Overview of the Indian Automotive Component Industry

As the Indian auto components industry treads a difficult path through an uncertain near term future - operational excellence, scenario planning and risk management are poised to become the key arsenal for success says Atish Mukhopadhyaya (Principal – Delivery Excellence and Automotive & Engineered Products) of Tata Strategic Management Group.

Introduction
The global economic uncertainties and domestic monetary tightening measures have built up a near term negative sentiment for the Indian auto component industry. However the long term prospects of the industry are definitely perceived as a huge opportunity area. The cyclical nature of the automotive industry over several decades has helped hone the survival skills of the industry. But this survival instinct is being put to test because new strategies and skill sets are required to mitigate the current challenges.

Overview of the Auto component industry
The Indian auto industry is highly competitive with a number of global and Indian auto-companies present. The size of auto component industry in India is around USD 34.7 billion and has grown at ~26% p.a. since FY 05 (Figure 1). Though the industry witnessed slower growth in 2008–09 owing to the global slowdown, Indian auto component manufacturers are equipped to address the challenges of a downturn.

![Figure 1: Auto component industry production, (USD billion)](source)

Over the years Indian auto component companies have increased their footprint in global markets and the exports have grown at ~17% p.a. in the last six years to reach USD 4.4 billion in FY11 (Figure 1). Significant number of auto component manufacturers are focusing on global best practices like 5-S, Kaizen, TQM, TPM, 6 Sigma etc. and in the process more companies are getting recognized with quality certifications.

The Indian auto industry has evolved around three major clusters:
- Mumbai-Pune-Nashik-Aurangabad (West);
- Chennai-Bangalore-Hosur (South); and
- Delhi-Gurgaon-Faridabad (North).
Low labour costs, availability of skilled labour and high quality consciousness among Indian vendors have spurred the growth of auto component exports from India. Moreover, over the last few years, the structure of the customer base in the global markets has also undergone a major change. In the 1990s most of the exports were made to the international aftermarket whereas at present most of the exports are made to the global OEMs and Tier 1 companies. From FY05 to FY09 the exports grew at a rate of 22% p.a to reach USD 3.8 billion. However, in FY10 exports remained flat at USD 3.8 billion and contributed ~17% to overall production. YoY growth for FY 11 was ~16% and grew to a value of USD 4.4 billion in FY11 (Figure 1). Europe accounted for over 37% of exports followed by Asia and North America at 28% and 24% respectively (Figure 2).

The domestic consumption on the other hand has grown at ~26% p.a. over the last 6 years to reach USD 36 billion in FY 11 (Figure 3). Still Indian auto component industry has a small, ~1% share of the global Auto Components Industry.

While the domestic market saw a growth of 66.5% YoY, imports of auto components fell by more than 35% in FY11 to USD 5.3 billion (Figure 3), but Asian countries continue to be largest source of imports at 54% (Figure 4).

The auto components industry production can be divided on the basis of its usage patterns across user segments. The broad classification would be auto components produced for OEM, exports and after-markets. Further, within the OEM demand, there is segregation based on vehicle segment types.
The production for OEM’s is estimated at about 72%, followed by production for after-market at 17% and production for exports at 11%. Of the OEM demand, around 53 per cent is driven by cars and utility vehicles (Figure 5).

Segmentation of the auto component industry
The industry, over the years, has developed the capability of manufacturing all components required to manufacture vehicles, which is evident from the high levels of indigenization / localization achieved in the vehicle industry as well as the components developed for the completely Indian made vehicles like the Tata Indica, Tata Indigo, Mahindra Scorpio, Bajaj Pulsar etc. The component industry has now holistic capability to manufacture the entire range of auto-components e.g. Engine parts, Drive, Transmission Parts, Suspension & Braking Parts, Electricals, Body and Chassis Parts, Equipment etc.

Indian auto component industry can be broadly segmented into six major segments. Engine and drive transmission parts together contribute about 50 per cent of the auto component industry production. Engine parts, which constitute 31 per cent of the production, mainly comprise of pistons, engine valves, carburettors, fuel injection systems, camshafts, crankshafts and cooling systems. Drive transmission parts, which constitute 19 per cent of the total production, include axle assembly, steering parts and clutch assembly (Figure 6).

The domestic auto components industry consists mostly of unorganized players, who are largely small and
medium enterprises. However, it is the organized segment that contributes about 72 per cent of the industry’s total revenues. About 619 organized players are registered with the Auto Component Manufacturers Association (ACMA).

![Classification based on size of revenues (FY11)](image)

**Figure 6 : Segment wise production (% of total), FY11**

![Source: Crisil Research](image)

**Classification based on size of revenues (FY11)**

<table>
<thead>
<tr>
<th>No. of companies</th>
<th>Revenue range</th>
</tr>
</thead>
<tbody>
<tr>
<td>231</td>
<td>&lt; USD 1-5 mn</td>
</tr>
<tr>
<td>194</td>
<td>&lt; USD 5-25 mn</td>
</tr>
<tr>
<td>90</td>
<td>&lt; USD 25-50 mn</td>
</tr>
<tr>
<td>58</td>
<td>&lt; USD 50-100 mn</td>
</tr>
<tr>
<td>46</td>
<td>&gt; USD 100 mn</td>
</tr>
</tbody>
</table>

*Source: CRISIL Research*

The organized sector is dominated by large promoter groups. Of this, while MNCs contribute 12 per cent of revenues; the domestic promoter groups contribute 35 per cent, while the balance comes from smaller companies (Figure 7).

Prevalent business models are:

- Full Indian ownership
- Indian owner and MNCs in technical alliance
- Indian owner and MNC JV
- Complete MNC subsidiary

![Figure 7: Structure of Indian Auto-component sector](image)

**Figure 7: Structure of Indian Auto-component sector**

![Source: ACMA](image)
**Investment Profile**

Investments in Indian auto component sector have grown from around ~USD 4 billion in FY05 to ~USD 10.3 billion in FY11 (Figure 8). Due to recession there was postponement of investment plans because of which the investment levels remained unchanged between FY08 and FY09. Investment picked up again in FY10 registering a CAGR of 14%. Several large Indian auto component manufacturers are in the process of substantially investing in capacity expansion, establishing partnerships in India and abroad, acquiring companies in foreign countries establishing greenfield ventures, research & development (R&D) facilities and design capabilities. The auto component industry invested USD 2 billion in FY11 in several greenfield as well as expansion projects.

![Figure 8: Investment in Auto component Sector (USD billion)](source: ACMA)

**Strategies for long term sustainability – Think Local, Click Global**

Today auto component companies have significant opportunities to take the giant leap. On one hand the domestic market is attracting more OEM players who have a strong need for localization. On the other hand, recession afflicted global markets are hunting for low cost vendors to optimize their operations.

At this juncture, adoption of a strategic shift is critical to be able to ride the opportunity wave. Thus Indian auto component players need to re-align their strategies and operations to undertake the following:

- **Drive Quality-Cost-Delivery (QCD) improvements** – This is mission critical to continue to be the supplier of choice for existing customers as well as attract new automotive OEMs.

- **Re-orient export strategies** – By focusing on mature automotive markets Indian auto component companies can leverage the increasing drive to source from low cost destinations. In parallel, developing export relationships/ partners in emerging automotive markets will help de-risk and grow the exports business.

- **Acquire new customers in India** – The highly cost sensitive automotive market coupled with a high degree of competitive intensity, is forcing new MNC players to increase localization. But the stumbling block is lack of choice of compatible suppliers. This is an opportunity area for Indian auto component players. The qualifying criteria are stringent and hence will necessitate an upgrade of service levels and manufacturing capability through operational excellence measures, to woe new and discerning OEM customers.

- **Explore non-automotive segments** – What began with a top Indian auto component player’s diversification from automotive forgings to aerospace and other high technology sectors has now gained momentum. Increasing number of auto component players are exploring to de-risk their automotive business by diversifying into allied industries. This helps smoothen out the business over different industry cycles.

These are some of the strategic options for long term sustainability. However its success requires decisive Boardroom action and prudent leadership of the top management of Indian auto component companies.
Conclusion

Today the mood is cautious, and industry growth has moderated. But nonetheless the long term prospects are strong, as India is poised to be one of the fastest growing automotive markets worldwide over the next decade and is slated to move from number 8 position to number 3 position in the passenger vehicle market. And to harness this opportunity, effective management of the short term challenges and implementation of sustainable strategies is the key to robust industry growth.

About the Author:

Atish Mukhopadhyaya is Principal of the Delivery Excellence and Automotive & Engineered Products practices at Tata Strategic Management Group. He did his post graduation in Business Administration from S.P. Jain Institute of Management & Research (SPJIMR), Mumbai and his Bachelors Degree in Mechanical Engineering from the Faculty of Engineering, Dayalbagh. Atish has over 12 years of experience in the Operations, Supply Chain Management and related domains, having worked with different Indian and MNC organizations - holding various positions in functional and consulting roles.

Email: atish.mukhopadhyaya@tsmg.com