

A BRIEF REPORT AUTO AND AUTO ANCILARIES IN INDIA

March, 2012

1. OVERVIEW OF AUTO INDUSTRY

1.1 Current Status

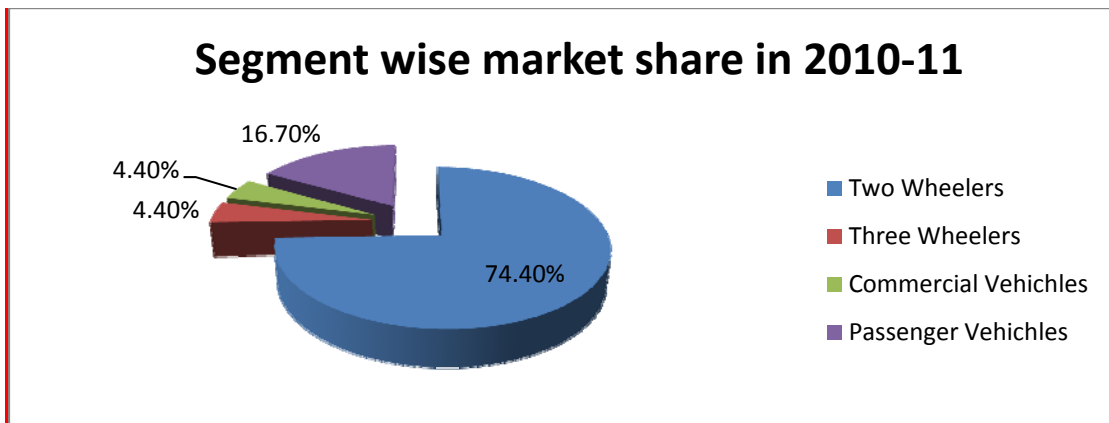
One of the major industrial sectors in India is the automobile sector. Subsequent to the liberalization, the automobile sector has been aptly described as the sunrise sector of the Indian economy as this sector has witnessed tremendous growth.

Automobile Industry was delicensed in July 1991 with the announcement of the New Industrial Policy. The passenger car industry was, however, delicensed in 1993. No industrial licence is required for setting up of any unit for manufacture of automobiles except in some special cases. The norms for Foreign Investment and import of technology have also been progressively liberalized over the years for manufacture of vehicles including passenger cars in order to make this sector globally competitive.

At present 100% Foreign Direct Investment (FDI) is permissible under automatic route in this sector including passenger car segment. The import of technology/technological upgradation on the royalty payment of 5% without any duration limit and lump sum payment of USD 2 million is also allowed under automatic route in this sector. With the gradual liberalization of the automobile sector since 1991, the number of manufacturing facilities in India has grown progressively.

The cumulative production of automobile for April-December 2011 registered a growth of 14.94 per cent over same period in 2010. Production in December 2011 increased by 10.91 per cent year-on-year.

Automotive Industry comprises of automobile and auto component sectors and is one of the key drivers of the national economy as it provides large-scale employment, having a strong multiplier effect. Being one of the largest industries in India, this industry has been witnessing impressive growth during the last two decades. It has been able to restructure itself, absorb newer technology, align itself to the global developments and realize its potential. This has significantly increased automotive industry's contribution to overall industrial growth in the country.



The turnover of the auto component industry stood at Rs. 1821.27 billion (USD 39.9 billion) for the period April 2010 to March 2011, registering a growth of 34 per cent (in rupee terms) over the previous year.

1.2 Growth Drivers of Indian Automobile Market

- Rising industrial and agricultural output
- Rising per capita income
- Favourable demographic distribution with rising working population and middle class Urbanisation
- Increasing disposable incomes in rural agri-sector
- Availability of a variety of vehicle models meeting diverse needs and preferences
- Greater affordability of vehicles
- Easy finance schemes
- Favourable government policies
- Robust production

1.3 India's Position in World's Production

- Well-developed, globally competitive auto ancillary industry
- Established automobile testing and R&D centres
- Among one of the lowest cost producers of steel in the world
- World's second largest manufacturer of two wheelers
- Fifth largest manufacturer of commercial vehicles
- Manufactures largest number of tractors in the world
- Ninth largest car manufacturer in world

India's growing Automobile Production

Automobile Production Trends							(Number of Vehicles)
Category	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Passenger Vehicles	1,209,876	1,309,300	1,545,223	1,777,583	1,838,593	2,357,411	2,987,296
Commercial Vehicles	353,703	391,083	519,982	549,006	416,870	567,556	752,735
Three Wheelers	374,445	434,423	556,126	500,660	497,020	619,194	799,553
Two Wheelers	6,529,829	7,608,697	8,466,666	8,026,681	8,419,792	10,512,903	13,376,451
Grand Total	8,467,853	9,743,503	11,087,997	10,853,930	11,172,275	14,057,064	17,916,035

Source: Society of Indian Automobile Manufacturers

1.4 Domestic Sales

- Passenger car sales increased by 4.24 per cent to 1.946 million units (from 1.867 million units in 2010), two-wheeler sales by 16.22 per cent to 13 million units and three-wheeler sales by 4.74 per cent to 525,000 units
- For 2011-12, passenger cars sales are expected to grow at 0-2 per cent, two-wheelers at 13-15 per cent and commercial vehicles at 18-20 per cent.
- Overall automobile exports registered a growth rate of 28.97 per cent during April-December 2011. Passenger Vehicles registered grew 18.14 per cent in this period while two-wheelers, commercial vehicles and three wheelers segments recorded growth of 29.75 per cent, 24.66 per cent and 42.63 per cent respectively

Automobile Domestic Sales Trends							(Number of Vehicles)
Category	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Passenger Vehicles	1,061,572	1,143,076	1,379,979	1,549,882	1,552,703	1,951,333	2,520,421
Commercial Vehicles	318,430	351,041	467,765	490,494	384,194	532,721	676,408
Three Wheelers	307,862	359,920	403,910	364,781	349,727	440,392	526,022
Two Wheelers	6,209,765	7,052,391	7,872,334	7,249,278	7,437,619	9,370,951	11,790,305
Grand Total	7,897,629	8,906,428	10,123,988	9,654,435	9,724,243	12,295,397	15,513,156

Source: Society of Indian Automobile Manufacturers

1.5 Exports

In 2010 (April-August), overall automobile exports registered a growth rate of 48.42 percent. Passenger vehicles, two wheelers, commercial vehicles and three wheelers segments grew by 5.07 percent, 56.71 percent, 91.51 percent and 114.86 percent respectively in 2010 (April-August) over 2009 (April-August).

Automobile Export Trends							(Number of Vehicles)
Category	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Passenger Vehicles	166,402	175,572	198,452	218,401	335,729	446,145	453,479
Commercial Vehicles	29,940	40,600	49,537	58,994	42,625	45,009	76,297
Three Wheelers	66,795	76,881	143,896	141,225	148,066	173,214	269,967
Two Wheelers	366,407	513,169	619,644	819,713	1,004,174	1,140,058	1,539,590
Grand Total	629,544	806,222	1,011,529	1,238,333	1,530,594	1,804,426	2,339,333

Source: Society of Indian Automobile Manufacturers

1.6 Major Automotive Players in India

Companies	Segments
Ashok Leyland	LCVs, M&HCVs, buses
Asian Motor Works	M & HCVs
Bajaj Auto	Two and three wheelers
BMW India	Cars and MUVs
Daimler Chrysler India	Cars
Eicher Motors	LCVs, M & HCVs
Fiat India	Cars
Force Motors	MUVs and LCVs
Ford India	Cars and MUVs
General Motors India	Cars & MUVs
Hero Honda Motors	Two wheelers
Hindustan Motors	Cars, MUVs and LCVs
Honda	Two wheelers, cars and MUVs
Hyundai Motors	Cars and MUVs
Kinetic Motor	Two wheelers
Mahindra & Mahindra	Three wheelers, cars, MUVs, LCVs
Maruti Suzuki	Cars, MUVs, MPVs
Piaggio	Three wheelers, LCVs
Royal Enfield Motors	Two wheelers
Skoda Auto India	Cars
Suzuki Motorcycles	Two wheelers
Swaraj Mazda Ltd	LCVs, M & HCVs, buses
Tata Motors Cars	MUVs, LCVs, M&HCVs, buses
Toyota Kirloskar	Cars, MUVs
TVS Motor Co	Two wheelers
Volvo India	M & HCVs, buses
Volkswagen India	Cars
Yamaha Motor India	Two wheelers

1.7 Profile Of Major Players In India

1.7.1 *Tata Motors*

Instigated in the year 1945, Tata Motors has a wide network of retailers and suppliers across India. It was in 1954 that the company launched its first vehicle. Today more than 3 million Tata cars and heavy vehicles glide through Indian roads. The company gained the prestige of being the first from engineering industry of India to be listed under the New York Stock Exchange in September 2004.

Besides being second biggest in the passenger car division, Tata Motors is also ranked as fifth highest in the category of medium and heavy commercial vehicles at international level.

With the help of its associates, Tata Motors offer high end manufacturing and automotive solutions to its customers. Its foremost indigenously made car was Tata Indica, followed by a mini-truck Tata Ace in 2005. In the year 2009, the firm marked its name in the pages of automotive history by introducing the world's fuel efficient and cheapest car - Tata Nano.

1.7.2 *Mahindra and Mahindra*

Mahindra and Mahindra is the flagship company of Mahindra Group. It was set up in 1945 to make general purpose utility vehicles for the Indian market and soon it started manufacturing agricultural tractors and light commercial vehicles (LCV).

The company has recently started a separate sector, Mahindra systems and automotive Technologies (MSAT) in order to focus on developing components as well as offering engineering services. Mahindra and Mahindra have two main operating divisions. One is the Automotive Division for the manufacturing of utility vehicles, LCV and three wheelers.

1.7.3 *General Motors*

In 1928 General Motors began with assemblage of Chevrolets, trucks, buses and batteries. Although it closed operations in 1954, it has been in Indian market as a part of tie-ups with Hindustan Motors to produce Bedford trucks, Vauxhall cars, Allison transmission and off-highway equipments. In 1994, General Motors India was incorporated as a 50-50 joint venture with C.K. Birla Group of Companies. In 1999 it became a fully owned subsidiary of General Motors when General Motors Overseas Corporation bought the remaining shares.

The existing General Motors plant was originally built by Hindustan Motors. In 1994 General Motors modernized it. The plant is located at Halol, near Vadodara, Gujarat.

1.7.4 *Ford India*

Ford has been in India since 1907 when it launched Model A here. In 1926, Ford India was established, but the operations were discontinued in 1954. Again in 1995, Ford Motor Company received government approval to establish Mahindra Ford India, Limited (MIFL).

It was a 50:50 joint venture with Mahindra and Mahindra Limited (M & M). In November 1998 Ford received approval to increase its take in the joint venture to 92.18%. The Company was re-christened as Ford India Limited.

It has set up a modern, integrated manufacturing facility in Maraimalai Nagar near Chennai.

1.7.5 *Bajaj Auto Ltd*

Bajaj Auto Ltd. is the largest exporter of two and three wheelers . With Kawasaki Heavy Industries of Japan, Bajaj manufactures state-of-the-art range of two-wheelers. The brand, Pulsar is continually dominating the Indian motorcycle market in the premium segment. Its Discover DTSi is also a successful bike on Indian roads.

Since 1986, there is a technical tie-up of Bajaj Auto Ltd. with Kawasaki Heavy Industries of Japan to manufacture state-of-art range of latest two-wheelers in India. The JV has already given the Indian market the KB series, 4S and 4S Champion, Boxer, the Caliber series, and Wind125.

1.7.6 Maruti Udyog

In February 1981 Maruti Udyog Limited (MUL) was incorporated under the provisions of the Indian Companies Act, 1956. It was established to meet the growing demand of a personal mode of transport caused by the lack of an efficient public transport system. A license and Joint Venture Agreement was signed between Government of India and Suzuki Motor Company (now Suzuki Motor Corporation of Japan) in October 1982. It manufactured India's first affordable cars. In the past twenty years it has diversified into various type of passenger cars catering to the need of different section of the population.

The manufacturing Unit of is located at Palam Gurgaon Road, Gurgaon, Haryana.

1.7.7 Hero Honda Motors

Hero Honda Motors, an India based Two-wheeler Company. It is regarded as the Worlds Largest Manufacturer of Two-wheelers.

It manufactures geared and gear-less two-wheelers. It caters low powered bikes to high power bikes to its wide pool of 15 million customers world wide. Products like Hero Honda Splendour, Hero Honda Passion, CD Dawn, Hero Honda CBZ and Hero Honda Karizma are extremely popular among masses. Their products are well known for fuel efficiency and as well as power delivery coupled with affordability. Its gearless or step-thru models like Hero Honda Street and Hero Honda Pleasure are also gaining huge popularity amongst young Indian ladies.

1.8 Opportunities and Incentives in Auto Industry

The Department of Heavy Industry (DHI), in the Ministry of Heavy Industries and Public Enterprises, is the nodal authority in India for promoting the development and growth of the automotive sector. The department is also concerned with the development of the heavy engineering industry, machine tool industry, heavy electrical industry, industrial machinery, etc.

The Government of India is in the process of forming a National Automotive Board (NAB) which would become a formal set-up to look into the issue of recall of vehicles and hence improve manufacturing standards. The prospective body, to oversee technical and safety aspects of vehicles, will have representatives from all the nodal ministries and automotive bodies such as the Automotive Research Association of India (ARAI).

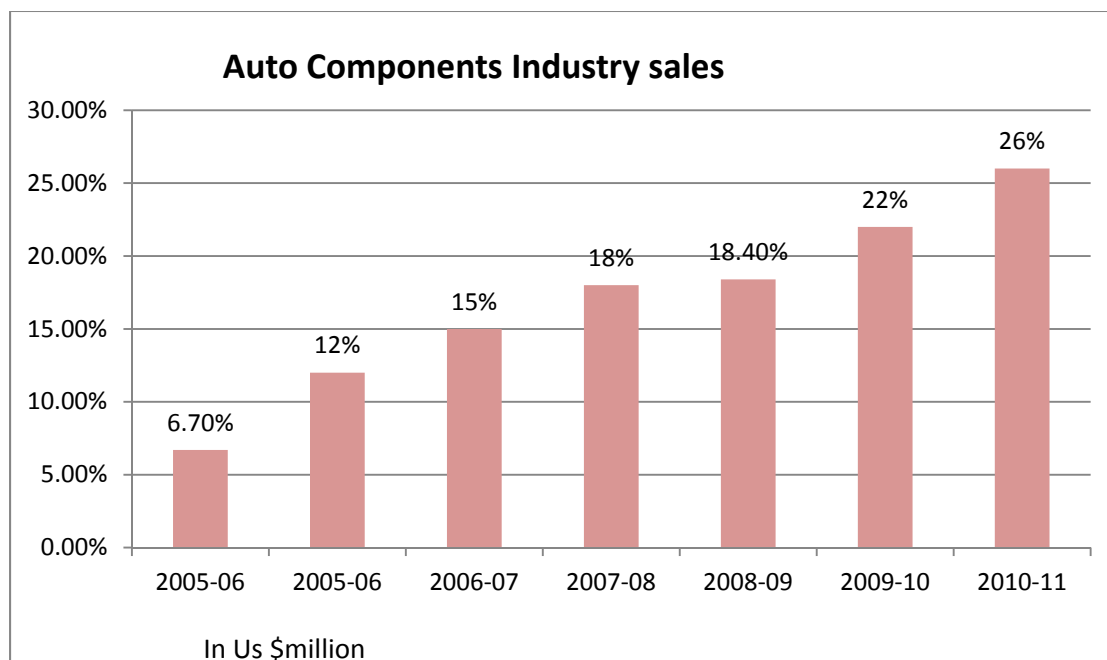
Similarly, the Government of Gujarat has also announced its plan to disburse 240 acres of land at Sanand to the All India Plastic Manufacturers Association (AIPMA) to set up a plastic park that could attract an investment of about Rs 50 billion (US\$ 981.65 million). The Government's move marks its eye for detail as the measure has come in the light of the fact that a finished car would require about 150 kgs of plastic.

2. OVERVIEW OF AUTO COMPONENT INDUSTRY

2.1 Current Status

The Indian auto component industry is one of India's sunrise industries with tremendous growth prospects. From a low-key supplier providing components to the domestic market alone, the industry has emerged as one of the key auto components centres in Asia and is today seen as a significant player in the global automotive supply chain. India is now a supplier of a range of high-value and critical automobile components to global auto makers such as General Motors, Toyota, Ford and Volkswagen, amongst others.

Further the segment has created a niche by diversifying its portfolio into aerospace, power segments and prosthetics. The strategy and plan to look into newer markets outside the country also helped the auto component manufacturers to survive the global recession. Acquisition by automotive major such as Mahindra and Mahindra helped the sector in expanding its technology and providing value-added services to the customers. The evolution of the Euro emission norms also made the manufacturers rethink their business plans to meet the demand for improved products.



Source: Automotive Component Manufacturers Association of India (ACMA)

The potential compounded annual growth rate (CAGR) of the auto component industry is estimated to be around 26 per cent in the period 2010-11. Exports from the auto component industry are estimated to be worth US\$ 5 billion in 2010-11.

Indian components business at Rs 248 billion (US\$ 4.87 billion), 49.7 per cent of which is formed by two-wheeler segment. Passenger vehicles, commercial vehicles and three-wheelers follow with 24.7 per cent, 23.1 per cent and 2.5 per cent of the share respectively.

Europe accounted for 36 percent of exports followed by Asia and North America at 28 percent and 23 percent respectively. Although the proportion of exports to Europe declined from 40 percent last year to 36 percent, however in absolute terms the exports grew by 46 percent. Exports to North America and Asia grew by 65 percent and 48 percent respectively. With exports to North America, Europe Asia and other parts of the world are improving, a full recovery of exports are expected to gain strength in 2011-12.

2.2 Major players

Sona Koyo Steering Systems, Rane Madras and Rane TRW Systems are the key players in steering systems.

Bharat Gears, Gajra Bevel Gears and Eicher are some of the major players in the gears sub-segment. Two international companies, Graziano Trasmissioni and SIAP Gears India, have set up their base in India.

Clutch Auto, Ceekay Daikin, Amalgamations Repco and Luk Clutches are the major players in the clutch sub-segment. Rane Brake Lining and Rico Auto are the key players manufacturing clutch-facings.

GKN Driveshafts (India) and Delphi cater to the drive shaft requirements of passenger cars and SonaKoyo Steering Systems services to the commercial vehicle segment.

Brakes India, Kalyani Brakes and Automotive Axles are the three major brake system suppliers in the country.

Rane Brake Lining, Sundaram Brake Lining, Hindustan Composites and Allied Nippon dominate the brake linings sub-segment.

Jamna Auto and Jai Parabolic are the major manufacturers of leaf springs.

Gabriel India, Delphi and Munjal Showa are the key manufacturers of shock absorbers.

Lumax, Autolite and Phoenix Lamps are the key players in the headlights sub-segment.

Premiere Instruments and Controls is the leading player in the dashboard sub-segment.

Jay Bharat Maruti, Omax Auto and JBM Tools are the major players in the sheet metal parts sub-segment.

Lucas TVS, Denso, Delco Remy Electricals and Nippon Electricals are the key players in this segment.

Phoenix Lamps, Autolite, Hella India and Lumaxare prominent players manufacturing sheet metal parts.

2.3 Policy Initiatives

The government has taken many initiatives to promote foreign direct investment (FDI) in the industry.

- Automatic approval for foreign equity investment up to 100 per cent of manufacture of automobiles and components is permitted
- The automobile industry is delicensed
- Import of components is freely allowed

The Ministry of Heavy Industries and Public Enterprises has envisaged the Automotive Mission Plan 2006-2016 to promote growth in the sector. It targets to:

- Increase turnover to US\$ 122 billion – US\$ 159 billion by 2016 from US\$ 34 billion in 2006
- Increase export revenue to US\$ 35 billion by 2016
- Provide employment to additional 25 million people by 2016
- The automotive sector is expected to contribute 10 per cent of the country's GDP by 2016

The auto component industry welcomed the government's announcement of excise duty rollback being limited to 2 per cent during the Union Budget 2010. The government also announced the increase of the deduction limit for Research and Development (R&D) in the sector from 150 per cent to 200 per cent.

3. CHALLENGES AHEAD

Indian auto industry is one of the most promising and growing auto industries across the world. But at this juncture the Indian auto industry is facing various challenges catering to the growing domestic market. The three major challenges faced by auto industry are described below:

3.1 Rising oil price

International price of crude oil has crossed US\$ 120 per barrel and is rising at an alarming rate. The forecast of market experts that the crude oil price will plateau around US\$ 100 per barrel has been proved wrong. The skyrocketing crude oil price rise will affect the economic growth of most of the nations of the world including India. The prospects of India and China of becoming economic superpower will be seriously affected. Also, the rise in oil prices will impact the growth of global automotive industry. Unless the use of alternative fuels increases, it is very unlikely that the situation will change for the better. This necessarily means that more and more investments should be directed towards R&D, establishing mechanisms to translate R&D results into products and their efficient manufacturing. This will also require radical redesigning of engines.

3.2 Fuel Technology

Technology is significant and needed to ignite the growth of auto industry. Whether it's a two-wheeler or a car, technology drives the growth. The challenge of alternative fuel technology ensures a brighter vision of the auto industry in the country. The increasing environmental pollution has become a concern for manufacturers and all associated with the industry. All of them are struggling hard to come up with a holistic and integrated approach to reduce carbon dioxide emission. Some of the initiatives to reduce the level of automotive emission include introduction of fuel-efficient cars, obligatory periodic maintenance, and inspection of automotives, designing automotives with recyclable materials, use of alternative fuels like CNG, LPG, biodiesel, and introduction of electric and hybrid cars. Car manufacturer like Maruti Suzuki has already introduced the new concept of using recyclable substance for car production in its dazzling car Maruti Suzuki A-Star. After the production of Maruti Suzuki A-Star, the company thrives to apply the same concept in all its future car models.

3.3 Nurturing Talented Manpower

Manpower and human resources has always been a key growth driver in any industry including the automobile industry. Though India has a vast pool of talented and skilled professionals, the country needs initiatives and support to treasure these resources to excel in all arenas of the industries. Automobile industry is no exception and highly skilled manpower will further become the most reliable source of competitive advantage across the global as well as Indian automobile industry. More than even before creativity, innovative ideas, and expertise in different areas have become an asset these days. The industry has to foster the talent for servicing and maintenance as well. India has personnel to create better and reliable automotives but still lack the expertise in servicing and maintenance of the automotives through their life span.

In India, engineering colleges and technology institutions impart engineering education. Many of these institutions used to provide training in automotive engineering through well-established Internal Combustion Engineering (ICE) and Mechanical Engineering departments. However, the new wave of IT, electronics and communication technology has forced these institutions to close down ICE departments and also reduce the number of Mechanical Engineering departments. The well-known ICE department of the Indian Institute of Science that produced high quality research and trained manpower is a sad example of these developments. It is true that more than 50 per cent of the total components of the current automobiles are electronic and that the importance of communication technology is also increasing. However, the advances and training in these areas cannot be at the cost of the fundamental aspects of auto engineering including thermodynamics. Therefore, we need to redesign our automotive engineering courses and brand them properly to attract good students. This will help in not only increasing the number of auto engineers, which is crucial to the growth of the auto industry, but also getting the human resources to carry out research in the auto sector and achieve breakthroughs necessary for designing the next-generation vehicles.

There is also an urgent need to improve the quality of skilled and semi skilled manpower working in the auto industry. To do this the existing vocational educational institutions have to be upgraded and more number of such institutes should be started. Today, most of our vocational educational institutes have poorly trained, unmotivated and uninspiring teaching faculty, and outdated equipment, machines, syllabus and governance system. National Knowledge Commission, in its recent report has given several recommendations to improve vocational training in this country. The Central Government has accepted all the recommendations. Two major recommendations are rebranding the vocational education by updating the syllabus and public-private partnership (PPP) in the establishment and governance of vocational educational institutes. Accordingly, the finance minister has allotted an initial amount of Rs. 1,000 crores in this year's budget to establish a corporation of Rs. 15,000 crore outlay through PPP model. It is hoped that this corporation will help immensely in revolutionising and making the vocational education more relevant to the contemporary needs.

The third area that needs to be addressed immediately is the shortage of human resources in auto design. The government as well as the professionals have realised that creative people in India need to be given training by which they can come into the mainstream and design contemporary products in general and autos in particular. National Institute of Design at Ahmedabad is playing a seminal role in producing good designers. However, the output of the institute is very small. Therefore, in the first of its kind National Policy of Design, the Government has suggested to establish four such institutes, immediately. Even these institutes will not be able to meet the current demand for designers. Therefore, many more institutes need to be established either through public-private partnership or solely by private sector.