India is currently the 6th largest producer of motor vehicles in the world, contributing to more than 5% of global production before Brazil.

Fuelled by the size of its population, the low level of motorisation, the abundance of raw materials and its skilled low-cost labour force, India is expected to exceed every major European market by 2017 and to be a part of global automotive triumvirate over the next 20 years. For the majority of the last decade and until 2011, India has experienced record growth with an annual growth rate of 14%. However, in the last couple of years, the automotive industry went through a turbulent phase with a slowdown of its GDP growth for the first time in its history. Recently, the Indian automotive industry has shown signs of recovery. In April-June 2014, GDP increased to 5.7%, the highest rate in the last two years.

To provide a forward-looking vision on this worldwide industry leader, Mazars conducted a survey to understand the future of this sector that was once booming, forecast new trends and major challenges.
OVERVIEW

Demographically and economically, India’s automotive industry is well-positioned for growth, servicing both domestic demands and export prospects. The key figures below demonstrate the increasing role India will play in the future global automotive landscape.

"WHILE THERE WERE 563 CARS FOR EVERY 1,000 PEOPLE IN EUROPE, THE RATIO WAS 79 CARS IN CHINA AND BELOW 20 CARS IN INDIA. THE COUNTRY HAS A HUGE POTENTIAL FOR GROWTH AND THE RIGHT FUEL EFFICIENCY, RIGHT PRODUCT AND RIGHT PRICE WOULD PROPEL GROWTH."

David Chaudat, Global Head of Industry, Mazars

GLOBAL RANKING IN TERMS OF POPULATION

2ND LARGEST POPULATION

INDIA 1,250 M
CHINA 1,375 M
EUROPE 508 M

ONE OF THE LOWEST MOTORISATION RATES

CARS PER 1000 INHABITANTS IN 2012

EUROPE 563
CHINA 79
INDIA 18

MARKET POSITIONING

6TH sixth-largest auto market in the world
6TH sixth-largest auto manufacturer
1ST world’s largest two-wheelers market

SALES STATISTICS
INDEX 100 IN 2006

DOMESTIC MARKET SHARE*

77% 3%
15% 4%

* Source SIAM

Despite the slump in 2013-2014, India is the second fastest growing auto market after China. With its growing population and increasing earnings, the growth prospects of the automotive industry remain high.
Since the liberalisation of the automotive market in 1991, global automakers such as Ford, Volkswagen and Toyota have invested heavily in India in anticipation of rapid growth. According to SIAM, the professional Indian automotive organisation, the foreign direct investments (FDI) in the automotive sector generated USD 8 Bn from April 2010 to May 2013.

**TOP 10 CAR MAKERS**

- **GM Group (2%)**
  - Market share: 2%
  - Based in India since 1996 through a JV with SAIC
- **VW Group**
  - Market share: 2.6%
  - Based in India since 2007
- **Ford**
  - Market share: 3.2%
  - Based in India since 1995
- **Renault-Nissan**
  - Market share: 3.5%
  - Based in India since 2005 via a former JV with Mahindra. The group has been independent since 2010.
- **Tata Motors**
  - Market share: 5%
  - Created in 1945
- **Toyota**
  - Market share: 5%
  - Created in India since 1997
- **Mahindra**
  - Market share: 6.3%
  - Created in 1945
- **Honda**
  - Market share: 8%
  - Based in India since 1995
- **Hyundai**
  - Market share: 16%
  - Based in India since 1996
- **Maruti Suzuki**
  - Market share: 47%
  - JV Created in 1981

**# GENERAL MOTORS**

Market share: 2%
Based in India since 1996 through a JV with SAIC
India will play a major role for the global sourcing of GM’s small car “Beat”. The subsidiary will start the export of its small car to Latin America from the second-half of 2014.

**# VOLKSWAGEN**

Market share: 2.6%
Based in India since 2007
July 14 - Volkswagen plans to invest about $50 mn in engine and transmission production in India over the next 5 to 6 years. Currently, almost 25-30% of its local production is dedicated to export.

**# FORD**

Market share: 3.2%
Based in India since 1995
February 14 - Ford committed to invest $ 2 bn in India. $ 1 bn will be dedicated to the building of a new engine and assembly plant in Sanand.

**# RENAULT-NISSAN**

Market share: 3.5%
Based in India since 2005 via a former JV with Mahindra. The group has been independent since 2010.
July 13 - Renault Nissan intends to invest 2.5 bn euros for a new technology centre and for the development of a cheap car platform in India. The Alliance expects to lift their market share to 15%.

**# TATA MOTORS**

Market share: 5.2%
Created in 1945
March 2014 - Tata announced an investment of Rs 1,500 Crore (= $240 mn) in the upcoming fiscal year (FY15) to develop new technologies and products for their CV portfolio.

**# TOYOTA KIRLOSKAR**

Market share: 5.4%
Toyota Kirloskar Motor plans to introduce its compact car ‘Vios” to the Indian market by 2017 by using free production lines at their factory with the objective of manufacturing 50,000 per annum.

**# MAHINDRA**

Market share: 6.3%
Created in 1945
In August 14, Mahindra announced plans to invest $1.7 bn over 3 years beginning FY15 for auto, FES, commercial vehicles, electric vehicles and two-wheelers.

**# HONDA**

Market share: 8%
Based in India since 1995
June 14 - The Japanese group announced plans to invest Rs. 4,000 crore (= $640 mn) in India to build an additional plant to manufacture approximately 100,000-125,000 cars per annum in order to meet the rising demand of its models. Since september 2014, Tapukara’s plant has been operational and is spread over an area of 450 acres. On August 14, the group registered sales growth of 88%.

**# HYUNDAI**

Market share: 16.1%
Based in India since 1996
According to a report published by the Economic Times, Hyundai India will set up a second plant with the aim of launching at least 2 to 3 new cars annually in new segments.

**# MARUTI SUZUKI**

Market share: 47%
JV Created in 1981
August 14 - The group has set a future target of selling 3 million cars per annum for the next 30 years. This roadmap entitled “Maruti 2.0” will require the company to enter new segments such as MUV’s or SUV’s while continuing to provide compact vehicles. Heavy investments related to R&D, capacity production and innovation are expected to reach their goals.
IN THE MIDST OF AN UNPREDICTABLE ECONOMIC ENVIRONMENT, EXPORTS WILL ENHANCE THE GDP GROWTH OF INDIA. INDIA IS FAST BECOMING A MAJOR PROCUREMENT CENTER FOR GLOBAL AUTOMOBILE COMPANIES AND IS SET TO MARK ITS LEAGUE INTO THE TOP 5 VEHICLE PRODUCING NATIONS WORLDWIDE.”

David Chaudat

#1 DOUBLE-DIGIT GROWTH EXPECTED OVER THE ENSUING 5 TO 7 YEARS. 88% expect the industry to record a double-digit growth rate over the ensuing 5 to 7 years. The appointment of a new government in 2014 has brought positive signals to the market. This one is expecting the establishment of a business-friendly political framework and fast track initiatives, particularly regarding the infrastructure projects. If it will take time to have a clear vision of the measures, Industry experts and companies bet a CAGR exceeding 10% over the ensuing 5 to 7 years. ACMA and SIAM endorse these estimates. Until then, a majority of respondents forecast 2014-2015 to be a year of consolidation at growth of up to 4%. The mood in the two-wheelers segment is more upbeat with 82% planning for a YoY growth in the region of 4% to 7%.

#2 ECONOMIC GROWTH IS THE MOST IMPORTANT DRIVER. For India, the critical enablers as per the industry feedback are the overall economic growth, government policies and interest rates. 3/4 of the respondents have identified economic growth, while nearly 2/3 of the respondents have identified government policies as the most important growth driver for the Indian automotive industry. Furthermore, a majority of respondents are confident about the potential of the Automotive Plan (AMP) driving the industry towards progress. Availability of low cost finance is also crucial to significantly enhance the sales of the automotive market, which is largely dominated by the two and three wheels segments. 45% assign this as a significant factor of growth. According to Sylvain Bilaine, General Manager of Sy B Consulting, a minimum revenue of 2,600 euros per year is necessary to buy a car, in a country where the workers earn from 400 to 500 euros. The existing forces such as rising incomes and low car penetration combined with affordability of cars and low interest rates will consequently change the current automobile landscape and restore its growth momentum.

#3 INVESTMENTS WILL BE FOCUSED ON INNOVATION, PRODUCTIVITY & QUALITY. Our respondents have stated that the current capacities in China and India are adequate for at least the next 3 years, 72% in the case of China and 69% in India. Accordingly, most organisations have restricted their plans for investments in capacities for the ensuing 2 years. As production capacity will not be the priority, the Indian automotive industry will guide its investments in innovation, productivity and quality to fill the gap with international manufacturers. For instance, while the leading global auto suppliers typically spend 5% to 10% of their revenues, Indian manufacturers currently spend less than 1%.

FUTURE TRENDS

PANEL & METHODOLOGY: For the purposes of this study, Mazars sent out questionnaires to 300 companies from the automotive industry in India. Responses from industry experts and professionals, including business leaders, managers and other key stakeholders, have been analysed and collated to provide an exhaustive account of the automotive industry in India.
#4 NEW MODELS WILL GENERATE 20% OF THE REVENUES. 37% expected new products to contribute between 11% and 20% of the revenues while 50% expected the share of new models to be in excess of 20%. The launch of several new models in the market has helped Original Equipment Manufacturers (“OEMs”) attain relative success. For instance, Ford has reported a 51% YoY jump in its sales in May 2014 due to the demand for Ecosport. In the last 2 years, around 90 vehicle models were introduced, which included those on totally new platforms, as well as variants of existing platforms. As the competition grows, launching new models in short intervals will be of vital importance to react to the expectations of individual and fast-changing consumer demands. The integration of all the segments of the manufacturing process; and coordination between the design team, production line, suppliers and distributors, are paramount to successful product launches.

#5 AFRICA WILL PLAY A GROWING ROLE FOR INDIAN EXPORTS. 91% agree that Africa may well be a major destination for automotive exports in the next 5 years. Africa is the third fastest growing economic region in the world. Its rate of urbanisation is higher than India and lower than China. It is widely estimated that from the 1 million vehicles currently present, annual automotive sales could grow to 6 million vehicles in the near future. According to OICA, the motorisation rate in Africa is 40 vehicles for 1000 inhabitants. According to a report from the Standard Bank report, a decade ago, India was Africa’s twelfth largest source of vehicle imports; by 2012 it had moved to sixth position, ahead of France and the UK. The Indian government is currently taking strong measures to promote exports to Africa and is conducting a joint study on the free-trade agreement. As an example of the growing role that Indian companies are playing in Africa, Tata Motors has recently announced plans to sell its cars in Algeria.

"AN INDIAN BUYER HAS VARIOUS REASONS TO BUY A VEHICLE - PRESTIGE, THE NEEDS OF THE FAMILY, SPACE, OR UPGRAADING TO A HIGHER QUALITY OR SEGMENT. ONCE THE NEED FOR A VEHICLE IS ESTABLISHED, THE BUYER CONSIDERS A BRAND THAT CAN PROVIDE QUALITY, UTILITY, RELIABILITY, STYLING AND A REASONABLE RESALE VALUE."

Ravi Talwar, Chairman, T & T Motors
"THE AUTOMOTIVE SECTOR IN INDIA HAS THE POTENTIAL OF GENERATING MORE JOBS THAN MOST OF THE OTHER INDUSTRIES IN THE ORGANIZED MANUFACTURING SECTOR. HOWEVER, THIS SECTOR HAS POSSIBLY SEEN THE MOST AMOUNT OF INDUSTRIAL CONFLICTS. THE BANE OF THIS LIES IN INDIA’S ARCHAIC LABOUR LAWS AND THE CONSEQUENT HIGH UTILISATION OF CONTRACTUAL LABOUR."

Monish Chatrath, Partner and Leader, Consulting and Markets, Mazars India

**TOP 5 INDIAN AUTOMOTIVE CHALLENGES**

1. **INFRASTRUCTURE DEFICIT IS THE KEY CHALLENGE.** 63% believe that infrastructure deficit is the key challenge. The government should allocate increased funds towards infrastructure development for the automotive sector. With improved roads, ports and power facilities, there will be a considerable growth in the sales of vehicles. 63% of respondents agreed that the Indian automotive industry urgently needs advanced technologies to produce fuel efficient, environmental friendly, lighter, safer, and cost-competitive engines and vehicles. As compared to most other countries, the interest rates on financing vehicles are much higher in India. According to experts, the availability of cost-effective capital will enable India to attain a competitive position globally.

2. **DISPROPORTIONATE PRESSURES ABSORBED BY TIER 2 SUPPLIERS.** 80% feel that disproportionate pressures are being absorbed by tier 2 suppliers. Standards of quality and productivity have been raised without a corresponding increase in price. Consequently, the profitability of the automotive industry in India is under pressure, particularly for Tier 1 & Tier 2 suppliers. Companies with revenues under INR 100 crores, operate at a very low profitability and have a relatively lower return on capital employed (“ROCE”). With significantly lower margins, these companies are more prone to risks associated with any fall in the demand and curtail their ability to invest in tandem with the OEMs and tier 1 suppliers.
#3 Labour law reforms are critical for the automotive industry’s growth. 50% felt that labour law reforms are critical for the automotive industry’s growth. Contract workers, who are paid relatively less benefits, constitute 70% to 80% of the workforce in the industry. The underlying tension caused by the clash between the workforce’s aspirations, automotive companies’ cost considerations and outdated labour laws result in significant pressure. The insecurities of casual labour have the potential of derailing India’s automotive ambitions. Consequently, labour market reform is necessary to retain the competitiveness of the automotive companies. 4 out of every 5 respondents have stressed that the need for labour reform is either critical or very important. Additionally, 87% gauged adverse impacts due to the current labour laws situation.

#4 Imports from China will impact the component industry. 66% felt that imports from China will have only a moderate impact on the component industry. The difference in production cost between China and India is estimated to be 20%. As the quality in China has greatly improved, many OEMs are directly sourcing components from there. According to a recent report by Crisil, China has more than tripled its share of the Indian automobile part imports to 21% in 2012, from 6% in 2006. 2/3 of the respondents categorise the impact of imports as ‘moderate’ on the industry, while nearly 1/4 of the respondents consider this to be significant. Consequently, 62% recommended that the Government institute import trade restrictions vis-a-vis China. For many experts, this trend is of serious concern.

"I must be honest that there is a great deal of concern in our industry, given the large and growing deficit in our trade with China. When conditions are more propitious and trade is more even, we will find it more feasible to discuss regional trade agreement or free trade agreement between our countries.”

Dr. Manmohan Singh, Former Honourable Prime Minister

"After possibly the longest and most difficult period of slump in India’s automobile market, the Indian automotive industry has reasons to pin strong hopes on the new government.”

Arvind Walia, Partner and Automotive Sector Expert, Mazars India
REVIVING UP THE INDIAN AUTOMOTIVE SECTOR

With its largest population, low car penetration and increasing urbanization, it’s undeniable that India has the potential of being one of the Top 3 largest automotive industries in the world.

To seize this opportunity and ensure high rates of growth as in the past, India has to knock down its own domestic hurdles: limited infrastructures, high interest rates on finance, need to access to better technology, particularly in the field of fuel efficiency and quality.

The eyes of all automobile players are now fixed on the new Government of India, which is raising strong hopes. There is an underlying expectation of implementing reforms to boost infrastructure development, create a better work environment by developing flexibility and consequently reducing the cost related to outsourcing and improving competitiveness, introduce tax initiatives such as the implementation of uniform Goods & Service Tax (“GST”) eliminating the cascading effect of taxation and other initiatives related to low-cost financing access and stability of fuel pricing.

Automotive players have reaffirmed their confidence in India, by starting to reinvest heavily. The market is currently giving them reason. In April-August 2014, passenger vehicles market grew by 4.5% compared to the same period last year. To succeed in this growing market dominated by local players, car manufacturers should be extremely attentive to local purchase criteria where cost consciousness and vehicle styling & brands are essential.

Acknowledgement: We would like to thank the Mazars teams in India for their contributions to this report.

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