



Automotive Components Industry

January 2010

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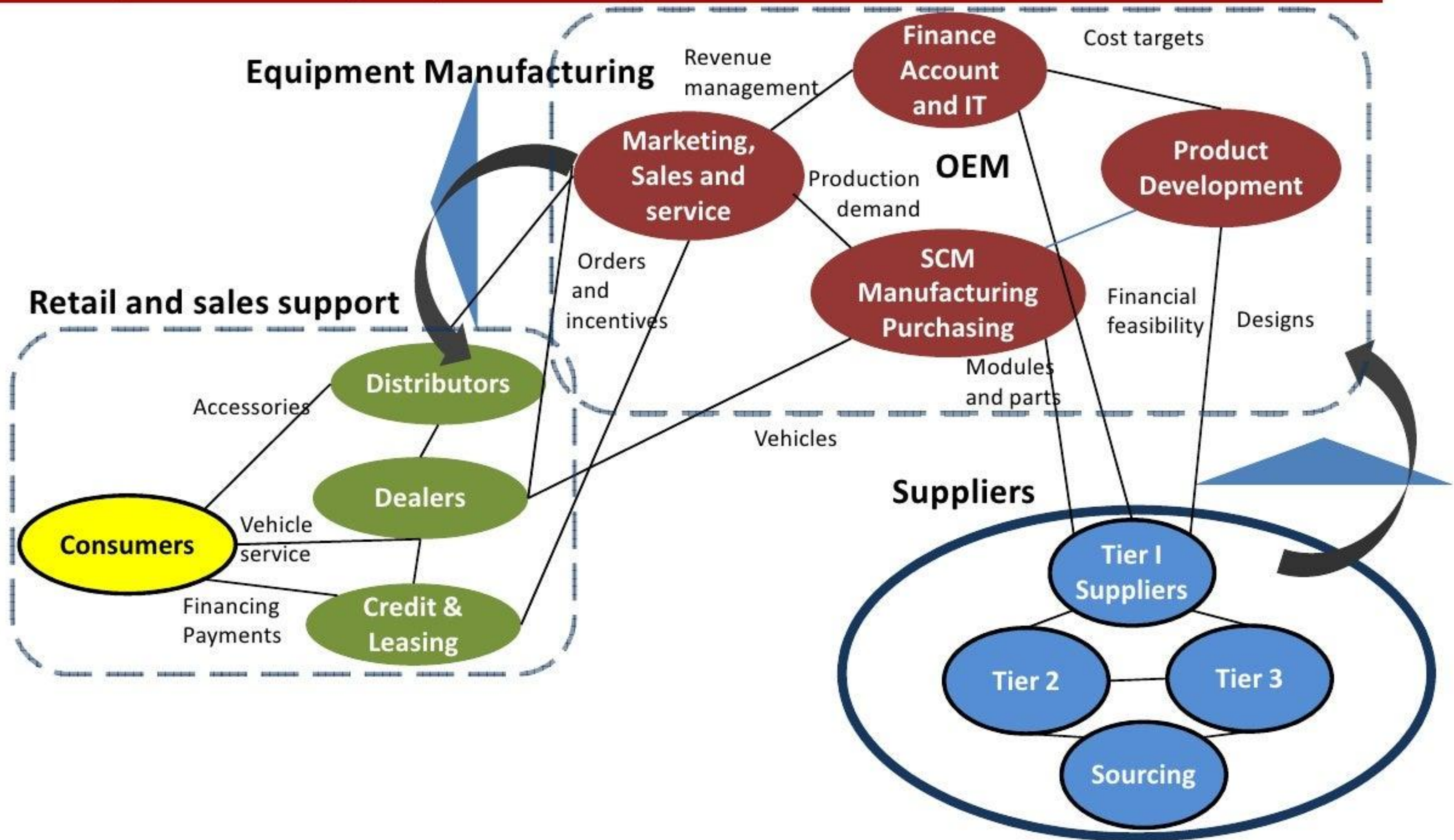
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Agenda

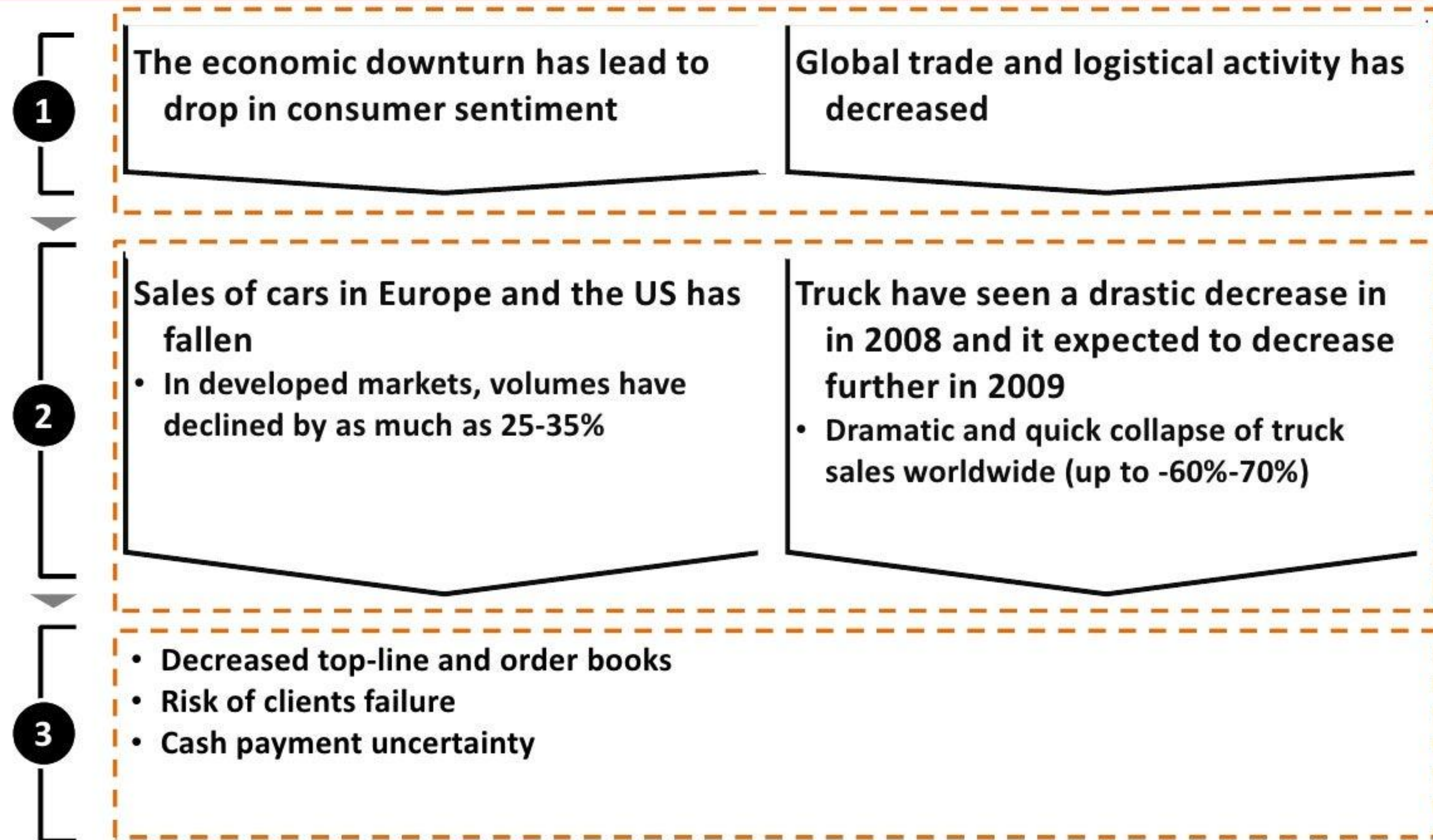
- 1. Market Scenario – The impact of auto crisis**
- 2. Braving the crisis – Cost Saving / Cash flow measures**
- 3. Growth Strategy for markets – India, China and Europe are different**
 - 3.1 Europe**
 - 3.2 India**
 - 3.3 China**

Automotive value chain – Components manufacturers focus on design to delivery as per the requirements of OEMs



Source: Adapted from Capgemini Consulting; McKinsey

Auto component manufacturer have to deal with toppling revenues and reduced orders due a sharp decline in vehicle demands

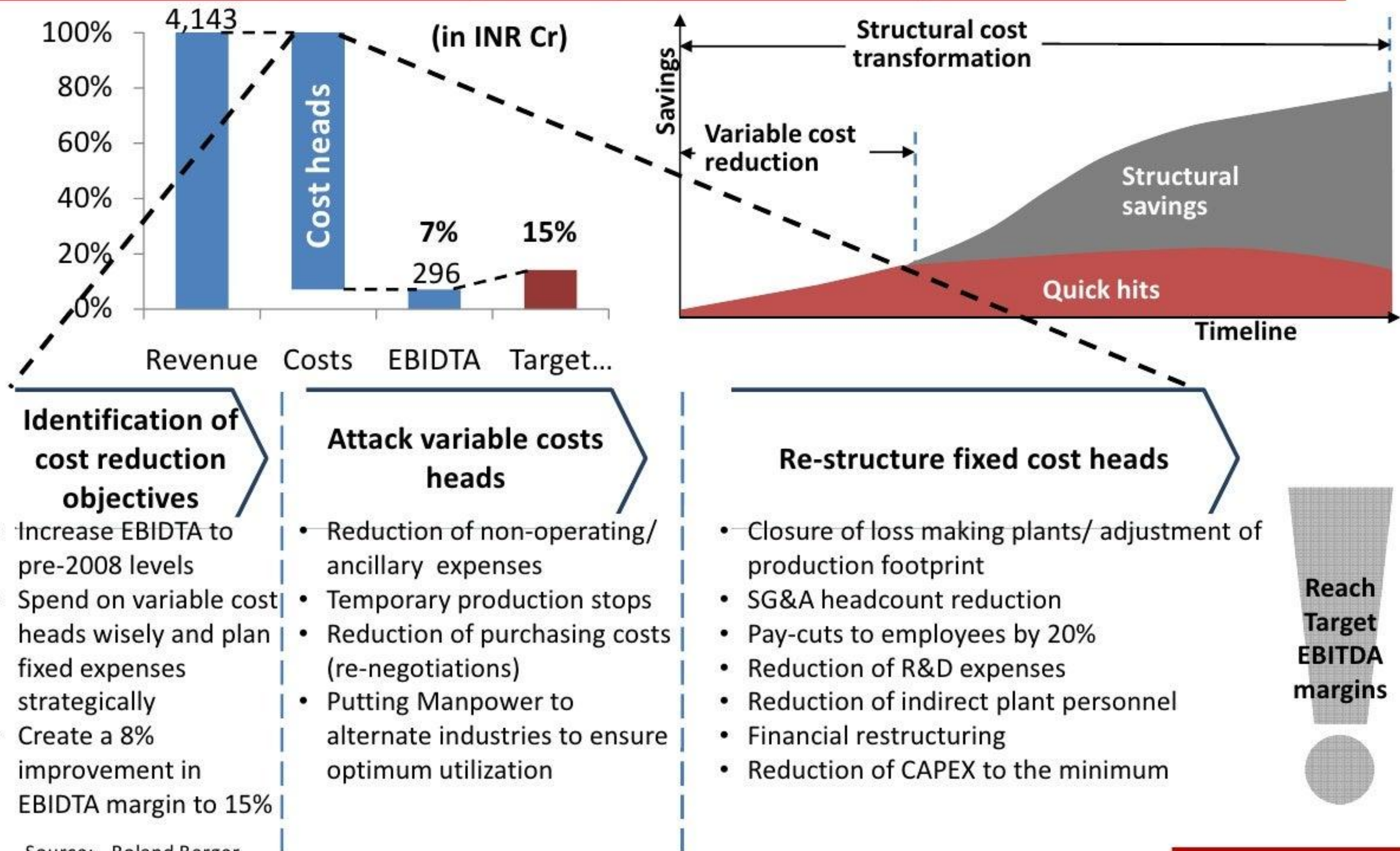


Source: Roland Berger; Auto Focus Asia

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Quick hit measures can provide immediate cash saving, and long term savings to be brought in by structural changes



Source: Roland Berger

With pointed and well directed cost reduction measures the company can increase the %EBITDA to optimum levels

Learning from Auto Component Manufacturers Initiatives

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- **Bharat Forge** is planning to reduce to INR ~200 Cr. From **working capital** which gives INR ~20 Cr of interest saving
- **No Capital Expenditures** in FY 2010
- Emphasis on improving operational **efficiencies** such as **Yield, Scrap** reduction and energy cost

- **SONA Group** redesigned some of the products which has resulted in 8% decrease in through process improvements and value engineering
- **Product redesign capabilities** will extensively be used in future at SONA, to products at lower costs than the ones developed in Japan or Europe

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- **Delphi** has **Closure of 10 plants** (mainly Europe) announced
- The company has also identified 400 employee redundancies in Germany

- **Faurecia** has closed plants in Germany
- Also the company is targeting a EUR 200 m improvement in **working capital** requirement

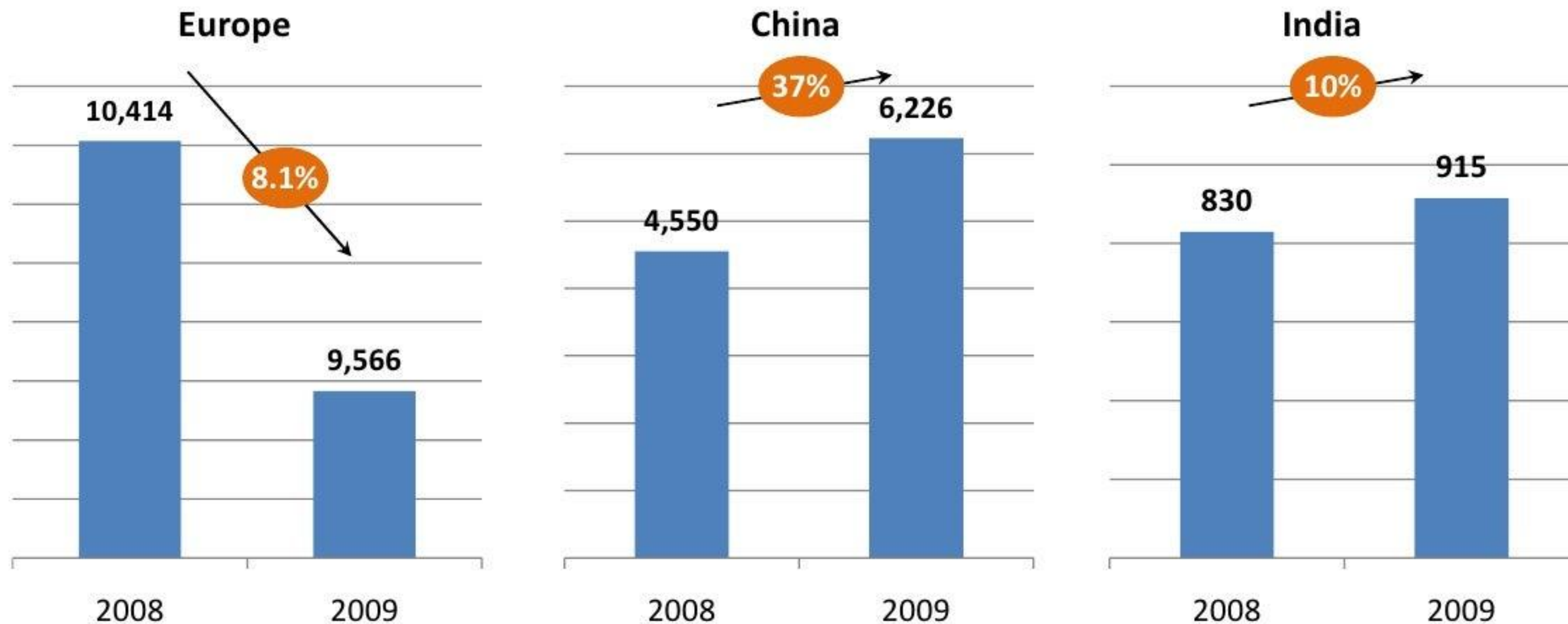
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Growth Strategy for markets – India, China and Europe are different

The impact of the crisis is deeper on the European auto industry, whereas China and India still exhibit growth

New passenger car registrations August YTD 2009 vs. 2008 (in'000)



Source: SIAM; Roland Berger; Association des Constructeurs Européens d'Automobiles

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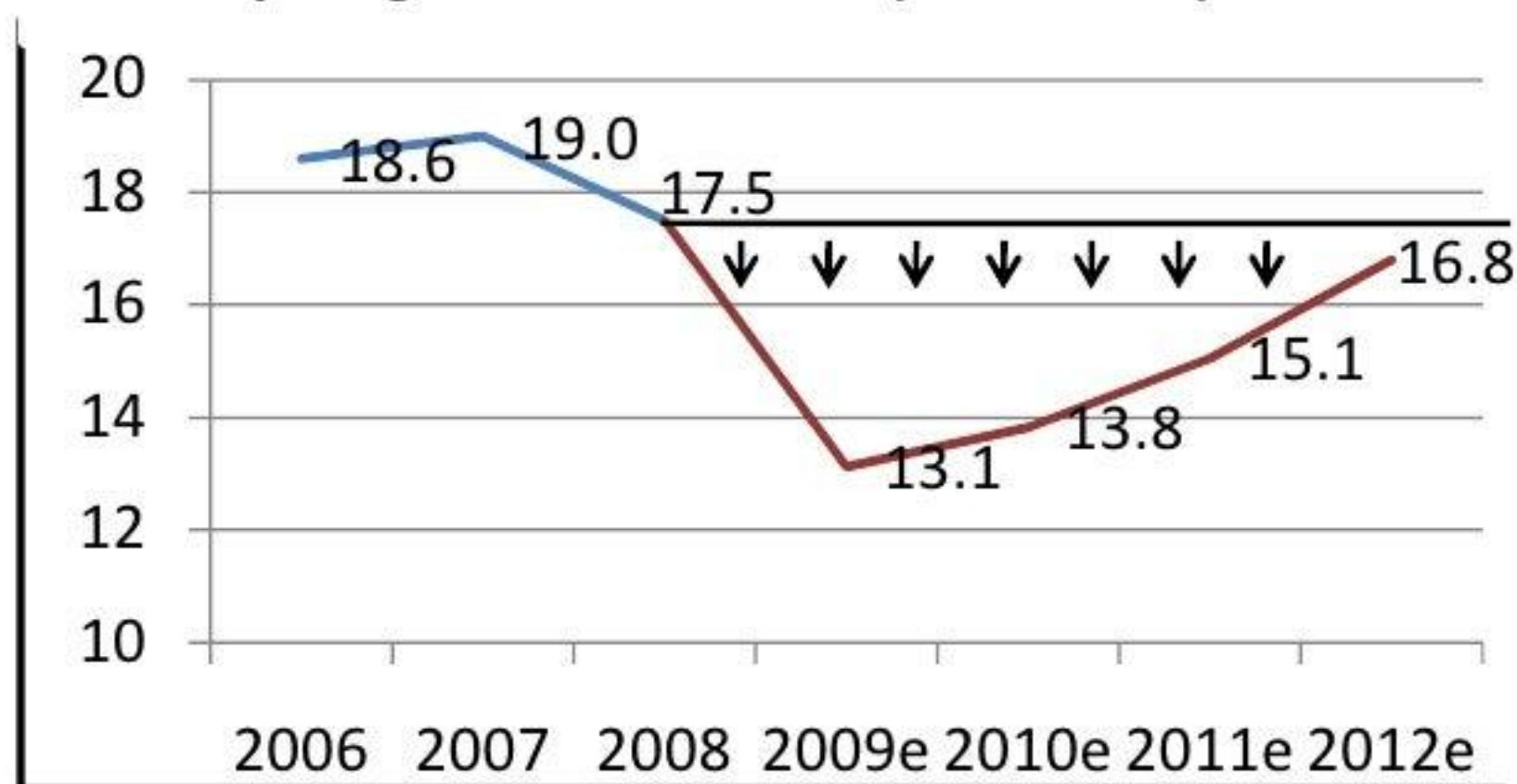
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The European Auto industry reach the 2008 sales levels only after 2012, while the scrappage scheme may bring short-term comfort

Europe Light vehicles sales (in m Units)

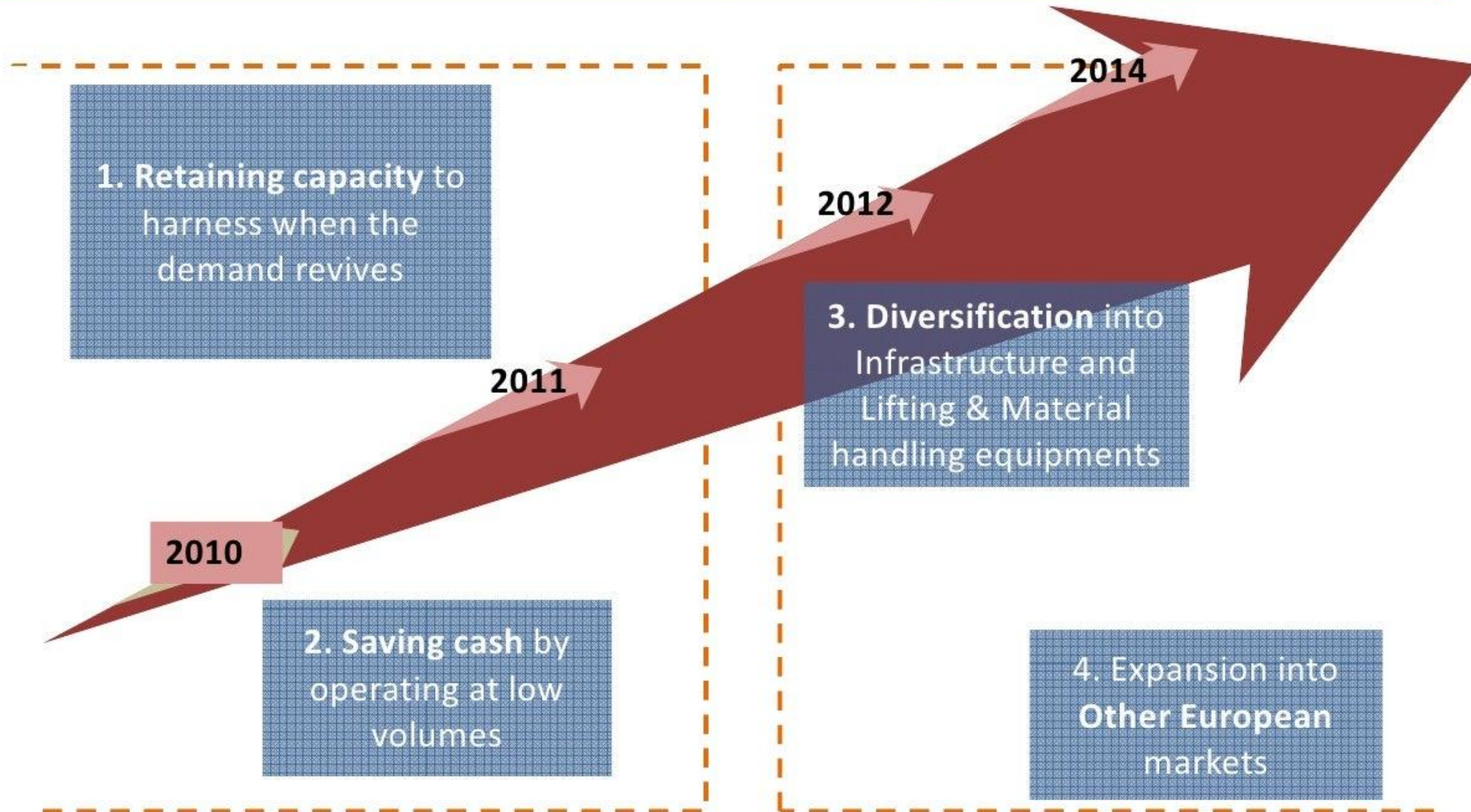


Scrappage Schemes

- **Scrappage** schemes have been introduced in almost all major markets
- **Offered bonus:** Germany 2,500 EUR, UK 2,000 GBP, Italy 1,500 EUR
- **Total government budgets:** Germany EUR 5 bn, UK GBP 300 m

- European market has seen a very down ward pressure on the sales volume leading to a decrease in the order books of the auto-component manufacturers
- Sales would have been even lower if it had not been for the Scrappage Schemes introduced in the EU region
- It will take more than 3 years for the demand to revive

The initiatives of operations restructuring in Europe can sustain business in the short run and reap benefits by 2014



Source: Datamonitor; CBI Market Information Database; Roland Berger

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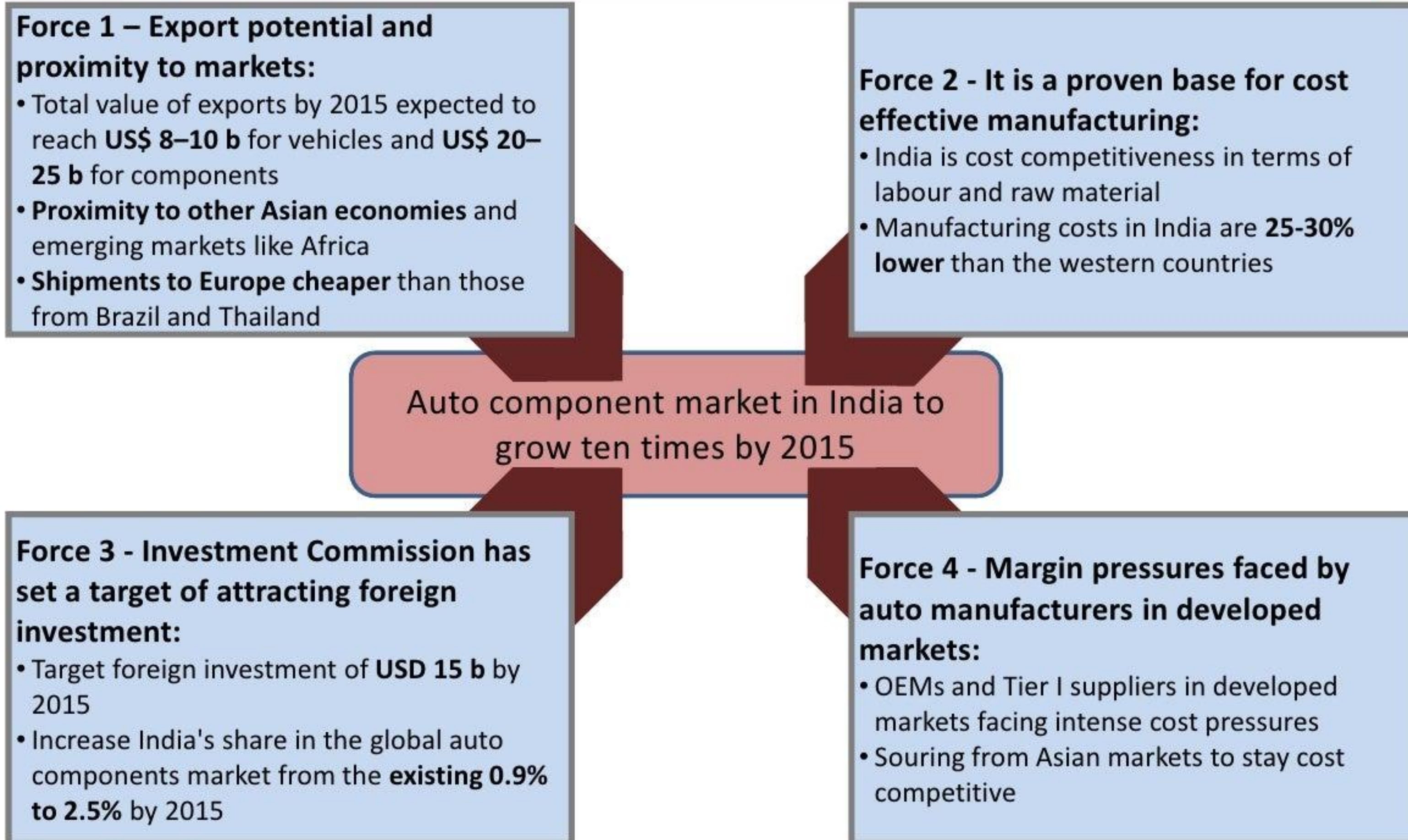
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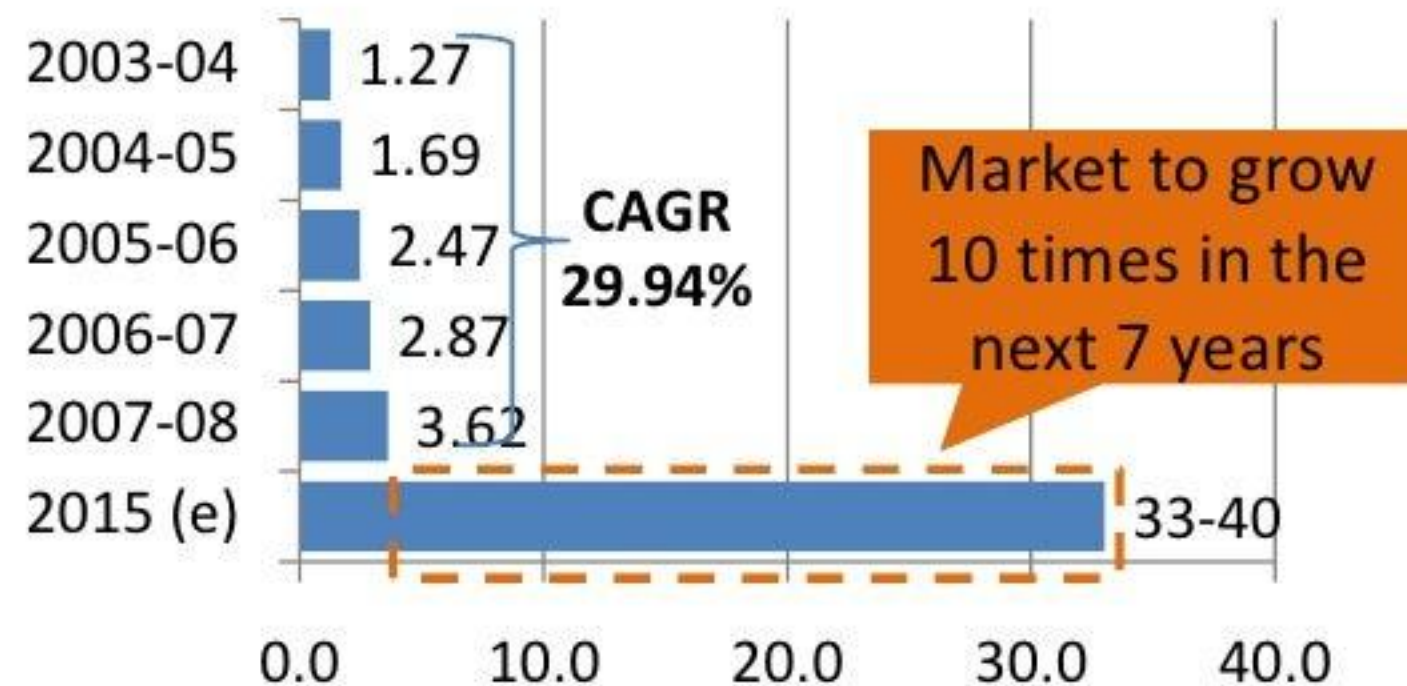
Favorable policies and cost arbitrage will buoy auto component sourcing to India



Source: IBEF

Indian auto industry - the growth presents scope for calculated measures to gain market share in the future

Indian auto component industry turnover (USD b)



Foreign Companies sourcing from India

| Manufacturer | Worth |
|------------------|-------------------|
| Volkswagen AG | 1 billion Euros |
| Renault- Nissan | 300 million Euros |
| Fiat | USD Four million |
| Ford Motors | USD 150 million |
| Daimler Chrysler | USD 125 million |
| BMW AG | NA |

- Indian auto component industry is well positioned to capitalise on the growth in outsourcing to low cost countries
 - Exports are expected to contribute to USD 20-25 B in 2015 to Auto component Industry market (~60%)
- Tap into component exports pie by leveraging the foreign market reach through recent acquisitions
- Diversify into non-auto components business to increase the revenues and diversify

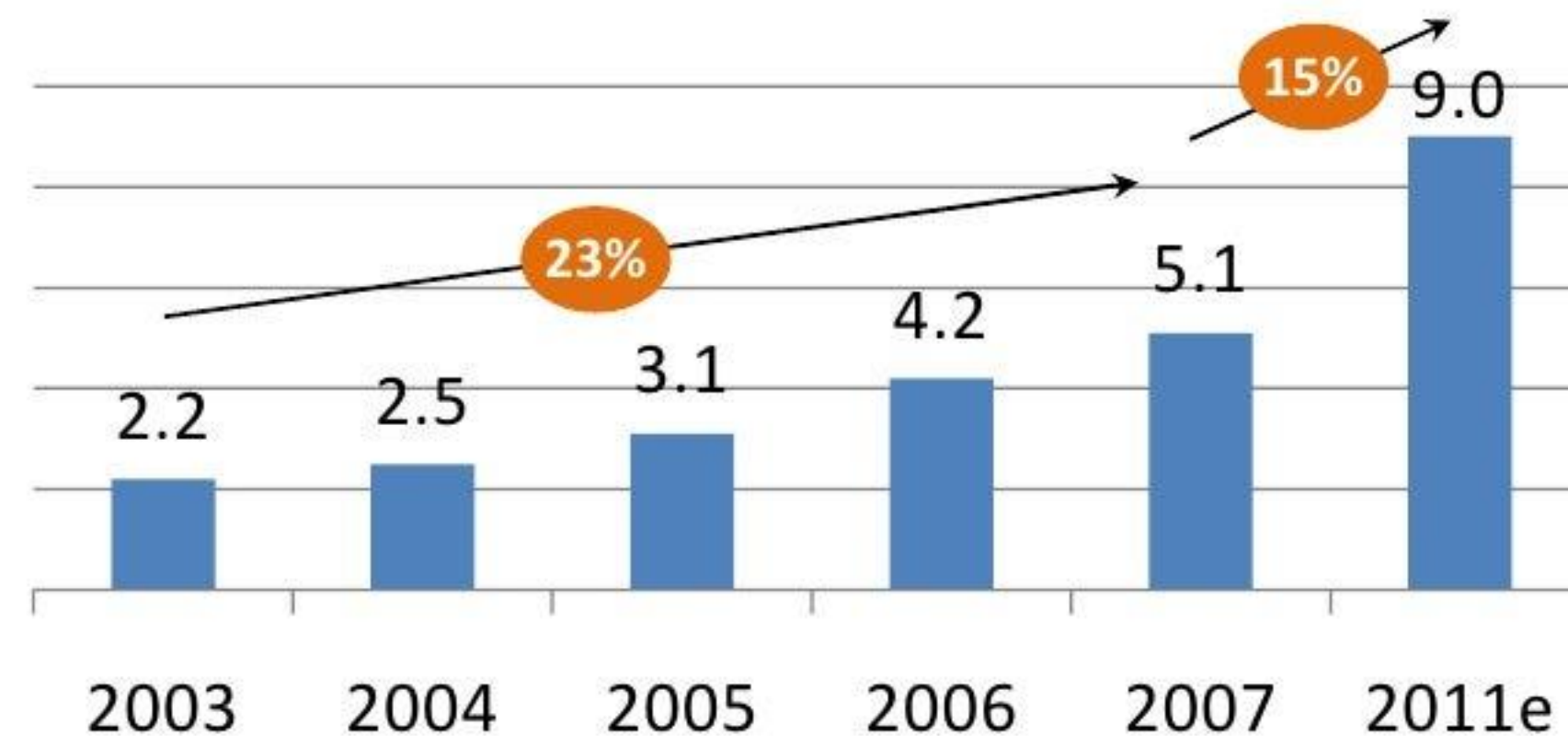
Source: A. T. Kearney; IBEF; ACMA

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China Automobile market is expected grow due to strong domestic consumption and governments recent stimulus packages

China vehicles production (in m Units)



- Chinese auto-component is expected to grow to USD 115.6 b
- The market is expected to grow at a stable rate of 18% per annum

China Automotive Stimulus Packages

RMB 5 Million worth of subsidies

RMB 10 Million worth of subsidies

- Subsidies to rural residents to trade in old cars for new ones
- Lowering fuel retail prices
- For research into:
 - Vehicle safety
 - Alternate energy

Source: A. T. Kearney; KPMG

China has a cost advantage when compared to Brazil, Thailand and India

| Country | Annual lending rate |
|----------|---------------------|
| India | 10-11% |
| Brazil | 13-14% |
| China | 5-6% |
| Thailand | 7-8% |

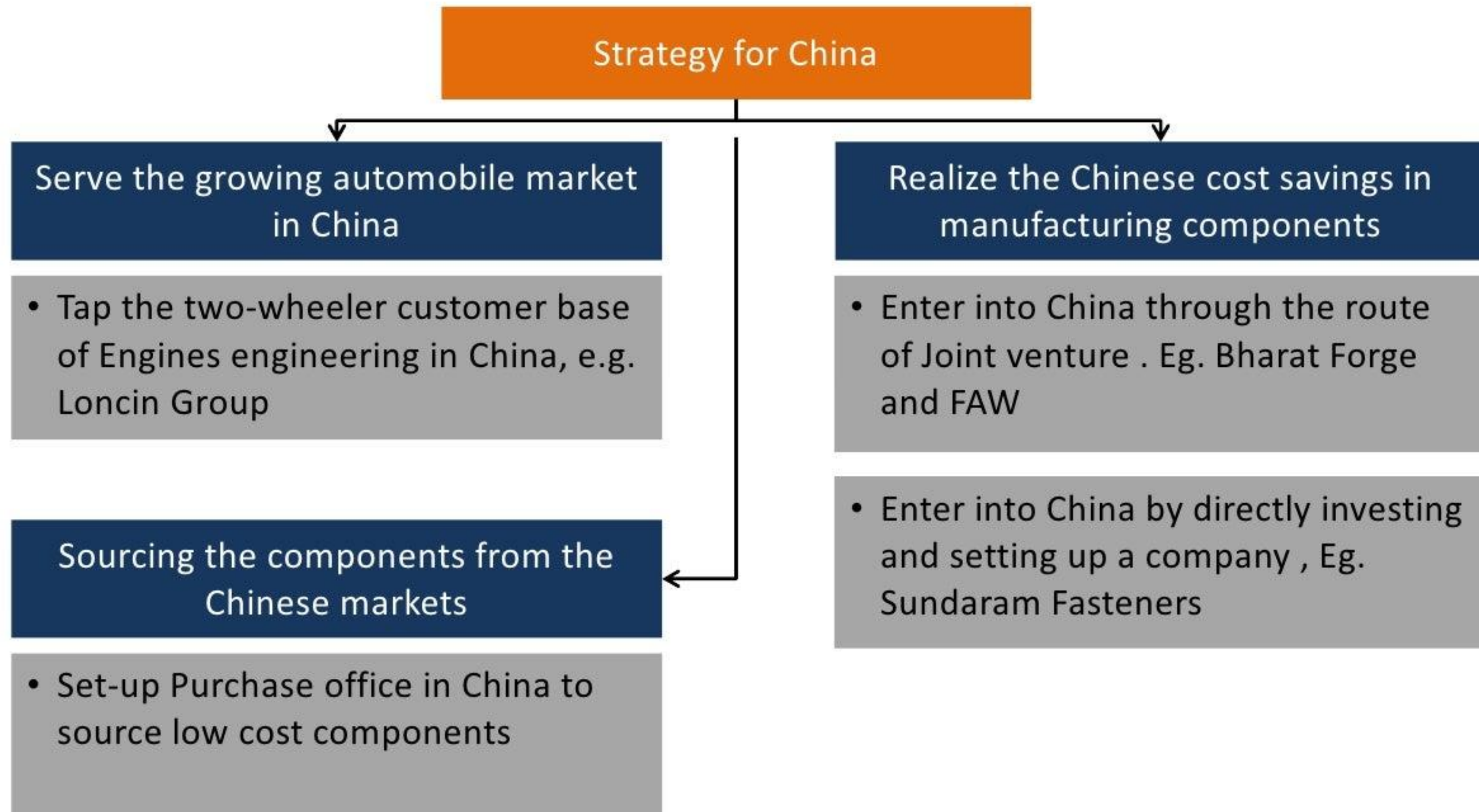
| Country | Labour cost (USD/hour) |
|----------|------------------------|
| India | 0.75 |
| Brazil | 4.3 |
| China | 0.75 |
| Thailand | 0.8 |

| Country | Power Cost per kwh (USD) |
|----------|--------------------------|
| India | 0.14 |
| Brazil | 0.05 |
| China | 0.03 |
| Thailand | 0.11 |

- China is competent with the other economies on low cost labor front
- With India it has a overall cost advantage of ~9%, due to lower power and funds costs

Source: A. T. Kearney; IBEF

A manufacturer can enter/ access the Chinese market using a three-pronged strategy



Source: A. T. Kearney; IBEF

THANK YOU