

IN HOT PURSUIT

AUTO COMPONENTS MAKERS ARE SURGING AHEAD ON THE BACK OF ROBUST DEMAND FROM THE INDIAN AUTOMOTIVE INDUSTRY. AND THERE IS NO STOPPING THEM NOW.

BY MITALEE KURDEKAR

THE INDIAN AUTO COMPONENTS INDUSTRY

is on a sprint. With the automotive industry witnessing growth in numbers – a welcome relief from the sluggish demand of a few years ago – in recent times, the resulting demand for components has been very strong. In addition, Government initiatives like Make in India, overseas technology adaptation, and the uniformity in tax structure brought about by the introduction of GST, are all contributing to the industry's good fortune, helping it to support its ambition of meeting domestic demand, while also generating greater export opportunities.

The India Brand Equity Foundation (IBEF) stated in its June 2018 report on the auto components industry that the Indian auto components industry has experienced healthy growth over the last few years. The report further highlights that the auto components industry accounts for 2.3% of India's Gross Domestic Product (GDP) and employs as many as 1.5 million people directly and indirectly. A stable government framework, increased purchasing power, large domestic market, and an ever increasing development in infrastructure have made India a favourable destination for investment.

DEMAND DRIVERS

Key players within the auto components industry too have a positive outlook about the current state of affairs, in terms of increasing demand, technology enhancements, new investments, government policy, and a conducive business climate. **B Anil Baliga, executive VP, bus body and application manufacturing, VE Commercial Vehicles**, says, "The Indian auto components industry has experienced healthy growth over the last few years. Some of the factors attributable to this include: a buoyant end-user market, improved consumer sentiment and return of adequate liquidity in the financial system. Domestic sales of commercial vehicles created a new record by selling 8,56,453 units in FY2017-18 with robust growth in direct and after-market sales."

He adds, "Auto component exports from India have grown at 7-9% in FY18, backed by strong global growth and higher exports to emerging nations. Growth is further expected to accelerate to 8-10% in FY19 due to pick-up in the global scenario. The Indian auto components industry is set to become the third largest in the world by 2025 with revenues upwards of \$150 billion."

In fact, in a rapidly globalising world, there are multiple avenues emerging for the transportation industry, even as it is already making a shift towards electric, electronic and hybrid cars, buses and e-rickshaws, alternatives which are deemed more efficient, safe and reliable modes of transportation. The expectation is that, over the next decade, this will lead to newer verticals and increased opportunities for auto component makers, who will need to adapt to such changes via systematic R&D plans.

Suresh KV, country head, ZF India, agrees with this view, when he suggests, "The auto components industry has a huge potential to grow in the Indian market. Credit rating agency ICRA has recently upgraded the Indian auto component industry's growth to 13-15% in FY18 from the earlier prediction of 9-11%, which is also a good sign for the sector." Suresh further points out, "Rising demand for high-quality components from OEMs is helping the auto component industry grow at an exponential rate. In addition, technology breakthroughs have opened up a plethora of opportunities for auto component makers. This is supported by the change in regulatory norms for safety, comfort and emission."

Talking about new trends in the market, **Prashanth Doreswamy, country head, India, Continental Corporation, and MD, Continental Automotive India**, states, "Increase in electronic content in vehicles, trend-setting technologies, legislations, increased awareness on safety and clean energy among consumers, as well as an increased commitment on the same from OEMs, are all positively impacting our business in India."

He adds, "In addition to trendsetting technologies, fundamental requirements of the automotive industry like digitalisation, sustainability, efficiency, and cost saving are just as important as safety on the roads and comfort & convenience while driving. The awareness for safety technologies are on the rise in India, and with new safety legislation, India is emerging as a focus market for airbags, Anti-lock Brake Systems (ABS) and Electronic Stability Control (ESC). Electrification is another growing trend. For instance, the 48-volt system is making the combustion engine quieter





NATRIP WILL ENABLE ADOPTION AND IMPLEMENTATION OF GLOBAL PERFORMANCE STANDARDS.



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1. VE Commercial Vehicles has 100 suppliers around Indore alone, many of whom are also supplying to multiple global Volvo manufacturing sites.

and the air cleaner. This technology aides the motive behind advancement to BS-VI norms in India."

POLICY PRESSURE

Another welcome feature for the industry is that a slew of policy announcements made by the Government has added to the pressure for change. And industry insiders are keen to quicken the pace of implementation. **Nishit Behera, executive director - business development & strategy, RSB Transmissions (I) Ltd.**, points out, "Rising vendor consolidation, speedier replacement market growth, unmatched global quality, increasing localisation, export-oriented growth, and growing electronic content per vehicle have induced the Indian auto component segment to continue to grow much faster than the OEM segment."

Behera feels that India is being recognised as a sourcing hub of auto components for major global

OEMs. "Several global tier-I suppliers have increased their procurement from Indian auto-component manufacturers. OEMs are increasingly setting up engine manufacturing units in the country, viz. Ford, Fiat, Suzuki, and General Motors, who have established India as a global hub for small engines," he confirms.

On India's rise to become a sourcing hub, **Ravindra Pise, VP, Chakan & Akurdi Plants, Bajaj Auto**, elaborates, "Most vendors have started exporting to developed as well as developing countries. We continuously work hand-in-hand with our vendors for components development, according to our specific requirements and using our New Components Development System, while utilising each other's R&D facilities."

Commenting specifically on government policy initiatives, Behera explains, "The auto policy announced enshrines automatic approval for 100% foreign equity investment in auto component manufacturing facilities, while imports are exempt from licensing and approvals. In addition, the Automotive Mission Plan (AMP) aims at setting up of a technology modernisation fund, focusing on small and medium enterprises, establishment of automotive training institutes and auto design centres, special auto parks and auto component virtual SEZs, as well as providing encouragement to fuel-efficient technologies."

This is expected to generate an additional employment of 65 million. Also, the Government plan to set up the National Automotive Testing and R&D Infrastructure Project (NATRIP) will enable the industry to



adopt and implement global performance standards and focus on providing low-cost manufacturing and product development solutions.

"Initiatives like the AMP 2026 and NATRIP have created a conducive business environment for auto component makers. Implementation of GST has significantly brought down the distribution cost and has increased the profit margins for auto component companies," agrees Suresh.

Doreswamy explains Continental's approach in this context. "Globally, Continental follows a strategy of 'In the market for the market', and localisation has been at the core of our India strategy. In that sense, our business model complements initiatives like Make in India. Just in the last two years, we announced production and assembly lines in Gurugram and Bengaluru and a plant expansion in Manesar. The key to Make in India is productivity in manufacturing and one of the most important contributors to productivity is a stable, reliable and efficient environment and infrastructure," he proclaims.

Suresh too is pleased with the result of these initiatives and declares, "Make in India - Part One was a huge success, and it has been pushing companies to invest and emphasise on local manufacturing in India. In tandem with Make in India, ZF had reinforced its regional essence in India, through expansion of our manufacturing base and localisation."

RESPONSIVE MOVES

Considering the noise surrounding the introduction of electric vehicles, one would have thought that the auto components industry would be somewhat wor-



ried, especially because the number of components in electric vehicles are a fraction of the combustion engines. However, this changeover does not seem to be a big worry, as the expectation among component manufacturers is that, for a few years to come, the growth from traditional automobiles would continue, at least in countries like India, where the supporting infrastructure for the introduction of electric vehicles would take a while to set up. Having said that, the good sign is that key auto component manufacturers have already started thinking of and in some cases investing their R&D efforts in meeting the challenges of electric vehicles.

Baliga is optimistic when he says, "New technology always brings in new challenges and unforeseen fears, but, over a period, each technology gets its own space. We do not foresee electric vehicles as a major challenge in the immediate future." He cautions though that, "As the EV technology becomes more cost-effective and moves towards autonomous trucks and buses, the disruption could be significant with the redundancy of diesel engines and



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2. ZF has already reinforced its regional presence in India, through expansion of its manufacturing base and localisation.

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"The growth of global OEM sourcing from India and the increased indigenisation of global OEMs is turning the country into a preferred designing and manufacturing base."
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4. Electric vehicles are the way to go forward as the pollution caused by fossil fuel-run vehicles is detrimental.

5. Auto component industry players are encouraging their group companies and Indian vendors to facilitate global sourcing out of India.

transmissions etc. It is important to work towards this eventuality."

Doreswamy outlines Continental's strategy of preparedness for this important shift. "Our attention is focused on two parallel efforts, the first is the full value creation from the growing demand for the most efficient combustion engine technologies that also guarantee the lowest emissions, and, the second is to benefit from the prospective growth in environmentally-friendly, electrified and fully-electric drive systems. We strongly believe that the cars of the future will feature electric drives, which will be fully connected and automated. Therefore, we are rapidly scaling up our R&D efforts," he announces.

Electric vehicles are the way to go forward as the pollution caused by fossil fuel-run vehicles is detrimental. "ZF had predicted this change a long time ago and started preparing for the transition, therefore it has not had any adverse effect on our business," suggests Suresh.

Explaining their stance on the matter, Behera adds, "We have a time-tested cushioning in our business strategic process; and the potential changeover to electric vehicles (EV) was known to us through our

research analytics team. Our business process is on a strong footing and we have a well-laid path to take on the EV challenge."

GLOBAL GOALS

While the Make in India programme would become a catalyst for this purpose, most global majors and their Indian counterparts in the auto component industry are encouraging their group companies and Indian vendors to facilitate global sourcing out of India.

Behera says, "The Indian auto component sector has also taken an inorganic route to gain access to the latest technology, expand their client base and diversify revenue streams. Players such as Amtek Auto and Bharat Forge have adopted a dual-shore manufacturing model." On a positive note, he says, "The growth of global OEM sourcing from India and the increased indigenisation of global OEMs is turning the country into a preferred designing and manufacturing base."

Baliga confirms a similar strategy for VECV. He explains, "We have over 100 suppliers who are co-located in the Indore region, and many more are signing up agreements with VECV for setting up dedicated plants at Pithampur with a long-term association and commitment towards delivering best-in-class products. There are many suppliers in our supplier base who are also supplying to multiple global Volvo manufacturing sites. These suppliers are required to qualify cost, quality and delivery parameters through a structured assessment process."

There is no doubt that the Indian auto component industry is gaining recognition for its responsiveness and responsible approach when it comes to business requirements like quality, service and cost-consciousness, and, as a result, has found itself in a sweet spot. Faced with growing demand and an appetite to meet requirements and surpass challenges, this is one industry that is racing ahead in the manufacturing game. **MTI**