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# AUTOMOTIVE





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A report by KPMG for IBEF

## Market Overview

The automotive sector comprises the Original Equipment Manufacturers (OEMs) and auto component manufacturers. Globally, the automotive industry is recognised as a key component and driver of national economy. The global automotive industry is in the midst of a major structural transformation –

- Among OEMs, global conglomerates are emerging, driven by mergers and alliances among manufacturers (eg: GM/Fiat/Suzuki; Ford/Volvo/Mazda).
- Component manufacturers, or suppliers, are getting Tierised, with Tier 1 suppliers taking on the role of component aggregation and module supply/assembly, and component suppliers being relegated to Tiers 2 or 3.
- Relationships between OEMs and suppliers (especially Tier 1s) are becoming increasingly collaborative.

These trends have affected the Indian auto industry as well, leading to a rapid transformation of the industry over the last decade or so. After the end of licensing in 1993, the industry has witnessed rapid growth in volumes and capacity, and 17 new ventures have come up in the last 10 years. These include global giants such as General Motors, Ford, Toyota, Honda, Hyundai and Fiat. The industry encompasses commercial vehicles, multi-utility vehicles, passenger cars, two wheelers, three wheelers and auto components.

The domestic automobile market has been growing at 14.2 per cent CAGR over the past 4 years (2000-01 to 2004-05), while the auto components market has been growing at 19.2 per cent CAGR (2000-01 to 2003-04). The industry (OEMs and suppliers together) contributed nearly 4 per cent to the country's GDP in 2003-04. The automotive sector also offers significant employment opportunities. It employs 0.45 million people directly and around 10 million people indirectly.

The industry's capabilities in design, engineering and manufacturing have been recognised the world over, and most automotive majors are looking to increasingly source auto components from India.

India is emerging as one of the most attractive automotive markets in the world, and is poised to become a key sourcing base for auto components. The table below captures the highlights of the sector in India that illustrates its growing significance.

### Indian Automobile Industry

- Largest three wheeler market in the world
- 2nd largest two wheeler market in the world
- 4th largest passenger vehicle market in Asia
- 4th largest tractor market in the world
- 5th largest commercial vehicle market in the world

### The industry structure spans all segments and is concentrated in regional clusters

The India automotive sector has a presence across all vehicle segments and key components. In terms of volume, two wheelers dominate the sector, with nearly 80 per cent share, followed by passenger vehicles with 13 per cent. The industry had few players and was protected from global competition till the 1990s. After government lifted licensing in 1993, 17 new ventures have come up. At present, there are 12 manufacturers of passenger cars, 5 manufacturers of multi utility vehicles (MUVs), 9 manufacturers of commercial vehicles, 12 of two wheelers and 4 of three wheelers, besides 5 manufacturers of engines. With the arrival of global players, the sector has become highly competitive.

### Concentrated in regional clusters

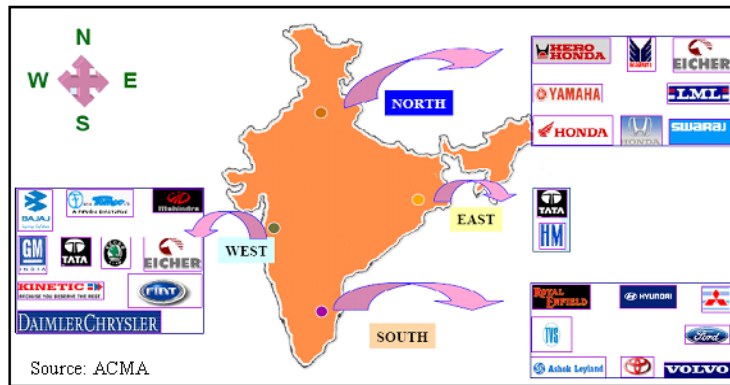
Automobile manufacturing units are located all over India. These are, however, concentrated in some pockets such as Chennai and Bangalore in the south, Pune in the west, the National Capital Region (NCR, which includes New Delhi and its suburban districts) in the north, Jamshedpur and Kolkata in the east and Pithampur in the central region.

Following global trends, the Indian automotive sector also has most auto suppliers located close to the manufacturing locations of OEMs, forming regional automotive clusters. Broadly, the three main clusters are centered around Chennai, Pune and the NCR.

### Auto Components sector is highly fragmented

The Indian automotive component industry is highly fragmented. There are nearly 6,400 players in the sector, of which only about 6 per cent are organised and the remaining 94 per cent are small-scale, unorganised players. In terms of value added, however, the organised players account for nearly 77 per cent of the output in the sector.

The sector manufactures components across all key vehicle systems. The break-up of the output from the organised sector, in value terms, across key vehicle systems, is shown in the figure.

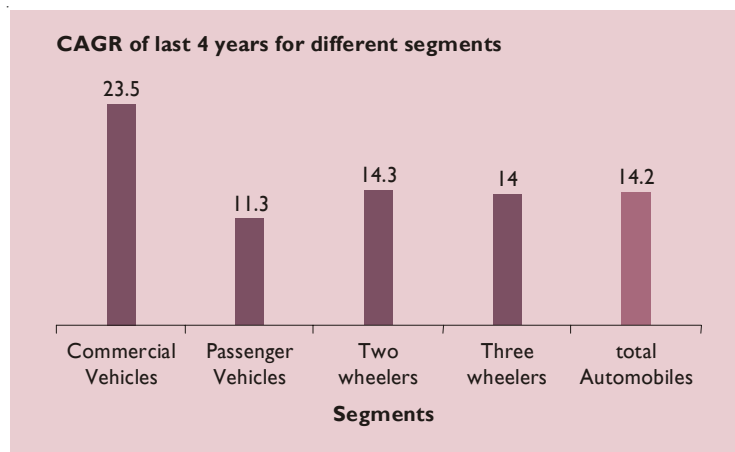


The automotive sector is growing strongly in both domestic and exports markets

Indian automobile industry has been performing well both in the domestic and the international markets.

#### Automobiles - Domestic Performance

The production and domestic sales of the automobiles in India have been growing strongly. While production increased from 4.8 million units in 2000-01 to 8.5 million units in 2004-05 (a CAGR of over 15 per cent), domestic sales during the same period have gone up from 4.6 million to 7.9 million units (CAGR 14.2 per cent).

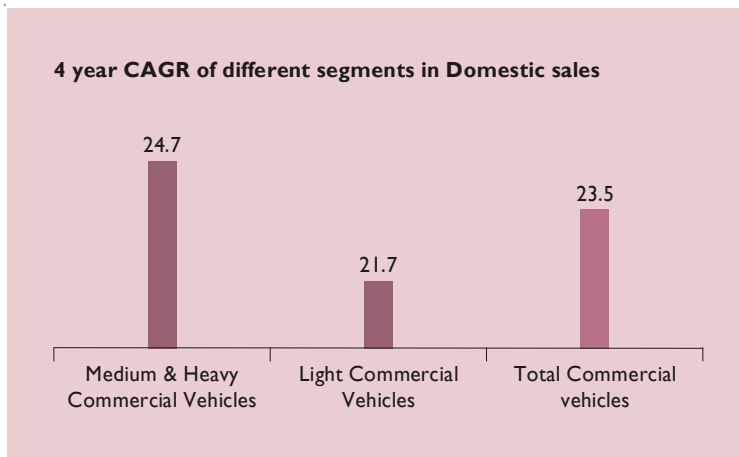


A positive trend in the domestic market is that the growth has not been driven by one or two segments, but is consistent across all key segments. Two wheelers, which constitute the majority of the industry volume, have been growing at a rate of 14.3 per cent, three wheelers at a rate of 14 per cent and passenger vehicles at a rate of 11.3 per cent. Commercial vehicles have been growing at a higher rate of nearly 23.5 per cent, although from a lower base.

Since nearly all macro-economic indicators – GDP, infrastructure, population demographics, interest rates, etc. – are showing a favourable trend, the domestic market for automobiles in India is expected to continue on its growth trajectory.

### Commercial Vehicles

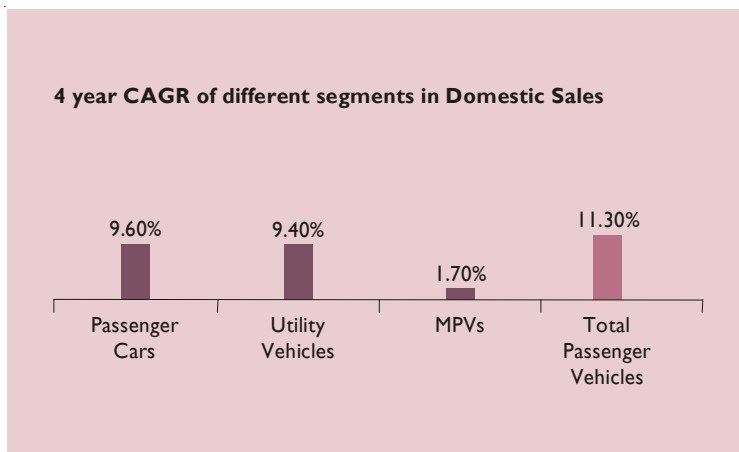
The commercial vehicle production in India increased from 156,706 in 2001 to 350,033 in 2005.



Source: SIAM, KPMG Analysis

This segment can be divided into three categories – heavy commercial vehicles (HCVs), medium commercial vehicles (MDVs or MCVs) and light commercial vehicles (LCVs). Medium and heavy commercial vehicles formed about 62 per cent of the total domestic sales of CVs in 2004. These segments have also been driving growth, having grown at a CAGR of nearly 24.7 per cent over the past five years. The key trends facilitating growth in this sector are the development of ports and highways, increase in construction activities and agricultural output. With better roads and highway corridors linking major cities, the demand for larger, multi-axle trucks is increasing in India.

### Passenger Vehicles



Source: SIAM, KPMG Analysis

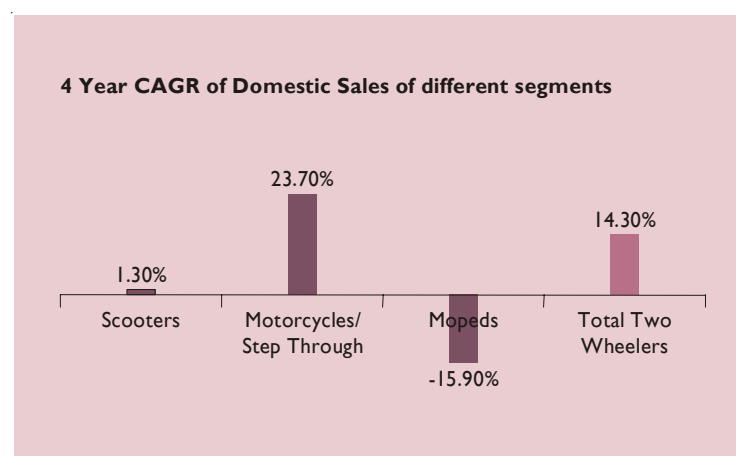
Passenger vehicles consist of passenger cars and utility vehicles. This segment has been growing at a CAGR of 11.3 per cent for the past four years.

A key trend in this segment is that with rising income levels and availability of better financing options, customers are increasingly aspiring for higher-end models. There has been a gradual shift from entry-level models to higher-end models in each segment. For example, in passenger cars, till recently, the Maruti 800 used to define the entry level car, and had a predominant market share. Over the last 3-4 years, higher-end models such as Hyundai Santro, Maruti Wagon R, Alto and Tata Indica have overtaken the Maruti 800.

Another development has been the blurring of the dividing line between utility vehicles and passenger cars, with models like Mahindra & Mahindra's Scorpio attracting customers from both segments. Upper end sports utility vehicles (SUVs) attract potential luxury car buyers by offering the same level of comfort in the interiors, coupled with on-road performance capability.

#### Two wheelers

The production of two wheelers in India increased from 3.76 million vehicles in 2001 to 6.53 million vehicles in 2005.



Source: SIAM, KPMG Analysis

The domestic sales have been increasing at a CAGR of 14.3 per cent for the past 4 years. Motorcycles constituted 79.5 per cent of the domestic sales of two wheelers in India and have been growing at nearly 24 per cent CAGR. In the scooter segment, overall domestic sales grew by 1.3 per cent CAGR, driven primarily by ungeared scooters and scooters with automatic gears. The sales of mopeds have

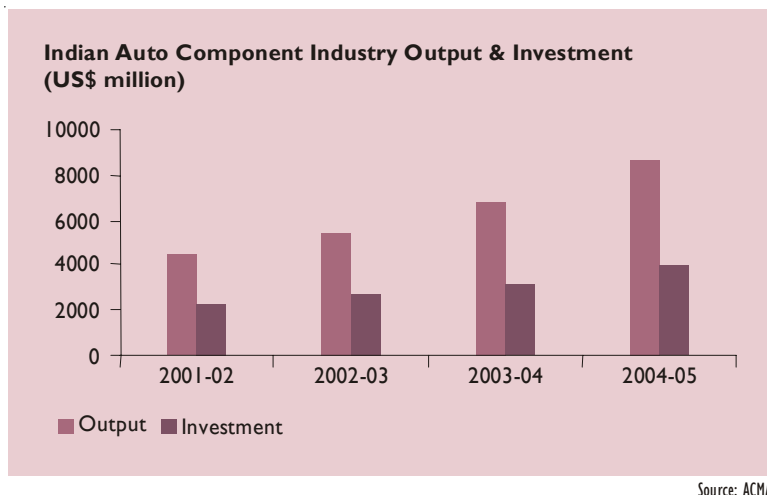


declined at a CAGR of 15.9 per cent for the past four years. The motorcycle segment clearly drives the growth of the two wheeler segment in India.

The two wheeler segment is being shaped by changing demographics and lifestyles. An increasing number of working women and greater affluence among college goers have led to an increase in demand for ungeared/auto geared scooters. As with the case of passenger vehicles, there is a rising demand for higher-end models that combine style and performance in this segment as well. In motorcycles, for example, models with higher engine capacities (125cc, 150cc or above) are proving very popular.

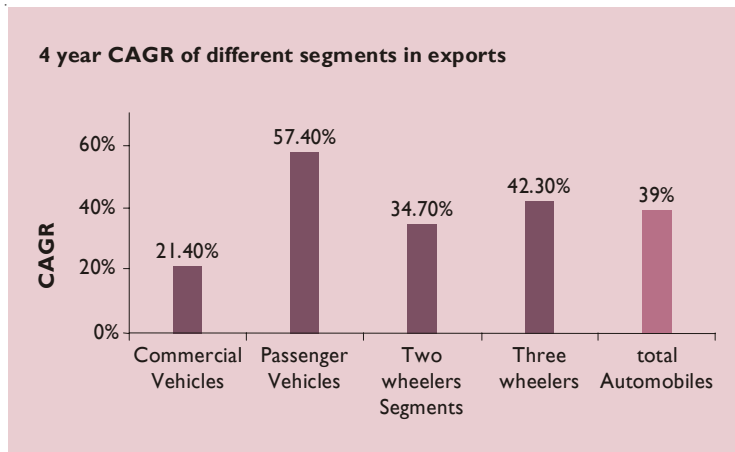
### Three wheelers

The three wheeler segment in India is currently small in size, but growing rapidly. The production of three wheelers in India has increased from 203,234 vehicles in 2001 to 374,414 vehicles in 2005. The domestic sales have increased at a CAGR of 14 per cent for the past four years from 181,899 vehicles in 2001 to 307,887 vehicles in 2005. These vehicles find use as passenger vehicles (auto-rickshaws) as well as small capacity commercial vehicles (pick-up vehicles)



### Auto Components - Investments are increasing in line with the output

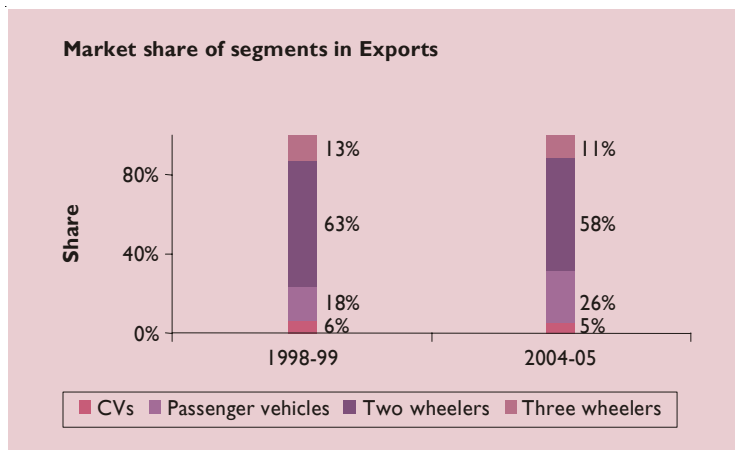
According to Automotive Component Manufacturers Association of India (ACMA), the output of auto component industry in India has increased at a CAGR of around 25 per cent for the past three years from US\$ 4470 million in 2002 to US\$ 8700 million in 2005. With booming domestic sales and increasing demand from exports, the confidence of industry players is high. This is reflected in the increase in investments in capacity creation and expansion. Investments in this sector have increased from US\$ 2300 million in 2002 to US\$ 3950 million in 2005, a CAGR of 20 per cent.



Source: SIAM, KPMG Analysis

### Exports of automobiles from India are booming

While the domestic sales of automobiles have been increasing at a significant rate, exports have taken a quantum leap in recent years. The exports of automobiles from India have been growing at a CAGR of 39 per cent for the past four years.



Source: SIAM, KPMG Analysis

Exports growth has been spearheaded by the passenger vehicle segment, which has grown at a rate of 57.4 per cent. As a result, the share of passenger vehicles in overall vehicle exports has increased from 18 per cent in 1998-99 to 26 per cent in 2004-05.

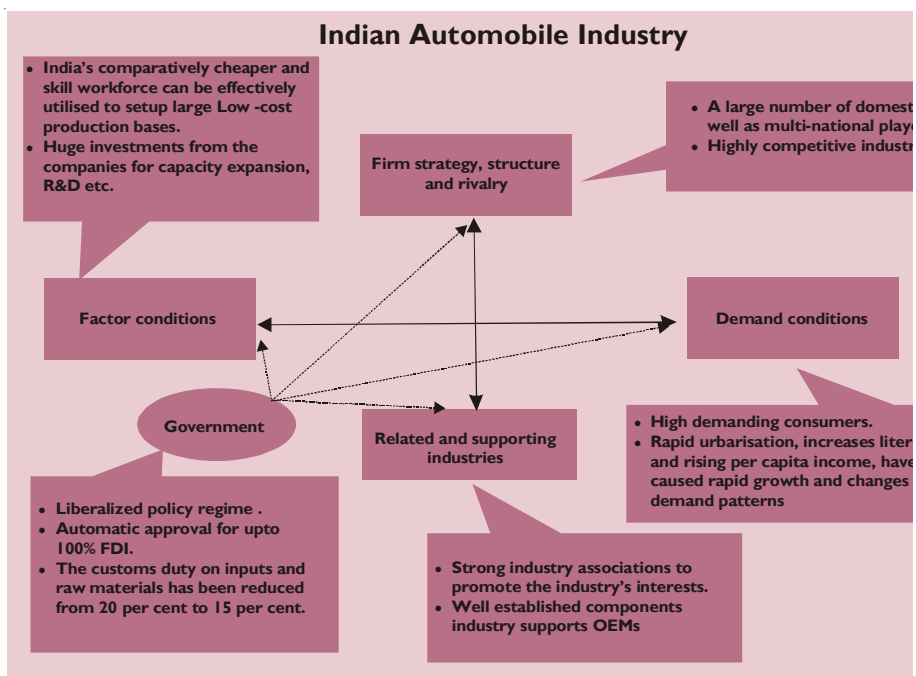
Europe is the biggest importer of cars from the country while predominantly African nations import buses and trucks. The Association of South East Asian Nations (ASEAN) region is the prime destination for Indian two wheelers.

### Auto Components exports – large potential

Auto component exports from India grew from US\$ 760 million

in 2002-03 to an estimated US\$ 1.4 billion in 2004-05. Key export destinations include the Americas (31.1 per cent), Europe (30.3 per cent), Asia (18.2 per cent), Africa (10.7 per cent) and the Middle East (7.6 per cent).

Most of the key auto component manufacturers in India are very positive about the outlook for exports, and expect about 15 per cent of their revenue to come from exports over the next 3-5 years. It has been estimated that exports of auto components from India could be around US\$ 20-25 billion by 2015.

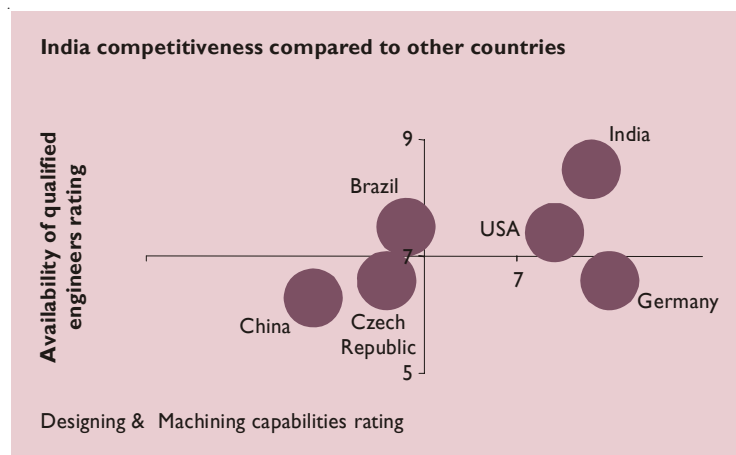


## Competitive Advantages

India has several competitive advantages in the automobile sector, which have been analysed using the following framework.

### Availability of skilled manpower with engineering and design capabilities

India has a growing workforce that is English-speaking, highly skilled and trained in designing and machining skills required by the automotive and engineering industries. In a combined assessment of manpower availability and capabilities, India ranks much ahead of other competing economies (see figure).



Source: ACMA, KPMG Analysis

Many Indian and global players are leveraging this advantage by increasingly outsourcing activities like design and R&D to their Indian arms. The Society of Indian Automobile manufacturers (SIAM) estimates that automotive vehicle manufacturers are expected to invest US\$ 5.7 billion in the Indian market from 2005 to 2010. Of this, about US\$ 2.3 billion will be on research and development and the rest probably on capex. Some examples of investment in areas leveraging the engineering and design capabilities of India include:

- MICO, the Indian operation of Bosch and a key player in fuel injection equipment, ignition systems and electricals, has invested in the MICO Application Centre (MAC) for R&D. It has emerged as a key global R&D competency centre catering to the entire Bosch Group. It is the first of its kind in India and the Bosch Group's first outside Europe.
- GM set up a technical centre at Bangalore that became fully operational in September 2003. The centre focuses on both R&D and engineering, and takes up high-value work to complement current research programmes, as well as new exploratory research projects.

- Ford set up Ford Information Technology Services India (FITSI) in Chennai, which caters to the software requirements of Ford Motor Company in the region and around the world. FITSI develops solutions for Ford worldwide. For example, it developed web-based customer relationship services for Ford India, Australia and South Africa. In addition, Ford has shifted the CAD/CAM development, e-mail processing and application development from worldwide operations to India's FITSI.

#### Competitive industry, with global players

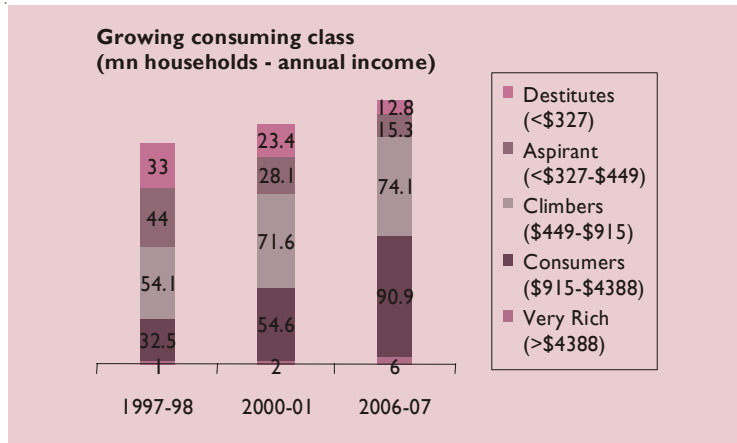
Segment	Key Players
Commercial Vehicles	Tata Motors, Ashok Leyland, Swaraj Mazda, Mahindra & Mahindra, Bajaj Tempo, Eicher Motors
Passenger Vehicles	Tata Motors, Maruti Udyog, Honda Motors, Hyundai Motors, Toyota, Skoda, Mahindra & Mahindra, Daimler Chrysler, Hindustan Motors
Two Wheelers	Hero Honda, Honda Motors, Bajaj Auto, TVS Motors, Yamaha, Kinetic Engineering
Three Wheelers	Bajaj Auto, Piaggio India

The Indian automobile industry is highly competitive with a large number of players in each industry segment. Most of the global majors are present in the passenger vehicle and two wheeler segments. In the components industry too, global players such as Visteon, Delphi and Bosch are well established, competing with domestic players.

The presence of global competition has led to an overall increase in capabilities of the Indian auto sector. Increase in competition has led to a pressure on margins, and players have become increasingly cost efficient. Quality levels have gone up, and there is an increasing focus on compliance to TPM, TQM and Six Sigma processes. This has led to an increased confidence among domestic players, who are now focusing on opportunities abroad. Key players in the components sector like Bharat Forge and Sundaram Fasteners have become key global suppliers in their categories.

#### Large market with significant potential for growth in demand

India offers a huge growth opportunity for the automobile sector – the domestic market is large and has the potential to grow further in the future due to positive demographic trends and the current low penetration levels.



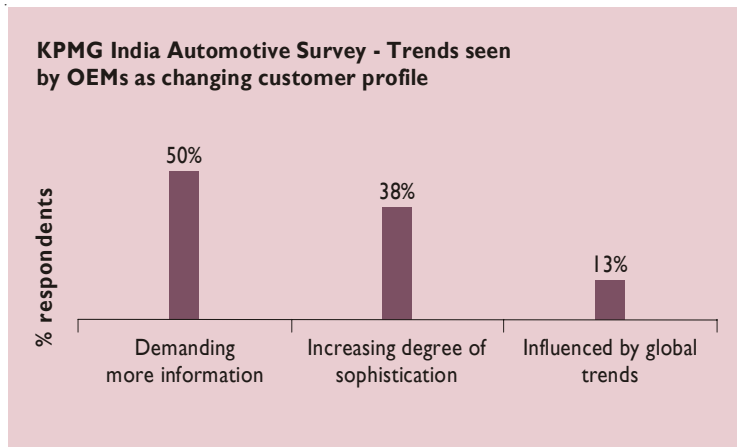
Source: NCAER

**Large target consumer base and rising income levels:**

India has nearly 23 per cent of the global population and is one of the most attractive consumer markets in the world today. Income levels across population segments have been growing in India. According to National Council of Applied Economic Research (NCAER) data, the consuming class, with an annual income of US\$ 980 or above, is growing and is expected to constitute over 80 per cent of the population by 2009-10.

In addition, a large proportion of the Indian population is relatively young - in the age group of 20-59 years. This is expected to further boost the automotive domestic market as a younger population has a higher consumption index.

The rise in income levels of the Indians and the emergence of the consuming class that has higher propensity to spend offers great opportunities for growth to companies across various sectors.



**Changing lifestyles, driving demand for new segments**

Consumers in India are now more informed, sophisticated and

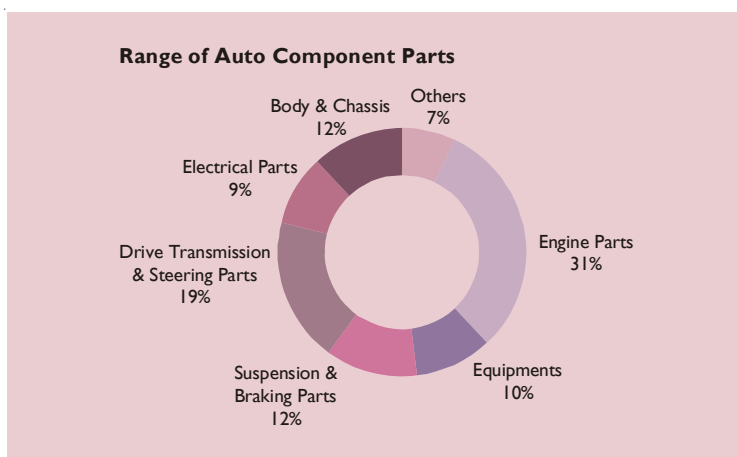
demanding. Urban consumers have been especially exposed to western lifestyles through overseas travel. For example, more than 5 million Indians travelled overseas last year and this number is expected to increase by 15 per cent to 20 per cent per annum. An increase in the number of working women and the prevalence of nuclear double-income families, especially in urban areas, are other trends shaping lifestyles.

These changes are driving an increased need for personal transport, especially in segments like working women, young executives and teenagers. This has led to the growth in demand for motorcycles, ungeared and automatic scooters and compact cars. Across the automobile spectrum, consumer aspirations are driving demand for upper end models in all segments.

### Presence of strong industry associations and supporting industries

#### Industry Associations

The Indian automotive industry is well served by the two industry associations – Society of Indian Automobile Manufacturers (SIAM) that represents the OEMs and Automotive Components Manufacturers' Association (ACMA) that represents the components industry. Both associations actively engage with industry, government and other stakeholders to promote the interests of the industry and improve competitiveness.



Source: ACMA

#### Supplier base

Indian automobile manufacturers are well supported by the automotive component industry. Indian companies produce a range of automotive components like engine parts, electrical parts, equipments etc.

Ford is leveraging the large, high quality automotive supplier base of India and has made India a component-sourcing base. This has helped Ford reduce the cost of manufacturing and increase its exports. Ford India awarded the Q1 supplier status to 10 suppliers to help them export their products to Ford worldwide.

## Government Regulations and Support

The Government of India (GoI) has identified the automotive sector as a key focus area for improving India's global competitiveness and achieving high economic growth.

The Government formulated the Auto Policy for India with a vision to establish a globally competitive industry in India and to double its contribution to the economy by 2010. It intends to promote Research & Development in automotive industry by strengthening the efforts of industry in this direction by providing suitable fiscal and financial incentives. Some of the policy initiatives include:

- Automatic approval for foreign equity investment upto 100 per cent of manufacture of automobiles and component is permitted.
- The customs duty on inputs and raw materials has been reduced from 20 per cent to 15 per cent. The peak rate of customs duty on parts and components of battery-operated vehicles have been reduced from 20 per cent to 10 per cent. These new regulations would strengthen India's commitment to globalisation. Apart from this, custom duty has been reduced from 105 per cent to 100 per cent on second hand cars and motorcycles.
- National Automotive Fuel Policy has been announced, which envisages a phased programme for introducing Euro emission and fuel regulations by 2010.
- Tractors of engine capacity more than 1800 cc for semi-trailers will now attract excise duty at the rate of 16 per cent.
- Excise duty is being reduced on tyres, tubes and flaps from 24 per cent to 16 per cent. Customs duty on lead is 5 per cent.
- A package of fiscal incentives including benefits of double taxation treaty is now available.

These government policies reflect the priority government accords to the automobile sector. A liberalised overall policy regime, with specific incentives, provides a very conducive environment for investments and exports in the sector.



## Key Domestic & Foreign Players

### Profile of Domestic Players

Name of the company	Parent company	Output	Models	Plants
Tata Motors Ltd	Largest commercial vehicle player in the country and one of the largest in the passenger-vehicles segment.	Capacity - 160,000 units pa Volumes - 171,870 units in 2004 Operating income- US\$ 3.8 billion in 2005	Sierra, Sumo, Safari, Indica, Indigo	Pune (Maharashtra)
Mahindra & Mahindra Ltd	Flagship company of the Mahindra Group; largest player in the tractor segment in India	Capacity - 125,000 units pa Volumes - 69,737 units in 2004 Operating income- US\$ 1.47 billion in 2005	Armada, Bolero, Commander, Marshall, Maxx, Voyager, Scorpio	Mumbai, Nashik (Maharashtra)
Hindustan Motors Ltd.	A C.K Birla group flagship and one of the oldest auto companies in India.	Capacity - 64,000 units pa Volumes - 15,782 units Operating income- US\$ 159.7 million in 2004	Lancer, Ambassador, Contessa, Trekker, RTV, Pushpak, Pajero	Uttarpara (West Bengal), Pithampur (Madhya Pradesh), Trivellore (Tamil Nadu)
Ashok Leyland	Hinduja group	Operating Income - US\$ 952.9 million in 2005	Multiaxle vehicles, tractor, ecomet, engines, Viking BS-I, Viking BS-II, Vestibule Bus, 222 CNG bus etc	Ennore, two plants at Hosur, the assembly plants at Alwar, Bhandara, castings plant at Hyderabad
TVS Motor	TVS Group	Operating Income - US\$ 641.9 million in 2005	Mopeds - Excel, Champ, TVS 50 Scooterettes - Scooty Motorcycles - Max 100, Victor, Centra, Fiero	Hosur, Mysore
Bajaj Auto	Bajaj Group	Capacity - 2.52 million units pa Operating income - US\$ 1.3 billion in 2005	Motorcycles - Boxer, CT 100, Discover, Wind, Caliber, Pulsar, Eliminator Scooters - Spirit, Saffire, Wave	3 Plants at Akurdi, Waluj, Chakan

Name of the company	Parent company	Output	Models	Plants
LML	Lohioa Group		Freedom, Graptor	Kanpur

### Profile of Overseas Players

Maruti Udyog Ltd	Suzuki of Japan holds a 54.2 per cent stake in the company.	Capacity - 500,000 units pa Volumes - 472,122 units including exports in 2004 Operating income- US\$ 2.4 billion in 2005	800, Omni, Alto, WagonR, Zen, Baleno, Esteem, Gypsy, Vitara, Versa	Gurgaon (Haryana)
Hyundai Motors Ltd	Wholly owned subsidiary of Hyundai Motor Company, S. Korea	Capacity - 150,000 units pa Volumes - 171,905 units	Santro, Accent, Sonata, Terracan	Irrungattukottai (Tamil Nadu)
Daimler Chrysler India	100 per cent subsidiary of Daimler Chrysler group	Capacity - 10,000 units pa Volumes - 1,640 units	E class, S class, C class	Pune (Maharashtra)
Fiat Motors	Subsidiary of Fiat Auto SpA	Capacity - 50,000 units pa Volumes - 10,428 units	Uno, Siena, Palio, Palio Adventure	Mumbai (Maharashtra)
Ford Motors Ltd	Ford Motor Company, the world's second largest automaker	Capacity - 100,000 units pa Volumes - 45,723 units	Ikon, Mondeo	Chengalpattu (Tamil Nadu)

Name of the company	Parent company	Output	Models	Plants
General Motors Ltd	collaboration between General Motors Corporation and C.K. Birla Group of companies	Capacity - 25,000 units pa Volumes - 17,986 units	Astra, Corsa, Swing, Forrester, Vectra, Sail, Optra, Chevrolet Optra	Halol (Gujarat)
Honda Siel Cars India (HSCI)	Established in 1995, with Honda Motor Company, (Japan) and Siel Ltd (India) being the key promoters.	Capacity - 30,000 units pa Volumes - 20,550 units	City, Accord, CR -V	Noida (UP)
Toyota Kirloskar	Joint venture between Kirloskar Group and Toyota Motor Corp.	Capacity - 50,000 units pa Volumes - 42,549 units	Qualis, Camry, Corolla	Bidadi (Karnataka)
Skoda Auto India	Skoda Auto, based in Czech Republic, is a part of Volkswagen group	Capacity - 10,000 units pa Volumes - 3,712 units	Octavia, Laura	Aurangabad (Maharashtra)
Hero Honda	Joint venture between Hero Group, the world's largest bicycle manufacturers and the Honda Motor Company of Japan	Capacity - 2.8 million units pa Operating income - US\$ 1.66 billion in 2005	Motorcycles - CD Dawn, CD Deluxe, Daruhera and Splendour, Passion, Gurgaon Karizma, CBZ, AmbitionStep Through - Street	2 plants at
Honda Motorcycle & Scooters India Pvt. Ltd (HMSI)	Wholly owned subsidiary of Honda Motor Company Ltd., Japan	Capacity- 200,000 vehicles per annum	Scooters - Activa, Dio, Eterno Motorcycles - Unicorn	1 plant at Manesar

## The outlook for India's automotive sector appears bright

The outlook for India's automotive sector is highly promising. In view of current growth trends and prospect of continuous economic growth of over 5 per cent, all segments of the auto industry are likely to see continued growth. Large infrastructure development projects underway in India combined with favorable government policies will also drive automotive growth in the next few years. Easy availability of finance and moderate cost of financing facilitated by double income families will drive sales in the next few years.

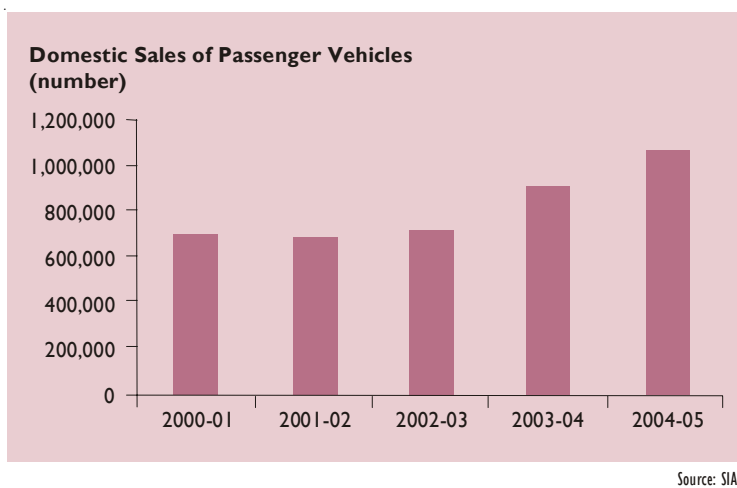
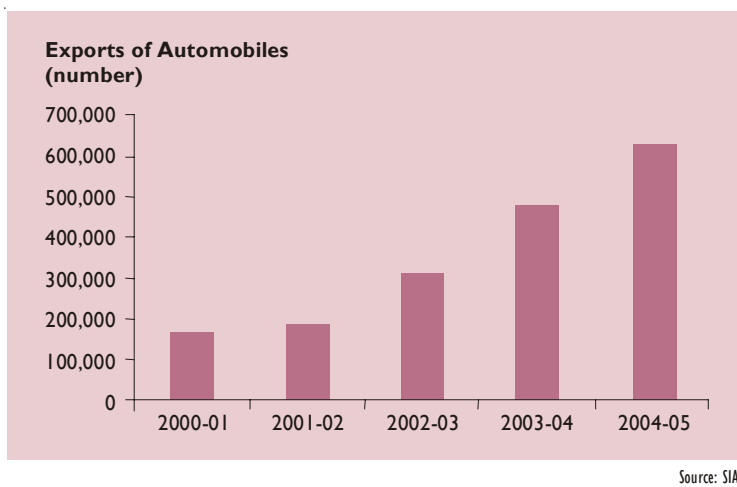
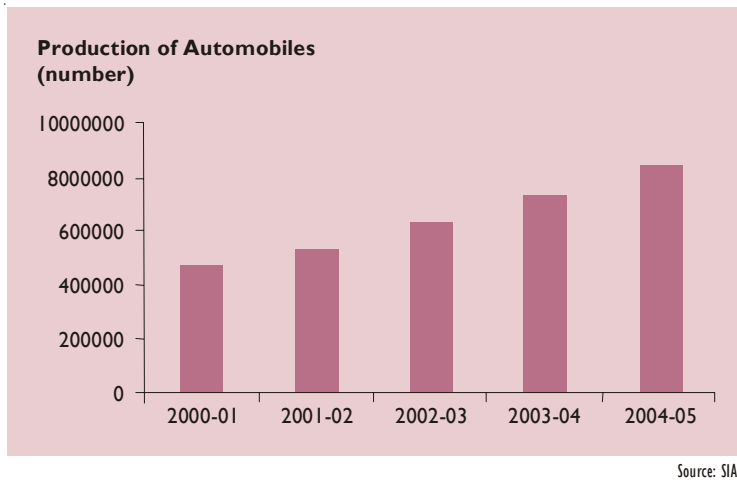
India is also emerging as an outsourcing hub for global majors. Companies like GM, Ford, Toyota and Hyundai are implementing their expansion plans in the current year. While Ford and Toyota continue to leverage India as a source of components, Hyundai and Suzuki have identified India as a global source for specific small car models.

At the same time, Indian players are likely to increasingly venture overseas, both for organic growth as well as acquisitions. The automotive sector in India is poised to become significant, both in the domestic market as well as globally.



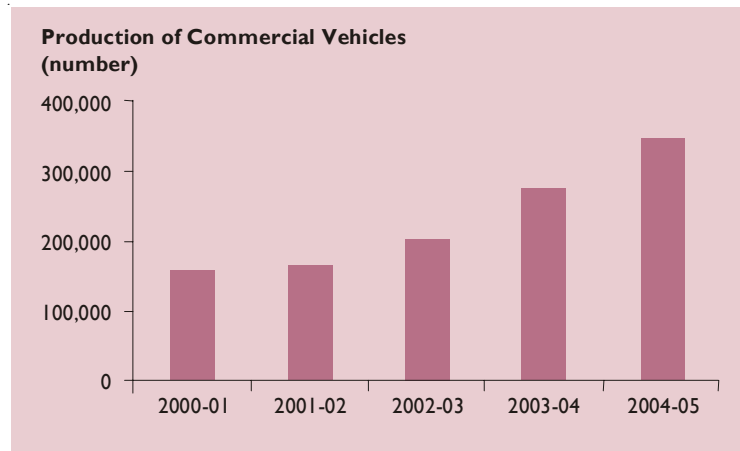
## Production, Domestic Sales and Exports Trend

### Automobiles

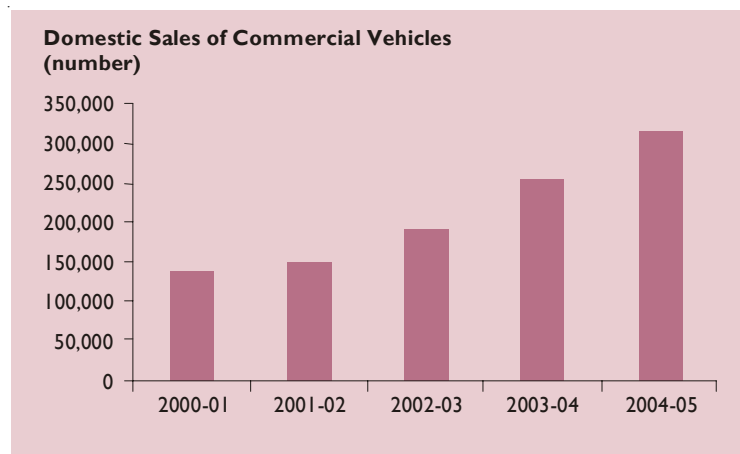


While Domestic Sales have been growing strongly since 2000-01, Exports have nearly tripled in the last 5 years

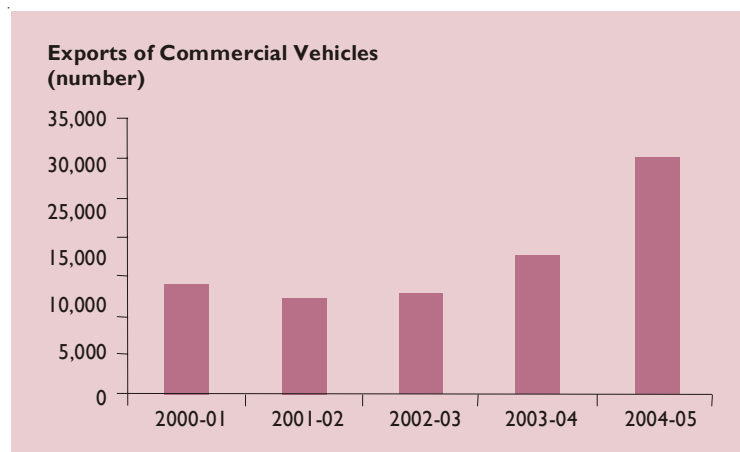
Commercial Vehicles



Source: SIAM



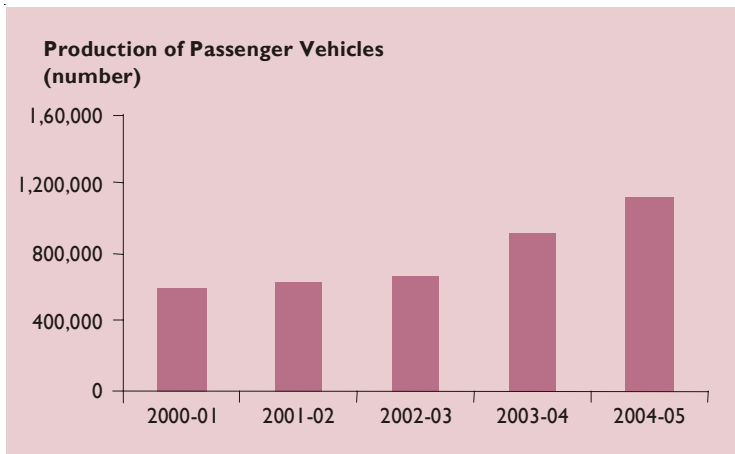
Source: SIAM



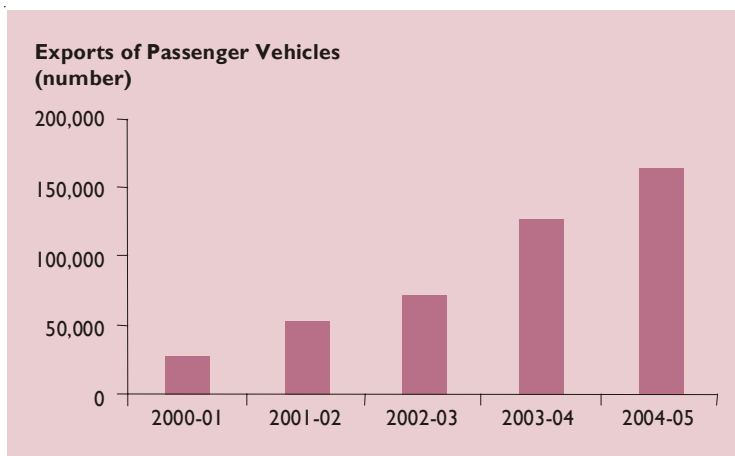
Source: SIAM

Growth in the economy and infrastructure development is driving growth in this segment

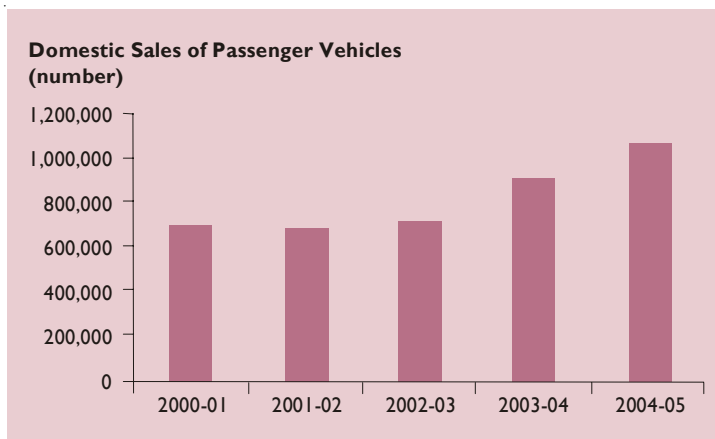
## Passenger Vehicles



Source: SIAM



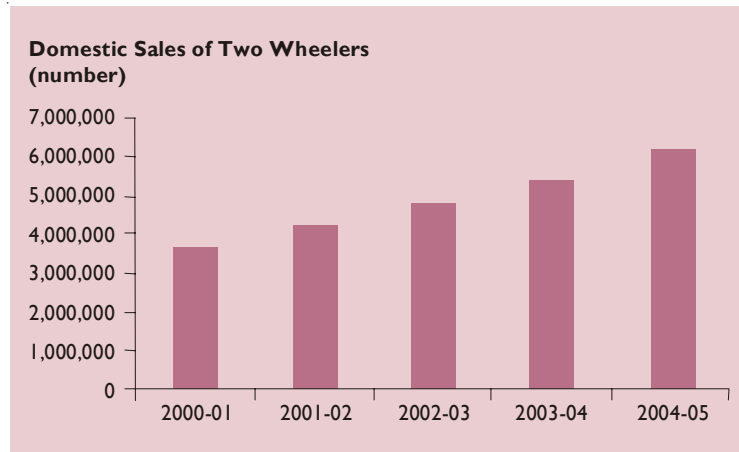
Source: SIAM



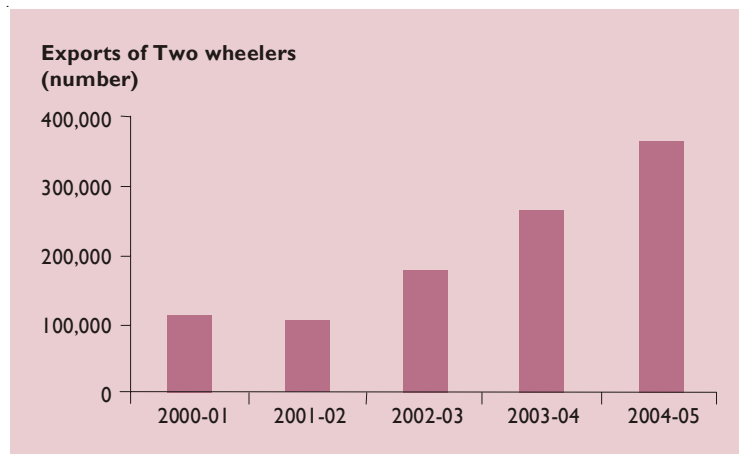
Source: SIAM

Rapid growth in Exports signals the increasingly global outlook of these segments.

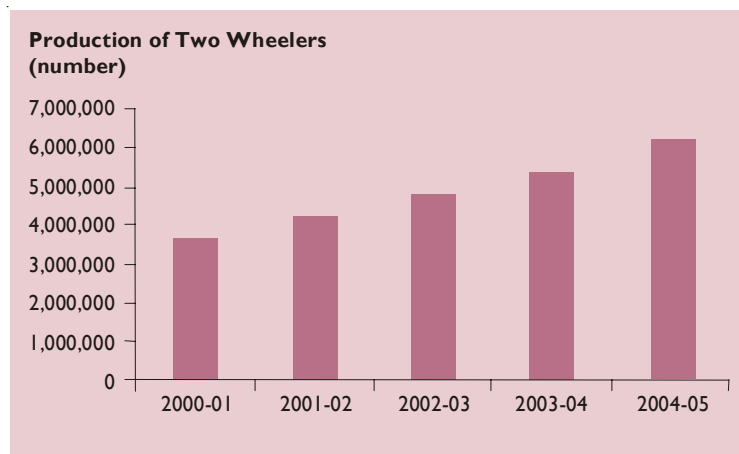
Two wheelers



Source: SIAM



Source: SIAM

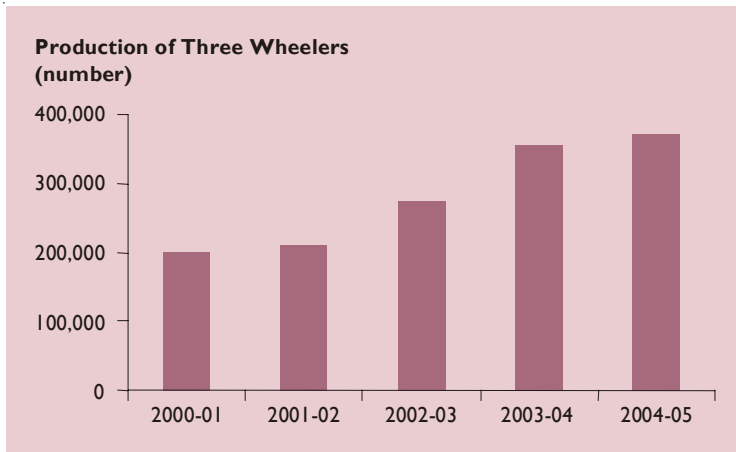


Source: SIAM

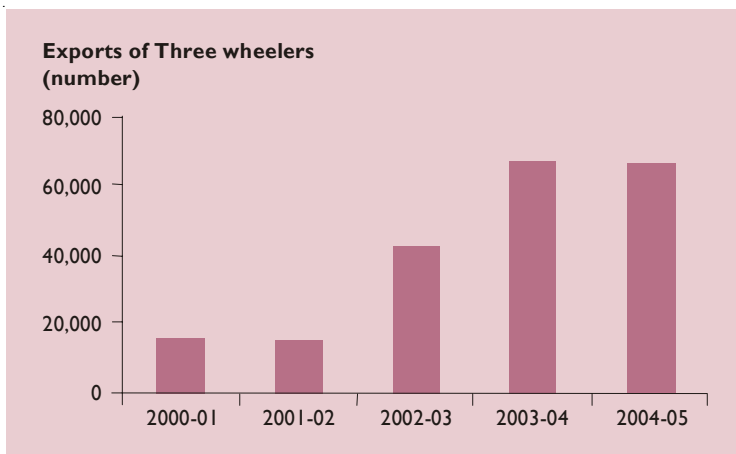
While domestic sales have been growing steadily over the years, exports have boomed over the last 5 years



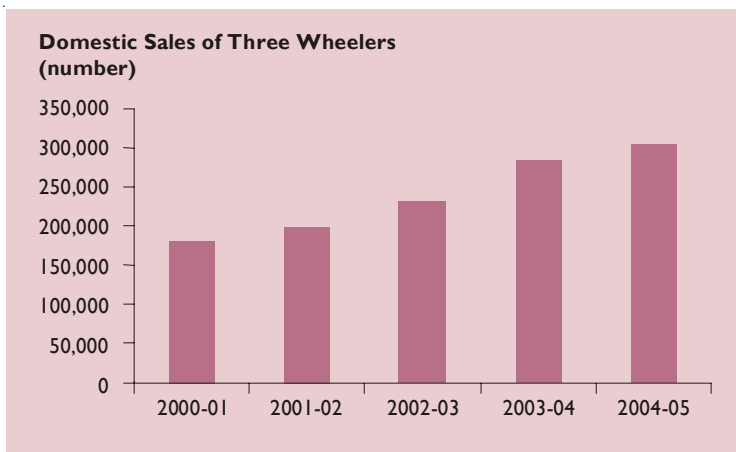
## Three Wheelers



Source: SIAM



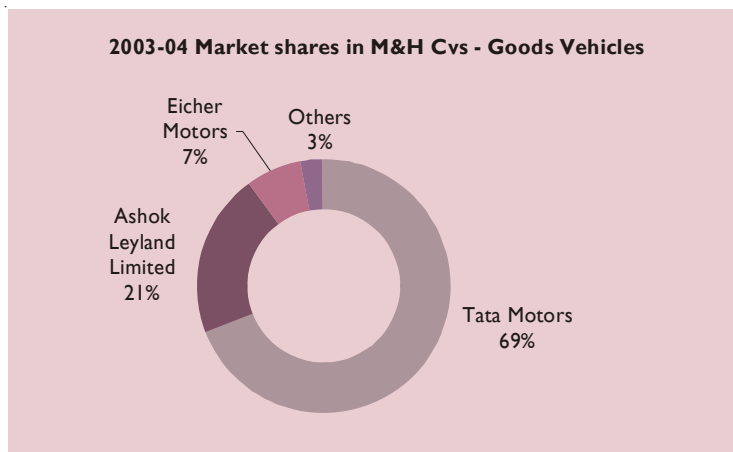
Source: SIAM



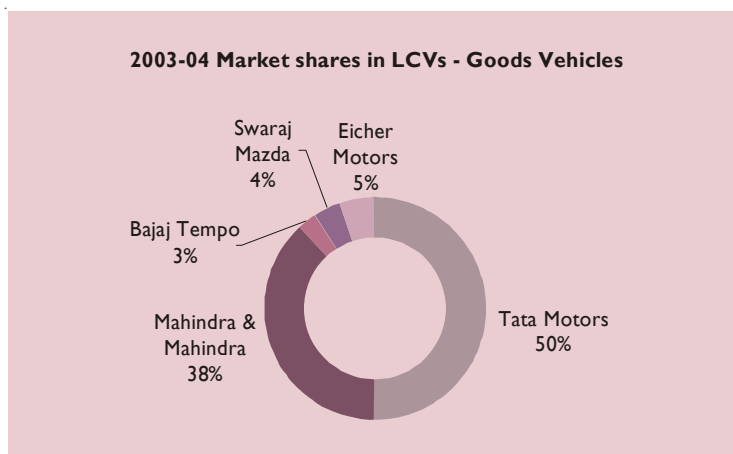
Source: SIAM

While the domestic market has experienced a steady growth, exports of three wheelers have picked up in the last 3 years

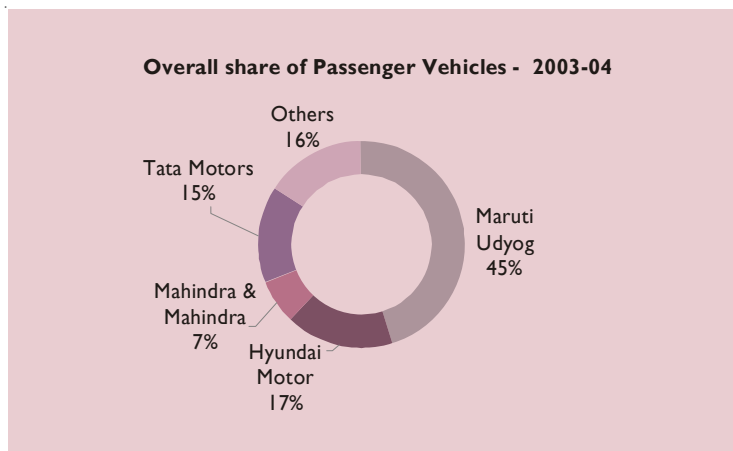
Market shares



Source: www.indiaonline.com



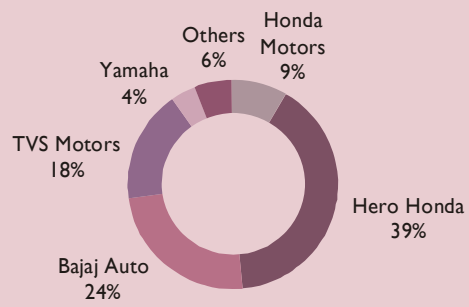
Source: www.indiaonline.com



Source: www.indiaonline.com



**Market share two wheelers 2004-05**



Source: SSRI Research

## CONTACT FOR INFORMATION

Address of the apex contact agency for the sector

### Apex Contact Agency    Address

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