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SHAPING A VIBRANT INDIA

Auto Bytes

May 2022

Indian OEMs' commitment to local automotive manufacturing

The automobile industry is one of the prime movers of the manufacturing sector and a significant driver of macroeconomic growth, technological development and the **Make in India** initiative. It aims to increase vehicle exports by five times and is projected to be the world's third-largest automotive market in terms of volume by 2026. The industry is posed to receive an impetus from the total budgetary allocation of **INR 3300.06 crore** for the financial year 2022-23 towards the Ministry of Heavy Industries.

Currently, manufacturing in India accounts for about 15% of the country's gross domestic product (GDP) and the automobile sector contributes about 49% to the manufacturing GDP of the country. The automotive sector has grown on account of its traditional strengths in casting, forging and precision machining and fabricating (welding, grinding, and polishing). The cost advantages (with availability of abundant low-cost skilled labor) and significant foreign direct investment (FDI) inflows have also contributed to the growth of the sector.

The Indian government with a five-point vision for boosting manufacturing and promoting exports, intends that original equipment manufacturers (OEMs) should also support goods manufactured locally. The annual sales of vehicles, which is expected to reach 84.5 million by 2030 according to the Ministry of Heavy Industries, presents the scope of catering to the rising demand with domestic manufacturing.

The Indian automotive industry drove into the year 2022 with a quest to reach the pre-pandemic levels of sales volume. The industry built a solid foundation in 2021, despite semiconductor shortage hampering the production volumes wherein scarcity of semiconductors caused billions of dollars in lost revenue. The automotive semiconductor market is expected to reach USD 48.78 billion by 2022. Automakers have made efforts to bring software development in-house, build their own operating systems or partner with technology companies.

Aims set by the Ministry of Commerce and Industry in India

- Increase the contribution of the manufacturing sector to **25%** **of GDP**
- Increase the share of exports to about **25%** **of the GDP**
- Set up **10** **R&D labs** or innovation centres to become a global leader in technology.

Incentives to boost local manufacturing

Export incentives

Under the Remission of Duties and Taxes on Export Products (RoDTEP) scheme, a rebate would be granted to eligible exporters at the notified rate as a percentage of free on board (FOB) value with a value cap per unit of the exported product, wherever required.

*All the items under the MEIS (Merchandise Exports from India Scheme) and the RoSTCL (Rebate of State and Central Taxes and Levies) are now under the purview of the RoDTEP Scheme.

State incentives

Apart from R&D incentives for the industry, manufacturers and private sponsored research, each state in India offers additional incentives for industrial projects - 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 packages for mega projects.

Area-based incentives

Incentives for units in SEZ/NIMZ as specified in respective acts or the setting up of projects in special areas.

Production Linked Incentive (PLI) scheme

- **Champion OEM incentives:** For production of electric and hydrogen fuel cell vehicles of all segments.
- **Component champion incentives:** For advanced automotive technology components of vehicles, completely knocked down or semi-knocked-down kits, vehicle aggregates of two-wheelers, three-wheelers, passenger vehicles and commercial vehicles and tractors.

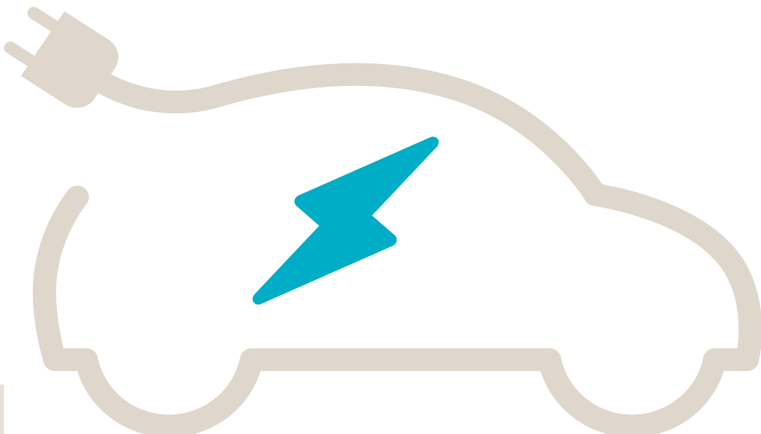
Source: Press Information Bureau

India selected 20 automobile and auto component companies for incentives worth nearly **INR 260 billion** to boost local manufacturing under the PLI scheme as notified in September 2021. The selected companies have committed investments worth around INR 450.16 billion. The incentives are available on local production and sales of advanced automotive technology products, including vehicles and components for five years starting April 2022.

Moreover, along with the need for a quick roll-out of flex-fuel vehicles (FFVs), capable of running on 100% ethanol and gasoline, into the Indian auto market within a year's time, green hydrogen fuel cell electric vehicle (FCEV), the world's most advanced technology, is also being indigenously developed with an aim to create a green hydrogen-based ecosystem in the country. Thus, the current policy debate in India is around the issue of achieving greater competitiveness, efficiency standards and the need for inducing electric vehicles. In the last one year, the Indian automotive sector witnessed a growing pace of change with over 50 companies having proposed investments of around **INR 98,800 crore (USD 13 billion)** in the market, where above **50%** of total investments were planned to be made in the e-mobility domain. Both new entrants and established players have chosen to develop technologies in-house.

Source: PIB, ETAuto

The government is separately offering **INR 181 billion** production-linked incentives for advanced chemistry cell manufacturing and tax breaks and other benefits worth **INR 100 billion** to push electric mobility.



Investments by Indian companies in auto sector

INR crore | Share of investment

Incumbent OEMs
66,800
68%

Start-ups
15,415
16%

Auto components
9,600
10%

Tyres
6,985
7%

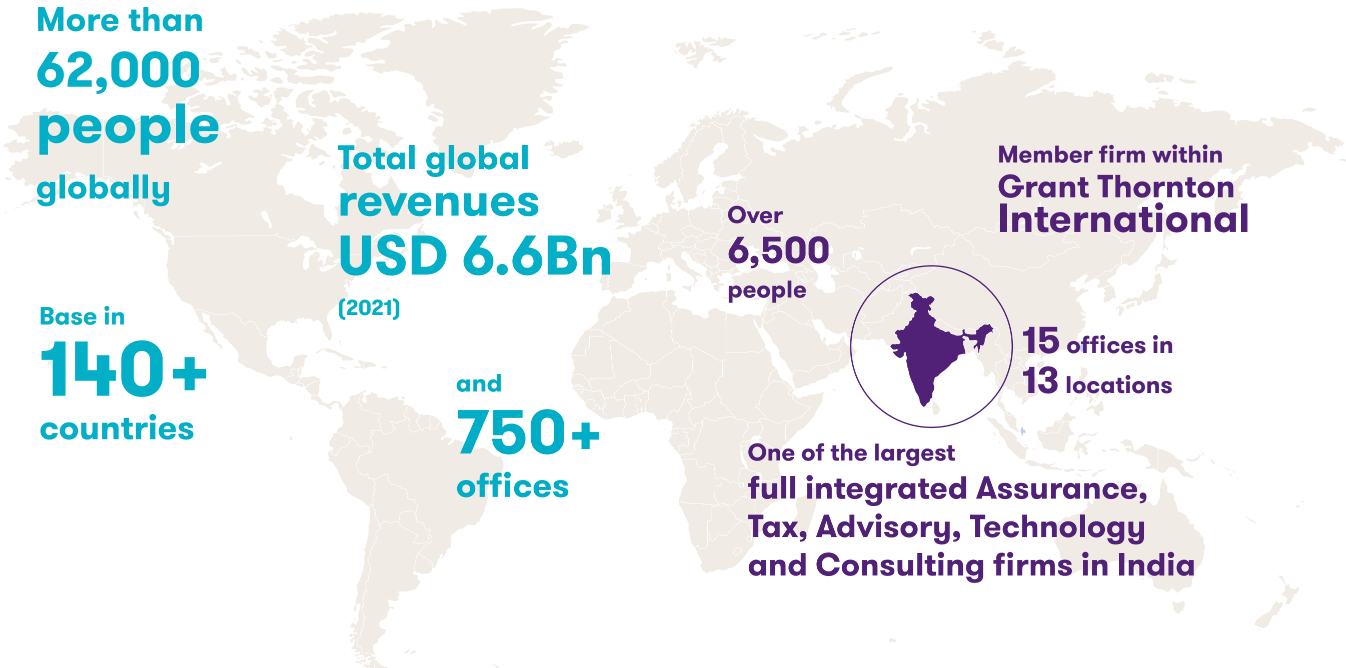
Source: ET Auto

Understanding the supply side uncertainties, the Indian OEMs have started investing in production lines, setting up of new plants along with accelerated investments in alternative energy and technologies.

To meet the future needs of customers (including the electrical vehicles) and stay ahead of competition, Indian manufacturers are now catching up on upgradation, digitisation and automation. Promotion of exports has consistently been part of OEMs' business strategies for better utilisation of installed capacities. Companies which have had partnerships with foreign players or received FDI have benefitted in terms of engagement in global value chains (GVCs).

Overall, the role of government policy, infrastructure and other enabling factors is key in the expansion of the automobile and automotive component sectors. Manufacturing technologies like digital transformation and ACES technologies need to be upgraded continuously. Large investments for developing new indigenous technologies that are green and compliant with recognised high efficiency standards, would help India move up the value chain.

About Grant Thornton Bharat



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Acknowledgement

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