OPPORTUNITIES IN INDIAN AUTOMOTIVE COMPONENTS INDUSTRY

BUSINESS SWEDEN

April 2015
India
THE INDIAN AUTOMOTIVE MARKET IS STEADILY GROWING TO BE 3RD LARGEST BY 2030

Automotive Market Turnover - India
USD Billion

- Several growth drivers have led to a rapid growth in the automotive sector in India
  - Increasing disposable income
  - Graduating from two wheeler to four wheeler
  - Increasing road development and road infrastructure
  - Easier finance schemes
  - Enabling regulatory environment

- Removal of trade and investment restrictions coupled with rising Indian economy, leads to India becoming a global manufacturing hub for automotive industry
  - India is 7th largest automotive production globally

- The industry has seen a growth of CAGR 14% over the past 6 years

- The market in India for automotive components is now worth around USD 45 billion, and has grown at pace with the booming market for cars and commercial vehicles
- Forecasts indicate that the pace of growth will moderate somewhat, but remain double-digit at approximately 11%
  - Continued investments from Western and East Asian OEM’s
  - Changed incentive structures driving localization of engine and powertrain components
- Around 40% of the revenue that makes up the Indian market pertains to foreign companies, mainly through the high import values of over USD 10 billion
- Sweden is a strong supplier of auto parts to India, with registered exports to the country of almost USD 100 million. To growth further, players in the industry should focus on
  - Bringing innovations in materials and production processes to the Indian market
  - Exploit OEM’s needs to localize engines and transmission systems
  - Leverage on existing relationships with Swedish OEM’s and hold on to privileged positions in offshored production systems

SOURCE: SOCIETY OF INDIAN AUTOMOBILE MANUFACTURES
Auto components market size in India
USD Billion

- Auto component sector expected to grow above 10% each year
  - Faster than overall GDP growth
  - 3x faster than the global auto component industry
  - By 2025 India is expected to be among the top five auto component economies, growing at a higher rate than China
- Most of the industry considered as organized due to the relatively advanced level (as opposed to e.g. textile or furniture manufacturing, largely part of informal economy)
- India is currently considered competitive in manufacturing of:
  - Forgings
  - Stampings
  - Castings
  - Machining
  - Wiring harness
  - Electronic fuel injectors

Key drivers of Auto Components market in India

1. Domestic capabilities
   - The cost of skilled labour in the country is one of the lowest in the world with an average annual cost of around USD 8000 for an entry level engineer
   - India produces more than 400,000 engineers per year

2. Increasing interest among foreign players
   - 78 FDI deals registered during 2011, 30% more than the previous years
   - Automotive is the best performer among the industries in creating jobs through FDI (16% of all jobs)

3. Innovation and R&D
   - Rise in innovative new brands such as the TATA Nano and the REVA - India’s first electric car
   - Smart-car features introduced also in mid-range cars
   - Indian companies are compliant with global automotive standards e.g. the JISC and DIN

SOURCE: IBEF, ACMA, TECHNAVIO, CHAKRABARTI & ASSOCIATES (JAN 2013), SOCIETY OF INDIAN AUTOMOBILE MANUFACTURES
ENGINE AND STEERING PARTS FORM 50% OF THE INDIAN AUTO COMPONENTS INDUSTRY

Automotive component subsectors (FY2013 estimates, USD Billion)

<table>
<thead>
<tr>
<th>Subsector</th>
<th>FY2013 (USD Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engine parts</td>
<td>15.1</td>
</tr>
<tr>
<td>Transmission, steering, tyres</td>
<td>9.3</td>
</tr>
<tr>
<td>Body &amp; chassis</td>
<td>5.8</td>
</tr>
<tr>
<td>Suspension &amp; braking</td>
<td>5.8</td>
</tr>
<tr>
<td>Equipments</td>
<td>4.9</td>
</tr>
<tr>
<td>Electrical parts</td>
<td>4.4</td>
</tr>
<tr>
<td>Others</td>
<td>3.4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>48.7</td>
</tr>
</tbody>
</table>

- Total market estimated to almost USD 50 billion, with engine parts as the largest sub segment
- Fragmented industry with about 6500 companies participating
  - Joint ventures are common for historical and relationship-enhancing reasons
  - About 50 tier-1 suppliers, largely from the organized sector
  - Vast majority of tier-2&3 suppliers are non-organized and there’s a large scope for consolidation in this segment

Investments in the auto component industry (USD Billion)

- Bosch - Recently invested in 100 service centers in Northern India, providing services to multiple brands, focusing on fuel injection and electronics
- David Brown/ Bharath Forge - Has opened its first industrial gearbox service and assembly facility in Hosur, Tamil Nadu
- Schaeffler - Will invest USD 164 during the next few years in order to systematically further develop its existing operations in India

SOURCE: TECHNAVIO, ACMA, IBEF
AS INDIAN SUPPLIERS GROW MORE SKILLED, EXPORTS ARE INCREASING BY 20% YEARLY

Export of automotive components
USD Billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Export (Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>3.8</td>
</tr>
<tr>
<td>2011-12</td>
<td>6.8</td>
</tr>
<tr>
<td>2015-16</td>
<td>12.3</td>
</tr>
<tr>
<td>2020-21</td>
<td>29</td>
</tr>
</tbody>
</table>

15-20% growth each year

Destination of exports
Share of total

 EUROPE AND NORTH AMERICA CUMULATIVELY ACCOUNT FOR 61% OF TOTAL EXPORTS FROM INDIA
INDIA IS AND WILL REMAIN A NET IMPORTER OF AUTO COMPONENTS FOR THE FORESEEABLE FUTURE

An estimated 40% of the automotive components market is controlled by foreign companies

- The automotive supplier industry has been attracting foreign capital ever since the opening of the economy
- Today, an estimated 20% of the revenue making up the market accrues to foreign-owned companies
- In combination with imports, almost 40% of the Indian market demand is fulfilled by foreign participation

INDIAN AUTO COMPONENTS IMPORTS HAVE GROWN TWICE AS FAST AS EXPORTS

SOURCE: ACMA, SOURCE, UN COMTRADE, IDC, DIPP, TEAM ANALYSIS
THE INDIAN AUTOMOTIVE SECTOR HAS AN ENABLING REGULATORY ENVIRONMENT

- The Government of India has permitted 100% foreign equity investment
  - It is a fully delicensed industry and free imports of automotive components are allowed
  - The government has not laid down any minimum investment criteria for the automobile industry

- The Automotive Mission Plan (2011-2016) has outlined setting up of technology modernization fund, and setting up of auto parks
  - Prepared by the Ministry of Heavy Industries and Public Enterprises, to accelerate and sustain growth in the sector over 2006 to 2016
  - Aimed to make India a global automotive hub, with emphasis on the export of small cars, MUVs, two- and three-wheelers and auto components
  - Aims to double the contribution of the automotive sector to the country’s GDP by taking its turnover to USD 145 billion and providing additional employment to 25 million people by 2016

- The Indian Auto Industry is harmonizing both Safety & Emission regulations with International Standards
  - Existing EU4 and EU5 regulations, and planned EU6 regulations place limits on particulate emissions and emissions of pollutants other than CO2 and encourage fuel economy. The EU has indicated that it will introduce legislation to reduce CO2 emissions from passenger cars

- Union budget 2015 key provisions
  - Concessional excise duty of 6% extended to March 31, 2015 for manufacturers supplying batteries to producers of electrically operated vehicles.
  - Exemption from basic customs duty on lithium-ion automotive batteries that are used in the manufacture of hybrid and electric vehicles
  - In addition, each state in India offers additional incentives for industrial projects

- National Automotive Testing and R&D Infrastructure Project
  - USD 388.5 million initiative of the Government of India and various state governments
  - Aimed at creating a state-of-art and dedicated testing, validation and R&D infrastructure across the country
INDIA PRESENTS OPPORTUNITIES IN MANY AREAS FOR SWEDISH AUTOMOTIVE SUPPLIERS

Examples of investments in India

<table>
<thead>
<tr>
<th>Investments</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nissan plans to develop its first ‘made-in-India’ car in the next 5-6 years in Chennai</td>
<td>2000 recruitments and enhance R&amp;D centre</td>
</tr>
<tr>
<td>Apollo Tyres investment in Chennai</td>
<td>USD 473 Million</td>
</tr>
<tr>
<td>Volkswagen setting up global manufacturing and R&amp;D operations in Pune</td>
<td>USD 809 Million</td>
</tr>
</tbody>
</table>

Swedish suppliers can aim at meeting the Western OEMs with localized products

- ‘Western’ OEMs localizing products
  - Volvo “Global Truck”
  - BharatBenz
- Indian suppliers becoming better each day
- Still a window of opportunity for Swedish suppliers to inject superior quality and service level at “India cost” – but it will not last forever

Opportunities for Swedish suppliers

1. Use existing relations with Swedish OEMs
   - Scania and Volvo are both in expansion phases in India
   - Window of opportunity to use them as beachheads and make their localization easier

2. Exploit OEMs need to localize engines and transmissions
   - New customs regulations make CKD’s with pre-assembled engines less economically favorable
   - Opportunity to support e.g. BMW, Mercedes in their urgent efforts to localize driveline

3. Bring innovations in materials and production processes
   - Indian suppliers are rapidly catching up in auto components with high labour share of cost and low manufacturing complexity
   - Opportunity to offer a distinctive product through offering higher quality or performance through proprietary material or production processes will remain for many years still

4. Hold on to privileged position in qualified equipment/components
   - As entire production lines are shifted, a supplier that can offer an already approved component at a localized rate and service level has an advantage over a local competitor

SOURCE: Indian Defense Acquisition & Emerging Opportunities Report, (Q-tech Synergy) Desktop Research
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