

Executive Summary

Introduction to the Report

The year 2016-17 has proven to be a year of radical change for the Indian economy, for businesses and consumers alike, thereby being the ideal time to conduct a comprehensive assessment of the automotive components market in India.

The study estimates the automotive component aftermarket at around INR. 56,098 Crore in 2016-17 generated by a total vehicle parc of around 228.7 mln vehicles across the country. The automotive component potential is expected to reach INR. 75,705 Crore by 2019-20 exhibiting a CAGR of 10.5%. Through over 1,100 in-depth interviews with a variety of stakeholders in the industry, the report will also present a thorough qualitative narrative on the current practices and trends impressing upon the market.

The report commences with a chapter that covers the economic climate and key attributes of the automotive industry in the United States of America, Japan and China, and concludes with a narrative of these elements in India. The chapter seeks to present the India story in the context of economic and industrial progress relative to the same in some key competing economies. In Chapters 2 and 3, the report focuses on the automotive industry in India and presents the growth forecasts for each of the assessed vehicle segments. With Chapter 4, the report dives into the primary objective, i.e. the automotive component market, covering the drivers and the analysis of the vehicle parc. Chapter 5 presents the estimated potential for automotive components in India, broken down by vehicle segment and component buckets. The chapter opens with a breakdown of the methodology and assumptions in the market size estimation, followed by a presentation of the estimated potential. Chapter 6 is a narrative of the qualitative findings from the extensive primary research conducted for this study. Covering areas ranging from the concerns surrounding spurious parts, to the legal provisions available to combat these parts, to the trends by vehicle segment and general practices of the distributors, retailers and mechanics, the report seeks to provide comprehensive insights on key attributes of the aftermarket.

Chapter 7 throws some light on key trends that will impress upon the future of the industry and covers areas such as vehicle telematics, vehicle servicing, e-retailing and importantly, GST and its expected impact on supply chain practices. Chapter 8 seeks to highlight the capabilities of the National Automotive Testing and R&D Infrastructure Project (NATRiP) and the critical role that it can play in bridging the current gaps in testing and validation for the industry. Chapters 9 to 11 throw light on the pre-owned car market, the taxi market and the automotive regulations in India and the impact and opportunities that these present for the industry in the future.

The report concludes with coverage on the alternate fuel technology in India, some insights on changing customer preferences, followed by the complete set of data tables covering the vehicle parc, broken down by state and districts, and replacement frequencies for the components that were studied.

The executive summary presented below summarizes the key findings of the report.

Executive Summary

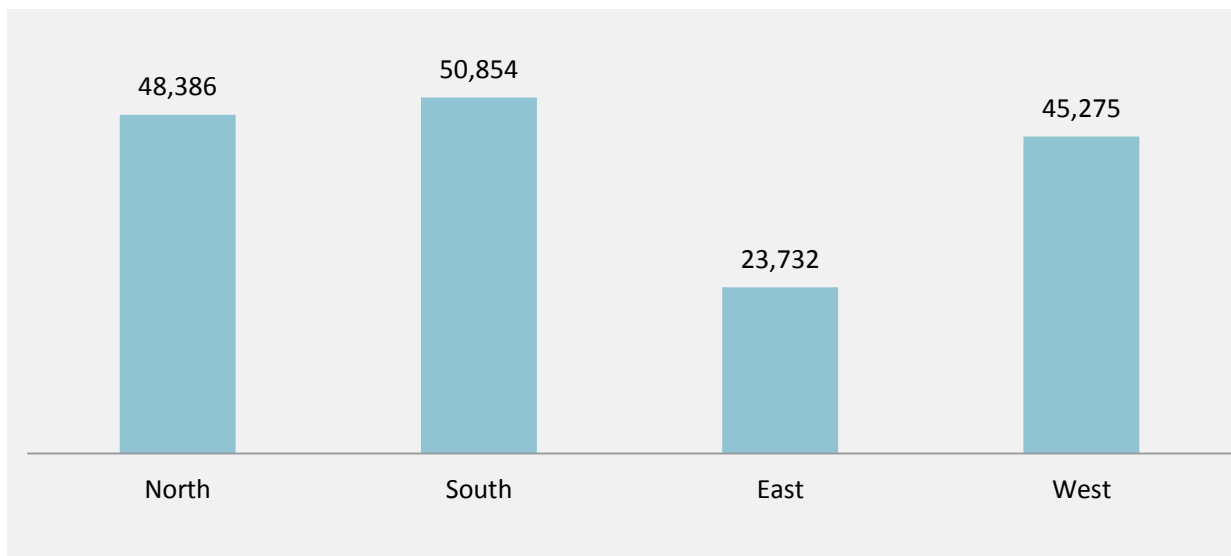
The automotive market in India continues to witness transformation in the form of regular product updates and new product launches, and also, an impressive technology infusion in our vehicles. While most of the domestic demand has for long, been met by domestic manufacturing, the growing localization of products is improving the access to, and affordability of these new age technology rich vehicles. Based on estimates significantly guided by data from State Transport Authorities across the country, the current total vehicle population in the country is estimated at around 228.7 million vehicles.

Vehicle Parc as on March 31, 2016

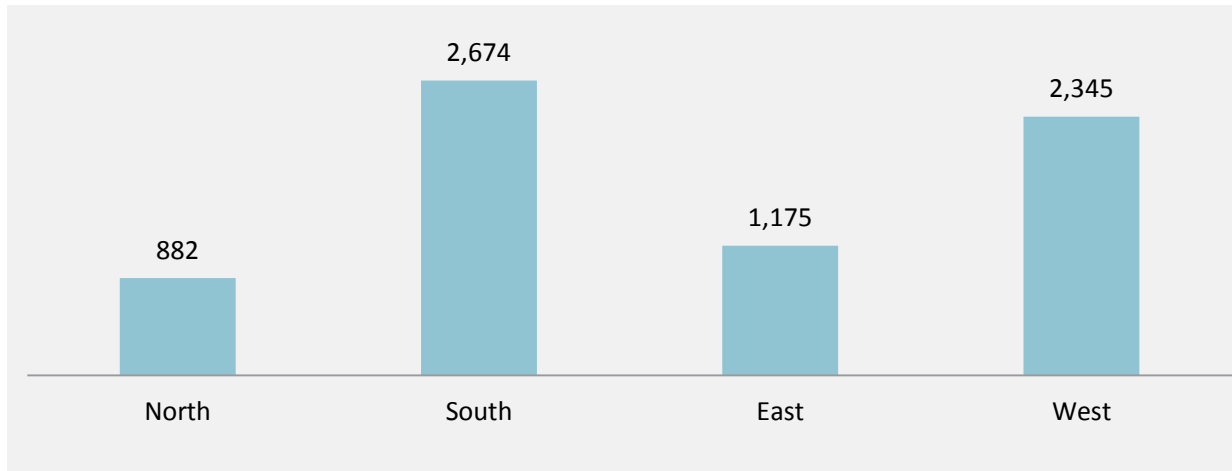
2W	3W	PV	LCV	CV	Tractors	Others	Total
168,247,414	7,075,725	31,312,635	4,319,215	6,791,915	7,520,487	3,481,767	228,749,158

The north and the south zones account for around 29% each of the total vehicle population with the west zone following close at 27%.

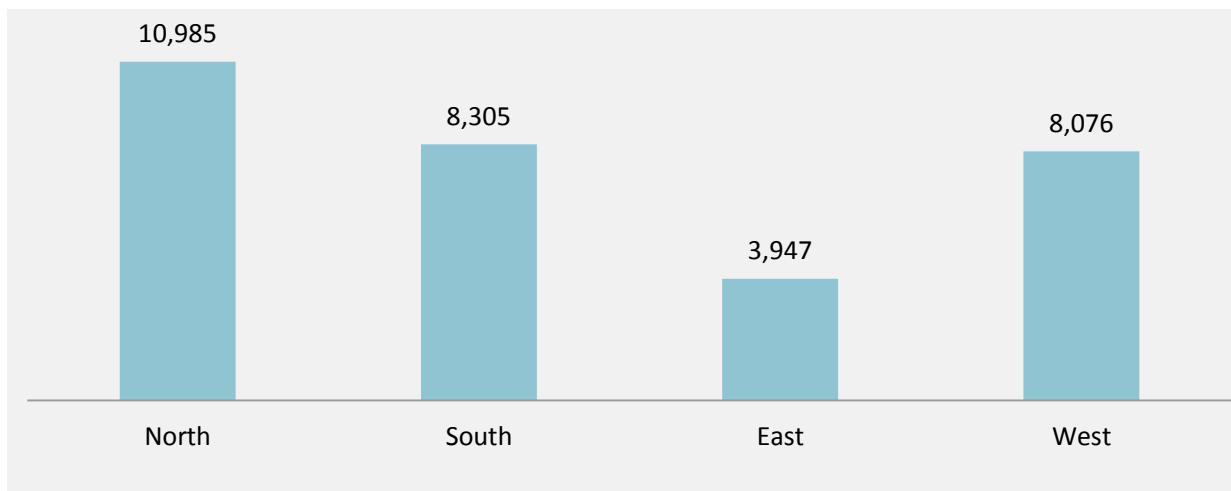
Two Wheelers Parc by Zone (in '000)



Three Wheelers Parc by Zone (in '000)

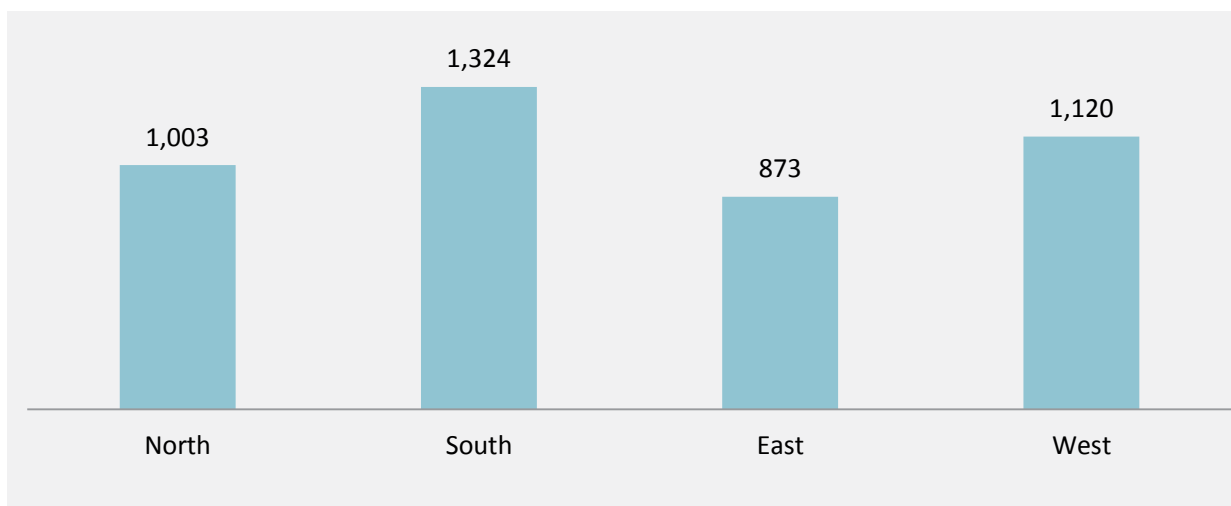


Passenger Car Parc by Zone (in '000)

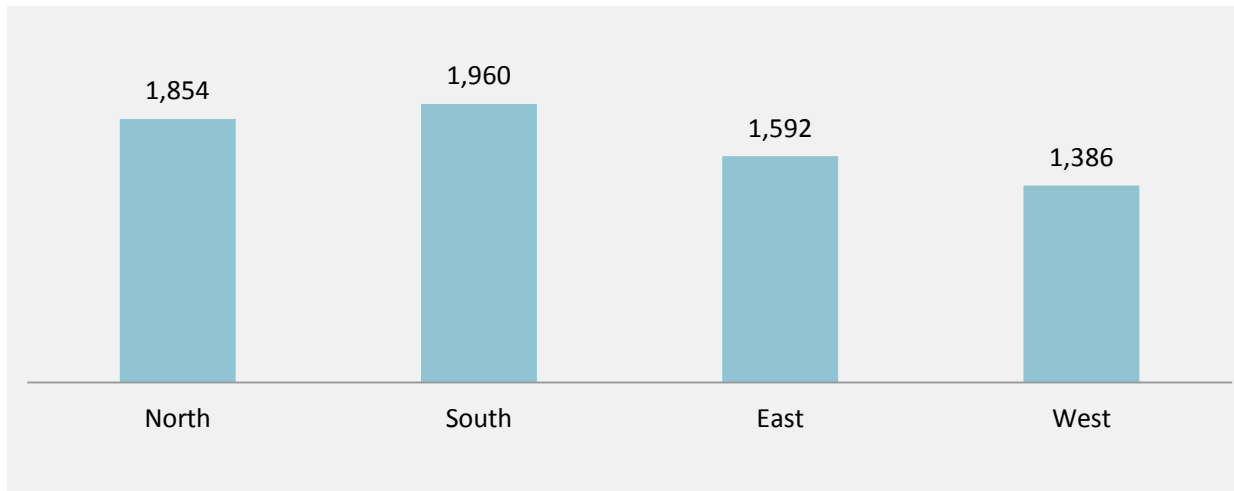


Source: Frost & Sullivan

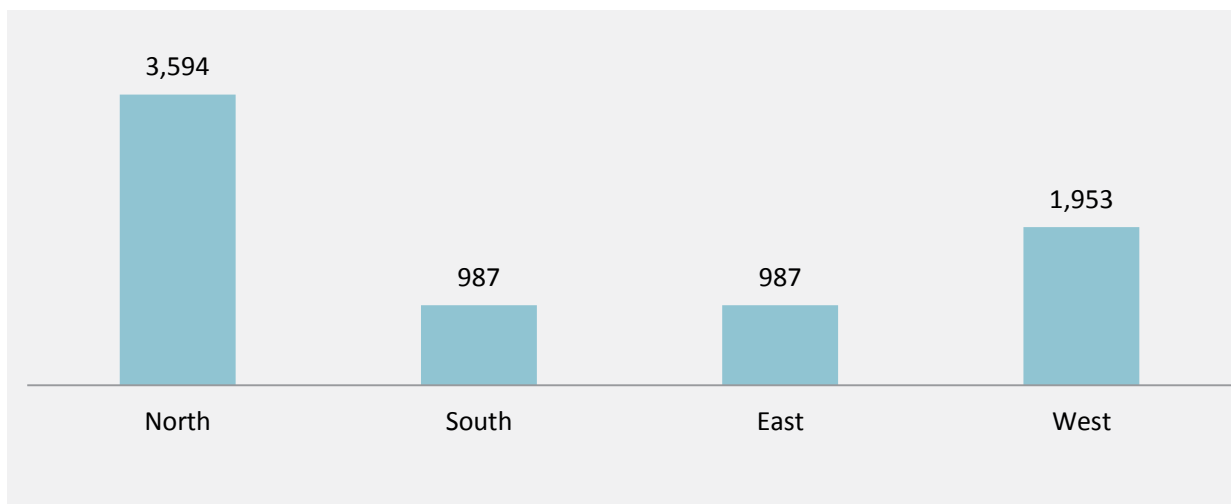
Light Commercial Vehicle (LCV) Parc by Zone (in '000)



Medium & Heavy Commercial Vehicle (M&HCV) Parc by Zone (in '000)



Tractor Parc by Zone (in '000)



Source: Frost & Sullivan

Taking a closer look at the segment wise population in each zone, the north, south and west zones account for almost a similar share of the two wheeler population, together accounting for 86% of the total 2 wheeler population in the country. The commercial vehicles population is found to be evenly distributed across the country. Maharashtra shows the highest number of registered 2 wheelers, 3 wheelers and commercial vehicles. The NCR region shows the highest population of passenger cars, with Maharashtra ranking second. The NCR region and Greater Chennai have the highest population of 2 wheelers at 6.1 million and 5.1 million respectively. Greater Mumbai has the highest number of 3 wheeler registrations at 365,500 vehicles. The highest commercial vehicle registrations are noted in the NCR region, Greater Hyderabad, Greater Mumbai and Bengaluru. Bathinda and Ferozpur show the highest tractor populations at 72, 900 and 71,000 units respectively.

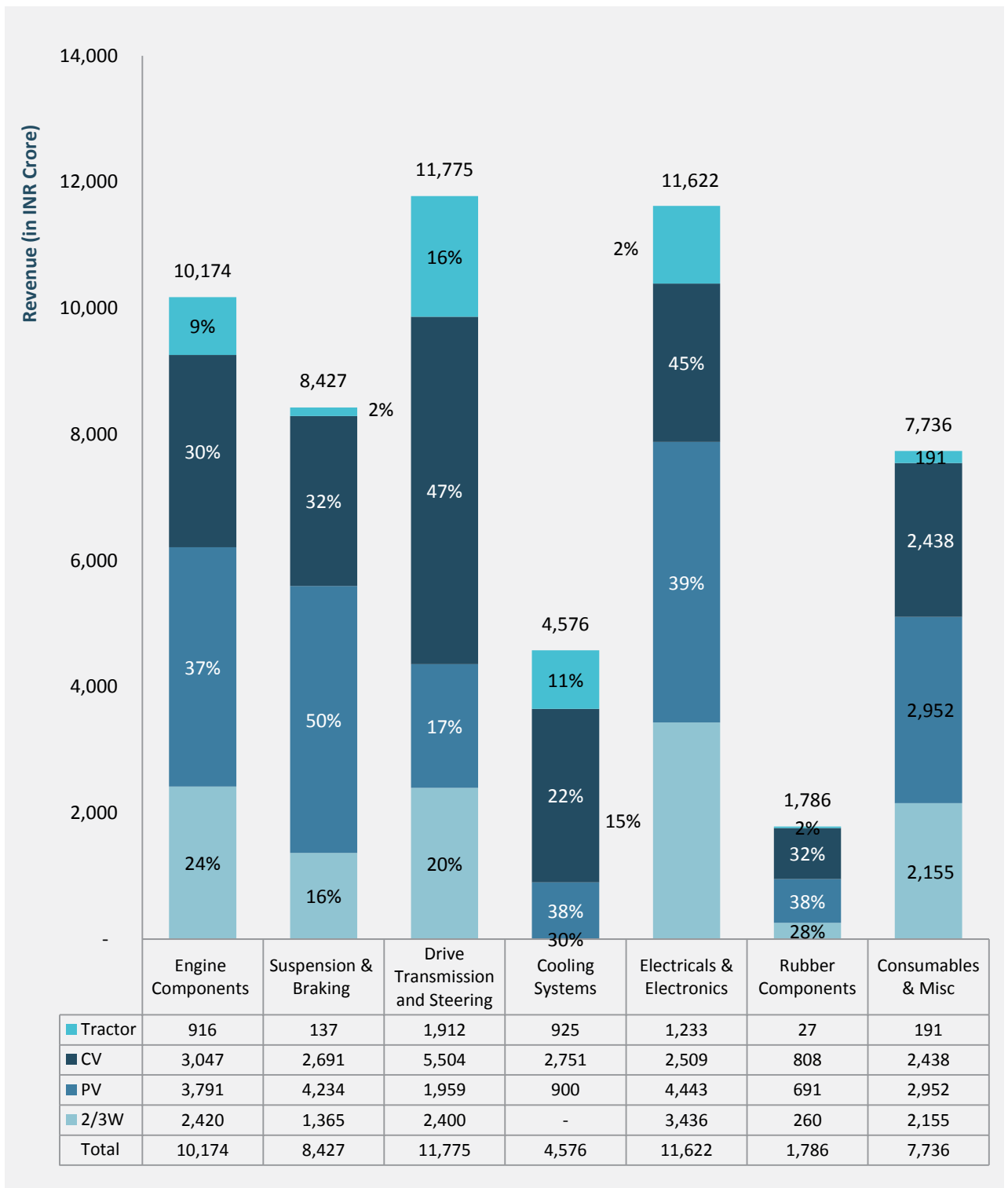
While the main trend to look out for in the passenger and commercial vehicles segments will be upgrades in the features and emissions related technology, the most significant trends driving the 2 wheeler segment are the growing demand from rural markets. On the other end of the spectrum, the growth of passion motorcycling is leading to a growing demand for high-end premium motorcycles. Vehicle prices are expected to rise as the country progresses toward the BSVI standards. The price increase is expected to be in the range of INR. 5000-6000 for 2 and 3 wheelers. The increase is expected to be around INR. 20,000 for a petrol engine car, and up to INR. 1,00,000 for a diesel engine variant. For a commercial vehicle, the cost increase could be as high as INR. 1,50,000. In order to supply these upgrades to the market at an affordable premium to the customer, the industry will need to ensure a high degree of localization, which eventually translates to a growing opportunity for the component manufacturers in India. Not only does this directly translate to higher revenues, but also to growing capabilities in developing high technology components.

Trends such as these, along with the growing vehicle parc in the Indian market, and the evolving usage and maintenance patterns of vehicle owners, have a strong and promising impact on the aftermarket potential in India. Qualitative primary research findings indicate that in the passenger vehicle segment, the genuine OE spares account for around 40% of the total components consumption while the remaining 60% is split evenly between IAM branded parts and U-parts. The IAM branded parts consumption is highest in the CV segment, estimated at 50% of the total consumption, while the tractor segment exhibits the highest consumption of U-parts at 40%.

As part of this study, the aftermarket size was estimated for a range of 50 components across vehicle segments. These included engine components, drive, transmission and steering components, suspension and braking components, cooling systems, electrical and electronics and consumables. Accounting for the vehicle parc, component replacement cycles, and the parts consumption share between OE genuine spares, IAM branded spares and U-parts, the aftermarket size for these components in 2016-17, is estimated at around INR. 56,098 Crore.

The 2 and 3 wheeler segments together account for around INR. 12,038 Crore of the total estimated potential, while the passenger car segment accounts for around INR. 18,970 Crore. The commercial vehicle segment accounts for around INR. 19, 748 Crore while the tractor segment accounts for around INR. 5,342 Crore.

Component Aftermarket Potential, India, 2016-17



Source: Frost & Sullivan

The state of Gujarat features in the top 5 states by component potential across all vehicle segments, while Maharashtra features in the top 5 across all vehicle segments except for the tractor segment. For all vehicle segments except the commercial vehicle segments, the top 5 states account for between 48% to 55% of the total potential in that specific vehicle segment.

While these numbers and trends are the kind that sales and business managers are looking for, there are certain other trends in the market that are worth monitoring, which are likely to restrain the growth of IAM component consumption. Changes in customer behavior, their preferences, their access to information, the influencers of their decisions, extended warranty packages from vehicle OEMs, and the growth of some unorganized part manufacturers are just a few of these other trends to watch out for. Extended warranty packages bundled with good customer service and several value added services are extending customer loyalty to the OE service channel well beyond the warranty period of the vehicle. While in some vehicle segments, a customer's choice for a replacement component is completely dependent on the affordability factor; in others it is more dependent on the customer's awareness and the strength of the influencers such as the mechanics.

Regulations, both legal and industry specific have a key role to play in determining the future of the automotive components industry in India. On the one hand, with policy development and enforcement in the areas of research and development, design, testing and repair being part of the core objectives of Automotive Mission Plan (AMP) 2016-2026, regulations will greatly influence the opportunities and demand for components in the Indian market. On the other, regulations are expected to provide a means for the industry to develop and provide better products for the market, and protect the market and the consumer from spurious parts. Despite weak legal provisions, initiatives by the industry have helped to control the penetration of spurious parts, limiting the nationwide penetration of these parts to just around 5%. Considering the size and expanse of the Indian market, this is a remarkable achievement in itself.

Another development that is expected to impress upon the automotive component trade in India is the launch of the Goods and Services Tax (GST). Come July 2017, GST will bring about significant change in the way the automotive component manufacturers address the demand in different markets across the country. While the long term benefits of this initiative will be remarkable, all industries, automotive components included, will deal with the extensive change management challenges throughout their value chains. On the demand front, owing to the expected changes in warehousing practices across industries, the commercial vehicles segment is expected to witness a transformation. This will be not just in terms of the distances covered with long haul vehicles, but also with regard to the tonnage capacities of long haul vehicles.

On the whole, the automotive industry and the component industry in India are setup for a promising future, both in the domestic and the export markets. The industry will witness widespread transformation that will only strengthen its position in the global automotive industry. Automotive component manufacturers will need to only identify and track the key trends in their core segments and take advantage of the already existent growth potential in the market.