

The Indian automotive components industry – forecasts to 2014

2007 edition



Just-auto

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August 2007

Published by

Aroq Limited

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Registered in England no: 4307068

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Chapter 1 Background and brief history of the Indian automotive sector

Planned economy leads to a stagnant sector

The development of India's automotive industry runs in parallel to the growth of the nation itself. Before World War II, some low-key assembly operations had been set up by foreign vehiclemakers, but after independence in August 1947, the first Indian vehiclemakers, Premier Automobiles Ltd (PAL) and Hindustan Motors (HM), set up factories with a view to full assembly of cars.

In 1948, the Indian government classified the automotive sector as an industry of importance which would be controlled and regulated by the Government. This resulted in severe restrictions on imports of completely-built-up (CBU) vehicles, a policy which remains largely in force today.

In 1952, the Government appointed the First Tariff Commission to look into ways of establishing an indigenous automobile industry. A year later, acting on the recommendations drawn up by the Commission, the Government terminated the activities of assemblers that had no full-scale manufacturing programme. At the same time it was decided that the number of makes and models selected for production would be kept to a realistic minimum so as to offer economies of scale for each type.

As a result, by 1954, most foreign assemblers such as General Motors and Ford decided to pull out of the Indian market rather than upgrade their facilities into manufacturing plants. Indeed, 1954 is seen as a turning point in the history of the Indian auto industry. The Government's planned approach sealed the industry from new entrants, even if the company proposed a full manufacturing programme. From 1957 only a limited number of products were allowed to be manufactured.

Chapter 2 Component supply structure and characteristics

Current industry size and value

The overall market size of the Indian auto components industry was estimated by ACMA at US\$xxxbn (2006 figure). Industry production in value terms increased at a compounded annual growth rate of xxx% between 1998 and 2005. This is an impressive growth rate, but the sector is still relatively small by global standards: total global annual turnover of the auto components sector is estimated by ACMA to be US\$xxxtn, leaving India's global share at a mere xxx%. However, this position is likely to strengthen in the coming years as emerging markets such as India become established global source points for components.

Components sector extremely fragmented

The components industry can be broadly classified into two segments. The 'organised' sector, comprising about xxx medium and large companies, accounts for xx-xx% of total parts production. The 'unorganised' sector consists of about xxxxx small-scale units, and accounts for xx-xx% of the total production. These companies tend to make spare parts for service and repair, on a localised basis.

This is a large number of companies for a relatively small industry in terms of overall volume. By comparison, in 1999 the entire turnover of the Indian components sector was comparable to the turnover of a single major components supplier, such as Valeo or Magneti Marelli. Overall, the industry employed xxx,xxx people, averaging a mere xx employees per company. The average among the original equipment suppliers is around xxx employees.

The high level of fragmentation in the automotive components sector is the result of a number of factors which include low labour costs, high aftermarket demand, the dispersed nature of India's vehicle production industry, the vehicle manufacturers' previously protective attitude towards their captive suppliers and, most of all, Government policy, including the system of tariffs and local content legislation.

Chapter 3 Indian-owned components companies

According to a 2006 Dun & Bradstreet report, *India's top xxx companies, 2006*, there were xx Indian-owned automotive component companies within the Top xxx companies in India. This does not include the major components divisions of Indian automotive manufacturers, notably Tata and Mahindra & Mahindra.

Table 4: Leading Indian components companies, 2006 (INRm)

Company	Turnover (INRm)	Net profit (INRm)	Net worth (INRm)
Amtek Auto	xxxxxxx	xxxxx	xxxxxxx
Amtek India	xxxxxxx	xxxxx	xxxxxxx
Automotive Axles	xxxxxxx	xxxxx	xxxx
Bharat Forge	xxxxxxxx	xxxxxxxx	xxxxxxxx
Bosch Chassis Systems India	xxxxxxx	xxxxx	xxxxx
Denso India	xxxxxxx	xxxxx	xxxxxxxx
Gabriel India	xxxxxxx	xxxxx	xxxxx
Goetze (India)	xxxxxxx	xxxxx	xxxxxxxx
L.G. Balakrishna & Bros	xxxxxxx	xxxxx	xxxxx
Lumax Industries	xxxxxxx	xxxx	xxxxx
Motherson Sumi Systems	xxxxxxx	xxxxx	1,640.6
Motor Industries Company	24,711.7	3,747.7	12,537.9
Munjjal Showa	5,273.4	78.3	1,160.1
Omax Autos	5,111.2	202.6	986.5
Pricol	4,528.4	422.1	1,229.4
Rico Auto Industries	6,036.7	352.3	967.7

Chapter 4 Sourcing

Manufacturer sourcing strategies

There is plenty of scope for growth within the Indian auto industry as a source point for global auto manufacturers. At present, India accounts for only 0.7% of the US\$1.2tn global components industry – well behind other emerging markets competitors such as China (1.2%) and Mexico (5.9%).

However, by 2015, outsourcing of auto components to low-cost countries is expected to be worth around US\$700bn a year, according to a 2005 report by ASSOCHAM, and manufacturers realise that India can play a key role in this. As a result, vehicle makers are significantly upgrading their purchasing organisations in India as they move from sourcing local parts purely for local assembly toward sourcing parts from India for supply to plants worldwide.

More than 20 international vehicle makers have set up international purchase offices (IPOs) in India. This number is expected to double by the year 2010 as manufacturers feel increasingly confident about sourcing more complex parts and systems from emerging markets. India is making gains not only from lower costs, but from its growing full-service supply capability.

Until recently, most of the purchases made locally have been more basic mechanical parts from industry sectors where India enjoys specific expertise. For example, India enjoys a cost advantage with regard to castings and forgings. Manufacturing costs in India for forged components are 25-30% lower than its western counterparts.

Local analysts and manufacturing executives say that India has a quality advantage over China. “*The Chinese are known to manufacture very cheap cars, but the problem is that safety and emission norms are something they don’t meet,*” said Kapil Singh, an analyst with Brics Securities, a brokerage in Mumbai.

Current sourcing policies

Most of the major global automakers already source components in India – even those that are not present as manufacturers. The country’s auto

Chapter 5 Recent activity by major global Tier 1 suppliers in India

Bosch

German supplier giant Bosch sees India as a major growth area, and in 2006 ploughed a further US\$225m into a number of plants in the country.

This includes a US\$50m investment in its Bangalore plant and around US\$150m in Nashik, in addition to investments in Bosch's other units, said M K Vishwanathan, the joint managing director of Bosch's Indian subsidiary, Motor Industries Company Ltd (MICO), in which Bosch holds a 60.55% stake. MICO made a profit of US\$85m in 2005.

Bosch is planning to invest a further US\$225m in its Indian subsidiaries over the next two years (2007 to 2008). The bulk of the investment will be in MICO, which received a similar investment in 2005-2006 to develop diesel technology and common-rail systems at its four facilities – Bangalore, Nashik, Naganathapura and Jaipur. The second tranche of investment will be to ramp up capacities at Jaipur and Nashik and for setting up new facilities.

Bosch has three other subsidiaries in India: Robert Bosch India Ltd (RBIL), Robert Bosch Chassis System (formerly Kalyani Brakes) and plant automation subsidiary Bosch Rexroth. RBIL, based in Bangalore, is the biggest Bosch R&D centre outside Germany, employing nearly 3,000 people. RBIL is setting up another centre at Coimbatore.

In 2005 Bosch bought out the shares of its partner, Kalyani Group, in its braking systems JV, Kalyani Brakes Ltd. Bosch now holds 80% of the company and has renamed it Bosch Chassis Systems India Ltd. The renamed company employs about 1,800 and generated sales of US\$89m in fiscal year 2004-2005. It manufactures conventional braking systems and components for passenger cars, tractors, three-wheelers and two-wheelers at its plants in Jalgaon, Chakan and Manesar, and ABS systems would be the obvious next step for the company.

Chapter 6 Conclusions

It has taken a long time for India's components industry to reach a point where it is being taken seriously. Years of negative, restricted economic planning meant there was a lot of ground to make up once the Indian auto industry was deregulated in the 1990s.

Since then, a massive influx of overseas technology and know-how has provided the impetus for massive improvements in quality and productivity, to a point where many global companies now view India more favourably than China as a source point for components.

There are a number of reasons for this: not least the issue of language. All educated Indians speak fluent English, making communications easier. Secondly, there is a good further education system in the country, leading to high availability of well-trained engineers.

Thirdly, there is a strong manufacturing and engineering tradition in the country, which means that it is not difficult to upgrade local companies in terms of equipment, training and quality of output. Companies tend to be entrepreneurial and willing to learn. Finally, there is a very strong high-tech sector, making it attractive to outsource software development and R&D functions.

Certainly, it seems that global Tier 1s are increasingly confident about India's ability to build more complex parts, and are relocating more complicated systems work to India rather than just building basic parts there.

On the downside, domestic infrastructure is poor in terms of logistics, although the Indian government is addressing this issue, building new road and rail infrastructure to link major cities and ports. This must be counterbalanced by India's excellent strategic location between Europe and Asia, allowing it almost equidistant access to both major markets.

The country's growth targets in terms of overall industry size and export value seem achievable, and the coming years are likely to see increased traffic between India and the rest of the world, in terms of inward investment into