Summary

The Indian automotive industry is on a fast track for growth. After a brief period of reduced growth due to the economic slowdown and credit crunch during early 2009, the automobile industry has recovered and started positive growth. Major international automobile firms maintain manufacturing ventures in the country, and they compete with Indian firms. These projects manufacture small and fuel-efficient cars for both domestic and export markets. To meet the sustained domestic demand, several of them expanded their production facilities in the country. A vibrant automobile industry supports the component industry. The Indian auto component industry has reached an impressive $19.1 billion for the fiscal year 2008-09. Local production continued to meet the domestic demand of auto components. However, the automobile industry continued to import critical components, including engine parts, and this trend is likely to continue for the next several years. A favorable government policy regime continues to support the growth of the auto and component industry.

Market Overview

The Indian automotive industry is on a fast track for growth. India is emerging as the world’s fastest growing passenger car market, second largest two-wheeler and fifth largest commercial vehicle manufacturing center. India produced 2,351,240 passenger cars, 566,608 commercial vehicles, and 10,512,889 two-wheelers (motorcycles and scooters) during the last FY (April 2009 to March 10). The economic slowdown and associated credit crunch adversely impacted the Indian automobile sales temporarily, but the industry has bounced back after a brief recess. Passenger car and two-wheeler segments recorded growth of over 27% and 24% respectively over the previous year. The commercial vehicle segment, which recorded a negative growth during the previous year, witnessed an impressive growth of 35% during the last fiscal year ending in March 2010.

A mature Indian automotive industry sector has been expanding via local manufacturing. Several leading international players including Ford, General Motors, Hyundai, Suzuki, Mitsubishi, Toyota, BMW, Nissan, Volkswagen, Skoda, Mercedes Benz, Fiat, Renault, and Volvo, compete with home grown companies such as Tata Motors, Mahindra group, Bajaj group, Swaraj Mazda, Force Motors, and Ashok Leyland. These companies manufacture passenger cars and commercial vehicles for both domestic and export markets.

The Indian automobile market is set to expand exponentially in the next 5-10 years, given the strong indicators for growth. Over 250 million middle income Indians continue to demand products of international standards, supporting the automobile growth. McKinsey projected that the Indian middle class will reach 550 million by 2025, signaling a sustained growth for the automobile sector.

India is world’s largest small car producer. Several automobile companies are manufacturing or plan to manufacture small cars for both local and export markets. Ford, General Motors, Hyundai, Tata Motors, and Maruti Suzuki are already manufacturing small cars. New entrants to this segment include Bajaj-Renault-Nissan, Volkswagen, and Nissan. These small cars are environmentally-friendly, fuel-efficient, and comply with the Euro emission norms.

Tata Motors further revolutionized the small car segment by introducing the $2400 Nano car. The Nano offers a price advantage and fuel-efficiency. Tata Motors plans to produce a Nano version that meets Euro standards and market them in the Europe. The Bajaj group will soon join the Tata Motors to manufacture small cars. Bajaj-Renault-Nissan plans to produce Nano-type cars with fuel-efficiency.
The Indian labor cost, among other issues, will continue to compel international automobile companies to expand their presence in India. Based on published information, India offers a technically qualified labor force at far below international standards. For example, according to a published report, a small car may need about 70 to 80 hours of labor, both embedded in the manufacture of components and direct. At India's labor cost of Euro 1.5 per hour, the total labor cost for assembling a small car will add up to Euro 105 to 120 per vehicle. In Germany and other advanced Western Europe the labor cost will range between Euro 2800 to 3000 per vehicle and in Eastern Europe it will be between Euro 1750 to 2000. This big labor cost advantage will continue to support local production of passenger cars in India.

Several Indian and international companies have aggressive plans to expand their production capacities. Recent investments include: Ford $500 million, Ashok Leyland-Nissan $500 million, Nissan-Renault $1 billion, Volkswagen 400 million Euro, Honda $250 million, and Tata Motors $240 million.

To support and sustain the anticipated growth in demand, the Government of India (GOI) launched the “Automotive Mission Plan (AMP), 2006-2016.” According to the plan, the GOI has accorded the highest priority for the automobile and components industry sector. The AMP envisions that India emerges as the worldwide destination of choice for the design and manufacture of automobiles and auto components by 2016. The plan also projected the sales revenue of the automotive sector reaching $122-159 billion by 2016 from $34 billion in 2006. The GOI allows 100% foreign investment in the automobile and parts industry.

The Indian automotive components industry is riding on a huge opportunity. This mature industry segment manufactures a range of auto components for both domestic and export markets. According to the Automotive Components Association (ACMA), 584 companies in the organized sector manufacture auto components in the country. 564 of them are ISO certified companies, 11 received Deming awards, and 15 received TPM awards.

Indian companies manufacture engine parts, drive, transmission, & steering parts, body & chassis, suspension & braking parts, and electrical parts. ACMA reported that the Indian auto components segment recorded $19.1 billion turnover for the FY 2009 (April 2008 to March 2009), up from $18 billion the previous FY. Indian exports reached $3.8 billion (19.9%). The Indian industry also imported components valued at $6.8 billion (35.6%) during the year. According to a McKinsey study, the Indian auto components sector has a potential to reach $40 billion by 2016. ACMA projected that the Indian auto components segment requires $1.5 billion new investment every year for the next 8 years to meet the growing demand from both local and international clients.

Several local and international firms are planning new projects to manufacture auto components for both local and international markets. Ford will produce petrol and diesel engines for the local and global markets from its Chennai facility. Wallstable & Schneider, a German auto component company, has signed-up a joint venture with Mumbai-based Deshmukh Rubber Works to manufacture a range of parts used in the engines. Bosch plans to invest $430 million over the next three years to manufacture fuel-injection technology.

Local production

Indian companies manufacture a range of engine components including filters and filtration systems, engine valves, clutch plate and clutch assemblies, gear boxes, drive axles, and radiators. Three automotive growth centers in the country (New Delhi, Pune and Chennai) account for a major share of the local production.

Local auto component manufacturers maintain strategic partnership with foreign firms. For example, the Chennai headquartered Rane Group (http://www.rane.co.in/), in collaboration with TRW Automotive, manufactures power steering, ball joint and seat belt systems. It produces energy absorbing steering columns, and manual RCB steering gears in association with NSK, Japan. In collaboration with Nisshinbo Ind, Japan, Rane group manufactures brake linings, disc pads, and clutch facings. Axles India Limited (http://www.axlesindia.com/) in a joint venture with Spicer Heavy Axles Inc, USA, manufactures pressed axle housings to medium and heavy commercial vehicles. Chennai-based Delphi-TVS Diesel Systems (http://delphivts.com/) is a joint venture between the Delphi Automotive Systems and TVS group. Delphi TVS manufactures diesel fuel injection equipment for passenger cars, light commercial vehicles, and tractors. Bosch India
Opportunities in Indian auto components sector

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The Indian auto components sector expands on the local manufacturing strength. Given the cost-competitiveness and the availability of a skilled workforce, India continues to attract global automobile companies. Indian auto components manufacturers are looking for licensing opportunities to manufacture all auto components, including engine parts, locally. Major international firms including Delphi, Visteon, Bosch, and Meritor have set up full-scale operations in the country to produce auto components for their global requirements. Global automobile manufacturers, including Ford, General Motors, and Toyota, have set up their international purchasing offices in India to source components for their global operations. India is also fast becoming the global hub for an automotive R&D center. General Motors, Daimler Chrysler, Bosch, Suzuki, and Johnsons Control, among others, have set up their development centers here.

Imports

Indian automobile manufacturers continue to import critical components and systems from foreign companies. According to ACMA report, imports of auto components reached $6.8 billion, amounting to 35% of the component industry turnover for FY 09. Gears, gear boxes, gear axles, ball screws, drive axles with differentials, radiators, clutches and parts, speed changers including torque converters, engines used for propulsion, mounted brake linings, and other engine parts are major items imported in the country. ACMA projected that the imports of critical components will continue for the next several years.

European companies lead the supply chain with a share of 37%, and South Korea with a 17% share is a distant second. Japan (11%), USA (10.4%), and China (8.9%) are other major suppliers of the auto components to India. Other countries’ shares total 15%.

However, the majority of the automobile manufacturers in India, including foreign firms, source up to 70-80 per cent of the components locally. The availability of precision components at lesser cost encourages them to source components locally.

Indian auto component ventures continue to upgrade their production facilities to meet the international standards and to move up the value chain. Indian companies import production machinery, tools, CNC machines, molds and dies from foreign companies to remain competitive internationally. Indian companies also look for strategic partnerships with foreign auto component manufacturers to produce products locally. This trend is expected to continue for the next five years and beyond.

Best Prospects

All technology focused products for the OEM segment offer best prospects in the Indian auto components sector. A partial list includes: gears and components, clutch components, brakes and components, valves, axles, shafts, and other engine parts. Indian automobile companies are also looking for products and technologies to improve fuel efficiency and emission standards. Electric and hybrid technology is gaining popularity offering best sale prospects for U.S. companies. Hybrid electric technology is projected to grow in the next 3-5 years. CNC machinery, production machinery, tools and dies also offer best prospects for the American companies.
Though there is a strong demand for aftermarket products in India, U.S. companies will lose out to Asian and local counterparts based on price. The Indian aftermarket is unorganized and this also acts as an impediment for growth.

The Government of India (GOI) allows the imports of auto engine components, production machinery, CNC machinery, tools and dies without any government approvals. The GOI also allows licensing arrangements and joint venture opportunities in this sector. The GOI allows up to 100% foreign investments in the auto components ventures.

Price and quality are major factors in purchase decisions. A Letter of credit is the usual payment mechanism for imports. Importers are required to find foreign exchange from their export earnings, or to buy foreign exchange from government approved foreign exchange dealers. Several qualified Indian agents are looking for new agency opportunities to market new products. These agents are generally familiar with import regulations and procedures.

Trade Events

The Confederation of Indian Industry (CII), Society of Indian Automobile Manufacturers (SIAM) and Automotive Component Manufacturers Association (ACMA) jointly promote the Auto Expo in New Delhi. This is the premier trade event providing an excellent opportunity to understand the technology trends in India. This event also will provide an opportunity to network with industry leaders.

11th Auto Expo will be organized in New Delhi in January 2012 (Date and venue TBD). Please visit the 10th Auto Expo for further information on the event (http://www.autoexpo.in/).

Resources & Contacts

The following major trade associations will be a good resource for U.S. companies and will offer contacts.

Society of Indian Automobile Manufacturers (http://www.siamindia.com/) is the industry association focusing on the Indian automotive ventures. Automotive Component Manufacturers Association (http://www.acmainfo.com/) monitors and supports the Indian auto component sector. These associations will be an excellent resource for the American companies.

Other major industry associations include, The Federation of Indian Chamber of Commerce and Industry (http://www.ficci.com/), the Associated Chambers of Commerce and Industry of India (http://www.assocham.org/), the Confederation of Indian Industry (http://www.cii.in/). The U.S.Commercial Service (http://www.buyusa.gov/india/en/) in India, with 7 offices, offers several programs to the U.S. firms to enter the Indian market.

For More Information

The U.S. Commercial Service in Chennai, India can be contacted via e-mail at: swaminathan.ramakrishnan@mail.doc.gov; Phone: (91-44) 28574477; Fax: (91-44) 28574212; or visit our website: http://www.buyusa.gov/india/en/

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