

Auto part firms line up investments in Gujarat to meet auto makers' demand

Mumbai: Gujarat, a preferred manufacturing destination for auto companies, is about to see the next wave of investment coming from auto component makers preparing to meet demand from automakers, particularly market leader Maruti Suzuki India Ltd.

The Hansalpur-based Suzuki Motor Gujarat Pvt. Ltd (SMG) unit in the state supplies vehicles to Maruti under a contract manufacturing agreement at cost price.

Some of the major auto component makers in the National Capital Region, including Krishna Group, Minda Industries Ltd, Lumax Industries Ltd and Subros Ltd, that count Maruti Suzuki as their biggest client, are pumping in a cumulative investment of over Rs1,500 crore over the next two to three years to feed SMG's demand.

While most of the investment will be to cater to Suzuki Motor Gujarat, Tata Motors Ltd, Honda Motorcycle and Scooter India Pvt. Ltd will also be driving investments.

Encouraged by the buoyant demand in the domestic market and a strong order book for exports, SMG, which makes the Baleno hatchback at the facility, has been ramping up production at a rapid pace. The Japanese carmaker plans to produce around 150,000 cars in Gujarat by the end of this fiscal. The facility will be ramped up to its peak capacity of 250,000 units per annum by next fiscal.

SMG will commence production at its second plant in the early part of 2019, Ajay Seth, chief financial officer at Maruti Suzuki, said in an earnings call with analysts on 27 October.

Krishna Group, a Gurgaon-based auto component maker, is setting up seven plants with a total investment of Rs700 crore in and around the SMG facility, said Ashok Kapur, chairman of Krishna Group.

"We are creating capacities first for Suzuki and then for the rest," Kapur said, adding that the manufacturer of door trims, seating, high tensile metal parts, mirrors, roof headliners, etc will have its capacities at the upcoming units fully booked for the next three to four years. All the seven units which are currently in various stages of being commissioned will go on stream by December, he said.

Other auto component makers are also optimistic. "With Maruti controlling 50% of the market and all its expansion taking place in Gujarat, the state will be a major focus area for our expansion," said Deepak Jain, managing director at Lumax Industries.

Lumax has invested Rs120 crore in a unit it will inaugurate on Thursday. On an average, Lumax will be investing Rs100 crore every year for the next five years to meet demand from automakers in the region.

"Gujarat is going to be emerging as a big hub and will be a big opportunity for tier one and tier two auto parts firms," said Nirmal Kumar Minda, chairman of Minda Industries. The company currently has two plants and will be setting up seven more with a total investment of Rs500 crore over the next 18 months.

"The car market is expected to grow for the next four to five years and so far there is no reason for it not to grow," said Rakesh Batra, partner and national leader for automotive practice at EY.

The only other factor that can go against traditional car sales is electric vehicles. But the personal car buyer will be impacted last. “Electrification will happen faster in the fleet and commercial segments before it happens in cars,” said Batra.

Passenger vehicle sales in India have been growing at a brisk pace year-on-year in five out of six years. The growth has largely been led by Maruti.

Source: Live Mint