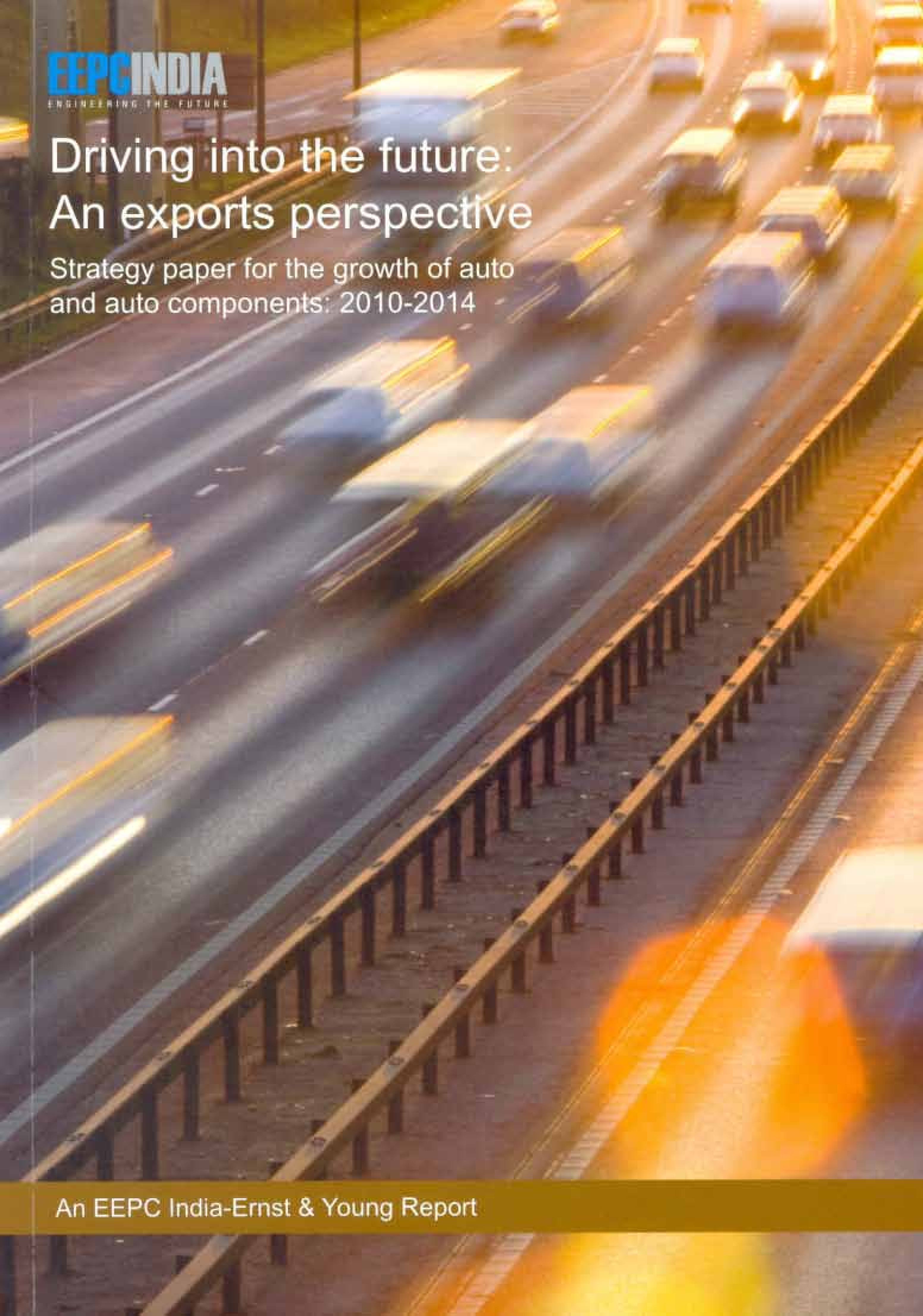
EEPC INDIA
ENGINEERING THE FUTURE

Driving into the future: An exports perspective

Strategy paper for the growth of auto and auto components: 2010-2014



An EEPC India-Ernst & Young Report

A Summary of
"Strategies to Increase Exports of Auto and Auto Components through SEZs"

- The automotive sector in 2008-09, attained a revenue of INR 2,50,778 crores (US$ 56 billion) with a domestic/foreign investment of over INR50,000 crores in the last ten years spread across the entire automotive value chain.
- Globally, India ranks 26th– in the total auto exports with a 0.53% share of world auto exports in 2008.
- The Automotive Mission Plan 2006-2016 states that the Indian auto industry should be able to contribute to 10-11% of the GDP by 2016 and in order to achieve that the Indian automotive exports should reach a level of USD35-42 billion by 2016. To reach that mark the Indian auto exports will have to grow at a CAGR of 23-25% till 2016.
- Ernst & Young was commissioned to a study to chart a growth path for automotive exports from India for the period 2010-2014 and to identify initiatives that have to be undertaken by the government, EEPC INDIA and the automotive exporters to achieve the desired growth.

Segments of Indian auto industry

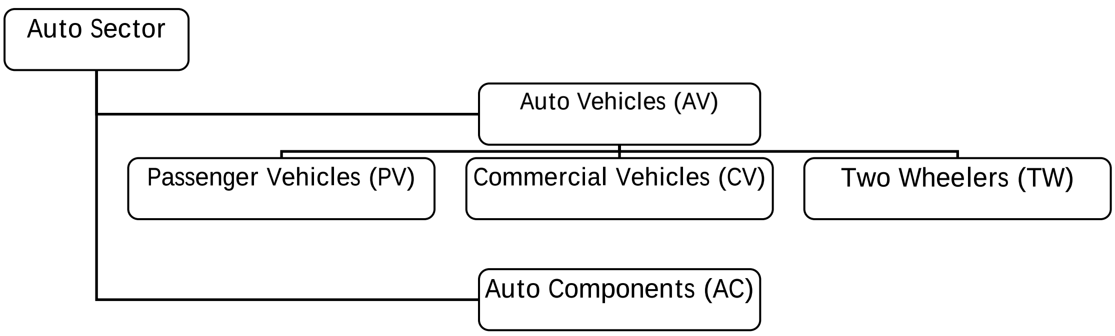


Table1: Segment wise performance of different segments

Particulars	Passenger Vehicles (PV)	Commercial Vehicles (CV)	Two Wheelers (TW)	Auto Components (AC)
Domestic sales	CAGR of 11.5% during the period FY05–09. 0.13% in 2009. (Due to slowdown)	CAGR of 5% during FY05 to FY09. – 21.7% in 2008-09 (Due to slowdown)	CAGR of 7% during FY05-09. -8% in 2008 (Due to the credit squeeze and higher interest rate). 2.6% in 2009.	CAGR of 20% during FY05-09
Exports	CAGR of 21% during the period	CAGR of 10% during FY05 to	Recession-proof CAGR of 31% in	CAGR of 24% in the period FY05-09 to

Particulars	Passenger Vehicles (PV)	Commercial Vehicles (CV)	Two Wheelers (TW)	Auto Components (AC)
	FY05-09	FY09. Negative growth for the first time in FY09.	FY05-09 1 million units mark in FY09.	touch USD 3.8 billion
Key Players	**Domestic** Maruti-Suzuki (46.7%), Hyundai (15.8%) and Tata Motors (14.9%) **Export** Hyundai (75.5%) and Maruti-Suzuki (20.9%)	Fourth-largest global market. Tata Motors, M&M, Ashok Leyland and Eicher Motors (90%) Volvo is planning to enter the market	**Domestic** Hero Honda and Bajaj Auto (65%) **Export** Bajaj Auto, (~65%), TVS (18.5%)	Amtek Auto, Tata Group companies, Munjal group, Kalyani group, Sundaram group etc.

India-like Countries (ILC)

Based on the combined criteria of export size, low-cost characteristics, population, GDP growth and other factors major competitors have been identified and are referred to as the India-like Countries (ILC). Identified ILCs are Brazil, Russia, China, Mexico, Thailand, Turkey and Korea. India's performance in the automotive exports is compared with that of these countries.

Key markets for India's auto export

Auto vehicles: USA, Europe (Italy, Germany, Spain, UK, Greece etc., SAARC (Sri Lanka, Nepal and Bangladesh) and African countries (Algeria, South Africa, Egypt, Ghana, Nigeria etc.) are the biggest importers of India auto vehicles. The Middle East (UAE and Qatar) and African countries are the fastest growing importers of the auto vehicles. India's major export to these markets is the small petrol car of engine capacity of less than 1500 cc.

Auto Components: The USA and the European countries are the biggest importers of Indian auto components, accounting for about 60% of the total auto component exports from India. Additionally Latin American countries like Brazil, Argentina, Colombia & Chile along with countries such as Korea and Singapore are fast developing into major export markets for India. With the coming into force of India's PTA with Mercosur and CEPA/CECA with Korea & ASEAN, it is expected that these countries would drive the export demand for Indian auto components.

Product analysis

Product analysis: EY has analyzed India's performance at an individual 6 digit HS code and aggregated them at a segment/sub segment level to ascertain their performance in the period 2003-2008. The entire set of 108 automotive products have been classified into **Core, Leader, High-Potential and Striver** products by mapping the past performance of products on export share and growth dimensions, both in India and the ILCs. The **Core, Leader and High-Potential products** together constitute the **thrust products** for India.

Table2: Product analysis

Auto-Vehicles	Auto-Components
Total 41 product lines. 13 Core Products accounts for 84% of Indian exports and 47% of ILC exports. The **core products** are: ☑ truck tractors ☑ Diesel Trucks with GVW<5tonnes 5tonnes<GVW<20tonnes ☑ Dump Trucks, Diesel buses seating > 9 people ☑ Trailers ☑ PV Petrol (1000-1500cc) and (>3000cc) ☑ PV Diesel (1500-2500cc ☑ Motorcycles up to 250cc. The **Leader products** account for 12.2% of Indian exports and only 2.5% of the ILC exports The **leader products** are ☑ PV Petrol < 1000cc ☑ PV Diesel > 2500 cc ☑ Motorcycles (500-800cc) The **High-Potential products** accounts only for 2.2% of Indian exports and 48.6% of the ILC exports The products under the category includes – ☑ Gas powered trucks with GVW<5tonnes ☑ Diesel trucks with GVW>20 tonnes ☑ Other Buses with seating capacity > 9 ☑ Mobile cranes ☑ Golf cars ☑ Trailers ☑ PV Petrol (1500-3000cc) ☑ PV Diesel < 1500 cc.	Total 67 product lines 18 Core Products accounting for 79% of Indian exports and 55% of ILC exports. The **core products** in AC are: ☑ Transmissions shafts ☑ Cranks ☑ Gears and gearboxes ☑ Radiators ☑ Stamped/forged articles of iron & steel drive axles ☑ Lead-acid batteries ☑ Lighting equipment ☑ Spark ignition parts for petrol engines ☑ Diesel engines and its parts, bumper parts etc. 5 Leader products that account for 8.3% of Indian exports and only 2.1% of the ILC exports The **leader products** are: ☑ Other diesel engines ☑ Sound signaling equipment ☑ Nickel cadmium batteries ☑ Clutches and shaft couplings etc 19 High-Potential products account for 6.3% of Indian exports and 37% of the ILC exports. The **High-Potential products** under this category are ☑ Radiators & parts ☑ Fuel/Cooling pumps ☑ Oil/petrol filters ☑ Shock absorbers ☑ Clutches ☑ Mountings/fittings ☑ Bodies for vehicles ☑ Wheels ☑ Mufflers ☑ Exhaust pipes ☑ Steering wheels/columns/boxes ☑ Locks ☑ Speed indicators ☑ Electric batteries and parts ☑ Starter motors ☑ Ignition wiring and sets ☑ Petrol engines and parts ☑ Motorcycle parts and seats.

Constraint analysis: The Indian automotive exports have grown at fast pace but still automotive exports in comparison with other ILCs have not grown similar pace, with the exception of Russia. The major factors constraining the growth are:

- Infrastructure
- Power
- Taxation

- ❖ Raw material
- ❖ Manpower
- ❖ Scale of operation
- ❖ Low R&D investments
- ❖ Worsening credit profiles due to the recession

Auto SEZs in India: Special economic zones act as a trade development tool to promote rapid economic growth by using incentives to attract foreign investment and technology. There are three broad policy reasons for the development of Auto SEZs in India –

a) Drive higher auto & auto component exports
b) Attract higher levels of FDI and
c) Create employment opportunities.

In order to achieve that India should introduce large-scale, master-planned, contiguous SEZs to develop the desired automotive ecosystem by specific initiatives through the levers of incentives, regulatory/legislative/institutional mechanisms, infrastructure, management and governance.

<u>Recommendations</u>

Recommendations for the industry

- ☑ Expand target markets
- ☑ Enter or create new segments
- ☑ Focus on green technologies
- ☑ Enhance Cost Competitiveness and Technology Levels
- ☑ Enable quicker integration of global acquisitions to enable technology transfer and increase sourcing from India
- ☑ Build and leverage scale related advantages arising out of India's domestic market

Recommendations for EEPC INDIA and the Government

- ☑ Accelerating bilateral/regional trade negotiations, broadening their scope and leveraging WTO flexibilities
- ☑ Align export promotion activities to the nature of markets and their relative importance to India
- ☑ Improve effectiveness of promotional activities
- ☑ Enhancing trade facilitation

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