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AN ANALYSIS OF INDIAN AUTOMOTIVE INDUSTRY: PROTECTIONISM AND OVERVALUATION

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RESEARCH ARTICLE

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Abstract

This paper examines the Indian automotive industry, with a focus on tariff structures, protectionist trade policies and how they shape the market outcomes layered with the domestic tax infrastructure. It aims at addressing a critical gap in literature by linking protectionism with the possible overvaluation of domestic manufacturers in a global context. Using secondary data from industry reports, financial databases and international trade institutions, the study compares India's tax and tariff regime with those of major automobile markets. The findings indicate that Indian manufacturers often command a premium valuation, which is reflected in an elevated P/E and EV/EBITDA ratios, largely due to a protected environment rather than global competitiveness. These results point out that investor expectations maybe skewed towards sustained protection of domestic manufacturers raising concerns about long term sustainability if protectionist policies were to be reduced. The paper concludes by underscoring the need for gradual liberalization and tax restructuring to realign valuations with market fundamentals.

Keywords: *Automotive Industry, Protectionism, Overvaluation, Sustainability*

Introduction

The Indian automotive industry has made huge strides over the years and shown robust domestic growth. As of 2025, the industry has established itself as the fourth largest automobile producer and the third largest market by sales volume, underpinning its immense domestic demand and manufacturing capabilities. The industry is a powerhouse contributing 7.1% to the country's GDP and an impressing 49% to its manufacturing GDP. It is also a massive source of employment, providing work to over 30 million people in the country. The industry's steady growth is brought about by a sustained domestic demand for vehicles, propelled by rapid urbanization and a consistent growth in income leading to an expansion in India's middle class. From 2019-20 to 2024-25 the sale of passenger vehicles has gone up from 2.77 million units to 4.3 million units, marking a 48% rise.

Despite its achievements the domestic industry suffers faces a critical paradox; while the vehicles are capable within the domestic context they remain a marginal player in the global automobile market. This raises the questions about the structural features that shape the industry's competitiveness and valuation.

The central question of the paper will be to what extent have protectionist trade policies have contributed to inflated evaluations of Indian auto manufacturers, and its influence on global competitiveness? To address this, the paper traces the historical trajectory of protectionism in India, analyzing its impact on valuation and export potential, and situates the findings within global standards

History of Protectionism

The automotive industry in India has historically operated in a deeply entrenched protectionist framework, a stance which has shaped its development over the last eight decades. This approach in the 1950s saw heavy government investments in heavy industries and active discouragement of foreign assembly only plants, leading to ousting of industrial giants like General Motors and ford in favor of domestic players like Hindustan motors and premier motors. This foundational policy was aimed to cultivate indigenous manufacturing capabilities. Even after the 1991 economic reforms the auto industry continued to enjoy the benefits of the protection, even gaining high customs duty in 2001 under the infant industry status plea. This long-standing protectionist tariff regime has inadvertently fostered an inward-looking industry, while initially designed to protect domestic interest, this has led to slower innovation, enabled price markups and reduced the incentives for global ambition. As of 2025, India has one of the highest import duties on CBU in the world, at 125%, compared to 2.5% in the United States (now 27.5% post tariffs) and China

at 15% with an additional VAT of 17 % on imported cars. This makes it extremely difficult for global companies to enter the Indian market.

India's multi-layered tariff structure includes:

- **CBUs > USD 40,000**: 70% Basic Customs Duty (BCD) + 40% Agriculture Infrastructure and Development Cess (AIDC)
- **CBUs < USD 40,000**: 70% BCD
- **Semi-Knocked Down (SKD)** units: 35% BCD
- **Completely Knocked Down (CKD)** units: 15% BCD + 1.5% Social Welfare Surcharge (SWS)

Combined with GST (28%) and compensation cess (up to 22%), the total tax burden can exceed **70%** on on-road prices, significantly inflating the cost.

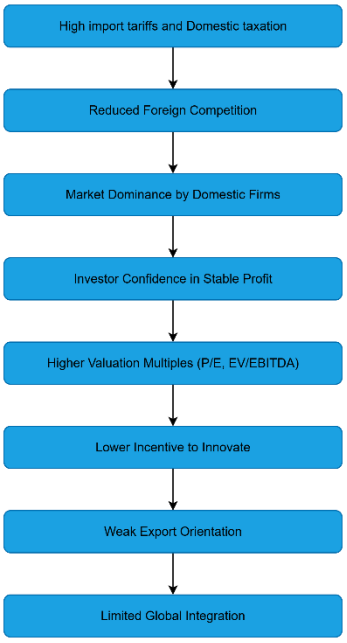
The government has taken strides in reducing import duties on EVs to 15% on vehicles priced above USD 35,000 given the manufactures invest USD 500 million in India and setup domestic production units and limiting the import of 8000 cars a year and 40,000 over a span of 5 years.

This policy has been implemented to foster competition in the domestic EV market and merge India into the global supply chain. However, as this is a recent development its effects are yet to be realized. It is to be noted that this policy still would have no effect on cars priced below 35,000 USD which have the largest share of the market in India.

Unintended Consequences

Valuation of domestic auto companies presents another complex issue, while some firms exhibit higher price to earnings (P/E) and enterprise value to EBITDA (EV/EBITDA) ratios compared to certain global counterparts, raises the question if these valuations are fully justified by their efficiency and growth trajectories, especially within a protected environment.

There is the impediment of persistent low exports, becoming an obstacle to global integration, this can be attributed to a long-standing policy of meeting local standards and establishing a divergence from global demand trends and standards.



India's multi layered tax structure, consisting of goods and service tax, additional compensation cess and varying state level taxes substantially increases the price for the end user even when ex-showroom prices are globally competitive.

Finally, the existing market dynamics show the strong dominance of a few key players, requiring urgent attention to foster innovation, healthy competition, improve quality and broaden the choice for consumers.

The prolonged protectionist measures have generated several unhealthy results that constrain the Indian automotive sector's global competitiveness. High tariffs, by shielding domestic manufacturers from international competition, enable them to maintain significant price to cost markups. The reduced competitive pressure dulls the need for innovation and discourages global expansion. When incumbent firms invest under tariff protection, they develop an interest in creating resistance against liberalization.

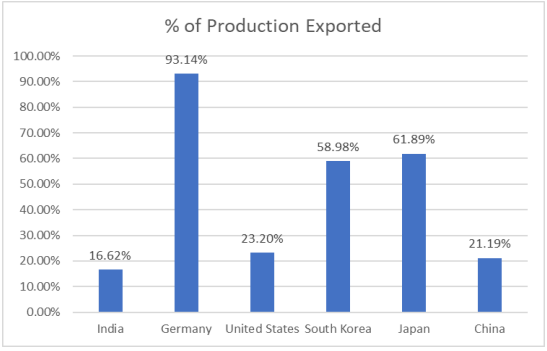
India's automobile industry producing over 5 million cars in 2024-25 fails to reach the levels close to the largest global producers in the automotive industry, showing there's still much for domestic companies to improve on.

Indian companies have lobbied against import duties reduction again and again quoting protection for their nascent industry.

India being one of the largest manufacturers of automobiles with the least percentage of vehicles being exported.

Barriers to Export Competitiveness

- Divergent Global Safety and Emission Standards: A critical barrier to Indian car exports is the divergence between domestic and international safety and emission standards. While India's stringent emission norms pertaining to BSVI comparable to EUVI are very comprehensive, they lack the enforcement mechanisms of US Tier 3 norms which make it one of the most stringent standards in the world. Historically Indian cars have faced scrutiny owing to lack of safety features which is gradually improving now, same cars sold domestically and abroad have different NCAP ratings as manufacturers have to tweak them to meet the requirements.



- Erosion of cost due to compliance and logistics complying to the requirements of the importing country means making changes in manufacturing to suit their standards. This in some cases can increase the price significantly making the manufacturer lose the benefit of low cost of production. Also, logistics of transporting the vehicle overseas influence the end consumer price.
- Challenges in brand recognition and international market penetration: Due to the long-standing inward-looking policy of domestic manufacturers, Indian cars do not enjoy the global recognition as enjoyed by large global players. This hinders their marketability as car purchase for an individual is a big decision. They would rather look for a larger brand with greater reliability, market reputation and access to greater service which Indian companies have failed to do.
- Weak Export Oriented Platforms: High tariffs and protectionism have provided no incentive to domestic manufacturers to venture out into the global markets, concentrating the market inside the country with little ambition to expand export activities
- Global market preferences Cars produced domestically are specifically designed to cater the preferences of local consumers. Giving emphasis to fuel efficiency, compact size and putting affordability above all else. This has essentially reduced their consumer base abroad who have different preferences.

Research Methodology

This study uses a secondary data approach, drawing on publicly available datasets and financial databases to analyses the relationship between protectionist policies, automobile pricing, and valuation metrics in the Indian automotive sector. The data spans primarily 2023–2024 to reflect current market conditions. The data has been collected from sources such as-

1. SIAM (Society of Indian Automobile Manufacturers): Production, domestic sales, and export figures for Indian manufacturers.
2. WITS (World Integrated Trade Solution) and World Population Review: Tariff rates and trade policy data for India and comparator economies.
3. Finbox: Company-level financial data including market capitalization, EBITDA, enterprise value, and price-to-earnings ratios.
4. Global NCAP: Vehicle safety ratings for Indian-manufactured cars, including historical changes in crash test outcomes.
5. World Bank & CEIC: GDP (nominal and PPP) and per-capita income figures for affordability comparisons.
6. CAAM (China Association of Automobile Manufacturers) & BTS (US Bureau of Transportation Statistics): Comparative production and export data for China and the United States
7. Team BHP: Retrieving car price information to present average price in India

- **EV/EBITDA Margin** EBITDA Multiple = Enterprise Value / EBITDA
- **P/E Margin** P/E Ratio = Market Capitalization / Net Income

Using latest available market and financial data.

Safety Standard Assessment: Extensive research of Global NCAP and Bharat NCAP to review test scores of models sold abroad and domestically.

Limitations of the study:

1. Differences in accounting and reporting standards across countries and databases may affect comparability of financial ratios.
2. Safety ratings are model-specific and may not represent the entire product lineup.

PPP income comparison assumes average income distribution, which may mask affordability gaps within income brackets.

Comparison of Indian companies and Global Brands

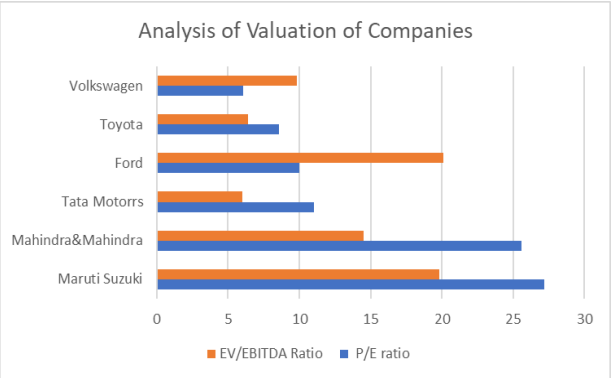
Comparative Analysis: Indian Automakers vs. Global Benchmarks

To assess the valuation of Indian automotive companies, a comparison with global benchmarks and broader market indices is essential. The overall Indian Sensex recorded a daily P/E ratio of 21.540 on March 26, 2025. When comparing P/E ratios across countries, China's P/E was 14.34, Japan's 19.90, and South Korea's 13.87 in early 2025. Global industry averages for "Auto Parts" and "Auto & Truck Dealerships" were 18.8 and 18.27, respectively.

In terms of EV/EBITDA, a critical metric for valuing companies across different capital structures, Indian automakers present a mixed picture when compared to global peers. Maruti Suzuki's EV/EBITDA of 19.8x stands higher than that of traditional global giants like Toyota (6.4x), Volkswagen (9.8x), Ford (20.1x), General Motors (9.9x), Hyundai Motor (8.4x) and Honda (8.6x). Mahindra & Mahindra's EV/EBITDA of 14.5 also exceeds most of these traditional global players, though it is lower than Maruti Suzuki's. Tesla, a pure-play EV manufacturer, stands as an outlier with a significantly higher EV/EBITDA of 91.7x, reflecting its high-growth, technology-driven valuation. Tata Motors, with an EV/EBITDA of 6x, appears more aligned with, or even lower than, many established global manufacturers, suggesting a more conservative valuation relative to its domestic peers.

Assessment: Are Indian Companies Overvalued

Overvalued stocks usually present a high P/E ratio often reflecting high investor expectations and popularity. The average P/E ratio for automobile sector in India is reported as 22.



Both Maruti Suzuki and Mahindra & Mahindra trade above the industry average of 22 and the broader Indian Sensex NSE has a P/E of 21.5. These higher multiples as compared to global competitors suggest the market is pricing in significant future growth, sustained profitability or the benefits of operating in a protected domestic market with less intense competition. The higher EV to EBITDA ratio of Maruti Suzuki suggests that its enterprise value is high relative to its operational earnings before non-cash expenses. This might stem from the perception of stability and growth in a growing yet protected environment.

In contrast, Tata motors with a P/E ratio of 8-10 and an EV/EBITDA around 4-5 appears to be valued more conservatively, lower than industry average and global peers.

The relative high valuations of Maruti Suzuki and Mahindra when compared to the broader market and many large global manufacturers suggest that these companies may indeed be priced with an expectation of sustained performance within the protected environment. This might suggest that investors are willing to pay a premium for their earnings possibly due to their dominance in the domestic market and insulation from global competition. This premium might be considered overvaluation if their operational efficiency, innovation and global completion do not align with the elevated expectations, particularly if the protective policies were to be significantly altered.

Discussion

The findings of this paper reinforce the notion that India's automotive sector operates in a uniquely insulated environment, shaped by decades of high tariff barriers and complex domestic taxation. While these measures have succeeded in nurturing the domestic industry and sustaining market demand, it also has created structural distortions.

Statistical analysis supports the link between protectionism and inflated valuation. A correlation coefficient of 0.66 between effective import tariffs and automaker P/E indicates a moderately strong positive relationship, indicating that higher tariff protections are associated with higher market valuations. Regression analysis shows that every 10% increase in tariffs is associated with 0.63-point rise in P/E ratios, though the relationship is only marginally significant owing to the small cross-country example. This pattern implies that investor confidence is determined not only by operational efficiency or global competitiveness but also by the expectation that protectionist policies will continue to shield domestic manufacturers from global competition.

The barriers to export competitiveness reveal how divergent safety and emission standards, limited brand recognition and an inward-looking domestic market has effectively restricted the global ambitions of domestic manufacturers. These outcomes align with the economic theory, which posits that prolonged protectionism can reduce the incentive for innovation and global market integration.

While the recent reduction in import duties for certain EV segments represents a step towards liberalization, its scope is narrow and unlikely to address the broader structural issues of affordability, competition and export potential. Future policy shifts will need to balance industrial protection and free market, fostering a competitive environment without undermining the stability of the domestic industry.

Conclusion

This study shows that India's automobile sector has grown into a major contributor to Gross domestic product and employment, but its trajectory has been shaped by decades of tariff protection and a complex domestic tax regime. However, the policies which support a strong domestic demand has also encouraged structural distortions, including elevated valuations of leading domestic manufacturers relative to global competitors and limited export competitiveness.

The research suggests that current market premiums partially reflect investor expectations of sustained protection, rather than operational efficiency or how well the companies fare globally. This raises concerns about the sustainability of such valuations if tariff barriers were to be reduced or global standards were to become obligatory.

The findings indicate that policymakers should progressively adjust trade and tax frameworks to promote competition while maintaining the stability of domestic industries. Liberalization along with tax reform might enhance affordability and consumer choices, improve product quality, and stimulate global competitiveness and stimulate export potential of domestic manufacturers. The findings also emphasize the need to recognize the policy driven premiums when evaluating Indian auto manufacturers while making investment decisions.

Future research should expand the empirical base by incorporating firm-level panel data across multiple years and countries, as well as by testing the robustness of the tariff–valuation relationship with larger samples. Such work would strengthen the understanding of how protectionism shapes firm's valuation, market behavior and global competitiveness.

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