RESOURCE PAPER 57

INDO-JAPAN CHAMBER OF COMMERCE & INDUSTRY

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PREFACE

We are pleased to present this report which delves into the evolving dynamics of the automotive industry in the context of India-Japan economic relations with a particular focus on the impact of India's Goods and Services Tax (GST) reforms. It explores the implications of GST 2.0 for the auto sector, analyzes the current customs duty structure and exemptions, and evaluates the strategic relevance of the Indo-Japan Free Trade Agreement (FTA). Additionally, it highlights key schemes under India's Customs and Foreign Trade Policy that are crucial for Japanese automotive players looking to expand their footprint in India. Grant Thornton Bharat is actively engaged in assessing these regulatory reforms and are providing support across multiple verticals and is dedicated to empowering businesses with insightful analyses and actionable strategies.

The authors of this Resource Paper Mr. Sohrab Bararia, Partner and Mr. Pawan Maloo, Director at Grant Thornton Bharat aim to present this report enabling companies to explore the business impact pursuant to the above regulatory changes.

We trust this Resource Paper will serve as a valuable resource material for our readers, inspiring new partnerships and mutual success within this evolving business ecosystem.

Happy reading.

October 2025

Suguna Ramamoorthy
Secretary General, IJCCI

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Introduction :

The automotive industry in India is at a pivotal juncture, shaped by a confluence of domestic reforms and international partnerships. This white paper presents a focused analysis of the evolving Indo-Japan relationship in the auto sector, highlighting how bilateral cooperation has influenced industrial growth, technology transfer, and investment flows. Central to this discussion is the impact of India's GST 2.0 reforms which aim to streamline taxation and enhance operational efficiency across the automotive value chain.

In addition to examining GST reforms, the report explores the current customs duty structure and available exemptions, offering insights into their implications for competitiveness and trade facilitation. It also evaluates the relevance of the Indo-Japan Free Trade Agreement (FTA), emphasizing its strategic importance in fostering cross-border collaboration and market access. Together, these themes provide a comprehensive understanding of the regulatory and economic landscape shaping the future of the automotive industry in India and its engagement with Japan.

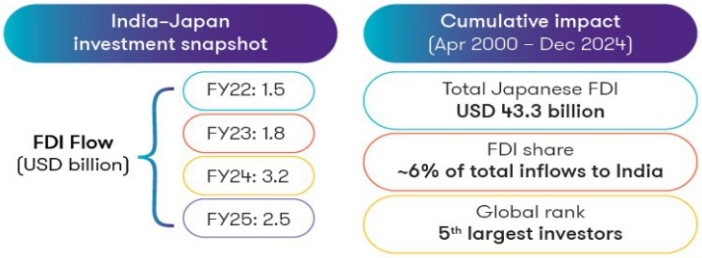
India and Japan: A study of bilateral developments in the automotive industry

The India-Japan bilateral relationship has evolved into a strong strategic and economic partnership, with the automotive sector emerging as a key pillar of collaboration. Rooted in shared democratic values and a mutual commitment to regional stability, the partnership has deepened significantly over the past two decades, particularly under the framework of the 2011 Comprehensive Economic Partnership Agreement (CEPA). This agreement has facilitated the liberalisation of trade and investment and creating a conducive environment for sectoral cooperation.

In FY 2023–24, bilateral trade between India and Japan reached USD 22.9 billion, with India exporting USD 5.2 billion worth of goods and importing USD 17.7 billion from Japan. Automotive components and machinery remain among the top traded commodities, underscoring the sector's centrality to the economic relationship. As of FY 2024–25 (April-January), trade stood at USD 21 billion, with automotive parts continuing to dominate the import basket from Japan.

Year	India's export to Japan (USD billion)	India's import from Japan (USD billion)	India Japan bilateral trade (USD billion)
2020-21	4.43	10.90	15.33
2021-22	6.18	14.39	20.57
2022-23	5.46	16.49	21.96
2023-24	**5.15**	**17.69**	**22.85**
2024-25 (Apr-Jan)	5.10	15.90	21.00

Japan Investment in India



Japan is India's fifth-largest foreign investor, with cumulative FDI inflows of USD 43.3 billion between April 2000 and December 2024. The automotive sector has been a major beneficiary, attracting long-term investments from Japanese giants such as Suzuki, Toyota, Honda, and Yamaha. These companies have not only established manufacturing bases in India but have also integrated India into their global supply chains.

Japan's 2025 Policy Programme aims to secure USD 233.9 billion in overseas infrastructure orders, with India as a key partner in clean energy, digital innovation, and sustainable development. India and Japan launched the Clean Energy Partnership in 2022, building on earlier energy dialogues. The partnership spans EVs, solar, hydrogen, and carbon capture, with a focus on innovation, resilient supply chains, and low-carbon growth. Japan's Ministry of Economy, Trade and Industry (METI) has identified India as a key partner for future hydrogen imports, given its cost-effective production capabilities.

Shared net-zero targets - India by 2070 and Japan by 2050 - create a strong foundation for collaboration in low-carbon technologies and sustainable urban development. Under the Japan–India Vision 2025, both countries are committed to expanding collaboration in infrastructure, civil nuclear energy, solar power, and advanced materials. The India-Japan Fund (IJF), launched in 2023 with USD 600 million from NIIF and JBIC, supports renewable energy, e-mobility, waste management, and water conservation.

India's automotive ambitions are backed by robust policy support. The PM E-DRIVE scheme (USD 1.3 billion) and Electric Mobility Promotion Scheme (EMPS) target EV adoption and infrastructure development. The FAME II scheme, with a USD 1.4 billion outlay, has supported over 1.6 million EVs. The PLI-Auto Scheme (USD 3.1 billion) promotes advanced automotive technologies, including battery EVs and hydrogen fuel cell vehicles, while the Automotive Mission Plan 2026 aims to position India among the top three global auto hubs, targeting 12% GDP contribution and 65 million new jobs.

India's auto component exports are expected to triple to USD 60 billion by 2030, with overall production reaching USD 145 billion. A 2024 JBIC survey reaffirms India as the top investment destination for Japanese automotive firms, with nearly 60% of respondents favouring it for future investments.

Japanese companies have built strong manufacturing bases in states like Haryana, Gujarat, Tamil Nadu, and Maharashtra. These hubs cater to both domestic demand and exports to Africa and Southeast Asia. Recent joint ventures increasingly focus on electric vehicles, sustainable mobility, and advanced manufacturing technologies.

A closer look at collaboration around auto & EV industry

India's automotive industry contributes 7.1% to national GDP and nearly half of manufacturing GDP, highlighting its strategic importance. In 2024, India produced

28 million vehicles (up 8% from 2023), with exports at >4.5 million units. The auto component sector recorded a turnover of USD 74.1 billion, supported by USD 36 billion in FDI over the past five years. With EVs projected to account for >40% of the market by 2030, India is rapidly transitioning toward sustainable mobility.

Japan, the world's fourth-largest automotive market, produced 8.6 million vehicles in 2023 - two-thirds of which were manufactured overseas. Its automotive sector, valued at USD 432 billion in 2022, employs 5.6 million people and is globally recognised for its advanced technology and high-quality manufacturing. The auto parts industry alone accounts for 59% of Japan's automotive output, supported by over 6,500 firms.

The number of Japanese companies in India's auto and auto components space rose from 173 in 2022 to 186 in 2025, reflecting growing interest in India's scale and cost advantages. Japanese firms have established a strong presence in key automotive clusters such as Haryana, Gujarat, and Tamil Nadu, using India as a base to export to emerging markets, including Africa. India's demand-driven growth and Japan's technological leadership create a powerful synergy. Joint ventures are increasingly focused on electric vehicles, green mobility, and sustainable manufacturing. Launched in May 2025, a leading Indian automaker partnered with JETRO to support innovation across the entire value chain through investments in research and development.

Assessing the impact of GST 2.0 reforms on India's automotive sector

The rollout of GST 2.0 in September 2025 has marked a pivotal shift for India's automotive sector, streamlining tax structures, enhancing affordability and catalysing consumer demand across vehicle segments. The reforms are not only simplifying compliance but also reshaping market dynamics.

Under the revised GST regime, small cars and motorcycles under 350cc now attract 18% GST, down from 28% plus cess, resulting in price reductions of up to INR 1 lakh for select models. This has improved affordability for middle-class and rural buyers, while simplified tax slabs have eased compliance, boosting production and inventory turnover. Premium vehicles, including SUVs and high-end motorcycles, now face a flat 40% GST, slightly increasing costs but streamlining taxation. Electric vehicles continue to benefit from a 5% GST, reinforcing support for green mobility. Overall, GST 2.0 has lifted consumer sentiment, with automakers reporting record festive sales and strong booking momentum.

The key changes are highlighted below :

S.No.	Vehicle category	Specifications	Old rate till September 2025	New GST rate w.e.f. 22nd September 2025
1.	Small Cars	Petrol ≤ 1200cc & ≤ 4000mm length; Diesel ≤ 1500cc & ≤ 4000mm length	28% + cess as per applicable Rate (Cess ranging from 1% to 3%)	18% (No Cess)
2.	Motor Cycles & Scooters	Engine capacity upto 350cc	28%	18%
3.	Luxury cars & SUVs	Exceeds the specifications of small cars	28% + cess as per applicable Rate (Cess ranging from 17% to 22%)	40% (No Cess)
4.	Motor Cycles & Scooters	Engine capacity upto 350cc	28% = 3% cess	40% (No Cess)
5.	Electric Vehicles (EVs)	NA	5%	5% No change
6.	Auto components & accessories	Parts & accessories like tyres, seats, engines, electric accumulators	28%	18%
7.	Tractors / semi trailers	Except (Road tractors/ semi-trailers) Engine Capacity more than 1800 cc	12%	5%
8.	Tractors / semi trailers	Road tractors/semi-trailers Engine Capacity more than 1800 cc	28%	18%
9.	Tractor parts	Tyres, gearboxes, radiators, brakes and wheels	18%	5%

Key Legislative Changes

Post supply discount : The industry has long grappled with disputes from tax authorities over post-supply discounts and the issuance of credit notes therein. Key concerns included the absence of discount terms in agreements at the time of supply, non-reversal of input tax credit (ITC) on commercial credit notes, and the classification of secondary discounts as services. In a significant trade facilitation measure, the GST Council has recommended omitting the requirement to establish post-sale discounts through prior agreements. Further clarifications are issued on ITC treatment for commercial credit notes, secondary discounts, and promotional activities done by distributors on behalf of manufacturers. These long-awaited changes are poised to reduce unnecessary litigation and bring much-needed clarity. It remains to be seen whether these clarifications will apply retrospectively.

Provisional refunds : Effective 1 October 2025, GST 2.0 introduced key procedural reforms to the refund mechanism under Section 54 of the CGST Act. A risk-based system now allows 90% provisional refunds for low-risk taxpayers, based on compliance history and system-generated risk scores. This aims to accelerate refunds for exporters and businesses with inverted duty structures, enhancing liquidity and reducing delays.

Refunds can now be withheld only in specific cases, with officers required to provide written justification. These changes are expected to streamline processes and improve transparency in refund administration.

Key Watchout Areas

Consumer impact : Benefit of increased affordability among consumers due to decrease in GST Rate which would result in an increase in disposable income and purchasing power indirectly boosting purchasing power which would in turn result in increased sales.

To illustrate the impact of the recent GST rate cuts, Maruti Suzuki - one of India's leading automobile manufacturers - serves as a compelling example. The company witnessed a remarkable surge in customer interest and sales immediately following the announcement, with an unprecedented 30,000 vehicle deliveries completed on the very first day. This momentum was especially strong in the small car segment, where bookings surged by nearly 50%.

Since the GST revision, Maruti Suzuki has recorded approximately 75,000 new bookings, averaging around 15,000 per day. This represents a significant 50% increase over its typical

booking volumes, clearly reflecting a sharp rise in consumer demand driven by improved affordability and positive market sentiment.

Obligation to pass the GST rate cut benefit : The CBIC has directed Commissionerates to monitor the impact of GST rate changes at the product level over the next six months, ensuring benefits are passed on to consumers. Dedicated forums and helplines have been set up to handle complaints where price reductions are not reflected.

Businesses are expected to transparently pass on benefits, supported by clear documentation detailing the pricing methodology. This initiative aims to enhance consumer protection and ensure compliance.

Increased employment generation : The auto industry supports over 3.5 crore direct and indirect jobs in manufacturing, sales, financing, and maintenance. Rising vehicle sales will create a multiplier effect, boosting MSMEs across the supply chain. Increased demand will lead to new hiring in dealerships, transport services, logistics, and component MSMEs.

Increased investments : Rationalised GST rates provide policy certainty, encouraging fresh investments and supporting Make in India initiatives. GST cuts will incentivise replacing old vehicles with new, fuel-efficient models, promoting cleaner mobility.

Treatment of accumulated cess credit : Although the industry continues to advocate for a refund of the compensation cess, the prevailing stance suggests that such refunds may not be permitted. As a result, many manufacturers have begun factoring the cess cost into their pricing, effectively passing it on to the end consumers.

Impact on state incentives (specifically SGST reimbursement) : which would require companies to revisit contractual terms and evaluate potential financial shortfalls in their incentive realisations which would involve renegotiation with state governments where the companies may need to renegotiate benefit quantification and disbursement timelines with respective state authorities to safeguard intended fiscal advantages.

Impact on production linked incentives : The reduced GST rates are likely to increase the consumer demand of the industry which will positively impact the production linked incentives for the industry.

Impact on capital expenditures : as Lower GST rates on construction materials such as cement and steel can marginally reduce overall project costs.

Customs duty and exemptions in the auto industry: A policy overview

In Union Budget 2025, the government announced measures to boost the EV sector by balancing supply and demand incentives. Customs duty exemptions on lithium-ion battery scrap and critical minerals like lead and copper aim to secure raw materials and generate employment. Additional exemptions on capital goods for battery manufacturing further support the ecosystem.

Duties were also reduced on motorcycles and CKD/SKD units of large passenger and commercial vehicles, improving affordability. These reforms align with the 'Atmanirbhar Bharat' vision and enhance India's competitiveness in the global automotive market.

Specific tariff duty changes are summaraised as below :

Reduction in tariff rate effective from 01 May 2025, while the effective rate remains unchanged as of 02 February 2025:

S.No.	Commodity	Effective rate (%) of Custom duty	
		From	To
1.	Motor cars and other motor vehicles principally designed for the transport of persons, including station wagons and racing cars, under tariff heading 8703 more than USD 40000	10 BCD + 10 SWS	70 BCD + 40 AIDC
2.	Used motor cars and other motor vehicles (excluding electrically operated vehicles) principally designed for the transport of persons, including station wagons and racing cars, under tariff heading 8703	125 BCD + 12.5 SWS	70 BCD + 67.5 AIDC
3.	Used motorcycles (including mopeds) and cycles fitted with an auxiliary motor, with or without side-cars under tariff heading 8711	100 BCD + 10 SWS	70 BCD + 40 AIDC
4.	Bicycles under tariff item 8712 00 10	35 BCD	20 BCD + 15 AIDC
5.	Other motor vehicles (for goods/passengers) covered under tariff heading 8704/8702 when not imported as CKD kits	40BCD	20 BCD + 20 AIDC

Reduction in effective rate (with effect from 2 February 2025)

S.No.	Commodity	Effective rate (%) of Custom duty	
		From	To
1.	Motor vehicles (for goods/passengers) covered under tariff heading 8704/8702, if imported, - as a CKD kit containing all the necessary components, parts or sub-assemblies, for assembling a complete vehicle with specified components:	100 BCD + 10 SWS	70 BCD + 40 AIDC
	a) not in a pre-assembled condition or nterconnected, as the case may be	15 BCD + 1.5 SWS	15 BCD
	b) in a pre-assembled condition or interconnected, as the case may be, but not mounted on a chassis or a body assembly	25 BCD + 2.5 SWS	20 BCD + 5 AIDC
2.	Motorcycles (including mopeds) and cycles fitted with an auxiliary motor (excluding electrically operated motor cycles and cycles), with or without side cars, and side cars, new, which have not been registered anywhere prior to importation and with engine capacity of not exceeding 1600 cc:–		
	1) as a CKD kit containing all the necessary components, parts or sub-assemblies, for assembling a complete vehicle, with:		
	a) engine, gearbox and transmission mechanism not in a pre-assembled condition	15 BCD + 1.5 SWS	10 BCD + 1 AIDC
	b) engine or gearbox or transmission mechanism in pre-assembled form, not mounted on a body assembly	25 BCD + 2.5 SWS	20 BCD + 2 AIDC
	2) in a form other than (A)(1) above	50 BCD + 5 SWS	40 BCD + 4 AIDC

Reduction in customs duty to reduce input costs, deepen value addition, promote export competitiveness, correct inverted duty structure, boost domestic manufacturing etc [with effect from 2 February 2025]

S.No.	Commodity	Effective rate (%) of Custom duty	
		From	To
1.	Waste and scrap of antimony, beryllium, bismuth, cobalt, cadmium, molybdenum, rhenium, tantalum, tin, tungsten, zirconium, copper scrap covered under tariff items 74040012, 74040019 and 74040022	10 / 5 / 2.5 BCD	Nil
	Waste and scrap of lithium-ion battery, cobalt powder, waste and scrap of lead, waste and scrap zinc	5 BCD	Nil
	Addition of 35 capital goods/machinery for use in the manufacture of lithium-ion battery of EVs and 28 capital goods/machinery for use in the manufacture of lithium-ion battery of mobile phones	7.5 to 15BCD	Nil

Strategic significance of the Indo-Japan Free Trade Agreement for the automotive sector

Launched in 2018, the India–Japan Digital Partnership (I-JDP) encourages innovation in automotive and mobility through collaboration in smart mobility, connected vehicles, and AI manufacturing. The India-Japan Start-up Hub, set up by JETRO in Bengaluru, enables Indian start-ups to access Japanese markets and investors, especially in EVs, mobility-as-as-service (MaaS), and automotive software, strengthening bilateral ties in digital and mobility sectors.

Further strengthening this ecosystem, Startup India and the Japan Innovation Network (JIN) signed an MoU to promote innovation aligned with Sustainable Development Goals (SDGs). This has opened new avenues for green mobility solutions, particularly in EV infrastructure, battery tech, and clean logistics.

In 2020, the Japanese government announced financial assistance to 10 Japanese companies launching new businesses in India in collaboration with Indian IT firms - many of which are focused on automotive digitalisation and smart factory solutions. These initiatives are helping Japanese OEMs and Tier-1 suppliers tap into India's deep tech talent pool for embedded systems, telematics, and autonomous driving technologies.

Supply Chain Resilience and localization

The Supply Chain Resilience Initiative (SCRI) - a trilateral effort between India, Japan, and Australia - was launched in 2020 to diversify and strengthen supply chains in the Indo-Pacific. For the auto sector, this initiative is particularly relevant as it promotes:

- Localisation of critical components
- Diversification of sourcing away from single-country dependencies
- Investment promotion and buyer-seller matchmaking events

These efforts align with India's push for Atmanirbhar Bharat and Japan's interest in de-risking supply chains, especially in semiconductors, EV batteries, and rare earths—key inputs for the next generation of mobility.

Skill development for automotive manufacturing

Under the Japan-India Institute for Manufacturing (JIM) and Japanese Endowed Courses (JEC), over 30,000 Indian engineers and floor shop leaders are being trained to Japanese manufacturing standards. These programmes are directly aligned with the needs of automotive OEMs and component manufacturers, ensuring a skilled workforce for high-precision, quality-driven production.

Additionally, the Technical Intern Training Program (TITP) and the Specified Skilled Worker (SSW) framework are facilitating the movement of Indian talent to Japan in

automotive-related job categories. This two-way skill exchange is enhancing mutual capabilities in advanced manufacturing, quality control, and lean production systems.

Key customs and trade policy schemes for market expansion in India

MOOWR - Manufacturing and Other Operations in Warehouse Regulations, 2019

The MOOWR Scheme, governed under Section 65 of the Customs Act, 1962, allows manufacturing or other operations within bonded warehouses without mmediate payment of import duty on capital goods and raw materials. Duty becomes payable only when the finished goods are cleared for home consumption, whereas exports remain duty-free.

Key benefits:

- Deferment of customs duty and IGST on imported goods, thereby enhancing liquidity and reducing working capital blockage
- Seamless import-to-export mechanism that enables duty-free procurement of global inputs
- Simplified compliance compared to erstwhile export-oriented units (EOUs) or SEZ setups

Business implications

The scheme provides a critical cost advantage for automotive and component manufacturers engaged in global supply chains, particularly those importing high-value machinery or specialised parts. However, entities must ensure precise inventory tracking and warehousing control to remain compliant with customs audit protocols.

Export Promotion Capital Goods Scheme (EPCG)

The EPCG Scheme allows import of capital goods at zero or concessional customs duty, subject to an obligation of exporting goods or services worth multiples of the duty saved within a specified period (generally six years).

Key benefits:

- Encourages modernisation by facilitating low-cost acquisition of machinery and technology.
- Directly supports export-oriented growth through enhanced production capacity and efficiency.
- Promotes competitiveness in high-value sectors such as automotive, pharmaceuticals, and electronics.

Business implications

While EPCG aids capacity expansion and export competitiveness, beneficiaries must adhere to export obligation fulfilment timelines and periodic compliance submissions under the DGFT. For automotive OEMs, this scheme aligns well with long-term investment cycles, though deviations in export performance can trigger duty recovery and interest liabilities

Advance Authorisation Scheme

The Advance Authorisation Scheme (AAS) enables duty-free import of inputs required for the manufacture of export products. Duty exemption applies to basic customs duty, IGST, and other levies, provided the exporter fulfils the stipulated export obligation within the prescribed period.

Key benefits:

- Removes customs duty burden on inputs, ensuring neutralisation of import-related costs in export pricing
- Supports integration with global production networks, especially for component manufacturers requiring precision imports
- Enhances liquidity by eliminating upfront tax outflows

Business implications

This scheme significantly reduces landed cost and improves margin realisation for exporters; however, it necessitates robust input–output mapping, meticulous record-keeping, and post export reconciliation to avoid duty demands. In complex supply chains such as automotive, ensuring product-wise correlation between imported inputs and export outputs becomes operationally demanding yet crucial for compliance.

Remission of Duties and Taxes on Exported Products (RoDTEP)

The RoDTEP Scheme, introduced in 2021 as a WTO-compliant successor to MEIS, aims to refund embedded central, state, and local levies that are not otherwise rebated under existing mechanisms. The rebate is provided in the form of transferable electronic scrips issued at notified rates, based on the FOB value of exports.

Key benefits:

- Ensures complete tax neutrality in exports by offsetting indirect taxes such as electricity duty, mandi tax, or fuel cess
- Enhances price competitiveness of Indian goods in global markets
- Offers transparency through a digitised and automated refund mechanism integrated with ICEGATE

Business implications

RoDTEP serves as a vital fiscal cushion for manufacturers facing wafer-thin margins, particularly in sectors like auto components where global pricing pressures are acute. However, continuous review of rebate rates and their periodic revisions require exporters to adjust costing models and contracts dynamically to preserve profitability.

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