CARE Research

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The Indian Auto Component Industry

December 2012

In absence of strong auto demand, rising level of indigenization will drive auto component growth

Indian auto component manufacturers offer advantages like low-cost and adequate production capacity with world class technology. Domestic auto component manufacturers are increasingly complying with the internationally accepted quality standards like six sigma, ISO, etc which has caught the attention of global OEMs. Global OEMs are increasing their localization levels across all their products offerings in Indian markets. The level of indigenization is being increased in phased manner to keep costs low without compromising quality. Furthermore, depreciating rupee is resulting in increase of import bill for global OEMs, who source a large proportion of their inputs from overseas markets. In order to curtail the burden of growing import bill global OEMs are resorting to increased local sourcing. Although indigenization level of domestic players is already around 95 per cent in 2011-12, indigenization level of foreign OEMs stands between 65-70 per cent, CARE Research estimates it to reach around 80 percent by the end of 2014. CARE Research foresees growing levels of indigenization in next couple of years will drive growth of auto component manufacturers in the next 2-3 years regardless of slowdown in automobile demand

Trade gap to narrow in next five years on the back of growing indigenization by global OEMs

In 2011-12 imports stood at Rs. 514 billion as compared to exports of Rs. 334 billion, however, we believe that the trade gap would narrow going ahead due to continuously rising rate of growth in exports and expected decline in growth rate of imports due to increase in levels of indigenization. In 2011 and 2012 exports have grown by 55 per cent and 41 per cent respectively compared to imports which have witnessed a growth of 33 per cent in both 2011 and 2012. Increasing number of global OEMs are moving substantial part of their manufacturing operations to India so as to make India their export base. This will provide opportunity for domestic component manufacturers to expand their clientele as well as presence. Further, it also provides opportunity for domestic manufacturers to become a part of global supply chain of these OEMs. The entry of foreign OEMs and auto component manufacturers has pushed domestic manufacturers to enhance their product as well as manufacturing technology.

Strong vehicle population to augment replacement market demand

The replacement market, where price plays a critical role as compared to quality, is dominated by the highly fragmented unorganized sector. Smaller component manufacturers, counterfeits and cheap imports cater to this price-sensitive replacement market segment. Large organized players are able to garner relatively small pie of this segment. Replacement demand is dispersed across the length and breadth of the country, while the players in the organized segment are concentrated in selected clusters, which have proximity to the OEMs. Irrespective of slowdown in auto demand, CARE Research expects replacement market to witness high growth in 2012-13 on the back of huge vehicle population. The pileup in vehicle population due to strong growth in the domestic market during the last one decade would continue to weather the effect of muted auto sales in the short term.

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