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India-UK FTA: Fillip to luxury car segment? Here is what experts think



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Article Content:

Luxury cars enter the Indian market in completely knocked down, semi-knocked down and completely built up forms.

For the luxury car segment in India, 2024 was a record year as the cumulative volumes crossed 50,000 units for the first time, with giants like Mercedes-Benz and BMW reporting their best-ever annual performance. The successful conclusion of the Free Trade Agreement (FTA) between India and the United Kingdom (UK) is expected to spur this space further by making the imported British-made models more affordable, according to sector experts.

Around 51,000 units of luxury cars were sold in India in 2024. Mercedes-Benz and BMW drove the demand by garnering their highest-ever annual sales of 19,565 units and 15,012 units, respectively, in the country.

Depending on the original equipment manufacturer (OEM), the luxury cars enter the Indian market in completely knocked down (CKD), semi knocked down (SKD) and completely built up (CBU) forms.

The Indian government levies Basic Customs Duty (BCD) on imported cars depending on their type, value and form (CKD, SKD and CBU).

| Type | Effective rate of Custom Duty |
|----------------------------------|--|
| CBU cars priced above USD 40,000 | 70% BCD + 40% Agriculture Infrastructure and Development Cess (AIDC) |
| CBU cars priced up to USD 40,000 | 70% BCD |
| SKD cars | 35% BCD |
| CKD cars | 15% BCD + 1.5% Social Welfare Surcharge (SWS) |

According to the India-UK FTA, duty on the UK-made cars imported to India will be reduced to 10% under a quota. However, finer details about the price range, timeline and quantum of cars entering India with reduced levies under the free trade deal are still awaited.

BNP Paribas India IT and Auto Analyst Kumar Rakesh said: "Most automotive manufacturing plants in the UK are of premium and luxury brands, such as Bentley, BMW, Rolls-Royce and Aston Martin. While, among them, Jaguar Land Rover could be a key beneficiary, we note that one of its key models, the Defender, is not manufactured in the UK. Also, Jaguar Land Rover already uses its India-based assembly plant for several models to enjoy the lower duty."

For reference, Aston Martin, Rolls-Royce, and Bentley cars are available in India in the CBU form, attracting maximum BCD. Aston Martin recently launched the Vanquish priced at Rs 8.85 crore (ex-showroom). Earlier this year, Rolls-Royce introduced the Ghost Series II at a starting price of Rs 8.95 crore (ex-showroom).

"Given that the majority of the beneficiaries are premium/luxury OEMs, we do not see any material impact on India-listed passenger vehicle (PV) OEMs. That said, we could see a slightly higher number of premium/luxury vehicles selling in India, which are currently minuscule," Rakesh noted.

As per BNP Paribas India, the total PV imports from the UK to India was only worth USD 2.75 million or 60 units in 2024.

Primus Partners Vice President Nikhil Dhaka said: "The India-UK FTA is an important step for the Indian auto ecosystem. For vehicles, it trims the duty on UK-made cars such as JaguarLandRover, Mini and AstonMartin from well over 100% to 10% under a tariff rate quota, widening choice for premium buyers and spurring domestic OEMs to raise their game."