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“Localization and technology adoption key for auto comp industry”

- *ACMA President*



Special coverage on



Deepak Jain, ACMA President

# Localization and technology adoption of paramount importance to auto comp industry: *ACMA President*

“We are committed to the promotion of our nation’s agenda of ‘Make in India’ and 5 trillion dollar economy by 2024-25, while also affirming our customers on localised products and solutions as per global standards, to transform ourselves as value drivers in automotive manufacturing across the world”, affirms Deepak Jain, ACMA President and Chairman and Managing Director, Lumax Industries Ltd., in an exclusive Q&A with *Dhyanesh Ravichandran*.

**With ACMA reporting a 10.1 per cent de-growth in H1 of 2019-20, what are your observations on the industry and hopes for H2 of the FY?**

As the H1 performance report suggests, the Indian auto components industry is a mirror-image of the performance of the domestic vehicle industry, although the silver lining is that aftermarket and export segments are fairly stable. We are hopeful that H2 figures for the current financial year will turn out to be better, considering the festive season vehicle sales and BS-VI production gaining momentum, thereby the double-digit de-growth in the first half may tone down to a single-digit de-growth for the entire year. We have to wait and watch.

**Economy experts opine that the current slowdown is very different from the previous ones, with a heavy drop in domestic demand across all consumer products and services. How do you see the slowdown, from the auto components industry perspective?**

Of course, the current market slowdown is very unique and unprecedented. Because, firstly, this time the downturn is prolonged, it’s already been a year since it began, and no sign of uptick yet – probably the longest one so far in the last few decades. Secondly, all segments of the industry including construction and agri equipment have shown a negative growth, which is surprising considering the diverse nature of our market. Thirdly, from the suppliers’ point of view, the slowdown has turned out to be a mixed bag, with certain products and models showing signs of growth while certain other models rapidly falling apart. This complexity renders our flexible approach, capacity planning, and efforts towards tech adoption useless.

Lastly, there is a massive technological transition happening in the industry, which means we are faced with the loss of revenue and curtailed cash flows in certain usual streams we were banking on, while multiple opportunities are also



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## COMPONENT ZONE

awaiting in the times ahead, may it be BS-VI or EVs. However, the component industry has to be ready to absorb both the challenges and opportunities, and we are trying our level best. Too many regulations and technological disruptions came up in a short time, pushing up the vehicle prices and impacting the demand consumption as well.

**What are the major lessons learned from this slowdown experience?**

This is certainly an interesting and right time for us to introspect ourselves. We have initiated many measures to look internally into our organisations and strategies. One major takeaway from this experience is making our manufacturing more robust and cost-effective so that we come out resilient to unfortunate times like this in the years to come. We at ACMA are hopeful that with the right interventions, from our side and by government measures, a quick comeback is possible with induced demand and enhanced liquidity at the consumer level.

**What is ACMA's road-map for the Indian auto components industry for the 2020s? What should be the strategic focus for the industry to shine at the international level in the upcoming years?**

As a body representing the domestic component manufacturers, ACMA is committed to the promotion of our nation's agenda including that of 'Make in India' and the dream of 5 trillion dollar economy by 2024-25. We are also committed to our customers' needs as per global standards, and to transform our industry as value drivers in automotive manufacturing across the world, rather than just low-cost manufacturing of auto components.

That way, it is paramount for our industry to take localisation to the next level, concerning new and emerging automotive technologies on par with global quality standards, thereby giving great value to our customers. We will continue to push our customers and governments to promote further localisation, as in the auto components industry, the outcomes always depend on volumes demanded. As the volumes go up, we will also catch up with investments.

Further, a technology-agnostic approach is essential for higher levels of localisation and quick technology adoption. Our components industry supports all types of technologies and solutions, which results in OEMs achieving more than 90 per cent localisation in their vehicles, by that the end products are also affordable. Being technology agnostic means that the basic structure of the components industry is not disrupted and safeguarded to grow further.

**Considering the subdued performance of the industry and the economy in general, do you think the dream of India becoming a 5 trillion dollar economy is still feasible?**

In the aspired 5 trillion dollar economy, the manufacturing value is expected to be 1 trillion dollars at the least. Given that opportunity, the automotive industry aligned with components manufacturing has massive potential. Unfortunately, we have de-grown ten per cent in the first half, which is equivalent to stepping down one year backward. However, we will continue to showcase our potentials and talents in the coming years and

move ahead in chasing the dream. We have to make sure the competitive advantage that the Indian components industry has earned over decades is not lost in the coming years, to stay afloat in the global race.

**Is ACMA still firm on the demand for uniform GST rates for all auto components? What are your other pleas to the government, as the apex body for the auto components industry?**

Ever since GST came in, there is a long-standing request from the components industry to announced one tax rate for all components. Today, almost 60 per cent of the products we produce fall under the tax slab of 18 per cent, while the remaining 40 per cent are tagged with 28 per cent. That way, our appeal to standardise GST still holds, reducing tax rates on those products will hardly have any detrimental impact on the revenue collection of the government, as we are an intermediary industry and our sales come mainly from the domestic segments.

Moreover, with 10 per cent additional taxation on after-market products, the cost of the products for end-users goes up, which results in the prevalence of spurious spares in the market. They compromise on quality and safety aspects, and since the government is keen on making our roads and vehicles safer, a slight GST reduction would give a necessary push for genuine spares and enhanced road safety. The holistic outcome will over-weigh revenue loss out of tax cut if any.

**Tell us about the upcoming CAPEX scenario for the component industry. Does the EV push by the government make any difference?**

The local auto components industry is already sitting on underutilised capacity, to an extent of about 45 per cent roughly speaking. Thus, we will not be going for any CAPEX in the immediate future, but make sure we are ready with right tech adoption and their localisation as per demands. Speaking about EVs, we are very much ready and embrace the transition to electric mobility. However, to localise and remain competitive, we need some scale. Right when the volumes are gearing up, we will be making the right investments in a timely matter to cater to the changing demands of the vehicle industry. Again, a tech-agnostic approach is needed to make this happen to reap optimum benefits.

**Lastly, how is the upcoming Auto Expo 2020 Components show taking shape? How zealous is the components industry, considering the dampened market scenario?**

We are surprised - and equally happy - that the upcoming components show is overbooked with 30 per cent more booking space than the last edition. This clearly shows the resilience and determination of the auto components industry despite subdued sales and cost-cutting measures. Our members have realised that the expo is going to be significant this time, in terms of future opportunities and brand equity. We will be displaying a wide range of technologies and solutions for the automotive industry in the new decade, under the theme "Technovation: Discover Innovations For Future". We request the automotive industry and government stakeholders to witness our strength and bandwidth at the expo.