

Industry

Backdrop

The year 2005-06 has posted a strong GDP growth of 8.4 per cent with industrial growth touching 8.7 per cent and manufacturing growth at 9.0 per cent. The merchandise export growth in 2005-06 has been above 20 per cent for the fourth successive year. The manufactured goods account for three-fourths of India's merchandise exports. The good performance merchandise export is an indicator of international competitiveness of India's manufactured goods.

Indian industry accounted for about 27 per cent share of country's GDP during the triennium ending (TE) 2005-06 with the corresponding share of manufacturing sector in GDP at 17 per cent. The share of manufacturing sector in India's GDP is relatively low compared with around one-third share in China, Malaysia and Thailand.

The index of industrial production (IIP)

increased by 8.2 per cent in 2005-06 compared with 8.4 per cent in 2004-05 and 7.0 per cent in 2003-04 (Table I.1). There has thus been a slight deceleration in the growth of IIP. However, the index of manufacturing, with a weight of 79.36 per cent in the overall industrial IIP, has been accelerating during the last four years. Its growth rate has increased from 6.0 per cent in 2002-03 to 7.4 per cent in 2003-04, 9.13 per cent in 2004-05 and to 9.15 per cent in 2005-06. The acceleration in the manufacturing output is further evident from a growth rate of 11.8 per cent posted during April-August 2006 compared with 9.6 per cent growth in the corresponding period of 2005. This has also led to acceleration in the general IIP during April-August 2006.

Within the use-based industry group, output of capital goods has posted the fastest growth rate of 15.7 per cent in 2005-06 followed by consumer goods at 12.0 per cent (Table I.2). Within the con-

Table I.1: Group-wise Index of Industrial Production (% growth, Y-o-Y)

Industry	Manufacturing	Mining	Electricity	General
Weight	79.36	10.47	10.17	100.00
2002-03	6.01	5.79	3.22	5.78
2003-04	7.38	5.28	5.04	6.98
2004-05	9.13	4.38	5.15	8.37
2005-06	9.15	1.01	5.16	8.16
April-August				
2005-06	9.62	1.70	5.94	8.66
2006-07	11.82	3.06	5.67	10.59

Source: Central Statistical Organisation

sumer goods, growth was led by durable goods (15.3 per cent) while the non-durable goods grew by a lower rate of 10.9 per cent. The slow growing segments were intermediate goods posting a growth rate of 2.5 per cent and basic goods at 6.7 per cent. The momentum in the growth of output of capital goods continued through April-August 2006 with the growth rate posting a high of 18.6 per cent compared with 13.9 per cent growth in the corresponding period of 2005. The basic, intermediate and consumer

durable goods also posted relatively high growth during this five-month period of the current financial year. However, consumer non-durable goods posted relatively low growth rate of 9.5 per cent in April-August 2006 as compared with 13.9 per cent in the corresponding period of 2005.

The year 2005-06 witnessed strong growth in some of the infrastructure industries including coal and cement (Table I.3). While there has been some deceleration in the output of electricity and steel, there has

Table I.2: Index Number of Industrial Production – Use Based Classification (% growth, y-o-y)

Use based group	Basic Goods	Intermediates	Capital Goods	Consumer Goods	Consumer Durables	Consumer Non-Durables
Weight	35.6	26.5	9.3	28.7	5.4	23.3
2002-03	4.8	3.9	10.5	7.1	-6.3	12.0
2003-04	5.5	6.4	13.6	7.2	11.6	5.8
2004-05	5.5	6.1	13.9	11.7	14.3	10.8
2005-06	6.7	2.5	15.7	12.0	15.3	10.9
April-August						
2005-06	7.0	3.5	13.8	13.7	13.0	13.9
2006-07	8.3	9.5	18.6	11.3	16.5	9.5

Source: Central Statistical Organisation

Table I.3: Index of Industrial Production for Infrastructure Industries (% growth, y-o-y)

Infrastructure Industry	Coal	Electricity	Steel	Cement	Crude Oil	Petro Products
Weights	3.22	10.17	5.13	1.99	4.17	2.00
2002-03	4.56	3.17	7.33	8.84	3.44	4.93
2003-04	5.13	5.06	9.76	6.10	0.72	8.24
2004-05	5.98	5.18	8.38	6.58	1.82	4.33
2005-06	7.24	4.92	8.02	12.35	-5.25	2.15
April-August						
2005-06	6.22	5.84	11.60	12.73	-4.47	-1.75
2006-07	6.81	5.68	6.96	8.95	3.03	12.07

Note: The weights of six infrastructure industries add upto 26.68 which represents the composite infrastructure index

Source: Ministry of Commerce and Industry, Government of India

been sharp deceleration in the output of petroleum products and crude oil. The decline in crude output is related to the damage to the off-shore production facilities from a fire accident. During the period April-August 2006, there has been acceleration in the output of coal, crude oil and petroleum products but deceleration in the output of electricity, steel and cement.

Investment Activity

The year 2005-06 witnessed brisk activity in new investment issues with 128 new issues compared with only 51 in 2004-05. The total amount raised through the new issues amounted to Rs. 20,899 crore in 2005-06 compared with Rs. 12,004 crore raised in 2004-05. This amounted to 150 per cent increase in the number of new issues and 74 per cent increase in the amount raised. The period April-July 2006 has posted brisk pace in the amount raised through new issues. While the number of new issues has been somewhat low during April-July of 2006, compared with the corresponding period of 2005, the amount raised has been relatively high. The number of new issues touched 27 in April-July 2006 as compared with 30 in the corresponding period of 2005. The amount cumulated to Rs. 11,450 crores in April-July 2006 as compared with Rs. 3,306 crores in April-July 2005 (RBI Monthly Bulletin, October 2006).

The BSE Sensitive Index (SENSEX) of ordinary shares has posted smart growth in 2005-06 over 2004-05. It touched 8,280 (Base 1978-79 = 100) on an average in 2005-06 posting a growth rate of 44 per cent. It touched 11,742 in April 2006 and dropped to 11,599 in May 2006 before crashing to 9,935 in June 2006. However, this was a temporary phase resulting from rising inflation concerns and tighter monetary conditions in the global markets. The BSE SENSEX started its upward move-

ment in July 2006 and averaged at 10,557 and went further up to 11,305 in August 2006 (RBI Monthly Bulletin, October 2006). It was at its new peak of 12,791 as on 27 October 2006.

The year 2005-06 posted high FDI net inflows of US\$ 7,691 million compared with US\$ 5,987 in 2004-05. The growth in FDI inflows has continued during the first quarter of 2006-07 with the net FDI inflows amounting to US\$ 2,254 million compared with US\$ 1,735 million registered in the corresponding period of 2005-06.

It is thus evident that the new investment activity that had become relatively brisk in 2005-06 continues to be effervescent even during the current fiscal.

Auto Components Industry: Performance and Prospects

Backdrop

The Indian automotive industry was delicensed in 1991 and has been growing rapidly since the mid-1990s. The Indian auto components industry has responded to the emerging scenario through making significant advances particularly during the last five years. Despite multiplicity of technology platforms and relatively low volumes this sector has grown in terms of spread and absorption of new technologies. Relatively low labour cost, availability of the skilled labour force and high quality consciousness among the Indian vendors has spurred the recent growth phase of the Indian auto components industry.

A comprehensive overview of the Indian auto component industry has been presented in the "Draft Automotive Mission Plan: 2006-2016" (DAMP) brought out by the Ministry of Heavy Industries and Public Enterprises, Government of India in September 2006. It states the Vision State-

ment for India's automotive sectors as:

"To emerge as the destination of choice in Asia for the design and manufacture of automobiles and automotive components. The output of India's automotive sector will be US\$ 145 billion, contributing to more than 10 per cent of India's Gross Domestic product and providing employment to an additional 25 million persons by 2016."

The current employment in the Indian automotive industry is estimated as 200,000 persons in vehicle manufacturing, 250,000 in component manufacturing firms and 10 million at different levels of value chain of forward and backward linkages. It is expected that additional 25 million jobs would be created through additional opportunities arising in direct and indirect employment during the next 10 years¹.

Production

The Indian auto component industry (IACI) has around 500 firms in the organised sector and around 10,000 firms in the unorganised sector. The output of this industry has grown by more than 22 per cent per annum during the last four years (Table I.4). In value terms the output has grown from US\$ 4.47 billion in 2001-02 to an estimated US\$10 billion in 2005-06. Almost all the components required to produce two, three and four wheelers are now produced in the IACI. There is evidence of high indigenisation of automobiles produced in India including the completely Indian made vehicles including Tata Indica and Indigo, Mahindra Scorpio, Bajaj Pulsar and TVS Victor.

Table I.4: Auto Component Production

Year	Production (in US\$ million)	Annual Growth Rate (per cent)
1996-97	3278	-
1997-98	3008	-8.24
1998-99	3249	8.01
1999-00	3894	19.85
2000-01	3965	1.82
2001-02	4470	12.74
2002-03	5430	21.48
2003-04	6730	23.94
2004-05	8700	29.27
2005-06*	10000	14.94

*Estimated

Source: ACMA

Table I.5: Auto Component Industry Investment

Year	Production (in US\$ million)	Annual Growth Rate (per cent)
1997-98	1813	-
1998-99	1850	2.04
1999-00	2000	8.11
2000-01	2300	15.00
2001-02	2300	0.00
2002-03	2645	15.00
2003-04	3100	17.20
2004-05	3750	20.97
2005-06*	4400	17.33

*Estimated

Source: ACMA

Investment

The IACI has created a vast capacity base during the recent years. Investment has grown by 17.6 per cent per annum during the last four years (Table I.5). The investment has increased from US\$ 2.3 billion in 2001-02 to US\$

1 Discussion in this Section draws upon the "Draft Automotive Mission Plan: 2006-2016" brought out by the Ministry of Heavy Industries and Public Enterprises, Government of India. The data have been sourced from the ACMA website <http://www.acmainfo.com>

4.4 billion in 2005-06. Many major manufacturers of the world have set up their manufacturing and sourcing units in India. These include car manufacturers Hyundai and Ford. The Robert Bosch auto part maker company of Germany has relocated manufacture of certain key products from some of its European locations to MICO, India. New investments are proposed to be set up by the Wheels Electronic SDN (Malaysia), the GKN Driveline (U.K.) and the Parts International Company (Dubai). The French automobile group PSA Peugeot Citroen, Toyota, the Daimler Chrysler and the General Motors are also sourcing components from India.

The quality of production of the IACI has been up to the mark of international standards. Out of about 500 auto component manufacturing firms, 456 are ISO-9000 certified. Many of these have other international certifications as well including TS-16949, QS-9000, ISO-14001 and OHSAS-18001. Nine firms have received Deming Prize, four have received the JIPM Award and one has received Japan Quality Medal.

Exports

Increasing exports of auto components from India during the last four years confirm the high quality and international competitiveness of this industry. Exports have increased from US\$ 578 million in 2001-02 to US\$ 1.8 billion in 2005-06. This translated into an average growth rate of about 33 per cent per annum during the last four years (Table I.6). Many of the global original equipment manufacturers (OEMs) have been sourcing their requirements from the IACI. However, the export volume of India is just about 1 per cent of the global exports estimated at about US\$ 185 billion of auto components. The target of exports of the Indian auto components

industry by the year 2015 is expected to be as US\$ 20-25 billion.

About 60 per cent of India's exports of auto components move to Europe and the United States both of which are the high AQL (high acceptable quality) countries. The global auto components market has also been changing rapidly during the last decade. In the 1990s more than 80 per cent of the exports were to the international aftermarket and only 20 per cent to global OEMs. As in 2005, more than 70 per cent exports are targeted to the global OEMs and only 30 per cent to the aftermarket.

Table I.6: Auto Component Exports

Year	Exports (in US\$ million)	Annual Growth Rate (per cent)
1997-98	330	-
1998-99	350	6.06
1999-00	456	30.29
2000-01	625	37.06
2001-02	578	-7.52
2002-03	760	31.49
2003-04	1020	34.21
2004-05	1400	37.25
2005-06*	1800	28.57

*Estimated

Source: ACMA

Future Potential and Major Challenges

There is potential of much higher future growth of automotive industry in India both in terms of vehicles and auto components. The current car penetration level is 7 cars per thousand in India compared with 10 in China, 27 in Thailand, 130 in Mexico, 147 in Malaysia and 500 in Germany. It is expected that the passenger car domestic market would increase from 1 million cars in 2003-04 up to 3 million by 2015. This would imply the auto components market expanding from about US\$ 10 billion in 2005-06 up

to US\$ 15 billion by 2015.

However, there is need for adequate Research and Development (R&D), innovation and upgradation to keep pace with the best international production practices so as to enhance competitiveness of this industry. Increasing productivity would be the key driver of growth. Factors including labour costs, custom duties, interest rates and economies of scale would play a major role in determining the competitiveness of this industry. It is expected that many more globally successful OEMs and auto makers would shift their production to as well as source their requirements from places which are high in productivity.

India's current growth phase along with its promise to provide the necessary human and physical capital to establish and sustain automotive industry would go a long way in making this sector as one of the most important and dynamic sectors of manufacturing in India in the near future. Other important factors that would catalyse the growth phase of this sector include provision of adequate and high quality infrastructure including power, roads, ports and airports and adequate reforms in labour law, and exit policy for the firms that would like to close down.