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The component industry is the firm foundation on which India Auto Inc has been building growth. Now, in an era of disruptive technologies, megatrends, upgraded emission and safety norms, domestic suppliers face challenging times. **The President of the Automotive Manufacturers Association of India (ACMA)** tells Amit Panday just how the industry plans to ride the present and rule the future.

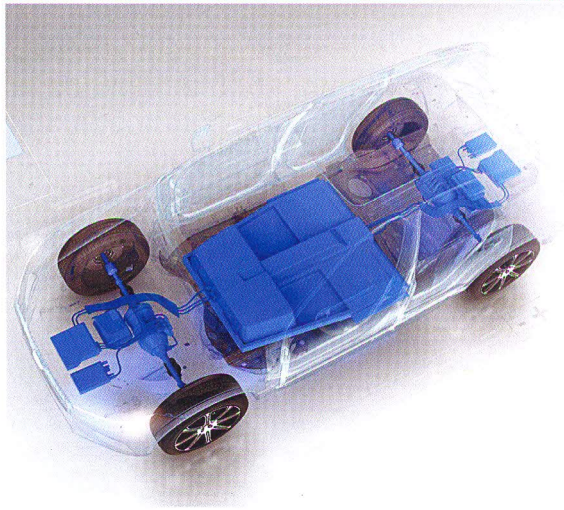
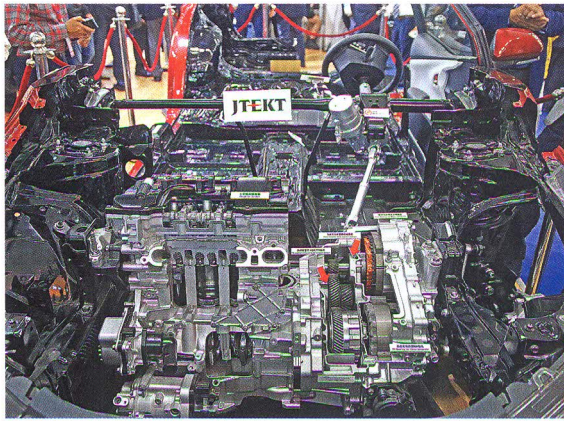
implementation of these regulations. Ideally, the industry does not want market growth to get hampered due to these changes. For example, companies are investing in expanding capacities currently to keep up with the market growth. But if the market shrinks after BS VI is implemented, then we might face the risk of overcapacity.

While global suppliers invest about 8-10 percent of their turnover into R&D, Indian suppliers re-invest barely one percent. With new emissions and safety norms, India will now be at par with many developed markets. What is ACMA doing to inculcate and nourish the R&D culture?

Most definitely by April 2020 onwards, most of the products that will be manufactured in India from the emissions and safety standpoint will be reflective of the same global standards that are followed in developed markets.

In the context of R&D, yes, India has generally been a build-to-print environment and most of us have been working in that environment. But I agree with you — now is the opportunity to invest more in R&D. I would like to point out a unique trend. A decade ago, it was very difficult for us to look at international talent, or get global talent to look at R&D here. Now, (Indian firms) setting up small R&D centres in Europe is beginning to happen increasingly. I would expect that if you look at company balance sheets from now on, you will see that investments in R&D would only increase in the future.

This will happen primarily because the changing regulatory environment, either on the emissions side or safety side, is being looked at as new opportunities. This definitely is something that the local suppliers would want to explore. I believe we



would see this happening now going forward.

Is the supplier community geared up to localise all parts required under the incoming emission and safety mandates?

Not as of today but I think definitely the intent will be to localise all of that in the near future. It is not viable to go on importing and assembling here and supplying parts to customers in the long run. I believe that the market will push us towards localisation, which is why the amount of investment in R&D would increase now.

Transport minister Nitin Gadkari, at ACMA's annual summit (in September), very clearly said that make in India is a priority, imports have to be reduced and exports have to be increased. At present, we are importing about US\$ 15 billion and exporting US\$ 13.5 billion worth of components. So,

India's component industry, which appears ready for BS VI, now looks beyond 2020. While advanced technologies such as EPS (as in JTEKT picture above) will see increased penetration, suppliers have begun embracing EVs.

'We still import components worth \$15 billion. We are actively seeing how we can localise these, either by JVs or technical assistance or in-house R&D.'

as an industry, we are still a net importer. There is a huge effort underway to identify the parts currently being imported. We can achieve localisation either by joint ventures or technical assistance or under the make-in-India program or even via internal R&D efforts. This has to happen for us to become a cost-effective supplier community in India.

Within ACMA, we have carried out a restructuring exercise wherein we are identifying what members want. The focus has been on identifying five pillars which would deliver greater value to the member companies. This was done during Mr NK Minda's leadership. These five pillars include business development, skilling, joint ventures and technical assistance. The latter is expected to drive new technology initiatives and acquisitions.

When you compare

India with the TRIAD, you must note that the history of the automotive industry there is over 100 years and they have a very matured relationship between OEMs and suppliers there. This is achieved only after so many decades of working together. On the contrary, the Indian automobile industry's history begins from the 1980s. Therefore, we are a very young industry and still learning. Nevertheless, the times are changing drastically and calling upon us to really shift gears and focus more on R&D now.

How this, we believe, will work in India is that first all major OEMs will set up their R&D centres here, followed by multinational component suppliers establishing their development centres. Over a period of time, the Indian talent working in these companies will either get acquired by the Indian (component) firms or they



industry offers better competencies and we need to leverage that. The value chain is becoming so complex and global in nature that if we can leverage some competencies of our own country, then why not?

Given the technological disruptions in industry, how important is it for the large Tier 1 suppliers to handhold the Tier 2, 3 and even smaller players?

The message from all OEMs was very clear at the ACMA Summit – the IC engine will continue to see demand even beyond 2030. They also clarified that alternate fuels including electric and hybrid vehicles would obviously be a growing pie but would still be relatively smaller. Therefore, the IC engine volumes we are catering to today would only be greater by 2030. That's a very reassuring aspect for the component industry because there was a lot of apprehension about making or not making new investments. That has been largely dispelled.

Secondly, quality parameters are becoming increasingly important. Incoming norms will bring the India market at par with other developed nations. The message from the OEMs, once again, was absolutely clear – it is the Tier 1s' responsibility to pull up the Tier 2 and Tier 3 suppliers up to the level of quality required. What OEMs did for the Tier 1s in the past is what is now expected from the Tier 1s. This will surely bring up the quality practices across the value chain. There is no getting away with this because by 2020, we will be making products of global standards.

This is a huge initiative. Through the ACMA Centre for Technology, we are upgrading skills at a very nominal cost. We are working with many Tier 2 and 3 suppliers to upgrade their manufacturing,

quality and new product development practices, so that we are all at the same level.

In the context of EVs, do you see that the suppliers are starting off with initial work and preparing for the future?

Yes, for sure. I think the message from the OEMs on this was also very clear. They have repeated it at the ACMA annual session and also at the vendor conferences. Electrification, hybrids and alternate fuels – all of these represent an opportunity for the Indian auto component industry. It is up to us how we want to leverage this.

Many companies are already taking baby steps in this direction. There certainly are challenges such as the lack of capabilities around the electronics domain, lack of lithium-ion battery manufacturing capabilities and others, but there are other parts of an electric vehicle that the Indian players can explore. Those parts are being identified, there are dialogues going on between the OEMs and the potential suppliers. I believe a large automaker has already requested ACMA to create an all-new platform for EV component suppliers in the near future.

About 20 percent of total vehicles (expected share of EVs) sold in 2026 or 2030 will still be a significant portion. So, are you as a component maker wanting to ignore that or do you want to do business in that as well as in the domain you are currently engaged in? I think there are companies with the risk appetite to look at that as well.

ACMA has commissioned several studies that identify the type of components required in an electric vehicle. Through this, we are trying to give adequate information to our members about what they can potentially get into in the EV space. ■

will spawn off and set up their own R&D-driven start-ups. This is how the R&D culture evolves.

Many OEMs already have an R&D presence in India while several MNC Tier 1 suppliers also have their development and global technical centres here. Once these exist for 10 years or so, you will see many small start-ups spawning off. We need talent and that comes from these pools. That's how we will move towards a progressive culture of R&D and innovation.

Indian talent is well known for its software capabilities. Many global suppliers have set up strategic technical centres here where software engineers work on global platforms and advanced technologies such as autonomous vehicles, ADAS and HMI. How are the homegrown suppliers banking upon this strength that already exists in India?

This depends on the product category the local players are in. One area where this software strength is being leveraged is manufacturing and design capabilities. Most of the homegrown suppliers, as members of

ACMA, have gone through the phase where they have worked on leveraging India's software strengths on improving manufacturing efficiencies. That has then evolved into design where software simulation is being used while developing new products. All this is now pretty much standard in the industry.

As regards driver assistance systems, power electronics or software required for connected vehicles or autonomous driving, I think these technologies are at a very early stage (in India) at present. However, some of the larger companies have already started engaging with both educational institutes and with software powerhouses to evaluate if they can start working on some of these futuristic areas.

Having said that, one must understand that the majority of the homegrown (component) industry caters to the local market. So this depends upon the state of evolution of the domestic auto industry and accordingly component suppliers respond to those requirements.

I agree that there are certain areas where a certain

INDUSTRY IN FY2018

Turnover

Rs 3,45,635 crore / US\$ 51.2 billion

Contribution to GDP

2.3 percent

Forex earnings / exports

Rs 90,571 crore / US\$ 13.5 billion

Share in India's exports

4 percent

Domestic aftermarket

Rs 61,601 crore / US\$ 9.2 billion

Employment

Direct: 1.5 million, Indirect: 1.5 million

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