



Research



"On Growth Path-Auto Ancillary Industry"

RESEARCH ::INDUSTRY:: AUTO ANCILLARY

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Introduction

The Indian auto ancillary industry is one of India's sunrise industries with tremendous growth prospects. The automotive industry is an important segment of the economy in any country as it links many industries and services.

The Indian auto industry has the potential to emerge as one of the largest in the world.

Presently, India is:

- The largest two-wheeler manufacturer in the world.
- The largest three-wheeler market in the world.
- The second-largest two-wheeler market in the world.
- The fourth –largest commercial vehicle market in the world.

The fortunes of the automotive components segment are linked to the performance of the auto industry. The auto ancillary industry gives support to sectors such as metals that includes steel, aluminum, copper and also to many other machine tools, plastics, rubbers, polymers, glass, surface transport.

As per Indian Suppliers' report, the automotive sector in India contributes to 5% of the nation's GDP and 17% of the indirect taxes as a result of which the government last year charted a 10-year blueprint for the sector's growth. This envisages the automotive sector "output reaching a level of \$145 billion accounting for more than 10% of the GDP" by 2016.

Indian auto industry has evolved around three major clusters: Mumbai-Pune-Nashik-Aurangabad (west); Chennai-Bangalore-Hosur (south); and Delhi-Gurgaon-Faridabad (north). Export-oriented companies have formed base in the west/south regions, due to proximity to port.

Industry Structure & Segments

An auto ancillary company comprises of:

- OEM (original equipment manufacturers).
- Replacement Market.

Automotive Component Manufacturers Association of India (ACMA) is the nodal agency for the Indian Auto Component Industry. ACMA is represented on a number of panels, committees and councils of the Government of India through which it helps in the formulation of policies pertaining to the Indian automotive industry. ACMA represents over 558 companies, whose production forms a majority of the total auto component output in the organized sector. It operates on Quality System based on ISO 9001:2000. ACMA has classified sector companies on the basis of components that they supply to auto manufacturers. The following table lists the industry segmentation on the basis of components, their contribution to the overall industry revenues and some of the leading players in those segment.

Sub-groups	Products	% to total products	Leading companies
Engine Parts	Pistons, piston rings, fuel injection pumps	24.0%	Ucal Fuel, MICO, Lucas
Transmission & Steering parts	Transmission gears, axles and wheels	16.0%	Sona Koya, ZF Steering
Suspension & Braking parts	Leaf springs, shock absorbers	12.0%	Gabriel, Munjal Showa
Electrical	Spark plugs, batteries, starter motors	8.0%	Exide, MICO,
Equipment	Dashboard instruments	7.0%	Motherson Sumi, Lumax
Others	Fan belts, sheet metal parts	33.0%	Rico Auto, Sundram

Investments in Industry

Foreign Investments:

India enjoys a cost advantage with respect to casting and forging as manufacturing costs in India are 25 to 30 per cent lower than their western counterparts. Seeing the growing popularity of India in the automotive component sector, the Investment Commission has set a target of attracting foreign investment worth US\$ 5 billion for the next seven years to increase India's share in the global auto components market from the existing 0.9 per cent to 2.5 per cent by 2015.

- French tyre major, Michelin, has gained clearance from the Foreign Investment Promotion Board (FIPB) for its US\$ 2.26 billion foreign direct investment (FDI) proposal to set up a manufacturing facility in Tamil Nadu.
- Ford motor car is investing about 500\$ million (Rs. 2,445 crore) to double capacity at its India plant, which will become a strategic global production hub.
- Bosch will continue to maintain its focus in India in spite of global recession as it is planning to set up manufacturing units for electronic control units (ECU) by investing US\$ 26.76 million.
- Volkswagen has set target to capture 8-10 percent of market share in the passenger car segment in India by 2014 with a series of launches and by doubling the number of dealers.

Domestic Investments:

The market is so large and diverse that a large number of players can be absorbed to accommodate buyer needs. The sector not only has global players looking to invest and expand but leading domestic component companies are also pumping in huge sums into expanding operations. Indian tyre makers are rolling out investment plans worth US\$ 1.24 billion, due to the rising popularity of radial tyres in the commercial vehicles segment.

Some other investments include:

- Hero Motors will invest US\$ 19.84 million in association with Austrian firm BRP Power train for manufacturing automotive transmissions in India.
- Indian arm of Swedish automotive component maker SKF is investing US\$ 30 million in a new ball bearings manufacturing plant at Haridwar.
- Mahindra & Mahindra will invest approx US\$ 400 million for setting up an integrated auto facility in Tiruvannamalai(Chennai).
- An auto park is coming up near Hyderabad with investments worth over US\$ 409.30 million from around 34 automotive ancillary units.

Low labor costs gives Indian auto ancillary companies an absolute cost advantage. ACMA numbers suggest that wage cost accounts for 3% to 15% of revenues for Indian manufacturers as compared to 20% to 40% for US players. Historically, India's strength in exports lies in forgings, castings and plastics. But this is changing with more component manufactures investing in up gradation of technology in recent years.

Industry Turnover

The Indian organized auto ancillary industry revenue grew 6% y-o-y to INR720bn in FY09. Exports increased by 6% y-o-y to INR150bn. The recent financial performance of auto ancillary companies with a greater reliance on OEMs and exports has been inferior to those with a larger focus on the replacement market. Yet, replacement stocks have underperformed. Despite the recent rise in commodity prices, the average price for FY10f to be lower y-o-y. This would provide little benefit to the OEM-dependent stocks, while the stronger INR is likely to hurt exports.

Replacement stocks are likely to retain the savings from decreased material prices and a rising INR. Profitability may improve for both groups, but replacement stocks are more likely to outperform over the medium term as the market appreciates their stronger position

Performance of Indian Auto Ancillary Industry companies

INR(bn)	FY08	FY09	Y-O-Y increase(%)
Revenue	720	763	6
Exports	141	150	6
Imports	210	275	31

Source: Hindu Business Line

Due to the INR depreciating by 26% y-o-y in FY09, imports grew 31% y-o-y to INR210bn. On account of the slowdown in the global automobile markets, a significant rebound in exports from India in FY10f is unlikely. The commercial vehicle segment has been the worst performer globally in 2009. As Indian auto ancillaries are dependent on demand from the global

commercial vehicle segment, a strong recovery in exports is not expected in FY10f. Auto ancillary companies have put off overseas acquisitions on account of the slowdown in automobile markets, which may lead to idle capacity. Indian companies are also facing operational and financial constraints in managing overseas subsidiaries. To reduce costs, Indian auto ancillaries have taken the following initiatives:

- Reduction of manpower at overseas locations.
- Closure of plants acquired overseas and shifting of machinery to India.

Automobiles Production Trend



SOURCE: SIAM (Society of Indian Automobile Manufacturers)

Segmental Turnover Of The Auto Components

Name	Full Year (Rs Cr.)			Price Information	
	Equity	Gross Block	Sales	NP	Mkt.Cap.
Auto Ancillaries	2185.2	30578.1	47084.3	2087.4	42759.7
Axles / Shafts	83.3	899.8	1503.9	57.2	853.8
Batteries	114.8	1319.9	4185.0	290.0	9242.1
Brakes	86.6	2900.5	2215.8	189.5	3283.2
Clutches	33.4	387.1	548.8	4.1	235.0
Electrical	205.0	1840.6	3304.0	136.0	5268.4
Engine Parts	191.8	5151.0	7039.5	620.2	15835.6
Friction Materials	30.4	513.8	622.5	28.6	482.8
Gears	114.1	1427.6	1810.2	3.7	866.3
Instruments	25.8	670.5	1031.7	-13.0	194.0
Lamps	64.9	747.7	1019.5	-11.5	494.0
Others - Auto Ancillaries	925.1	10768.7	15846.5	701.2	4202.6
Plastic Mouldings	5.2	39.9	66.3	8.3	33.1
Sheet Metal	73.6	1479.3	2610.8	31.9	491.9
Shock Absorbers	32.3	646.7	1468.5	8.8	440.6
Springs	102.6	413.7	723.6	-34.3	282.7
Trading - Auto Ancillaries	12.7	107.0	1441.0	40.5	248.6
Wheels	83.8	1264.3	1646.9	26.4	305.0

Source: Capitaline Database

Demand - supply scenario

- 🚦 Demand is generated from two segments namely OEMs and replacement markets.
- 🚦 The volume of demand varies by product segments.
- 🚦 The replacement market has 45 percent of its sales coming from unorganized players.
- 🚦 There are no regulatory standards prevailing in the market.
- 🚦 The level of technology is not sophisticated in the replacement market.
- 🚦 The replacement market is a safe bet even when the economy faces a slowdown. Hence, it looked as an area of focus by major players of the auto component industry.
- 🚦 The margins in the replacement market are generally higher because of low cost operations and counterfeit sales.
- 🚦 Success in the organized market depends on the presence of an established brand name and a wide distribution network.
- 🚦 Unorganized sector enjoys huge advantages over the organized players in terms of excise duty exemptions and lower overheads.
- 🚦 The suppliers to OEMs have to adhere to requirements of high quality, tight delivery schedules and lower margins.

Major Players of Auto Ancillary Companies In India

TTM ENDED SEP'09												
S No.	Company Name	Sales	PBITD	PBDT	PAT	EPS	Dvd.	Equity	FV	BV	P/E Ratio	52 week H/L
		Rs Cr.	Rs Cr.	Rs Cr.	Rs Cr.	Rs Cr.	Rs Cr.	Rs Cr.	Rs Cr.	Rs Cr.		
1	Bosch	4619.9	1031.1	1159.0	633.9	198.0	250	32.0	10	799.8	27.4	4691/2840
2	Exide Inds.	4233.4	551.2	503.3	284.4	3.6	60	80.0	1	12.4	22.7	124/34
3	Motherson Sumi	1294.9	168.9	139.8	69.5	2.0	135	35.6	1	11.3	46.8	143/51
4	Wheels India	1128.0	104.8	58.1	21.2	21.4	55	9.9	10	180.0	0.0	211/95
5	Amtek Auto	1052.2	394.2	331.4	153.2	10.9	0	28.2	2	129.1	20.7	239/48
6	Munjal Showa	939.6	55.2	49.8	20.7	5.2	100	8.0	2	38.5	10.6	68/19
7	Sai Service	899.6	33.4	26.9	11.2	27.5	100	4.1	10	122.9	6.7	218/215
8	Omax Autos	812.1	81.3	38.9	6.8	3.2	10	21.4	10	68.1	16.1	61/15
9	Jay Bharat Mar.	796.8	60.3	50.6	10.4	4.8	20	10.8	5	31.0	10.8	61/20
10	Subros	786.6	64.7	50.2	13.4	2.2	25	12.0	2	29.0	21.5	49/13
11	Federal-Mogul Go	759.3	71.1	41.2	-6.9	0.0	0	55.6	10	54.0	23.4	154/27
12	Rico Auto Inds	727.9	98.4	52.9	4.8	0.4	15	12.6	1	21.5	50.1	32/7
13	Pricol	614.1	37.8	-1.8	-30.0	0.0	0	9.0	1	20.8	0.0	23/5
14	Denso India	530.7	42.5	42.4	18.1	6.5	15	27.9	10	65.2	13.1	96/27
15	Gabriel India	525.6	34.7	22.5	5.6	0.8	70	7.2	1	18.5	16.9	33/6
16	Lumax Inds.	523.1	25.9	18.6	-1.6	0.0	10	9.4	10	144.7	0.0	211/60
17	Jamna Auto Inds.	519.9	19.0	-17.4	-23.4	0.0	0	36.5	10	19.8	0.0	64/9
18	L G Balakrishnan	507.6	90.4	65.7	39.1	5.0	60	7.9	1	18.2	9.5	22/7
19	Sundaram Clayton	492.3	60.1	38.0	6.3	3.3	40	9.5	5	126.1	0.0	131/26
20	Minda Inds.	445.7	58.8	42.4	15.2	14.1	25	10.5	10	59.1	11.3	244/82

Source: Capitaline Database

Duty structure & Regulations

Government Policies:

- Reduction in excise duties in select segment of automobiles.
- Extension of tax holiday for 100 per cent export oriented units (EOU) until 2010-11 will benefit only players with established EOUs.
- Scheme to provide enhanced Export Credit and Guarantee Corporation (ECGC) cover at 95 per cent has been extended up to March 2010. This scheme will assist players to mitigate risk of payment defaults in the export market.
- Automatic approval for foreign equity investment up to 100 per cent of manufacture of automobiles and components is permitted.
- The automobile industry has been delicensed.
- There are no restraints on import of components.

Free Trade Agreements:

The growing number of FTAs (Free Trade Agreements) that are being signed by India with countries like Thailand, Singapore, China etc is likely to hurt the domestic players as they pay a relatively higher duty of around 25% as compared to 1%-10% being paid by its Asian counterparts.

Important Factors For Industry Players

Demand swings in any of the segments (cars, two-wheelers, commercial vehicles) have an impact on auto ancillary demand. Demand is derived from original equipment manufacturers (OEM) as well as the replacement market. For valuing an auto ancillary company, qualitative and quantitative factors are considered. These are as follows;

QUALITATIVE	QUANTITATIVE
• Client Profile	• Revenues from Exports
• Supplier Awards and Industry accolades	• Cost of Raw Material(per unit variable cost)
• Geographical Diversification	• Capacity Utilization(per unit fixed cost)

Emerging Trends : “India a Manufacturing Hub”

Makers of luxury cars are increasingly looking at making India a sourcing hub for components, besides using more local components in cars for the Indian market. BMW is likely to sign the first direct sourcing deal with local vendors by the end of this year. BMW has also shown interest to source from India to optimize costs and utilize markets that offer it cost advantages Skoda Auto India is looking at increasing localization for its small car Fabia to over 50 per cent over the next two years. Mercedes Benz India expects growth in sourcing from India to continue at 10 per cent. India is the global manufacturing hub, high level of competence in design and processes, high productivity and low costs are the forte of Indian auto-makers. Italian car manufacturer Fiat is planning to increase sourcing to USD 330 million by 2010 and make India its global sourcing center. Renault in association with Nissan is to source USD 440 million worth of auto components from India in the coming years. The French auto major Peugeot Citroen is making a re-entry into the Indian automobile market and looks to source components locally whilst setting up a production unit in India.

Excerpts From News Report

The eight car makers account for over 90 per cent of the country’s total domestic car sales. They sold 154,367 in November this year against 94,295 in the same month. The auto industry grew by 16 per cent to 1,052,161 units in the April-October period. Led by market leader Hero Honda two-wheeler manufacturers posted an impressive growth in sales during the month of November on the back of favorable bank lending rates and a good response to new launches. Heavy promotional campaigns and sales offers by most companies also aided demand. Sales in December’2009 for Hero Honda which controls over 55 per cent of the domestic motorcycle market, grew by an unexpected 74 per cent with the company selling 3,75,838 units of two-wheelers last month. This is the highest y-o-y sales growth for the company in the current fiscal year.

The company has indicated the plans to cross the four-million-mark in two-wheeler sales for the whole of 2009-10. Analysts say the growth story for two-wheelers has largely been driven by new launches like Bajaj Auto's Pulsar 135cc and Hero Honda's F1 ZMR, along with improvements in sentiments. The country's largest manufacturer of passenger vehicles, Maruti Suzuki, sold 84,804 units in December 2009; 51% higher than the sales posted in December 2008. Domestic sales last month stood at 71,000 units, which is a rise of 36.5 per cent against the same month in 2008. Exports for the company for this month stood at 13,804 units an impressive growth of 224 per cent against the 4,264 units sold abroad in December 2008. Excise duty cuts, attractive vehicle loans made possible by PSU banks and improving sentiments have helped the whole auto industry to post good numbers for December 2009.

Source; *Business Standard*

Economic Affairs

GDP AT FACTOR COST						
YOY(%)	FY2009				FY2010	
	Q1	Q2	Q3	Q4	Q1	Q2
Industry						
Manufacturing	5.5	5.1	0.9	-1.4	3.4	9.2

The recent GDP at Factor Cost results came out and according to the results; the manufacturing industry posted 9.2% growth for the second quarter as compared to 3.2% in the first quarter of FY2010.

As auto industry is related to the manufacturing industry therefore, 9.2% growth figure is a tremendous one. And is expected to contribute to the growth of the auto sector as well as auto ancillary sector.

Source: *The Economic Times*.

Conclusion

The auto ancillary industry is in the growth phase. As, the auto sector grows, the auto ancillary sector also grows. The industry is graduating towards the world-class technology by implementing TQM, TPM and Six-Sigma. India is becoming the global manufacturing hub for the small cars. European companies are expressing interest in India for sourcing their needs. Many other companies are looking to consolidate their global operations, India is now a supplier of high value and critical automobile components to global auto makers such as General Motors, Toyota, Ford and Volkswagen. India is expected to soon become a destination for sourcing the auto components. The Automotive Mission Plan 2016, states to increase the turnover to \$145 billion and increase the export revenue to \$35 million by 2016 and also to provide employment to 25 million people.

With investments around US\$ 15 billion slated for the sector over the next few years, the prospects for India's auto market are bright. The results for the month of November and December'2009 of the auto sector and the improved sentiments have already resulted in the BSE Auto Index outperforming the Sensex over the last one year. Therefore, the auto component industry is expected to grow in the near future.

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