



A Study on The Challenges Faced by Automobile Component Exporters

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ABSTRACT *The Indian automotive component industry manufactures the entire range of parts required by the domestic automobile industry for various vehicles including cars, jeeps, light and heavy commercial vehicles (LCV's and HCV's), tractors, two and three wheelers. The Indian Auto Component Industry has been navigating through a period of rapid changes. Driven by global competition and the recent shift in focus of global automobile manufacturers, business rules are changing and liberalization has sweeping ramifications for the industry. The global auto components industry is estimated at US\$ 1.2trillion. The Indian Auto Component Sector has been growing at 20% per annum since 2000 and is projected to maintain the high-growth phase of 15-20% till 2015. The escalating Indian Automobile Industry has indirectly influenced the expansion of the auto spare parts sector in the country. India is steadily surfacing as an international outsourcing destination for producing different automotive components. Firms like Volvo, Toyota, Daimler Chrysler, Hyundai, etc are sourcing their auto spare parts from different automotive makers of India.*

i Introduction

Indian Auto Component Industry is a sunrise industry with tremendous growth prospects. From a low-key supplier providing components to domestic market, the industry has emerged as one of the major auto component centers in Asia. Presently, India supplies a comprehensive range of high value and critical components to global auto makers such as General Motors, Toyota, Ford and Volkswagen amongst others.

Based on the reports of Automotive Component Manufacturers Association of India (ACMA), the turnover of auto component report was estimated at over US\$ 18 billion in 2007-08, an increase of 27.2 per cent since 2002. It is likely to touch US\$ 40 billion by 2015-16. Export of the auto components is growing at the rate of 35 percent during 2002 - 2007. It is expected to reach around US\$ 20 billion-US\$ 22 billion by 2015-16. A majority of Indian exports are sent to Europe and North America. Although, global recession has adversely affected Indian auto component industry, it is now coming back on the track. The auto component industry in Kanpur has witnessed a manifold increase in the orders.

ii BACKGROUND STUDY

Auto Component Industry growth to slow down to 8—10%

The Indian auto component sector grew by 15.7 per cent in the fiscal 2011—12 posting a turnover of Rs 2,10,400 crore but the growth will moderate to 8—10 per cent in the ongoing fiscal, according to industry body ACMA. "The turnover of the auto component industry stood at Rs 2,10,400 crore (USD 43.4 billion) for the period April 2011 to March 2012, registering a growth of 15.7 percent (in rupee terms) over the previous year," The performance of the auto component industry was impacted by moderation of vehicle sales in India in 2011—12. "While the uncertainty in the domestic market continues, ACMA is optimistic that the medium and long-term prospects of the component industry are intact. However, in the current fiscal 2012—13, the industry is expected to grow in the range of 8—10 per cent," Stating that the auto component industry is confident of achieving the target of USD 115 billion by 2020,

ACMA Vice President, urged the government to provide long-term stable policies and export incentives. ACMA said due to moderation in vehicle sales and depressed market sentiments, the investment in 2011—12 declined compared to the previous year. Capex in 2010—11 stood at around USD 2—2.5 billion. "During 2011—12, exports of auto components grew to USD 6.9 billion from USD 5.2 billion in 2010—11, a jump of 32.7 percent. Europe accounted for 36 per cent followed by Asia at 28 per cent and North America at 23 per cent, ACMA said. Imports of auto components also grew by 25 per cent to USD 10.6 billion in 2011—12 from USD 8.5 billion in 2010—11, the industry body said, adding almost 85 per cent of the imports were accounted for by the original equipment manufacturers (OEMs) and the rest 15 per cent by the aftermarket. 19 Asia and Europe contributed to over 57 per cent and over 35 per cent of the imports respectively. The quantum of imports has also increased due to several FTAs and other trade agreements signed by the government, ACMA said.

Government considers sops to boost export of auto components

The government is considering giving incentives to the auto component industry to boost exports, with the Ministry of Commerce and the Department of Heavy Industry conducting a joint assessment of the sector. "The automobile components industry, particularly exports, has been facing a tough time. Both the Ministry of Commerce and Department of Heavy Industry are doing an assessment of the sector with a view to give a push to exports," an official told PTI. The auto component sector has been hurt by the slump in automobile demand, in both the domestic and export markets. The Automotive Component Manufacturers' Association of India (ACMA) has approached the Department of Heavy Industry to take steps to support the industry and address issues such as the high cost of borrowing and export incentives in the wake of rupee depreciation. The component industry has felt the hit of the drop in car sales, which fell for a record eighth month in a row in June. In the first quarter of this fiscal, passenger vehicles sales have dropped 7.24 per cent from 6, 54,858 units in the same period in the previous fiscal.

Competition panel finds carmakers guilty of monopolizing spare parts business

The fair trade regulator is understood to have found automobile manufacturers guilty of alleged anti-competitive practices on selling of spare parts at higher prices to consumers through authorized dealerships. At present, a Maruti car dealer can stock only the company's spare parts, not any competition's products. "The Director-General, during investigation, found automobile makers guilty of anti-competitive practices. In October last year, CCI had shot off show-cause notices to 17 automobile manufacturers following complaints from consumers that companies were taking undue advantage of their position and selling spare parts only through their network, which resulted in high prices for components. Players such as Maruti Suzuki India Ltd, Mahindra & Mahindra and Tata Motors currently supply their spares in the open market as well, compared with many foreign car brands. Official sources said this would be an advantage for customers as the warranty would not get void if a faulty part is replaced by a company-manufactured component purchased in the open market. Service and spare parts industry is estimated at Rs 27,000 crore, according to the Automotive Component Manufacturers Associations 2011 data. The passenger car segment alone stands at Rs 6,700 crore. "Most car manufacturers were selling their spares at nearly 30 per cent higher through its own dealers," sources said.

Auto components industry may invest Rs 7K cr on projects: ICRA

The auto components industry may invest around Rs 7,000 crore over the next three years on new projects, although its revenue growth will remain weak in the absence of domestic demand and an uncertain global economic environment, rating agency ICRA said today. Auto manufacturers such as Maruti Suzuki, Hero MotoCorp and Ford, are planning to establish Greenfield facilities in Gujarat, prompting component makers to invest around these facilities. "Over the near term, the trepidation of auto part makers arising from dull automobile demand is likely to remain...the profitability of auto component manufacturers may be hit harder due to their smaller scale of operations and limited operational and financial flexibility," the study said. Over the medium term, however, factors such as growing thrust on localization and expand business in new geographies should allow the components industry to grow at a relatively faster pace than the auto OEM segment, the study added. It said the industry's revenue growth in 2012-13 was the slowest in last five years as suppliers battled weak demand from domestic OEMs, sluggish export volumes starting Q2 2012-13 and tepid replacement market sales. It added that the aggregate net profit of auto component manufacturers in the study sample declined by around 7 per cent in 2012-13 over the previous year. "One of the primary reasons for this decline was depreciation of the rupee against the dollar, besides earnings weakness due to weak demand and increase in operating costs," the study said.

iii CHALLENGES FACED BY THE COIMBATORE AUTOMOBILE COMPONENT INDUSTRY

Some of the major issues faced by the automobile component units in Coimbatore cluster as was evident from the needs assessment study are highlighted below:

SHORTAGE OF ELECTRICITY

Recently, Tamilnadu state has imposed severe restrictions on the use of electric power by the industrial sector. Industries now face load shedding upto 40% of their maximum

demand. The government has also imposed strict time limits on the use of electricity by the industrial units. With these restrictions on power usage and operational time, a majority of the industries in Coimbatore have been forced to cut down production drastically- for instance, one unit operates its induction furnace for only 18 days in a month. At the same time, the units are under enormous pressure to meet their market commitments.

SHORTAGE OF MAN POWER

The automobile industry is highly labor intensive and most of the operations are carried out manually, the industry is facing shortage of unskilled and skilled man-power in recent years.

Alternative income generation schemes being promoted by the government has to led to lesser availability of unskilled labour in the state. Skilled manpower also is an issue because of poor working conditions which has an adverse effect on fresh candidates.

COMPETITION

Competitiveness those, who accept these challenges, will shape the future of the great enterprise. The challenges are healthy development of automobile components industry; most of the exporters are facing these competitions in domestic as well as international market. The competition of India is expected to come down in the near future.

MEETING ENVIRONMENTAL NORMS

An automobile component industry refers to variables and conditions around that company and industry that affect its working and performance, but which cannot be controlled. Some of the major environmental factors affecting automobile industry in each of these groups are described below.

Political

Political climate is different in countries producing and buying automobiles, regarding policies on import, export and manufacture of automobiles and automobile components. This will also include policies on allowing setting up of manufacturing plants by foreign companies.

- Stability of Governments, this may affect the future conditions in a country.
- Taxation policies.

Economical

- The population figures and automobile buying capacity of people.
- Level of economic activity that affects need for commercial use of automobiles

Socio Cultural

- Lifestyle and preferences of people that impact their choice of types of automobiles.
- Social norms that impact the decision to own and use automobiles versus other means of transport.

Technological

- Technology relating to automobile designs
- Technological developments that may increase or decrease use of automobiles. For example, Internet increase number of people working from home and thus reduce automobile use for commuting.

Legal

- Legal provision relating to environmental pollution by automobiles.

- Legal provisions relating to safety measures.

TABLE NO: 1
Table showing the Benefits Availed from ACMA

Particulars	No of respondents	Percentage (%)
Free Assistance on Export Financing	6	12%
Worldwide Infrastructure	32	64%
Receive live Trade leads and Tenders by e-mail	10	20%
Various Government Export Promotional Schemes and Assistance	2	4%
Other Benefits	0	0%
Total	50	100%

Source: Primary Data

INFERENCE

From the above table it is clear that 64% of the respondents increased their world wide infrastructure, 60% receive live trade leads and tenders by e-mail, 12% have free assistance on export financing and 4% on various government export promotional schemes and assistance.

Majority of the respondents (64%) are benefitted in worldwide Infrastructure.

TABLE NO: 2
Table showing the Level of Satisfaction regarding Export Promotion Policies

Factors	Beneficial	More beneficial	Not beneficial	Total	Mean source
FACTOR	III	II	I		
Export Promotion Capital Goods	10	24	16	50	1.88
	30	48	16	94	
Export Credit Guarantee Corporation	8	22	20	50	1.36
	24	44	20	68	

Factors	Beneficial	More beneficial	Not beneficial	Total	Mean source
FACTOR	III	II	I		
Pre Shipment Credit	8	26	16	50	1.84
	24	52	16	92	
Post Shipment Credit	16	18	16	50	2
	48	36	16	100	
Advance Licenses	16	22	12	50	2.08
	48	44	12	104	
Duty Draw-back	6	10	34	50	1.44
	18	20	34	72	

INFERENCE

The table exhibits the Weighted Average Mean scores. The table highlights weighted score, which helps to decide the most important factor, which gives level of satisfaction of Export Promotion Schemes provided by the Government. The highest scores is Advance Licenses (2.08) and the Lowest Scores is Export Credit Guarantee Corporation (1.36).

iv CONCLUSION

Export at large and export of Automobile Components Goods in particular is already at a Cost Disadvantage owing to the inadequate infrastructure in our country and disability factor suffered by the Indian exports on account of high power tariff, high cost of finance and other transaction cost. Even though India's Auto Component Industry has conventionally relied on export to generate profits, the domestic market is itself full of opportunities. Industry experts are hopeful that the country will be able to outperform China and other South East Asian countries in the segment. With investment of around US\$ 15 billion slated for the sector over the next few years, the prospects for India's auto market are bright.

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