

Auto Bytes

Can India's Auto Inc delink from imports completely to be Aatmanirbhar /self-reliant?

October 2021



The auto industry in India is working towards the common goal of making the country Aatmanirbhar /self-reliant. Even the government is supporting the industry with continuous joint efforts that will make the manufacturing industries stronger. This will allow advancements in the local production and exports, further fulfilling the overall purpose of Aatmanirbhar Bharat (self-reliant India). The auto industry along with its corporations across the world are prompted to rethink their supply chains and manufacturing bases/operations. This re-balancing of global value chain has presented Indian government and business leaders with a unique opportunity to accelerate the trajectory of the manufacturing sector and transform the country into a global manufacturing hub.

To achieve self-reliance, the identified three pillars are – **increase of exports, reduction in imports and increased domestic consumption.** Among this, increased vehicle sales are a prime requisite and at the same time, the auto industry would be expected to grow at 12-13% for the next 8 years, with an incremental value add of around USD 380 billion.

Source : (SCALE committee)



The Indian automotive industry has attracted huge investments of **USD 34.5 billion** in last five years before COVID-19 pandemic. Excluding the pandemic impact, the domestic sales and exports have grown **8-10%**

(Ministry of Heavy Industries)

Current Indian import-export landscape



India exports **17-20%** of its automobile production to Africa, Latin America, Asia and the Middle East as its top export destinations.



The **USD 100 billion** Indian automobile industry has significant room for localisation, reduce its component import bill and be a part of the global value chain.



There is a need for organic and inorganic growth to become global.

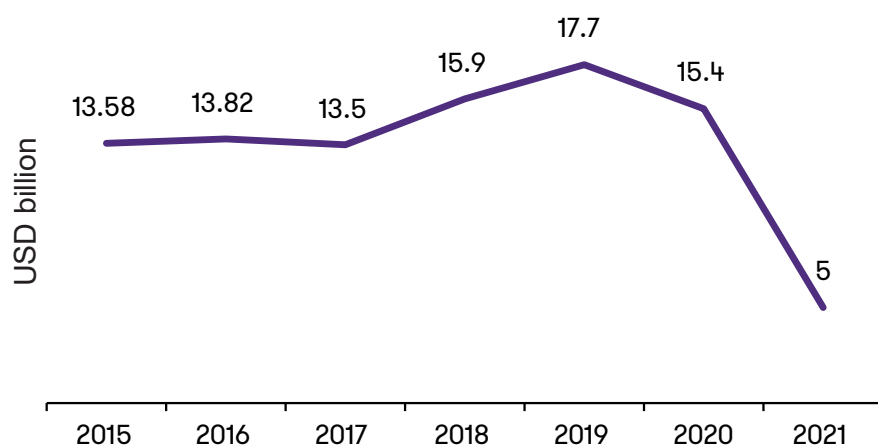


Learnings from top auto component exporting countries beneficial.



In the first half of financial year 2021, the value of automobile components imported into India amounted to over **USD 5 billion**, a significant decrease from the first half of the previous year. Imports during this time declined across the globe.

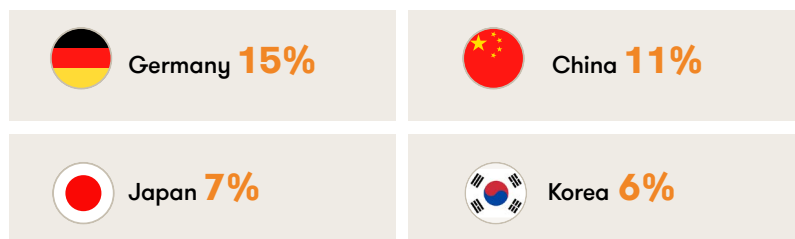
Value of automobile components imported into India



Reasons for sharp decline

- Steps towards deep localisation
- De-risk business from Chinese imports
- Overall imports during this time declined across the globe.

Share in the global exports market for auto components



India's export of auto components increased at a CAGR of 7.6% during FY16-FY20. The value increased from USD 10.83 billion in FY16 to USD 14.5 billion in FY20.

Indian auto component sector has scope to substitute imports of USD 12 billion

India contributes only a meagre share of the total imports to its biggest buyers



[Ministry of State for Commerce and Industry]



India-China Trade (India's trade deficit with China dips to USD 44 billion)



Total Imports from China

2018-19, **USD 70.32 bn**
2019-20 **USD 65.26 bn**
2020-21 **USD 65.21 bn**



Total Exports to China

2018-19 **USD 16.75 bn**
2019-20 **USD 16.61 bn**
2020-21 **USD 21.19 bn**

[Ministry of State for Commerce and Industry]

Self-reliance needs measured application in the Indian auto industry

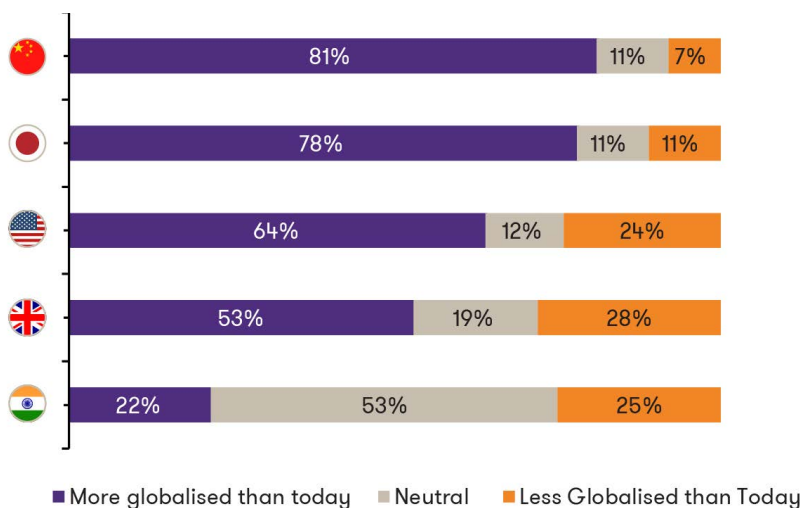
In order to achieve India's dream to become a manufacturing powerhouse, it's crucial to first understand self-reliance. India was ranked 68 in the global competitiveness index by the World Economic Forum and was the fifth-largest recipient of Foreign Direct Investment (FDI) inflows in the world in 2020.

India needs to **continue to import as per country's competitive advantage**. We need to create synergies and trade relationships where we receive high quality products from global world and also provide them with our efficient products and India may not do everything on its own.

Therefore, it is necessary to create an environment, which pushes the businesses to be successful in the domestic market and simultaneously position themselves in the international market. To be sure, India is still dependent on imports in many areas only because of poor ecosystem. For instance, microchips are currently facing short-supply issues across the globe. India having expertise in chip design, still cannot manufacture microchips indigenously. The reason being that it lacks raw materials, manufacturing expertise as well as investments that will allow component makers to set up chip production in the country. Thus, imports become a solution that foster bilateral trade with best components makers globally at a given appropriate product price. If India aims to become a **global auto industry, it needs to make world class automobiles which goes beyond the purpose of becoming self-reliant**.

Many countries have displayed regional strength in world competitiveness and are increasingly becoming more globalised.

Global expansion: Countries expecting to open to global markets



Source : World Economic Forum

India in 2021

43rd rank in IMD World Competitiveness Index 2021 (IMD & World Investment report)

Total Countries - **64**

Topped by – **Switzerland**

5th rank in World Investment Report 2021- UNCTAD

Applicability of key digital technologies in the automobile industry

Leveraging its competitive advantage, India showcases immense potential as a thriving international market for high quality vehicles and its components. With Production-Linked Incentive (PLI) scheme announced by the government, a conducive manufacturing ecosystem can be created in India that will enable integration with global supply chains.

Our View

Multi-pronged approach is necessary to build India self-reliant with focus on:



Increased investments in Research & Development and quality processes to attract overseas business.



Need to market India in international market for manufacturing.



Shift focus from cost arbitrage to capability advantage through workforce skilling, innovation, quality, and sustainability.

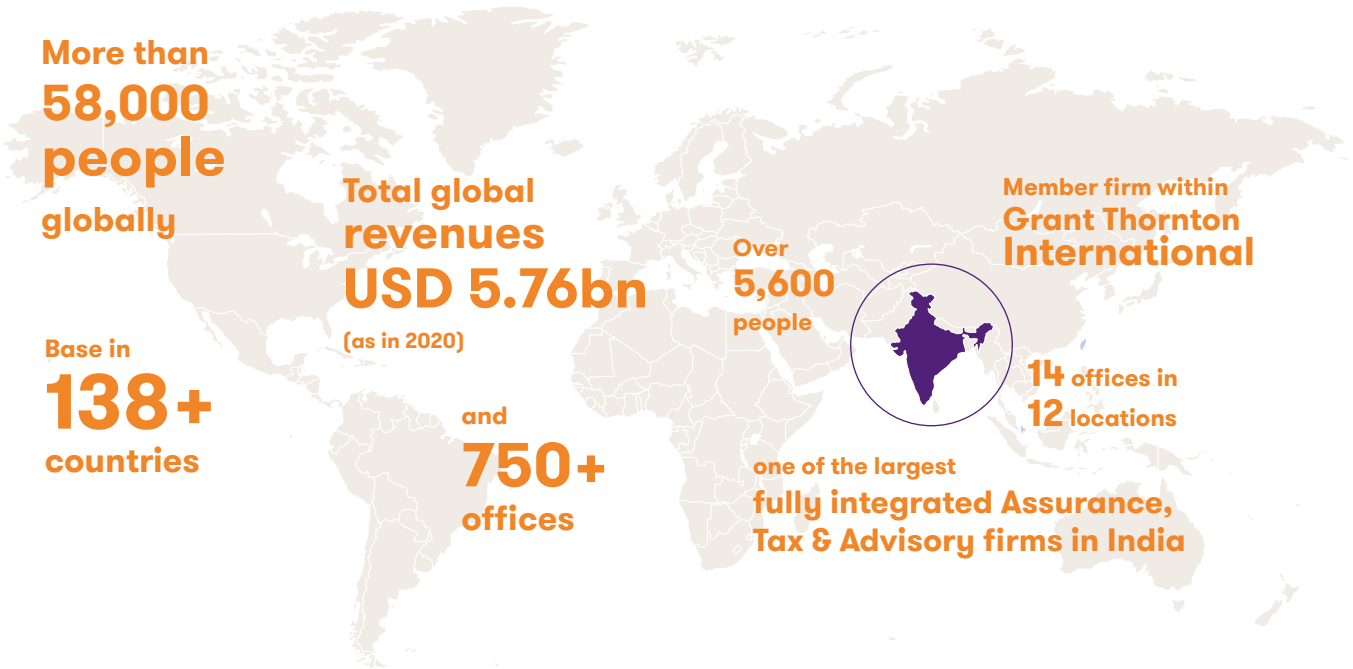


Accelerate integration in global value chains by reducing trade barriers.



Enable competitive global market access for Indian manufacturers.

About Grant Thornton



6 compelling reasons to consider Grant Thornton



Acknowledgement

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Sources:
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Economic Survey of India
Ministry of Heavy Industries
Ministry of State for Commerce and Industry

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