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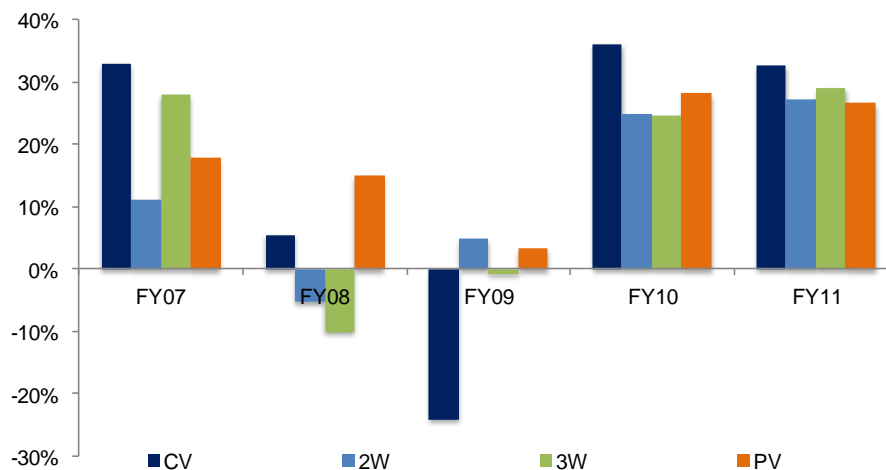
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Strong revival in economy fuelled growth in Auto industry during FY10 and FY11

The Indian Auto industry had a dream run in FY10 and FY11 after a dismal performance in FY09. This growth was mainly driven by strong revival in liquidity scenario and improvement in consumer sentiments due to rise in income levels. Such healthy market conditions attracted almost all the major players to expand their operations either by setting up new manufacturing capacities or expanding the existing ones. The attractive prospects of the industry also pulled in some of the global automobile biggies towards domestic market.

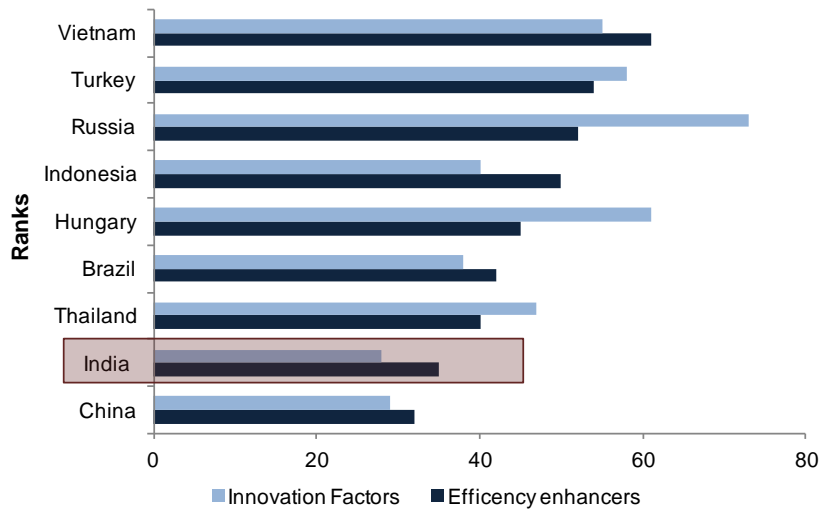
Growth trend in automobile industry**Source: SIAM**

Note: PV: Passenger vehicles; CV: commercial vehicles; 2W: Two-wheelers; 3W: Three-wheelers

Availability of low cost advantage makes India a preferred manufacturing destination...

The Indian automotive industry has a distinct global competitive advantage in terms of cost and quality to most other developing countries. Availability of skilled labour at low cost owing to large pool of educated population along with availability of raw material at lesser cost and adaptability of technological innovations has made India a preferred manufacturing destination for exports especially in automobile industry during last 7-8 years.

Ranks of key automotive manufacturing destination in innovation and efficiency factors



Source: Global Competitiveness Report 2009-2010

Note:

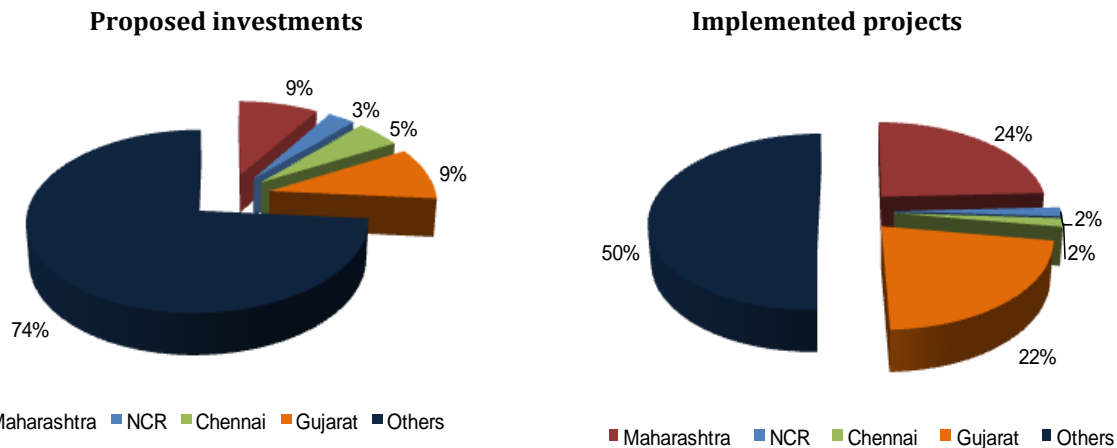
1) Efficiency enhancer comprises of parameters like higher education and training, good market efficiency, labour market efficiency, financial market sophistication, technological readiness and market size

2) Innovation factors comprises of parameters like business sophistication and innovation

... Stringent regulations and lackluster infrastructure playing a spoil sport

Though India enjoys low cost destination advantage, inflexible regulations and local political jeopardy towards land acquisition in most of the regions are resulting in slow implementation of projects. Since FY08 14,509 projects were proposed in some of the key industrial states across the country out of which merely 16 per cent of the projects got implemented. Various bottlenecks and stringency in regulation were the key factors that have resulted in dismal implementation ratio. Automobile industry has not left un-burnt by these uncertainties, Tata Motors Nano project is the classical example of this roadblock. Furthermore, infrastructure concerns both in terms of energy and transport also acted as restrain to industry growth.

Proposed investments and actual investments in key industrial states FY12 (Apr-Sep)

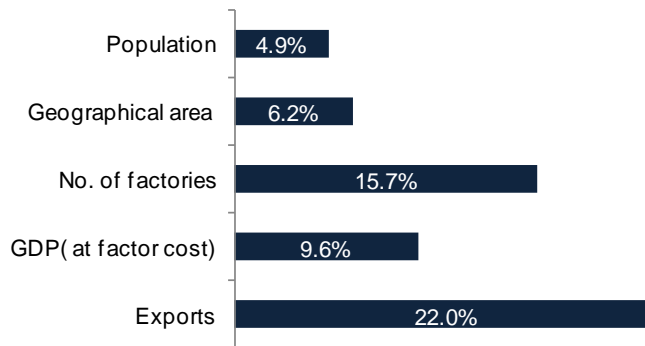


Source: Department of Industrial Policy and Promotion (DIPP)

Gujarat addressed the concerns successfully

During last one decade a renewed political intent in Gujarat towards development coupled with social support has led significant improvement in infrastructure and refining in policy framework in order to attract investments. This in turn has led to considerable rise in announcements for investments in Gujarat from domestic companies as well as from some of the global manufacturing giants. Furthermore with some of the favourable reforms the state has one of the highest 'project planned to implementation ratio' among other industrial states. Automotive industry could not remain untouched with the lucrative opportunity the state offered.

Socio economic growth in Gujarat



Source: Socio economic review 2010-11

Strategic geographical location in Central India and longest coast line makes it a favourable destination for automotive industry from both logistics as well as exports point of view

Along with favourable infrastructure and conducive policy framework, Gujarat offers an inherent advantage of being located centrally in India as well as has the longest coastline in the country. These factors make it favourable destination especially for automotive industry, for which logistics and supply chain are the key aspects of operation. The Delhi-Mumbai Industrial Corridor (DMIC) project that Government of India plans to develop for connecting industrial zones across six states through railways is estimated to cover 62 per cent of the area in Gujarat. Furthermore, sourcing of components from manufacturing bases across the world is the critical aspect of operation for both automobile OEMs and component manufacturers. Hence having a proximity of ports in order to have hazard free imports and exports as well as save on logistics cost is of outmost important. According to Gujarat's Vision 2020 document, the capacity of Gujarat ports is projected to go up from 140 MMTPA in FY08 to around 750 MMTPA in FY20, forming around 24 per cent of the total port capacities in India. CARE Research believes in order to cater the rising demand that is expected to more than double by FY20 from current levels, the automotive industry would require a new manufacturing base in addition to the existing ones. In face of Gujarat, the industry got an ideal base for setting up manufacturing hub that gave good logistics and political support along with strategic geographical location.

Current state of infrastructure in Gujarat		
	Gujarat	All India
National Highways	3,244	70,934
Airport	20	132
Rail Network	5,328	63,500
Power supply	74,838	8,37,374
Major and minor ports	41	199

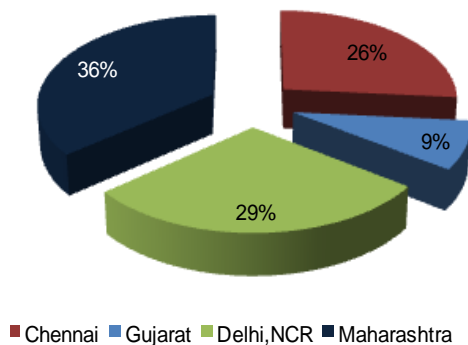
Source : Socio-Economic Review Gujarat State FY11 and CARE Research

Conducive operational environment leading to flurry of investments from automotive industry in Gujarat..

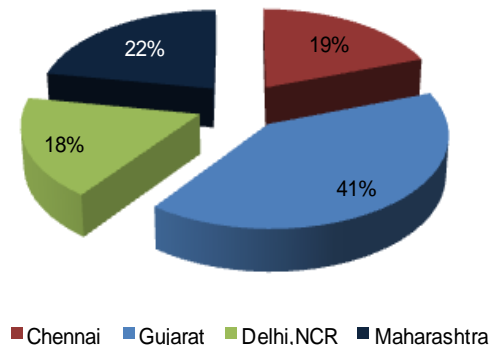
Conducive policy environment and infrastructure support which Gujarat offered to Tata Nano project after the setback of West Bengal fuelled flurry of investments in automotive sector. Apart from Tata Motors and GM which have manufacturing facility in Gujarat, other global manufacturers like Ford, Peugeot and Maruti Suzuki are some of the key players to set up facility in Gujarat in next 4-5 years. CARE Research estimates that, Gujarat would become the largest producer of four wheeler automobiles in India in next five years, surpassing other automobile hubs like NCR, Maharashtra and Chennai.

Current and future share in capacity in four wheeler automobile industry

Current share in capacity



Share in capacity after 5-6 years



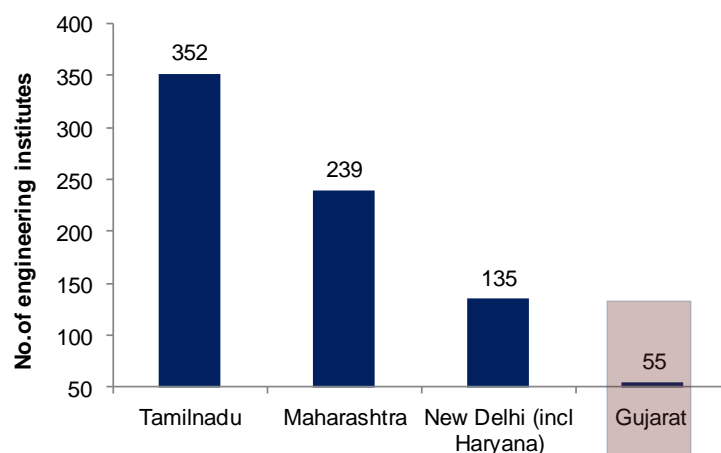
Source: CARE Research estimates

Inspite of being sought after destination for investments, Gujarat needs to cope up with increasing demand for skilled labour.

Traditionally Gujarat’s industrial development has been in the field of diamond processing and textile where the requirement of skilled labour is limited. The only exception has been the oil and gas sector which has been developed over the period of one and half decade. With aggressive investment plans for the state in different industries the demand for skilled labour is likely to witness sharp spurt in next few years. However, currently

due to lesser number of technical institutes as compared to other key industrial centres, the concern for availability of local skilled labour is on the rise.

Comparison of engineering colleges in Gujarat vis-a-vis other automotive hubs



Source: CARE Research

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