



ESG in the automotive sector

India's automotive and original equipment manufacturer (OEM) industries account for nearly half (49%)¹ of the manufacturing gross domestic production (GDP). This has helped India to become a global leader in tractor and two- and three-wheel manufacturing. Additionally, these sectors generate 37 million² jobs. India is poised to move from the fourth-largest automotive market globally to the third-largest by 2030. Two-wheeler and passenger cars dominate this trend, and the market size is expected to double by the end of 2024 to INR 15 lakh crore.³ As a result, vehicle penetration is expected to increase from 33 vehicles per 1,000 people today to 72 vehicles per 1,000 people in 2025.⁴



1 <https://www.ibef.org/research/case-study/the-future-outlook-and-the-export-performance-of-the-indian-auto-industry>

2 <https://pib.gov.in/newsite/PrintRelease.aspx?relid=196019>

3 <https://yourstory.com/2023/04/indias-automotive-industry-growth-trends-global-prominence>

4 <https://www.investindia.gov.in/sector/automobile>

In recent times, Government schemes like the Product Linked Incentive scheme and FAME II are driving this growth and boosting our exports, while expanding our R&D spend, which is being supported by a gradual shift towards the electrification of vehicles. Against the backdrop of this growth, the automotive sector is at the cusp of change. This change will be driven by technology and a need to address climate change, and improve supply chain resilience through circularity and human rights advocacy.

Six sustainability trends witnessed across leading automotive and auto-OEMs sectors are highlighted below:

1. Developing a strategic approach to sustainability

The auto and OEM industries are recalibrating their strategic approach and setting their aspirations, which are ambitious and measurable. In alignment with this approach, well-designed roadmaps are being developed via active engagement with investors, customers, employees and regulators, enabling these players to have a pragmatic approach to sustainability.

2. Transitioning to net zero

To limit global warming to 1.5 degrees, 196 world leaders committed to legally binding net zero targets, with India committing to achieve this by 2070. Sector players have responded to this by adopting net zero targets by 2050 instead, which are aligned to their Science Based Targets initiative (SBTi) memberships. This will boost the demand for renewable energy, alternative fuels and energy-efficient equipment across manufacturing plants.



3. Ethical market claims

Carbon inventorisation has been steadily expanding to cover upstream and downstream activities – for instance, Scope 3 emissions, which account for over 80% of their emissions. Global regulations like the EU’s Carbon Border Adjustment Mechanism⁵ – a policy to reduce carbon emissions from imported goods and create a fair-trade environment – are pushing sector players towards ethical market claims.

Indian auto sector exporters are responding to this through lifecycle assessments (LCAs), which compute carbon efficiency – a holistic view of a vehicle’s carbon footprint. LCAs give organisations competitive leverage as suppliers. Therefore, India will increasingly see collaborations through new business and financial models to reduce their Scope 3 emissions in manufacturing in near future.

4. Resource efficiency

With natural raw materials depleting post industrialisation, keeping input costs low has become a priority for both traditional and new auto sector players. This is driving organisations to relook at their dependencies on virgin materials, which are recycled, bio-based and renewable. This also has an indirect impact on the products’ carbon efficiency.

Furthermore, the extended producer responsibility (EPR) regulations are taking hold in India to better manage plastic and tyre waste. Indian auto players face financial penalties if they do not track and increase recycled content in their input materials. With the waste management sector being unorganised, a rise in R&D to increase high-quality recycled inputs and new models of improving resource efficiency is on an upward trend in India.

5. Supply chain resilience

The COVID-19 pandemic highlighted the interdependency and fragility of supply chains in India. In 2021, chip shortages cost the auto sector USD 210 billion⁶ in revenue. The recovery from this setback has been slow, but the Government of India’s vision of promoting Atmanirbhar Bharat and Make in India, and enabling local sourcing is contributing to the same. Auto players in India have started exploring the risks beyond supply to cover climate and human rights risks across their value chain.

The German Supply Chain Due Diligence Act (2023) has had a direct impact on Indian OEMs with human rights transparency backed by audits becoming a contractual pre-requisite.

6. Levelling the playing field through disclosures

Investors, customers and regulators – both global and local – are increasingly driving organisations to publish their sustainability performance reports annually. The Securities and Exchange Board of India (SEBI)’s mandate on Business Responsibility and Sustainability Reporting (BRSR) beginning FY2022–23 has taken effect with the top 1,000 companies by market capital publishing their BRSR – including many Indian auto players.

Transparent, regular and publicly available disclosures have enabled investors and ESG rating agencies to evaluate the ESG performance of companies. Investors and analysts increasingly use these ESG ratings in their investment decisions as a means to de-risk their exposure. Auto sector players, on the other hand, have adopted reputed global sustainability indices – DJSI and MSCI CDP – and are being recognised as top performers in sustainability.

5 https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en

6 <https://www.statista.com/statistics/1280639/automotive-industry-revenue-and-production-loss-forecast/>

How PwC can help

Our passionate community of solvers – including experienced environmentalists, sociologists, economists, strategists and technologists – will combine real-world experience with a commitment to change, to help you turn ESG theory into action.

Our team at PwC combines automotive industry expertise with cross-industry expertise in sustainability. We offer a varied range of sustainability-related services and solutions, from strategy formulation to implementation and process transformation to overall impact measurement. In the sustainability space, we have particular expertise in the areas such as ESG reporting, strategy, and integrating ESG across organisational structure, processes, key performance indicators and functions. By providing insights into emerging technologies and trends, we help businesses to develop the tools and resources to implement these strategies effectively and efficiently. Our automotive ESG strategy and consulting services help businesses stay ahead of the curve and create a brighter future for generations to come.

About PwC's ESG practice

PwC's ESG platform enables clients to navigate the evolving ecosystem around ESG strategy, reporting, climate change, circular economy, technology, governance, social elements of ESG, sustainable supply chain, sustainable finance, capacity building and responsible investments. Our community of solvers provides sectoral insights and empowers businesses with holistic, integrated, fit-for-purpose, outcome-based ESG solutions to deliver sustained outcomes, build resilience, create long-term value and enhance the trust of stakeholders.



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