concessions for import of electric vehicles**

The government has said it is not considering any proposal to provide duty concessions and exemption from local value addition for import of electric vehicles into the country. Regarding whether there is any proposal to exempt Tesla and other multinational car companies from local value addition of cost in heavy batteries, semiconductors and magnetic parts; and subsidy on the import duty on the import of Electric Vehicles (EVs) in India, Minister of State for Commerce and Industry Som Parkash said a production-linked incentive scheme for automobile and auto component industry with a budgetary outlay of Rs 25,938 crore was announced by the government. The move was aimed at providing financial incentives to boost domestic manufacturing of advance automotive technologies products including EVs and their components.

- **11,000 old vehicles of Central Armed Police Forces identified; to be scrapped**

As many as 11,000 vehicles belonging to the Central Armed Police Forces such as the BSF, CRPF and CISF will be scrapped as part of a Central government policy to dispose of all automobiles older than 15 years. The Ministry of Home Affairs has also requested all state governments and Union Territory administrations to take necessary steps for scrapping worn-out operational vehicles of state police organisations and to replace them with better technology and fuel-efficient vehicles. The MHA has taken steps to ensure that vehicles that are older than 15 years are scrapped as per the 'Vehicle Scrapping Policy' of the Government of India.

OUTLOOK

The outlook of Indian automobile industry looks optimistic in coming time, as the country's automobile industry is well-positioned for growth, servicing domestic demand. This shows that there has been an increasing trend in the production of vehicles, both in value and quantity terms. Also, sales have showed decent growth and supporting factors like robust economic growth and government policies likely to generate demand and improve sales in coming time. Shift to EV is also gearing up and showed tremendous growth over past two years, and the government is optimistic over the future of EV market. This will also give a thrust to the domestic automobile industry to grow further. The global shortage of semiconductors, or chips, which had rattled automobile production and sales in India through fiscals 2021 and 2022 and a large part of fiscal 2023, is easing, with supply-chain glitches being addressed and improved predictive demand forecast enabling better production schedules. Additionally, the government is also taking steps to promote semiconductor manufacturing in India. Moreover, in interim budget, the government's focus on e-vehicle ecosystem is likely to boost production on EV and support the industry in near term.

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