KPMG

Automotive pulse - India

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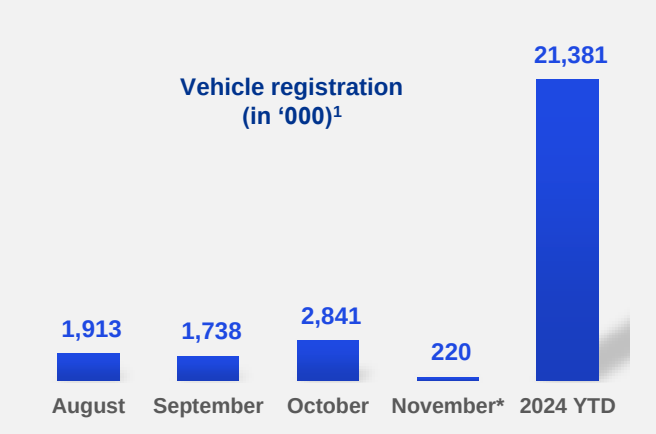
A snapshot of India's automotive sector

India's automotive sector is experiencing a transformative phase, fuelled by a blend of technological advancements, evolving consumer trends and a growing appetite for sustainable and electric vehicles (EVs). This positive momentum is further amplified by the government's supportive policies that encourage local production. Consequently, India is swiftly becoming a pivotal player in the international automotive arena, offering abundant investment opportunities and heralding a prosperous outlook for the sector.

In CY23, the Indian automotive sector concluded with a record total of 24 million vehicles registered, marking an 11.3 per cent growth compared to the 21.6 million vehicles in CY22, with the passenger vehicle category reaching an all-time high[1].

In 1HFY25, automotive exports from India saw a year-on-year increase of 14 per cent, with all verticals, except for three-wheelers, recording growth in shipments[2]. The overall shipments reached 25,28,248 units in the first half of the current fiscal year compared to 22,11,457 units during the same period last year[2].

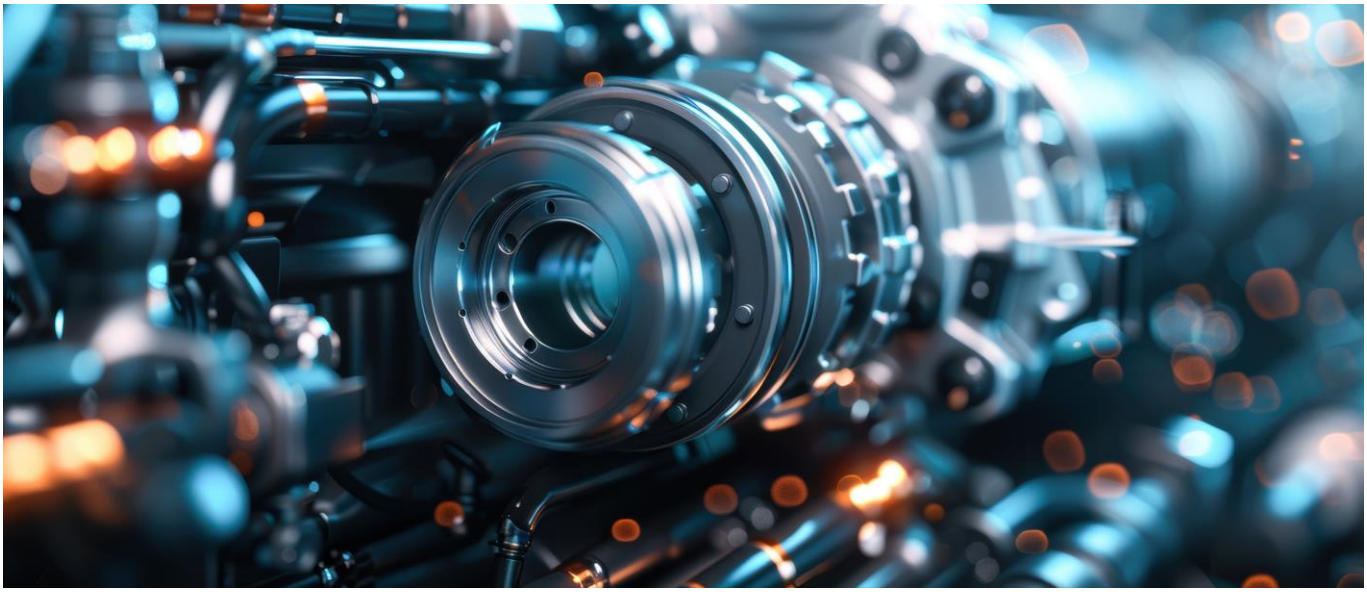
Throughout the months of August-October 2024, the automotive sector witnessed marginal decline in demand levels, as visible in the vehicle registrations and electric battery-operated vehicle sales, largely due to excess rainfall and floods disrupting retail sales in several states in the local market. However, in October 2024, there was a significant rise in vehicle registrations owing to the festive season.



*Note: The numbers for October are till date i.e., 4th November 2024.

Electric battery-operated vehicle sales[1]

	July	August	September	October
CY24	128,623	107,066	97,236	109,900
CY23	116,623	127,208	128,557	140,373
YoY change (%)	10.3%	(15.8%)	(24.3%)	(21.7%)



1. Vahan database and dashboard, accessed on 4th November 2024
2. Vehicle exports from India rise 14% in H1 FY2025, SUVs, 2-wheelers and CVs drive revival, Autocar Professional, 19 October 2024

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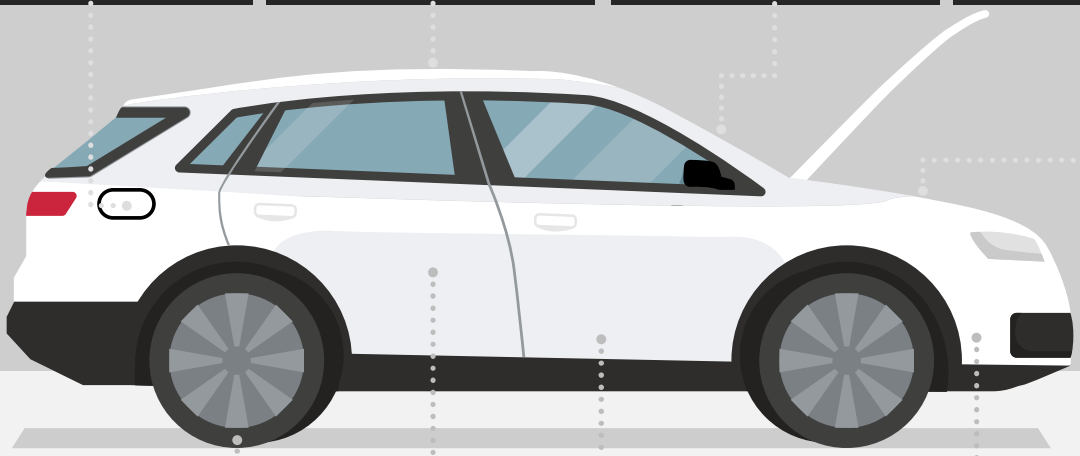
Key challenges identified in the sector:

- Vulnerability to cyber attacks due to increasing connectivity of vehicles
- Skill gap impacting costs, quality and assembly of auto parts
- Supply chain disruptions due to geopolitical tensions impacting sales and production
- Increasing competition with domestic and international players vying for market share



- Overcapacity and extreme weather conditions leading to a decline in showroom footfall and vehicle buying
- Efficient management and analysis of technology and data in connected vehicles
- Increasing tax risks for certain players due to complex Indian tax system
- Increasing pressure for maintaining sustainability standards impacting product lines

Near-term outlook: The sector holds a measured optimism, spurred by interest in new models and strategic initiatives, yet remains vigilant over economic issues to adeptly manage market shifts.

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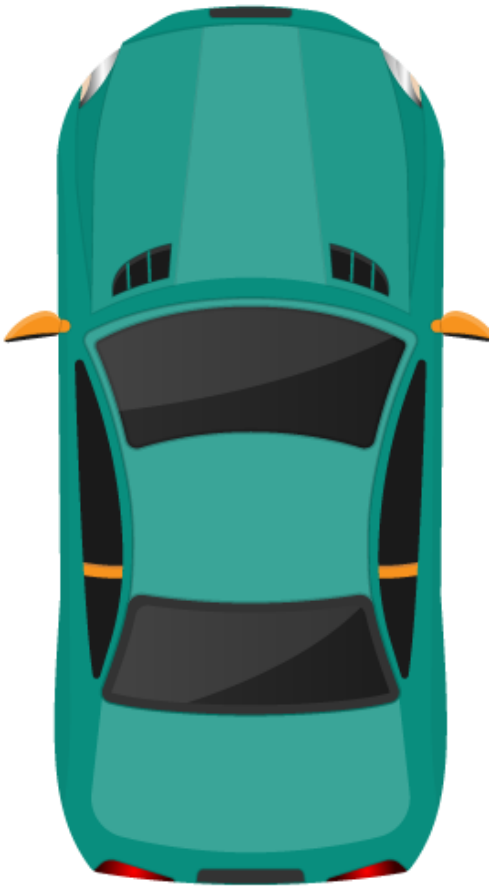
Steering through regulatory updates and initiatives

The Indian government has been focusing on upgrading the policies around EVs to attract foreign companies and promote ‘Make in India’ in the automotive sector:



The Indian Government updated its EV policy, allowing the import of completely built-up (CBU) electric cars with a minimum CIF (cost, insurance and freight) value of USD35,000 at a 15 per cent duty charge for five years from approval. Previously, CBUs over USD40,000 CIF faced a 100 per cent duty, while those under USD40,000 CIF were taxed at 70 per cent[3].

Along the similar lines, the Uttar Pradesh government announced a significant boost for the EV sector in the state by extending its Electric Vehicle Manufacturing and Mobility Policy till 2027[4].

India's automobile sector identified 28 key components for indigenisation as a part of the ‘localisation roadmap’ to accelerate the Make in India initiative[5].

The government extended the Electric Vehicle Promotion Scheme by two months to September 2024 with an increased outlay of USD92.6 million*[6].

- In the Union Budget 2024, the government allocated USD31.7 billion* for rural development to enhance rural infrastructure critical for the auto sector, particularly in the tractor and two-wheeler segments[7]
- The budget also increased the PLI scheme for automobile and auto components to USD416 million*, a rise of 624 per cent[8].

Note(*): Currency converted as per the conversion rate 1 USD = 83.9 as on 8 August 2024

3. Government cuts duty on electric vehicle import to 15 per cent, The New India Express, 16 March 2024
4. Uttar Pradesh extends EV policy by up to three years: Here’s all we need to know, Express Drives, 16 July 2024
5. Auto industry identifies 28 components to reduce imports, Financial Express, 8 May 2024
6. Government extends EMPS by two months, increases funding to INR778 crore, ET Auto, 26 July 2024
7. Union Budget 2024: implications for India’s auto and manufacturing sectors, WION, 23 July 2024
8. Budget 2024: Ministry Of Heavy Industries Ups PLI Allocation For Auto Industry By 600%, Inc42, 23 July 2024

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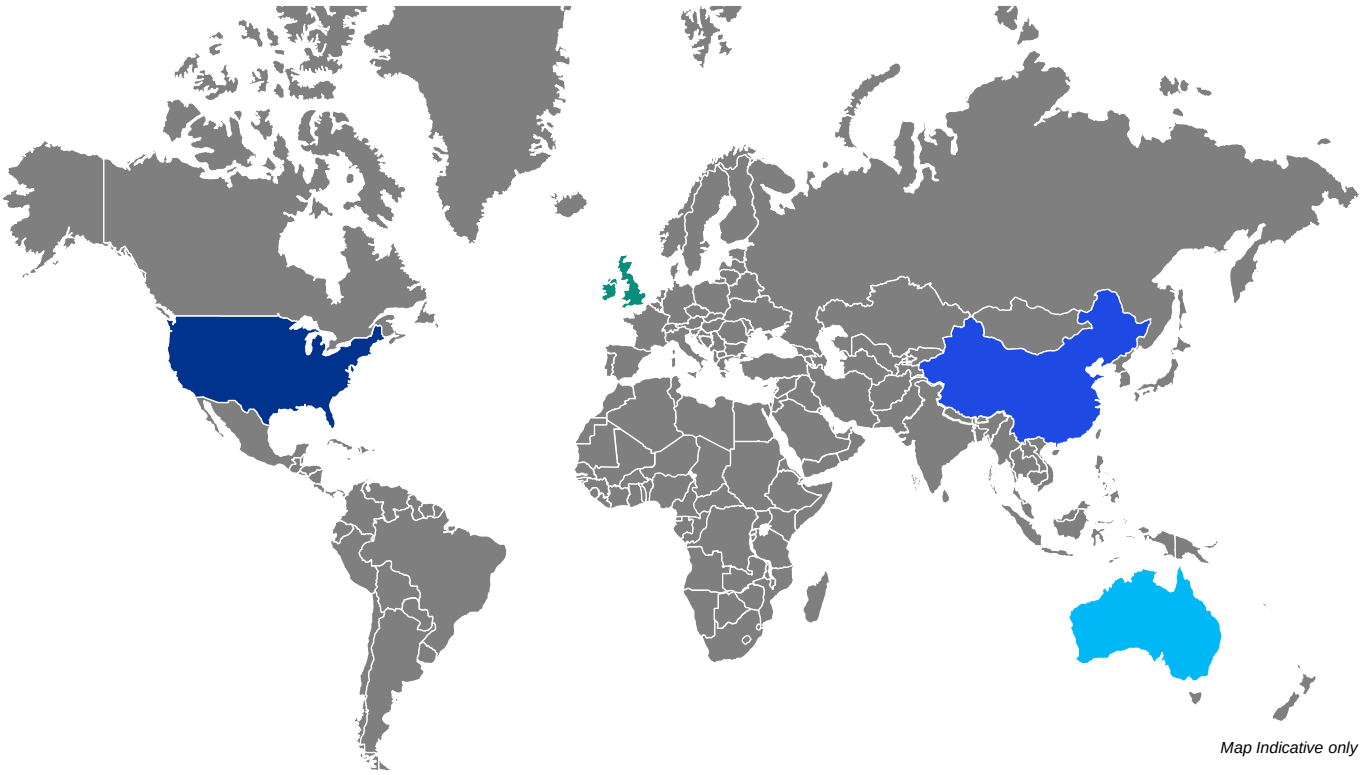
Global developments across the automotive sector



Map Indicative only

China

- The increasing presence of European automotive giants in the Chinese market has prompted numerous supporting suppliers to establish facilities nearby. This trend is fostering greater integration between Chinese and European automotive sectors[9].

US

- As part of the US government's Investing in America agenda, the Department of Energy (DOE) announced USD1.7 billion to support the conversion of eleven shuttered or at-risk auto manufacturing and assembly facilities to manufacture electric vehicles[10].

Australia

- The Australian Parliament passed the bill for a New Vehicle Efficiency Standard (NVES), which sets the first-ever CO2 emission standards for Australia's light-duty vehicles. The standards set targets from 2025 to 2029 for passenger cars, SUVs and vans[11].

U.K.

- UK car production decreased by 7.6 per cent in the first half of 2024, as the country shifted its focus to electric vehicle investment[12].

9. China, Europe develop stronger auto industry ties, China Daily, 29 July 2024
10. USA announces $1,7B to convert auto manufacturing sites to electric vehicle production, PM Review, 15 July 2024
11. Australia finalizes first-ever CO2 emissions standards for light vehicles, sending its clearest signal yet to the automotive industry, ICCT, 17 May 2024
12. UK Car Production Declines As Focus Shifts To Electric Vehicle Investment, Drive Spark, 25 July 2024

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Unlocking opportunities and growth potential

India's automotive sector is poised for significant growth and opportunities, spurred by a host of factors such as technological advancements that are opening doors to more efficient, sustainable and intelligent vehicles, profitable merger and acquisition (M&A) deals and private equity (PE) investments, strategic alliances and rising opportunities through developments in supporting sectors. These factors pose as opportunity drivers for the automotive sector in the near term:

A. Increasing opportunities in the technological landscape

The Indian automotive sector, which is an active landscape of technology, has put a strong focus on trends such as **green energy integration, partnerships for quality assurance and progressive technologies** such as advanced driver assistance system (ADAS), hydrogen fuel cell technology, electromagnetic compatibility (EMC) testing and a robust EV charging infrastructure. This could potentially result in a surge of investments from both local and overseas entities in the development of these technologies.

Advanced driver assistance system (ADAS)

The government is expected to soon notify **standards for installing ADAS** in vehicles as a safety feature to prevent crashes and better driver behaviour[13].

Electromagnetic compatibility (EMC) automotive testing

Industry wide collaborations to perform **testing for a wide spectrum of electrical and electronic components and subsystems of automobiles.**

Hydrogen fuel cell technology

The Indian Army is planning on deploying **hydrogen-fuel cell technology for heavy duty e-mobility.** It also received a state-of-art green hydrogen fuel cell bus for use in Delhi from a leading public sector undertaking (PSU)[14].

EV charging infrastructure

An Asian automotive giant joined hands with an oil-based company in India to **expand EV charging infrastructure** across the country at key locations covering highways and cities.

The pace of international technology-based alliances in India's automotive sector is increasing, with the following trends in focus:

- **Automotive software and IT development hub**: A European automotive company and a South Asian technology company entered a strategic partnership, focusing on pioneering areas of critical technologies, including software-defined vehicles, autonomous driving, advanced infotainment systems and innovative digital services.
- **Domestication of technology production**: To foster localisation of their EV battery production in India, specifically lithium-iron-phosphate (LFP) cells, two Asian automotive manufacturers signed an MoU with one of India's energy companies. This development is likely to boost India's EV production facilities and make India a global EV market.

13. Government to soon fix standards for 'advanced driver assistance system' in vehicles, says transport secretary, Times of India, 16 January 2024
14. Army to develop fuel cell tech for e-mobility, Times of India, 28 May 2024

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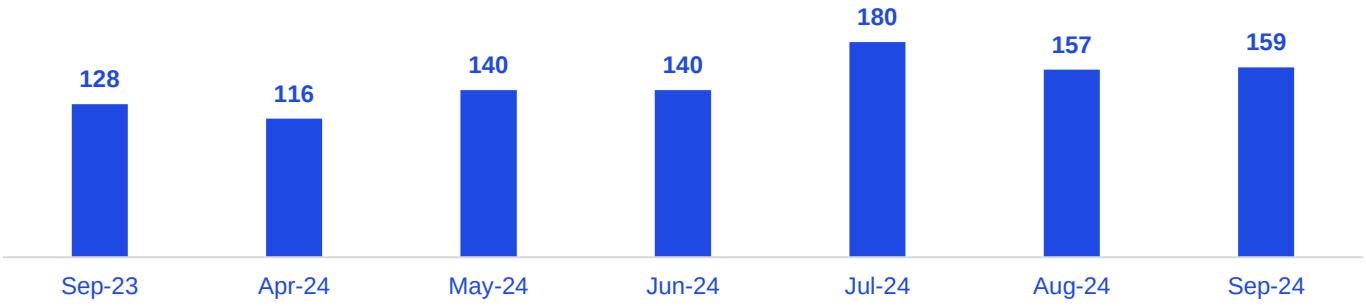
B. India accelerates as global automotive component powerhouse

India is progressively becoming a global centre for sourcing automotive components, with the sector annually exporting over a quarter of its production[16]. During FY24, the automotive component industry exported components worth USD21.2 billion witnessing a growth of 5.5 per cent and imported components worth USD20.9 billion, with a growth of 3 per cent[15]. **It is anticipated that automotive component exports from India will reach USD30 billion by 2026[16]**. By FY28, the Indian automotive sector aims to invest USD7 billion to boost the localisation of advanced components such as electric motors and automatic transmissions. This move will help in reducing imports and capitalising on the 'China Plus One' trend[16].

C. India's EV revolution: Unlocking a new era of growth and opportunity

Global EV sales have seen a decline, primarily due to rising concerns over high EV capital costs due to falling used EV prices and a shortage of rapid charging stations, which is becoming a major concern for consumers. On the contrary, the Indian EV market is showing significant resilience and steady growth. **In September 2024, the total number of registered EVs in India reached 159,513, up from 157,045 in August 2024[17]**, marking a month-over-month increase. However, in August 2024, the units declined to 157,045 from 180,082 in July 2024[17], largely due to the onset of monsoon. The below graph portrays EV sales figures recorded in the past few months:

Total number of EV sales (in '000 units)[17]



The stability in the number of EV sales in past year is primarily driven by the dominance of electric two-wheelers, which have become increasingly popular among Indian consumers due to their affordability, lower maintenance costs and efficiency.

This consistent upward trend highlights the burgeoning opportunities within India's EV space, positioning it as a key market for future investments and development in the automotive sector.

The outlook for the ecosystem is positive

- The Indian government is forming an 'EV task force', aiming to develop a comprehensive EV industry roadmap. This task force will collaborate with industry stakeholders to shape policies on EV adoption and infrastructure enhancement[18].
- The recent government policy has led to lower import duties for companies that pledge to set up local manufacturing units. As a result, international electric vehicle manufacturers are exploring opportunities in the Indian market.
- MoUs to establish EV charging infrastructure across the country are gathering pace with major auto manufacturing companies partnering with companies in sectors such as oil and gas, technology, etc.

15. Auto component industry reports $300 million trade surplus in FY24 with $21.2 billion in exports, Autocar Professional, 25 July 2024
16. AUTO COMPONENTS, IBEF, May 2024
17. India EV Sales Trend, EV Porter, July 2024
18. India sets up task force to accelerate EV drive, Mint, 23 April 2024

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D. Indigenisation provides new opportunities for export growth and manufacturing excellence

India's ambitious goal to become the world's largest automotive manufacturer by 2029 is gaining momentum, positioning the country as a key player in the global automotive landscape. As of 2023, India stands as the third-largest automotive manufacturer, trailing only behind China and the US[19]. **With the production of 25.9 million units in 2023[20], India is steadily closing the gap with China, which produced around 30 million units in the same year[21].**

India's automotive sector is poised to reach **USD1 trillion** by 2035, leveraging the global shift[22]. By boosting production capacities and enhancing export strategies, India is attracting global automobile companies to invest in the manufacturing ecosystem in the country, where the production of automobiles as well as components emerge. Cars manufactured under the 'Make in India' initiative are also gaining wider international recognition as leading car manufacturers are intensifying their export efforts.

E. India's automotive sector in the localisation fast lane:

Increased Chinese Investment in India

An Asian automobile manufacturer outlined a strategy to make large-scale investments in India by the year 2030 to facilitate the annual production and sales of over one million vehicles.

Local manufacturing of foreign automobiles

India became the first country since 1970 to manufacture completely knocked down (CKD) units of a luxury European car manufacturer.

Export of 'Made in India' EVs

A European car manufacturer is the first multinational corporation to export EVs from India, delivering 'Made in India' EVs to an Asian country.

Fostering lithium-ion battery production

A South Asian multinational oil and gas company entered into a JV with a leading Japanese battery producer for producing cylindrical lithium-ion cells in India.

F. Driving progress: The role of supporting sectors in augmenting growth

Growth and opportunities in India's automotive sector are intricately linked with advancements in its supporting sectors such as oil and gas, green energy, semiconductors and the tyre sector, as it stimulates innovation, improves cost-effectiveness and enhances the appeal and sustainability of vehicles.

Department for Promotion of Industry and Internal Trade (DPIIT)'s temporary permission to import specific tyres, in exchange for commitment to invest in local manufacturing in India led to **investments worth USD131 million*** by leading global tyre makers[23].

Note(*): Currency converted as per the conversion rate 1 USD = 83.9 as on 8 August 2024

One of India's multinational technology firm announced a strategic expansion of its semiconductor business by launching its fully owned subsidiary focusing on **application-specific integrated circuit (ASIC)** design/manufacturing with a fabless model.

19. India in Top Gear as it Races to Become World's Biggest Automobile Manufacturer, News18, 14 February 2024
20. Vahan database and dashboard, accessed in August 2024
21. China produced a record 30 million autos in 2023 on Russian exports, Business Times, 11 January 2024
22. India's automotive industry to be worth $1 trillion by 2035: Report, Economic Times, 5 October 2023
23. DPIIT steps led to investment commitments of over Rs 1100 cr from global tyre makers, Economic Times, 18 July 2024

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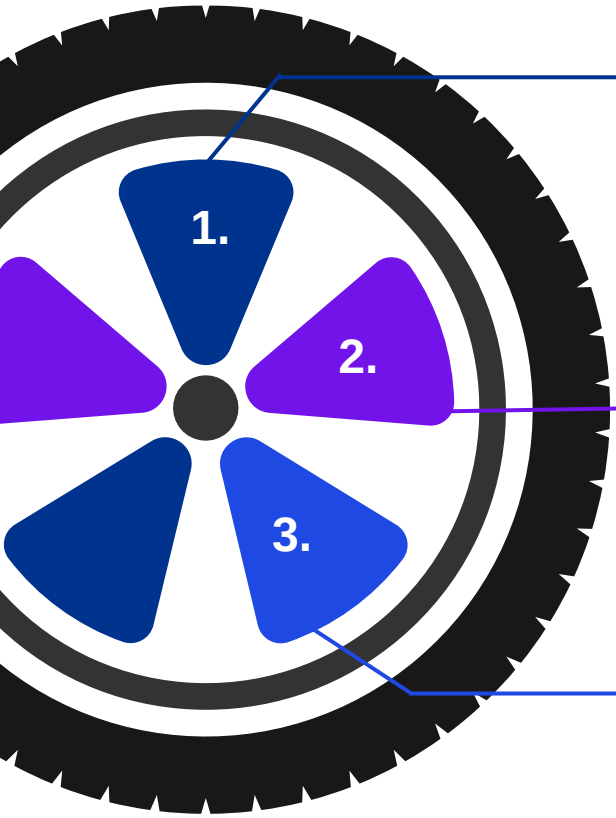
The central government announced oil and gas projects worth **USD19.4 billion** across various states, following its commitment to invest **USD67 billion** in the gas sector over the next five-six years as a part of its commitment to enhance the energy infrastructure in automobiles[24].

The central government issued scheme guidelines to **support pilot projects based on the use of green hydrogen** as fuel in buses, trucks and four-wheelers for promoting efficiency and sustainability in the transport sector[25].

G. Unraveling growth through M&A, PE and VC deals

The Indian automotive sector is currently experiencing a significant surge in **mergers and acquisitions (M&A)**, reflecting the sector's dynamic evolution. 3QCY24 recorded six deals valued at **USD74 million**, marking a 20 per cent increase in volume and a 30 per cent rise in value compared to the previous quarter 2QCY24[26]. Similar trend was witnessed in the **private equity (PE) and venture capital (VC) deals** with 22 deals worth **USD542 million** in 3QCY24[26].

The majority deals focused on key themes primarily centred around technology integration, strengthening the EV infrastructure and boosting the automotive parts market in India.



Focus on technology integration

- Investments for a B2B automotive software trading platform in India
- Investments in mobility-as-a-service (MaaS)
- Large scale investments in automotive sensor technology
- Focus on alternative fuel technologies.

Strengthening the EV infrastructure

- Developments and investments in eMobility software platforms
- Installations of charging stations across the country
- Investments for promoting EV charging through solar rooftop installations.

Focus on auto parts

- Strengthening expertise in steering systems
- Expansion to strengthen presence in the steel industry.

24. India to see $67 billion investments in gas sector in 5-6 years: PM Modi, Times of India, 7 February 2024
25. Government Issues Scheme Guidelines for Pilot Projects on use of Green Hydrogen in the Transport Sector, PIB, 14 February 2024
26. Indian automotive sector observes record 32 deals worth USD 1.9 bn in Q3 2024, ET Auto, 11 October 2024

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India market pulse: Regional insights and trends

North India

North India's automotive sector is a dynamic and significant sector of the country's economy, with several prominent states driving its growth. Haryana is known for significant production of passenger cars, motorcycles and tractors in the Indian automotive market[27]. Uttar Pradesh emerged as the top state in total registered vehicles as of October 2024[28]. Punjab and Jammu and Kashmir are other notable states contributing to the northern automotive sector's development.

Recent developments include:

- Transitioning to green manufacturing, for instance, through the development of biogas plants in states such as Haryana.
- UP government's focus on electric mobility with set targets on production of electric buses.

East India

East India's automotive sector is steadily growing with notable contributions from states such as West Bengal, Odisha, Bihar and Jharkhand. These areas are increasingly becoming involved in the automotive sector, focusing on the production of a range of vehicles from two-wheelers to commercial vehicles. The region's sector benefits from strategic geographic advantages, such as proximity to ports for export opportunities and is supported by a network of suppliers and ancillary industries.

Recent developments include:

- Boosting sales of two-wheelers, primarily motorcycles, with states such as Bihar emerging as top contributors.
- Setting up factories for lithium-ion cells manufacturing in states such as Odisha.
- Facilities for producing electric scooters, cycles and motorcycles.

West India

West India's automotive sector is a vibrant sector with Maharashtra and Gujarat as its core states. As of October 2024, Maharashtra recorded the second highest vehicle registrations after Uttar Pradesh[29] as it is home to a large number of vehicle manufacturers and ancillary industries. Further, Gujarat, known for its robust industrial infrastructure, has attracted significant investments from national and international automotive companies[30]. These states have become key players in the production of passenger cars, commercial vehicles and two-wheelers, contributing substantially to the region's economy.

Recent developments include:

- Clean energy production in automotive hubs such as Maharashtra and Gujarat.

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27. Haryana - Business & FDI, Invest India, accessed on 21 October 2024
28. Vahan database and dashboard, accessed on 22 October 2024
29. Vahan database and dashboard, accessed on 22 October 2024
30. Gujarat attracting big investments since its automobile sector took off in 2009, ET Energy World, 18 December 2023

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India market pulse: Regional insights and trends

South India

South India's automotive sector is rapidly evolving, particularly in the EV sector, with Tamil Nadu leading the charge. Around 40 per cent of the four-wheeler EVs and nearly 70 per cent of the two-wheeler EVs sold in the country are manufactured in Tamil Nadu[31]. Moreover, in the past few months, South Indian states attracted international automotive manufacturing companies to make large-scale investments in the region's states due to their rapid growth in the sports car segment and high demand for luxury cars[32]. The South Indian states also benefit from a strong supply chain ecosystem and proximity to ports, which are essential for exports.

Recent developments include:

- R&D centres focused on advanced mobility technologies in cities such as Bengaluru.
- Strengthening EV software capabilities in cities such as Chennai.
- Increasing the penetration of vehicle manufacturing facilities in Tamil Nadu.
- State governments are planning to set up more automotive clusters and centres of excellence (CoE) in states such as Tamil Nadu.

31. EV industry in Tamil Nadu has immense growth potential', The Hindu, 20 June 2024
32. Luxury car brands expand footprint as demand from Tier II-III cities rise, Business Standard, 18 August 2024

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Summing it up

The Indian automotive sector is poised for significant growth and transformation, driven by government policies, technological advancements and strategic collaborations. The government's revised EV policies are particularly noteworthy along with reductions in import duties on high-value electric cars and encouraging foreign investments by offering benefits to companies that invest substantially in local manufacturing. This is part of a broader effort to promote the 'Make in India' initiative, which includes identifying 28 components for indigenisation and planning for an 'Automotive Mission Plan 2047'. These steps are aimed at bolstering India's manufacturing capabilities and positioning the country as a global leader in the automotive sector.

In the face of declining global EV sales, India's EV market stands out with steady growth, largely driven by the popularity of electric two-wheelers. The formation of an 'EV task force' by the Indian government underscores its commitment to develop a comprehensive sector roadmap, further supported by various collaborations aimed at enhancing EV infrastructure. Moreover, India's ambition to become the world's largest automotive manufacturer by 2029[33] is gaining traction with large number of M&A and PE deals. With substantial investments from global companies and geopolitical shifts creating opportunities for India to become a cost-effective alternative to China, the country's automotive sector is set to reach USD1 trillion by 2035[34].

Way forward

Enhancing the local manufacturing ecosystem through strategic investments and partnerships will be critical. Encouraging foreign companies to set up manufacturing bases in India by offering favourable policies and incentives can help achieve this goal.

Additionally, furthering the 'Make in India' initiative by increasing the localisation of auto components will strengthen the domestic supply chain and reduce dependency on imports.

Expanding and modernising the EV infrastructure is essential. This includes not only the physical infrastructure such as charging stations but also the regulatory framework to support innovation and adoption of new technologies. Collaborations between government bodies and private players will be vital in this regard.

India's automotive sector can significantly benefit from advancements in its supporting sectors. By fostering synergies between these sectors and the automotive industry, India can enhance its competitiveness on a global scale. Continued investment in R&D, particularly in emerging technologies such as hydrogen fuel cells, will ensure that India remains at the forefront of automotive innovation.

33. India to be number 1 auto manufacturing hub in 5 years, IBEF, accessed on 21 October 2024
34. India's automotive industry to be worth $1 trillion by 2035: Report, Economic Times, 5 October 2023

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