

“Growth and Performance of India’s Automobile Industry in India” - A Comprehensive Review

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Abstract

The automobile industry in India is one of the most significant sectors, contributing substantially to the country’s GDP and employment. This paper aims to analyze the growth and performance of the Indian automobile sector, examining various factors that have influenced its evolution. From the early stages of development to becoming one of the largest automotive markets globally, the industry’s trajectory has been shaped by government policies, technological advancements, market demand, and global economic trends. This study also addresses the challenges faced by the sector, including environmental concerns and the recent impact of the COVID-19 pandemic. Through a comprehensive review of industry data, the paper provides insights into the future prospects of the Indian automobile industry.

Keywords: Indian Automobile Industry, Growth, Performance, Market Trends, Government Policies, Sustainability

Introduction

India’s automobile industry has emerged as a critical sector contributing significantly to the nation’s economic growth, industrial development, and employment generation. Over the past few decades, the industry has experienced remarkable expansion, evolving from a limited domestic market to a globally competitive manufacturing hub. With increasing investments from both domestic and international players, technological advancements, and government policies aimed at boosting production and innovation, India’s automobile sector has positioned itself among the largest in the world.

The industry’s performance has been driven by various factors, including a growing middle class, rising income levels, and increasing urbanization. Additionally, the government’s push for sustainable mobility solutions, such as electric vehicles (EVs), has opened up new avenues for growth. The sector’s resilience in the face of global challenges, including the COVID-19 pandemic and supply chain disruptions, further underscores its pivotal role in the Indian economy.

This comprehensive review aims to analyze the growth trajectory and performance of India’s automobile industry, examining key trends, challenges, and future prospects. Through a detailed

exploration of market dynamics, policy interventions, technological advancements, and competitive landscape, this review provides valuable insights into the factors shaping the industry and its path forward.

Historical Evolution of India's Automobile Industry

India's Automobile Industry has Evolved through Distinct Phases

- Pre-Independence Era (Before 1947): The automobile sector was underdeveloped, with only a few imported vehicles being used by the elite class.
- Post-Independence Era (1947-1980): The Indian government imposed restrictions on foreign players, leading to a protectionist policy that resulted in slow growth. Indian companies like Hindustan Motors, Premier, and Mahindra & Mahindra dominated the market.
- Liberalization Era (1991 onwards): The economic reforms in 1991 allowed foreign direct investments (FDI), leading to an influx of global automakers such as Suzuki, Honda, and Hyundai. This marked the beginning of India's transformation into a global automobile manufacturing hub.
- Modern Era (2000-Present): India has emerged as one of the world's largest producers of automobiles. Technological advancements, better infrastructure, and increased consumer spending power have driven the sector's expansion.

Growth Drivers of India's Automobile Industry

Several Factors have Contributed to the Rapid Growth of the Automobile Industry in India

Economic Liberalization and Policy Support

The liberalization of the Indian economy in 1991 allowed for the entry of foreign players, creating a competitive market. Policies such as the Automotive Mission Plan (AMP) 2006-2016 and the updated AMP 2016-2026 have provided long-term vision and support for the industry. Additionally, the introduction of the Goods and Services Tax (GST) has simplified tax structures and boosted efficiency across the supply chain.

Increasing Disposable Income and Urbanization

India's growing middle class and increasing disposable income have significantly boosted the demand for automobiles, particularly in urban areas. With rapid urbanization, the demand for personal vehicles has surged, making India one of the largest markets for two-wheelers and compact cars.

Technological Advancements and R&D

India's automobile industry has embraced new technologies such as electric vehicles (EVs), autonomous driving features, and enhanced safety measures. The country has also become a global hub for automotive research and development, with several global automakers setting up R&D centers in India to innovate cost-effective solutions for the global market.

Government Initiatives

The Indian government has introduced various initiatives to promote growth, such as the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) scheme, aimed at accelerating the shift to green vehicles. Additionally, the "Make in India" initiative has encouraged both domestic and international investments in automobile manufacturing.

Objectives

1. To Assess the historical growth trajectory and trends within different segments, such as two-wheelers, passenger vehicles, and commercial vehicles.
2. To Analyze key performance indicators (KPIs), including production, sales, market share, and export data.
3. To Highlight the major obstacles faced by the industry, such as regulatory challenges, environmental concerns, and the need for infrastructure.

Methodology

This study uses both primary and secondary data sources, relying on data from the Society of Indian Automobile Manufacturers (SIAM), Ministry of Heavy Industries, and secondary sources like market reports. We conducted a statistical analysis of the data, and visualized trends across various time periods, focusing on compound annual growth rates (CAGR), production data, and market segments.

Analysis and Discussion

Growth in Production and Sales

India's automobile sector has shown significant growth across different segments, including passenger vehicles, commercial vehicles, and two-wheelers.

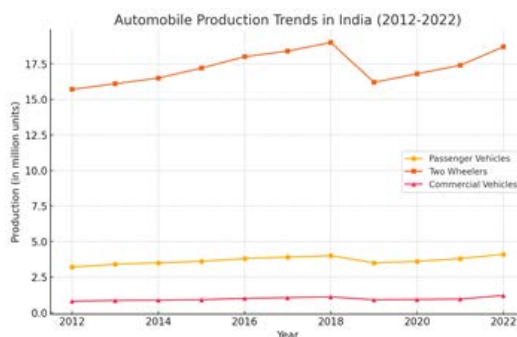
Passenger Vehicle Segment: In recent years, the production and sales of passenger vehicles have exhibited a steady CAGR of approximately 3-5% from 2012-2022. Although this segment witnessed a decline during the pandemic, the post-pandemic recovery showed a strong upward trend.

Two-Wheeler Segment: The two-wheeler segment, comprising motorcycles, scooters, and mopeds, continues to dominate the Indian market due to affordability, practicality, and high demand in rural areas. This segment alone accounted for over 80% of total vehicle sales in 2022.

Commercial Vehicles: Although commercial vehicle sales faced a downturn during COVID-19 due to lockdowns and reduced transport activity, the sector rebounded with a CAGR of 6% in 2022 as infrastructure projects resumed.

Production Trends Across Segments (2012-2022)

Let's visualize the trends in production across these three main segments over the last decade.



The visualization shows a strong growth trend in the two-wheeler segment, which dominates the market by volume, followed by passenger and commercial vehicles. Notably, two-wheelers and commercial vehicles faced declines during COVID-19 but rebounded significantly in the post-pandemic period.

Export Performance

India’s automobile exports have grown as a result of cost-competitive manufacturing, high-quality standards, and government initiatives promoting “Make in India” and exports. The two-wheeler and passenger vehicle segments lead exports, with the primary markets being Africa, Latin America, and Southeast Asia.

Two-Wheelers: Two-wheeler exports saw steady growth, with Bajaj Auto and TVS Motor contributing a significant share due to demand in emerging markets.

Passenger Vehicles: Passenger vehicle exports, driven by companies like Hyundai, Maruti Suzuki, and Tata Motors, have grown modestly, targeting markets in Africa and Latin America.

Foreign Direct Investment (FDI) in the Automobile Sector

Foreign investments have been crucial for the industry, bringing in capital, technology, and market strategies. Over the past decade, the sector has attracted substantial FDI, supported by government policies like 100% FDI in the auto sector under the automatic route.

Government Policies and Regulatory Support

Government policies have significantly influenced the growth trajectory of the automobile industry in India. Key initiatives include:

Automotive Mission Plan (AMP) 2016-26: This initiative focuses on making India a global leader in the automotive sector.

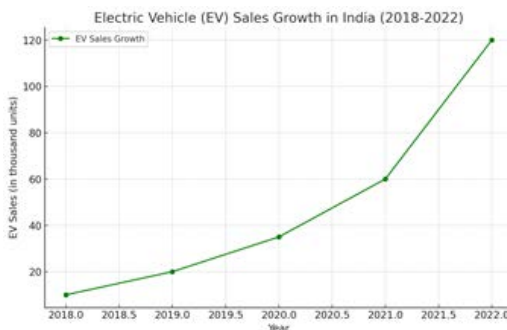
FAME (Faster Adoption and Manufacturing of Electric Vehicles): Under this policy, the government has pushed for electric vehicle adoption, with subsidies for EV manufacturing and charging infrastructure.

Sustainability and Electric Vehicle (EV) Adoption

The industry is undergoing a transformation towards sustainable practices, spurred by global climate goals. EV adoption has been promoted through initiatives such as FAME-II, with subsidies provided to manufacturers and incentives for EV buyers.

EV Sales Growth Visualization (2018-2022)

EV sales have risen rapidly from 2018, driven by government incentives and rising consumer awareness. Here’s a chart illustrating EV sales growth in India from 2018 to 2022.



The chart reveals a substantial increase in EV sales in India, with a marked acceleration from 2020 onward. This trend reflects growing consumer interest, rising fuel prices, and supportive government policies that collectively contribute to an upward trend in EV adoption.

Challenges Facing the Industry

Despite the Growth, the Indian Automobile Industry Faces Several Challenges

- Supply Chain Disruptions: The global semiconductor shortage, exacerbated by the COVID-19 pandemic, disrupted production.
- Cost Pressures: Rising raw material costs have put pressure on manufacturers, affecting margins.
- Environmental Regulations: Meeting stringent emission norms, such as BS-VI standards, has required substantial investments in technology upgrades.

Future Outlook and Projections

With the rapid growth in domestic demand, robust export performance, and a supportive regulatory environment, the Indian automobile industry is expected to continue its growth trajectory. However, the future will be heavily influenced by the adoption of EVs, advancements in technology, and continued FDI inflows.

Conclusion

India's automobile industry stands at a critical juncture, shaped by robust growth across segments, export performance, foreign investment inflows, and emerging challenges. While sustainability and EV adoption provide growth opportunities, managing supply chain disruptions, cost pressures, and regulatory compliance will be key to sustaining growth. Future policy measures and investments in infrastructure will further determine the industry's path.

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