Automotives

NOVEMBER 2011

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Contents

Advantage India

Growing demand

- Demand growth due to rising incomes, a growing middle class, and a young population is likely to propel India among the world's top five auto-producers by 2015
- Growth in export demand is also set to accelerate

Innovation opportunities

- The Tata Nano has opened up the potentially large ultra low cost car segment
- Innovation is likely to intensify in engine technology and alternative fuels

Advantage India

Increasing investments

- India has significant cost advantages; auto firms save 10-25 per cent on operations in India compared to Europe, Latin America
- Large pool of skilled manpower and a growing technology base will induce greater investments

Policy support

- GOI's aim is to develop India as a global manufacturing as well as R&D hub
- There has been a wide array of policy support in the form of sops, taxes and FDI encouragement

FY10

Market size: USD 57.7 billion

FY16E

Market size: USD 145 billion

Notes: GOI – Government of India; FDI – Foreign direct investment
2016E – estimated figure for the year 2016 ; these estimate are from the government's Automotive Mission Plan (2006 – 2016)

Contents

Evolution of the Indian automotives sector

0.4 million units (1982)

Before 1982

- Closed market
- Only 5 players
- Long waiting periods and outdated models
- Seller's market

0.6 million units (1992)

1983 - 1992

- Joint venture (JV) -Indian government and Suzuki to form Maruti Udyog; started production in 1983
- Component manufacturers also entered via JV route
- Buyer's market

11 million units (2007)

1993 -2007

- Sector de-licensed in 1993
- Major original equipment manufacturers (OEMs) started assembly in India
- Imports allowed from April 2001
- Introduction of value added tax in 2005

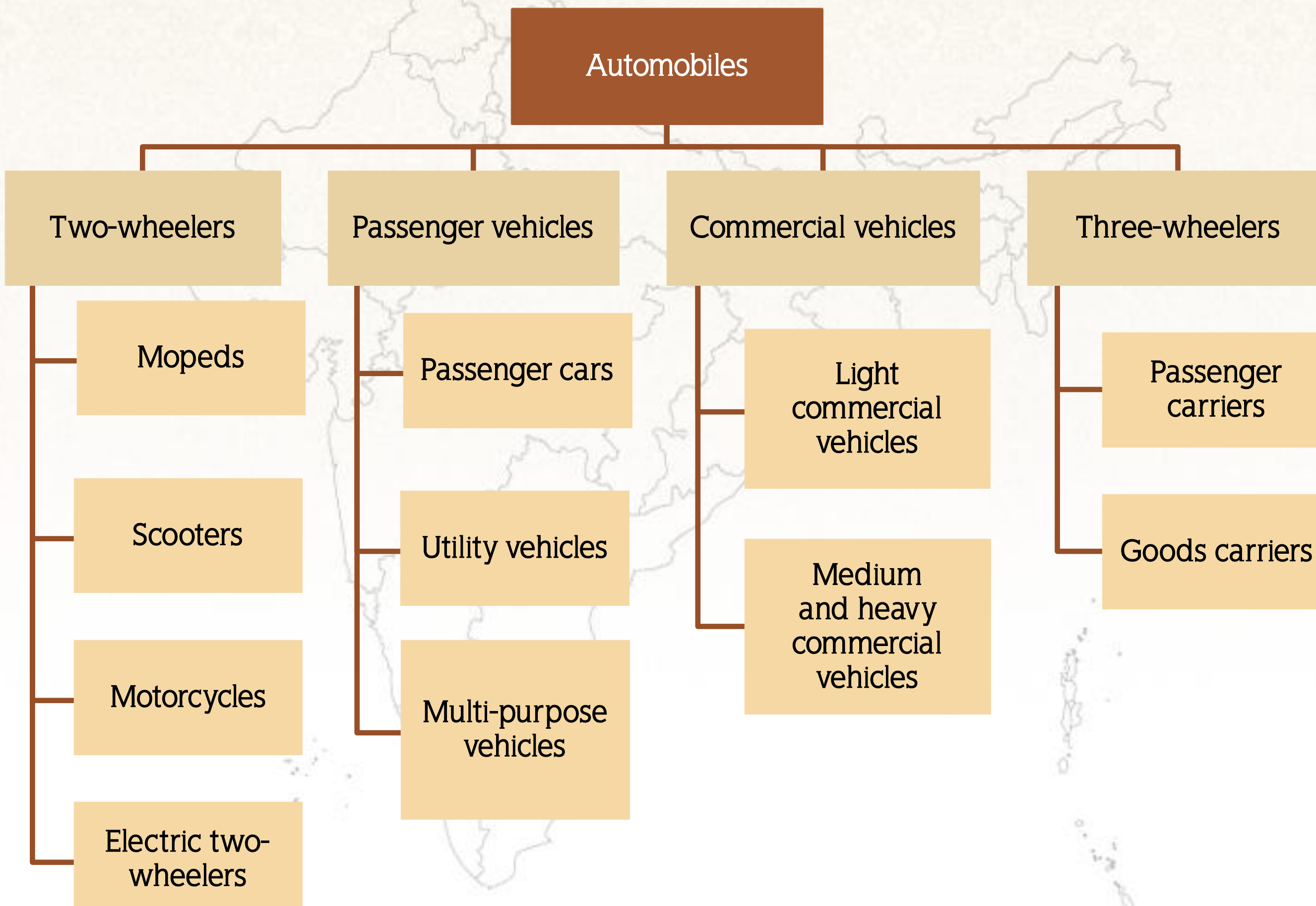
18 million units (2010)

2008 onwards

- More than 35 players in the market
- Removal of most import controls
- Indian companies gaining global identity

Source: Tata Motors, Aranca Research
Notes: JV – Joint Venture

The automotives market is split into four segments



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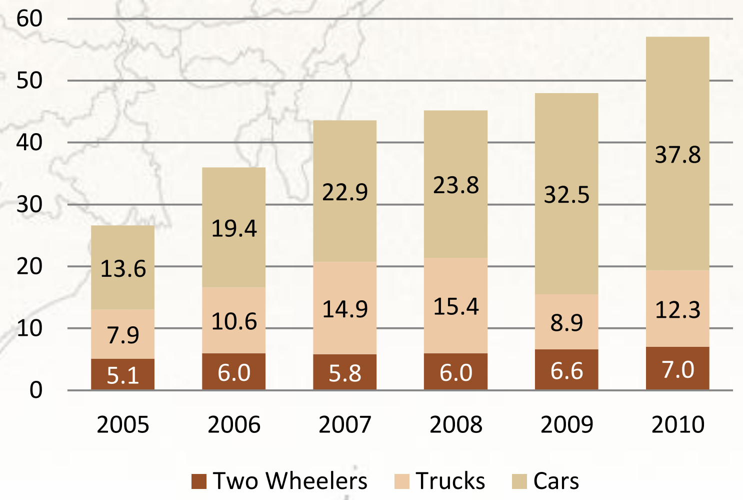
Automotives revenues have been growing at a healthy pace … (1/2)

- Automotives sector sales have been rising at an impressive 17 per cent CAGR over the last five years
- Cars are the fastest growing segment, with a CAGR of 23 per cent in the same period

Notes: Revenue of three wheelers is unavailable and hence not considered here; 2010E indicates estimated figures for 2010 (by Datamonitor)
CAGR – Compound Annual Growth Rate

Revenue trends over the past few years in USD billion



Source: Datamonitor, Aranca Research

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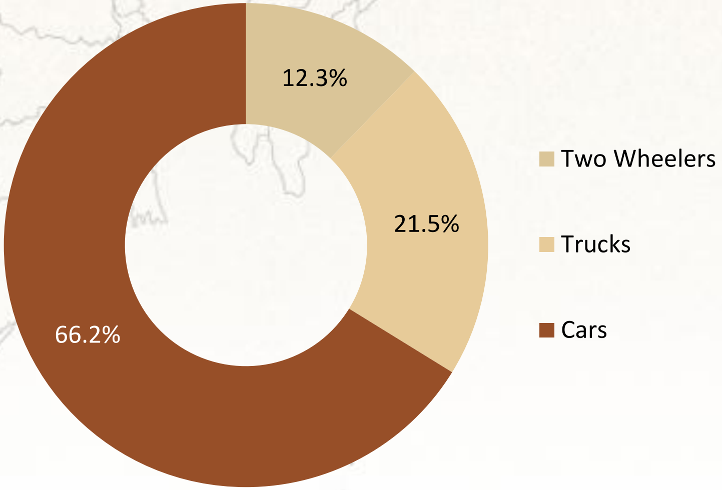
Automotives revenues have been growing at a healthy pace … (2/2)

- Cars account for two thirds of overall automotives revenues in the country
- Trucks account for 22 per cent, while two wheelers account for the remaining 12 per cent

Market break-up by revenues (2010)



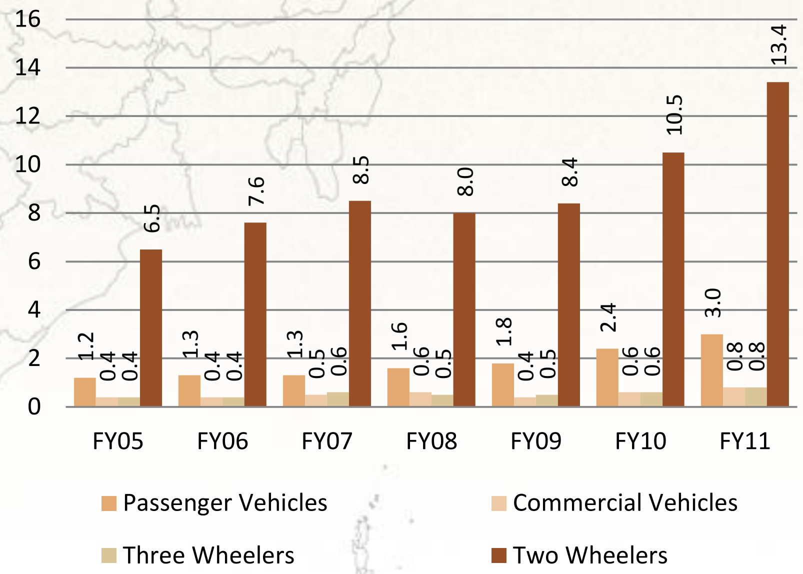
Source: Datamonitor, Aranca Research

Growth evident from rise in total production figures … (1/2)

- Automotives production has increased at a CAGR of 13.3 per cent over the FY05-11
- Passenger vehicles are the fastest growing segment with a CAGR of 16.3 per cent over the same period

Notes: FY – Indian financial year (April – March)

Total production of automobiles in India (million units)

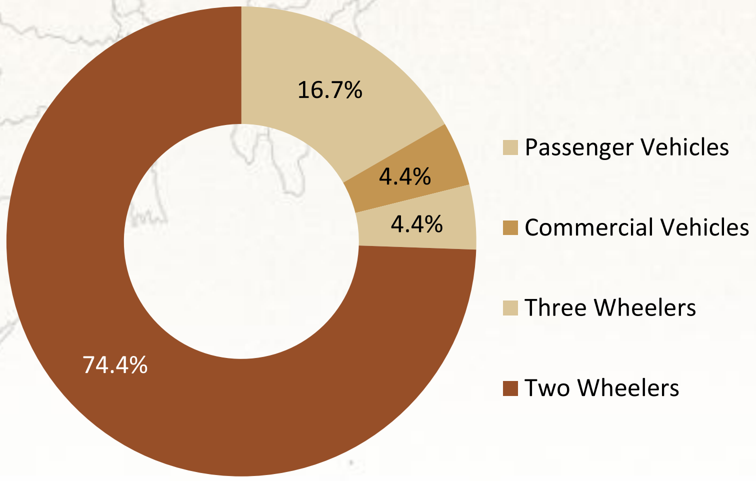


Source: SIAM, Aranca Research

Growth evident from rise in total production figures … (2/2)

- By volume, two wheelers account for three-fourths of the entire market
- India is the world's 2nd largest two wheeler producer and 4th largest commercial vehicle producer

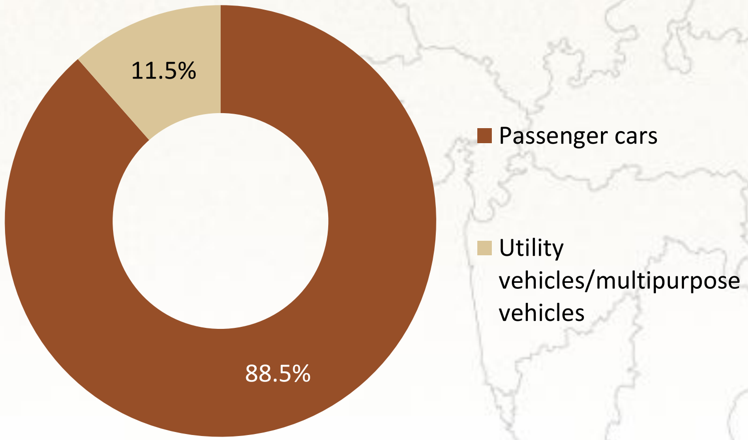
Market share by volume (FY11)



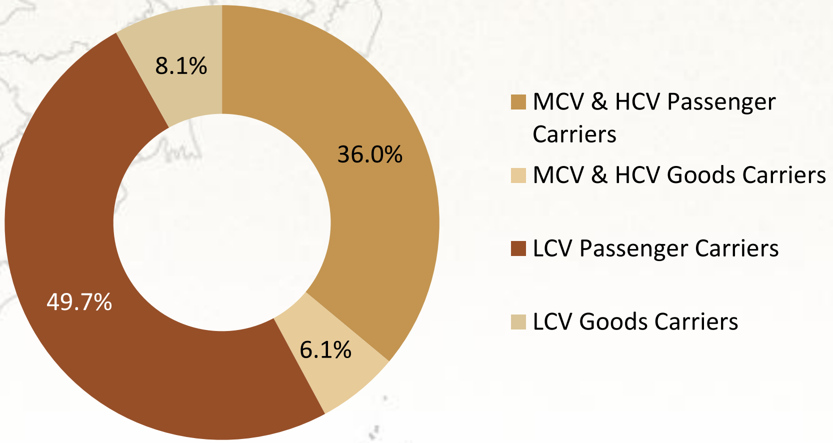
Source: SIAM, Aranca Research

Market break-up by production volumes … (1/2)

Passenger vehicles (FY11)



Commercial vehicles (FY11)

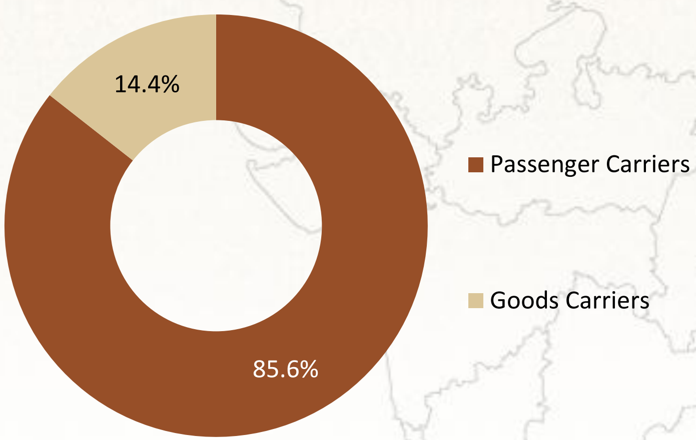


Source: SIAM, Aranca Research

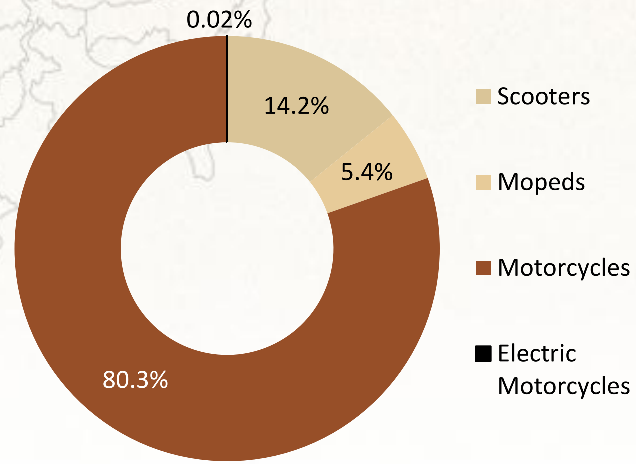
Notes: LCV – Light commercial vehicle; MCV – Medium commercial vehicle; HCV – Heavy commercial vehicle

Market break-up by production volumes … (2/2)

Three wheelers (FY11)



Two wheelers (FY11)



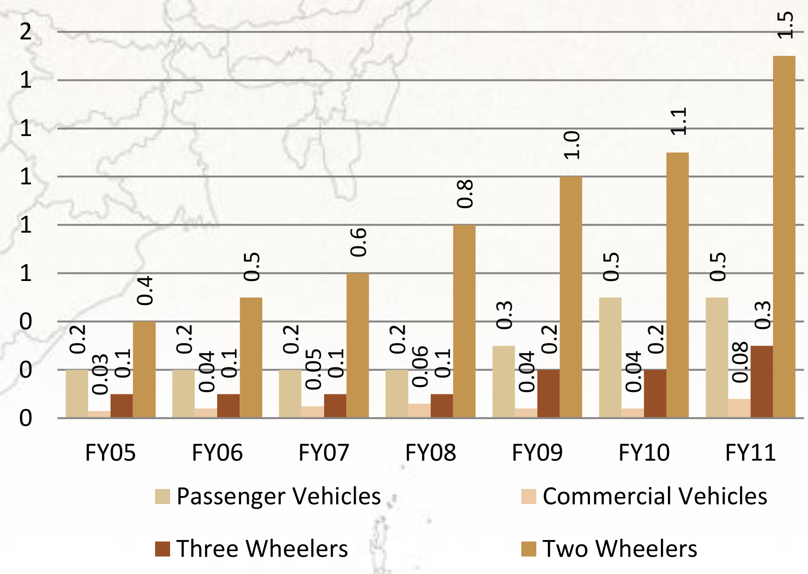
Source: SIAM, Aranca Research

Exports have also grown strongly … (1/2)

- The volume of exports from the sector have increased at a CAGR of 24.1 per cent over FY05–FY11
- Over this period, the fastest growth was in the two wheeler segment (26.8 per cent)

Notes: CAGR – Compound annual growth rate;
FY – Indian financial year (April – March)

Exports of automobiles from India (million units)

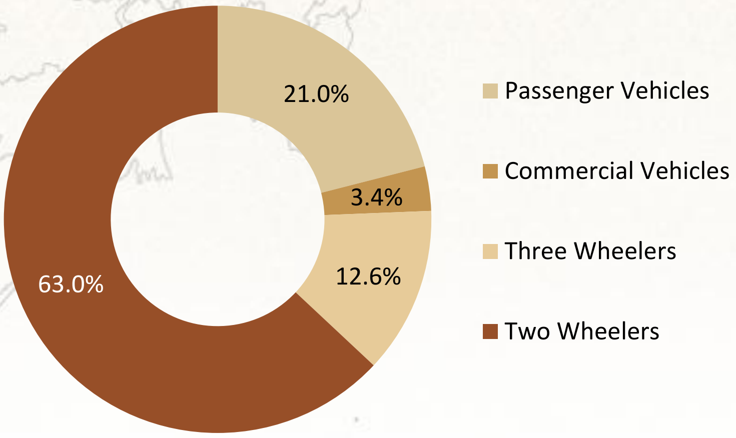


Source: SIAM, Aranca Research

Exports have also grown strongly … (2/2)

- Two wheelers accounted for the largest share in exports (by volume) at 66 per cent in FY11
- Passenger vehicles account for a sizeable 19 per cent of overall exports

Exports shares by volume (FY11)



Source: SIAM, Aranca Research

Presence of a clear market leader in each segment of the market

- The automotives industry is concentrated with market leaders in each segment commanding a share of over 40 per cent

	Market Leader		Others					
Passenger Vehicles	MARUTI SUZUKI	45%	HYUNDAI	16%	TATA MOTORS	15%	Mahindra	7%
MCVs & HCVs	TATA MOTORS	63%	ASHOK LEYLAND	23%	EICHER	7%		
LCVs	TATA MOTORS	59%	Mahindra	30%	FORCE MOTORS	4%	PIAGGIO	4%
Three Wheelers	PIAGGIO	41%	BAJAJ	40%	Mahindra	10%		
Motorcycles	HERO HONDA	59%	BAJAJ	24%	TVS MOTOR COMPANY	7%	HONDA	6%
Scooters	HONDA	51%	TVS MOTOR COMPANY	21%	HERO HONDA	14%	SUZUKI	10%

Source: SIAM, Aranca Research
Notes: Data is for FY10

Notable trends in the Indian automotives sector

New product launches

- Large number of products available to consumers across various segments; this has gathered pace with the entry of a number of foreign players
- Reduced overall product lifecycle have forced players to employ quick product launches

Improving product-development capabilities

- Increasing R&D investments from both the government and the private sector
- Private sector innovation has been a key determinant of growth in the sector; best example is the launch of the Tata Nano, the world's cheapest car

Alternative fuels

- Over 2008–10, the number of CNG vehicles increased at a CAGR of 60 per cent
- The CNG distribution network in India is expected to increase to 250 cities by 2018 from 30 cities in 2009

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Sector benefits from strong demand, product innovation

Growing demand

- Rising incomes, young population
- Greater availability of credit and financing options
- Strong growth in exports as well

Inviting →

Policy support

- Goal of establishing India as an auto-manufacturing hub
- R&D focus; GOI has set up technology modernisation fund
- Policy sops, FDI encouragement

Resulting in →

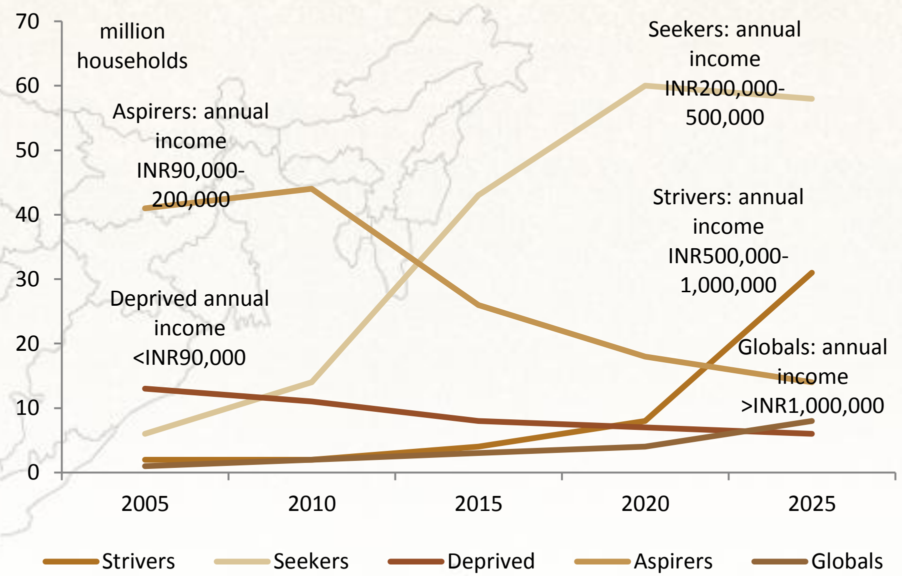
Increasing investments

- Rising investments from domestic and foreign players
- Greater innovation in products; market segmentation
- Strong projected demand making returns attractive

Notes: GOI – Government of India;
FDI – Foreign direct investment

Growing middle class driving domestic demand growth … (1/2)

Rising incomes; growing middle class
• Growing per-capita incomes; rural incomes also rising
• Rising middle class – size of the middle class expected to touch 550 million by 2025 from 50 million in 2010
• Favourable demographics – a young population is also driving up the demand for cars
• Demand for commercial vehicles have got a boost due to development of roadways and greater market access



Source: McKinsey Quarterly, Aranca Research

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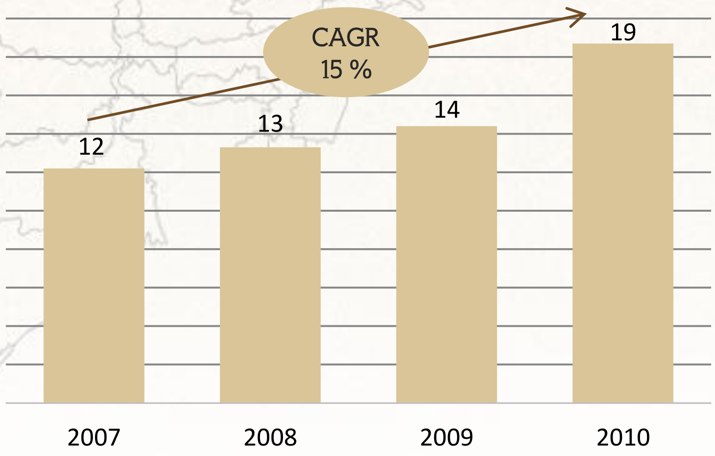
Growing middle class driving domestic demand growth … (2/2)

Easy availability of credit
• Greater access to credit makes purchases of both passenger and commercial vehicles easier
• Total size of auto-financing has grown to USD 19 billion in 2010 from USD 12 billion in 2007
• The private sector banks like ICICI, HDFC are also showing increasing interest in the segment which was previously dominated by public players

Notes: Greater distributional efficiencies, increasing demand (especially from rural areas) due to rising disposable incomes have created new markets for products within the country

Indian auto-loans market size (USD billion)



Source: State Bank of India (SBI), Aranca Research

India has a huge competitive advantage over peers

Region	Country	Design & Engg skills	Manufacturing skills	Manpower costs	Supplier base	Raw materials
East Asia	Korea	In competition with India	In competition with India	Less competitive than India	Less competitive than India	In competition with India
	China	In competition with India	Less competitive than India	In competition with India	Less competitive than India	In competition with India
	Thailand	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India
	Indonesia	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India
	Vietnam	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India
Central & Eastern Europe	Czech Republic	In competition with India	In competition with India	Less competitive than India	In competition with India	In competition with India
	Romania	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India
	Poland	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India
	Slovakia	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India	In competition with India
	Russia	In competition with India	Less competitive than India	Less competitive than India	Less competitive than India	In competition with India
	Hungary	In competition with India	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India
	Turkey	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India	In competition with India
Latin America	Brazil	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India
	Mexico	Less competitive than India	Less competitive than India	Less competitive than India	Less competitive than India	In competition with India

Less competitive than India — In competition with India

Source: ACMA, Aranca Research

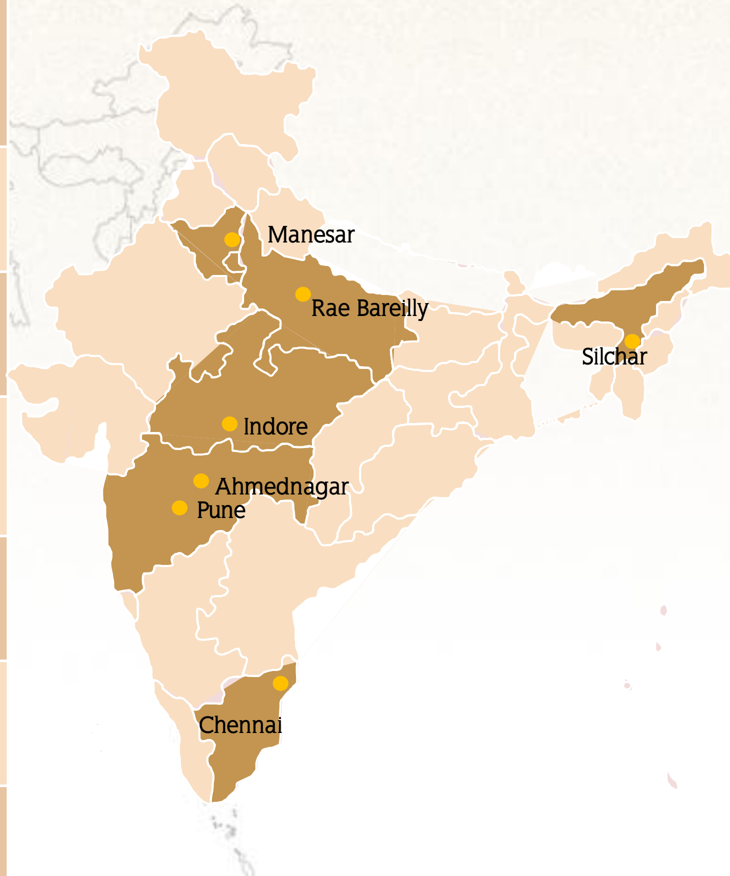
Strong policy support has been crucial in developing the sector

Auto Policy 2002	• Automatic approval for foreign equity investment up to 100 per cent; no minimum investment criteria • Encourages R&D by offering rebates on the R&D expenditure spent by the companies
Automotive Mission Plan 2006–2016	• Setting up of a technology modernisation fund focussed on SMEs • Automotives training institutes, auto design centres, special auto parks also established
NATRiPs	• Set up at total cost of USD 388.5 million to enable the industry to implement global standards • R&D centres of excellence with focus on low-cost manufacturing and product development solutions
Dept of Heavy Industries & Public Enterprises	• Worked towards reduction of excise duty on small cars and the increase of budgetary allocation for R&D • Weighted increase in R&D expenditure to: 200 per cent from 150 per cent (in-house); 175 per cent from 125 per cent (outsourced)
Union Budget FY11	• Surcharge on domestic companies reduced to 5 per cent from 7.5 per cent • Reduce excise duty on development & manufacturing of hybrid vehicle kits to 5 per cent from the existing 10 per cent

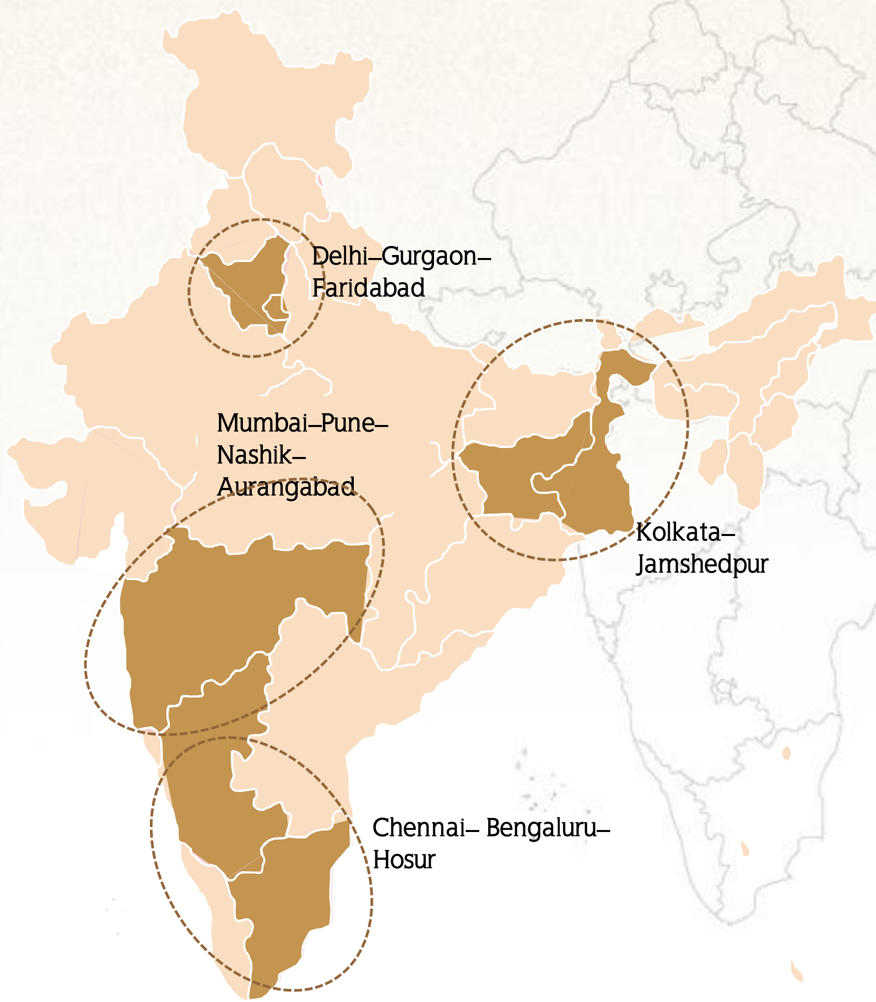
Notes: SME – Small and Medium Enterprises
NATRiP – National Automotive Testing and R&D Infrastructure Project

Boost to R&D in the auto components sector - NATRiP centres

	Business Description
Vehicles Research & Development Establishment (VRDE), Ahmednagar	• Research, design, development and testing of vehicles • Centre of excellence for photometry, electromagnetic compatibility (EMC) and test tracks
Indore — National Automotive Test Tracks (NATRAX)	• Complete testing facilities for all vehicle categories • Centre of excellence for vehicle dynamics and tyre development
Automotive Research Association of India (ARAI), Pune	• Services for all vehicle categories • Centre of excellence for power-train development and material
Chennai Centre, Tamil Nadu	• Complete homologation services for all vehicle categories • Centre of excellence for infotronics, EMC and passive safety
Rae Bareilly Centre	• Services to agri-tractors, off-road vehicles and a driver training centre • Centre of excellence for accident data analysis
International Centre for Automotive Technology (iCAT), Manesar	• Services to all vehicle categories • Centre of excellence for component development, noise vibration and harshness (NVH) testing
Silchar Centre, Assam	• Research, design, development and testing of vehicles • Centre of excellence for photometry, electromagnetic compatibility (EMC) and test tracks



Emergence of large automotive clusters in the country



List of Companies

North
- Ashok Leyland
- Force Motors
- Piaggio
- Swaraj Mazda
- Amtek Auto
- Eicher
- Honda SIEL
- Maruti Suzuki
- Tata Motors
- Bajaj Auto
- Hero Group

West
- Ashok Leyland
- Bajaj Auto
- FIAT
- GM
- M&M
- Eicher
- Skoda
- Bharat Forge
- Tata Motors
- Volkswagen
- Renault-Nissan
- M&M

East
- Tata Motors
- Hindustan Motors
- Simpson & Co.
- International Auto Forgings
- JMT
- Exide

South
- Ashok Leyland
- Ford
- M&M
- Toyota Kirloskar
- Volvo
- Sundaram Fasteners
- Enfield
- Hyundai
- BMW
- Bosch
- TVS Motor Company
- Renault-Nissan

Source: ACMA, Aranca Research

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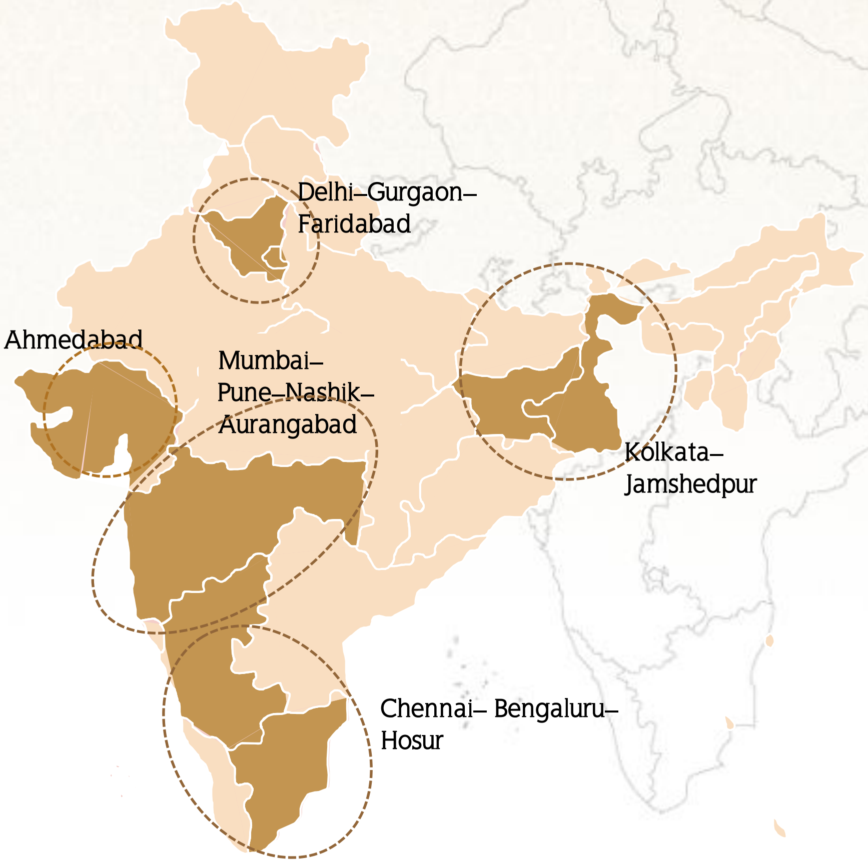
Strong inflow of FDI into the automotives sector in India

- Accumulated FDI inflows into the automotives sector over Apr 2000 – Aug 2010 was USD 4.7 billion (4.5 per cent of total FDI) - The last three years (2007-10) accounted for 40 per cent of this total (USD 1.9 billion)



Top 5 origin countries for FDI (2000-2010)		
Country	FDI (USD million)	Share of total (%)
Japan	1155	25
US	873	19
Italy	626	14
Mauritius	373	8
Sweden	369	8

Top 5 destination cities for FDI (2000-2010)		
City	FDI (USD million)	Share of total (%)
Mumbai	1609	34
Delhi	1416	30
Ahmedabad	497	11
Chennai	464	10
Bengaluru	238	5

Source: Department of Industrial Policy & Promotion (India); Aranca Research

Increasing investments by global car manufacturers

- Global car majors have been ramping up investments in India in order to meet growing domestic demand. They also have plans to leverage India's competitive advantage to set up export-oriented production hubs

NISSAN	• Has nearly doubled production of its small car Micra to 500 units/day • Plans to invest USD 1 billion in its Chennai plant (annual production capacity : 0.4 million units)
Ford	• Doubled production at its Chennai plant to 400 cars/day
BMW	• Hiked annual production capacity of its Indian facility to 5,400 units • Plans to double the size of its sales network to 22 dealerships by end of 2011
GM	• Expansion plans (for factory in Gujarat) worth USD 250 million towards launching five new car models in India
HONDA	• Plans to invest USD 56 million in its Rajasthan-based plant
TOYOTA	• Plans to invest USD 680 million in its Bengaluru plant (annual production capacity: 70,000 units)
HYUNDAI	• Plans to invest USD 250 million by 2013 - cumulative investment in India by then will touch USD 1 billion

Source: Respective company websites, news articles, Aranca Research

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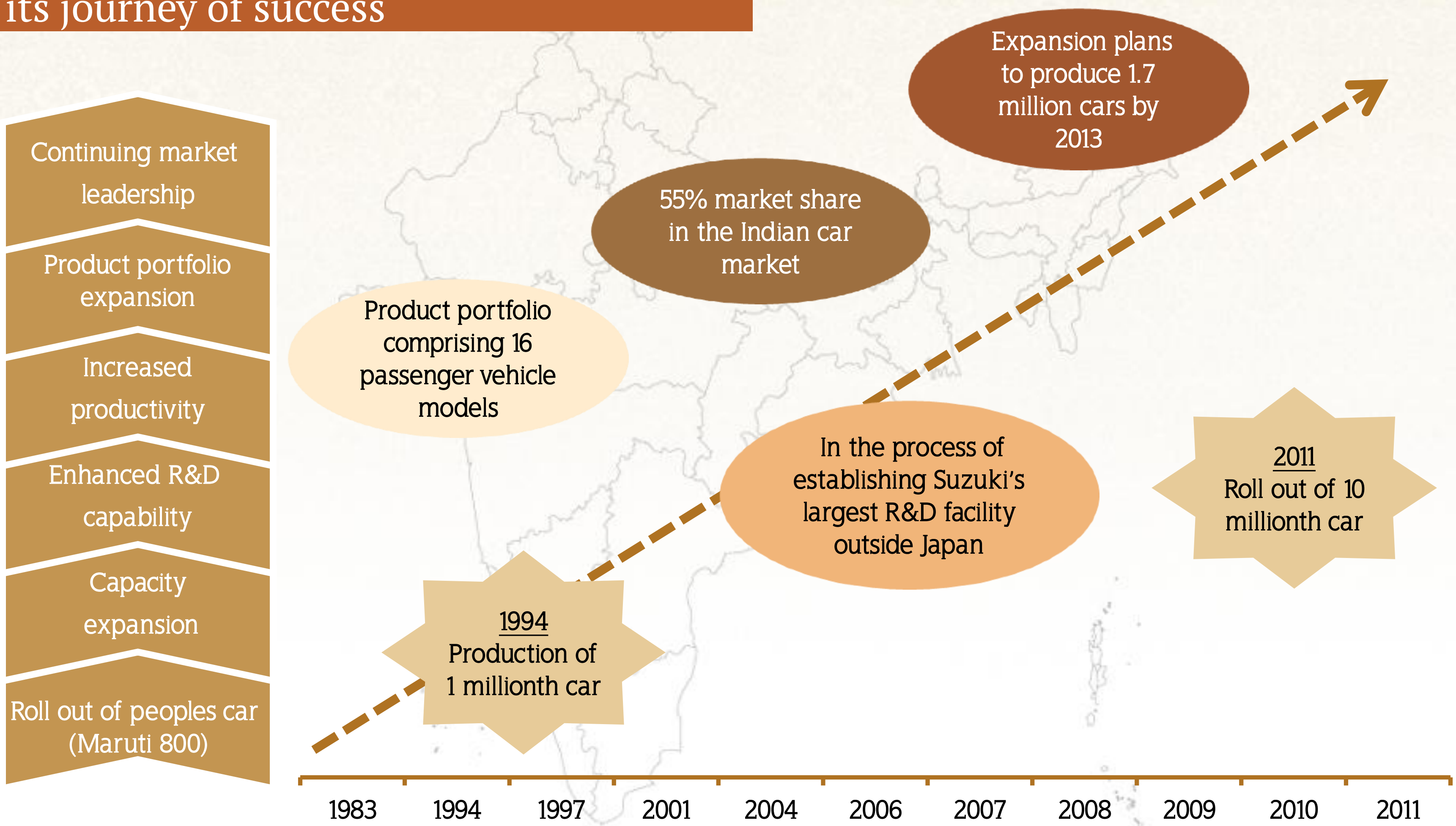
Maruti Suzuki: Continuing strongly on its journey of success



Source: Company website, Aranca Research

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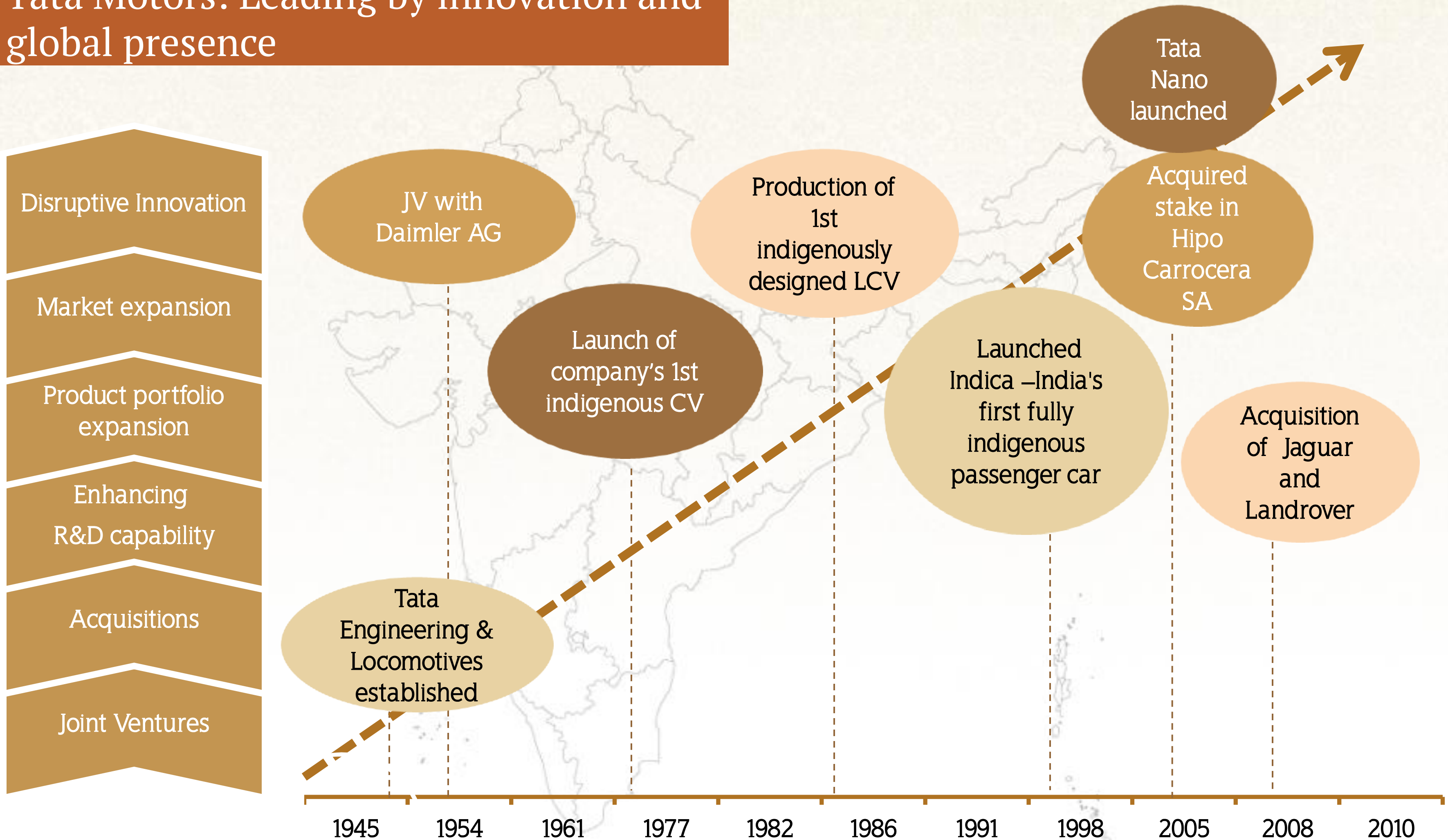
Tata Motors: Leading by innovation and global presence



Source: Company website, Aranca Research

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Opportunities

India is fast emerging as a global R&D hub

- Strong support from the government; setting up of NATRiP centres
- Private players like Hyundai, Suzuki, GM are keen to set up their R&D base in India
- Strong education base, large skilled English-speaking manpower
- Comparative advantage in terms of cost as well

Opportunities for creating sizeable market segments through innovations

- The world's cheapest car (Tata Nano) has directed focus towards the low-income market
- Bajaj Auto, Hero Honda and M&M jointly plan to develop a technology for two-wheelers to run on natural gas
- Electric cars are likely to be a sizeable market segment in the coming decade

Small-car manufacturing hub

- General Motors, Nissan, Toyota have announced plans to make India their hub for new global small car platforms
- Light vehicle sales in India are estimated to cross the 3 million mark by 2012
- Strong export potential in ultra low cost cars segment (to developing and emerging markets)

Notes: M&M – Mahindra & Mahindra

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Industry Associations

Society of Indian Automobile Manufacturers (SIAM)

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Glossary

- **CV**: Commercial Vehicle
- **FDI**: Foreign Direct Investment
- **FY**: Indian financial year (April to March)
  - So FY10 implies April 2009 to March 2010
- **GOI**: Government of India
- **HCV**: Heavy Commercial Vehicle
- **INR**: Indian Rupee
- **LCV**: Light Commercial Vehicle
- **OEM**: Original Equipment Manufacturers
- **PV**: Passenger Vehicle
- **SIAM**: Society of Indian Automobile Manufacturers
- **ULCC**: Ultra Low Cost Car
- **USD**: US Dollar
  - Conversion rate used: USD 1= INR48
- Wherever applicable, numbers have been rounded off to the nearest whole number

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