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A Macroeconomic Analysis of India's Automobile Sector and the Road Ahead

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Submitted by: Mr. Amal Shukla (MPP Cohort: 2024-26)

Under the Supervision of : Dr. Amrendra Pandey, Assistant Dean (Research) at Kautilya School Of Public Policy

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Navigating the Road Ahead: A Macroeconomic Analysis of India's Automobile Sector

Abstract

Indian Automobile and Auto Components form the core of India's economic growth. They constituted 7.1% of the GDP of the country and employed over 37 million (NSE Indices, 2025). In this report, I have analysed the sector's performance concerning macroeconomic trends, and alongside, also concerning the ascendency of electric vehicle technology and supply chain disruption issues along with interest rates rise. Based on my analysis, I would recommend taking a neutral to overweight stance in the sector; companies transitioning towards EVs are the way forward, as are those with very strong fundamentals. Investors should look at long-term growth potential and be cautious about short-term volatility.

Introduction

I have chosen Indian Automobile and Auto Components for this analysis, which forms an important constituent of the Consumer Discretionary sector and one which is very susceptible to the impacts of macro variables such as growth in GDP, interest rates, and change in consumer sentiment. This is also an important sector from a macro perspective since the competition of the emerging technology EVs would eventually affect inflation and interest rates' impact on consumers' demand going forward.

The problem I'd like to address is as follows: How will macroeconomics trends and the rise of EVs impact the performance of the Indian Automobile And Auto component sector in the next one year, and what should the investor do? I will use Nifty Auto Index data, production trends, and macroeconomic indicators to help investors make better decisions.

Literature Review

Indian Automobile and Auto Components sector had detailed studies put by investment banks and financial institution (Goldman Sachs 2023), the market is expected to grow at 15% with respect to electric vehicles, along with a huge five-year period of CAGR. This comes mainly due to the government and schemes like Fame II, subsidies provided for getting into electric and preference of vehicles with an affinity for the surroundings. (SMEV, 2025)

Morgan Stanley (2023) puts out short term pressures such as the rising raw material costs and supply chain dislocations but expresses a positive view of long-term growth due to good domestic demand and export opportunities in the auto component segment. CRISIL (2023) says the outlook for the auto component segment is also positive as it captures the trend in the global EV market, and exports are also expected to grow at 12% year-on-year.

From a macro-economic point of view, consumer demand theory suggests that automobile demand will go up in both two and four-wheelers. It depends more on increased disposable incomes and more on increased urbanization. An interest rate increase is yet another factor to reckon with since vehicle loans increase its cost of interest.

Analysis

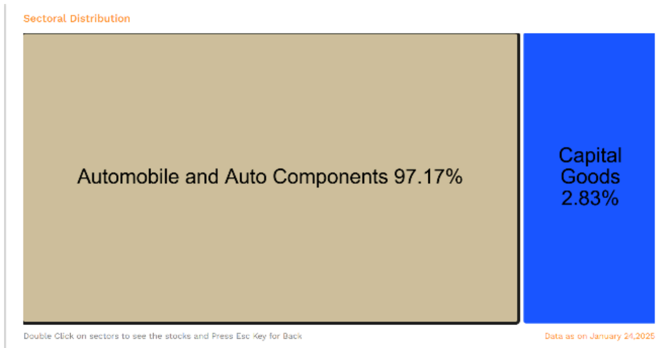
- Macroeconomic Trends:

  This would imply that the country's economy growth for the year 2024 could be at 6.5% and driven by domestic consumption as well as government expenditures (Reserve Bank of India, 2024). This is an excellent sign for automobile companies as more consumer spending normally increases the consumption. The interest rates, however, are the growing concern as the Reserve Bank of India continues to maintain a hawkish stand on maintaining control over inflation, which could affect the sector very badly, mainly as far as higher-ticket items, such as automobile purchases, especially in the CV segment, are concerned.

The other very significant trend forming the sector is the rise of EVs. The Indian market for EVs is growing exponentially, and their sales are anticipated to reach 10 million units by 2030 (SMEV, 2025). Leaders in this move are Tata Motors and Mahindra & Mahindra with massive investments into EV infrastructure. The government also supports the increase in EV through schemes like FAME-II, which is believed to further fasten this move.

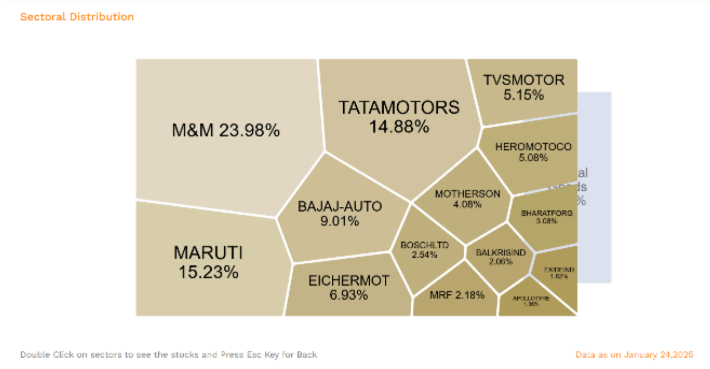
- Sector Performance:

The Nifty Auto Index has performed exceptionally well and surged 1.34% on January 28, 2025, above the Nifty50. Top gainers were BALKRISIND at +6.33% and TVSMOTOR at +5.32%, which indicate very high investor confidence in the sector. It is being driven by companies that have a clear strategy and good fundamentals to adopt EVs.



(Fig 1)

(Source- NSE Indices)



(Fig 2)

(Source- NSE Indices)

To understand this better, refer to Fig 1 where sectoral distribution of the Nifty Auto Index has been illustrated. The figures in the chart have shown the fact that in this index the Automobile and Auto Components sector itself contributes to the gigantic weightage of 97.17%. Remaining 2.83% has been covered by Capital Goods with Ashok Leyland in that. Here also, there is a high reliance of this sector on automobile industries.

Additionally, Fig 2 provides the pie chart depicting the weightage of stocks in the Nifty Auto Index. Three top companies holding high weight are Mahindra & Mahindra at 25.00%, Tata Motors by 14.57%, and Maruti Suzuki by 13.42%. Altogether, these three companies hold more than 50% of the index weight, which clearly explains why they are core in this sector. Other significant players having significant weightages are Bajaj Auto at 9.17%, Eicher Motors at 6.23%, and TVS Motor at 5.22%. This figure indeed reveals that investors should not neglect these key players because the performance of these players is significant for the index as a whole.

- Automotive Production Trends:

Automobile Production Trends

(In Numbers)

Category	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Passenger Vehicles	40,28,471	3,424,564	30,62,280	36,50,698	45,87,116	49,01,844
Commercial Vehicles	11,12,405	7,56,725	6,24,939	8,05,527	10,35,626	10.66,429
Three Wheelers	12,68,833	1,132,982	6,14,613	7,58,669	8,55,696	9,92,936
Two Wheelers	2,44,99,777	2,10,32,927	18,349,941	1,78,21,111	1,94,59,009	2,14,68,527
Quadricycles	5,388	6,095	3,836	4,061	2,897	5,006
Grand Total	**3,09,14,874**	**2,63,53,293**	**2,26,55,609**	**2,30,40,066**	**2,59,40,344**	**2,84,34,742**

(Fig 3)

(Source- SIAM Society of Indian Automobile Manufacturer)

The automotive manufacturing sector shows continuous expansion wherein passenger automobiles together with two-wheelers dominate the market. Passenger car production figures from Fig 3 demonstrate that consumer demand remains strong because the production numbers increased from 40,28,471 units in 2018-19 to 49,01,844 units in 2023-24. Between 2018–19 and 2023–24, manufacturers produced 2,44,99,777 two-wheeled vehicles, which jumped to 2,14,68,527 units, a sharp increase in output data. Since economic volatility lowers company spending, the market growth for three-wheelers and commercial vehicles is still constrained.

- EV Market Trends

Electric Vehicle Sales - Dashboard									Financial Year											
Category	17-18	18-19	19-20	20-21	21-22	22-23	23-24	Grand Total	24-25										Sep'24	Oct'24
									Apr	May	Jun	Jul	Aug	Sep	Oct	Q1	Q2			
E-2 Wheelers	2005	28007	26834	44803	252642	728054	944126	2026471	65550	77326	79995	107627	89013	90291	80850	222871	286931		90291	80850
E-3 Wheelers	91970	116031	143051	90898	172543	401882	632485	1648860	42033	54731	52306	63679	60745	62898	42002	149070	187322		62898	42002
E-4 Wheelers	1204	1885	2377	5154	18622	47499	90432	167173	7781	8081	7308	8000	6738	6062	5336	23170	20800		6062	5336
E-Buses	19	66	434	373	1194	1984	3693	7763	240	247	135	450	243	409	257	622	1102		409	257
Grand Total	95198	145989	172696	141228	445001	1179419	1670736	3850267	115604	140385	139744	179756	156739	159660	128445	395733	496155		159660	128445

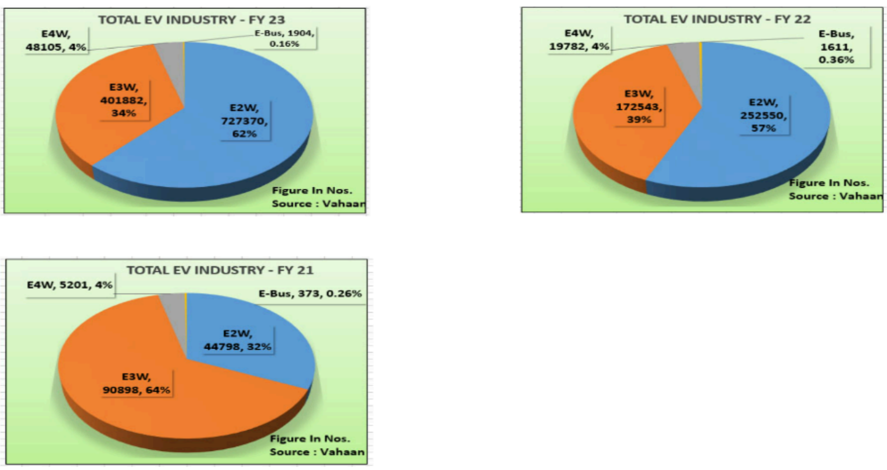
(Figure in Nos.)

This data as on 22nd October, 2024. It excludes Telangana.
This data does not include Low Speed Sales

(Fig 4)

(Source- SMEV Society of Electric Vehicles)

SOURCE - VAHAN PORTAL-THIS DATA INCLUDES SUBSIDIES & NON SUBSIDIES SALE



(Fig 5)

(Source- SMEV Society of Electric Vehicles)

Information in Fig 4 and Fig 5 shows that the EV market in India is expanding quickly. 1,179,419 EV units were delivered by the sales market in FY 2023, with 34% being E-3W and 62% being E-2W. Since the E-2W and E-3W categories showed rising sales from 2,005 units to 944,126 units and from 91,970 units to 632,485 units, respectively, the data shows significant growth in EV sales during the entire period from 2017–18 to 2023–24.

Market expansion is powered by government incentives plus increased buyer education and industry expansion. Tata Motors along with Mahindra & Mahindra and TVS Motor work together to boost the EV segment through significant investments in EV technology development and infrastructure expansion.

- Fundamentals

  The sector's foundation is quite strong; main financial metrics stand well. It means that in terms of its Price-to-Book (P/B) of 4.69, the market values that sector's asset at a price much higher. With a P/E of 22.29, the investor believes that that sector will surely give the amount of earnings aspired for it. A dividend yield of 0.98% also satisfies the income investors who are going to invest their money for a long time or stable investment period.

Discussion, Conclusion & Recommendations:

Discussion

The Indian Automobile and Auto Components sector is at an inflection point where, for the first time, its traditional ICE will face stiff competition from EVs. In short-term, these challenges will reflect in the company's performance- rising interest rates and supply chain disruptions; long-term growth drivers such as rising incomes, governments' push on EVs, and urbanization will overpower those challenges (NSE Indices, 2025). Key players shifting to EV include Tata Motors and Mahindra & Mahindra, who will get major benefits from it.

Conclusion

Indian Automobile and Auto Components represent a rich combination of opportunity and risk that can pose dynamic opportunities for the investors in the same. Traditional automobile manufacturers will encounter critical market threats due to rising interest rates as well as disrupted supply chains while the shift from ICE to EV technology develops gradually over the short period. An increase in interest rates would create market demand reduction for automobiles starting with commercial and premium vehicle segments because such vehicles require high financing.

Additionally, electric vehicles would also threaten companies in slow transition strategies as they would lose their market share to the most agile competitors.

On the positive side of things, several key factors prove to be long-term positives for the sector. The Indian market for EVs shows indications of major expansion. Strong government support through FAME-II and declining battery prices and increasing environmental consciousness of consumers will drive EV market expansion with 15% annual growth rate during the next five years (SMEV, 2025). The leaders of this transition in the EV segment are Tata Motors, Mahindra & Mahindra, and TVS Motor, among others. The second strong macroeconomic factor will continue to drive demand for automobiles, which is primarily happening on the two-wheeler and passenger vehicle fronts, due to increasing disposable incomes, urbanization, and a growth in the middle class.

Thus, Investors will benefit by selecting businesses which maintain solid fundamentals along with clear commitments in favour of electric vehicles. Organizations with strong financial standing, excellent cost management and innovative thinking will achieve the best results when dealing with the challenges and opportunities presented by this changing environment. Investors must also look at bringing diversification between a traditional automobile company and a pure EV-only play into their portfolio to solve out the risks the industry is going through.

Recommendation

1. Neutral to Overweight Stance:

The sector's position should be neutral to overweight based on how much risk the investor accepts along with their time frame for investment. Though the sector has short-term challenges such as interest rate hikes and supply chain disruptions, the long-term growth prospects are strong and driven by rapid adoption of EVs and solid macroeconomic fundamentals. In the short term, macroeconomic factors such as inflation and interest rate hikes will dampen consumer demand for high-ticket items like automobiles, especially in the commercial and premium segments. However, the long-term outlook is positive, with the EV market expected to grow at a CAGR of 15% over the next five years.

Those companies that are actively embracing the shift to EVs, such as Tata Motors and Mahindra & Mahindra, are more likely to be positively affected by this shift. Higher risk tolerance can be met by implementing EV-only company exposure yet conservative investors would prefer stable cash flow from companies.

2. Focus on EV Leaders:

The investor would invest primarily in Tata Motors, Mahindra & Mahindra and TVS Motor for electric vehicle leadership because these companies make substantial infrastructure and technological investments to become dominant in the electrical vehicle market. This market will grow fast with increasing subsidy from the Indian government as well as decreases in the price of a battery, not to mention rising public awareness of its existence and potential in the future. The biggest beneficiary of this trend will be a first mover in this segment. For example, Tata Motors has emerged as a major player in the EV space through Nexon EV, while Mahindra & Mahindra is going the whole hog for electric three-wheelers and SUVs. Electric two-wheelers have been taken forward steadily by TVS Motor in the form of iQube.

More investment in their portfolios in firms focused on EV can help investors get long-term value in the market of EV.

3. Focus on Solid Fundamentals

The focus must shift towards firms that possess solid and strong fundamentals with balance sheet robustness, stable cash flow generation, and an adequate and well-planned strategy of electric vehicle adoption. Critical financial statistics, like Price-to-Book ratio at 4.69, Price-to-Earnings at 22.29, and Dividend Yield at 0.98%, clearly state the sector's huge value creation to the market as well as promising returns to the long-term investors. Companies with strong fundamentals can bear short-term headwinds like increases in interest rates and supply chain disruptions. For instance, Tata Motors and Mahindra & Mahindra have shown resilience and are, indeed the best bets in the sector, as they represent a very strong case of compelling business and secular growth.

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