

AUTO COMPONENT SECTOR

the pride of Indian manufacturing industry

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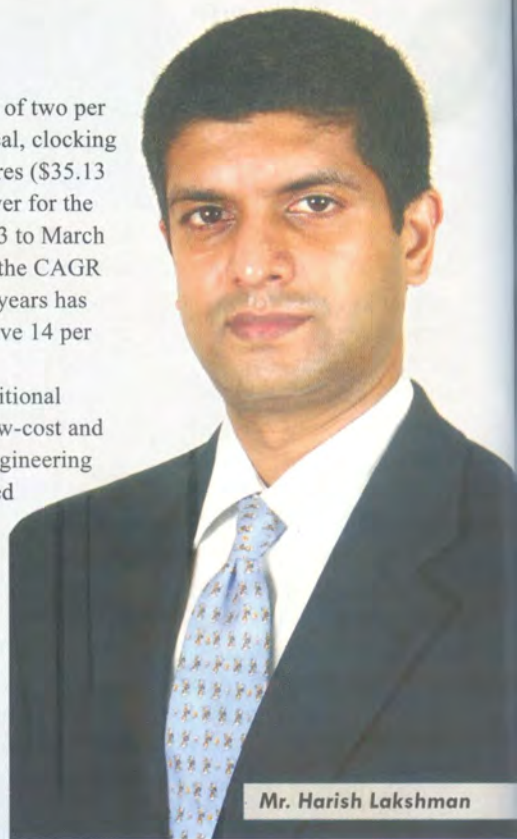
The Indian automotive industry is the sixth largest in the world having deep forward and backward linkages with several key segments of the economy. The industry has a strong positive multiplier effect which acts as a key driver of economic growth. As India is rapidly emerging as a major sourcing hub for auto makers across the globe, the Indian automotive industry is also fast transforming itself to meet the expectations and stringent norms of these customers.

While the well-developed Indian auto industry produces a wide variety of vehicles – passenger cars, light, medium, heavy commercial vehicles, multi-utility vehicles, two-wheelers, tractors and other off-road vehicles, the Indian auto component sector also manufactures a complete portfolio of products, including engine parts, drive transmission and steering parts, body and chassis, suspension and braking parts, equipment and electrical parts.

The last fiscal has been one of the most challenging for the automotive industry in India. Flagging vehicle sales, high capital costs, rising interest rates, fluctuating exchange rate and slowing down of investment in manufacturing have adversely impacted the growth of the auto component industry. Considering the turbulence in the environment, the component industry witnessed a

marginal decline of two per cent over the fiscal, clocking Rs. 2,11,765 crores (\$35.13 billion) in turnover for the period April 2013 to March 2014. However, the CAGR over the last six years has been an impressive 14 per cent.

While the traditional advantages of low-cost and highly skilled engineering manpower backed by robust domestic demand for vehicles have stood the component industry in good stead so far, going forward and to be globally competitive the sector needs to focus on research and development, design capabilities and product differentiation and improve quality to meet the evolving needs of customers who are looking for more



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value add.

It is indeed heartening that the new government recognises the potential and the need for revival of the automotive industry and has

extended the excise duty concession till the end of the year. Further, allowing of 49 per cent FDI in the Defence sector in the Union Budget will also open new vistas for component makers who are keen to mitigate the risk of automotive industry cyclical-ity and diversify into adjacent sectors such as the defence sector. Moreover, the government focus on infrastructure and skill development and enhanced funding for development of the MSME sector has kindled hopes for an early revival of the industry.

Besides, early signs of recovery are being observed in the commercial vehicle segment, an important indicator of economic growth. Further, the recent directive given by the Supreme Court on lifting the ban on mining in Karnataka and Goa has raised hopes for the sector which has remained sluggish for the last two years. On the other hand, demand for multi-axle tractor trailers and transporter enquiries have picked up too, inducing a positive sentiment in the industry.

Indian auto component manufacturers, over the years, have developed strong manufacturing capabilities that have helped them in keeping costs low and meet the stringent quality norms. Indian auto components are exported to more than 160 countries and exports have been growing at 15 per cent per annum over the past six years. Component exports stood at Rs. 61,487 crores (\$10.2 billion) in FY 2013-14, accounting for 29 per cent of the overall industry turnover. The key

export items include engine parts, transmission parts, brake system & components, body parts, exhaust systems, turbochargers, etc. However, as business complexities increase, the component makers will have to invest in technology, scale up operations and further improve quality, cost and delivery performance to remain globally competitive.

Today the 700 plus ACMA membership boasts of 576 ISO-9001 certifications, 467 TS-16849 certifications, 208 ISO-14001 certifications and 105 OHSAS-18001 certifications. Second only to Japan, India's auto components industry also has the highest number of Deming Awards to its credit. In addition, the industry boasts of 15 Total Productive Maintenance (TPM) Awards, three Japan Institute of Plant Maintenance (JIPM) Awards, two Japan Quality medals and two Shingo Silver medallions.

Going forward, scaling up of operations will be a key challenge for smaller component manufacturers facing constraints in raising capital, attracting talent and accessing technology. Further, many Indian component manufacturers are competing in the lower value-added space and produce parts/components on either job work or build-to-print basis. Such manufacturers depend on either the OEMs or on their JV partners for technical/product design capabilities. In future, product design, testing and validation capabilities are expected to become even more important as OEMs rely more on their suppliers for product design.

Road ahead

In the coming decade the Indian automotive industry will need to revise its technology and introduce efficient green vehicles, on the back of rising fuel consumption and costs, and heightened awareness on environmental issues. The major trends that will define the automotive industry in the decade ahead are discussed below.

- **Future technology:** In view of the rising fuel prices and increasing expectations of Indian consumers for cost-effective and fuel efficient vehicle, the original equipment manufacturers (OEMs) would place greater thrust on two core areas – reducing vehicle weight and developing smaller but more efficient engines. Further, the Government regulations on emissions will play a key role on the vehicular technology. Emerging global trends such as e-mobility will also impact the Indian automotive industry.
- **De-risking:** To ensure long-term sustainability and growth and to reduce susceptibility of business to cyclical fluctuations, auto companies will look at deploying their core competencies in other industries such as Defence, aerospace, oil & gas, railways and construction, among others.
- **Cost optimisation:** Mounting pressures on margins would put cost optimisation high on the industry's agenda, which they would approach through local sourcing and manufacturing and by having multi-plant operations. The globalisa-

tion objectives would lead to companies widening their presence, not just within the domestic boundaries, but also across global markets. The success stories of Indian companies that embarked on the acquisition route early on would encourage more auto players to aggressively focus on expanding their global footprint.

- **Collaboration:** The changing role of component suppliers will necessitate more investments in R&D, product innovation and faster response time OEMs' new product launch plans.

There is a need for creating a more encouraging ecosystem, characterised by increased thrust on IT, R&D, creation of more value-added products, incentives and policy support from the Government, testing and validation centres, and appropriate training infrastructure to spruce the human resource base, with the objective of positioning the Indian industry prominently on the global automotive map.

The auto component industry can be an engine of India's economic and manufacturing growth contributing 3.6 per cent of GDP by 2020, up from the current level of 2.2 per cent. To achieve this potential, the industry would require additional skilled manpower of over one million people and a cumulative investment of over \$35 billion. We hope the Government will take bold steps to power the engine of growth.