ACMA

Automotive Component Manufacturers
Association of India

सत्यमेव जयते

Ministry of Heavy Industries and Public Enterprises
Government of India

Global Auto Components Aftermarket Industry

Market Dimension and Addressable Opportunities

Phase 2: Deep Dive Report – Kenya

May, 2016

Knowledge Partner

FROST & SULLIVAN

Table of Contents

1	Executive Summary
2	Country Snapshot
3	Automotive Industry
	Industry Overview
	Drivers and Restraints
4	Passenger Vehicles Segment
	Segment Overview
	Usage Conditions
5	Commercial Vehicles Segment
	Segment Overview
	Usage Conditions
6	2 Wheeler Segment
	Segment Overview
	Usage Conditions

Table of Contents

7	3 Wheeler Segment
	Segment Overview
	Usage Conditions
8	Tractor Segment
	Segment Overview
	Usage Conditions
9	Maintenance and Parts Replacement Practices
10	Vehicle Servicing Infrastructure
11	Auto Components Market
	Auto Components Imports
	Auto Components Market Overview
	Share of the Gray Market
	Chinese Auto Components in Kenya

Table of Contents

	Impact of Chinese Auto Components
	Auto Components Distribution and Margin Structures
12	Duty Structure for Import of Auto Components and Impact on Indian Exporters
13	Market Insights Importers-Distributors, Retailer and Mechanics
	Importers-Distributors
	Retailers
	Garages & Mechanics
14	Kenya Motor Repairers Association

Executive Summary

The Kenyan Market has a favourable opinion about Indian auto components as compared to Chinese components

ACMA members supplying to Bajaj, Yamaha and TVS, and, to TATA motors for HCVs have a head start

Vehicle Parc

- The passenger vehicle parc of 2.8 million is diverse with no single dominant model
- Japanese OEMs account for a majority of the vehicle parc; 67% and 47% of the PV and CV imports respectively, while China accounts for 52% of the motorcycle imports
- Bajaj, TVS, TATA Motors and Ashok Leyland are the Indian OEMS present in the market

Perception of Indian Auto Components

- Indian auto components are perceived to be of good quality and are well received in the market
- The general impression received from various stakeholders is that Indian manufactures have a big limitation in product range
- Turn around time from receipt of an inquiry to actual supply is very high compared to Chinese counterparts

Auto Components Market

- Importers sell not only to trade but also directly to customers
- Organized Independent garages service around 60% of the vehicles parc, and constitute a significant target opportunity for Indian manufacturers
- The gray market accounts for 55% of the total IAM
- China, UK and Germany are the key origins of imported components

Source: Frost & Sullivan

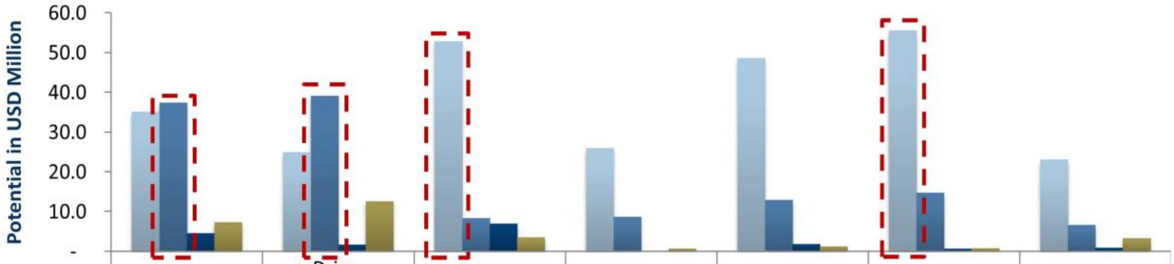
Unique Trends in the Kenyan Automotive Market

Used Cars	• A vast majority of car buyers would rather buy a 5-6 year old used imported car than buy a new car at a price premium of 15-20%
Import Duty Evasion	• One of the common methods of evading duty is by paying duty by weight of a consignment, as against by number of units • This has encouraged importers to intentionally undervalue their consignments by piggybacking light expensive parts along with bulky inexpensive parts
Local Vehicle Assembly	• Kenya is the preferred destination for local vehicle assembly in the East African Region • Imported parts for local vehicle assembly are exempt from 25% import duty, allowing OEMS to sell cheaper new vehicles
Parts Pricing	• Non OE Parts are • 10-15% cheaper than Korean OE Genuine Parts • 20-30% cheaper than Japanese OE Genuine Parts • >50% cheaper than German OE Genuine Parts

Source: Frost & Sullivan

Auto Component Market Size

The total auto component aftermarket potential in Kenya is estimated at US$ 440 million



	Engine Components	Drive, Transmission & Steeering	Suspension & Braking	Cooling Systems	Electricals	Consumables and Misc	Rubber Components
PV	35.2	25.0	52.8	26.0	48.7	55.6	23.1
CV	37.4	39.2	8.4	8.7	12.9	14.8	6.6
2W	4.6	1.7	7.0	0.0	1.9	0.7	1.0
Tractor	7.3	12.6	3.5	0.8	1.2	0.8	3.4

- One of the key factors driving the demand for engine components in Kenya is fuel adulteration
- Fuel adulteration is more so a problem for commercial vehicles than for passenger vehicles; hence the high market potential for these components
- Furthermore, other driving conditions such as traffic congestion within city limits and average road quality and overloading of commercial vehicles drive the demand for suspension and braking components, and, consumables

Source: Frost & Sullivan

Similarities Between the Kenyan Vehicle Parc and Indian Models

Despite the moderate model similarity in tractors segment, the segment is not an attractive opportunity owing to strong demand for cheap and counterfeit parts

Nil Low Medium High

	Similarity Between Kenyan Vehicle Parc and Indian Models	
	Possible Similarity in the Segment	**Key Vehicle Models**
Passenger Vehicles	Low	Toyota – Corolla Honda - CRV
Commercial Vehicles	Low	TATA - 2516 Ashok Leyland - Partner, Dost
2 Wheelers	High	Bajaj - BM100, BM150 TVS - Star City
3 Wheelers	High	Piaggio - City TVS - King GS
Tractors	Medium	New Holland - TT75 Massey Ferguson - MF275

Source: Frost & Sullivan

Sample Covered for Field Work in Kenya

Frost & Sullivan has interacted with 50 respondents in Kenya

Respondent Category	Quantity
Importer/Distributor	20
Retailers	17
Garage	15
OE Supplier	1

Frost & Sullivan also interacted with 3 top auto components distributors in Dubai

Source: Frost & Sullivan

Perception of Indian Auto Components

Kenyan Automotive Stakeholders perceive product range, lead time and product development capability are the key concerns

Impact of Chinese Competition	• Chinese components are available in varying grades of quality and prices • Chinese alternates are not preferred for critical component categories such as engine, drive and transmission components
Market Perception of Indian Auto Components	• Indian auto components are considered to be of superior quality as compared to Chinese components
Willingness of Local Businesses to Sell Indian Auto Components	• Local traders are generally willing to do business with Indian manufacturers on the condition of consistent order fulfilment • They opine that product range, lead time and product development capability are currently the key concerns

Source: Frost & Sullivan

Kenyan Perspective of Indian Auto Components - SWOT Analysis

Opportunity for Indian Players to position between Chinese and European/ Japanese parts

Strengths

- Generally positive experiences with Indian vehicles, i.e. 2 wheelers and commercial vehicles
- Indian auto components are considered reliable and of high quality

Weaknesses

- Lack of product range
- Weak product packaging, quality and attractiveness thereof
- Lack of trust in Indian manufacturers
- No local representation

Opportunities

- General openness in the market to trade in Indian auto components
- Small but growing parc of Indian 2 wheelers and commercial vehicles

Threats

- Capability to develop products and manufacture in a short time frame compared to Chinese counterparts
- Inability to be as price competitive as competing Chinese options

Source: Frost & Sullivan

Critical Success Factors

Market Reach is a critical area – Indian suppliers ought to have as many stockists as possible to make Indian parts as easily available as Chinese parts

- Build and enhance product development capability
- Product range needs to be extended; passenger and commercial vehicle segments present the most significant opportunities
- Turn Around Time from receipt of sample to dispatch of first batches to be improved

- Packaging quality, and attractiveness must be enhanced
- Participation in regional events, and organizing meets events in the market will help create brand awareness
- Promotional material and giveaways will help improve brand recall
- ACMA members could organize product exhibitions in the local market

- A local representative in the can help engage with
- the traders and garages
- A local representative can provide
- real time feedback on market
- developments and aid in product
- development
- Will form a bridge between the local market and the ACMA members

- Price levels must ideally be around 15% to 20% above the mid quality range of Chinese products, and at least 25-30% cheaper than an OEM genuine part
- Acceptable price and product quality will help to ensure strong demand for Indian components

Source: Frost & Sullivan

Business Risks in Kenya

1. Volatile Currency – Currency Fluctuation is a major area of concern; very meticulous planning required in agreeing to payment terms and the time frame involved
2. Insurance claiming procedure in Kenya is tedious and more often goes unpaid
3. Credit terms – very risky to agree to any form of credit terms initially; few business dealing is required to assess the credibility of the purchaser before offering any form of credit
4. Generally Security conditions in African countries is poor; the situation becomes volatile frequently leading to loss of material, theft and danger to human life

Source: Frost & Sullivan

Recommendations

Product range and lead time are the key elements to succeed; stake holders willing to pay an incremental premium for Indian parts over Chinese

Suggested Road Map to enter Kenya for ACMA Members	
Segment	• **The 2w and 3w segments which has a potential of USD 17 million** presents a significant opportunity to ACMA members owing to – Presence of Indian models – Most parts except engine components are interchangeable between Indian and Chinese • The CV segment presents low potential in the immediate given the presence of **TATA and Ashok Leyland products in the market accounting for less than 10% of CV parc** • The immediate opportunity in the PC segment is low as there are limited Indian models in the vehicle parc • The long term opportunity in the market is high provided the Indian suppliers strengthen their Product Development Capability
Product Development	• For segments other than the 2w and 3w segments, Indian suppliers have to develop products to address at least 80% of the parc • **Product durability is key** – Indian suppliers have to test these products on Kenyan road conditions before launch in order to ensure component durability • Indian suppliers must set up new dedicated project teams with the sole responsibility of identifying and generating new references • **Critical factor in product development is the lead time** – ensure turnaround time of 90 days for new product development to compete with Chinese suppliers

Source: Frost & Sullivan

Recommendations

Product range and lead time are the key elements to succeed; stake holders willing to pay an incremental premium for Indian parts over Chinese

Suggested Road Map to enter Kenya for ACMA Members	
Quality	• **The general perception among Kenyan stakeholders is that Indian products are better than Chinese alternates** – reinforce this perception by providing high quality products, thus creating value for the incremental price the customer pays
Price	• **Products can be priced between that of Chinese parts and those from European manufacturers** - provided high quality, durability, and, strong brand awareness in the market • **Importer/distributors are willing to pay upto 15% premium on Indian components**
Promotion	• Organized and participate in road shows and product seminars with local stakeholders including the trade, and, garages and mechanics • Giveaways will help promote products and enhance brand recall • ACMA should establish a relationship with the **Kenya Motor Repairers Association (KEMRA)** to promote and improve visibility of Indian components
Channel	• Low MOQs are preferred and hence it is imperative to operate through dealers in Dubai, at least for the short term • In the long run, as brand awareness grows, Indian suppliers can look at exporting full containers where 4 to 5 dealers can benefit from a single container load • Appoint as many stockists as possible to ensure product availability

Source: Frost & Sullivan

What Should ACMA Members Do?

Key Challenges

CURRENT WEAK CONNECT WITH THE MARKET	INDIAN PARTS ARE CURRENTLY SPARCELY AVAILABLE	COMPETITORS OFFER FRIENDLY BUSINESS TERMS

APPROACH

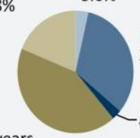
Establish Local Liaison	Create a Wide Stockist Network	Offer Attractive Credit Terms
• Forge relationships with KEMRA and key distributors and retailers • Represent and promote Indian suppliers at regional industry events • Provide local traders with a point of contact for grievance resolution	• Focus on Suspension and Braking, Consumables and Transmission components • Spread stockist and dealer representation across Nairobi, Mombasa, Nakuru and Eldoret	• 30-90 day credit period will offer significant comfort to local traders • For new product development, payment split of 30% at order placement and 70% on receipt of shipment

Source: Frost & Sullivan

Kenya – Economic Profile

Kenya Country Profile

44% of population resides in urban areas

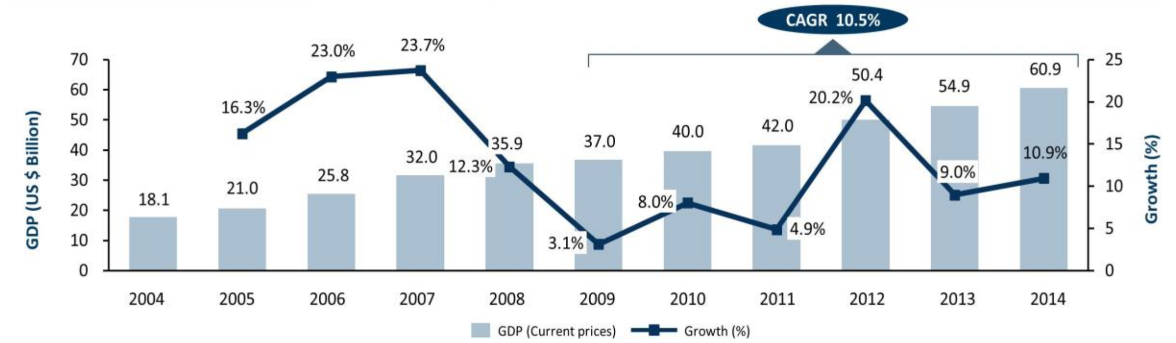
Area	5,21,309 sq. km
Population	Total: 45.0 million (2015); Growth 2.11% (2014 est.) 44% population resides in urban area
Male Female Population	 Female 50.1%; Male 49.9%
Population by age group	 15-24 years 18.8%; 55-64 years 3.6%; 25-54 32.4%; Above 64 years 2.7%; < 14 years 42.4%
Key cities	Nairobi, Mombasa, Nakuro, Eldoret
Legal Driving Age	18 years
Vehicle driving mode	Left

Source: World Bank, IMF, Frost & Sullivan

Kenya — the most industrialised market in East Africa

Kenya is currently the 11th largest economy in Africa; its economy is likely to grow at a CAGR of 6.3% over the next five years

Growth in Gross Domestic Product, Kenya, 2004-2014




The most industrialised country in East Africa, with the service sector accounting for 53 per cent as of national GDP


Minibuses called 'Matatus', which accommodate 15-20 people on an average, dominate the public transport service.


Industrial volumes and potential of agricultural growth are driving the freight market in Kenya


Europe implementation of Euro IV/V norms has resulted in an increase in the volume of out-dated trucks, many of which are being to Kenya

Implications:

- Being a low income economy the demand for used vehicles is likely to be more than that for new vehicles
- Given the low per capita income the automobile market is in infancy stage and the growth opportunity going forward is high
- Sensing future opportunities Chinese companies have stated entering the market with FOTON and Chery already setting up operations - Indian OEMs likely to face stiff competition

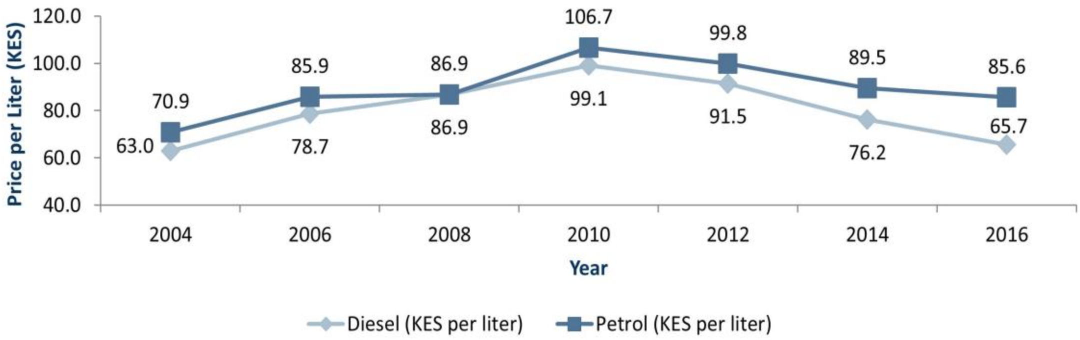
Note: GDP at constant prices
*f = forecast

Source: Frost & Sullivan ; Kenya Revenue Authority
Current: 1 Kenyan Shilling = USD 0.011

Kenya – Fuel Price Fluctuation

Kenya enjoys the lowest diesel price in the East African Region

Fuel Price Fluctuation, Kenya, 2004-2014



- The price of diesel in Kenya is 10% lower than the world average price of diesel
- The petrol prices in Kenya are the second cheapest in the region, 11% lower than the world average price of petrol
- Despite a lower average crude price in 2016 as compared to 2004, the pump price of petrol has increased 24% 2016
- Tax on fuels in Kenya averages at 33% of the pump price, as against 41% in South Africa and 70% in Ghana
- The tax on diesel is roughly 30% of the pump price in Kenya

Source: World Bank, Frost & Sullivan

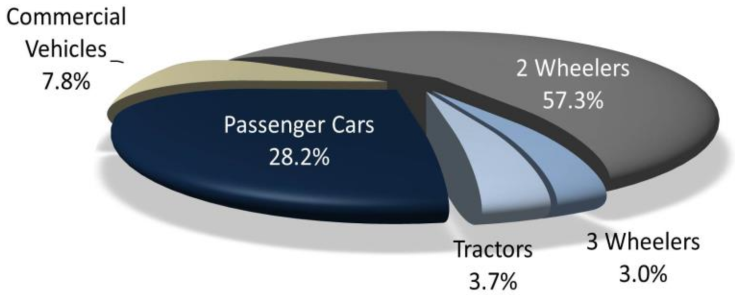
Conversion Rate: 1 USD = KES 101.35

Automotive Industry in Kenya

Automotive Industry Overview

Primarily a used vehicle market with a very diverse brand composition

Automotive Industry Sales, Share by Vehicle Category, 2015



- Kenya is primarily a used vehicle market, completely dependent on imports for all types of vehicles; 87% of passenger cars and commercial vehicles sold in the market are used vehicles
- New vehicles are imported mostly as fully built units, but to a small extent, as knocked down kits and assembled locally
- Import of fully built vehicles attracts a duty of 25% which is waived for import of kits used for local assembly
- Isuzu (N and F series trucks), Mitsubishi-Fuso (FH125, 2523C), HINO (500 series) are some of the local assembly plants currently in Kenya. Ashok Leyland recently announced plans to setup a USD 5 million assembly plant in Kenya
- OEMs view Kenya as the ideal access point to the neighboring east African countries

Source: Frost & Sullivan

Total Vehicle Sales 2015: 286,100

Drivers and Restraints in Kenya Automotive Sales

Feature rich second hand vehicles at relatively affordable prices restrain the sales of new vehicles

Market Drivers
Increasing affordability of locals as a result of Kenya being a fast growing 'developing economy' in the region is driving sales of vehicles
The high demand for used cars in the market consequently creates high demand for auto components
New policies being drafted and adopted in Kenya are soliciting increased investments in the Kenyan automobile sector
Kenya is trans-shipment market for automobiles destined for the neighbouring land locked countries like Uganda and Rwanda

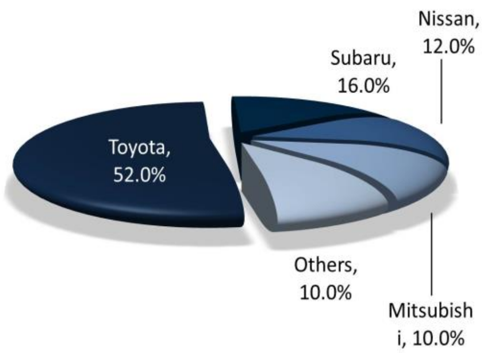
Market Restraints
Low government funding for roadways and infrastructure projects restrains the potential demand for commercial vehicles
Increasing unemployment has an adverse impact on car sales as well as service
With a majority of customer buying vehicles through credit, any volatility in lending rates will have an adverse impact on vehicle sale
Shortage of skilled labour and high energy costs are main restraints on the potential for domestic manufacturing

Source: Frost & Sullivan

Passenger Vehicle Market in Kenya

Passenger Vehicle Segment Overview

Toyota is the market leader, by far, in the passenger cars segment



Others includes Mazda, Mercedes, Jaguar, Porsche, Peugeot etc.

Nil · Low · Medium · High

Make	Top Models*	Possible Similarity with Indian Models
Toyota	Corolla, Voxy, Yaris, Wish, Probox, Premio, Hilux	Low
Subaru	Forester, Legacy, Outback	Nil
Nissan	Vanette, Tiida, X-Trail, Wingroad	Low
Honda	CR-V, Fit	Low
Mazda	Demio, Premacy	Nil

*Models account for 80% of the market

- 98% of vehicles sold are imported (new car sales is around 3,500 in 2015 with only around 50% of these assembled in Kenya)
- Given the key import condition being that the vehicle must be less than 8 years old, the local vehicle parc comprises a diverse range of models from a diverse range of OEMS
- Japan accounts for over 65% of the passenger vehicle imports, followed by Europe, the middle east and South Africa
- Toyota is the most preferred brand of vehicle in the market accounting for over 50% of the vehicle parc
- The other top brands in the vehicle parc are Subaru, Nissan, Mitsubishi, Honda etc.

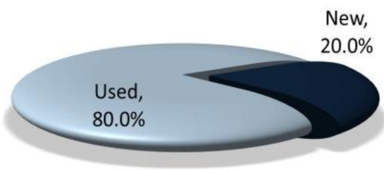
Total Passenger Vehicle Parc 2015: 2,835,000

Source: Frost & Sullivan

Passenger Vehicle Segment Overview (continued)

Porsche is one of the most recent entrants into the new vehicle market in Kenya

Total Passenger Vehicle Sales 2015: 80,700



Nil · Low · Medium · High

Make	Top Models	Possible Similarity with Indian Models
Toyota	Hilux, Land Cruiser, Land Cruiser Prado	Nil
Porsche	Cayenne	Nil
Mercedes	C-Class, E-Class	Medium
Range Rover	Range Rover Sport, Land Rover Discovery, New Discovery Sport	Nil
BMW	3 Series, 5 Series	Medium

- The purchase of new vehicles in Kenya is largely in the premium vehicle segment
- Porsche has been the most recent brand to enter the market and has made a significant dent in the shares of OEMs like Mercedes and BMW, brands that have been in the market for much longer
- Brands like Toyota, that have products ranging from mass market to premium segment products are known to encourage the average car buyer to consider the purchase of a used car rather than a brand new mid-sized car
- The average Kenyan customer is known to be more comfortable spending KES 1.5 million on a feature rich used car that's imported from the Far East or the United States of America, than upwards of KES 2 million on a brand new mid-sized car

Source: Frost & Sullivan

Passenger Vehicle Usage Conditions

Passenger cars ply in generally congested traffic conditions and on average quality roads

Annual Usage Patterns

- The average annual distance covered for personal passenger cars ranges from 10,950-14,600 kms in urban Kenya, and as little as 5500 kms in rural Kenya
- For taxis, the average annual distance covered is in the range of 32,850-40,000 kms
- General driving habits such as lane discipline and braking are average, however, some taxi drivers are known to be rash with rapid acceleration and harsh braking

Driving Conditions

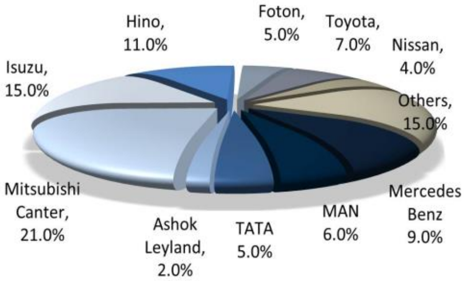
- Traffic congestion is a challenge in the main cities like Nairobi and Mombasa
- Rush hour traffic can be bumper to bumper for as long as 1.5 to 2 km stretches
- Average driving speeds within the city range from 30-50 kmph
- Road conditions range from good to average within the city, but tend to deteriorate in the suburbs and outskirts of the city

Source: Frost & Sullivan

Commercial Vehicle Market in Kenya

Commercial Segment Overview

The TATA Motors 2516 is a preferred platform in the construction segment



Others includes, but is not limited to FAW, JAC, JMC, Renault, Fuso, DAF, Scania

Nil · Low · Medium · High

Make	Top Models*	Possible Similarity with Indian Models
Mercedes Benz	Actros 2546, 2544, 1844	Nil
Mitsubishi Canter	FH215, FE84, FE85, FE71	Low
Isuzu	N- Series and F-Series	Nil
TATA	2516 (Tippers, Mixers)	High
Hino	Dutro	Low
Foton	Auman	Nil
Ashok Leyland	Partner, Dost	High
Toyota	Hiace	Nil
Nissan	Vanette, Caravan	Nil

**Models account for 80% of the market*

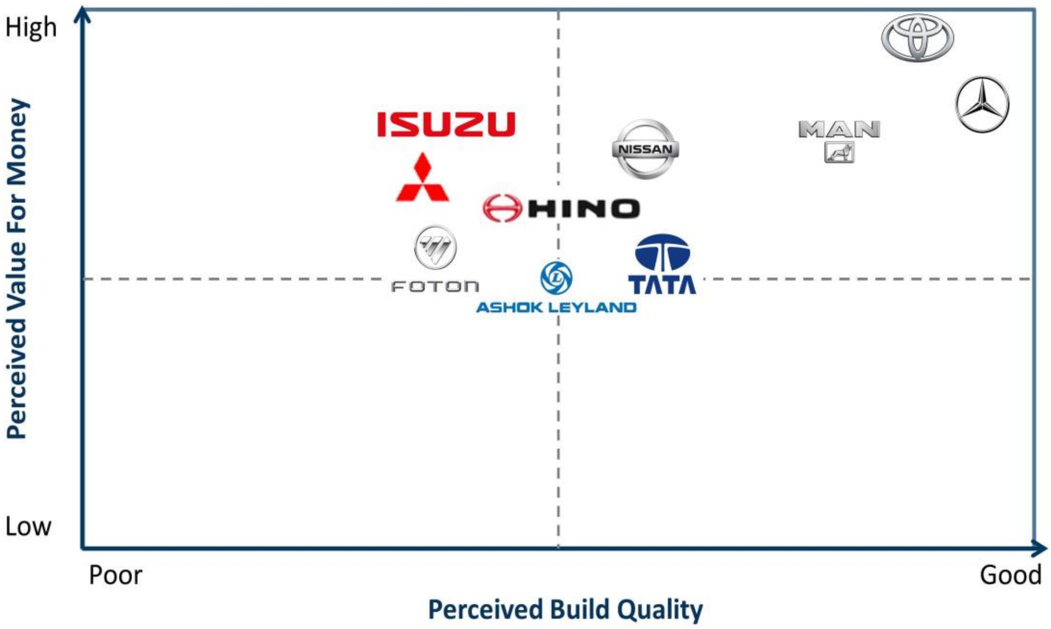
- Domestic manufacturing/assembly of commercial vehicles though limited, is slowly picking up
- Local manufacturing would save the 25% import duty, consequently bringing down the price of the product
- Public transportation within the cities is offered through mini buses, locally referred to as 'Matatu'
- The vehicles typically used as Matatus are Toyota Hiace, Nissan Vanettes, Nissan Caravans

Source: Frost & Sullivan

Total Commercial Vehicle Parc 2015: 220,000

Commercial Vehicle Segment Overview (continued)

European products are perceived to offer the best value for money



Source: Frost & Sullivan

Commercial Vehicle Segment Overview (continued)

Chinese brands are preferred for short haul applications and European brands are common in long haul heavy duty applications

- Foton is the most recent entrant with domestic assembly capability
- The LCV market is dominated by brands such as the Mitsubishi Canter, Isuzu, Hino and Foton
- The long haul tractor trailer market is dominated by brands like Mercedes Benz Actros, MAN and Scania
  - The preference for these brands for long haul applications is owing to the perceived rugged build quality of these vehicles, their reliability and driver comfort
  - Although these products are expensive, their operating economics allow for quick ROI and also have a healthy resale potential in the market
- Ashok Leyland is present in the LCV segment, while TATA motors is present in the MCV segment
- TATA Motors is a popular brand in the construction sector with its 2516 product widely used in tipper and concrete mixer applications
- Ashok Leyland has announced plans to setup a local assembly facility in Kenya

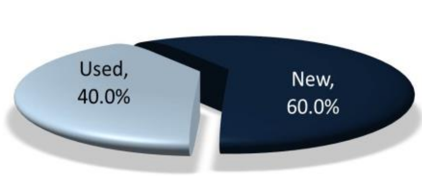
Source: Frost & Sullivan

Commercial Vehicle Segment Overview (continued)

New CV sales is strong in Kenya as compared to that for passenger vehicles

Nil Low Medium High

Total Commercial Vehicle Sales 2015: 22,400



Make	Top Models	Possible Similarity with Indian Models
Mercedes Benz	Actros 1844	Low
Mitsubishi Canter	FE84, FE85, FE71	Low
Isuzu	N- Series and F-Series	Nil
Beiben	2538	Nil

- The commercial vehicles segment sees stronger sales of new vehicles as compared to that in the passenger cars segment
- The sales of new vehicles is largely in the light and medium duty segments, and limited in the heavy duty segment
- Used HD trucks and tractors have a good resale value in Kenya, particularly the Mercedes and MAN trucks

Source: Frost & Sullivan

Commercial Vehicle Usage Conditions

Overloading is a common practice, particularly in the industrial and rural areas

Annual Usage Patterns

- The average annual distance covered is 73,000-91,000 kms for heavy duty trucks and around 58,400 kms for light and medium duty trucks
- Public transport commercial vehicles are driven rashly within the city limits
- Heavy goods vehicles ply on highways where speeds are steady for the most part, in the range of 60-80 kms per hour, and slower at key entry and exit points to cities

Driving Conditions

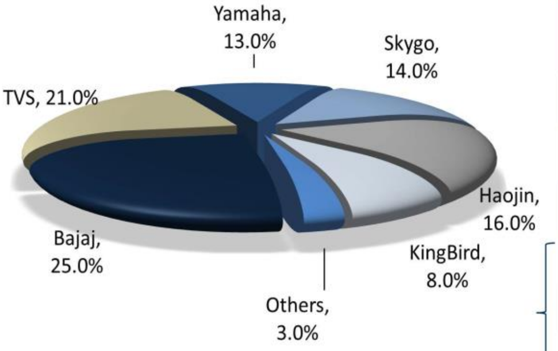
- Traffic congestion is a challenge in the cities
- Road conditions range from good to average within the city, but tend to deteriorate in the suburbs and outskirts of the city
- Overloading is a common practice in smaller cities and secondary freight corridors, with high overloading noted in rural areas
- The use of adulterated fuel is high in commercial vehicles

Source: Frost & Sullivan

2 Wheeler Market in Kenya

2 Wheelers Segment Overview

Chinese and Indian brands dominate the 2 wheeler market



Nil · Low · Medium · High

Make	Top Models*	Possible Similarity with Indian Models
Bajaj	BM100, BM150	High
TVS	Star City	High
Yamaha	Crux (India), AG 100	High
Skygo	125-3, 150-7	Medium
KingBird	KB150	Medium
Haojin	HU125-A, HU150-11A	Medium

Others includes, but is not limited to Kibo, Shineray, Hero

**Models account for 80% of the market*

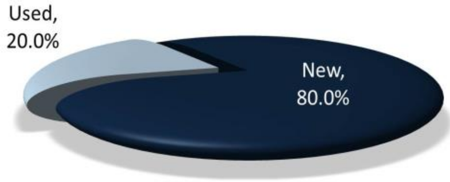
- Motorcycles in Kenya are used for both personal and public transport
- Referred to as a 'boda-boda', they are a key mode of public transport, and are considered far more efficient than cabs, particularly for commute within the city
- The most commonly used models for this application are the Skygo 125-3 and 150-7, Bajaj Boxer BM100 and BM150, and the TVS Star City
- The combination of rugged construction, reliability and affordability are the main attributes of these products that make them preferred vehicles for this application
- Other applications for motorcycles include transport of small, and, at times, heavy consignments of goods over short distances

Source: Frost & Sullivan

Total 2 Wheeler Parc 2015: 1,547,100

2 Wheelers Segment Overview (continued)

Indian two wheelers from Bajaj and TVS are well received, and preferred in the Kenyan market



- Unlike the passenger car and commercial vehicle segment, the 2 wheeler segment is dominated by new vehicle sales
- The high demand for new motorcycles in the market has attracted several manufacturers to setup assembly lines in the country, Hero being the most recent
- The import duty on full built motorcycles is 25% and it is 10% on kits used for local assembly
- Government introduced VAT on motorcycles in 2014 which resulted in a drop in sales owing to increased price
- However, the potential for boda-bodas in Kenya continues to maintain momentum in the segment
- There are certain pockets including Nairobi where Indian bikes are preferred for boda-boda

Source: Frost & Sullivan

Total 2 Wheeler Sales 2015: 164,000

2 Wheeler Usage Conditions

Rash riding and bad roads are common usage conditions for 2 wheelers

Annual Usage Patterns

- Boda-boda motorcycles are run for around 8-10 hours a day and cover an annually cover a distance of 25,500-33,000 kms
- Public Transport motorcycles are known to be rashly driven, and poorly maintained
- Motorcycles are also used for goods transport of small loads ranging from 80-100 kgs

Driving Conditions

- Motorcycles running within the city run on paved roads, however a majority of public transport motorcycles run on interior roads and in the suburbs and rural areas where road quality is average or poor
- Despite bad road conditions, rash driving is rampant
- Harsh acceleration and deceleration while weaving through heavy city traffic is common

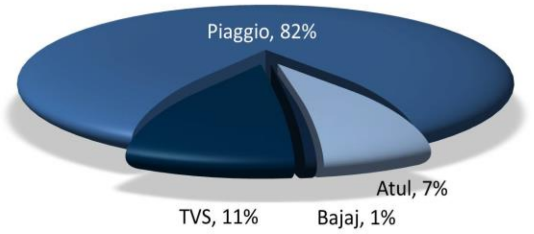
Source: Frost & Sullivan

3 Wheeler Market in Kenya

3 Wheeler Segment Overview

Kenya has imported around 10,000 auto rickshaws from India since 2012

Total 3 Wheeler Parc 2015: 11,000



Nil Low Medium High

Make	Top Models*	Possible Similarity with Indian Models
Bajaj	RE	High
TVS	King GS	High
Piaggio	City	High
Atul	Gem, Gemini	High

**Models account for 100% of the market*

- 3 wheelers in Kenya are common outside the main business districts of the country, and in the coastal markets
- Referred to locally as 'tuk tuks', they are a preferred mode of transport for passengers as they are cheaper than taxis, and also used for transportation of small consignments of goods as they are cheaper to rent than small trucks, have reasonable load bearing capabilities, and are ideal for travel on narrow roads
- Run primarily for public transport and commercial purposes, tuk tuk services are often in stiff competition with those of the cheaper alternative, the boda boda
- However, tuk tuks offer passengers relatively better safety and an all weather option of public transport as compared to the boda bodas

Source: Frost & Sullivan

3 Wheelers Segment Overview (continued)

The market for 3 wheelers in Kenya is a 100% new vehicle market

- All 3 wheelers are imports from India
- Piaggio is a leader in the 3 wheeler market owing to its perceived rugged construction and load bearing capacity
- These models are found best suited for the rough road infrastructure in the suburbs and for the prevalent overloading practices in the use of these vehicles
- Bajaj is considered a reliable brand in the market owing to product quality, a good service network and affordable parts

Total 3 Wheeler Sales 2015: 8,500

Source: Frost & Sullivan

3 Wheeler Usage Conditions

Rash riding, bad roads and overloading are common usage conditions in the sub-urbs and rural areas

Annual Usage Patterns

- Average distance covered annually ranges from 33,000-40,100 kms, which is largely within the city limits, i.e. suburbs
- Drivers are normally rash, over speed and brake hard
- Tuk tuks carrying goods are normally overloaded. Coupled with the general driving habits, the engine, suspension and transmissions of these vehicles are at risk of premature failure

Driving Conditions

- General operation of tuk tuks for passengers is well within city and suburb limits
- Good carriage in tuk tuks is very limited to within industrial and market areas
- Medium to high overloading is common for tuk tuks carrying that are carrying goods
- Tuk tuks servicing industries and markets run on poor quality roads and dusty environments

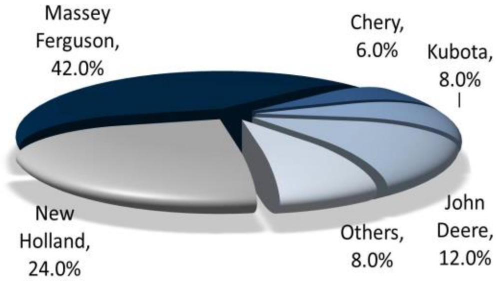
Source: Frost & Sullivan

Tractor Market in Kenya

Tractor Segment Overview

Kenya imports half of it's tractors from India

Total Tractor Parc 2015: 100,215



Nil Low Medium High

Make	Top Models*	Possible Similarity with Indian Models
New Holland	TT75, TT40	
Massey Ferguson	MF275, MF290, MF375	
John Deere	215, 9200	

Others includes, but is not limited to CAMCO, Yanmar, SAME

**Models account for 70% of the market*

- Kenya presents a limited, but growing market for tractors, which has led to the establishment of a tractor value chain the country including manufacturers, importers, service providers and independent repairers
- A key restraint on farm mechanization in Kenya is the small sizes of individual farms. These small sizes make the use of 4 wheeled tractors uneconomical
- The market is even weaker for 2 wheeled tractors, in the range of 280-300 units per year
- The tractor market stands at around 2100 tractors a year but faces the challenge of affordability of farmers, which is further complicated by 16% VAT levied on imported machinery

Source: Frost & Sullivan

Tractor Segment Overview (continued)

60% of the tractors sold in Kenya are new

Total Tractor Sales 2015: 10,500

Nil Low Medium High

Make	Top Models*	Possible Similarity with Indian Models
Massey Ferguson	MF290, MF260	
New Holland	TT75	

- The lack of financial aid for small farmers is one of the main deterrents of the agricultural tractor market in Kenya
- The market for used tractors account for 40% of the total market in Kenya
- Most new tractors are purchased by large commercial farms, government and private owned, engaged in sugarcane, rice, wheat/barley, tea and maize crop
- It is common for tractor dealerships to maintain long term relationships with customers of new tractors by offering after-sales service and spares support
- New tractors also come with warranty of at least a year or 1500 operating hours

Source: Frost & Sullivan

Tractor Usage Conditions

Tractors are majorly used for tillage operation with annual usage of 700-800 hrs, on field or local repair service are preferred due to remote working location

Annual Usage Patterns

- Annual use of tractors is around 800-900 hrs; during the seasons tractors run for 6-8 hrs a day
- Most tractor owners have limited driving skills and are able to safely maneuver tractors with implements in rural areas
- However, excessing use of clutch is among the bad habits of local tractor drivers
- Tractor overloading is very common which results most of the transmission, braking & front end lifting failures

Operating Conditions

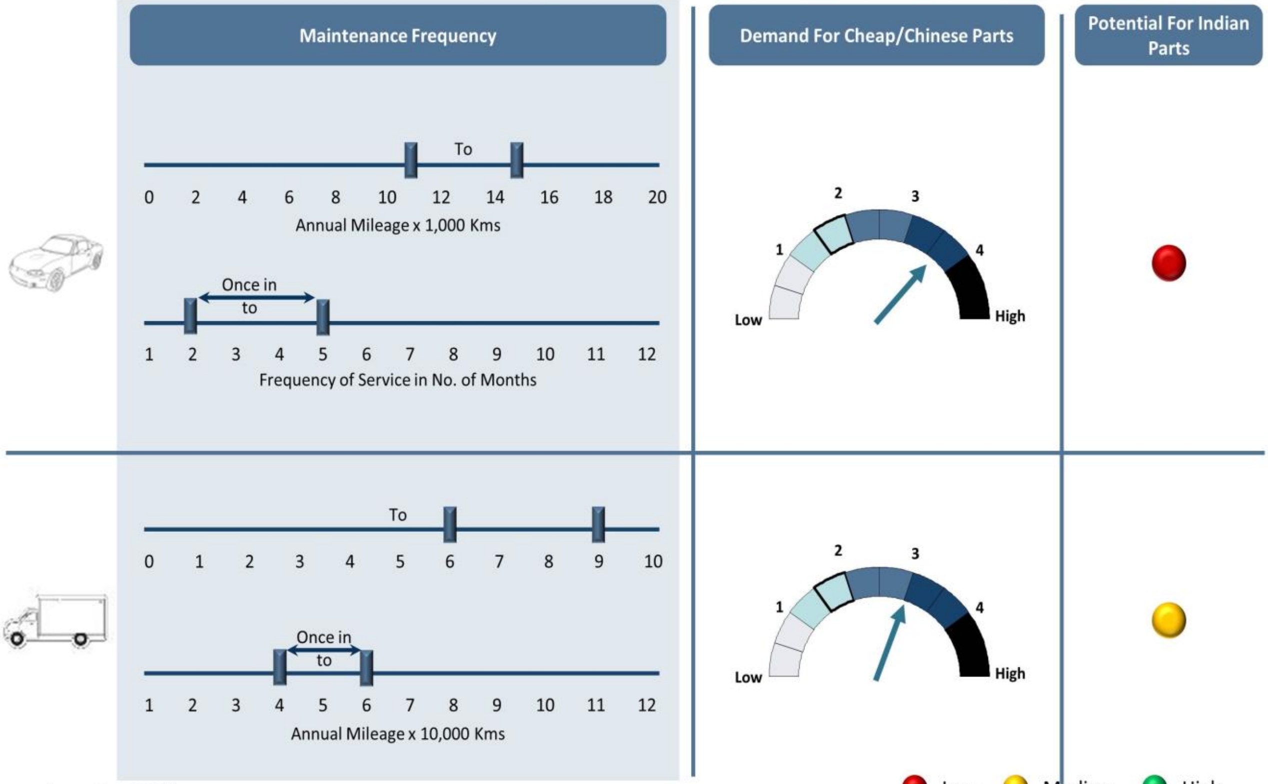
- Tractor are primarily used for tillage, planting, harvesting operation along with suitable implements
- Tractor are also used for non-agriculture application like haulage, loader & back hoe operation with modification
- Haulage tractors run largely in rural locations where road conditions are average or poor

Source: Frost & Sullivan

Maintenance and Parts Replacement Practices

Maintenance and Parts Replacement Practices

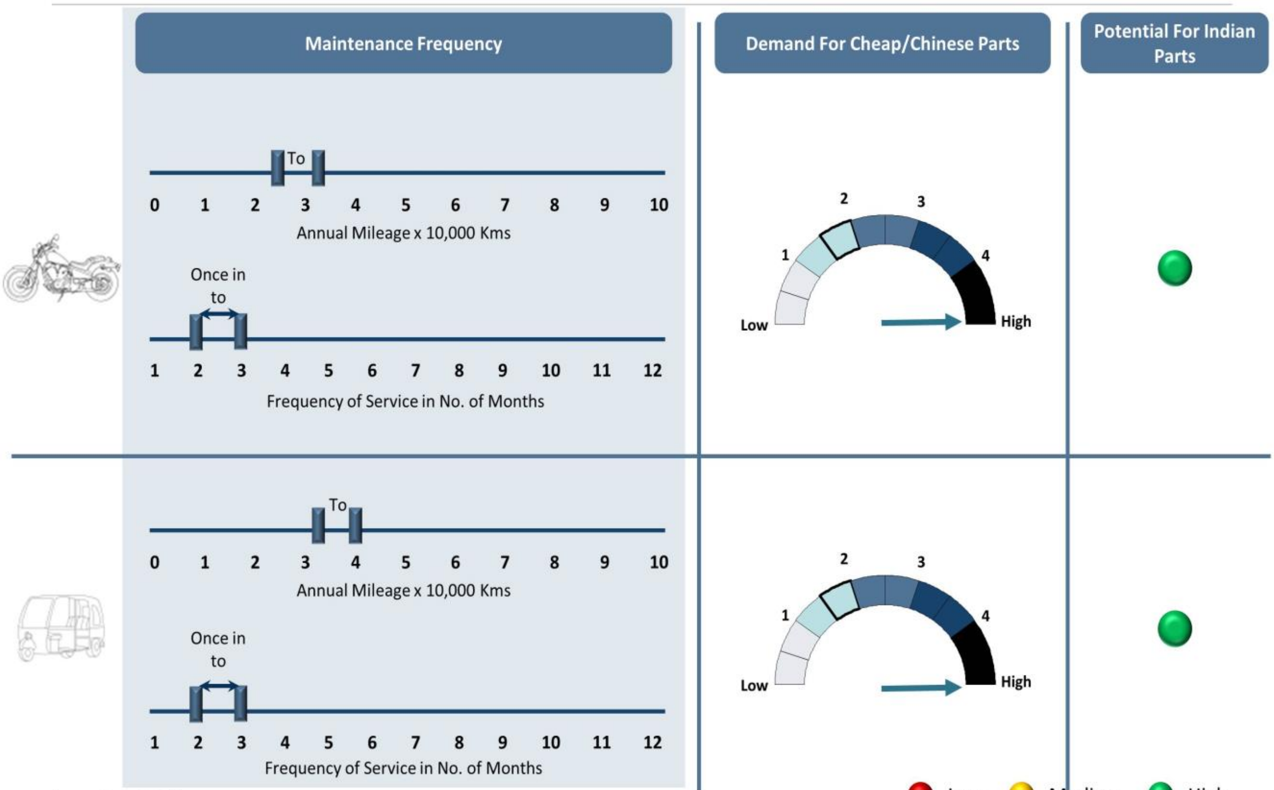
The potential for Indian parts in the CV segment comes from the presence of TATA and Ashok Leyland products in the market, and some product similarities in the Mitsubishi product range



Source: Frost & Sullivan

Maintenance and Parts Replacement Practices (continued)

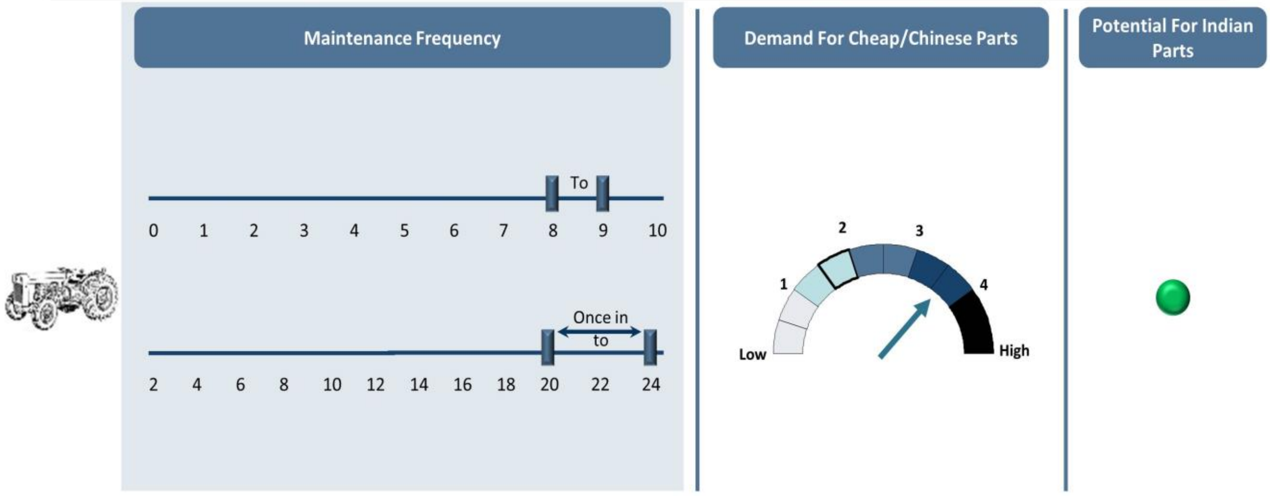
While the demand for cheap parts is high in both these segments, the potential for Indian parts is high given the dominance of Indian brands in both segments



Source: Frost & Sullivan

Maintenance and Parts Replacement Practices (continued)

The leading tractor models from Massey Ferguson and New Holland have similarities with the models exported from India



Source: Frost & Sullivan

Low Medium High

Passenger Vehicles

The average maintenance frequency for passenger cars is once in 2-5 months

Maintenance Frequency and Parts Replacement	• Owing to the dominance of used cars in the market, maintenance intervals are known to be short in Kenya • **Private passenger car owners are known to service their vehicles as often as once in 3-5 months, while taxis are serviced, on an average once in 2-3 months** • **The most consumed passenger car parts are consumables, suspension and braking components, such as brake pads, and, fuel, oil and air filters**
Choice of Brand for Auto Components	• Vehicles serviced in the organized independent channels are mostly fitted with good quality parts • **If parts required for repairs under an insurance claim are too expensive, insurance companies may recommend the use of cheap alternates for non-critical parts** • **Parts replaced by basic mechanics are usually cheap low quality parts, or those that offer the mechanic the best incentives**

Source: Frost & Sullivan

Passenger Vehicles (continued)

Half cuts and nose cuts of passenger cars are sometimes considered more viable repairs options than local body work and parts replacement

- A common practice for repairs of extensively damaged cars in Kenya is replacement of half cut or nose cut portions of cars
- These cuts, or individual pieces such as doors, bumpers, hoods, seats and spoilers can be ordered and imported from traders in Japan
- A good nose cuts of a car can come with the front quarter panels, bumper, hood, factory headlamp cluster and radiator in good working condition
- For cars whose parts are hard to source or where the repairs costs are too high, replacing cuts of vehicles is more viable

Source: Frost & Sullivan

Commercial Vehicles

IAM parts are mostly consumed for light and medium duty commercial vehicles

Maintenance Frequency and Parts Replacement	• **The average service interval for commercial vehicles in 4-6 months** • In the case of heavy duty trucks, the service interval is 6-8 months due to their mainly operating on highways • Overloading and fuel adulteration is common • This results in demand for suspension and braking components, filtration components, and some engine components
Choice of Brand for Auto Components	• Heavy duty vehicles are largely serviced at established garages where the parts used are usually genuine parts or reputed aftermarket alternates • **For light and medium duty commercial vehicles, servicing is carried out in independent garages and mostly IAM parts are used** • **European and Chinese parts have around 80% share in this segment**

Source: Frost & Sullivan

2 Wheelers

The wide use of cheap Chinese parts in 2 wheelers ensures high demand for parts in this segment

Maintenance Frequency and Parts Replacement	• Public transport motorcycle owners rarely send their vehicle for comprehensive service • **While maintenance intervals are irregular, in the first year of ownership they tend to get services once in 3 months, and sometimes once in 2 months**
Choice of Brand for Auto Components	• Affordability being a critical factor for a large section of the motorcycle owners, cheap parts have a high potential in this segment • **Chinese and Indian parts account for over 90% of the 2 wheeler parts business** • **The use of cheap Chinese parts results in shorter replacement cycles for these parts, and consequently higher demand** • **Excepting engine components, mechanics use Chinese parts on Indian motorcycles for replacement of suspension, braking and consumable parts**

Source: Frost & Sullivan

3 Wheelers

Indian components dominate the 3 wheeler components market

Maintenance Frequency and Parts Replacement	• After the first year of ownership, the maintenance frequency ranges from 'once in 6 months' to 'very rarely serviced' • The rough use of these vehicles necessitates regular visits to mechanics for minor repairs
Choice of Brand for Auto Components	• Affordability is a critical factor for a large section of the tuk tuk owners • **The general preference for parts after a year of ownership is inclined towards cheap parts** • **Indian auto components dominate the component market for 3 wheelers, however, retailers often send samples of parts to Chinese suppliers with the intent of buying cheaper Chinese alternates**

Source: Frost & Sullivan

Tractors

Counterfeit parts have a high share in the tractor components market

Maintenance Frequency and Parts Replacement	• 2 year/2,000 hour (whatever occurs first) is common warranty & free service period • Customer can avail Add-on warranty services on engine, transmission, hydraulic parts post free warranty period by paying annual subscription • **Parts & repair services are made available through dealer service network** • **Large scale farmers are known to ensure that parts are replaced as advised by service technicians, however, smaller tractor owners tend to postpone parts replacement as much as possible**
Choice of Brand for Auto Components	• Share of duplicate parts in post warranty tractors is high due to them being cheaper cost that original parts • **Chinese & other Asian brands are preferred due to easy availability of parts in local market**

Source: Frost & Sullivan

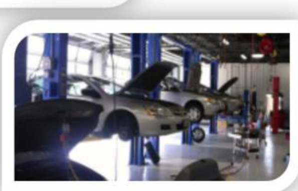
Vehicle Servicing Infrastructure

Vehicle Servicing Infrastructure

Organized independent garages are preferred service channels in Kenya

%

OEM Authorized Service Centers	Organized Independent Garages	Small Mechanics
20%	60%	20%



Source: Frost & Sullivan

Note: Estimated share of Vehicles Services at these facilities

OEM Authorized Service Centers

These service centers are primarily used for new vehicles and high end used vehicles

Vehicles Serviced

- **60-65% of customers are used vehicles owners**
- **35-40% are new vehicles owners**
- This share of new vehicles is mostly premium segment vehicles

Parts Supply and Use

- **Exclusively OEM genuine parts**
- Parts are imported through established OEM channels
- **Hold high levels of inventory** and some times sell to the local trade

Customer Service

- High customer satisfaction through structured customer service practices
- **Customer retention is higher for new vehicle owners as compared to that for used vehicle owners**

Service Cost

- **Parts and labour charges are highest among all the service channels**

Source: Frost & Sullivan

Organized Independent Garages

Their preference toward good quality parts makes this a key channel to target for sale of aftermarket auto parts

Vehicles Serviced

- Multi brand service outlets
- Some garages have contracts with large fleet owners
- **Separate facilities for passenger and commercial vehicles**
- **Fully equipped to undertake mechanical and body repairs, including painting**
- **Large scale independent garages work with insurance companies on claim related repairs**

Parts Supply and Use

- **Mix of OEM genuine parts, aftermarket branded, and high quality Chinese parts**
- Parts a sourced from local importers, however, in some cases directly imported from manufacturers
- **Some garages hold inventory of fast moving parts**

Customer Service

- Large independent facilities have **dedicated customer service teams to follow-up on customers for service feedback and ensure customer retention**

Service Cost

- **Overall service costs are lower than those at OEM authorized by 15-20%**

Source: Frost & Sullivan

Small Mechanics

The choice of parts is significantly inclined toward the cheapest options in the market

Vehicles Serviced

- **Offer quick services that require very basic tooling**
- **Capable of minor repairs on all brands of vehicles**
- Service mostly non-premium segment vehicles
- Rarely capable of offering body work services

Parts Supply and Use

- **Parts are procured as needed from local retailers**
- Parts consumed at these service points are mostly cheap consumables
- **Mechanics buy parts of brands that offer the best incentives**
- **No inventory holding in this service channel**

Customer Service

- Not a high priority
- **Less likely to have repeat customers as compared to other service channels**

Service Cost

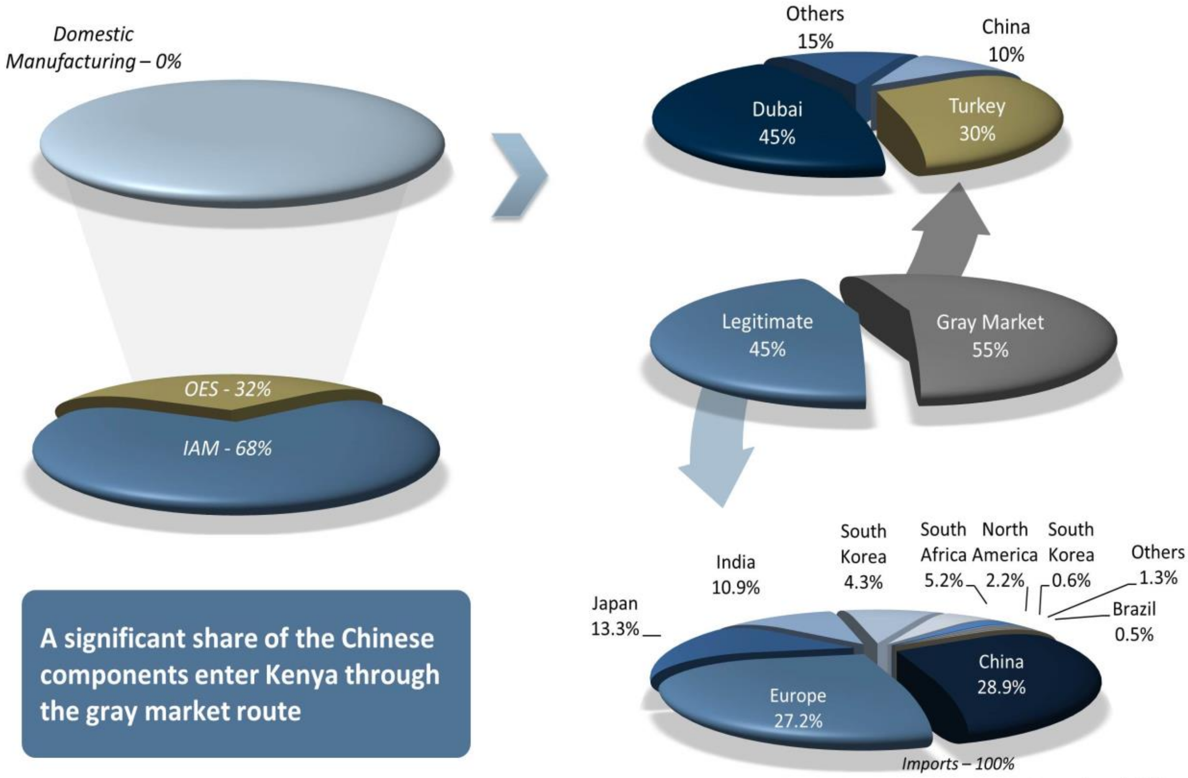
- **Service costs at these garages are around 25-30% lower than OEM authorized service channels**

Source: Frost & Sullivan

Auto Components Market

Auto Component Market Summary

Chinese auto components account for over a third of the IAM in Kenya



A significant share of the Chinese components enter Kenya through the gray market route

Source: Frost & Sullivan

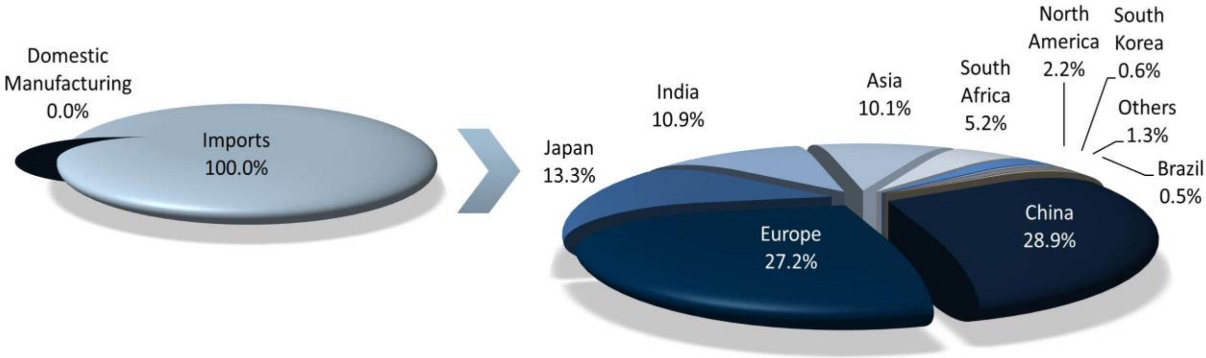
Main Auto Components Brands in the Kenyan Market

Koyo, NACHi, SACHS, febi bilstein, NSK, MUSASHi, BOSCH, SAMPA, LUK, TAIHO, TIMKEN, TEXTAR, MAHLE, dt, AISIN, TRW, TOKICO, GMB

Source: Frost & Sullivan

Auto Components Imports

Chinese parts have a significant presence in the aftermarket across vehicle segments



- Europe and China alone account for over 55% of the total documented imports to Kenya
- It is estimated that at least 35-40% of auto components in each category, (i.e. engine, drive transmission and steering, suspension and braking, electrical, consumables, rubber components and cooling systems) is imported from China
- Imports from Europe are most from the United Kingdom and Germany, and to a small extent, from France. These imports are mostly engine and, drive, transmission and steering components
- The main imports from Europe are engine components, drive, transmission and steering components

Source: Frost & Sullivan

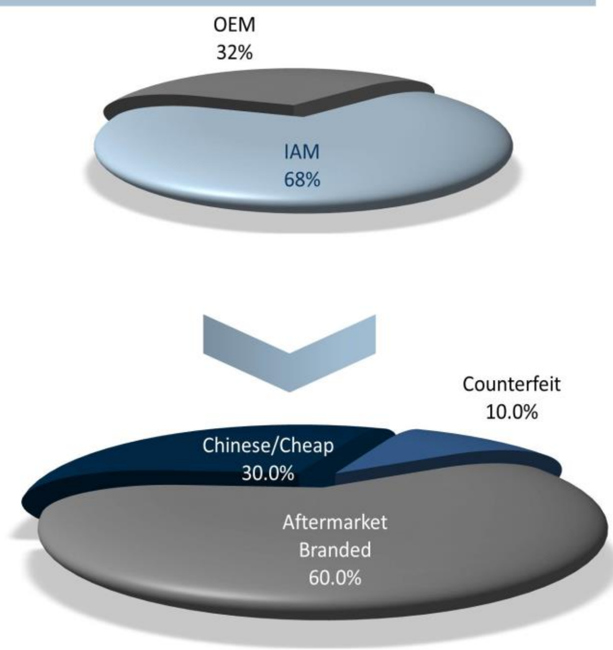
Others includes imports from other African countries, other Latin American Countries

Auto Components Market Overview

Chinese components have product options ranging from cheap and low quality to expensive and high quality

Key OEM Genuine Parts Sold in Mexico

Share of OEM Vs Independent Aftermarket



- Counterfeit parts account for 10% of the total IAM, notably in the passenger cars and tractor components segment
- The demand for genuine and branded parts is relatively higher for the commercial vehicle segment
- Chinese components are known to have a spectrum of options that ranges from low quality and cheap, to high quality and, as expensive as branded aftermarket parts

Source: Frost & Sullivan

Share of the Gray Market

The gray market is estimated at 55% of the total auto components aftermarket in Kenya

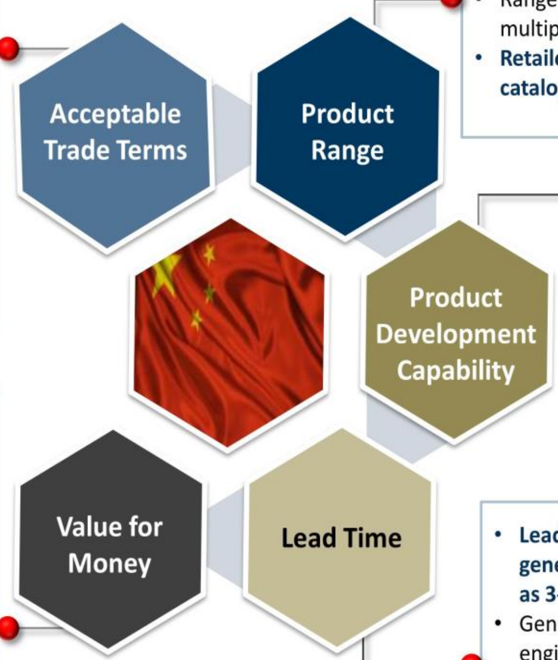
Share of Auto Components Gray Market, Kenya	Share of Gray Market Parts by Import Origin

- The gray market in Kenya is estimated to account for around 55% of the total auto components market
- Gray market parts are largely imported from Dubai, Turkey and China; also some from Malaysia and Singapore
- **Some gray market imports from China are stuffed inside tyres in container load consignments**
- **Importers at times pay a lower tax than they are liable to, by paying duty according to the weight of the consignment as against according to the value of the consignment**
- It is estimated that around 40% of the total gray market components in Kenya enter by air freight through Eldoret, a hinterland city close to the Kenya-Uganda border
- Rubber and electrical components account for the major share of the gray market imports, however, engine components are also found imported through this channel

Source: Frost & Sullivan

Chinese Auto Components in Kenya

Faster product development capability of Chinese manufacturers is a significant advantage over competing manufacturers from other countries



Acceptable Trade Terms

- Importers have very little negative feedback in terms of business and commercial practices
- Chinese suppliers accept small MOQs
- Agreeable payment terms, and flexible to negotiate
- **Common payment terms are 30% on order placement and 70% on receipt of shipment**

Product Range

- Range of products that is suitable for multiple models currently in the market
- **Retailers are given comprehensive e-catalogues**

Product Development Capability

- **Reverse engineering capability for a new product based on a sample sent from foreign market**
- Manufacturers produce samples and are open to manufacturing small batches to test the product in the destination market

Value for Money

- Chinese manufacturers can offer product options ranging from cheap with low quality, to, expensive with OEM quality
- Retailers opine that with Chinese auto components **'one gets what one pays for'**

Lead Time

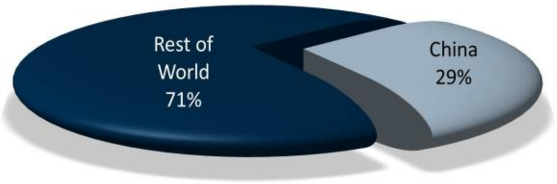
- **Lead time from receipt of a sample to generation of first drawings – as short as 3-4 days**
- Generally, first batches of newly engineered products are shipped within 8 weeks

Source: Frost & Sullivan

Impact of Chinese Auto Components

The key advantage of Chinese manufacturers lies in their extensive product range, i.e., a range of quality grades at a range of prices, and catering to a range of vehicle models

Share of Chinese Components in Total Imports



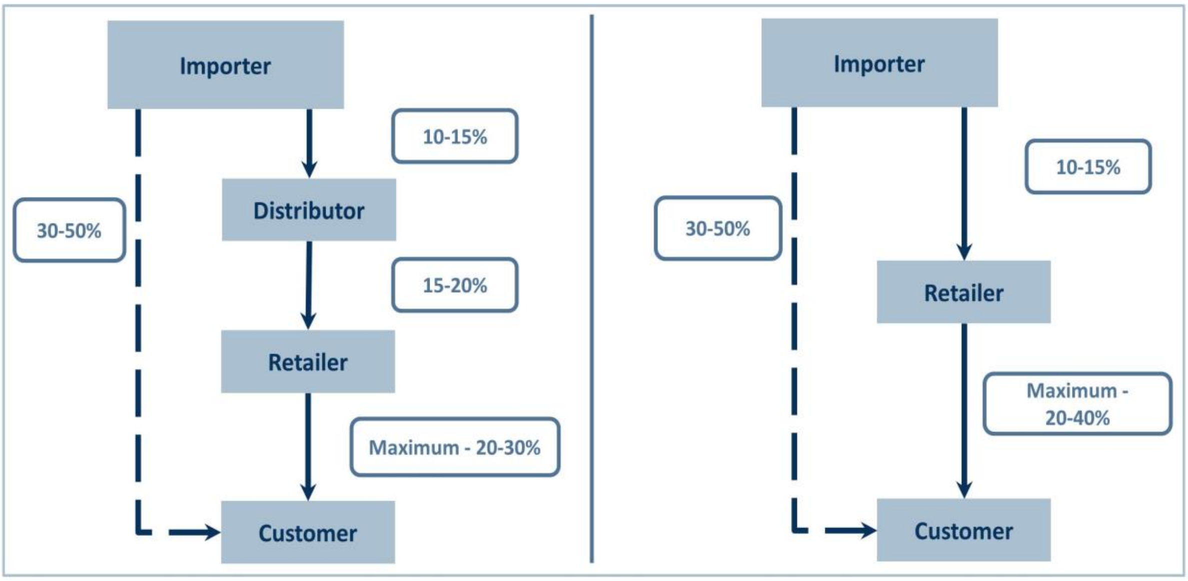
- Chinese components are perceived to be ***Value for Money, i.e. low price for low quality, high price for OEM quality***
- Manufacturers have short lead times for product development
- Chinese manufacturers have covered a wide range of vehicle models across segments
- Chinese parts are less preferred for critical components such as engine and transmission components

- China and Kenya do not currently share any free trade agreements
- ***The estimated share of import of auto components from China is around 29%***
- ***Significant import from China comes through the gray market route***
- ***A large share of the gray imports from Dubai is also accounted for by components manufactured in China***
- Consequently, there are multiple Chinese alternatives of varying quality grades and prices for most auto components, the cheapest being around 30-35% of the price of the OEM genuine part

Source: Frost & Sullivan

Auto Components Distribution and Margin Structures

Traders opine that total margins on a part can reach over 100%



- Most importers in Kenya sell to the trade and also to direct customers
- In the independent aftermarket, very rarely are parts replaced under warranty
- Importers get a 1-2% warranty discount from their suppliers to cover the costs of potential replacement of a few products in the local market

Source: Frost & Sullivan

Duty Structure for Import of Auto Components and Impact on Indian Exporters

Duty Structure for Import of Motor Vehicles

Kenya imports roughly 7000 cars per month

Duties and Taxes Payable on Import of a Motor Vehicles	
Details	**Description**
Import Duty @ 25.00%	Import duty payable to KRA
Excise Duty	Excise duty payable to KRA
VAT @ 16.00%	VAT payable to KRA
IDF @ 2.25%	Input Declaration Fees payable to KRA
Railway Development Levy @ 1.50%	Railway Development Levy payable to KRA
Customs Value	The Customs declared value for this vehicle

Auto parts that are imported for locally assembly of motor vehicles are exempt from the 25% import duty

Source: KRA - Customs Services Department, Frost & Sullivan

KRA – Kenya Revenue Authority

Duty Structure for Import of Auto Components

Duties and Taxes Payable on Import of a Motor Vehicles			
HS Code	**Description**	**Unit of Quantity**	**Rates**
8409.91.00	Suitable for use solely or principally with spark-ignition internal combustion piston engines	kg	10%
8483.10.00	Transmission shafts (including cam shafts and crank shafts) and cranks	Units	10%
8483.20.00	Bearing housings, incorporating ball or roller bearings	Units	10%
8483.30.00	Bearing housings, not incorporating ball or roller bearings; plain shaft bearings	kg	10%
8483.40.00	Gears and gearing, other than toothed wheels, chain sprockets and other transmission elements presented separately; ball or roller screws; gear boxes and other speed changers, including torque converters	Units	10%
8483.50.00	Flywheels and pulleys, including pulley blocks	Units	10%
8483.60.00	Clutches and shaft couplings (including universal joints)	Units	10%
8483.90.00	Toothed wheels, chain sprockets and other transmission elements presented separately; parts	kg	10%

Source: KRA - Customs Services Department, Frost & Sullivan

Duty Structure for Import of Auto Components (continued)

Duties and Taxes Payable on Import of a Motor Vehicles			
HS Code	Description	Unit of Quantity	Rates
8708.10.00	Bumpers and parts thereof	kg	10%
Other parts and accessories of bodies (including cabs)			
8708.21.00	Safety seat belts	kg	10%
8708.29.00	Other	kg	10%
Brakes and servo-brakes and parts thereof			
8708.31.00	Mounted brake linings	kg	10%
8708.39.00	Others	kg	10%
8708.40.00	Gear boxes	kg	10%
8708.50.00	Drive-axles with differential, whether or not provided with other transmission components	kg	10%
8708.60.00	Non-driving axles and parts thereof	kg	10%
8708.70.00	Road wheels and parts and accessories thereof	kg	10%
8708.80.00	Suspension shock-absorbers	kg	10%

Source: KRA - Customs Services Department, Frost & Sullivan

Duty Structure for Import of Auto Components (continued)

Duties and Taxes Payable on Import of a Motor Vehicles			
HS Code	Description	Unit of Quantity	Rates
Other Parts and Accessories			
8708.91.00	Radiators	kg	10%
8708.92.00	Silencers and exhaust pipes	kg	10%
8708.93.00	Clutches and parts thereof	kg	10%
8708.94.00	Steering wheels, steering columns and steering boxes	kg	10%
8708.99.00	Other	kg	10%
8714.11.00	Saddles	kg	10%
8714.19.00	Other	kg	10%
8714.20.00	Of carriages for disabled persons	kg	10%
Other			
8714.91.00	Frames and forks, and parts thereof	kg	10%
8714.92.00	Wheel rims and spokes	kg	10%
8714.93.00	Hubs, other than coaster braking hubs and hub brakes, and freewheel sprocket-wheels	kg	10%
8714.94.00	Brakes, including coaster braking hubs and hub brakes, and parts thereof	kg	10%

Source: KRA - Customs Services Department, Frost & Sullivan

Duty Structure for Import of Auto Components (continued)

Duties and Taxes Payable on Import of a Motor Vehicles			
HS Code	**Description**	**Unit of Quantity**	**Rates**
8714.95.00	Saddles	Units	10%
8714.96.00	Pedals and crank-gear, and parts thereof	kg	10%
8714.99.00	Other	kg	10%

Impact on Indian Auto Component Manufacturers

- **India has no current preferential or free trade agreements with Kenya**
- Consequently, all vehicle and auto component exports to Kenya from India are taxed as per the tariff
- Import duty for components is 10% and that for vehicles is 25%

Source: KRA - Customs Services Department, Frost & Sullivan

Market Insights Importers-Distributors, Retailer and Mechanics

Sample Covered for Field Work in Kenya

Frost & Sullivan has interacted with 50 respondents in Kenya

Respondent Category	Quantity
Importer/Distributor	20
Retailers	17
Garage	15
OE Supplier	1

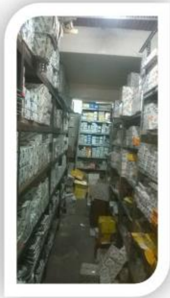
Frost & Sullivan also interacted with 3 top auto components distributors in Dubai

Source: Frost & Sullivan

Importers-Distributors

Importer-Distributor - Overview

Importers and distributors sell to trade and directly to customers in Kenya

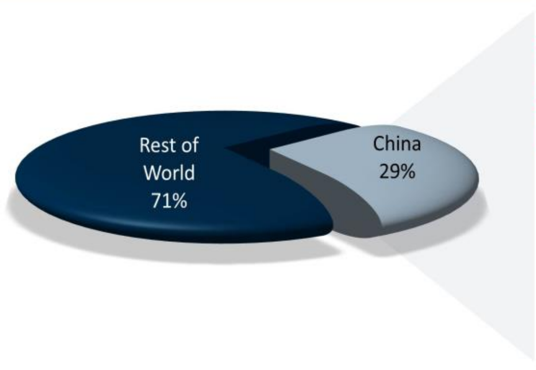
- Most auto components importers in Kenya sell to the trade and retail to customers
- While importers rely heavily on traders in Dubai for their stock, some importers deal directly with auto component manufacturers in countries like China, India and Germany
- Average inventory levels reports by distributors range between 2 and 3 months, however, some distributors report holding stock for 8 months to a year
- Credit periods with suppliers range from 30 to 90 days
- For manufacturing of new products, importers who deal directly with manufacturers in China pay 30-40% at the time of placing the order and the remaining at the time of receipt of goods
- The challenges reported by importers include long lead time, delays in customs clearance and at time, arrival of wrong products and/or damaged products

Source: Frost & Sullivan

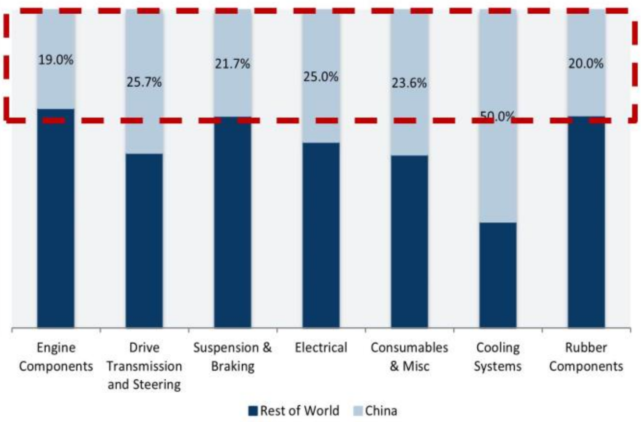
Importer-Distributors' Sourcing from China

Low quality perception of Chinese components restrains their potential in some component categories

Share of Importer-Distributor Sourcing from China



Share of Chinese Imports by Component Category



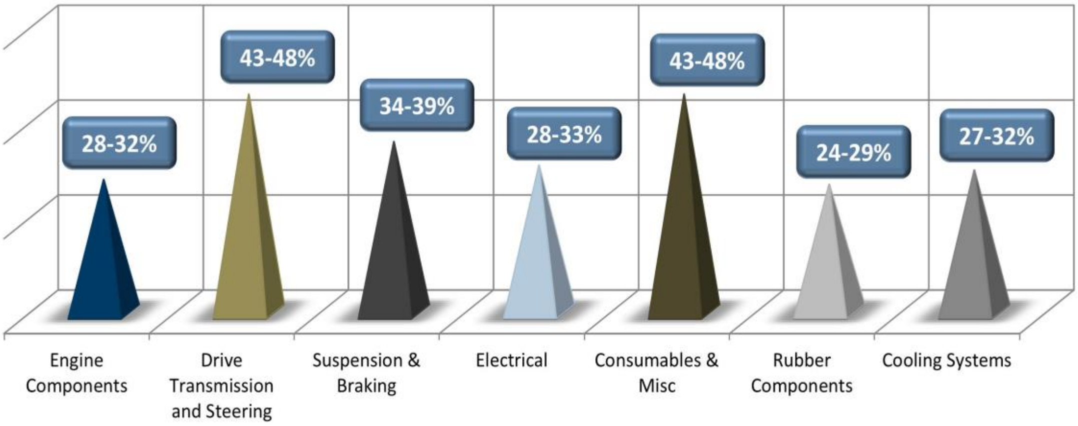
- The relatively low import of Chinese components in the suspension and braking category, and in the high potential consumables and rubber components categories present a direct advantage to potential suppliers from India
- This low import of Chinese engine parts is also indicative of a perception of the low reliability of these parts, and consequently an apprehension to use them

Source: Frost & Sullivan

Importer-Distributor Margins

Importer-distributor margins can be as high as 40% on some parts

Importer-Distributor Margins on Auto Components



- The absence of price regulation (MRP) allows traders to vary prices based on current market conditions, allowing for healthy margins
- Distributors claim an average margin of over 34% on sale to customers, and upto 20% on sale to the trade
- Despite Chinese components being the cheaper options in the market, they offer the highest margins

Source: Frost & Sullivan

Willingness to Selling Indian Brands

Indian brands are considered to be higher quality than Chinese options, and more sellable in the market

Low/Poor Medium/Average High/Good

Importer/Distributors and Indian Brands	
Previous Experience(s) Dealing with Indian Suppliers	Medium/Average
Awareness of Specific Indian Brands	Low/Poor
Perception of Quality of Indian Brands	High/Good
Perception of Product Development Capability of Indian Manufacturers	Low/Poor
Willingness to Trade with Indian Suppliers	High/Good

- Some importer/distributors report poor past experiences in dealing with Indian suppliers
- Substandard quality of packaging, long turn around times, receipt of incorrect products are some of the issues faced in previous transactions
- Indian components are considered to be of good quality and can compete with mid grade Chinese products
- Despite the limited product range and the perceived slower product development capability of Indian suppliers, distributors are open to, and willing to doing business with Indian manufacturers

Source: Frost & Sullivan

Distributor Profiles - I

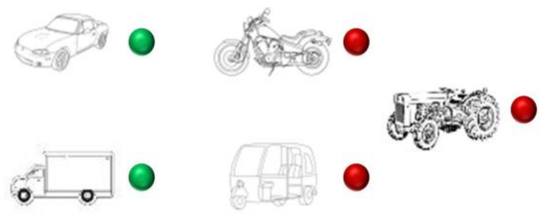
Impala Auto Spares is one of the oldest and leading Auto Components Distributors in Kenya

Impala Auto Spares Ltd

Company Name	Impala Auto Spares	**Contact Person**	Mohamed
No. of Year in the Business	40	**Designation**	Logistics Manager
Contact Number	00254 722 633128	**Email Address**	impalaauto@wananchi.com

Head Office: Dunga Road, Industrial Area, Nairobi	**No of branches: 3**	**Business Assets**
		Storage Space: 28,000 sq. ft.

Segments Covered



- Clutch assembly
- Brake pads
- Brake shoes
- Shock absorbers
- Wiper Blades
- Filtration (Air, Oil and Fuel)

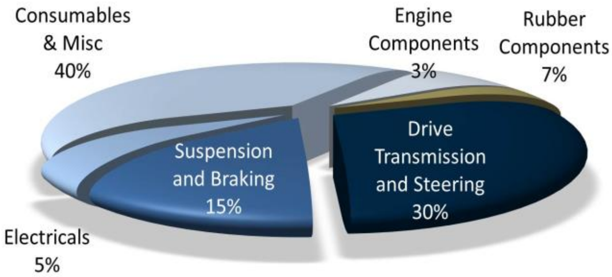
Source: Frost & Sullivan

Distributor Profiles – I (continued)

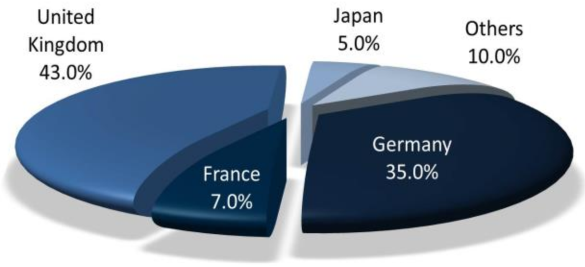
Impala Auto Spares deals in OEM genuine parts and branded aftermarket parts mostly imported from Europe

Impala Auto Spares Ltd

Share of Different Component Categories Sold by the Distributor



Share of Imports by Country of Origin



Top Models Catered To

Make	Models
Land Rover	Defender
Mercedes Benz	C200
VW	Golf, Polo
Peugeot	206, 207, 306, 307, 406

Chinese Brands in the Distributor's Business

Distributor for Chinese Brands	No
Share of Chinese Brands in Total Business	N/A

Source: Frost & Sullivan

Distributor Profiles – I (continued)

Interested in understanding the product development capabilities and product range of interested suppliers from Indian suppliers

Impala Auto Spares Ltd

Interest in Dealing Indian Parts

The distributor is interested to understand the capabilities of Indian Component Manufacturers in terms of product portfolio and product development capability

Categories of Interest

- Drive, Transmission and Steering
- Suspension & Braking
- Consumables

Top Indian Auto Component Brands Recalled by the Distributor

None

"We have an Indian supplier that custom manufacturers shocks for us. We sell these shocks under our own brand called Euro Parts"

- GM, Impala Auto Spares

Distributor Expectations from Indian Suppliers

- **Price –** Slightly higher than Chinese components, but cheaper than Japanese components
- **Quality –** Maintain current standards
- **Product Range –** Better product range is a must
- **Marketing –** Aggressive marketing to create product and brand awareness
- **Terms of Trade –** Match existing terms

Source: Frost & Sullivan

Distributor Profiles - II

Global auto parts deals in OEM genuine passenger and commercial vehicle parts, and branded aftermarket parts

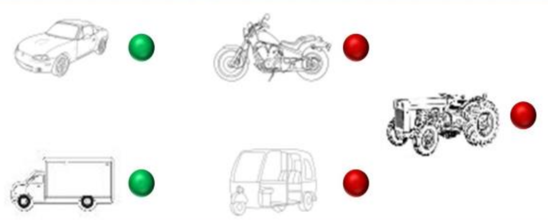
GLOBAL AUTOMOTIVE

Company Name	Global Automotive Parts Ltd	**Contact Person**	Collins
No. of Year in the Business	20	**Designation**	Sales Manager
Contact Number	00254 773 445566	**Email Address**	info@globalauto.co.ke

Head Office: Lusaka Road, Nairobi | **No of branches: 1** | **Business Assets**

Storage Space:

Segments Covered



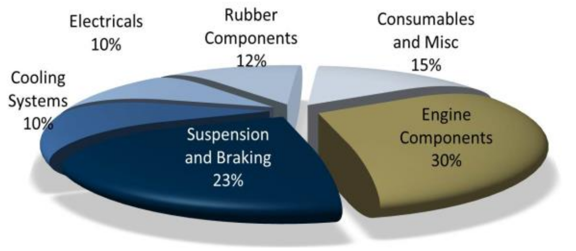
- Wiper Blades
- Filtration (Air, Oil and Fuel)
- Pistons
- Piston Rings
- Valves
- Cylinder Head Gasket

Source: Frost & Sullivan

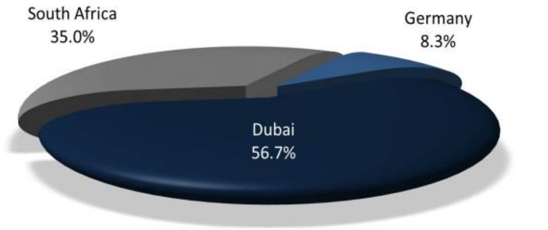
Distributor Profiles – II (continued)

Chinese components account for around 35-40% of the distributors business; the highest share being from suspension and braking components, and, consumables

Share of Different Component Categories Sold by the Distributor



Share of Imports by Country of Origin



Top Models Catered To

Make	Models
Toyota	Corolla, Rav 4, Yaris, Premio, Hi-ace
Nissan	Altima, Wingroad, X-Trail, Caravan, Vanette
Subaru	Forester, Outback, Legacy
Mitsubishi	Outlander, Pajero

Chinese Brands in the Distributor's Business

Distributor for Chinese Brands	Yes
Share of Chinese Brands in Total Business	35-40%

Source: Frost & Sullivan

Distributor Profiles – II (continued)

Indian components are of good quality, and if they can match Chinese prices, they can be sold easily in Kenya

Interest in Dealing Indian Parts

- Indian auto components are perceived as better than Chinese auto components
- They can be easily sold if prices are competitive, and quality is better than that of Chinese parts

Top Indian Auto Component Brands Recalled by the Distributor

None

This distributor currently does not sell Indian Auto Components

Distributor Expectations from Indian Suppliers

- **Price –** Match the prices of Chinese components
- **Quality –** Must be better than mid grade Chinese products
- **Product Range –** Wide product variety is a must
- **Marketing –** Extensive campaigns to raise awareness of the brand and the products
- **Terms of Trade –** Small MOQs
- **Lead Time –** Less than 30-35 days

Source: Frost & Sullivan

Retailer - Overview

While some distributors deal exclusively in high quality components, most retailers deal in components of all quality grades and price ranges

Auto Component Retailers in Kenya	
Average Stock Held	2 weeks to 3 months
Retailer Margins	20-40%
Credit Facility to Mechanics	Yes, for familiar mechanics

- Most retailers deal in components of all quality grades and price ranges unlike some distributors who deal exclusively in high quality components sourced from European, Japanese and Korean manufacturers
- Retailers that import parts prefer to source components from Dubai because they have the flexibility of buying small quantities of a wide variety of parts
- A key advantage of sourcing from Dubai is being able to source a cheap and expensive parts, and, genuine and counterfeit products from a single location
- Inventory holding by retailers generally ranges from 2 weeks to 3 months
- Retailers opine that it is increasingly difficult to get parts for older cars and retailers that stock these parts are making significantly high margins on these parts
- Mechanics being key influencers in the choice of auto component used in a vehicle, retailers incentivize mechanics to push products that offer better margins
- No warranty for consumable items, other parts have warranty and are replaced if claimed

Source: Frost & Sullivan

Fast Moving Auto Components - Retailer Perspective

Harsh driving behaviour, road quality and overloading practices drive demand for suspension and braking components making it an attractive segment

Component Category	Fast Moving Components
Engine Components	Pistons Piston Rings Cylinder Liners Cylinder Head Gaskets Engine Bearing Engine Valves Crank shaft Connecting Rods Cylinder heads
Drive Transmission & Steering	Clutch Assembly Clutch Plate Ball Suspension Joints
Suspension & Braking	Brake Pads Brake Shoe Master Cylinder Kit Shock Absorbers

Source: Frost & Sullivan

Distributor Profiles – III (continued)

Commercial vehicle components from India such as engine components, drive, transmission and steering components are not of the best quality

Interest in Dealing Indian Parts

- The distributor currently sources small share of all component categories from India
- Only a small share of critical components such as engine, drive, transmission, steering and suspension components is sourced from India as there are quality concerns

Top Indian Auto Component Brands Recalled by the Distributor

AVTEC

This distributor currently sells auto components sourced from India

Distributor Expectations from Indian Suppliers

- **Price –** Match the prices of Chinese components
- **Quality –** Quality is average, and must be improved
- **Product Range –** Must be expanded
- **Terms of Trade –** Credit period of around 90 days will be favorable
- **Lead Time –** Less than 30-35 days

Source: Frost & Sullivan

Retailers

Distributor Profiles - III

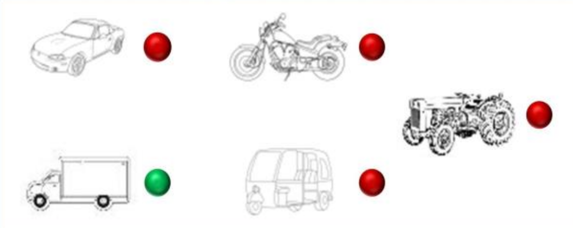
Abdulghani Ibrahim is a leading distributor for commercial vehicle parts in Mombasa

Company Name	Abdulghani Ibrahim	**Contact Person**	Odran Kera
No. of Year in the Business	31	**Designation**	Sales Supervisor
Contact Number	00254 412316820 / 2224144	**Email Address**	info@abdulghaniibrahim.com

Head Office: Next To Royal Court Hotel, Opposite Fairdeal Hardware, Mombasa CBD, Haile Selassie Rd, Mombasa, Kenya

No of branches: 1

Segments Covered



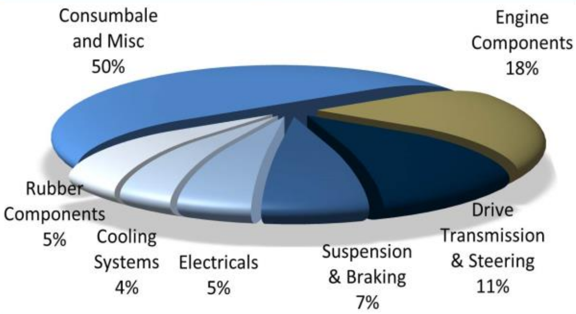
- Wiper Blades
- Filtration (Air, Oil and Fuel)
- Brake pads
- Brake shoes
- Shock absorbers
- Clutch plate
- Clutch assembly

Source: Frost & Sullivan

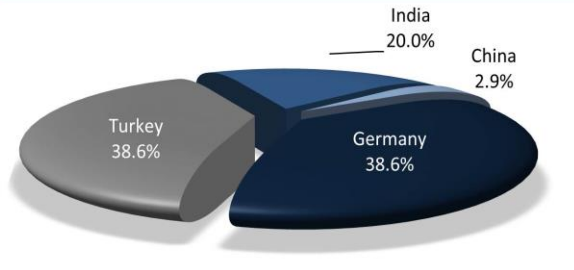
Distributor Profiles – III (continued)

Abdulghani Imbrahim deals mostly in aftermarket branded parts

Share of Different Component Categories Sold by the Distributor



Share of Imports by Country of Origin



Top Models Catered To

Make	Models
Mercedes Benz	Actros Range, Axor
Renault	Altima, Wingroad, X-Trail, Caravan, Vanette
Beiben	2538
FAW	CA1044 Tiger V

Chinese Brands in the Distributor's Business

Distributor for Chinese Brands	Yes
Share of Chinese Brands in Total Business	3%

Source: Frost & Sullivan

Fast Moving Auto Components - Retailer Perspective

Dusty conditions in the suburbs and rural areas, and contaminated fuel contribute to the demand for consumables; light assemblies are often replaced because of fading or damage in accidents

Component Category	Fast Moving Components
Electricals	Starter Alternator Head lamp Assembly Tail Lamp assembly
Consumables & Misc	Air Filter Fuel Filter Oil Filter Wheel Bearing Wiper Blades
Rubber Components	Hoses Oil Seals Strut Mountings
Cooling Systems	Water Pump Oil Pump

Source: Frost & Sullivan

Chinese vs. Indian Parts – Retailer Perspective

Indian Manufacturers lose out because they do not have products readily available for the market

Indian Components

- **Awareness of Indian auto component brands is weak**
- Promotion of Indian brands with giveaways is important to improve brand recall
- **The product finishing and packaging are key pain points**
- **Indian manufacturers lack the product range** needed to tap the potential of the market
- **Local representation is key to understand the evolution of vehicle parc** and understand which models to target
- **Toyota and Nissan PV and CV models are good starting points to effectively tap the market**

Chinese Components

- **Chinese components have been in the market for many years and have better heritage and knowledge of the market than Indian manufacturers**
- **Having products of various quality grades and prices has aided their survival in the market**
- On average Chinese prices are around 60% lower than genuine OE parts
- Over time, **Chinese manufacturers have expanded their product range and product development capability;** a significant advantage in today's market

Source: Frost & Sullivan

Garages & Mechanics

Chinese vs. Indian Parts – Garages and Mechanics Perspective

Garages will use Chinese components in circumstances where the overall repair cost is too high, or a customer specifically requests for cheap parts

Indian Components

- **Awareness of Indian auto component brands is very weak**
- Mechanics feel Indian products brands first should develop brand awareness then comes the question of brand reputation
- Mechanics perceive Indian quality to be better than Chinese for the price point at which they are sold
- **Indian products are a bridge between the Chinese and the premium products**
- Bosch products that come from India are of German quality and at a reasonable price

Chinese Components

Mechanics

- **Chinese components are cheap and unreliable**
- **Chinese manufacturers are known for lights, accessories and decorative parts**

Garages

- **The use of Chinese parts depends on how much the customer is willing to spend on repairs**
- **Some times, the overall repair cost forces the customer to choose cheaper Chinese alternates for non–critical parts**

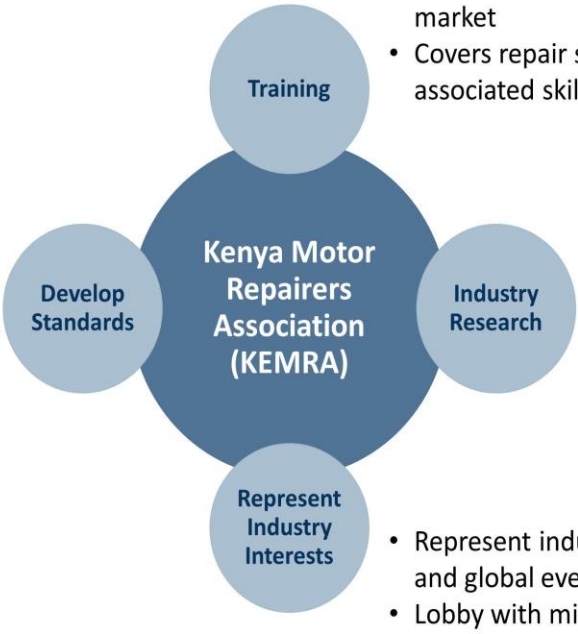
Source: Frost & Sullivan

Kenya Motor Repairers Association

Kenya Motor Repairers Association (KEMRA)

Mission: Expertise, Advice, Information and Business Support

Kenya Motor Repairers Association



Training

- Training to meet evolving needs of the market
- Covers repair skills and other associated skillsets

Develop Standards

- Standards for
- Body shop repairers
- Import of used automotive spare parts - Kenya standard dks2190-2009
- Fees, painting charges, labour, re-inspection, timelines, investigation reports

Industry Research

- Commission research and studies in partnership with Government entities and other industry stakeholders

Represent Industry Interests

- Represent industry interests at local and global events
- Lobby with ministries, Kenya Bureau of Standards and Motor Assessors Association of Kenya (MAAK)

Source: KEMRA, Frost & Sullivan

"Genuine Spares Give Confidence and Save Money" - KEMRA

Kenya Motor Repairers Association

"It pays to avoid the temptation of having a short term saving by paying lower prices for replacement and used parts. Why not avoid spending even more money in the long rum?"

...General Manager, DT Dobie

"KEMRA top mandates include establishing standards for training and for business in the automotive industry in Kenya. Ensuring the availability of good auto components is a big part of that. KEMRA will be happy to assist in any way that we can in bringing Indian parts manufacturers to trade more actively in the market"

...CEO, KEMRA

"Between 2009 and 2012, Chinese parts flooded this market. They were cheap, and overall supply of parts to the market was not very good. So people bought them, but there were so many product failures that people became aware of what cheap auto component is. This is the space that Indian manufacturers can compete in."

...CEO, KEMRA

Source: Frost & Sullivan

Will Extend Support To Indian Auto Component Mfrs Interested in an Organized Entry to Kenya

KEMRA
Kenya Motor Repairers Association

How Can KEMRA Help?

Promotion

- Promoting Indian brands among the members of KEMRA
- Guidance on relevant incentives for the local market

Trade Guidance

- Recommendations on route to market
- Addressing concerns and questions pertaining to local taxes and duty structures

Facilitation

- Conducting local events
- Access to key stakeholders in the local industry
- Identifying and accessing reliable potential local partners
- Access to updates on the industry, changes in vehicles trends

Source: Frost & Sullivan

Thank You

Automotive Component Manufacturers Association of India

The Automotive Component Manufacturers Association of India (ACMA) is the apex body representing the interest of the Indian Auto Component Industry.

ACMA represents over 740 companies, which contributes to more than 85% of the total auto component output in the organised sector. In the domestic market, they supply components to vehicle manufacturers as original equipment, to tier-one suppliers, to state transport undertakings, defence establishments, railways and even to the replacement market. A variety of components are being exported to OEM's and after-markets world-wide.

ACMA has played a critical role in growth and development of the auto component industry in India. Its active involvement in trade promotion, technology up-gradation, quality enhancement and collection and dissemination of information has made it a vital catalyst for this industry's development. Its other activities include participation in international trade fairs, sending trade delegations overseas and bringing out publications on various subjects related to the automotive industry.

ACMA's charter is to develop a globally competitive Indian Auto Component Industry and strengthen its role in national economic development as also promote business through international alliances.

ACMA is represented on a number of panels, committees and councils of the Government of India through which it helps in the formulation of policies pertaining to the Indian automotive industry.

For exchange of information and especially for co-operation in trade matters, ACMA has signed Memoranda of Understanding with its counterparts in Brazil, Canada, Egypt, France, Germany, Hungary, Iran, Italy, Japan, Malaysia, Nigeria, Pakistan, Russia, South Africa, South Korea, Spain, Sweden, Thailand, Tunisia, Turkey, UK, USA and Uzbekistan.

ACMA is an ISO 9001:2008 Certified Association

Further information and data on the Indian automotive industry is available on the ACMA Website: www.acma.in

Automotive Component Manufacturers Association of India

HEAD OFFICE
6th Floor, The Capital Court, Olof Palme Marg, Munirka
New Delhi - 110 067, India
Tel: +91-11-2616 0315   Fax: +91-11-2616 0317
E-mail: acma@acma.in Website: www.acma.in