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India-EU FTA could reshape luxury carmakers' India strategy

Written by Dev Saini



Industry watchers expect market to double over the next few years with import duties set to be slashed to 10 percent

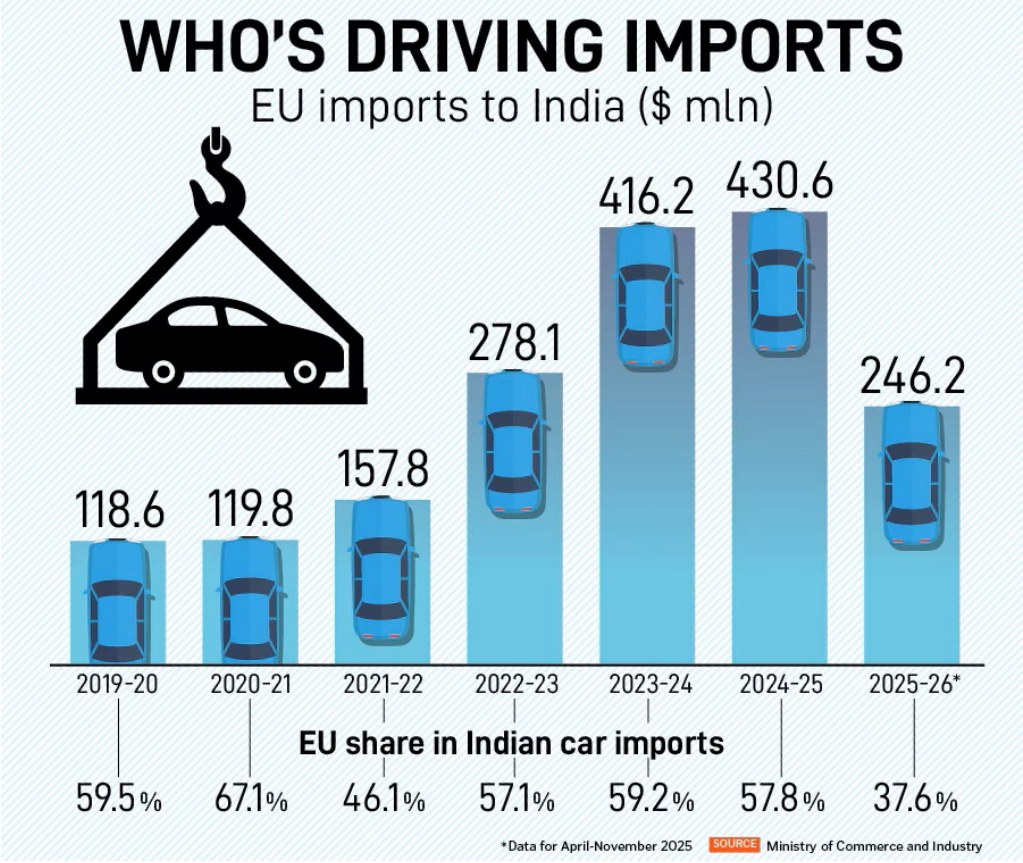
By Himani Kothari

The India-European Union (EU) free trade agreement (FTA) has trained the spotlight on the country's luxury car industry. While cars may not immediately get cheaper, the pact could reshape European automakers' India strategy. Reduced tariffs could encourage manufacturers to broaden their offerings by introducing internationally popular models in India to gauge demand before investing in deeper localisation. "With a quota of 250,000 cars annually, India's luxury car market has the headroom to double or treble in the next few years," says Puneet Gupta, director, S&P Global Mobility.

The trade deal is expected to lead to greater focus by European carmakers on India. "The FTA strengthens the business case for European OEMs to manufacture in India for domestic sales and global exports. It resets the playbook for suppliers, product planners, encourages technology sharing, and is likely to unlock higher European investments in India," says Gupta. India and Europe together make up for nearly a quarter of the global passenger vehicle demand.

The trade agreement will gradually reduce tariffs on cars from 110 percent to 10 percent, with a quota of 250,000 vehicles a year. Currently, imported cars priced under $40,000 are subject to a 70 percent basic customs duty, while those priced above this amount incur an effective levy of about 110 percent. India imported cars worth $246 million from the EU till November in FY26 compared to $430 million in FY25. EU had a 57.8 percent share in Indian car imports in FY25.

“The quota-based auto liberalisation package will not only allow EU automakers to introduce their models in India in higher price bands but also open the possibilities for Make in India and exports from India in future,” according to a government statement. EVs have been kept out of the deal for the first five years to protect the domestic industry which has lined up significant investments in clean technology and setting up charging infra.



BMW Group India, the country’s second-largest luxury carmaker, called the FTA “historic”, and something that reflects the growing strategic and economic relevance of India on the global stage. “The proposed phased reduction of tariffs on cars and auto components has the potential to positively impact consumer confidence, enable greater product choice, and foster technological innovation and sustainable growth within the Indian automotive sector, particularly in future mobility,” says Hardeep Singh Brar, president and CEO, BMW Group India.

Over 95 percent of BMW volumes come from locally manufactured models, with fully imported vehicles accounting for only about 5 percent of sales. “While we do not foresee any price changes in the near term, the FTA could create opportunities to introduce new and niche products and, if demand scales, support deeper localisation over time.”

The country’s top luxury carmaker Mercedes-Benz India—which sees about 5 percent of its sales coming from fully imported cars from Europe—says the FTA will have a positive cascading effect on customer sentiments for the luxury segment, with a boost in overall economic growth. “A gradual tariff reduction on vehicles and fully liberalised automotive parts are strategically important decisions in the FTA for the automotive industry,” says Santosh Iyer, MD & CEO, Mercedes-Benz India.

The FTA opens new avenues for customers, with improved vehicle allocations, better availability of top-end global models in the Indian market, faster access to latest technology and creating a stronger luxury car ecosystem, says Iyer. Mercedes-Benz India, in January, announced it would start making the ultra-luxury model Maybach in India and sell it for Rs 2.5 crore. The completely built-up (CBU) version of the car starts from Rs 3.2 crore.

Currently, locally manufactured cars attract basic customs duty of 16.5 percent. Tariffs on completely knocked-down (CKD) units are also likely being cut to 8.25 percent.

The agreement is unlikely to take effect before mid-2028, given the legal and political ratifications still required. Meanwhile, the rupee’s sharp depreciation—nearly 19 percent against the euro in 2025—has already eaten into whatever margin lower duties might eventually create.

Audi India strikes a similar note. Balbir Singh Dhillon, brand director at Audi India, welcomed the proposed pact as a way to deepen ties with one of the world’s largest trading blocs and to strengthen innovation and supply-chain efficiency. “That said, any implications for pricing and market can only be assessed once the final terms are available and carefully reviewed, including the timeframe of implementation. Until then, it would be premature to draw conclusions on specific commercial or product strategies,” he says.

Rating agency Crisil sees competitive intensity at the top end rising. "Greater pricing flexibility may support upper-end variants, faster refresh cycles and stronger feature offerings from European brands, lifting benchmarks on technology, safety and overall brand experience," says Poonam Upadhyay, Director, Crisil Ratings.

Luxury cars make up only about 1 percent of India’s passenger vehicle market. Any benefit from easier imports would accrue mainly to consumers at the top end, without disrupting mass-market manufacturers. Nearly 95 percent of FY25 volume was priced below Rs 20 lakh, according to Crisil, where purchase decisions are driven primarily by affordability and ownership costs.

“The FTA matters far more for the premium car market than for mass volumes,” says Vivek Sharma, automotive director at GlobalData Plc. The premium segment will see demand surging, supported by strong short-term demand drivers such as pent-up buying, a growing organised-sector professional base, preference for personal mobility, and diesel fleet replacement in metro cities, he adds.

European mass-premium players also see upside.

Piyush Arora, MD and CEO of Skoda Auto Volkswagen India, says: “Greater tariff certainty and a more predictable trade framework will allow us to evaluate the introduction of a wider range of European models for Indian customers. Over time, this can support deeper technology transfer, capability building, and long-term investment in the Indian automotive ecosystem. As more details emerge, we will be able to assess the medium- and long-term implications of this agreement.”

French automaker Renault is also sharpening its focus on India. It brought back the iconic Duster SUV on January 26. The carmaker, which is eyeing a market share of 3-5 percent in India by 2030, says the FTA signals the direction of closer economic and industrial collaboration between Europe and India. “For us, this is very positive news, as Renault Group has made long-term, high-value commitments to both regions. This agreement further reinforces our confidence and willingness to invest across both sides” says Stéphane Deblaise, CEO, Renault Group India.

Global automaker Stellantis India said it sees the trade deal as a “significant accelerator for our long-term commitment to ‘Make in India for the World’.”

“Reduced trade barriers will help enhance manufacturing competitiveness, expand export potential, and support the seamless integration of our India operations into global supply chains,” according to Shailesh Hazela, CEO and Managing Director, Stellantis India.

The carmaker, which has brands such as the Citroën Fiat, Jeep and others, said the FTA will lead to advanced technologies and the latest offerings from the Stellantis line-up coming to India.

For Indian exporters, the upside may come more from better profitability than from higher volumes, says S&P Global’s Gupta.