

# Groomed for Global Growth

Auto components are increasingly being sourced from India by the global majors. Many foreign companies have even set up R&D centres here. **Darrel Philip** reports on India emerging as a vendor in the nearly trillion dollar business.

**D**emand for Indian expertise comes in waves. In the early 1990s, information technology rode the crest, and then came business process outsourcing. Now the car components industry is on the verge of making a big splash. Global carmakers are fast turning India into a manufacturing, sourcing and R&D hub. According to a report by corporate consultant McKinsey & Company, by 2008 the global BPO industry will be worth US\$150 billion and the IT

sector \$ 200 billion worldwide. In contrast, the report puts the value of projected global outsourcing of car manufacture at more than \$1,000 billion by 2008. The potential is obvious.

Multinational companies, such as General Motors, Volkswagen, Federal Mogul, Toyota, Ford and Mico Bosch, use India as a base not only to source car parts but also to house their R&D facilities and even to procure cheap cars. A recent report from another corporate consultant, KPMG,

forecasts that within the next four years passenger cars made in India will traverse European roads. This has already happened.

Mumbai-based second-largest passenger-vehicle maker, Tata Motors, built a small car, Tata Indica, from scratch for only \$ 340 million against a global benchmark of almost \$ 1 billion that it normally costs to develop a car from start to finish. Britain's MG Rover gave Indian engineering a lift when it introduced it to British roads as the

City Rover, pitting it against brands such as Fiat's Panda and Volkswagen's Golf. The 'Made in India' brand received a further boost when Ford began to export its popular model, Ikon, to South Africa.

The \$ 6.3 billion Indian car parts industry is poised to take off as global outsourcing gains ground. Car component exports rose from \$ 330 million in financial year '98 (ending March 1998) to \$ 800 million in FY '04. With a cumulative aggregate growth rate of 21.5 per cent, the figure is expect-

ed to reach \$ 2.6 billion by 2006.

Despite a relatively small share of Asia in the global pie, India has notched up the numbers. During 2003-04, Indian car-parts exports crossed \$ 1 billion and the Automotive Component Manufacturers Association believes this figure will touch the \$ 5 billion level by 2010.

AT Kearney sees the car components market in India growing at a cumulative aggregate rate of 15 per cent a year until 2012. And what is helping is that the

industry is emerging from its dependence on the Indian car market and is gradually establishing itself in global markets, where it looks for sustained growth.

The presence of passenger cars from established firms, such as General Motors, Ford, Hyundai, Toyota, Honda, Volkswagen's Skoda and Suzuki in India has helped the Indian car parts industry to attain global standards.

The growth of volumes in the domestic car industry can be credited for helping the



**GLOBAL COMPANIES ARE REAPING THE BENEFITS OF SOURCING AUTO COMPONENTS FROM INDIA:** Cost-cutting at work

components industry to attain a critical mass. Two decades ago, there were just two models manufactured here under licence, and their combined annual sales was about 60,000 units. But, now, the market is on the verge of grossing a million units — between April and October sales of car spares crossed half a million units. And growth is expected to be around 20 per cent in the near future.

Sales of spares for commercial vehicles have followed a similar trend as more sophisticated vehicles with higher payloads have begun to replace older technology.

### How India ranks in the Business\*

India, China and Thailand have been ranked on various parameters on a scale from one to five, in which one denotes the best and five denotes the worst.

Parameters	India	China	Thailand
Quality of supply	1	4	2
Ability to supply consistent quality	3	4	2
Price competitiveness	4	1	3
Design & Engineering capability	1	4	3
Customer/After Sales Support	3	4	1
Maturity of auto component industry	1	4	3
Govt. regulations	4	3	1
Attractiveness of Domestic Market	2	1	3
Compliance and transparency	2	4	3
<b>TOTAL SCORE</b>	<b>21</b>	<b>29</b>	<b>21</b>

\*Ranks: Lower the better

Source: Frost & Sullivan

Cost pressures are forcing global Original Equipment Manufacturers (OEMs) and tier-one suppliers to outsource from low-cost manufacturing destinations. India has an edge as it offers low costs without compromising quality.

Six Indian car parts makers — Sundaram-Clayton Ltd. Brakes Division; Sona Koyo Steering Systems; Sundaram Brake Linings; Brakes India Ltd., Foundry Division; Rane Brake Linings and Lucas-TVS — have won the coveted Deming quality award. Out of 400 key car components makers in India, 80 per cent have ISO 9000

certification, 50 per cent have QS 9000 certification and about 10 per cent have ISO 14001 certification.

Multinational companies have begun to see the benefits of sourcing from India. GM and Caterpillar source radiator caps from Sundram Fasteners — the company has won GM's best-supplier award for three years. GM sources light equipment from Lumax.

Volkswagen has tied up with Engine Valves to develop valves for a new engine. Mitsubishi of Japan sources front-axle beams from Bharat Forge and Federal Mogul of the US sources components from India through a tie-up with the Anand group.

Ford India will source parts worth \$ 160 million from India. Skoda will source parts from India for its European operations and raise the level of indigenisation for its Indian models to more than 70 per cent.

Previously, Indian automobile parts makers used to be involved mainly in design and development (D & D) for foreign car manufacturers. This included support work, such as testing and reverse engineering. But this is now changing — Indian firms are moving up the value-chain into R&D, as well.

Mikuni of Japan will entrust its R&D activities to its offshore joint-venture partner, UCAL Fuel Systems, which is based in Chennai. Maruti's Gurgaon R&D centre will be Suzuki's Asian development hub for compact cars by 2007. When Suzuki revamped its Zen model in India, it was the first time that the company redesigned a car outside its R&D facilities in Japan.

Daimler-Chrysler, too, has an R&D centre in India, which is involved in applied research in avionics, simulation and software development. Components company Mico Bosch's global development centre in Bangalore is the first such development centre outside the US.

What has fuelled this new interest? Restructuring. Over the past few years, Indian manufacturing has shed its stodgy ways of doing business. Says Sundaram Clayton's managing director, Venu Srinivasan, "Now India has a robust manufacturing base after rightsizing, restructuring and implementing TPM and TQM processes. It is well equipped to tap the boom in the outsourcing market." India has what it takes to attract global groups that seek to outsource output.

Several multinational firms are in India to leverage skills in R&D, innovation, engineering and management. Their reasons are many — from low costs to the need to be closer to a large market, or simply to leverage the engineering skills of a large English-speaking workforce for competitive advantage.

Besides, in the recent past, New Delhi's mindset, and consequently its policies, have begun to shift from being a regulator, to a facilitator, of industry. Moreover, Indian banks are more willing than ever before to invest in more than mere manufacturing.

According to L Ganesh, vice-chairman of the component making Rane Group,

### Where on earth have all our spares gone?

#### Region-wise exports of Indian car spares in 2003 (in percentage)

<b>US</b>	25
<b>Europe</b>	35
<b>Africa</b>	13
<b>Asia</b>	17
<b>Others</b>	10

Source: ACMA

"India is definitely ahead of China in terms of quality, productivity, technology and communication skills. Exposure to India has come thanks to the entry of giants, such as GM, Ford, Hyundai and Toyota." And the Indian attraction is spreading fast.

Many Korean firms have already made India a hub. Hyundai Motors is India's second largest carmaker and is bent on making India its global hub for the small car. BVR Subbu, president of Hyundai Motors India, says, "Selling the 'Made in India' brand wasn't easy. But we followed the 'seeing is believing' policy in exports to convince global buyers." The Indian subsidiary of Hyundai is now increasingly enlarging its presence in Asia and Europe each year.

The demand for car parts is having a rub-off effect on Indian cars which are now travelling to foreign lands. The Ford Ikon seems to be a bigger hit abroad than in India. The Indian arm of the world's second largest carmaker has emerged as one of the largest exporters of cars. Exports of the Ikon in completely knocked down kits from its Maraimalai Nagar plant in India recently crossed a significant 100,000 units.

**TOYOTA KIRLOSKAR AUTO PARTS' \$ 80 MILLION UNIT WILL EXPORT GEAR BOXES GLOBALLY:** Assembly at the Toyota Kirloskar plant



## The Future is in Forgings

BHARAT FORGE LTD., based in the industrial city of Pune, 180 km southeast of Mumbai, is the largest forging company in Asia and the second in the world. It is India's largest exporter of auto components, and is one of the world's largest axle-component manufacturers, with a 50 per cent market share in the US. It has just bought its second overseas manufacturing facility, CDP Aluminiumtechnik at Ennepetal, Germany for € 6.3 mn, in an all-cash deal. A year ago, in November 2003, it had acquired an associate company Carl Dan Peddinghaus, now renamed CDP-Bharat Forge.

The latest acquisition takes the \$ 830 million Bharat Forge group into a related but new business area with considerable prospects for growth; aluminium forgings. As Baba N Kalyani, CMD, Bharat Forge, stated on his group's latest initiative,

"The CDP Aluminiumtechnik acquisition will significantly strengthen the company's position in the global passenger car and chassis component business. CDP AT will enhance Bharat Forge's product range and technical capabilities in both steel and aluminium."

In end 2004, Bharat Forge was included, for the second consecutive year, in the Forbes 'Best under a Billion' list of companies.

The forging major is looking at acquiring manufacturing facilities both in the US and China as part of its overall strategy of becoming a \$ 1 billion company by 2008.

The strategic objectives of these proposed acquisitions are different. "Our plan is to make China and India the manufacturing back end and Europe and the US the technology front end of our operations," says Kalyani.



**ENHANCING TECHNICAL CAPABILITIES:**  
Baba Kalyani

David Friedman, managing director and president of Ford India, described the feat as a 'significant achievement'. Set up over 70,000 sq feet, the Ford India export plant, a green-field site, started operations in May 2000 by exporting Ikon parts in CKD condition to Ford Mexico, Ford South Africa, and later to Ford China. The export plant is located adjacent to its passenger-car manufacturing facility.

The City Rover, which was launched in Britain in 2004, has already sold 3,000 units. MG Rover has positioned the car as a value-for-money model in the face of competition from products like the Fiat Panda. "All the markets throughout Europe are highly segmented," explains Michael J. Booth, MG Rover's corporate head for product development. "We like to position our products, including the City, distinctive-

ly, as a value-for-money proposition. Of course, the City will continue to be examined within that parameter."

As part of its agreement with MG Rover, Tata Motors will supply spares to the City Rover's after-sales market. Booth explains that there are five agreements with Tata Motors — sourcing Rover-badged Indicas for Britain and the European market, sourcing Safari SUVs for Britain and Europe, and sourcing after-sales spares for the Rover City.

For all that success, the 'Made in India' tag still evokes images of poor safety and manufacturing. Most multinationals and Indian firms must rectify this impression before developing products — an exercise that can be lengthy and expensive. Consequently most companies do not last the course. But, for those that persevere the rewards can be big — the cost base for

car components in the US is \$ 430 billion whereas, in India, it is no more than \$ 2 billion.

According to an analyst at a Mumbai-based brokerage, "Global car makers from the US preferred outsourcing from India over China, Mexico and Brazil." This is backed by recent findings in a report by Frost & Sullivan, as shown in the table (*Where on earth have all our spares gone?*). Although India needs to work on some areas, the numbers in the table indicate that if a global car firm is looking for a reasonably priced source of quality and value-added engineering, then India with its low-cost and high-skilled personnel is the place to be.

Besides suitable personnel, India also offers an abundant supply of metal-based raw material. India is the lowest cost producer of aluminium and some grades of steel. This goes down well with companies that want to make India a components outsourcing hub, especially in the face of rising metal prices. The low cost of Indian aluminium must please carmakers as many of them use it to reduce the weight of their vehicles to boost their fuel efficiency.

However, analysts say India's competitive advantage doesn't come from low costs alone but from its full service supply capabilities. As product life cycles and lead times for product development shrink, Indian component makers have evolved from 'build to print' to customised offerings. 🌿

**FORD INDIA SCORES A BIGGER HIT ABROAD THAN IN INDIA:** The Ford Ikon

