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A Review of Growth of Automotive Component Industry in India

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Abstract

The automotive component industry is one of the most vibrant and developing industries in India. Macro-economic developments in India and at the global level have contributed to the development of the Indian Automotive Component Industry. The evolution of automotive component industry involves four phases. In all phases it was observed that the development of the auto component industry is influenced by the development of automobile industry and the changing government policies. The presence of organised and unorganised sector is one of the important characteristic of this industry. The performance of auto component industry in terms of production turnover and export is remarkable. The Compound Average Growth Rate of the production turnover of automotive component industry is 13.55 percent and of the export it is 18.83 percent over the last eight years. Thus there is overall growth of the automotive component industry in India. As per the estimation of the Automotive Component Manufacturers Association the industry is likely grow to US \$110 billion by 2020. With the increasing tendency of global OEM of sourcing components from India the industry stands a good chance of good prospects to the development of the automotive component industry in India.

I. Introduction:

The automotive component industry is one of the most vibrant and developing industries in India. Macro-economic developments in India and at the global level have contributed to the development of the Indian Automotive Component Industry. The total turnover of the automotive component industry has increased to \$ 43.5 billion with a growth rate of 11.7 percent in 2016-17. As global automotive companies have developed a trend of sourcing components from low cost countries, the Indian auto component industry has received impetus as it has a competitive advantage in skill intensive components. This has helped in increasing the exports of the industry. However, due to reduction in the demand especially from North America the export shown sluggish growth as compared to last year to 3.1 percent in 2016-17 making it US\$ 10.9 billion. This seems to be a temporary phase. The competitiveness of Indian automotive component industry is visible in three major areas that are material, technology and skilled manpower.

II. Objectives:

1. To review historical background of the development of automotive component industry in India.
2. To study the structure of automotive component industry in India.
3. To evaluate the performance of the automotive component industry of India in terms of turnover and export.

III. Research Methodology:

This study is based on descriptive method of research. The extensive use of secondary data is made. The source of data is annual report of Automotive Component Manufacturers Association, working papers and research articles.

IV. Analysis:**1. Historical background of the development of Automotive Component Industry in India**

The development of the automotive component industry has been dependent on the development of the automobile industry. The evolution of India's automotive industry has occurred in four phases. In the first phase (1947-1965) as well as the second phase (1966-1979) the industry was heavily protected to encourage the growth of the domestic automotive industry. New entrants were required to get license that was available only after stringent bureaucratic procedures and was granted to produce only a particular type of vehicle. In addition, the Foreign Exchange Regulation Act restricted Indian companies with foreign equity participation from expanding their operations or entering new field without authorisation from the government. The Indian Tariff Commission had decided to discourage the imports of auto components and encourage domestic production in 1957. This policy protected the domestic industry but led to unsatisfactory industry performance. As models seldom changed, suppliers produced the same parts over and over again for decades. The firms from automotive component industry like TVS group and Kalyani group were able to produce components with technical collaboration with foreign companies in 1960s. But the automotive component industry could not develop much due to less competition and growth in the market. The automotive component sector of India remained protected, stagnant, small scale with complacent operations.

A Boom time for the automotive components industry started with the arrival of India's 'People's Car' - the Maruti in the 1980s. The stringent quality standards in components that were required in the new car encouraged the establishment of a variety of new age auto component manufacturers who combined the best of technology with quality. In this third phase (1980-1990) the government adopted liberal policy by relaxing restrictions on means of technology acquisition. Besides, Maruti offered loans and advances to its suppliers for obtaining tooling. The joint venture of Maruti with Suzuki helped the Indian auto component industry to acquire Japanese engineering standards, manufacturing processes, material specification testing and quality control procedures. This helped in creating long term relationships between the supplier and the manufacturer. Thus, a new local industry of auto components was born in this phase. The production capacity of the auto component industry in this period has also increased.

In the fourth phase (1991 onwards) the Indian automotive industry was influenced by the liberalisation with regard to foreign investment. The entry of foreign auto majors ranging from Mercedes Benz, Ford and General Motors to Daewoo gave a huge opportunity to the industry. The automotive components industry responded with huge capacity expansion and modernisation programmes. The government allowed manufacturers to produce different kinds of vehicles instead of one kind as decreed in the license. This period experienced sluggish growth but things took a turn for the better. As a result, the commercial vehicle and the passenger car segments showed growth of 20 percent and 40 percent year on year respectively from the year 2000 onwards. The domestic auto component entered into technological collaboration and equity partnership with world leaders in auto components. The domestic companies adopted manufacturing and management practices especially strict quality controls, sound technology from foreign players. The multinationals realised that it was 30 percent cheaper to manufacture products in India. They were exposed to a new idea of exporting low cost good quality products, back to their global factories and thus reduce their overall costs. The outsourcing by the MNCs has resulted in a high demand for components and that's how the component industry lost its dependence on the local automobile manufacturers. The industry was now exposed to a global market.

2. Structure of Indian Automotive Component Industry

The Indian automotive component industry can be divided into organised and unorganised sectors. The organised sector produces around 85 percent of the total output of the industry. The auto

component industry is largely fragmented. No player has a major market share; in fact, there are many players in the industry who have similar market shares.

Organised sector manufacturers are characterised by a wide product range, relatively better quality products, a better technological base, a strong Original Equipment Manufacturers customer base with wide distribution network spread across the country for accessing the replacement market. The organised sector manufacturer dominates the technology intensive automotive components products. Usually there are only 3-4 large manufacturers for such products, who hold significant market shares and supply to leading OEMs. The other organised sector manufacturers are essentially small scale industries with no significant OEM base.

The automotive component industry in India has a strong presence of the unorganised sector. The share of the unorganised sector in replacement driven auto components is remarkable. However, this sector has a very small share in the OEM market. The unorganised sector is characterised by small scale operations with low level of technology resulting in lower product quality. However, they have an advantage of price competitiveness. Thus, price competitiveness and various concessions available to small scale industries are responsible for the strong presence in the replacement market or aftermarket. The automotive component industry is normally classified into the following three tier structure:

Tier I: Manufacturers in this tier supply integrated systems to OEMs. It comprises large firms producing almost all the auto components by using high end technology.

Tier II: Firms in this tier provide finished components to Tier-I supplies. It comprises medium sized firms. These have comparatively less access to latest technology. These are also producing multiple components and having better operational efficiency.

Tier III: Manufacturers in this tier provide raw materials and basic components to Tier II firms. They are smaller and single auto component manufacturer's largely unorganised players. These firms have less access to latest technology and uses traditional technology. Their operational efficiency is comparatively low.

3. Production Turnover of Automotive Component Industry:

The performance of the automotive component industry is dependent upon the performance of the automobile industry. The automotive component industry has witnessed volatile performance in last decade. This has been influenced by the changing government policies, international environment norms and the global economic situation. The following table throws light on the performance of the auto component industry.

Table 1 Production Turnover of Auto Component Industry		
Year	Production Turnover (in INR crores)	Growth Rate
2008-09	105700	-
2009-10	135700	28%
2010-11	182100	34%
2011-12	204670	12%
2012-13	216094	6%
2013-14	211765	-2%
2014-15	234869	11%
2015-16	255635	9%
2016-17	292184	14%
Statistical Results		
Mean	204301.889	-
S.D.	57455.4882	-
C.V.	28%	-
CAGR	13.55%	-

Source: Annual Reports Automotive Component Manufacturer Association (ACMA)

Figure 1. Production Turnover of Automotive Component Industry

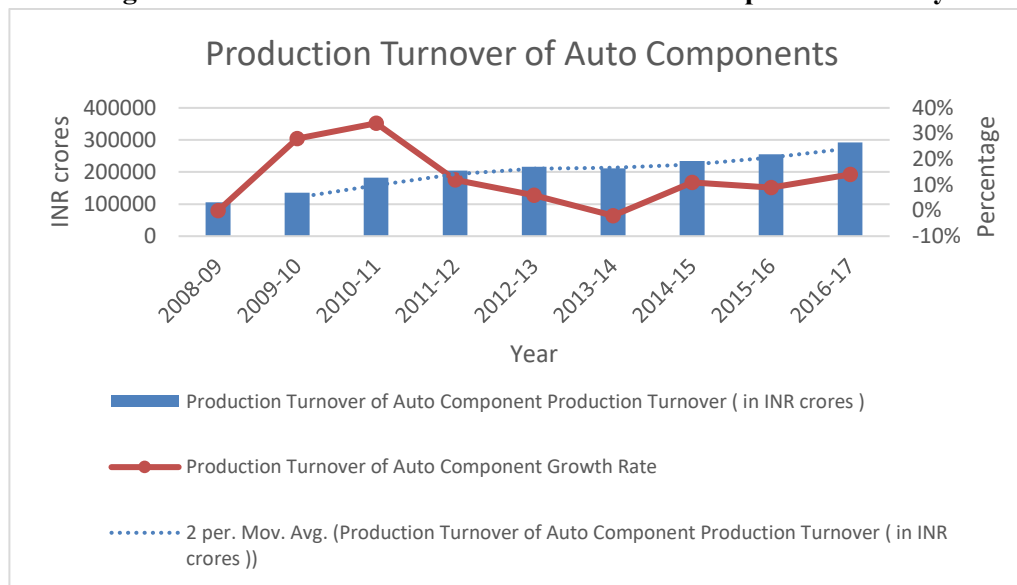


Table 1 explains the performance of the auto component industry with regard to production turnover. This data represents the entire supply from the auto component industry in India to vehicle manufacturers, the aftermarket in India and also export.

Against the backdrop of the recession of 2008, the industry geared up in the year 2009-10 and 2010-11 with a growth rate of 28 percent and 34 percent respectively. However, a down fall in the production turnover was observed in the year 2011-12 (12 percent) 2012-13 (6 percent). The year 2013-14 was the most challenging year as the production turnover stood at ₹2, 11,765 crores which showed a decline of 2 percent over the previous year. This decline was created due to flagging vehicle sales, high capital costs, high interest rates, fluctuating exchange rates and decline in overall investment in manufacturing. However, the automotive component industry could come out of this slowdown. The industry considered this slowdown as an opportunity and started development in internal capabilities so that they could meet up with the needs of the customer for value and features across the vehicle segment. Attempts were made by the industry to restructure by adopting lean practices. An attempt was also made to identify and explore new markets like aerospace, defence and railways to leverage better prospects. The government policy was also supportive. The government allowed 49 percent Foreign Direct Investment (FDI) to the defence industry which proved useful for the auto component industry as it opened new doors for the components. The extension of the excise duties till the end of the year also helped the industry. The focus of the government on skill development and infrastructure development, encouragement to MSME sector and overall attempts for sustainable development helped in attracting investments and in turn helped the industry to revive.

The year 2014-15 recorded a turnover of ₹2, 34,869 crores with a growth rate of 11 percent. The most ambitious campaign of the government called 'Make in India' was launched. Automotive component sector was one of the sectors among the twenty-five sectors identified in this campaign for development. It was expected that the automotive component industry would grow to 223 billion in the turnover. Again, in the year 2015-16 the growth rate fell down to 9 percent. Global slowdown was the responsible factor. In the year 2016-17, the auto component industry witnessed major challenges. There were major changes introduced in the regulatory and technological environment. In this year the automobile industry shifted to production of BS-IV compliant products which was supported by the auto component industry. Further the government announced 'demonetisation' in November 2017. This created an adverse effect on the demand for two wheelers, even though it had little impact on other segments. This also affected the auto component industry for a while but it was able to revive soon. The

performance of the global market of the vehicle industry further encouraged the performance of the auto component industry of India during 2016-17.

The development of domestic vehicle industry and a robust export performance contributed to the performance of auto component industry. Today the dynamics of the automotive industries is undergoing a tremendous change. The new compliances related to emission, safety and environment including transition from BSIV to BSVI are creating challenges as well as opportunities for the auto component industry. The need is created to be 'Future Ready' in this period.

As per Table1 the Compound Annual Growth Rate of the production turnover is 13.55% over last teight years (2008-09 to 2016-17). The mean value 204301.889 and the coefficient of variance is quite high at 28 percent.

Figure 1 explains the production turnover in rupees and also shows the growth rate which is quiet fluctuating. The line of moving average clearly shows the increase in the production turnover in the study period.

4. Exports of Automotive Component:

Exports play a very important role in the development of a country. The role of Small and Medium Enterprises is very important in India's export and it has huge export potential. MSME sector contributes around 40 percent in India's export. The contribution of auto component industries in India's export is remarkable. With the advent of the Industrial policy of 1991, the automobile sector was opened for foreign investment. Major automobile players entered in the production of automobile. International Original Equipment Manufacturers and Tier I companies have soon identified India as one of the major countries for sourcing their auto components. As a result the export of the auto component industry has increased tremendously over the years. The following table explains the performance of auto component industry of India over the years.

Table 2 Exports of Auto Components		
Year	Export (in INR crores)	Growth Rate
2008-09	16750	-
2009-10	17860	7%
2010-11	23712	33%
2011-12	42729	80%
2012-13	52690	23%
2013-14	61487	17%
2014-15	68522	11%
2015-16	70916	3%
2016-17	73128	3%
Statistical Results		
Mean	47514.66667	
S.D.	23168.5885	
C.V.	49%	
CAGR	18.83%	

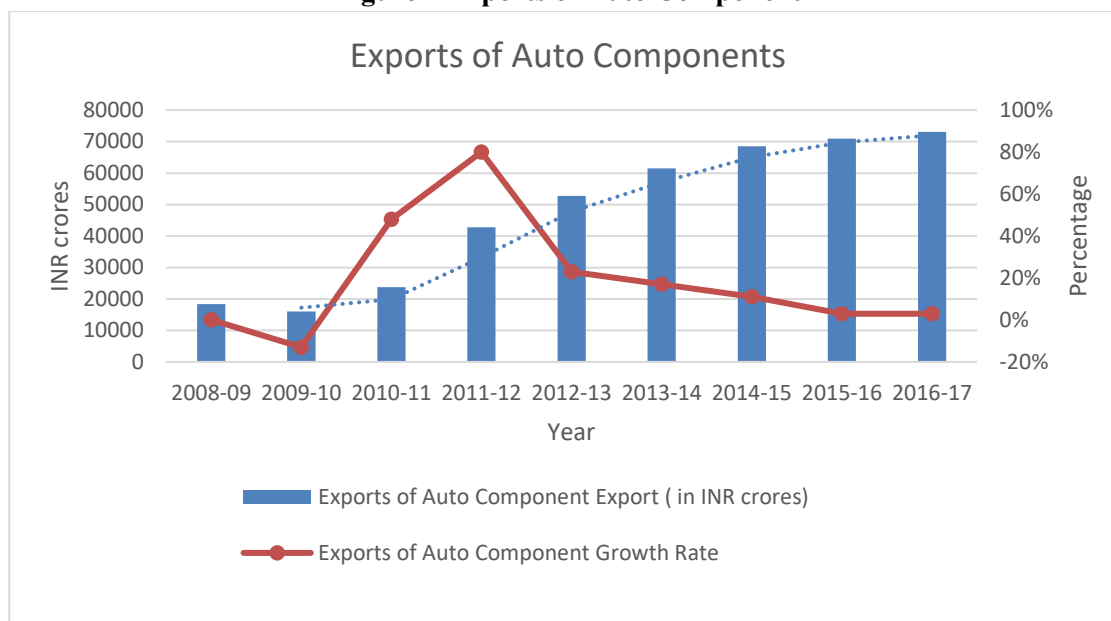
Source: Compilation on the basis of annual reports of ACMA

Table 2 indicates the performance of export of the auto component industry in India. It is quite a fluctuating performance. Since India has started emerging as a global hub for certain components like small engine, the exports have shown an increase. However, the export performance has fallen drastically

in the years 2015-16 and 2016-17. It was due to the lower growth in Europe and uncertainties in the United States of America.

The Compound Average Growth Rate of exports is 18.83 percent for the last eight years which is quite remarkable. However, Coefficient of variance is quite high.

Figure 2 Exports of Auto Component



The Figure 2 shows the exports of auto components from India. It has increased in the study period. However, there is fluctuation in the growth rate of exports of auto components in India. The growth rate becomes little sluggish due to global slowdown in the year 2016-17.

Most of the exports of the automotive component industry are with Europe, Asia and North America. If we consider the country wise direction of export, the share of USA is maximum followed by Germany and UK.

V. Conclusion

Development of automotive component industry in India has been dependent on the development of the automobile industry. The growth of the automotive industry in India took place in four phases. The automotive industry was initially working under a protective environment which was later opened up. The opening up of the economy in the 1990s opened doors to foreign auto players to enter into India. This has given real impetus for the development of auto component industry in India. The Compound Average Growth Rate of the production turnover of automotive component industry is 13.55 percent and of the export it is 18.83 percent over the last eight years. Thus there is overall growth of the automotive component industry in India. As per the estimation of the Automotive Component Manufacturers Association the industry is likely grow to US \$110 billion by 2020. With the increasing tendency of global OEM of sourcing components from India the industry stands a good chance of good prospects to the development of the automotive component industry in India.

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