

# Sectoral Trends Patterns and Prospects of Auto Component Industry in India

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## Abstract

The paper highlights the growth of Indian Automobile Industry, particularly to the Indian Auto Component Industry relating with Investments and Foreign Direct Investment in the equity inflows, drawing comparison with the developments and growth of Automobile Industry domestically and globally. The growth of Indian Auto Component Industry in the first decade of the twenty first century is phenomenal. The Industry transformed gradually in stages from serving just Indian market, majority to replacement market, to global OEMs and replacement market. Now, the Auto Component Manufacturers Association (ACMA) has significance for global recognition and has a positive impact on GDP. It has played a vital role in the growth of Indian Automobile sector in last few years and in future as per Automotive Plan 2006-16, and Automotive sector five year plan 2012-17, as projected by Department of Heavy Industry. The growth of this sub sector has a pivotal role in the developments and growth of Indian Automobile Industry and economy rather it is dependent on Automobile Industry growth, locally and worldwide.

**Keywords:** OEMs, ACMA, ACT.

## Introduction

The Indian automobile industry is capital and technology intensive with high level industries, leading to making a strategic industry to the Industrial economy as a whole. The automotive industry contributes 7% contribution in the total GDP of India. The auto component sector is highly diverse and vibrant, one of the key downstream linkages to the Indian Automobile Industry and ending FY 2012, the production turnover being Rs.2063 billions by manufacturing all the key components required for Vehicle building. In 1980s it has followed a planned growth process and has given a major fillip to the development of Indian Auto Component sector. The initial part of development of Indian Auto Component Industry is primarily due to the implementation of Phased Manufacturing Program (PMP) as per the Govt. of India policy enabling the auto component industry to developing and creating highly capable, competent and quality conscious components. This followed by Auto Policy 2002 with a Vision: To establish a globally competitive automotive industry in India and to double its contribution to the economy by 2010. Accordingly automobile equipment manufacturers (OEMs) and Auto component manufacturers have made a significant contribution to the Indian economy as per the policy objectives. It has reflected in the growth of Indian Auto Component Industry from FY 2002 to FY 2012 in terms of earnings and encouraging capital investments domestically and globally. Indian Auto Component Industry covers a wide spectrum of industries, as rubber, iron and alloy steel, plastic, oils and lubricants, fabrication tools, safety gadgets, air conditioner, radiators, moldings, battery industry, electrical fittings, interior designing & furnishings, sheet metal fabrication, shocker manufacturers etc, which covers basic industry and white goods.

## Automotive Component Manufacturers Association (ACMA) of India

Earlier, it was registered under the section 21 of Companies Act 1956 and it has been established under the name, All India Automobile and Ancillary Industries association (AIA and AIA) based on the necessary approvals. Since 1982, it has been changed and named as Automotive Component manufacturers Association of India (ACMA) under section 23(1) of the Companies Act 1956.

The Automotive Component Manufacturers Association of India (ACMA) is the apex body representing the interest of the Indian Auto Component Industry. It is an ISO 9001:2008 certified Association. The main objective of ACMA is, being active involvement in trade promotion, technology up-gradation, quality enhancement, collection and widespread discussion of information which made it a vital channel for this industry's development. It has affiliation and membership with other bodies such as, ASDC, ASSOCEM, ATMA, CII, FICCI, SIAM, etc. ACMA plays vital role in national economic development and promote business with International alliance. Its charter is to develop a globally competitive Indian auto component industry and strengthen it.

ACMA is represented on a number of panels, committees and councils of the Government of India through which helping in the formulation of various policies pertaining to Indian Automobile Industry as a whole.

The Auto- Component Industry relates to supplies to OEMs and after-market services comprising of Tier 1, Tier 2, and Tier 3. Tier 1 auto-component manufacturers are the members of the Automobile Component Manufacturers Association – ACMA. The Indian Auto Component industry is classified as organized and

unorganized players. The organized sector caters essentially to OEMs and to some extent in after-market dealing in the manufacture of high value-added precision engineering components.

The unorganized players are mainly catering to replacement market or aftermarket dealing in lower value-added components. This industry classified in a 3 tier structure is as follows:

Tier 1 are involved in integrated systems and key enablers to OEMs and manufacture multiple auto components, Tier 2 supply auto components to Tier 1 suppliers and finally, Tier 3 use traditional method of manufacturing involved in raw material and single component manufacturers to Tier 2.

In some extend, OEMs themselves are in Tier 1 group because of quality, technology and brand monopoly of the component, established with the brand equity and capital investments being high.

ACMA members being small in numbers comparatively but they manufacture and supply about 77% of the Auto Industry till FY 2010, which shows forms a majority and importance of the total auto component output in the organized sector. One of the developments of ACMA is to formation of ACT, Centre of Technology for Manufacturing Excellence in 2001, as a division of ACMA to improve Productivity and Quality Programs for Operational Excellence.

Commendable approach of ACT for operational excellence is - a group of companies join to learn, understand, practice and achieve together with the expert guidance of mentors and expertise by a well documented practices and systems for sustenance. It is structured to impart knowledge to establish India as a main player for manufacturing quality auto components in economy of scale by focusing on minimize wastage, maximize salvage, value addition and leveraging the available resources in a most efficient manner.

### Auto Component Manufacturing Growth

Product quality, cost and efficient distribution are the key factors in the growth of this industry. The achievements with respect to various certifications obtained are worth to begin-with as indicated in term of quality improvement. A majority of them obtained is ISO 9001 certification which deals in Process oriented and System development leading to achieving the end result as per the set objectives. Apart from Auto Policy 2002, the other major favorable measures in aiding growth are - attracting foreign direct investment, technology modernization fund focusing to SMEs by Auto Manufacturing Policy 2006-16, and The DHI and PE (Department of Heavy Industries and Public Enterprises) creating a fund of USD 200 million fund to modernize the auto components industry by providing a subsidized interest loans and investment in new plants and equipment, and provide export benefits to intermediate suppliers of auto components against the DFRC (Duty Free Replenishment Certificate). The distinct and great achievement is relating with Deming awarded by Japan and India is the first country to obtain this award for outside Japan established organizations in this sector followed by largest in number.

As SWOT analysis of this industry in India is - The Strength lies in 1) Globally cost competitiveness, being low manufacturing cost 2) Strict quality controls 3) Access to latest technology whereas the Threat are 1) Essentially cheap imports from other low cost countries such as China, Thailand, Taiwan etc. 2) Continued pressure on prices from OEMs. 3) Lack of design capabilities with the domestic auto component manufacturers is leading major OEMs in importing the requirements for their new launches and variants.

### Investments

The Cumulative Foreign Direct Investment (FDI) in normal equity inflows in exclusively Auto ancillaries/parts from January 2000 to December 2010 is US\$ 635 millions (Rs. 2857 crores) and during the same period exclusive investments in passenger car segment is US\$ 3,008 millions (Rs. 13,516 crores). The key domain of growth in automobile and auto component industry in India held 1995, post liberalization and Auto Policy 2002.

**Table- 1 Indian Auto Component Industry Investments FY 2002 to FY 2012**

Financial Year Ending	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Investments (Rupees in Crore)	10700	12500	14500	16800	19500	24000	7560	460	8024	9120-10260	7760-9215
Percentage Change (%)		16.8	16	15.9	16.1	23.1	-68.5	-93.9	1644.3		

### Source - ACMA Annual Reports of FY 2007 to 2012

The surge in Investments in Indian Auto Component Industry is remarkable, majority are in Tier 1 and few in Tier 2 sector and most of them are members of ACMA. The Table 1 highlights the actual Investments in Auto Component Industry to match with the demand of automobile manufacturers (OEMs). There are a gradual increase in investments in Auto component sector till FY 2007 as the installed capacity increased at OEMs and there is a definite demand of vehicles as increasing in purchasing power (high employment) and easy Finance availability; Auto – Finance various schemes launched by private and Govt. banks. The significant factor to be noted is the capital investment taking place every year from FY2002 in this sector of automobile industry. There is a decrease in actual amount of investments in FY 2008 and FY 2009 because of

worldwide economic meltdown particularly in USA and EU. Thereafter, the investments have phenomenally increased to match the growth in India and demand abroad.

The trends in foreign direct investment in automobile sector shown that there is a continuous increase of investment in this sector after 2005 onwards. Major investment came from Japan (27.59%), Italy (14.66%), USA (13.88%) followed by Mauritius (7.77%) and Netherlands (6.91%). In India Mumbai, New Delhi and Ahmedabad received major chunks of investment i.e. 36.98%, 26.63% and 9.47%. The total numbers of approvals for automobile industry have been of the order of 1611 with an equity participation of US\$ 6.1 bn, which is 7.01% of the total investment. Automobile industry sector ranks 5th in the list of sectors in terms of cumulative FDI approved from August 1991 to Dec 2008. Out of 1611 numbers of foreign collaborations approved 734 are technical and 877 are financial in nature. The major Indian companies which received highest percentage of FDI inflows in automobile industry are Escorts Yamaha Motor Ltd, Yamaha Motors India Pvt. Ltd, Punjab Tractors Ltd., Yamaha Motor Escorts Ltd, Endurance Technologies P. Ltd, General Motors India Ltd, and Fiat India Automobile P. Ltd.

### Production

There is a remarkable growth in production turnover of all supplies by auto component manufacturers. The size of the auto components industry has grown principally due to two reasons i. the automobile manufacturers have grown and ii. The replacement market also increased in tune with that. The major part of Tier 1 produce is for the demand of OEMs and only a small portion for replacement market. In value terms it is Rs. 216.02 billion in FY 2002 and Rs.2063 billion in FY 2012 leading to CAGR of 25.3%. During the same period the total Automobile Vehicle production (in number) grew from 5,316,302 in FY 02 to 20,366,432 in FY 12 with a CAGR of 14.4% which is the prime reason for the growth of auto component industry. The Indian Auto Component Industry manufactures a wide range of products and Exhibit 2 displays the share under each of these categories. It covers i. Body and Structural parts ii. Engine and exhaust iii. Electricals and electronics iv. Interior accessories v. Suspension and brakes vi. Drive transmission and steering parts. This constitutes about 77% of the total production requirements.

**Table-2 Auto Component Industry - Actual Production Turnover changes Year On Year**

Financial Year Ending	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Percentage Change (%)		18.2	20	25.6	38.7	20.8	65	- 0.7	28.4	34.2	13.3

The actual Automobile Vehicle Production at OEMs from FY 2002 to FY 2012 comparing along with Table-4 indicating the production trend in value terms at Auto Component Industry and this proves a point that both are related and are in the same growth. This proves a point that auto-component industry is closely linked to the growth of automobile industry as a substantial quantity produced by auto component industry is supplied to OEMs.

### Exports and Imports by Auto component industry

**Exports:** The Indian Auto Component Industry is one of the few sectors in the economy that has a distinct global advantage in terms of Cost and Quality. Indian auto-components industry is being considered for outsourcing by developed countries owing to its low cost of production and quality product. In the FY 1998 the Auto Components export from India was meager rupees 1303.5 Crores compared to exports of Rs. 33,485 Crores in FY 2012, leading to a Compounded Average Growth Rate (CAGR) of 26%. One of the key factors being the increasing cost of automobile manufacturing in the Foreign Countries, coupled with the benefits of sourcing from India at a low price – savings to OEMs is about 25%. The majority 75% – 80% of export during FY 06 to FY 11 is catering to Asia, Europe and North American markets; a vast range of automotive chassis and components. This reflects one of the stated AUTO Policy 2002 Objectives to promote a globally competitive automotive industry and emerge as a global hub for auto components.

**Imports:** Entire period of this study duration, the imports content important part of auto components is gradually increasing and in value terms more than exports. The Custom Duty is same across all the areas in each Financial Year. In value terms import of auto components, it is Rs. 3164 crores in the year 2001–02 and Rs. 51441 (E) in the year 2011–12 with a CAGR of 31.2%. Also, year on year basis % increase is in double digit but for FY 2010 reason being recession in Europe and USA markets.

**Table-3 Auto Component – Imports (Rs. Crores)**

Financial Year Ending	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Imports (Rupees)	3164	4256	6499	9504	12115	15974	26040	31280	30680	38760	51441
Percentage Change (%)		34.5	52.7	46.2	27.5	31.9	6	20.1	-1.9	26.3	32.

**Table-4 Auto – Component Industry Statistics (US\$ Billions)**

Category	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	010-11	2011-12
Turnover	8.7	12.00	15.00	18.00	18.40	22.00	39.9	43.5
Growth rate %	29%	38%	25%	20%	2%	20%	53%	9%
Export	1.69	2.47	2.67	3.52	3.80	3.8	5.2	6.8
Growth rate %	34%	46%	8%	32%	8%	Nil	37%	31%
Import	1.9	2.48	3.6	5.22	6.80	8.16	8.62	10.1
Growth rate %	33%	30%	45%	45%	30%	20%	6%	17%
Investment	3.75	4.40	5.4	7.20	7.30	9.0	NA	
growth rate %	21%	17%	23%	33%	1%	23%		
Imports as a % of turnover	22	21	24	29	37	37	22	23%
Exports as % of turnover	20	21	18	20	21	13	18	16%

**Source: ACMA Statistics**

### Employment

In 2009, the direct and indirect employment in Indian automobile Industry is indicated as over 13 million and of these 8 to 9 million are in unorganized sector and indirect employment. Direct employment includes personnel working with automobile OEM's and Tier 1 manufacturer which accounts about 30%). The balance of 70% employed in Tier 2 & 3 of auto component manufacturers comprising of over 10,000 in unorganized sector and indirect employment includes essentially in manpower serving in the industry and market side enablers. The Indian automobile industry provides direct and indirect employment to over 17 million people as on 2012. Between these three years, that is, 2009 to 2012, there is an increase of over 4 million in direct and indirect employment in Indian Automobile Industry showing the potential of employment generation in automobile industry.

### Future Prospects of Auto Component Industry in India

The future of Indian Auto Component sub sector is very bright. Essentially Capital investment became a necessity to make domestic industry more competitive with regards to high technology component development. To assist domestic auto component manufacturers, to access finance at reduced rate of interest in modernization or up-gradation or technology acquisition leading to become more competitive, a new scheme titled as "Technology Up-gradation and Development Scheme (TUDS) is proposed by the working group on Automotive Industry for the 12<sup>th</sup> Five Year Plan 2012-17 under Ministry of Heavy Industries and Public Enterprises. This envisions the creation of 'Auto Component Technology Development Fund (ATDF)' and would be facilitated to finance 50 percent of the project cost by way of low interest loan with an interest subsidy of 4% to be in this corpus fund. The estimated investment required by the auto component manufacturers in the next five year period 2012-17 is Rs.15,000 crore; of which Rs.7,500 crore will be contributed by the auto component industry and the other part Rs.7,500 crore will be financed through low interest loans from Financial Institutions with 4% subsidy proposed to be borne by the Government of India.

The Government of India has initiated a National Automotive Testing Research & Development Infrastructure Project (NATRIP) for automotive testing and approved by allocating Rs.4.88 billions in the Union Budget 2012-13. To promote technology innovation in this sector, in the Union Budget for the Financial Year 2012-13 is increase in the weighted tax deduction is extended with respect to in-house R & D expenses from 150% to 200% in the five year period till 2017.

### Challenges

In spite of that a bright future and prospects of auto mobile component industry, it is facing a lots of challenges and difficulties of infrastructure and policy matters such as-

FICCI 2010 FDI survey found that there are three main challenges of foreign investors lie in procedural delays, the tax regime and labour laws. Recommendations of survey are:

- a) Rationalization of tax structure
- b) Reducing Bureaucracy
- c) Improving infrastructure facilities
- d) Rationalizing labor laws
- e) Liberalizing employment visa rules

Public transport is a particular infrastructure challenge, for example: Infosys spends US\$ 5 millions a year to transport its 18000 employees to work place. FICCI survey also suggest that power supply also present a genuine challenge.

Other Challenges includes income disparities, bureaucracy, environmental impact of development and corruptions

## Conclusion

The Indian Economy is vibrant among all the developing countries, especially in ASIAN region. The growth phase of Indian Auto Component Industry is applaudable in this duration from 2002 to 2012. The various policies of Govt. of India were favorable and encouraging, in fact, in some extent these acted as an accelerator to improve in exports and to expand the installed capacity. Also, Quality Certifications have significantly contributed to the growth of the industry, companies from abroad preferred Indian companies. Also, the Indian auto component industry possesses competitive advantage due to its high quality produce, efficient channel of distribution, dependable and low cost capabilities. In future, this might get isolate because of increase in input cost. The industry is already facing a major threat with respect to imports, which is presently at 30% of the total industry requirements. The creation of Auto Component Technology Development Fund (ATDF) to contribute in further development and to achieve targets as per Automobile Manufacturing Policy 2016 and Automotive 12<sup>th</sup> Five year plan is significant contribution from Govt. of India point of view.

The level of indigenization is being increased in phased manner to maintain low-cost without compromising on quality aspect by Global OEMs present in India. In a way, to increase the local sourcing is becoming a necessity for global OEMs because of depreciating rupee value leading to inflating import bill on auto components. In the FY 12, for Indian OEMs indigenization is 90% and foreign OEMs it is around 65 to 70%. By the changes in the Customs Duty structure by Govt. of India in The Union Budget FY 2012-13, the foreign OEMs may resort to manufacture locally by investing in technology up-gradation, leading to increase locally produced auto components in the finished product.

There are certain major factors to be viewed by the industry players to reach targets as per Auto Manufacturing Policy 2016, 12th Five year plan and Vision 2021. They are primarily monitoring a check on the raw material cost which accounts 55% approximately of the total cost of product, followed-by labour cost about 12%, availability of skilled labour requirement and reviewing and amendment in the labour laws by State and Central governments to balance on either side.

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