

Auto Components Industry in India

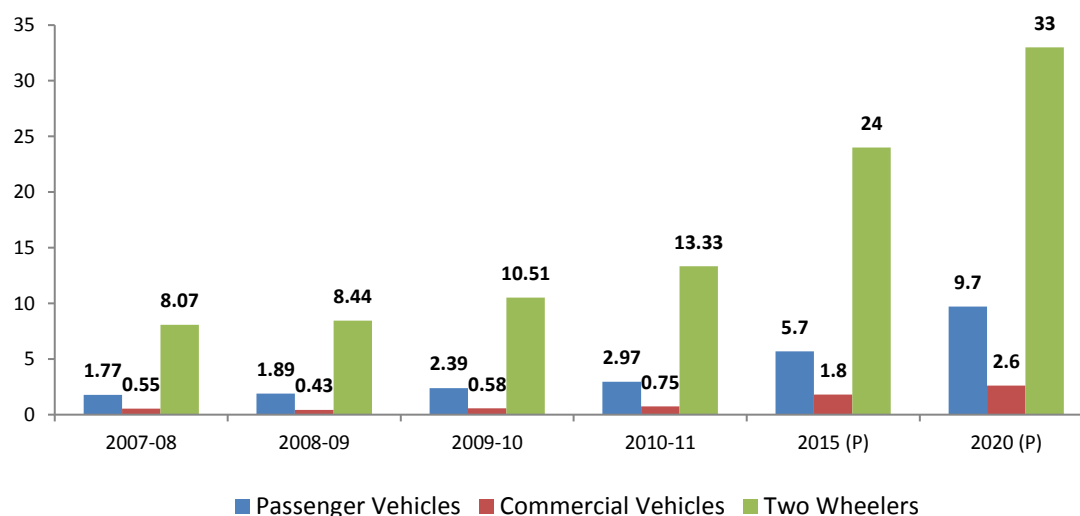
Overview of the Indian Automobile Industry

The Indian auto components industry has been growing in these last years primarily on account of the domestic automobile industry whose turnover was USD 73 billion in 2010-11, growing at over 15% CAGR during the last 5-7 years. Not just that, in the last ten years, the volumes, exports and turnover of the Indian automobiles industry have increased by 3.8, 19.6 and 6 times respectively. Also, the contribution of this sector to the National GDP has risen from 2.77% in 1992-93 to close to 6% at present.

India surpassed France, UK and Italy to become the 6th largest vehicle manufacturer globally in 2010-11. Today, it is the largest manufacturer of tractors, second largest manufacturer of two wheelers and fifth largest manufacturer of commercial vehicles and is emerging as a global automotive hub. At present, there are 19 manufacturers of passenger cars & multi utility vehicles, 14 manufacturers of commercial vehicles, 16 of 2/3 wheelers and 12 of tractors besides 5 manufacturers of engines in India. This includes virtually all the major global Original Equipment Manufacturers (OEMs) and also home grown companies.

The Indian automobile industry has a robust installed capacity of over 19 million units (4 million for four wheelers and 15 million for two/three wheelers) with an overall investment till date of USD 16 billion. The sales also are dominated by two wheelers which account for 75% of the total vehicles sold in the country. In the passenger car segment, India is mainly a small car market though mid size and big car sale is continuously rising in recent years.

Sales Volumes of Automobiles (Domestic + Export) – Nos. in millions



Source: Society of Indian Automobile Manufacturers (SIAM), ICRA Limited, Automotive Component Manufacturers Association (ACMA), India

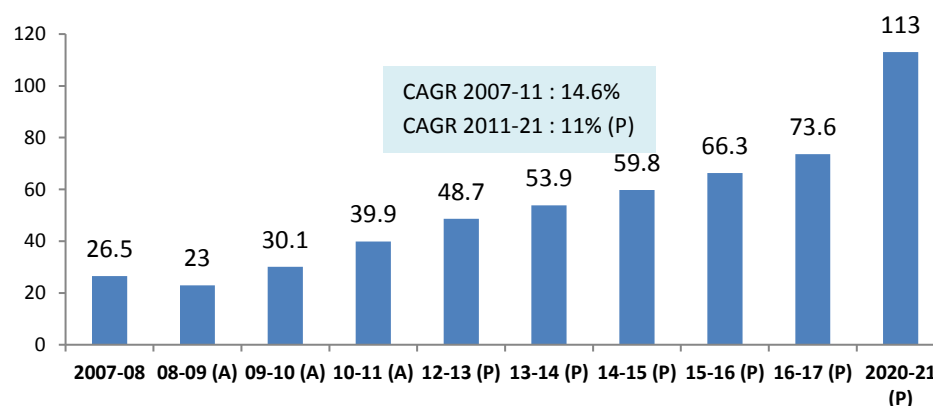
Although the Indian automobile sector is fairly resilient to the global financial crises and is touted as one of the sunrise sectors of the Indian economy, it is facing a current slowdown in demand (except in the two wheeler segment), and this is likely to impact growth of auto component industry which is expected to slow down to 6-7% in 2012-13 from about 15% in the period 2007-11.

That being said, the outlook for the Indian automobile industry is very positive for the coming years leading upto 2020. The passenger vehicles sales are projected to cross 5 million units by 2015 and over 9 million by 2020 driven by domestic demand and as a global hub for export of small cars. The commercial vehicles' sales volumes are projected at 1.8 million by 2015 and 2.6 million by 2020. Small Commercial Vehicles (SCV), a relatively new segment, is expected to grow 28% annually over the next few years. The sales volume of two wheelers will grow multiple folds driven by present low penetration levels, expanding rural sales and growth in exports. Besides, there are two segments which will also drive growth – (a) the Tractors segment whose sales are projected to be over 0.7 million by 2015 and over 1 million by 2020 with steady growth expected in domestic and export volumes; (b) the Construction equipment segment, whose sales are likely to grow 2.5 times to 0.1 million units by 2015 and almost double again to 0.18 million by 2020 driven by the expected growth in infrastructure sector.

The Indian Auto Components Industry

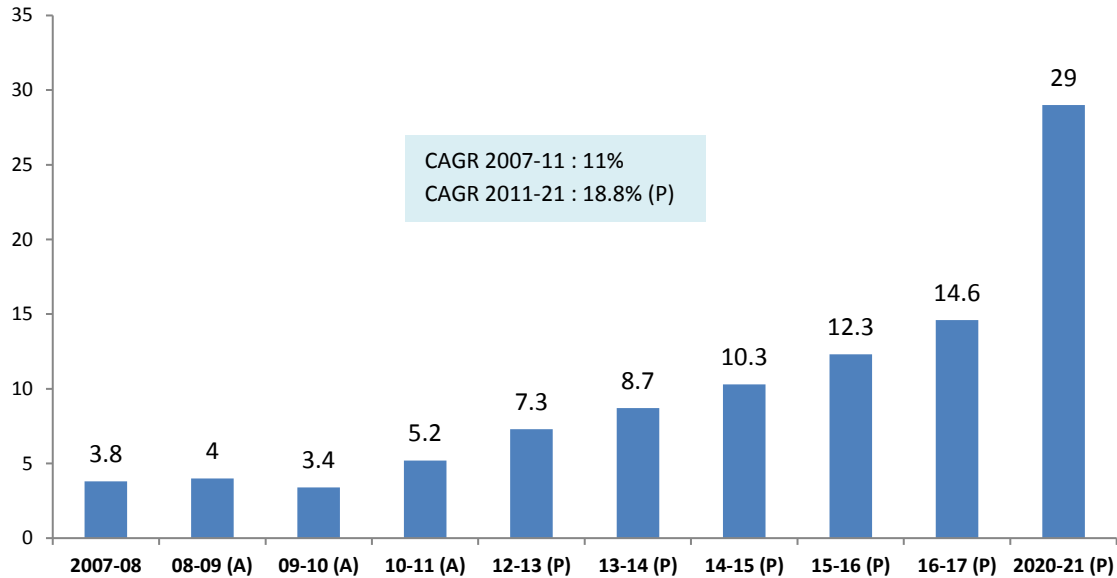
The turnover of the Indian auto component industry, in 2010-11 was USD 40 billion, and is projected to grow to over USD 110 billion by the year 2020. Of the total current industry turnover, 61% is derived from sales to domestic OEMs, around 26% comes from sales to the domestic Replacement Market and around 13% is derived from Exports. By 2020, the export potential could reach USD 29 billion up from the current USD 5.2 billion. The auto component industry can thus be an engine of India's economic and manufacturing sector growth, potentially contributing 3.6% of GDP by 2020, up from the current level of 2.1%. To achieve this potential, the industry would require additional skilled manpower of over 1 million people and investments of over USD 35 billion during this period.

Indian Auto Component Industry Turnover (USD billion)



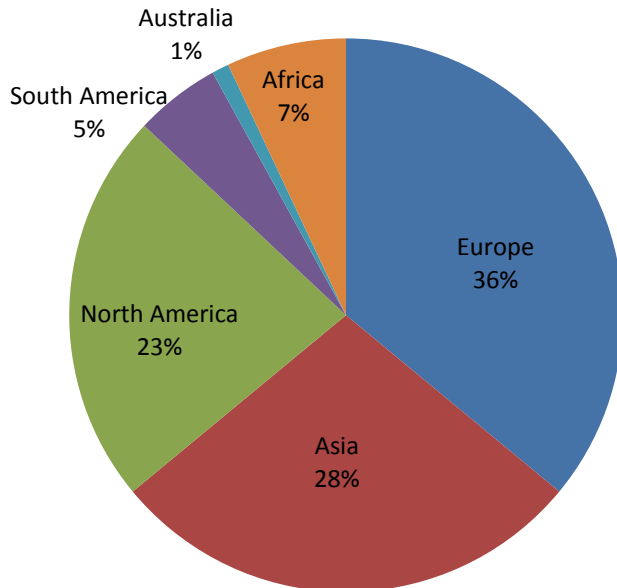
Source: ACMA, Report on Working Group, Department of Heavy Industries, Government of India

Indian Auto Component Industry Exports (USD billion)



Source: ACMA, Report on Working Group, DoHI, GoI

Indian Auto Components Industry – Export Destinations



Europe accounted for 36% of auto component exports from India, followed by Asia and North America at 28% and 23% respectively.

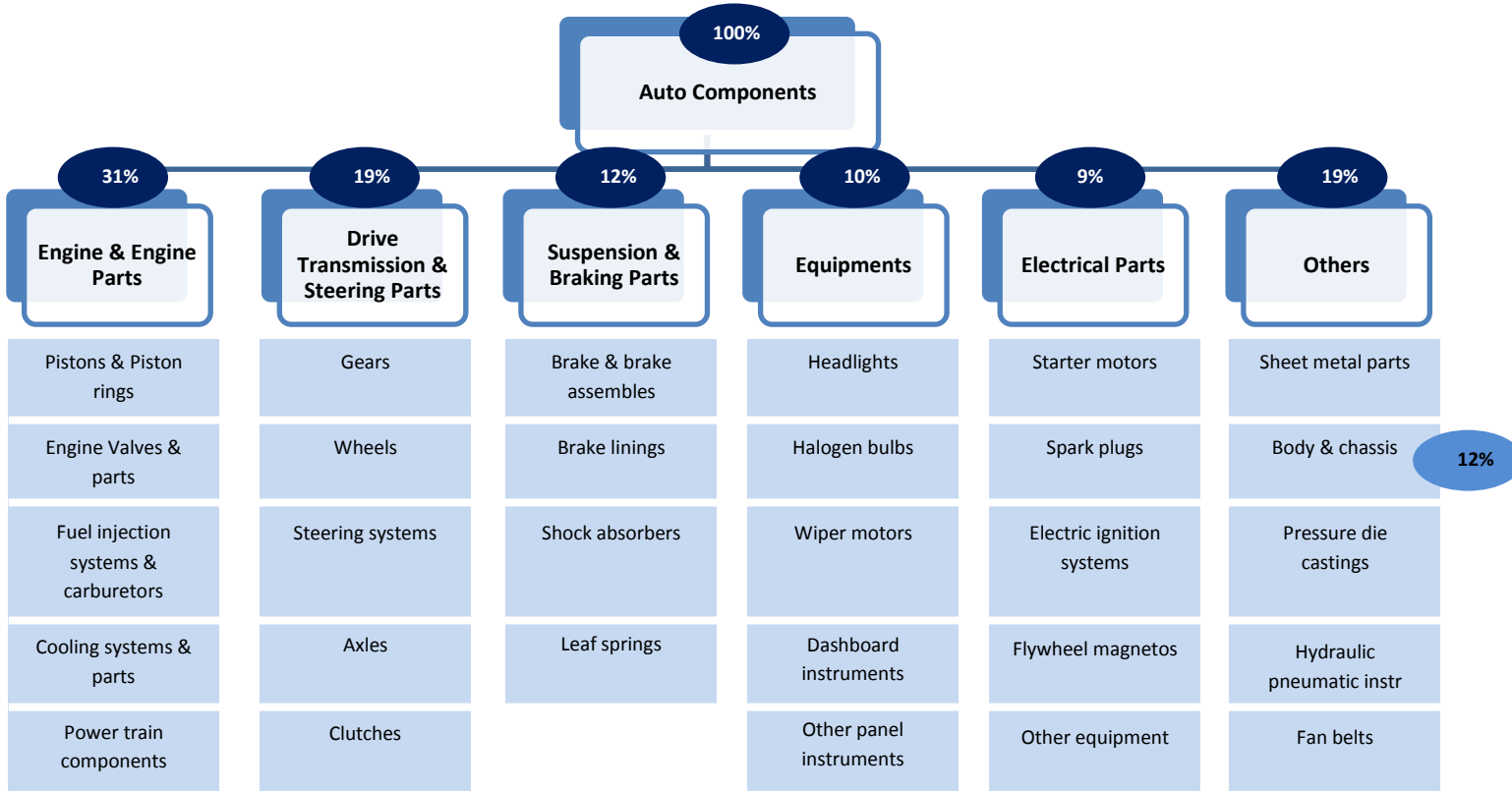
Although the proportion of exports to Europe declined from 40% last year, however, in absolute terms the exports to Europe grew by 46%. Exports to North America and Asia grew by 65% and 48% respectively.

OEM/Tier 1 account for 80%; Aftermarket account for 20%

Source: ACM

Indian Auto Components Industry – Product Segments

The auto components market in India is split into six product segments.



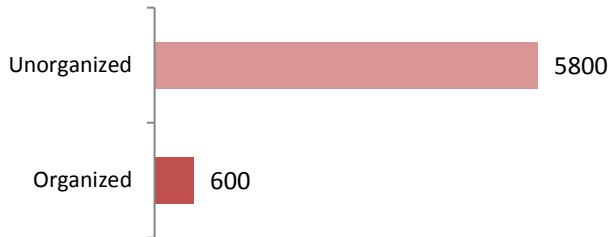
Source: ACMA, IBEF

The engine parts contribute the largest share of the total auto component industry turnover in India, followed by transmission & steering parts and the suspension & braking parts.

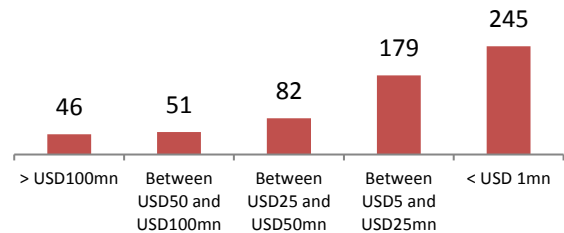
Indian Auto Components Industry – Organized vs. Unorganized players

In the financial year 2010, the organized players in the Indian auto components market comprised just about 9.3% of the total number of players. However, just 30% of the organized players, which is about 3% of the total number of players in the industry, contributed revenues of over USD 25 billion (i.e. over 83% of total industry turnover) of that year.

Number of players: Organized vs. Unorganized (2010)



Number of players by revenue in the organized sector (FY 2010)

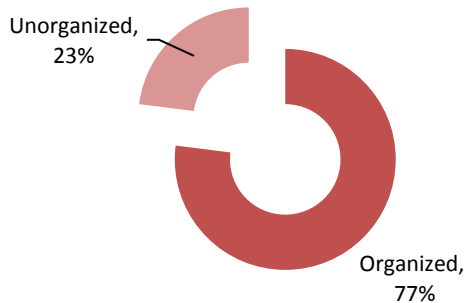


Source: IBEF, Aranca Research

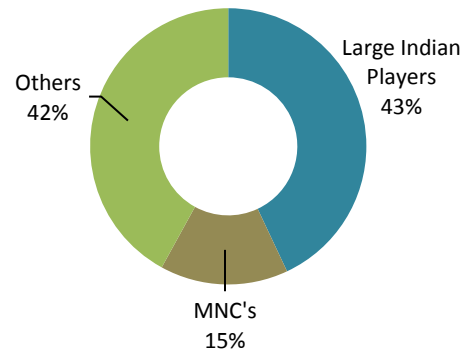
Indian Auto Components Industry – Production Breakup

Although the organized sector players are less in number as compared to the unorganized players, they account for 77% of the total production of the Indian auto component industry. Within the organized market, the large Indian players account for the highest share with 43%, whereas the MNC players contribute 15% of the organized market’s production.

Production breakup: Organized vs. Unorganized (FY 2010)



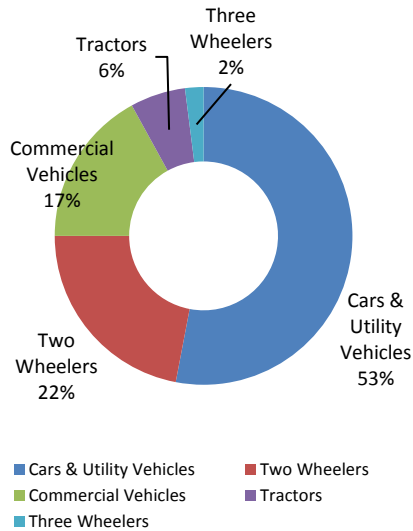
Production breakup in the Organized sector (FY 2010)



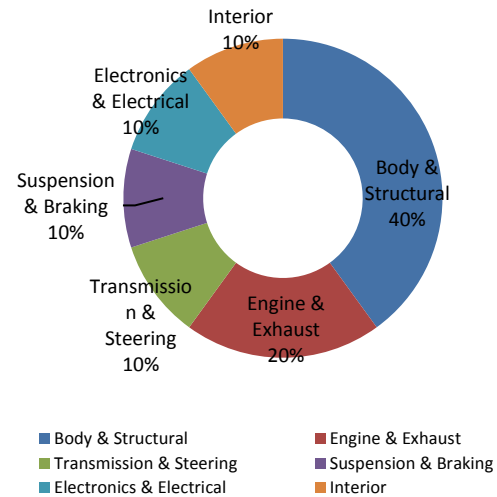
Source: IBEF, Aranca Research

By vehicle segment, the production mix of the Indian auto component industry is skewed heavily towards the cars & utility vehicles segment which is the main customer, demanding 53% of the total production volumes, followed by the two-wheelers segment which accounts for 22% of the total auto component production volumes. By product type, the body and structural components account for 40% of the entire product range followed by engine & exhaust components which account for 20% of the production volumes. According to market range, OEM is by far the largest market in terms of production volumes with 69% share followed by replacement and exports contributing 20% and 11% respectively.

Production Volumes by Vehicle Segment (FY 2010)



Production Volumes by Product Range (FY 2010)



Source: IBEF, Aranca Research

Indian auto components industry – Key Highlights and Notable Trends

(a) India emerging as a preferred sourcing & manufacturing hub

India has witnessed lot of interest from major global OEM’s who plan to make India a component sourcing hub for their global operations. Also, several global tier-1 suppliers have announced plans to increase procurement from their Indian subsidiaries. Global auto component players are increasingly adopting a dual-shore manufacturing model, using overseas facilities to manufacture few types of components and Indian facilities to manufacture the others. India is also emerging as a sourcing hub for engine components, with OEM’s increasingly setting up engine manufacturing units in the country. Among the examples quoted above are recognizable names such as BMW, GM, Ford, Fiat, Volkswagen, Renault, Nissan, Toyota, Bosch, Delphi, Citroen, Valeo, Arvin Meritor and many others.

Moreover, exports of auto components from India are being driven due to the competitive advantages India has over its global peers such as Korea, China, Czech Republic, Russia, among others. One is that India is a cost-effective manufacturing base where manufacturers save 10-25 per cent relative to operations in Europe and Latin America. Another reason is that India is relatively closer to key automotive markets like the Middle East and Europe.

(b) Established automobile testing and R&D centres

There has been a significant technological shift in the Indian operations of global companies, as they have increased investments in R&D operations and laboratories, which are being set up to conduct activities such as analysis and simulation, and engineering animations. Some design & research centres in India include AVL, Bosch, Caterpillar, Cummins, Hyundai, Ford, GM, Honda, Intel, Magna, Delphi, Mercedes Benz, Valeo and Suzuki. Also, the growth of global OEM sourcing from India and the increased

indigenization of global OEMs is turning the country into a preferred designing and manufacturing base. Indigenization levels for high volume cars are at 80-90%. Also, Indian manufacturers are embracing best shop floor practices such as 5-S, 7-W, Kaizen, TQM, TPM, 6 Sigma and Lean Manufacturing.

(c) Indian players adopting inorganic growth strategy

The large domestic players in the auto components space are accessing the inorganic route to expand their businesses. They are acquiring global companies to gain access to the latest technology, expand client base and diversify revenue streams. Players such as Amtek Auto and Bharat Forge have adopted a dual-shore manufacturing model.

(d) Favorable and supportive policy environment encouraging growth

As per the Auto Policy 2002, 100 per cent foreign (direct) equity investment in auto component manufacturing facilities is allowed through the automatic route. Moreover, manufacturing and imports in this sector are exempt from licensing and approvals. The Dept. of Heavy Industries & Public Enterprises has created a USD 200 million fund to modernise the auto components industry by providing an interest subsidy on loans and investment in new plants and equipment. It is also providing export benefits to intermediate suppliers of auto components against the Duty Free Replenishment Certificate (DFRC). Most importantly, as per the Automotive Mission Plan (2006-16), the Government of India is setting up a technology modernisation fund focusing on small and medium enterprises. Also automotive training institutes and auto design centres, special auto parks and auto component virtual SEZs, shall be established under the AMP. Also, as per the Union Budget of 2011-12, the following incentives have been granted to the Indian auto component manufacturers:

- Reduced duty on CNG/LPG kits for fossil fuelled vehicles from 10 per cent to 5 per cent
- Excise duty on LED lights cut to 5 per cent from 10 per cent; exempt from special CVD
- Fuel-cell technology vehicles to receive 10 per cent excise duty concession

(e) Auto Components Industry Capex Plans

Inspired by the high growth in automobile sales over the past few years and expectations of healthy growth in the coming years have prompted some ancillary companies to announce expansion plans. According to data collected and published by the Centre for Monitoring Indian Economy (CMIE), 75 projects worth nearly USD 2 billion are scheduled for completion during 2011-14. Capacity expansion projects worth over USD 250 million are under way in the mega industrial estate of Maharashtra Industrial Development Corp in the Pune region. Over and above these projects, nearly 60 French automobile component makers are exploring possibilities of setting up a vendor park at Sanand, near Ahmedabad. Also, Ford, PSA Peugeot Citroen, and Maruti Suzuki recently announced plans to set up plants in Gujarat.

Indian auto components industry – Major Players and Opportunities

Industry Segment	Major Players	Opportunities Outlook
Engine & Engine Parts	<ul style="list-style-type: none"> ❖ Pistons – Goetze, Shriram Pistons & Rings, India Pistons ❖ Engine Valves – Rane Engine Valves and Shriram Pistons & Rings ❖ Carburetors – Ucal Fuel Systems and Spaco Carburetors & Escorts Auto Components ❖ Diesel-based fuel-injection systems – Mico, Delphi, TVS Diesel System and Tata Cummins 	<ul style="list-style-type: none"> • New technological changes in this segment include introduction of turbochargers and common rail systems • The trend of outsourcing may gain traction in this segment in the short to medium term
Transmission & Steering Parts	<ul style="list-style-type: none"> ❖ Steering Systems – Sona Koyo Steering Systems, Rane Madras and Rane TRW Systems ❖ Gears – Bharat Gears, Gajra Bevel Gears, Eicher, Graziano Trasmissioni and SIAP Gears India ❖ Clutch – Clutch Auto, Ceekay Daikin, Amalgamations Repco, Luk Clutches ❖ Driveshafts – GKN Driveshafts, Delphi and Sona Koyo Steering Systems 	<ul style="list-style-type: none"> • Share of the replacement market in sub-segments such as clutches is likely to grow due to rising traffic density • The entry of global players is expected to intensify competition in sub-segments such as gears and clutches
Suspension & Braking Parts	<ul style="list-style-type: none"> ❖ Brake Systems – Brakes India, Kalyani Brakes and Automotive Axles ❖ Brake Lining – Rane Brake Lining, Sundaram Brake Lining, Hindustan Composites and Allied Nippon ❖ Leaf Springs – Jamna Auto and Jai Parabolic ❖ Shock Absorbers – Gabriel India, Delphi and Munjal Showa 	<ul style="list-style-type: none"> • The segment is estimated to witness high replacement demand, with players maintaining a diversified customer base in the replacement and OEM segments besides the export market • The entry of global players is likely to intensify competition in sub-segments such as shock absorbers
Equipment	<ul style="list-style-type: none"> ❖ Headlights – Lumax, Autolite and Phoenix Lamps ❖ Dashboard – Premiere Instruments & Controls ❖ Sheet metal parts – Jay Bharat Maruti, Omax Auto and JBM Tools 	Companies operating in the replacement market are likely to focus on establishing a distribution network, brand image, product portfolio and pricing policy
Electrical	<ul style="list-style-type: none"> ❖ Lucas TVS, Denso, Delco Remy Electricals and Nippon Electricals are key players in this segment 	Manufacturers are expected to benefit from the growing demand for electric start mechanisms in the two-wheeler segment
Others	N.A.	Leading players in the sheet metal parts sub-segment are in the process of expanding their customer base. This sub-segment is expected to grow 10–11 per cent YoY upto 2015

Source: IBEF

Indian auto components industry – Key Challenges India has to address

It is widely acknowledged by all stakeholders of the Indian auto components industry that the Automotive Mission Plan (AMP) has immensely contributed to the growth of the sector in recent years and has been a guiding spirit behind the interventions on the part of all concerned. Many of the recommendations of the AMP have since been implemented during 2006-2010 leading to a healthy growth of the industry and a robust external environment which has provided a vital support system for the industry.

However, to be able to achieve the targets of the AMP, there are specific areas of concern that need to be addressed.

1. Infrastructure deficit – Infrastructure to be upgraded to remove bottlenecks in Road, Port, Power etc
2. Scaling Up the Business and Capacities – includes addressing critical factors and issues such as access to capital at feasible costs, and better access to technology
3. Looming Trade Deficit – India is being hampered by increased competition from other low cost countries specially China. Also, Free Trade Agreements (FTAs), with countries in the ASEAN region and others, poses a threat as they will make imports more competitive.
4. Talent crunch – Inadequate availability of skilled labour and workforce. There is an urgent need for more vocational educational institutes, as well as upgrading the current engineering education infrastructure to have more workforce in auto design and engineering.

Please contact:

Phone: +91 11 24622216, 24622218 & 24619751

E-mail: info@iloconsulting.in

Website: www.iloconsulting.in