Snapshot: Auto Ancillary Industry in India

Introduction

Liberalisation of the automotive industry in the nineties provided the much needed thrust for the auto components industry in India. The auto ancillary industry has been growing in tandem with the country's burgeoning automobile industry and is characterised by low manufacturing cost, high standard of quality and engineering expertise. The industry currently contributes to around 2.3% of the India's GDP and provides direct and indirect employment to around 0.92 million people.

The Indian auto ancillary industry is renowned worldwide for quality and productivity and has emerged as a significant contributor to the global automotive supply chain. India now supplies a range of high-value and critical components to global auto makers such as General Motors, Toyota, Ford, Fiat, Honda, Hyundai and Volkswagen amongst others. Several global players have invested in India and foreign direct investment in auto components was around INR 52 billion in 2009-10

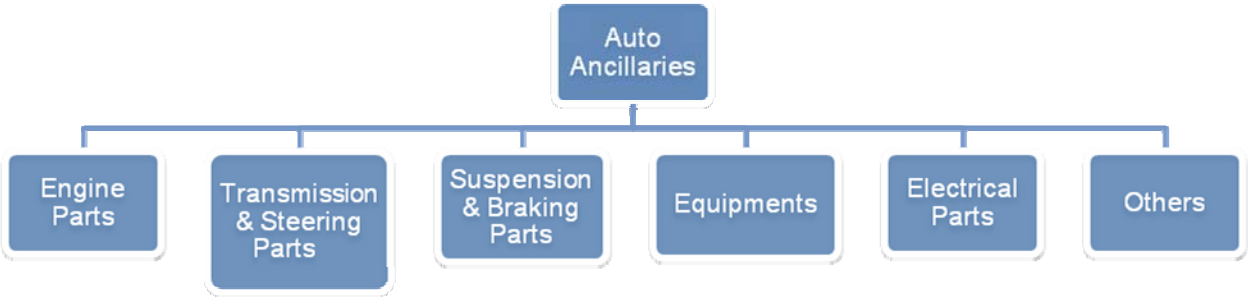
With saturated markets and increasing manufacturing cost and dearth of skilled labour across developed countries, global automotive majors are now opting for India as their manufacturing base. The rapid expansion of the domestic automotive market is also a key driver for the auto components industry in India. The country is now acknowledged as a global small car manufacturing hub and frequent launches by domestic and global vehicle manufacturers are positioning the auto components industry in growing trajectory. Several global auto component majors have a strong base in India and are now focussing on research and development activities.

The Government is also encouraging the auto components sector and has permitted 100% Foreign Equity Investments. The auto components sector is expected to grow strongly in the coming years backed by supportive policy initiatives to enhance demand.

Product Classification

The auto ancillary industry classification is as given below;

Exhibit: Auto ancillary product classification



Source: ACMA

Auto ancillary: Major segments and corresponding sub-segments

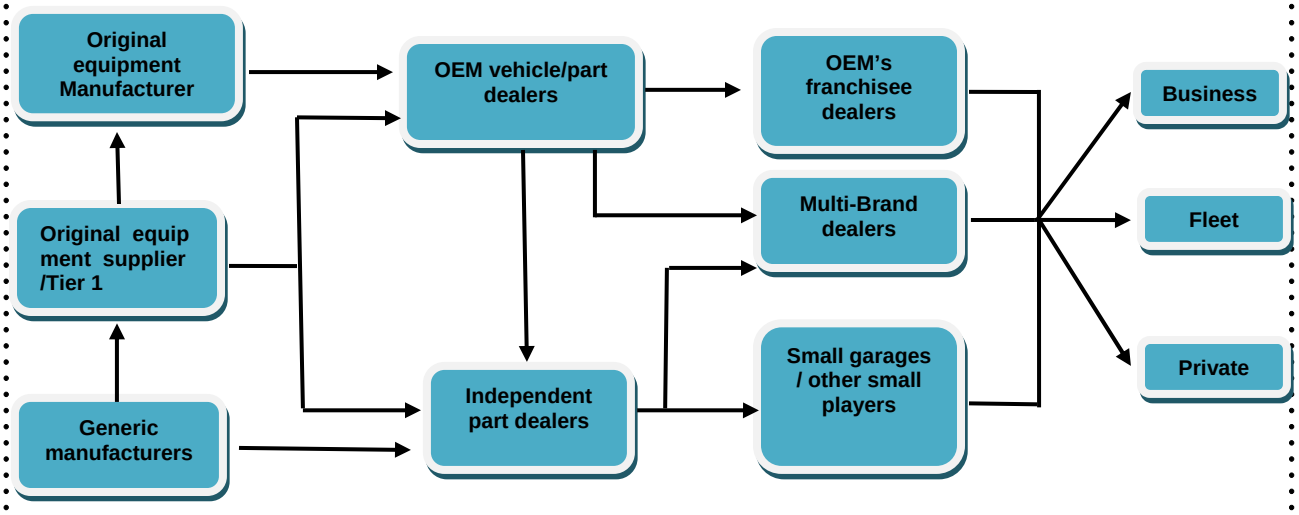
Segment	Sub-segments
Engine parts	Pistons & piston rings, engine valves & parts, full-injection systems and carburetors, cooling systems & parts, power train components
Transmission & steering parts	Gears, wheels, steering systems, axles, clutches
Suspension & braking parts	Brake & brake assemblies, brake linings, shock absorbers, leaf springs
Equipments	Headlights, halogen bulbs, wiper motors, dashboard instruments, other panel instruments
Electrical parts	Starter motors, spark plugs, electric ignition systems, flywheel magnetos, other equipments
Others	Sheet metal parts, body & chassis, fan belts, pressure die casting, hydraulic pneumatic instruments

Source: Secondary sources

Industry Structure

- The Indian auto ancillary industry is fragmented with large and small players
- There are around 6,400 companies, of which around 600 large companies contribute to around 77% of the total production
- While large players focus on high valued precision engineering products, the small players focus on lower value-added products and aftermarket products

Auto Ancillary: Supply chain



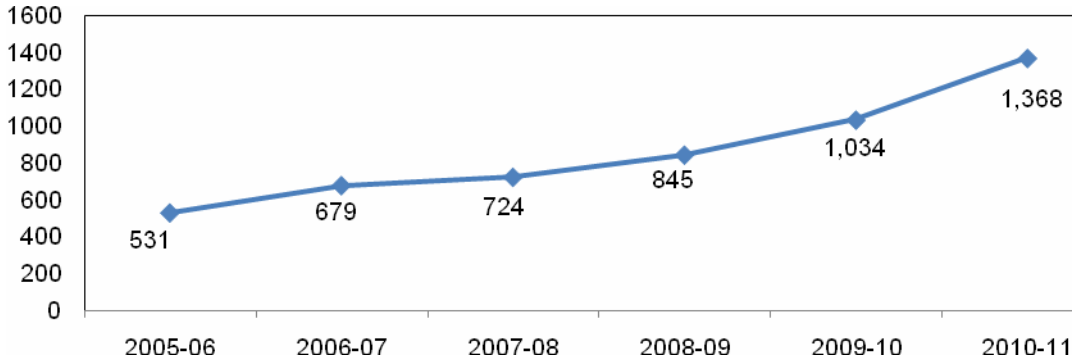
Source: eRPI research

- OEM's mainly retail their products (components) through company owned franchisees and/ or sales units
- Original equipment suppliers (OES) /Tier 1 are increasingly retailing branded products through OEM franchisee's and other multi-brand dealers
- The retail market has a sizeable presence of the small players including garages and gas stations

Overview

- The Indian auto ancillary market was valued at INR 1,368 billion in 2010-11, registering a growth of around 20% per year during 2005-06 to 2010-11

Auto Ancillary: Trends in market, (2005-10), INR billions

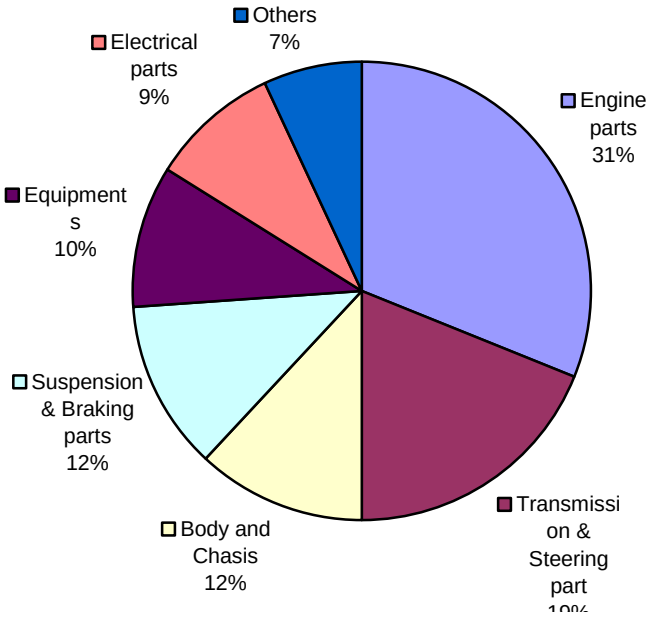


Source: ACMA

- The auto component manufacturers are largely found in clusters located in places such as Jamshedpur and Kolkata in the East, Indore in Central India, Pune in West, Manesar in North and Chennai in South India

- Engine parts and transmission and steering parts together account for almost 50% of the total production

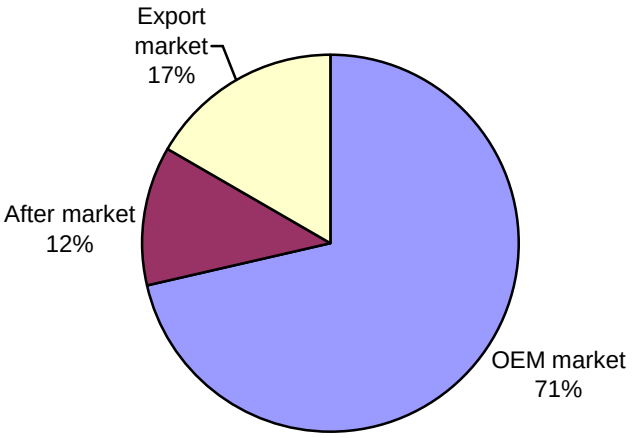
Auto Ancillary: Product composition
(Total: INR 1,368 billion), 2010-11



Source: ACMA
*others include sheet metal parts, fan belts, pressure die casting, hydraulic pneumatic instruments

- The OEM/ tier I account for around 71% of the overall auto ancillary market
  - Large component manufacturers tend to tie up with at least one automotive manufacturer to produce components customized to the requirement of the OEM manufacturer
  - High degree of technical know-how, stringent delivery time and proximity to vehicle manufacturers are inherent characteristics of this market
  - Due to the need of huge capital and high degree of precision engineering requirement, only large players involve in the OEM market

Auto Ancillary: Break-up by markets,
(Total: INR 1,368 billion), 2010-11



Source: eRPI research

- Automotive aftermarket market accounts for 12% of the auto ancillary industry
  - The rising vehicle population and poor road condition are giving impulse to the auto ancillary aftermarket
  - Two wheelers account for around 46% of the aftermarket components followed by passenger vehicles and commercial vehicles at 26% and 25%. Three-wheelers account for a mere 3% of the aftermarket
  - Small players involved in aftermarket are focusing on setting up wide distribution network, brand building and maintaining product portfolios to tap the growing aftermarket

- Export of auto ancillary was estimated at INR 228 billion in 2010-11 and witnessed a growth rate of around 32% y-o-y
  - Export doubled since 2005-06; Europe, Asia and North America are the major destinations accounting for around 85% of the total exports
  - Export for OEM/ Tier I market account for around 80% and aftermarket components account for the rest

- The volume of exports for Tier I market has increased significantly in the recent years owing to improved quality and state-of-art technologies; earlier auto component exports from India mainly catered to the aftermarket
- Geographical proximity to growing and emerging markets and low shipment cost also give India an edge over other competing nations

Auto ancillary industry: Trends in trade (2006-11) INR Billions

Source: ACMA
**estimated*

- The import of auto components was estimated around INR 456 billion in 2009-10 and grew at around 32% per annum during 2005-06 to 2009-10
  - Asia is the leading source of auto components contributing to around 54% of the overall imports followed by Europe at 36%

- Some of the Indian auto component majors are taking up inorganic route to widen their technology and client base by off-shoring designing and manufacturing of high-end components and retaining labour intensive operations in India
  - Some of the prominent Indian companies that have recently either got into or planning to get into joint ventures are Bharat Forge, Amtek Auto, and Motherson Sumi Systems

- The buoyant growth in the domestic automotive sector has encouraged several multinational component manufacturers to establish facilities in India paving a stiff competition for domestic players on quality front
  - Magna, Visteon, Valeo, Bosch, Federal-Mogul Corporation and Denso are some of the prominent multinational auto component manufacturers with base in India
  - Auto ancillary industry witnessed a cumulative investment of around INR 425 billion in 2009-10

Major Players & their Financials

Bosch India Pvt. Ltd. is the market leader in the auto ancillary industry. Bharat Forge and Cummins India are the other noted players in the Indian auto ancillary industry.

Auto ancillary sector: Key players and sales turnover (INR Bn), 2008-09 & 2009-10

Key Players	Turnover in INR billions	
	2008-09	2009-10
Bosch India Pvt. Ltd	47.5	66.3
Bharat Forge Limited	47.7	33.3
Cummins India Limited	33.0	28.4
Sundaram Fastners Limited	18.1	17.2
Sona Koyo Steering Gears Systems	6.9	8.5

Source: Company annual reports

Some of the other noted players include Motherson Sumi Systems Limited, Wheels India Limited, Amtek Auto, Munjal Showa Limited, Lucas-TVS Limited, Omax Auto Limited, Rico Auto Industries, etc.

Government Initiatives

The government in an effort to uplift the automotive and auto component industry has initiated several policies in the recent years. Formation of National Automotive Testing and R&D Infrastructure Projects (NATRIP) and Automotive Mission Plan 2006-16 are some of the encouraging policies

- The government has permitted 100% foreign equity investments for auto ancillary industry
- Under the Automotive Mission Plan 2006-2016, the government envisages to increase the country's share in global auto components market by focusing on setting up specialized institutes for skill development, research and development activities, special emphasis on small and medium enterprises, setting up auto component special economic zones, etc.

Auto Ancillary: Sub-segments and key players

Segment	Key Players
Engine parts	Goetze, Shriram Pistons & Rings, India Pistons, Samkrg Pistons, Rane Engine Valves, KAR Mobiles, Ucal Fuel Systems and Spaco Carburettors, Escorts Auto Components, Mico, Delphi, TVS Diesel System and Tata Cummins
Transmission & steering parts	Sona Koyo Steering Systems, Rane Madras, Rane TRW Systems, Bharat Gears, Gajra Bevel Gears, Eicher, Clutch Auto, Ceekay Daikin, Amalgamations Repco, Luk Clutches, Rane Brake Lining and Rico Auto, GKN Drive shafts (India), Delphi
Suspension & braking	Brakes India, Kalyani Brakes, Automotive Axles, Rane Brake Lining, Sundaram Brake Lining, Hindustan Composites, Allied Nippon, Jamna Auto, Jai Parabolic, Gabriel India, Delphi and Munjal Showa
Equipment	Jay Bharat Maruti, Omax Auto, JBM Tools
Electrical parts	Lucas TVS, Denso, Delco Remy Electricals, Nippon Electricals
Others	Phoenix Lamps, Autolite, Hella India, Lumax

Source: Secondary sources

Industry Outlook

As India is expected to be among top five vehicle producing countries globally by 2020, the growth potential for automotive ancillaries is proposed to be in line with them. The country is slowly gaining the position of global outsourcing hub for auto components

- The trend of auto component majors getting into multiple automotive segments to shield from market fluctuation will be witnessed more in the coming years
- Low vehicle scrappage rate, need for frequent replacements and growing used vehicle market will drive the auto component aftermarket
- In order to improve cost competitiveness during market slowdown, vehicle manufacturers are reducing in-house component production and opting for outsourcing to reduce investment and technology upgradation. This trend is expected to expand the domestic auto ancillary market and increase competitiveness