

'Global trends favour sourcing components'



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ON AUTO ANCILLARY
INDUSTRY IN 2004

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How has the year 2004 been for the Indian auto ancillary industry?

2004 has been a decent year for the Indian auto component industry. The demand for automobiles has been robust and this has favourably impacted the fortunes of this industry. While domestic demand for components has grown encouragingly, several companies have taken important steps to become suppliers to the global market. In 2003-04, export of components scaled the \$1 billion for the first time. Exports have been consistently growing at over 35 per cent year on year and we expect this trend to continue. Global trends in the automotive industry strongly favour sourcing components from low cost countries, including India. Almost every global automotive OEM and several Tier 1 suppliers are sourcing components from Indian companies. We expect outsourcing to gather faster momentum.

2004 therefore, has in many ways been a watershed for the Indian auto component industry as we now have a strong platform to address global market opportunities.

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How do you see the growth?

The global market for auto components is likely to reach \$1.7 trillion by 2015. India is in a position to capture \$20 to \$25 billion of this opportunity through exports on an annual basis. Countries like Indonesia, Thailand and Malaysia are emerging as sourcing bases for auto components.

How do you see the trend emerging in times ahead for India?

India's advantage is in the manufacture of skill intensive components and in components that are manufactured from steel, rubber and aluminium. India's competitiveness in these components is due to our inherent advantages in engineering skills and our capability to effect continuous im-

provements in our products / processes. This enables us to respond more effectively to customer expectations and provide better value to our customers. Low wage costs result in an about 20 per cent cost advantage for Indian companies. India's advantages in the manufacture of skill intensive products however, now largely stems from other factors that include a large skilled workforce, a growing domestic market, good raw material availability and the emergence of a mature supply base. In fact it is these factors, rather than low wage costs, that will contribute to sustainable competitive advantage for Indian auto component industry.

Can India emerge as a Tier 1 supplier to a global OEM major over a period of time?

We expect at least 5-6 Indian companies to become Tier 1 suppliers to the global automotive industry in the next 5-10 years. To do this effectively, Indian companies need to adopt a global mindset to build scale and achieve cost excellence; acquire market access through global acquisitions wherever necessary; strengthen their design, engineering and innovation skills; build global manufacturing footprints; and develop capabilities to manage a world class talent pool and organisation.

Can Indian exports remain competitive?

Indian companies will necessarily have to take continuous steps to improve their cost structures and operational efficiencies in order to sustain competitiveness. We also expect companies to resort to innovative financial strategies that will enable them to neutralise the impact of currency appreciation.