



AUTOMOBILE COMPONENTS

SUMMARY

The Automotive industry in India is leading in many segments- primarily in Passenger Cars, Utility Vehicles, Vans and two Wheelers. ¹

The rapidly growing auto market in India is expected to reach USD 300 Bn by 2026

The Compound Annual Growth Rate (CAGR) of the industry stood at 13% over the period FY 2013-14 to FY 2018-19. ²

With increasing vehicle parc in India, the aftermarket in 2018-19 raised by 9.6% to USD 10.1 Bn from USD 9.2 Bn in 2017-18. ³

Automotive aftermarket segment in India is expected to reach USD 32 Bn by 2026.

The Automobile component industry in India is composed of organized and unorganized sector. The organized sector refers to original equipment manufacturers (OEMs) and is engaged in the manufacture of high-value precision instruments. Whereas, the unorganized sectors comprise of low-valued products catering to after-market services.

Various sub-sectors of the Automobile component industry in India are engine parts, drive transmission & steering parts, body and chassis, suspension and braking parts, equipment, electrical parts and others such as fan belts, die-casting and sheet metal parts.

REASONS TO INVEST

A stable government framework with increased purchasing power, large domestic market and an ever-increasing development in infrastructure have made India a favourable destination for investment.

India is emerging as a global hub for sourcing auto components. The key automotive markets like the ASEAN, Japan, Korea, Europe and huge domestic market are geographically closer to India.

India offers low cost by 10-25% relative to that offered by Europe and Latin America. Hence, India is cost competitive as compared to other manufacturing countries.

There are minimal restrictions on export-import which make it a favourable trade policy. Furthermore, specific incentives are available for export-oriented units and export processing zones.

India's growing integration in Global Value Chains further offers impetus to the Automobile component industry.

Favourable government policy with 100% FDI allowed through automatic route.

Presence of enabling infrastructures like automotive training institutes and auto design centres, special auto parks and virtual SEZs for auto components.

An increasing working population and an expanding middle-class are likely to remain key demand drivers.

India is considered competitive in manufacturing of forgings, stampings, castings, machining, wiring harness and electronic fuel injectors.

A large pool of skilled workforce and a strong educational system are the supporting factors for investment. Improvised R&D operations and laboratories that have been set up to conduct activities such as analysis, simulation and engineering animations are helping in additional investment prospects.

The growth of global Original Equipment Manufacturers (OEMs) sourcing from India and the increased indigenisation of global OEMs is turning the country into a preferred designing and manufacturing base.

M/S Stanley Black and Decker is a USA based company with over US\$ 15 bn revenue. They manufacture a wide range of mechanical tools. This company has 2 manufacturing plants in India and looking forward to expanding operations in India in the coming 6 years. ¹⁵

[Explore more about infrastructure availability in Automobile Components sector >](#)

RECENT ANNOUNCEMENTS

11th November 2020: Hon'ble minister Shri Prakash Javadekar has set up a 22-member inter-ministerial committee in strengthening the Capital Goods(CG) Sector through interventions that help the CG Sector in contributing more actively in the national goal of achieving a USD 5 tn economy and a USD 1 tn manufacturing sector.

[Read More](#)

STATISTICS

The Automobile component industry in India is set to become the 3rd largest in the world by 2025.

The contribution of Automobile component industry in India's GDP will account to as much as 5% to 7% by 2026.

The Automobile component in India contributes 2.3% to India's GDP. ² About 1.5 mn people are directly and 1.5 mn are indirectly are employed in this industry.

Automotive Mission Plan (2016-26) projects to provide direct incremental employment to 3.2 mn by 2026. Realization of goals in the Automotive Mission Plan (2016-26) requires an additional investment of USD 25-30 Bn.

The Automobile component industry in India will be among the top three of the world in engineering, manufacturing and export of vehicles and components.

GROWTH DRIVERS

The Public Procurement Order 2017 (revision) was issued on 20th Oct 2020 with an aim to promote manufacturing of Automobile and Automobile Components. ¹⁶

FDI POLICY

100% Foreign Direct Investment (FDI) is allowed under the automatic route in the Automobile component industry in India, subject to all the applicable regulations and laws.⁴

The cumulative FDI equity inflow in the Automobile industry is USD 24,627.85 mn during the period April 2000 to September 2020. This constitutes 4.93% of the total FDI inflow received across sectors.⁵

[Read more about Foreign Direct Investment Policy in India >](#)

SECTOR POLICY

AUTO POLICY 2002

The National Auto Policy had been formulated aiming at prescribing policy guidelines and enabling the framework to achieve the predicted growth objectives.⁶

The Department of Heavy Industries will conduct an independent assessment and mid-term review of the Auto Policy in 2022.⁷

In the Automobile component industry in India, manufacturing and imports are exempted from licensing and approvals.

AUTOMOTIVE MISSION PLAN 2016-26

AMP 2016-26 seeks to outline the trajectory of the advancement of the Automobile component industry ecosystem in India.⁸

The Automobile component industry in India foresees growth of USD 260-300 Bn by the end of FY 2026.

India forecasts to be amongst the top 3 automotive industries in the world by 2026. There will be 65 mn direct & indirect jobs generated by 2026.

The GDP contribution of the Automobile component industry in India is projected to be 12% by 2026.

NATIONAL AUTOMOTIVE TESTING AND R&D INFRASTRUCTURE PROJECT (NATRIIP)

National Automotive Testing and R&D Infrastructure Project (NATRIIP), largest and most significant initiatives by Government of India, in the Automobile component industry in India.

The chief aim of the project is:

To generate core global competencies - state-of-art testing and R&D infrastructure.

To enable seamless integration by driving the automobile component industry in India into the global automotive excellence.⁹

A total of USD 573 Mn investment has been done to adopt and implement global performance standards.

The key focus lies in providing low-cost manufacturing and product development solutions.

DEPARTMENT OF HEAVY INDUSTRIES & PUBLIC ENTERPRISES

The Department of Heavy Industries (DHI) has invested USD 200 Mn funds to modernize the Automobile component industry in India, by providing an interest subsidy on loans and investment in new plants and equipment.

DHI has also provided export benefits to intermediate suppliers of auto components against the Duty-Free Replenishment Certificate (DFRC).

NATIONAL ELECTRIC MOBILITY MISSION PLAN 2020 (NEMMP)

NEMMP aims to bring the transformational paradigm shift in the Automotive and Transportation industry by promoting hybrid and electrical mobility in India. It predicts a vehicle population of about 6-7 mn electric/ hybrid vehicles in India by 2020.

There has been a cumulative outlay of USD 2.15 Bn for building such a roadmap. It is a composite scheme involving demand-side incentives to facilitate the acquisition of hybrid/electric vehicles along with the provision of supply-side incentives.

FASTER ADOPTION & MANUFACTURING OF ELECTRIC HYBRID VEHICLES (FAME) SCHEME II

The scheme is proposed to be implemented from April 2019 to April 2022, for faster adoption of electric mobility and development of its manufacturing eco-system in the country.

Department of Heavy Industries will be the nodal agency and be responsible to review the scheme.¹⁰

Total fund requirement for this scheme is USD 1.44 Bn over three years from 2019-20 to 2021-22.¹¹

[Explore Government policies/schemes in Automobile Components sector >](#)

FINANCIAL SUPPORT

R&D INCENTIVES FOR INDUSTRY AND PRIVATE SPONSORED RESEARCH:

A weighted tax deduction is given under section 35 (2AA) of the Income Tax Act.¹²

Weighted deduction of 200% is granted to assess for any sums paid to a national laboratory, university or institute of technology, or specified people with a specific direction and that the said sum is used for scientific research within a program approved by the prescribed authority.

MANUFACTURERS WITH AN IN-HOUSE R&D CENTRE:

Section 35 (2AB) of the Income Tax Act, 1961 provides weighted tax deduction of 150% of the expenditure incurred by a specified company, on scientific research in the in-house R&D centres as approved by the prescribed authority. This does not include expenditure on the cost of any land or building.

The weighted tax deductions of 150% are effective until 31 March 2020. Post that, the weighted tax deductions will be 100%.

STATE INCENTIVES:

Apart from the mentioned, each state in India offers additional incentives for industrial projects. Incentives are in areas like subsidized land cost, relaxation in stamp duty exemption on sale and lease of land, power tariff incentives, concessional rate of interest on loans, investment subsidies, tax incentives, backward areas subsidies and special incentive packages for mega projects. Few examples are:

Andhra Pradesh:

The Government of Andhra Pradesh is committed to providing land at concessional rates, along with 24 hours uninterrupted power supply.

Capital subsidy of 50% for common infrastructure in auto clusters and ASMC developers, up to a maximum of USD 3.07 Mn.

Financial assistance limited to 75% of the cost, subject to a maximum of USD 38,461 for obtaining patent registration and 50% of all charges, subject to a maximum of USD 7,692 paid for obtaining quality certification. This is applicable to only MSME units.

Under Marketing Incentives, 50% of the cost of participation with a maximum amount of USD 7,692 to be reimbursed to a maximum of 10 MSME units per year for participating in international trade fairs.

Gujarat:

Auto component manufacturers can either avail general incentives under the Gujarat Industrial Policy 2015, or under the scheme for Mega/ Innovative Projects.

Jharkhand:

Jharkhand introduced Automobile and Auto Component Policy 2016 with an aim to make Jharkhand, a preferred destination for automobile and auto-component manufacturing units.

The policy encourages the establishment of Tier-I, Tier-II and Tier-III auto-component manufacturers in the state.

Provision of financial assistance of 50% for fixed capital investments in building and common infrastructure up to a maximum of USD 3.07 Mn.

100 % electricity duty exemption shall be provided for 10 years from the date of production.

EXPORT INCENTIVES:

Export subsidy is available to exporters as a % of duty credit scrip under Merchandise Exports from India Scheme (MEIS).

Additionally, the MEIS Scheme has been extended to additional tariff lines and expanded to 65 countries as per the recommendations by ACMA.

AREAS BASED INCENTIVES:

Incentives for units in Special Economic Zones (SEZs) / National Investment & Manufacturing Zones (NIMZs) as specified in respective Acts or setting up projects in special areas like the North-east region, Jammu & Kashmir, Himachal Pradesh & Uttarakhand.

KEY POINTS IN THE UNION BUDGET 2018-19:

The increase in duty on selected items such as engine & transmission parts, brakes and parts thereof, gearboxes and parts thereof, airbags and so on, from 7.5-10% to 15% will provide a boost to domestic manufacturing. Since most of the component manufacturing units are SME's. Thus, the reduction in the corporate tax rate to 25% for SMEs with a turnover of less than USD 38.46 Mn will benefit the Automobile component industry in India.

INVESTMENT OPPORTUNITIES

ENGINE & ENGINE PARTS:

New technological changes like turbochargers and common rail systems.

Outsourcing to gain traction in the short to medium term.

TRANSMISSION & STEERING PARTS:

Replacement market share in sub-segments such as clutches is likely to grow due to rising traffic density.

The entry of global players is expected to intensify competition in sub-segments such as gears and clutches.

SUSPENSION & BREAKING PARTS:

The segment is estimated to witness high replacement demand, with players maintaining a diversified customer base in the replacement and OEM segments besides the exports.

The entry of global players is likely to intensify competition in sub-segments such as shock absorbers.

EQUIPMENT:

Companies operating in the replacement market are likely to focus on establishing a distribution network, brand image, product portfolio and pricing policy.

METAL PARTS:

Manufacturers are expected to benefit from the growing demand for sheet metal parts, body & chassis, fan belts, pressure die castings, hydraulic pneumatic instruments in the two-wheeler segment.

Leading players in the sheet metal parts sub-segment are in the process of expanding their customer base.

HYBRID & ELECTRIC VEHICLES COMPONENTS:

It is estimated that there will be a huge demand in India for low-cost hybrid and electric vehicles (xEVs) that are suitable short-distance urban commutes (averaging 50-100 km per trip) and rugged enough to perform reliably in the summer and in the monsoon season in India.

INVESTMENT OPPORTUNITIES

Japan Plus is a strategic bilateral initiative between India and Japan to promote, facilitate and retain Japanese investments in India. Invest India helped the companies right from the start and played a major role during Make in India roadshow. Invest India clarified all queries pertaining to FDI policy, sourcing, GST applications, and other licensing through special sessions and meetings with the top policy makers and government stakeholders.¹⁴

FOREIGN INVESTORS

ZF (Germany)
Aisin Seiki Company (Japan)
Bosch (Germany)
Continental Engines (USA)
Delphi (UK) Denso (Japan)
FAG (Germany)
Magneti Marelli (Italy)
TRW (USA)
Valeo (France)
WABCO (Germany)
David Brown/ Bharat Forge
Schaeffler
Honda
MG Motor²¹

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