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### Performance analysis of Indian automobile sector

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#### Abstract

The Indian automotive industry demonstrated robust growth from 2012 to 2018, driven by strong demand in passenger vehicles and two-wheelers, alongside fluctuations in commercial and three-wheeler segments. The significant increases in production, domestic sales, and exports highlight the sector's resilience and its evolving role in the global automotive landscape. The Indian automobile industry has long served as a key barometer of economic health, reflecting broader macroeconomic trends and technological advancements. The two-wheeler segment leads the market in volume, driven by a burgeoning middle class and a significant proportion of the population being young. Additionally, companies are increasingly targeting rural markets, further propelling sector growth. The demand for commercial vehicles is rising, supported by expanding logistics and passenger transportation industries. Looking ahead, market growth is expected to be boosted by emerging trends such as the electrification of vehicles, particularly in the three-wheeler and small passenger car segments. The present article is an analytical study of the performance and growth of Indian automobile sector.

**Keywords:** Automobiles, emission standards, sales

#### Introduction

Since the commencement of liberalization in 1991, the automotive industry has grown consistently in India over the years, backed by the various initiatives of the Government. The Government of India encourages foreign investment in the automobile sector and allows 100 percent Foreign Direct Investment (FDI) under the automatic route. Presently, the Indian Auto Industry has become the 4<sup>th</sup> largest in the world with sales increasing 9.5 percent year-on-year to 4.02 million units (excluding two-wheelers) in 2017. India was the 7<sup>th</sup> largest manufacturer of commercial vehicles in 2017 (Source: <https://www.jmbaxi.com/newsletter/issue-xxiii/the-automotive-industry-in-india.html>).

The Indian auto industry is recognized as a "sunrise industry," having emerged as one of the fastest-growing sectors in recent years. In FY18, India's annual vehicle production reached 29.08 million units-encompassing passenger vehicles, commercial vehicles, three-wheelers, and two-wheelers-up from 25.33 million in FY17, marking a healthy growth of 14.8%.

As of April 2018, India had approximately 120 vehicles per 1,000 people (including 19 cars), a figure projected to rise to nearly 300 vehicles per 1,000 people over the next decade. The total population of automobiles in India is expected to soar to 404 million by 2028, up from 162.31 million in April 2018. Currently, about 24.37 million vehicles are added annually, with expectations of this number increasing to 55.84 million by 2028, though this remains lower than the global average vehicle penetration.

India ranks as the fifth-largest car manufacturer, the seventh-largest manufacturer of commercial vehicles, and the largest producer of two-wheelers in the world. By 2020, the automobile industry in India is projected to become the third-largest globally, following China and the USA. Additionally, India is a significant player in auto exports, with exports constituting about 14% of annual production. After a decline of approximately 4.5% in FY17, exports rebounded sharply with over 16% growth in FY18.

#### Automobile industry backdrop

The Indian automobile industry continued to register healthy growth during 2017-18. According to data released by the Society for Indian Automobile Manufacturing (SIAM), India produced over 29 million vehicles in 2017-18, a growth of 14.8% over the preceding financial year.

This growth in domestic vehicle production as also a robust export performance has contributed positively to the revenues of the auto-component industry in India. The automobile industry produced a total of 29.86 million vehicles including Passenger Vehicles, Commercial Vehicles, tractors, three-wheelers, two wheelers and Quadricycle in April-March 2018 as against 25.33 million in April-March 2017, registering a growth of 14.78% over the same period last year.

The commercial vehicles segment saw production increase of 10.4% in FY 2018 over FY 2017. Within this segment, for Medium and Heavy Commercial Vehicles (M&HCVs), total segment production growth was at modest 0.4% with passenger carriers including mainly buses witnessing a large (-) 24.1% reduction in production, while goods vehicle

production increased by 4.5%. In light commercial vehicles (LCVs), passenger carrier growth remained stable at around 0.7%, while goods carriers grew by 19.9%, resulting in total segment growth of 17.8%. On the back of a good agricultural season, tractor production increased by a healthy 18.6%. The passenger vehicle segment witnessed a steady 5.5% growth in production with passenger cars growing by a modest 1% and van production decreasing by a modest (-) 0.3%. Utility Vehicles (UVs), on the other hand, recorded an impressive growth of 19.9%.

Three-wheeler production increased by 30.4%, with passenger carriers growing by 33.9% and goods carriers by 9.4%. Total two-wheeler production growth was 16.1% with scooter production increasing by 20%, motorcycles by 15.8%, while moped production decreased by (-) 5.4%.

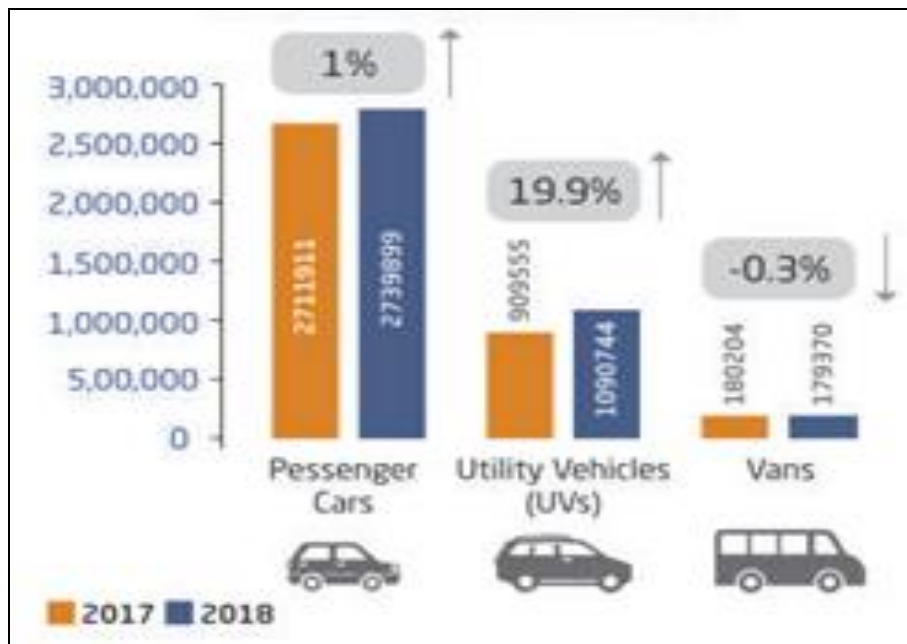


Fig 1: Passenger Vehicle Production

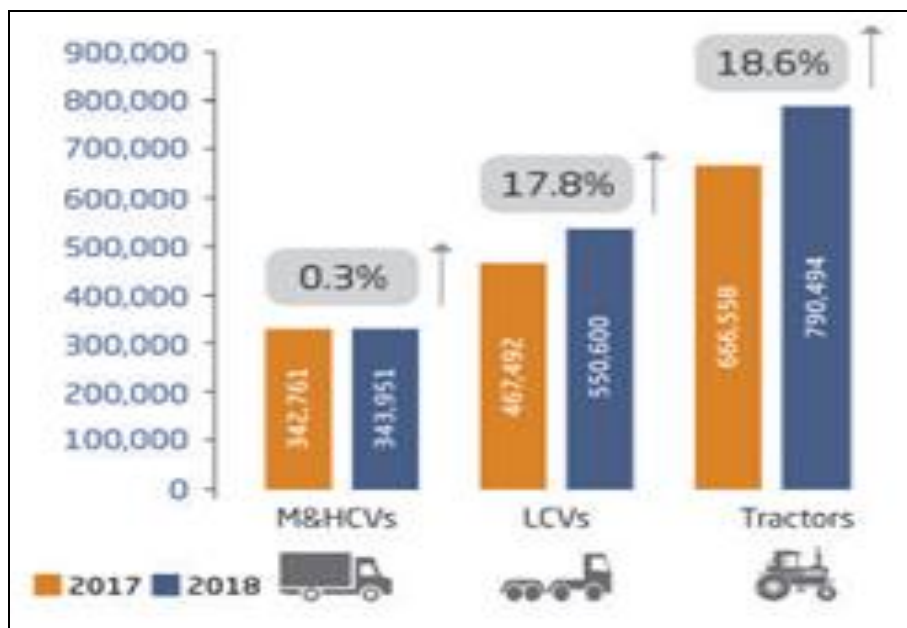
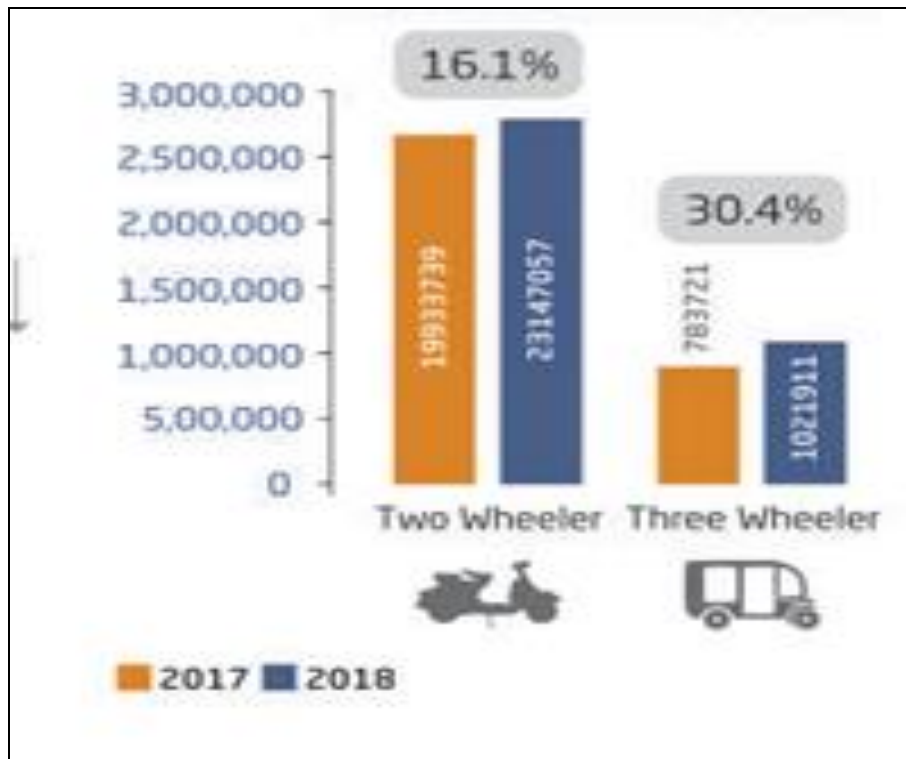


Fig 2: Commercial Vehicle Production



Source: SIAM

Fig 3: 2-3 Wheeler Production

According to the Society of Indian Automobiles (SIAM), the Indian automobile industry is set to further improve its performance in FY 2019 compared to FY 2018. The industry forecasts sales growth of passenger vehicles in FY 2019 at 8-10% with utility vehicles growing at 14-15% and cars up between 8-9% in the domestic market.

The two-wheeler industry is stated to deliver a better performance at 11-13% growth with motorcycles up by 9-11% and scooters growing higher between 13-16%. Scooters are finding a target market in the north-east and eastern states like Orissa, Bihar and Chhattisgarh, where vehicle penetration is still low. Some southern states also indicated a large preference for scooters as they are popular

among women professionals.

Commercial vehicles, too, are pitted to continue their growth momentum in double-digits at 10-12%, with M&HCVs up by 9-11% and light commercial vehicles growing at 10-12%. More infrastructure development will spike up this business. Buses, meanwhile, will continue to grow at less than 10%. A revival of the economy post-demonetization and enforcement of GST are putting the country back on growth track. For instance, the GDP and economic reform programmes of the government are indicating positive signs of recovery. The GDP is marked to pan out at 7.6% during 2018, according to SIAM, giving a leg up to the industry and manufacturing activities.

Table 1: SWOT Analysis of the Indian Automotive Industry

Strengths	Weaknesses
Investments by foreign car manufacturers	Low quality compared to other automotive countries
Increase in the export levels	Low labor productivity
Low cost and cheap labor	High interest rate and overhead level
Rise in the working and middle-class income	Production costs are generally higher than in other Asian countries, such as China
Increasing demand for European quality	Low investment in the R&D area
Expert skills in producing small cars	Local demand is still towards low-cost vehicles due to low income levels
Good for environment	
Large pool of engineers	
Opportunities	Threats
Growing population in the country	Less skilled labor
Focus from the government in improving road infrastructure	Lack of technologies for Indian companies
Rising living standards	Increase in import tariffs and technology costs
Increase in income level	Imports of two-wheelers from the Chinese market in India
Better car technology is demanded	Smaller players that do not fulfill international standards
Rising rural demand	Increased congestion in the urban area
The car is a status symbol	
Women drivers have increased	

(Source: Dr. R. Menaka and K. Ashath. (2015) [7]. A study on role of automobile industry in India and its customers satisfaction. Shanlax International Journal of Management, 48-59.)

A well-developed transportation system plays a key role in the development of an economy, and India is no exception to it. Automobile is one of the largest industries in the global market. Owing to its strong forward and backward linkages with several key segments of the economy. Automobile Sector occupies a prominent place in the fabric of Indian Economy. Automobile sector is leader in product and process technologies in the manufacturing sector. It has been recognized as one of the drivers of economic growth and the domestic automobile industry is believed to be the barometer of the economy. Such a belief is in line with international trends since in most mature economies the automobile industry's performance is viewed as a reflection of the economy's health. This sector has emerged as sunrise sector in the Indian economy.

### The Overall Market and Investments

Overall domestic automobiles sales in India has witnessed a CAGR growth at 7.01 percent during FY 2013-18 with 24.97 million vehicles getting sold in FY18. Two-wheelers dominate the industry and made up 81 percent share in the domestic automobile sales in FY18. The passenger vehicle

sales in India crossed the 3.2 million units in FY 2018 and is further expected to increase to 10 million units by FY20. Auto sales in Q1 FY19 witnessed a year-on-year growth rate of 18.1 percent across segments, driven by a 19.91 percent growth in passenger vehicle sales. Overall exports in Q1 FY19 increased 26.73 percent year-on-year basis.

- In order to match the growing demand, several auto-makers have started investing heavily in various segments of the industry during the last few months. A few of the recently planned investments and developments in the automobile sector in India are as follows
- Ashok Leyland has planned a capital expenditure of Rs 1,000 crore (US\$ 155.20 million) to launch 20-25 new models across various commercial vehicle categories in 2018-19, possibly to meet the challenge of the in-roads made by MNC competitors.
- Mahindra & Mahindra is planning to make an additional investment of Rs 500 crore (US\$ 77.23 million) for expanding the capacity for electric vehicles in its plant in Chakan.

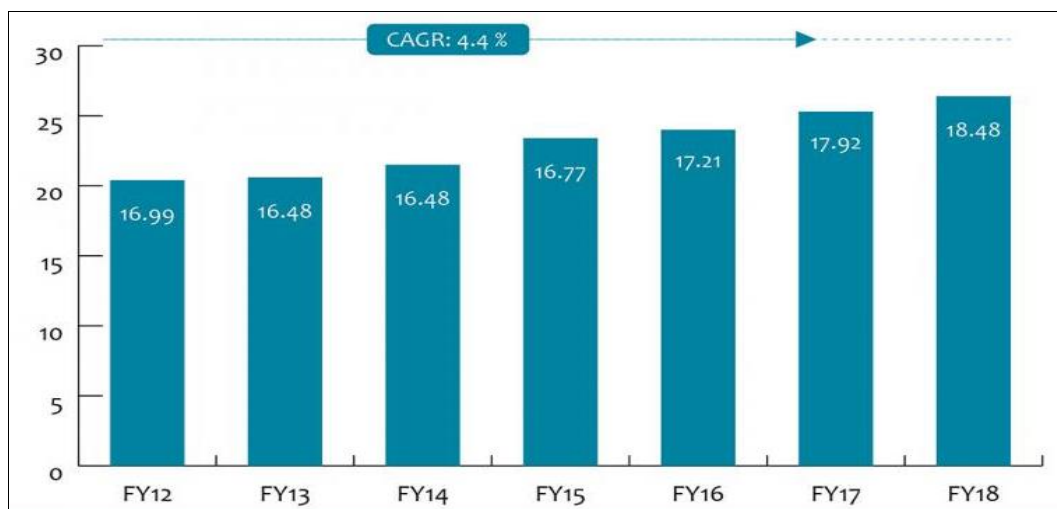


Fig 4: Number of automobiles produced in India (Million tonnes)

### Automobile Export

India has also grown to be a prominent auto exporter, registering a reasonably strong export growth so far and

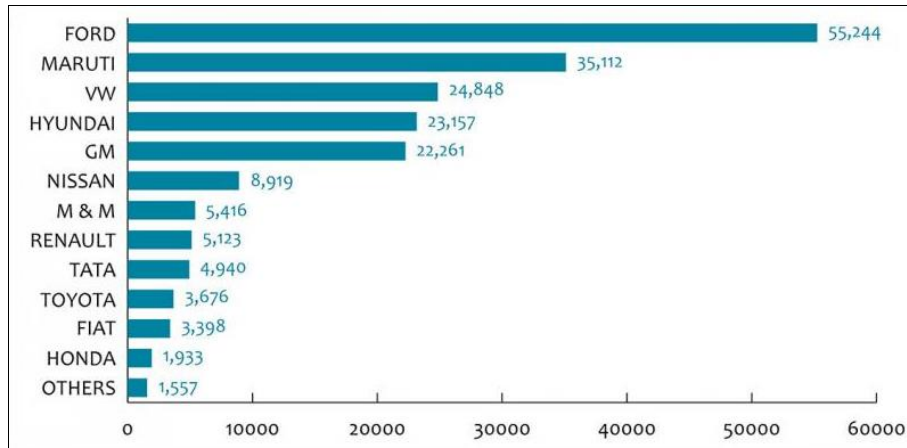
expectations for the near future are high. Overall, automobile export from India has grown at 6.86% CAGR during FY 2013-18.

Table 2: Vehicle Sales and Export Growth in India (2013-14 to 2017-18)

Category	2013-14	2014-15	2015-16	2016-17	2017-18
Passenger Vehicles	596,142	621,341	653,053	758,727	747,287
Commercial Vehicles	77,050	86,939	103,124	108,271	96,867
Three Wheelers	353,392	407,600	404,441	271,894	381,002
Two Wheelers	2,084,000	2,457,466	2,482,876	2,340,277	2,815,016
Grand Total	3,110,584	3,573,346	3,643,494	3,479,169	4,040,172

About 14% of India's annual automobile production is being exported presently. After decline by about 4.5% in FY17, exports witnessed a sharp growth of over 16% in FY18. Exports of two and three wheelers have registered a sharp growth of over 22% year-on-year on the back of gradual recovery in overseas demand; though commercial vehicles' export has declined by about 10%, the growth of

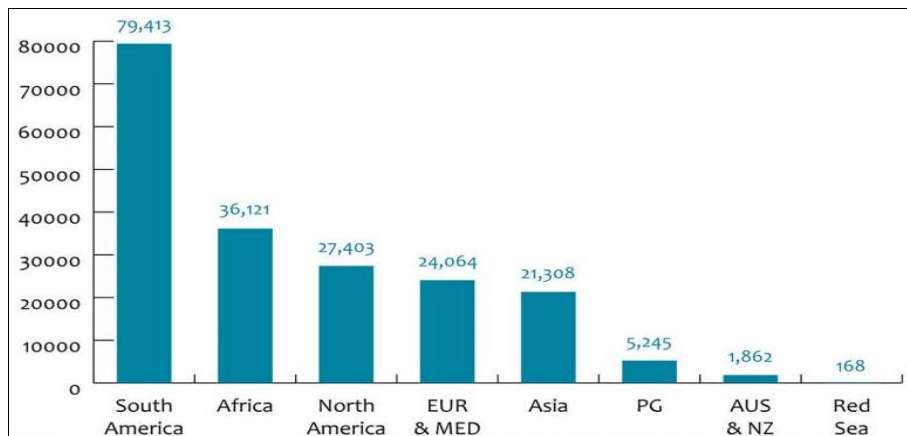
export of passenger vehicles has remained largely stable. Many companies like Volkswagen, Ford Motors and General Motors, are focusing on exports and expansion in newer markets such as South America, North America and Asia. Demand from African and Latin American countries is expected to pick up on back of stabilization of exchange rates and commodity prices in those regions.



**Fig 5: OEM volume analysis April – July 2018-19**

The US, which was non-existent as an export market for Indian automakers, is now the third-largest export destination, thanks to the slowdown in other regions. In FY 2018, passenger car exports to the US ballooned to \$654 million from a paltry \$3.52 million a year before, according to export data from the Ministry of Commerce. In 2017, two American companies, Ford and GM started exporting to the

US in a big way for the last 2 years. While Ford started exporting its Eco Sport model from India to the US, GM completely shut down their Indian sales, using the entire production capacity for exports, and to the US primarily. Ford Eco Sport and Chevrolet Beat remained the most exported cars from India. Hence, the US market accounted for 9.2% of the overall car exports from India.



(Source: <https://www.jmbaxi.com/newsletter/issue-xxiii/the-automotive-industry-in-india.html>)

**Fig 6: Sector wise break up of auto volumes April-July 2018-19**

**Performance of auto industry during 2017-18  
Production**

**Table 3: Production trends in Automotive Industry in India**

Category	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Passenger Vehicles	32,31,058	30,87,973	32,21,419	34,65,045	38,01,670	40,10,373
Commercial Vehicles	8,32,649	6,99,035	6,98,298	7,86,692	8,10,253	8,94,551
Three Wheelers	8,39,748	8,30,108	9,49,019	9,34,104	7,83,721	10,21,911
Two Wheelers	1,57,44,156	1,68,83,049	1,84,89,311	1,88,30,227	1,99,33,739	23,14,70,57
Grand Total	2,06,47,611	2,15,00,165	2,33,58,047	2,40,16,068	2,53,29,383	2,90,73,892

(Source: SIAM Website)

From 2012 to 2018, the Indian automotive industry exhibited notable trends across various vehicle categories. Passenger vehicle production consistently grew, increasing from 3,231,058 in 2012-13 to 4,010,373 in 2017-18, indicating rising consumer confidence and purchasing power. In contrast, commercial vehicle production experienced initial decline, hitting a low of 699,035 in 2013-14, but rebounded to 894,551 by 2017-18, reflecting improved economic conditions and infrastructure development. Three-wheeler production showed

fluctuations, peaking at 949,019 in 2014-15 before dropping to 783,721 in 2016-17 and recovering to 1,021,911 in 2017-18, highlighting changing urban mobility needs. Meanwhile, two-wheelers demonstrated strong and consistent growth, rising significantly from 15,744,156 to 23,147,057 during the same period, driven by affordability and practicality in urban environments. Overall, total automotive production surged from 20,647,611 to 29,073,892, underscoring a thriving market shaped by economic growth and evolving consumer preferences.

## Domestic Sales

**Table 4:** Domestic Sales trend in Automotive Industry in India

Category	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Passenger Vehicles	26,65,015	25,03,509	26,01,236	27,89,208	30,47,582	32,87,965
Commercial Vehicles	7,93,211	6,32,851	6,14,948	6,85,704	7,14,082	8,56,453
Three Wheelers	5,38,290	4,80,085	5,32,626	5,38,208	5,11,879	6,35,698
Two Wheelers	1,37,97,185	1,48,06,778	1,59,75,561	1,64,55,851	1,75,89,738	2,01,92,672
Grand Total	1,77,93,701	1,84,23,223	1,97,24,371	2,04,68,971	2,18,62,128	2,49,72,788

(Source: SIAM Website)

From 2012 to 2018, the domestic sales trends in the Indian automotive industry demonstrated encouraging growth across various vehicle categories. Passenger vehicle sales showed a steady increase, rising from 2,665,015 in 2012-13 to 3,287,965 in 2017-18, reflecting heightened consumer demand and confidence in the economy. Commercial vehicles experienced fluctuations, dropping to 632,851 in 2013-14 but rebounding to 856,453 by 2017-18, indicating a recovery driven by improved infrastructure and logistics needs. Three-wheeler sales also fluctuated, peaking at 532,626 in 2014-15 before dipping slightly and then rising

to 635,698 in 2017-18, suggesting evolving urban mobility solutions. In contrast, two-wheelers exhibited robust and consistent growth, climbing from 13,797,185 to 20,192,672 during the same period, highlighting a strong preference for affordable personal transportation. Overall, total automotive sales surged from 17,793,701 to 24,972,788, underscoring a thriving market shaped by economic development and shifting consumer preferences in India.

## Exports

**Table 5:** Exports in Automotive Industry in India

Category	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Passenger Vehicles	5,59,414	5,96,142	6,21,341	6,53,053	7,58,727	747287
Commercial Vehicles	80027	77050	86939	103124	108271	96867
Three Wheelers	303088	353392	407600	404441	271894	381002
Two Wheelers	1956378	2084000	2457466	2482876	2340277	2815016
Grand Total	2898907	3110584	3573346	3643494	3479169	4040172

Between 2012 and 2018, the export trends in the Indian automotive industry displayed significant developments across various vehicle categories. Passenger vehicle exports grew steadily, from 559,414 units in 2012-13 to 747,287 units by 2017-18, reflecting increasing global demand. Commercial vehicle exports fluctuated, peaking at 103,124 units in 2015-16 before declining to 96,867 in 2017-18, indicating volatility in this segment. Three-wheeler exports also showed variability, peaking at 407,600 in 2014-15, then dropping to 271,894 in 2016-17, but rebounding to 381,002 in 2017-18, suggesting changing market dynamics. In contrast, two-wheeler exports exhibited robust growth, rising from 1,956,378 units in 2012-13 to 2,815,016 units in 2017-18, demonstrating India's strong position in the global two-wheeler market. Overall, total automotive exports increased from 2,898,907 units to 4,040,172 units during this period, highlighting the expanding reach of the Indian automotive industry on the international stage.

## Major Government Initiative under “Make in India” Campaign for Automobile Industry

The Government of India allows 100 percent FDI in the automotive industry through automatic route. According to this paper and the official website of Investment and Technology Promotion Division, Ministry of External Affairs, Govt. of India.

### Some of the major highlights of are

- The auto industry is encouraged by 5 years' extension of 200 percent weighted deduction of R&D expenditure under Income Tax Act and also introduced the weighted deduction of 150 percent for expenditure on skills development. These measures will help the industry

improve its products and performance.

- The “Start Up India” program, there are immense opportunities in the Indian automobile industry for technological innovation and new solutions. The growing digitization in the country is driving innovation in advanced mobility (with initiatives such as technology-based cab aggregation and, ride sharing), vehicle and component retail, connected car, etc.
- The Automotive Mission Plan 2016-26 (AMP 2026) is one such initiative. It clearly lays out the government's collective vision on how the automotive sector should grow regarding size, contribution to national development, technological maturity, global competitiveness and institutional structure. It aims to make India among the top three automotive industries in the world and increase exports exponentially to reach 35-40% of overall output. It also intends to increase its contribution to the GDP to over 12%, generating 65 million more jobs as well as increasing the size to USD 300 billion by 2026.
- FAME Scheme - based on NEMMP (National electric mobility plan) 2020 road map, FAME (Faster adoption and manufacture of electric vehicles in India) scheme was launched by DHI, Go I with a capital outlay of INR 795 crore. It will cover all segments i.e. two, three wheelers, cars, LCVs, busses etc. and all forms of hybrid and pure electric vehicles
- The likely rollout of Goods and Services Tax (GST) would also help improve doing and establishing new businesses in the country. The tax reform is likely to change the transportation scenario, and industry players must start thinking about realigning their supply chain, specifically the distribution network, his single reform

will impact vehicle pricing, sourcing strategies, distribution costs and dealer profitability.

- The increase in customs duty on cars and multi-utility vehicles (MUVs) valued above US\$ 40,000 from 60 percent to 75 percent seems to be a step to encourage local manufacturing, value addition and employment.
- Also, the concessional import duty on specified parts of hybrid vehicles has been extended to lithium-ion batteries and other parts of Hybrid vehicles. This will help the industry to achieve better cost efficiency.
- With the emergence of 5 large automotive clusters in the country i.e. the Delhi-Gurgaon-Faridabad in the north, Sanand-Halol and Mumbai-Pune-Nasik-Aurangabad in the west, Chennai-Bengaluru-Hosur in the south and Jamshedpur -Kolkata in the east, India is fast on its way to becoming the primary global automobile manufacturer. The government of India is more than willing to lead this charge and assist this sector in every way to help it achieve its full potential.
- Mr. Nitin Gadkari, Minister of Road Transport, Highways & Shipping has announced plans to set up a separate independent Department for Transport, comprising of experts from the automobile sector to resolve issues such as those related to fuel technology, motor body specifications and fuel emissions, apart from exports.
- Government of India aims to make automobiles manufacturing the main driver of "Make in India" initiative, as it expects passenger vehicles market to triple to 9.4 million units by 2026, as highlighted in the Auto Mission Plan (AMP) 2016 -26.
- In the Union budget of 2015-16, the Government has announced to provide credit of Rs 850,000 crore (US\$ 124.71 billion) to farmers, which is expected to boost the tractors segment sales.
- The Government plans to promote eco -friendly cars in the country that is, CNG based vehicle, hybrid vehicle, and electric vehicle and also made mandatory of 5 percent ethanol blending in petrol.
- The government has formulated a Scheme for Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India, under the National Electric Mobility Mission 2020 to encourage the progressive induction of reliable, affordable and efficient electric and hybrid vehicles in the country.
- The Automobile Mission Plan (AMP) for the period 2006-2016, designed by the government is aimed at accelerating and sustaining growth in this sector. Also, the well-established Regulatory Framework under the Ministry of Shipping, Road Transport and Highways, plays a part in providing a boost to this sector.
- The Automotive Mission Plan 2016-26 (AMP 2026) is the collective vision of the government of India and the automotive industry on where the industry should be after 10 years. AMP 2026 seeks to define the trajectory for the automotive ecosystem in India including the regulations and policies that govern research, design, technology, testing, manufacturing, etc. of automotive vehicles, components and services. The plan envisages that Indian automotive industry would grow 3.5-4 times in value from its current output and reach around INR 16, 16,000 crores by 2026.
- Voluntary Vehicle Fleet Modernization programme (V

-VMP) proposed by the Ministry of Road Transport and Highways that offers incentives worth 8-12% of the cost of a new vehicle for surrendering the old one. It would be able to generate steel scrap worth USD 1,728 million domestically every year with the set-up of organized shredding centers in addition to providing environmental and energy efficiency benefits.

### Conclusion

In conclusion, the Indian automobile industry stands as a vital component of the country's economic landscape, reflecting broader economic trends and consumer behaviors. With the two-wheeler segment at the forefront, the industry's growth is supported by a youthful population, increasing disposable incomes, and the exploration of rural markets. Additionally, the rising demand for commercial vehicles highlights the sector's responsiveness to logistical needs. As the market evolves, the push towards electrification represents a significant opportunity for innovation and sustainability. Overall, the future of the Indian automobile industry appears promising, driven by these dynamic trends and a commitment to adapting to changing consumer preferences and technological advancements.

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