

Indian Auto Component Industry – Review FY19 & Outlook

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Overview

The Indian auto industry is the fifth largest in the world only behind China, US, Japan and Germany and produces about 5.6% of passenger cars and about 4.4% of commercial vehicles globally. India is expected to become the fourth largest automobiles producer globally by 2020 after China, US and Japan (India is currently world's second largest two-wheeler manufacturer).

India's domestic automobile production stood at 30.9 million vehicles during FY19, registering a growth of about 6.3% y-o-y. The Indian auto component industry is ancillary to the automobile industry. Demand swings in any of the auto segments (Commercial vehicles, cars, two and three-wheelers) have an impact on the auto ancillary demand. Indian Auto Component Industry is transforming itself from a low-volume, highly fragmented one into a competitive industry backed by strengths like technology, efficiency and evolving value chain. The industry mainly caters to 2 segments – (1) Original Equipment manufacturers (OEM); (2) Replacement market (Aftermarket). During FY19, OEM continued to dominate the auto component market contributing about 55-57% of the industry turnover followed by the export market at about 25-27%. Domestic aftermarket (replacement market) accounted for about 15-16% of the industry.

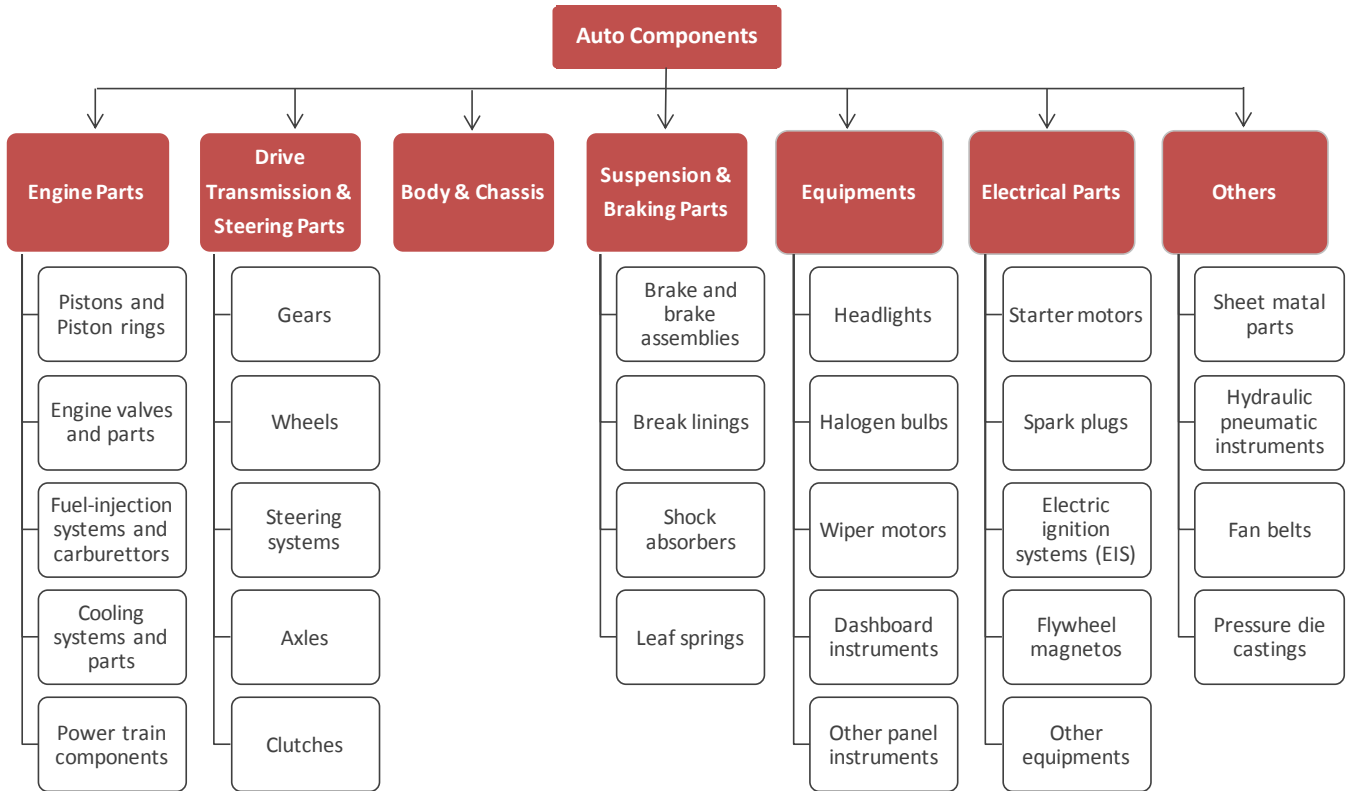
The auto component sector is largely unorganized with about 10,000 players largely catering to the tier III, IV and replacement markets while about 800-1,000 players in the organized market cater to tier I, II and the OEMs. The demand from replacement market is low, owing to the high cost of genuine component parts. Unorganized players mainly dominated the replacement market, which were mostly Tier III/IV component manufacturers.

However, in terms of turnover, organized market holds about 80-85% share while the remaining comes from the unorganized players. The Indian auto component industry, a highly fragmented industry, valued at around Rs 4 trillion (USD 56.5 billion) in FY19, witnessed a growth of 14.5% on y-o-y basis and a CAGR growth of about 10% between FY15 and FY19. It is valued at about 2.3% of India's Gross Domestic Product (GDP), 25% to manufacturing GDP and employed approximately 50 lakh persons as of FY19. The industry is transforming and the entry of new players in last few years has led to surge in the size of the auto component industry.

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Automotive Component in India is split under various segments as follows:

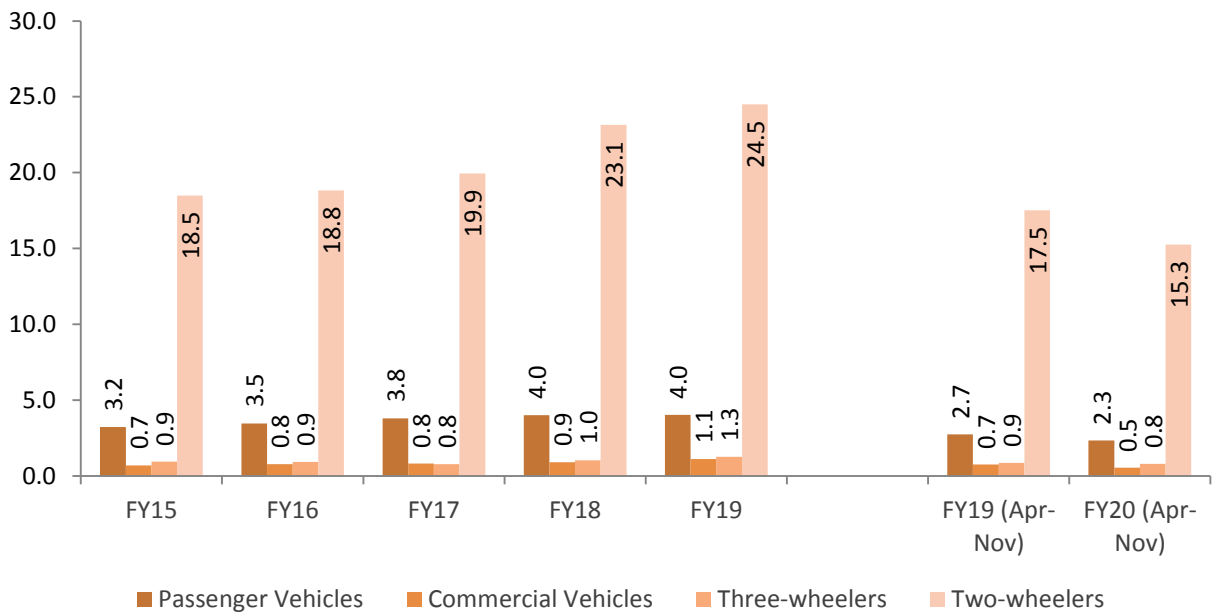
Chart 1: Auto Component Segment



Source: ACMA, CMIE

Automobiles production

Chart 2: Category wise Production of Automobiles (Million units)



Source: SIAM, CMIE

Segment wise domestic market share of automobile industry

In FY19, India’s annual production stood at 30,915,420 vehicles (including passenger vehicles, commercial vehicles, three wheelers, two wheelers and quadricycle) as against 29,075,605 in FY18, registering a growth of 6.3% y-o-y. Two-wheelers have dominated the production volumes of the automobile industry over the years. Over the last few years, Two-wheeler production share in the overall automobile production has remained stable at around 80%. This is followed by passenger vehicles having a share of 13%. Productions of commercial vehicles and three-wheelers have about 3% and 4% share each in the automobile industry.

Passenger vehicles comprising 13% in the overall automobile production in FY19, accounts for about 43% of the total auto component production volumes, followed by two-wheelers segment that accounts for about 21% of the total.

Chart 3: Segment wise domestic market share (FY19)

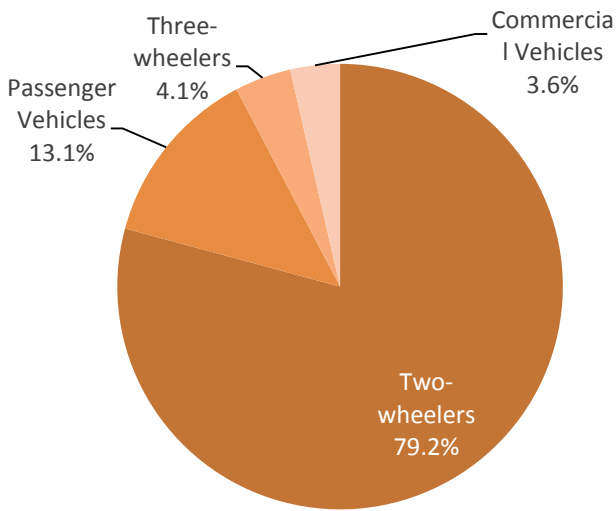
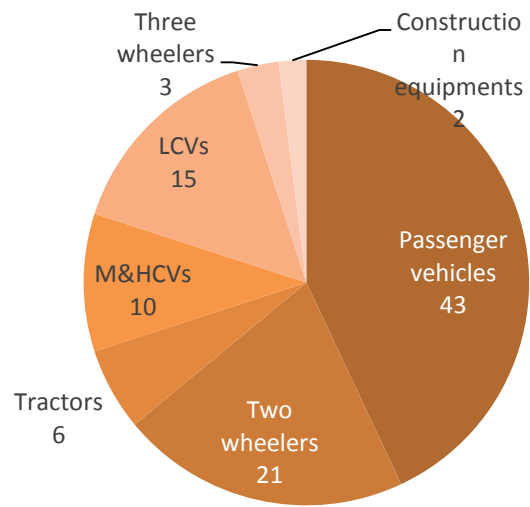


Chart 4: Auto comp consumption by OEM FY19 (%)



Source: ACMA, CMIE

Indian Auto Component Industry

Chart 5: Aggregate turnover (Rs Billion)

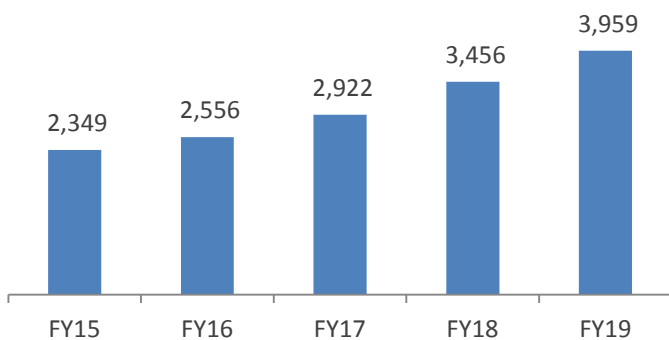
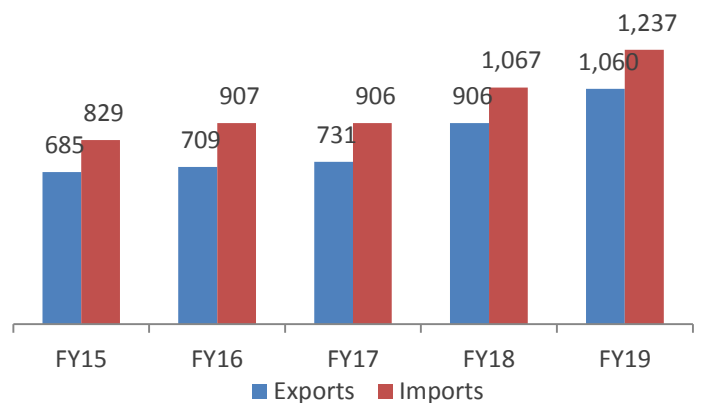


Chart 6: Imports & Exports (Rs Billion)



Note: The aggregate turnover includes the domestic supplies to OEMs, aftermarket sales and exports for the period

Source: ACMA

The auto component industry turnover stood at Rs 3,959 billion (USD 56.5 billion) in FY19, registering a slower growth of about 14.5% y-o-y vis-à-vis a sharp growth of about 18.3% y-o-y in FY18. Auto comp turnover increased, however at a slower pace in line with the slower growth of about 6.3% in automobile production growth during the year.

The size of Indian export of auto components stood at Rs 1,060 billion (USD 15.6 billion) in FY19 witnessing a growth of about 17.1% on a y-o-y basis vis-à-vis a healthy growth of about 24% in FY18. The exports turnover increased at a CAGR of about 11.5% between FY15 and FY19. Exports share in turnover has largely remained consistent at about 26% to 28% during the period. The industry exports auto components to over 150 countries with USA accounting for the largest share of about 25% followed by Germany (7%) and UK (5%) as of FY19. Key auto components exported from India include gear boxes and parts, hydraulic power steering systems and steering gear systems and parts, parts of diesel engines, drive-axles and parts, suspension systems and parts, brakes and servo-brakes, spark ignition and parts, among various other components.

Exports & Imports – FY19

Top 10 countries comprised about 60% of auto components exports from India in FY19. Region wise, Europe is the largest importer of auto components from India with a share of about 33%. This is followed by North America and Asia which form about 29% and 26% each of the overall exports of auto comp from India. Africa and Latin America form about 6% each of the overall exports. CIS region accounts for a negligible share in the overall exports from India.

Chart 7: Country wise Exports (Top 10)

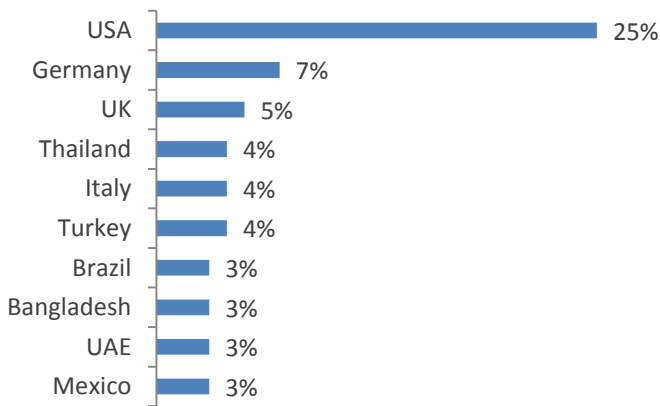


Chart 8: Region wise Exports

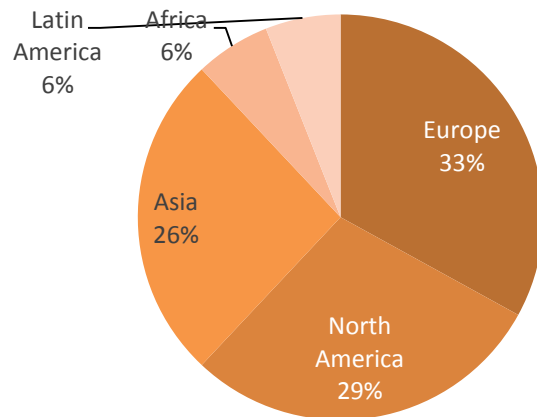


Chart 9: Country wise Imports (Top 10)

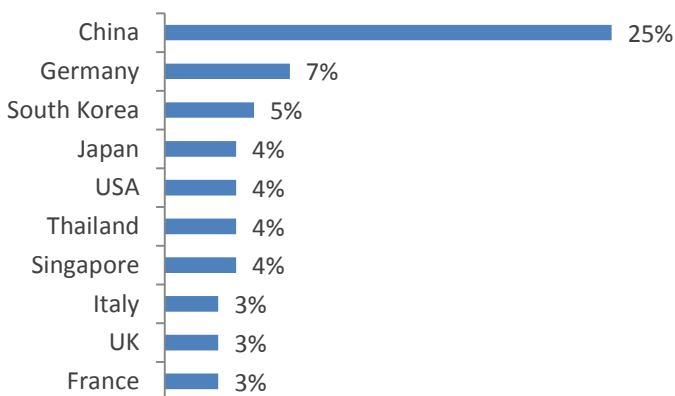
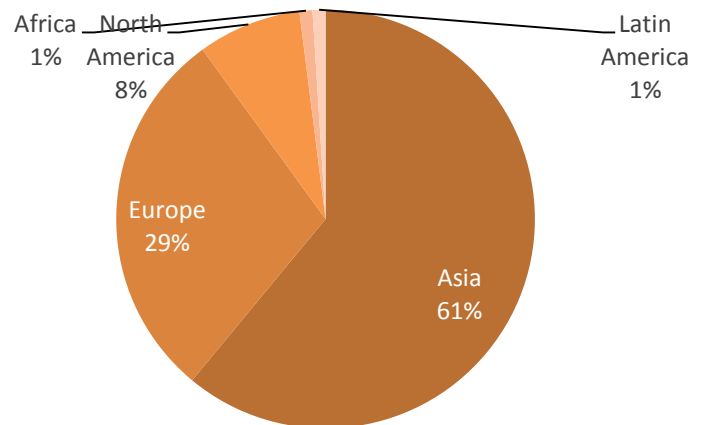


Chart 10: Region wise Imports



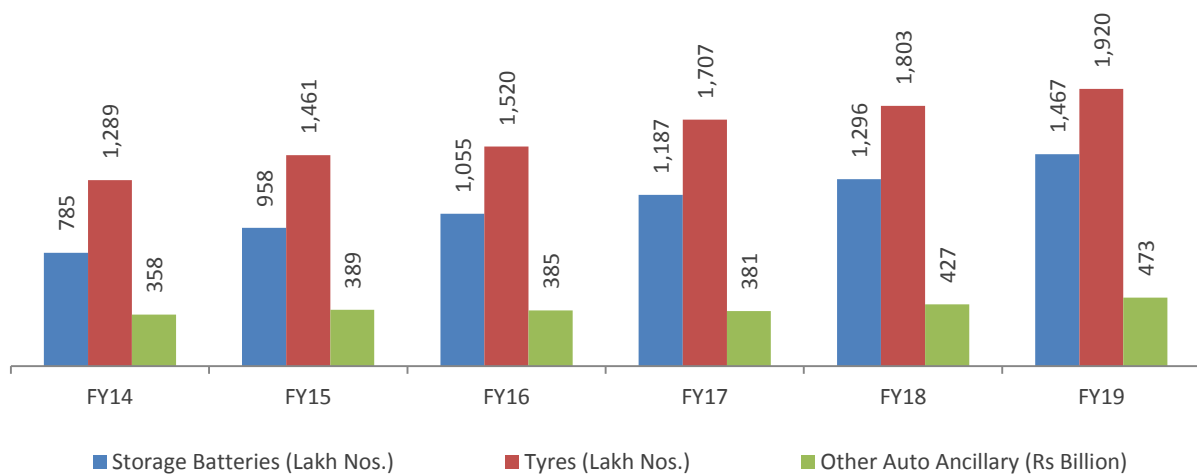
Source: ACMA

Nearly 30-35% of the auto components used by OEMs are imported. The share of imported consumption has marginally declined to about 31% for the last 3 years from the 35% prior to FY17. China has been a major exporter of auto components to India.

India is estimated to have imported Rs 1,237 billion (USD 17.6 billion) worth auto components in FY19 as against the aggregate turnover of around Rs 3,959 billion (USD 56.5 billion), registering a CAGR growth of around 10.5% from Rs 829 billion (USD 13.5 billion) in FY15. The major components imported into India include piston rings, brake assembly, bimetal bearings, transmission shafts, wheel rims, motor cycle parts etc.

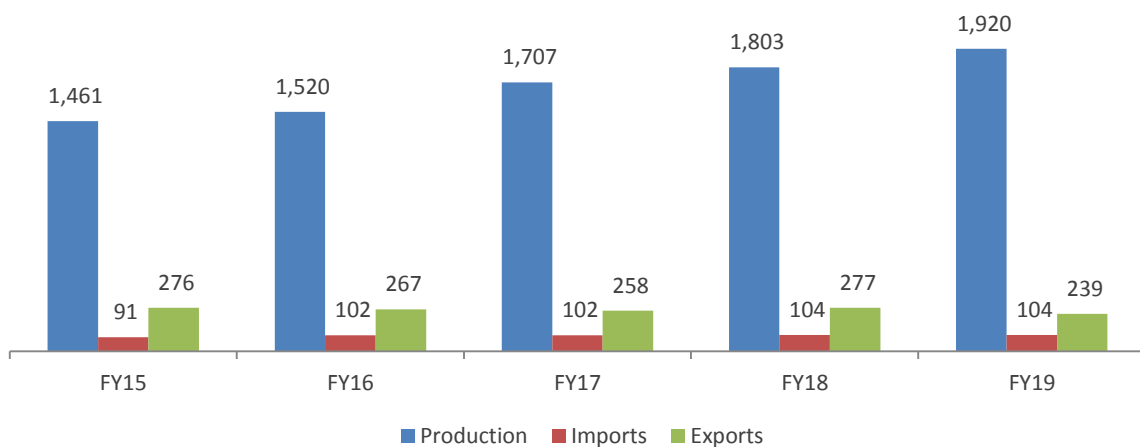
In FY19, imports from top 10 countries comprised over 60% of India’s imports of auto components. Region wise, share of Asia was the highest at 61%. This was followed by Europe comprising about 29% of India’s imports. About 8% imports of auto components came from North America. Africa and Latin America formed the remaining share of the Indian imports of auto components.

Chart 11: Production of auto components



Source: CMIE

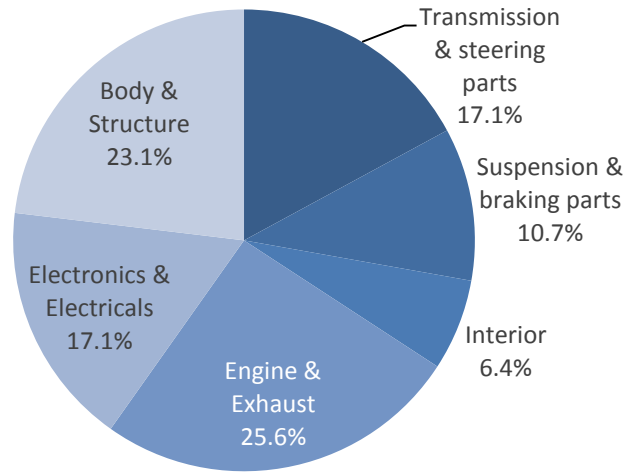
Chart 12: Tyre industry – Production, Imports, Exports (Lakh Nos.)



Source: CMIE

Component wise market segmentation

Chart 13: Component wise market segmentation



Source: IBEF

The industry over the years has integrated capability of manufacturing the entire range of auto components required to manufacture vehicles. Engine and drive transmission parts together contribute about 50% of the auto component industry production. Engine and exhaust parts, which constitute about 26% of the production, mainly comprise pistons, engine valves, carburettors, fuel injection systems, camshafts, crankshafts and cooling systems. Drive transmission parts, which constitute over 17% of the total production, include axle assembly, steering parts and clutch assembly. Component wise market shares have remained largely stable over the past few years.

Table 1: Component wise key players

Engine & engine parts	• Pistons – Goetze, Shriram Pistons & Rings, India Pistons, Anand I-Power Limited
	• Engine Valves – Rane Engine Valves, Shriram Pistons & Rings, SSV Valves
	• Carburettors – Ucal Fuel Systems and Spaco Carburetors & Escorts Auto Components
	• Diesel-based fuel-injection systems – Mico, Delphi-TVS Diesel System and Tata Cummins
Transmission & steering Parts	• Steering Systems – Sona Koyo Steering Systems, Rane NSK Steering Systems and Rane TRW systems
	• Gears – Bharat Gears, Gajra Bevel Gears, ZF Steering Gear (India) Limited, Eicher, Graziano Transmission and SIAP Gears India
	• Clutch – Clutch Auto, Ceekay Daikin, Amalgamations Repco, Luk Clutches
	• Driveshafts – GKN Driveshafts, Spicer India Private Limited, Delphi and Sona Koyo Steering Systems
Electrical	• Lucas TVS, Denso, Delco Remy Electricals and Nippon Electricals are key players in this segment
Suspension & braking parts	• Brake Systems – Brakes India, Kalyani Brakes, Mando India Limited and Automotive Axles
	• Brake Lining – Rane Brake Lining, Sundaram Brake Lining, Hindustan Composites and Allied Nippon
	• Leaf Springs – Jamna Auto and Jai Parabolic
	• Shock Absorbers – Gabriel India, Delphi, Mando India Limited and Munjal Showa
Equipment	• Headlights – Lumax, Autolite and Phoenix Lamps
	• Dashboard – Premiere Instruments & Controls
	• Sheet metal parts – Jay Bharat Maruti, Omax Auto and JBM Tools

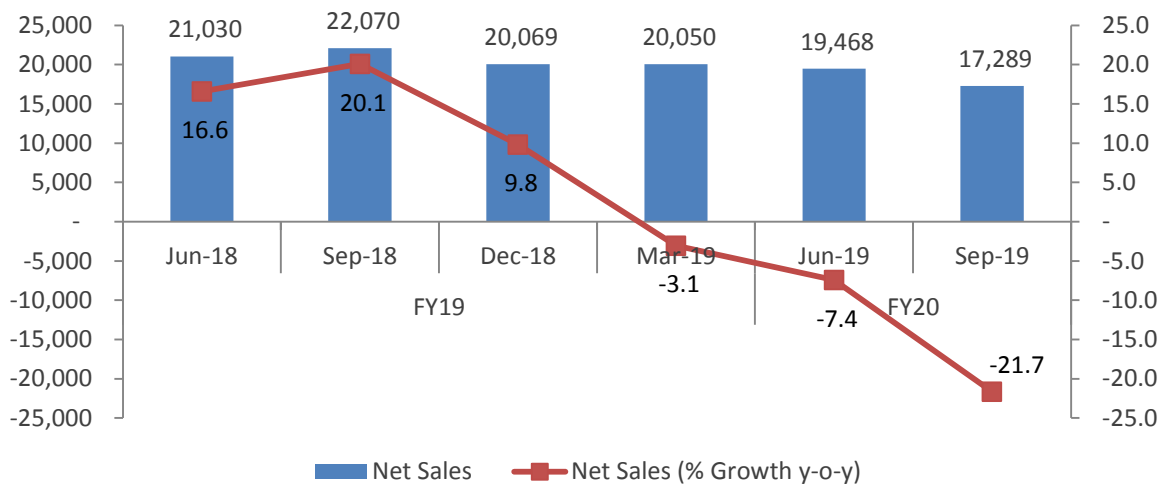
Source: CMIE

The other major players in the industry include Exide Industries, Standard, Tudor, Chloride International and Amara Raja (batteries), Harita Seating Systems and Toyota Boshoku (Seats), Motherson Sumi (wiring harnesses), Banco Products (radiators), Subros (auto air-conditioning systems), Munjal Auto (exhaust systems and mufflers), Minda Corporation (automobile locks, electronic security systems, window regulators, etc), Asahi India automobile glass and wind-shield), Indian IDE-casting Industries (aluminum die-casts and precision components), Sundaram Brake Linings, Rane Brakes and Hindustan Composites (automotive friction material), Amtek Auto (castings and forgings), Sundaram Fasteners, Universal Wire Forms and Spring India (fasteners), etc.

Financial performance of Auto ancillary players

Auto component manufacturer's profitability is sensitive to the changes in raw material cost as it forms the bulk (about 60%) of net sales. In FY19, India's annual automobile production stood at 30.9 mn vehicles as against 29.1 mn in FY18, registering a slower growth of 6.3% y-o-y vis-à-vis a growth of about 14.8% y-o-y during the corresponding period previous year. In line, auto comp turnover slowed down and witnessed a growth of about 10.4% y-o-y vis-à-vis a growth of about 17.6% during FY18 led by subdued muted demand from the automobiles industry.

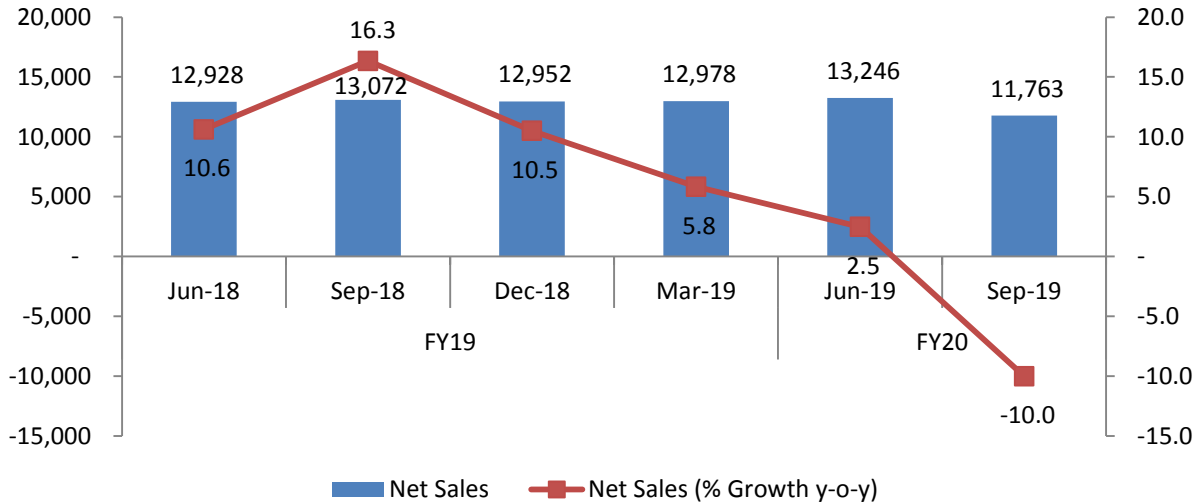
Chart 14: Net sales of Auto Ancillary companies (Rs crore)



Source: AceEquity

In line with the overall aggregate turnover of the industry, the net sales of auto comp and tyres have witnessed a slowdown. The auto ancillary industry witnessed a declining sales growth in H2 FY19 and further witnessed negative growth of about 3.1%, 7.4% and 21.7% during Q4 FY19, Q1 FY20 and Q2 FY20. Similar trend was also seen for the tyres and allied industry where net sales witnessed a slowed in H2 FY19 and declined during Q1 FY20. Net sales of tyres and allied industry witnessed a growth of 2.5% in Q1 FY20 vis-à-vis a growth of about 10.6% during Q1 FY19.

Chart 15: Net sales of Tyres & Allied companies (Rs crore)



Source: AceEquity

Note: Financials of 81 companies in auto ancillary industry and 8 companies in the tyres and allied industry has been considered

In FY19, increase in steel, aluminium and plastics costs along with subdued demand, the margins of the players remained under pressure on a y-o-y basis. Going forward in FY20, we expect the margins to continue to remain under pressure with on back of weak demand from the OEMs. However, lower metal (steel and aluminium) price is expected to marginally restrict this contraction.

Chart 16: Margins of Auto Ancillary players

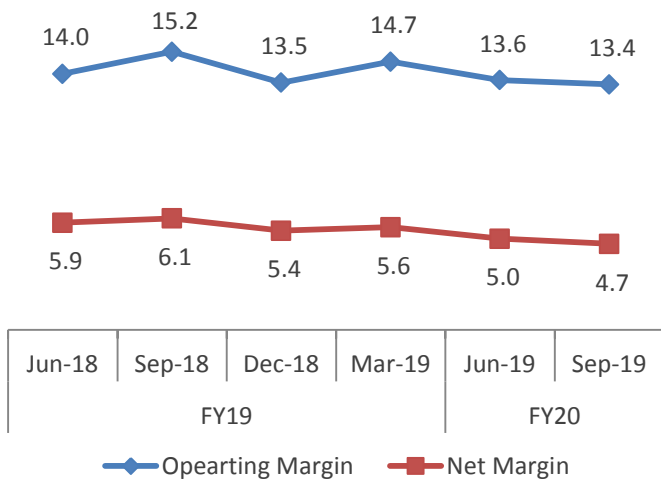
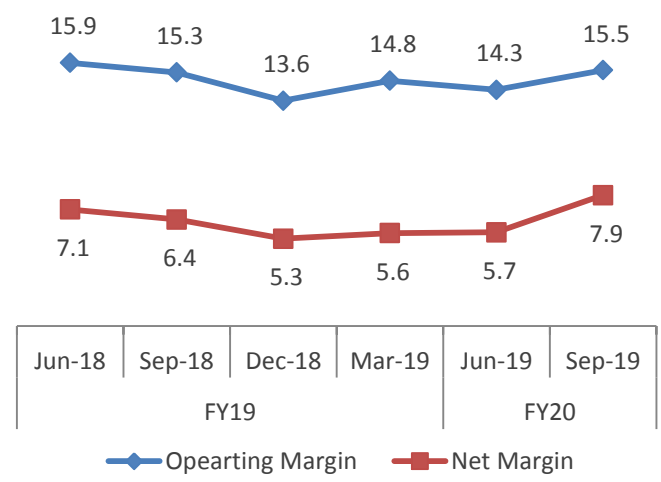


Chart 17: Margins of Tyres & Allied players



Note: The industry margins are based on the financial results of 70 listed auto ancillary companies
 Source: AceEquity

Government policies and regulations

India has various cost advantages and has evolved as a cost-effective manufacturing base that keeps costs lower by 10-25% relative to operations in Europe and Latin America. Also, India has additional cost advantages being the second largest steel producer globally after China.

Also, various policies have been announced to support the auto industry.

- Auto mission Plan 2016 – 2026 (AMP 2026)
 - AMP 2026 targets a 4-fold growth in the automobiles sector in India which includes the manufacturers of automobiles, auto components & tractor industry over the next 10 years
 - It is expected to generate an additional employment of 65 million.
- National Automotive Testing and R&D Infrastructure Project (NATRiP)
 - It is the largest and one of the most significant initiatives in Automotive sector so far, represents a unique joining of hands between the Government of India, a number of State Governments and Indian Automotive Industry to create a state of the art Testing, Validation and R&D infrastructure in the country.
 - Set up at a total cost of US\$ 388.5 million to enable the industry to adopt & Implement global performance standards.
 - The policy focuses on providing low-cost manufacturing & product development solutions.
- FAME Scheme
 - The scheme is aimed at incentivising all vehicle segments.
 - In FY19, FAME II scheme got a Rs 10,000 crore clearance from the Union Cabinet for FY20-22

Investments

The cumulative Foreign Direct Investment (FDI) inflows into the Indian automobile industry during the period April 2000 – June 2019 were recorded at US\$ 22.51 billion, as per data by the Department of Industrial Policy and Promotion (DIPP). Also, investments in EV increased to US\$ 23 million in 2018 from US\$ 3 million in 2017.

Some of the recent investments made/planned in the Indian auto components sector are as follows:

- Schaeffler India, the Indian arm of Germany’s automotive and industrial parts maker, is planning to invest Rs 300 crore (US\$ 46.66 million) per annum over FY18-19.
- As of December 2018, German automotive major Continental has planned investments of Rs 180 crore (US\$ 25.65 million) for setting up a premium surface materials facility in Pune. The facility will have an initial capacity of five million square metres and is expected to start production in 2020.
- In October 2018, IMI Precision Engineering inaugurated its second largest manufacturing facility in the Asia Pacific region. The company is planning to expand its product and technical offerings over the course of the next few years.
- As of September 2018, air-compressor manufacturer Elgi Equipment is going to invest Rs 18 crore (US\$ 2.56 million) for setting up of a motor production facility in India. The facility is expected to be commissioned in Q1 FY20.

Source: IBEF

Outlook - Negative

Table 2: Growth in automobile sales

Vehicle Category	FY20*
Passenger Vehicles	(10-12)%
Commercial Vehicles	(15-17)%
Two & Three Wheelers	(7-9)%
Overall Auto	(10-12)%
Tractors	(7-9)%

*P – Projected

- On the back of overall slowdown in auto segment and weak near term outlook, growth challenges remain for auto component industry going forward.
- With new stringent emission norms and electric vehicles production in the domestic market, a range of updated as well as new auto comps is expected to enter the market driving the demand. Compliance to BS VI will also help discover newer export markets for their components. At the same time, capex on technology advancement and product capabilities may continue to remain high exerting pressure on companies’ cash flow.
- Component manufacturers supplying across segments and having diverse revenue source from aftermarkets, exports besides OEMs may weather the current slowdown better than players with concentrated product or geographic profile.



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