INDIAN AUTO COMPONENT MAKERS: A DETAILED REVIEW OF INDUSTRY SCENARIO

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ABSTRACT

Indian automobile industry is world's largest and fastest growing industry in terms of production capacity, supplies, sales,auto component manufacturing and exports. The current study concentrate on reviewing industry scenario for auto component makers by concentrating on four important area like- *Market Demand, Government Support, Competition and OEM policies*. Covering these four parameters the study would examine the situation of Tier 1, 2, & 3 auto suppliers. As the Indian automobile industry is very vast to study, therefore the current research only include commercial vehicle auto component makers. The study shall go for deep literature review of articles, researches, blogs and industry expert interviews published to analyze current industry scenario. The result reveals that, government policies and support are not enough to completely eliminate the suppliers' problems, market scenario seems to be bright and trending for OEMs but not exactly same for component suppliers, competing contract manufacturers are getting tough competition from domestic producers.

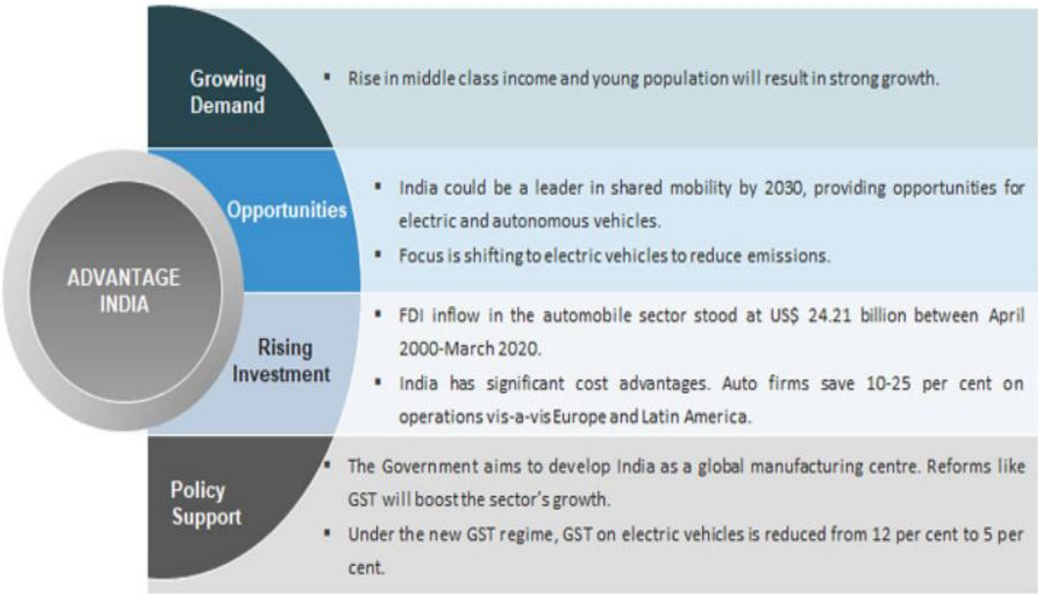
Key Words: OEM, Automobile Industry, Auto Component Makers, Tier 1, 2, 3 Suppliers, Commercial Vehicle Suppliers.

1 CONCEPTUAL BACKGROUND

1.1 INTRODUCTION

Indian automobile industry is blessed with consistent growth and technology development over the past few decades. Technology innovation and diffusion rate is amazing comparing to other struggling economies in Asia. According to Bajwa (2019) Indian automobile industry is reached up to $118 bn and going to become 3rd largest manufacturer of passenger vehicle in the world by 2021. The growth rate registered by the industry in financial year 2018-19 was 14.50% which is remarkable in its own.It is estimated that, around 26 million vehicles are being produced ever year, it holds India at strong position as global supplier of finished as well as auto parts. According to IBEF report (2020) India has strategic advantages over other competitor countries. The below fig. 1 represents some of the key advantages of India-

Fig. 1- Key Advantages of Indian Automobile Industry



Source: www.ibef.org

1.2 AUTO COMPONENT INDUSTRY OF INDIA

With a huge demand of automobile India's auto component industry is moving ahead with tremendous pace and becoming world's powerful suppliers of essential auto components.It has competitive advantage of having strong supply of workable employees and fastest growing consumer base. The industry not only supply domestically but also make huge export to the world. The demand for auto parts from Asia is majorly supplied by India due to its strategic location. Mukherjee & Dey (2008) pointed out the India's strength in auto component making compared industry potential with global automotive suppliers. The industry's growth rate is recorded 10.06 percent CAGR and produce around US$ 56.52 bn. Export is also grew by CAGR 8.34 percent and earned US$ 15.17 bn (ibef report, 2019). But, that is not all, Borgave & Chaudhari (2010) identified various challenges of Indian automotive sector. Authors revealed that, lack of focus on R & D and product innovation is the biggest challenge. Majority of suppliers make monotonous product and do not wish to improve. But, design and patterns for automobiles are changing rapidly for which it become difficult to match expectations and specifications of changing world. Some other challenges are- poor infrastructure, weak labor laws, poor system integration and backward technology.

2 LITERATURE REVIEW

Yadav & Sahay (2018) discussed about automobile growth of India and share valuable inputs regarding growing demand for auto parts. There is a great future demand for auto parts and opportunities for expansion. It would provide sustainability and market competitiveness to players. Auto component market scenario is changing rapidly in India due to new entrants in the market. Government policies favoring foreign business entry in the country creating a positive environment for automobile companies. This movement is bringing new technology in the industry both in processing and final product.

SIAM(Society of Indian Automobile Manufacturers, 2017) observed a positive shift in industry demand in terms of final products, accessories, technology and processes. Introduction of technology in automobile industry has brought 360 degree change, as a result manufacturing processes have been updated, industry requirements have been shifted and customers' expectations from product is also changes. It is the time for innovation, integration and inclination with current market pattern and demand.

Krishnaveni & Vidya (2015) identified the potential factors responsible for automobile industry growth of India. Increasing demographic profile of customers, changing income pattern, diffusion of technology and adoption are some important elements of India's success in auto sector. This growth will constitute comprehensive development of entire economy and would give strength to important macroeconomic factors. Along with this, supporting sectors would also develop with increased demand for supplies, capacity building, addition of new products etc.

Lokhande & Rana (2015) examined marketing strategies w.r.t to Maruti-Suzuki and revealed that, rapid innovation in product across all automobile companies throw tremendous opportunities before sub suppliers of auto parts and accessories. Indian automobile industry is entering into new era of digitalization, use of artificial intelligence and mechanical innovation in automobile technology. This leave great opportunities to the firms which were never be in existence earlier. The market trend, demand, competitive situation would all being changed during this technological ear and open new vistas for auto component makers.

3 METHOD AND OBJECTIVES

3.1 METHOD

The current research is a 'review article' which include extensive review of literatures related to 'automobile industry and auto part makers' in India. In order to confine the area of the research four key dimensions are selected for the study like- *Market Demand, Government Support, Competition and OEM policies*. With the help of these four key parameters the current research would examine the industry scenario of auto component makers. Review method is adopted with a view to concentrate on findings and conclusions of the studies and draw the understanding about how the sector is being performed, what measures have been taken by the government to support auto parts suppliers, a quick look at level of competition prevailing and what is the role of OEM.

3.2 OBJECTIVES

1. Analyzing overall market scenario of Indian automotive industry while focusing on market demand of auto parts& accessories.
2. Studying government policies and support extended to tier 1, 2 & 3 automobile companies
3. Analyzing the level of competition and figure out important measures increasing it.
4. Studying OEM policies related to sourcing auto parts and accessories.

4 Analysis

4.1 Analyzing market demand for auto parts and accessories in India

Table 1- Statistics Showing Auto Parts & Accessories Supply to Automobile Industry ('000' numbers)

Year	Spare Parts	Electrical Parts	PVC & Rubber Parts	Overall Parts Supply	Total Supply
2011	8624	2159	6895	10985	28663
2012	8468	2157	6477	10745	27847
2013	8931	2267	7254	11148	29600
2014	9024	2689	7863	12843	32419
2015	9175	2693	7940	13574	33382
2016	8996	1908	6324	12670	29898
2017	9230	2041	7236	14532	33039
2018	10157	2987	9874	15272	38290
2019	9040	2568	8026	12769	32403

Source: Author Prepared

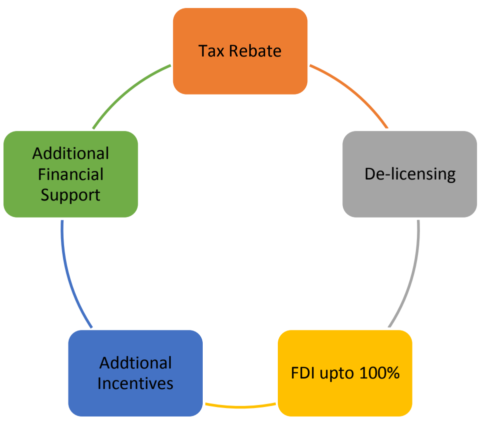
The above table 1 representing the auto parts and accessories supply to automobile companies and indicate that there is a growing trend in demand for auto parts in India excepting few years in which demand were low. The growth indicate that market scenario and trend for automotive companies are very bright and growing. Indian automobile market seems to be highly demanding in the coming years as retail demand for passenger cars and commercial vehicles are increasing. The automotive supplies in the years like- 2012, 2016 & 2019 was reduced due to low performance of macroeconomic variables. The percentage decline in these years are observed as 15.47%(2012), -2.60%(2016) &-11% (2019). Despite of few downfalls Indian automotive industry are claimed to be sustainably growing industry and reflect potential future.

4.2 Analyzing government initiatives and support to automotive makers & suppliers

Government initiatives played magnificent role in promoting automobile industry in India. While focusing on automotive suppliers government has made various arrangements to push up their situation and provide relaxation through liberalized policies and procedures. Under 'Automotive Mission Plan' government introduced various policies and prepared effective measures to eliminate potential problems and extend possible help. Under this mission, government has vision to achieve growth rate of 15% (CAGR) specifically in automotive suppliers' industry and target to achieve revenue earned of US$ 300 billion. After introduction of new tax policy i.e. GST various industrial obstacles were observed which hindered the smooth functioning of suppliers. It had break the momentum as significant duty hike was experienced by auto part suppliers. The initial price of auto supplies shot up due to this tax policy change and shrink the profit margin of the suppliers. Hence, under 'Automotive Mission Plan' duties on auto part supplies was reduced from 12% to 5%. By this such supplies were made affordable and competitive for the OEMs. Another important initiative was give relaxation in income tax deduction up to 1.5 lacs on loan's interest (IBEF, 2020).

Government has done tremendous job for promoting automotive industry and helping entrepreneurs to increase capacity. Some of the very important initiatives are extracted from previous literatures and representing in below fig 2-

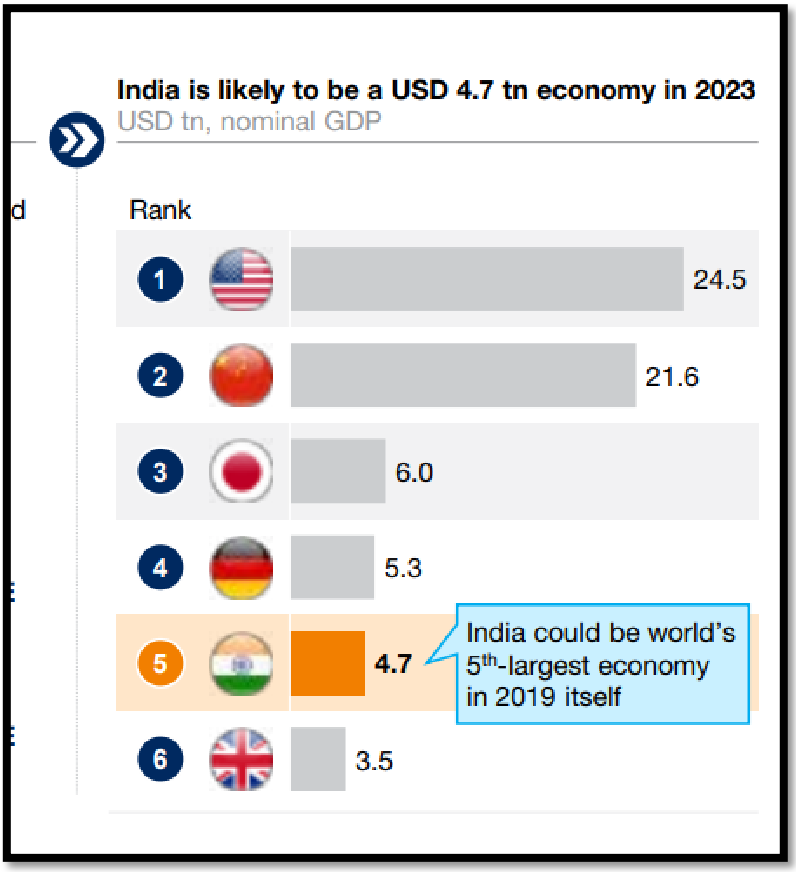
Fig 2. Government Initiatives Helping Automotive Suppliers



Source: Author Prepared

Government's initiatives and support reflected magnificent growth and development in automobile industry. India is likely to be ranked at 5th position for automobile manufacturing and supplies at global platform and would achieve turnover of US$ 4.7 trillion by 2023. The below fig 3 showing the global ranking-

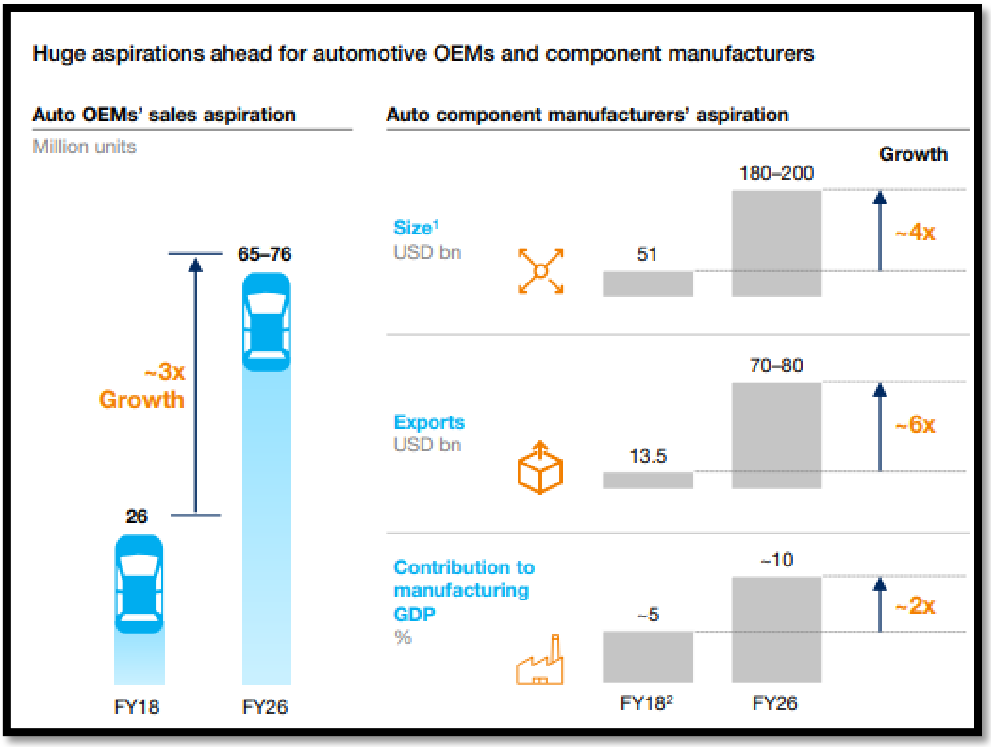
Fig. 3 Global Ranking of Automobile Manufacturers



Source: www.ibef.com

Government initiatives and support policies have given new aspirations to both OEMs and component manufacturers. Under the provision and supervision of 'Ministry of Heavy Industries' Indian automobile industries are given special treatment for variety of services like credit facilities for sourcing raw material, long term corporate loans, arranging buyer-seller meets and integration of all stakeholders for collaborative growth. The below fig 4 showing the market aspiration of OEMs and auto component suppliers-

Fig. 4 Automobile Industry of India Ahead



Source: www.mckinsey.com

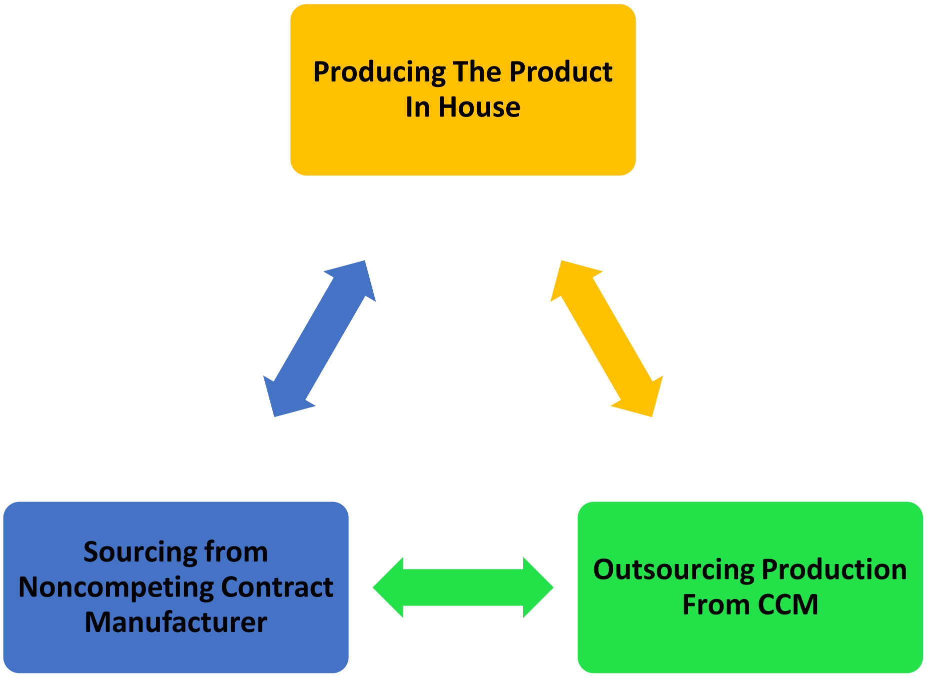
4.3 ANALYZING LEVEL OF COMPETITION IN AUTOMOTIVE INDUSTRY OF INDIA

Literature evidences claim that Indian automotive industry is crossing across huge competition from both outside and internal. Foreign competition from MNCs hitting the sector badly as it directly affect domestically operating companies and give tough challenge. On the other hand, the global automobile companies operating in India sets high quality standards for auto components and accessories which is another big challenge to domestic supplier operating at lower production scale. It leaves low margins and difficulty in become competitiveness. Wong (2019) state that India is the fastest growing economy in terms of real GDP and industrial output and is expected to be a global supplier of automobile and auto components. Currently it is known as eleventh biggest passenger car producer and first two wheeler producer in the world. The objective of 'Make in India' is set to achieve self-dependency for auto component supplies and make India self-dependent for industrial demand.

4.4 Analyzing OEM's Policies

OEMs' policies are best describes as 'OEM sourcing strategies' which primarily involves pricing strategies, order quantity, break bulk policy, mode of payment, tenure of payment and so on. Scheele (2018) opined that OEM's sourcing strategies become a strategic issue for tier 1, 2, 3 suppliers as it significantly increasing the pressure on them and make it challenging to meet trade obligations. Bottle neck in sourcing policies and avoiding interest of suppliers OEMs in India becoming the real cause of suppliers' failure. The tight sourcing policies shrinking the component producers' profit margin and unusual payment condition killing the industry. Li, et al. (2019) discussed about the three important sourcing strategies of OEMs viz. producing the components in-house, sourcing from competing contract manufacturer (CCM) and sourcing from noncompeting contract manufacturer (NCM). These sourcing strategies have significant impact on tier 1, 2, 3 business operations, growth and competitiveness. It is being considered as additional competition arise from OEMs in addition to other similar suppliers. The findings of the study revealed that, automotive suppliers are operating in a very tight environment and fighting for their existence. For better understanding OEM's sourcing strategies are presented in pictorial form in below fig 5-

Fig. 5 OEM Sourcing Strategies



Source: Author Prepared

5 FINDINGS & CONCLUSION

The study finds auto component suppliers are going through a tough time due to various reasons like- growing domestic competition from small manufacturers who supply low price accessories to end users directly, OEMs' hard sourcing strategies which doesn't leave much profit and space to put their own conditions, frequently changing technology, fastest changing legal environment and frequent product innovation.Despite consistent growth in Indian automobile industry associated sectors are not found in a good situation, especially the component manufacturers and suppliers. Viewing the other aspect of industry scenario, the study find demand is increasing year after year but not for regular products, but for new designed and innovative products. It create again a big challenge before component suppliers to meet frequently changing industry demand. Another dimension the study looked at was 'competition', the study find level of competition is increasing rapidly with new entrants in the industry and changing demand of OEMs. LPG have brought keen competition from developed nations with much technological capability and economy of scale in production. At last, the study finds government policies are helping but do not making it sufficient against collaborative efforts of OEMs. Government arrangements for promoting component suppliers and manufacturers are keep well and facilitating resources needed to avoid industry problems.

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