

Auto Components

MARKET & OPPORTUNITIES



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Current Status of the Indian Automotive Industry

OVERALL MARKET SIZE AND GROWTH

The Indian automotive industry has the potential to emerge as one of the largest in the world. The country already ranks number two globally in the two-wheeler segment, and is next only to China. It ranks 11th in car production and 13th in commercial vehicle production globally. With growing industrial production and increasing spending power of the Indian middle class households, the country is expected to make it to the top five markets in cars and commercial vehicles by 2020.

In the year 2006-07 sales of the Indian automotive industry crossed the 10 million units mark. Sales (domestic as well as exports) of the industry have grown from 5.51 million units in 2001-02 to 11.12 million units in 2006-07, at an impressive Compound Annual Growth Rate (CAGR) of 15.5 per cent. This, extraordinary growth has been driven by a buoyant economy, increasing purchasing power of the Indian middle class, new product launches and attractive finance schemes from automobile manufacturers and financial institutions. Of the total sales, roughly 10 per cent is contributed by exports to various countries.

In terms of volume, the two-wheeler segment with its sales of 8.48 million units in 2006-07 has the highest share of more than 76 per cent in the industry, followed by passenger vehicles, three wheelers and commercial vehicles. The maximum growth however has come in the commercial vehicles segment, which grew at a CAGR of 26.6 per cent in the last five years to reach a sales figure of roughly 518,000 units in 2006-07. The next highest growth was witnessed in the three-wheeler segment, which grew to roughly 548,000 units.

Segment-wise Sales, Share and Growth in the Automotive Industry

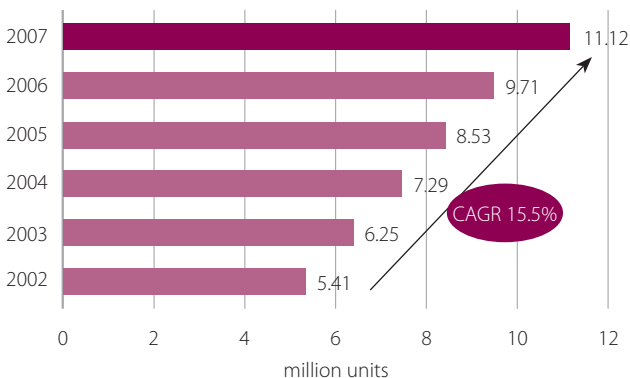
Category	Sales in 2006-07	Share in Total Sales	CAGR (FY 02-07)
Two wheelers	8,476,686	76.2%	14.5%
Passenger cars	1,578,176	14.2%	16.7%
Three wheelers	547,805	4.9%	20.5%
Commercial vehicles	517,648	4.7%	26.7%

Source: Society of Indian Automobile Manufacturers (SIAM)

The Indian automotive industry is highly competitive, with a number of global and Indian companies present in the market

Along with the OEMs, the global Tier 1 auto component manufacturers have also entered the Indian market. The foreign companies are present in India either through joint ventures with local partner and technology tie-ups or as subsidiary companies of their parent companies.

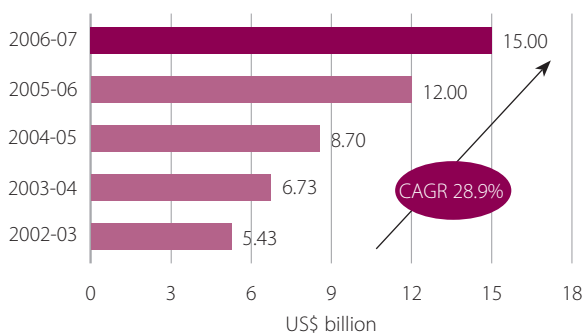
Automotive Sales (Domestic and Exports)



OVERVIEW OF INDIAN AUTO COMPONENT INDUSTRY

The Indian automotive industry has witnessed a strong growth and riding high on this growth, the Indian auto component industry has reached a turnover size of US\$ 15 billion in 2006–07. The auto parts industry has emerged as one of India’s fastest growing manufacturing sectors, growing at a compound annual growth rate (CAGR) of 28.9 per cent in value terms between 2002-03 and 2006-07. The industry has adopted a three pronged strategy of product portfolio enhancement, market expansion and efficiency improvement to achieve this status. Enhanced capacities and higher capacity utilisation have contributed significantly to this growth.

Turnover of the Indian Auto Component Industry



In volume terms, nearly 34 per cent of the market is contributed by auto components for two/three wheelers. Passenger cars contributed nearly 33 per cent of the total component market, driven by the buoyant car market in India. Commercial vehicle (CV) components currently account for around 24 per cent of the market, emerging as the most lucrative segment. CV sales have recorded the highest growth in the Indian automobile market. CV sales grew at a CAGR of 26 per cent between 2001-02. During 2006-07 CV sales led at a CAGR 26 per cent and the CV sales grew at a CAGR of 26 per cent between 2001-02 and 2006-07 and the CV components industry has registered the same growth rate. The CAGR achieved by components for two wheelers and cars were 14 per cent and 15.6 per cent respectively during the same period.

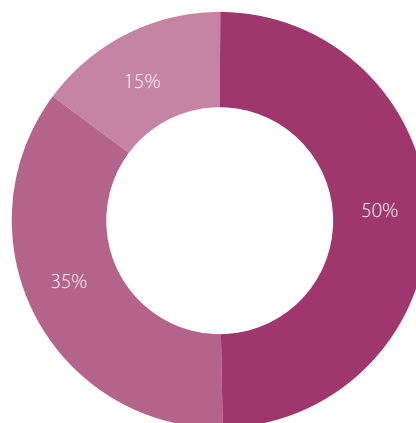
The autocomponent industry in India is highly fragmented and has around 500 organised players and more than 600 unorganised players. It is estimated that, the organised players account for around 77 per cent of the production. Geographically most of the players in the Indian auto component manufacturers have their operations in the three

major auto hubs namely, Chennai (Tamil Nadu), Pune-Mumbai (Maharashtra) and the National Capital Region (NCR).

The industry also has deep forward and backward linkages, with almost every other engineering related manufacturing sector of the economy. It supports industries like automobiles, machine tools, steel, aluminium, rubber, plastics, electrical, electronics, forgings and machining. The industry is characterised by the presence of companies that are technically capable in areas of manufacturing, design, testings and product development. The competition offered by the presence of the global automotive players in India and the acquisitions made overseas by Indian companies has helped Indian firms to hone their skills, to a higher extent

Market Structure of Indian Component Industry

Components Market Profile



■ OE Components ■ Replacement Market ■ Exports

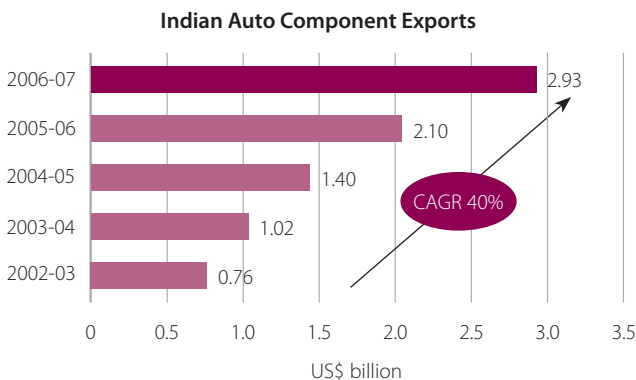
Components Type-wise Market	
Engine Parts	31%
Drive Transmission and Steering	19%
Body/Chassis	12%
Suspension and Braking	12%
Equipment	10%
Electrical	9%
Others	7%

Supply to the OEMs constitutes the major share of the Indian auto component market, at 50 per cent of the total market, followed by the replacement market. Exports account for roughly 15 per cent of total sales. In terms of the component type, engine parts lead the sales, followed by drive transmission and steering components.

AUTO COMPONENT EXPORTS AND GROWTH

Intensifying competition and reduced profit margins in the developed countries have forced the automakers across the globe to look to low cost destinations, for out sourcing components for their vehicles. India has become a major beneficiary of this phenomenon, with enough scope for growth in this sector.

The exports of auto components industry reached around US\$ 2.9 billion in 2006-07 and at a CAGR of 40 per cent between 2002-03 and 2006-07. The Indian auto component industry is suitably positioned globally to capitalise on the growth in the phenomena of outsourcing, to low cost countries. Two major factors are likely to make this global focus gain further momentum. One of these is the increased focus on supplying quality components to OEMs/Tier-1 companies and the other is the increasing market presence in the high value-high margin US and European markets.



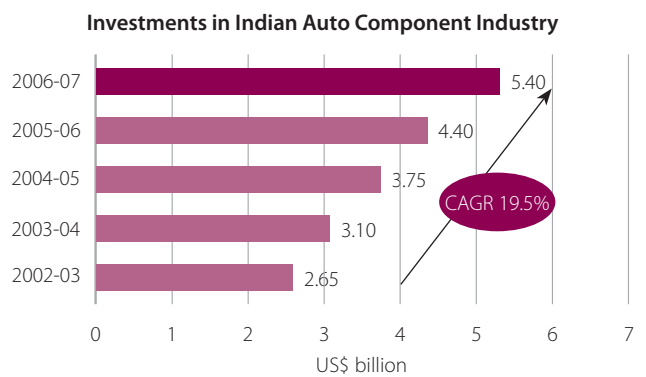
Historically, Indian component exports were focused on the aftermarket in the destination countries. In the 1990s, exports to the aftermarket accounted for around 65 per cent of the total exports from India, while the exports to OEMs and Tier-1 players accounted for only 35 per cent of the total exports. Today, 75 per cent of the exports are made to OEMs and Tier-1 players. This is a positive development and indicates the increasing capability of Indian manufacturers to meet stringent quality and technical standards, set by the global OEMs and Tier-1 companies.

Another phenomenon of the Indian component export growth is the shift in the target geographical markets. Exports to the developed US and European markets has increased considerably over the years. In 2006-07, exports to US and Europe accounted for 62 per cent of total exports. On the other hand, share of exports to Asian markets have

reduced to 16 per cent in 2006-07 as compared to 26 per cent in 2003-04.

INVESTMENTS IN INDIAN AUTO COMPONENT INDUSTRY

The growth in the auto component industry over the last few years has been fuelled to a large extent by the investments, that have flown into this sector. The auto components industry has attracted investments, to the tune of US\$ 5.4 billion, in 2006-07 alone. The bulk of these investments have been made by Indian companies, which have expanded their manufacturing capacities. India expects to attract US\$ 5 billion in foreign direct investment (FDI), over the next five years in the sector.



Trends in Auto Components Industry in India

The prospects for Indian auto component players having global aspirations are bright. Increased awareness regarding quality and adherence to higher technical standards, on the part of Indian manufacturers, global acquisitions made by Indian auto component companies, improving product development capabilities and productivity and efficiency improvements are factors that will assist India in garnering a greater share of the global auto component market.

INCREASING AWARENESS ABOUT QUALITY AND ADHERENCE TO TECHNICAL STANDARDS

Driven by needs of export markets and the increasing quality focus of Indian OEMs, quality awareness of Indian auto component companies has increased over the last decade. Quality awareness has increased across all levels of management and is being viewed as a “must have,” instead of “nice to have” factor. This is reflected in the drastic reduction in the number of problems of vehicles, over the last decade. The number of problems per 100 vehicles has been reduced to 208 in 2006 from 572 in 1997. Indian firms are becoming increasingly aware of the quality standards

Indian Auto Component Industry Credentials

Certification	Number of Companies
Japan Quality Medal Winner	1
JIPM Awards	4
DEMING Prize	9 (7 since 2003)
OHSAS 18001	47
ISO 14001	154
QS 9000	81
TS 16949	342
ISO 9000	524

and many companies have obtained certifications. Nine Indian auto component manufacturers have got the prestigious DEMING prize for quality.

IMPROVING PRODUCT DEVELOPMENT CAPABILITIES

Indian auto component manufacturers have been increasingly building their product development capabilities and are today capable of producing high quality designs, at low cost. Most players are investing increasingly in R&D operations and have set up laboratories, which can carry out activities like analysis and simulation, engineering animations, modelling and drafting and tooling design among others. Opportunities to hone these skills have been growing with more and more global OEMs sourcing from India and increasing levels of indigenisation of global OEMs which have made India a manufacturing base.

LOW COST OF PRODUCTION IN INDIA

The low cost factor in India can be attributed mainly to the strong intellectual pool available in the country at low cost. It is estimated that around 0.4 million engineering graduates pass out of Indian universities every year. The cost of an entry level engineer in India is around US\$ 8,000 per annum, amongst the lowest in the world, given the quality. With respect to the quality of designs, some firms working with the Indian engineers and sourcing designs from India have experienced 89-92 per cent ‘first time right’ designs, which is the highest in the world.

With the increasing levels of globalisation, more and more Indian companies are expected to move up the value chain, to get into activities related to research

and development, from the design and development capabilities, that the industry has currently.

STRIDES IN PRODUCTIVITY AND EFFICIENCY IMPROVEMENT

Besides investing in expanding capacities, Indian auto component companies have also focused on improving

Increase in ROCE Levels of Auto Component Manufacturers

Component Manufacturer	ROCE in 2002	ROCE in 2007
Sundaram Clayton	17.73%	29.06%
Amtek India	14.11%	17.96%
Clutch Auto	14.17%	20.64%
Minda Industries	17.50%	19.10%
Setco Automotives	18.07%	35.83%
Wheels India	10.88%	15.77%
Sona Koyo	08.17%	25.03%
ZF Steering	25.94%	38.96%
Denso India	14.52%	28.28%
Exide Industries	13.69%	30.45%
Lumax Industries	06.56%	22.57%
Subros	10.90%	19.73%

productivity. The increase in the levels of return on capital employed (ROCE) across companies has been a major trend observed over the years. This is a result of productivity management, quality improvement and cost reduction.

Along with growing ROCE levels, capacity utilisation in the industry is also improving.

GLOBAL EXPANSION OF INDIAN AUTO COMPONENT COMPANIES

Growth of the Indian auto component industry has not only been limited to India but are also venturing abroad. Indian companies are establishing or acquiring manufacturing units abroad and are thereby getting access to new set of skills, technology and customers.

Indian Acquisitions Abroad

Indian Company	Acquired	Country	Acquisition Value
Tata Technologies	Incat International	UK	US\$ 95.00 million
Bharat Forge	Imatra Kilsta AB	Sweden	US\$ 56.00 million
Amtek Auto	GWK	UK	US\$ 37.00 million
Amtek Auto	Zelter	Germany	US\$ 36.00 million
Bharat Forge	Carl Dan Peddinghaus	Germany	US\$ 35.00 million
EL Forge	Shakespeare Forgings	UK	US\$ 28.00 million
Ucal Fuel Systems	Amtec Precision	USA	US\$ 28.00 million
Bharat Forge	Federal Forge	USA	US\$ 9.10 million
Bharat Forge	CDP Aluminiumtechnik	Germany	US\$ 7.50 million
Sona Koyo Steering	21% of Fuji Autotech	France	US\$ 6.15 million
Tata Auto Comp Systems (TACO)	Wundsche Weidinger	Germany	US\$ 5.00 million
Sundram Fasteners	Cramlington Forge	UK	US\$ 2.60 million

Source: Industry news

Global OEMs Sourcing from India

Several leading global OEMs are sourcing auto components from India.

Global OEMs Sourcing from India (Illustrative, not Exhaustive)

Manufacturer	Component	Value	Comments
Volvo	Machine and painted castings, forgings, gearbox and engine components & others	US\$ 90 million	India is the single sourcing unit FM12 (8 X 4) model sold in South Korea.
Fiat	Engines, gearboxes, others	US\$ 4 million	To source components for the Grande Punto as well as Linea Models. To invest US\$ 1 billion.
Ford Motors	Castings and forgings, crankshafts, exhaust manifold, leaf springs, horns, dashboard, door trims	US\$ 150 million	Expects the volume to grow to US\$ 400 - US\$700 million.
Renault-Nissan	Has firmed up plans to source components and aggregates	US\$ 125 million in next 2 years	First phase to source low end tech for low end models. High-end in second phase.
DaimlerChrysler	Auto components and IT services	US\$ 125 million	Growing at 20% CAGR
Toyota	R-type manual transmission – gear boxes – global supply, propeller shafts etc	140,000 gear boxes	Expected to go up by 5 - 10 per cent.

GLOBAL AUTO COMPONENT COMPANIES SOURCING FROM INDIA

Global Tier-1s Sourcing from India (Illustrative, not Exhaustive)

Manufacturer	Component	Value	Comments
Delphi	Catalytic convertors, steering systems, piston rods, drive shafts etc.	US\$ 250 million (2007 Plan)	Planning further investments in the software wing
Visteon	AC systems, alternators, panel instrument assembly	US\$ 56 million in 2002	NA
Bosch	FIPs, Common Rail Systems	US\$100 million	Planning for further investments of US\$430 million
Cummins	Engines and components	US\$ 150 million	Plans to increase it to US\$ 500 million by 2010
Tenneco Automotive	Forgings	US\$ 60 million	NA
Deutz	Engine components	US\$ 70 million	Plans to procure US\$ 1,000 million worth of components from Low Cost Countries including India

Most of the leading global auto component companies have also formed a sourcing base in India, to leverage India's high skill, competitive cost advantage and improve their competitiveness in the global markets.

GROWTH POTENTIAL OF INDIAN AUTO COMPONENT INDUSTRY

Growth Drivers for the Indian Automotive Industry

There are several factors that are expected to drive the growth in the automotive industry. These are as follows:

Increasing demand for vehicles: This has been a result of, the growth in income levels and easy availability of financing options. Greater consumer awareness and closer linkages with the global auto trends, for example, shorter life cycles of vehicles due to faster replacement have led companies to introduce contemporary products in the Indian market. The CAGR at 14.1 per cent achieved by the domestic automotive industry between 2001-02 and 2006-07, makes India one of the fastest growing markets in the world.

Stable economic policies adopted by successive governments: The Indian Government has ensured continuity in reforms and policies in the country, which has contributed to the overall economic growth including the growth of the automotive sector. In addition, the government has taken specific policy initiatives such as lower excise duties on smaller cars, etc, to boost local demand. Implementation of VAT, has positioned India as one of the leading low cost manufacturing sources. India is expected to emerge as the manufacturing hub for small cars. It has already been recognised, as a low cost source for components, and vehicles are expected to gain next, from the trend in outsourcing to low cost countries.

Availability of low cost skilled manpower: The cost of quality manpower in India, is one of the lowest in the world. In terms of availability, India produces 400,000 engineering graduates each year and it is estimated that roughly 7 million skilled workers do enter the workforce each year

High quality standards: The 'Made in India' brand, is rapidly getting associated with quality. Already, nine Indian component manufacturers have won the Deming Prize, for quality and most of the leading component manufacturers are QS and ISO certified.

Proximity to key markets: Proximity to other growing Asian economies and emerging markets, gives India a strong advantage, over other competing nations. Also, freight cost of shipments from India to Europe is cheaper, as compared to freight costs from other competing countries like Thailand.

GROWTH FORECASTS AS PER AUTOMOTIVE MISSION PLAN 2006-2016

The size of the Indian automotive industry is expected to grow, at a rate of 13 per cent per annum over the next decade, to reach around US\$ 120-159 billion by 2016. In volume terms, the market is expected to reach 31.96 million units by 2015. The total investments required to support this growth are estimated at around US\$ 35-40 billion. Two

wheelers are expected to lead the growth, with estimated sales of 27.8 million units by 2016. Sales of passenger vehicles are expected to grow, from the current 1.58 million vehicles to 2.65 vehicles by 2015.

The total exports expected from the automotive sector will be around US\$ 30-35 billion, of which component exports will account for US\$ 20-25 billion and vehicle exports for the rest. The total employment generated in the auto sector will be around 25 million, by 2016 (including indirect employment).

According to industry estimates, by 2015, the Indian auto component industry is expected to reach the size of US\$ 33-40 billion. Exports are expected to lead the growth, mainly driven by India's emergence as the low cost-high quality, auto component sourcing destination. Exports are expected to contribute US\$ 20 – 25 billion to this industry size.

Exchange Rate Used

Year	Exchange Rate (INR/US\$)
2000	46.6
2001	48.3
2002	48.04
2003	45.6
2004	43.7
2005	45.2
2006	45
2007	42

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