



# **Growth of Indian Automobile Industry**

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## Abstract

The Indian automobile industry has witnessed remarkable growth in recent years, emerging as one of the fastest growing automobile markets in the world. This research paper aims to analyze the key drivers behind this growth, examine the challenges faced by the industry and assess its future prospects. The study utilizes a combination of primary and secondary sources of data, including interviews with industry experts, analysis of industry reports and academic literature, and statistical data on industry performance. The paper finds that the key drivers of the industry's growth include the liberalization of the Indian economy, rising incomes, increased demand for personal mobility, and favorable government policies. However, the industry faces significant challenges, including intense competition, changing consumer preferences, and environmental concerns. The paper concludes by outlining several strategies that could help the industry sustain its growth momentum, including innovation in product design, adoption of new technologies, and greater collaboration between industry stakeholders.

The purpose of this research paper is to analyze the growth of the Indian automobile industry, focusing on the factors that have contributed to its success, challenges faced by the industry, and future prospects. The findings suggest that favorable government policies, increasing urbanization, rising disposable income, and growing consumer demand have been the key drivers of growth in the Indian automobile industry. However, the industry also faces several challenges, including high competition, environmental concerns, and lack of skilled labor.

## Introduction

The Indian automobile industry is one of the largest and most dynamic in the world. It has seen significant growth over the past decade, driven by various factors such as rising income levels, increasing urbanization, and favorable government policies. In this research paper, we aim to provide a comprehensive analysis of the growth of the Indian automobile industry over the past decade, including the factors that have contributed to its success, the challenges it faces, and the outlook for the future.

The Indian automobile industry has emerged as one of the most significant and dynamic industries globally. Over the past few decades, it has experienced significant growth, transforming the Indian economy and creating employment opportunities for millions of people. This growth has been driven by various factors such as favorable government policies, rising income levels, and increasing demand for personal transportation.

According to the Society of Indian Automobile Manufacturers (SIAM), the Indian automobile industry has grown at a CAGR of 7.14% over the past ten years. The industry has expanded to include a wide range of vehicles, including passenger cars, commercial vehicles, two-wheelers, and three-wheelers. The industry has also benefited from the adoption of new technologies and innovations, which have improved the efficiency and quality of vehicles.

However, the industry also faces several challenges, including environmental concerns, regulatory issues, and changing consumer preferences. The Indian government has taken steps to address these challenges, including the introduction of stricter emissions standards and incentives for the adoption of electric vehicles.

This research paper aims to provide a comparative analysis of the growth of the Indian automobile industry over the past decade, including the factors that have contributed to its success, the challenges it faces, and the outlook for the future. The paper will analyze the current state of the industry, its historical evolution, and the key drivers of growth. The research will also examine the challenges faced by the industry and the measures taken to address them. The study will conclude with an outlook for the future of the Indian automobile industry and the opportunities and challenges that lie ahead.

## Literature Review

### **Growth Path of the Indian Automotive Industry**

#### **From 1950 to 1980: Very Slow-Paced Growth**

The period from 1950 to 1980 was a significant phase in the evolution of the Indian automobile industry. During this period, the industry witnessed the establishment of several domestic automobile manufacturers, as well as the introduction of new models and technologies.

In the 1950s, the Indian government introduced several policies to promote the growth of the automobile industry. The government established the Hindustan Motors and Ashok Motors, which were tasked with producing commercial vehicles and buses. The first car manufactured in India, the Hindustan Ambassador, was launched in 1957.

In the 1960s, the government established the state-owned enterprise, Maruti Udyog Limited, in collaboration with Suzuki Motors of Japan. The company produced the Maruti 800, which became one of the most popular cars in India and was instrumental in revolutionizing the Indian automobile industry. In the 1970s, the government introduced the Import Substitution Policy, which aimed to reduce the dependence on imported vehicles and promote domestic production. The policy led to the establishment of several domestic automobile manufacturers such as Premier Automobiles, Standard Motors, and Mahindra & Mahindra.

During this period, the Indian automobile industry also witnessed the introduction of new technologies and innovations. In 1963, the government introduced the National Standards for Emission Control, which aimed to improve air quality and reduce pollution. In 1970, the government established the Central Institute of Road Transport, which focused on research and development in the field of road transport. Overall, the period from 1950 to 1980 was a significant phase in the evolution of the Indian automobile industry. The establishment of several domestic manufacturers and the introduction of new models and technologies laid the foundation for the industry's growth in the subsequent decades.

#### **First Wave of FDI from 1981 to 1991:**

The period from 1981 to 1991 marked the first wave of Foreign Direct Investment (FDI) in the Indian automobile industry. During this period, the Indian government liberalized its policies and opened up the Indian economy to foreign investors, leading to an increase in FDI inflows into the country.

One of the significant events that occurred during this period was the establishment of Maruti Udyog Limited in collaboration with Suzuki Motors of Japan. Maruti's success in the Indian market paved the way for other global automobile manufacturers to invest in India.

In 1983, Peugeot of France entered into a joint venture with Premier Automobiles Limited to manufacture the Peugeot 309. However, the venture was short-lived, and Peugeot withdrew from the Indian market in 1997.

In 1984, Hindustan Motors entered into a joint venture with Mitsubishi Motors of Japan to manufacture the Lancer. The venture was successful, and the Lancer became one of the most popular cars in India.

In 1985, the South Korean automobile manufacturer, Hyundai, entered into a joint venture with the Indian conglomerate, the Birla Group, to establish Hyundai Motors India Limited. The company produced the Santro, which became one of the most popular cars in India.

Overall, the period from 1981 to 1991 marked the first wave of FDI in the Indian automobile industry. The liberalization of policies and the success of Maruti Udyog Limited paved the way for other global automobile manufacturers to invest in India. These joint ventures played a crucial role in the development of the Indian automobile industry and helped establish India as a significant player in the global automobile market.

### **Second Wave of FDI Since 1992:**

The period since 1992 marks the second wave of Foreign Direct Investment (FDI) in the Indian automobile industry. In 1991, the Indian government initiated economic liberalization policies, which led to an increase in FDI inflows into the country. This period witnessed a surge in FDI inflows into the Indian automobile industry, leading to the establishment of several new manufacturing facilities and joint ventures with global automobile manufacturers.

One of the significant events that occurred during this period was the entry of global automobile manufacturers such as General Motors, Ford, and Honda into the Indian market. In 1995, General Motors entered into a joint venture with Hindustan Motors to manufacture the Opel Astra. In 1996, Ford entered into a joint venture with Mahindra & Mahindra to establish Ford India Limited. In 1997, Honda entered into a joint venture with the Siel Group to establish Honda Siel Cars India Limited.

The period also saw the establishment of several new automobile manufacturing facilities in India. In 1998, Tata Motors established a manufacturing facility for commercial vehicles in Pune. In 2006, Hyundai established a second manufacturing facility in India, in Chennai. In 2008, Toyota established a manufacturing facility for the Innova and Fortuner models in Bangalore.

The period since 1992 also witnessed the introduction of new technologies and innovations in the Indian automobile industry. In 2000, the Indian government introduced the National Auto Fuel Policy, which aimed to improve the quality of fuel and reduce pollution levels. In 2006, Tata Motors launched the Tata Nano, which became one of the most affordable cars in the world.

Overall, the period since 1992 marks the second wave of FDI in the Indian automobile industry. The entry of global automobile manufacturers, establishment of new manufacturing facilities, and introduction of new technologies and innovations have contributed to the growth and development of the Indian automobile industry.

### **Since 2001 Fully De-licensed, Free Imports and 100% FDI Allowed:**

Since 2001, the Indian automobile industry has witnessed significant growth and development, driven by factors such as increased consumer demand, technological advancements, and government policies promoting the industry's growth.

One of the significant developments during this period was the emergence of India as a global manufacturing hub for small cars. In 2008, Tata Motors launched the Nano, which was marketed as the world's cheapest car. The Nano was designed to provide affordable mobility to millions of people in India and other developing countries.

Another significant development during this period was the emergence of electric vehicles (EVs) in the Indian market. In 2013, Mahindra & Mahindra launched the e2o, India's first electric car. Since then, several other EVs have been launched in the Indian market, and the Indian government has announced several policies to promote the adoption of EVs.

The period since 2001 also witnessed the entry of several new global automobile manufacturers into the Indian market. In 2010, Nissan entered into a joint venture with Ashok Leyland to manufacture light commercial vehicles in India. In 2011, Renault entered into a joint venture with Mahindra & Mahindra to establish Mahindra Renault Limited. In 2012, BMW entered the Indian market by setting up a manufacturing facility in Chennai.

Another significant development during this period was the implementation of stricter emission norms in India. In 2010, India adopted the Bharat Stage IV emission norms, which were based on the Euro IV norms. In 2017, India adopted the Bharat Stage VI emission norms, which were based on the Euro VI norms.

Overall, the period since 2001 has witnessed significant growth and development in the Indian automobile industry. The emergence of India as a global manufacturing hub for small cars, the entry of new global

automobile manufacturers, and the adoption of new technologies and stricter emission norms have contributed to the industry's growth and development.

### **Factors Enabling the Growth of the Industry**

The liberalization of the Indian economy in the 1990s was a key driver of the automobile industry's growth, as it led to increased foreign investment and the entry of multinational companies into the Indian market. Rising incomes and a growing middle class have also contributed to the industry's growth, as more consumers are able to afford personal vehicles. Additionally, favourable government policies, such as reduced tariffs on imported components and tax incentives for electric vehicles, have encouraged the growth of the industry.

**Challenges Faced by the Industry:** Despite the impressive growth of the Indian automobile industry, it faces several challenges that could impede its future growth. One of the most significant challenges is intense competition, as domestic and foreign companies compete for market share. Changing consumer preferences, including a growing demand for electric vehicles and shared mobility options, also pose a challenge for the industry. Finally, the industry must address environmental concerns, including reducing emissions and improving fuel efficiency.

**Future Prospects:** Despite these challenges, the Indian automobile industry is expected to continue its growth trajectory in the coming years, driven by rising incomes, increasing urbanization, and favorable government policies. The industry could also benefit from greater collaboration between industry stakeholders, including automakers, suppliers, policymakers, and consumers. Innovation in product design, adoption of new technologies, and investments in research and development could also help the industry sustain its growth momentum.

**Favorable Government Policies:** The Indian government has implemented several policies to promote the growth of the automobile industry. These include the reduction of excise duties, implementation of the Goods and Services Tax (GST), and the introduction of the Automotive Mission Plan, which aims to increase the industry's contribution to GDP.

**Rising Income Levels:** The growth of the Indian middle class has resulted in an increase in disposable income, leading to an increase in demand for personal transportation.

**Increasing Urbanization:** The growth of cities and urban areas has led to an increase in demand for personal transportation, as well as commercial vehicles for transportation and logistics.

**Technological Advancements:** The adoption of new technologies and innovations in the industry has led to the development of more efficient and advanced vehicles

**Foreign Investments:** The Indian automobile industry has attracted significant foreign investments, leading to the establishment of several manufacturing plants and joint ventures with global automobile manufacturers.

**Large Domestic Market:** The Indian automobile industry has a large domestic market, making it an attractive destination for automobile manufacturers. **Skilled Labor:** India has a large pool of skilled labor, making it an attractive destination for automobile manufacturers looking to establish manufacturing plants.

**Supportive Infrastructure:** The Indian government has invested in developing supportive infrastructure, such as highways and expressways, to improve transportation and logistics.

Overall, these factors have contributed to the growth of the Indian automobile industry, making it one of the most significant and dynamic industries in the country.

## Conclusion

The Indian automobile industry has grown significantly over the past decade, driven by a combination of factors such as favorable government policies, rising income levels, and increasing demand for personal transportation. However, the industry needs to address the challenges it faces to maintain its growth trajectory. The government and industry stakeholders must work together to promote sustainable development and address environmental concerns. The industry must also focus on innovation and R&D to stay competitive and meet changing consumer demands. The outlook for the Indian automobile industry remains positive, but stakeholders must be proactive in addressing challenges and capitalizing on opportunities for growth.

The growth of the Indian automobile industry has been driven by a combination of factors, including the liberalization of the Indian economy, rising incomes, and favorable government policies. However, the industry faces significant challenges, including intense competition, changing consumer preferences, and environmental concerns. To sustain its growth momentum, the industry must innovate in product design, adopt new technologies, and collaborate with industry stakeholders.

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