

**Sector:**

**Auto and Auto Components**

**Project Title:**

**Integrated Automobile Assembly Unit**

**Project Description:**

Indian automobile industry is driving in the top gear from the past couple of years and the Country has emerged as a preferred manufacturing hub for automobiles companies across the globe. Further, India presents a lucrative market, as there is a high demand for cars of all categories, from economic small cars to luxury sedans.

India offers an enviable value proposition for automakers in terms of ample availability of skilled and unskilled manpower, special fiscal incentives, high domestic demand, conducive labour laws and industrial policies. Further, strategic location of India in the Asian continent enables companies to cater to the whole of Asia Pacific region and the middle east market.

To realize the growing prowess of India in the auto sector, the Government of Madhya Pradesh (GOMP) proposes to establish an integrated automobile assembly plant in Madhya Pradesh (MP). The unit would employ State-of-the-art technology and automated processing functions to assemble cars in the category of compact sedan. The plant would be an integrated facility with strengths across the value chain.

The plant would have following key facilities:

- Manufacturing Center
- In-house Testing center
- Warehouse

The plant would be set up on 250 acres of land and would focus on middle and luxury car segments. The plant would have adequate modular functions to produce different models as per the change in technology and consumer preference in future. The unit would cater to the requirements of domestic as well as the exports market.

For the envisaged project, the GOMP invites participation from the leading domestic and international car manufacturers.

**Project Rationale:**

Madhya Pradesh has a prominent position in the Indian auto industry. The State is one of the leaders in auto and auto ancillary industry with around 5 Original Equipment Manufacturers (OEMs) and over 100 auto component manufacturers.

The State has developed an industrial cluster at Pithampur which provides readily available infrastructure for companies willing to set up manufacturing facilities in the State. The estate is spread over an area of 5,000 hectares and is in the vicinity of proposed multi product SEZ.

Further, to facilitate the access to best-in-class infrastructure for auto industry, the Union Government of India (GOI) has sanctioned an auto cluster in the Pithampur industrial area. The GOI would grant an amount of US\$ 11 million for the purpose and local industrialists have agreed to contribute US\$ 3 million for the project.

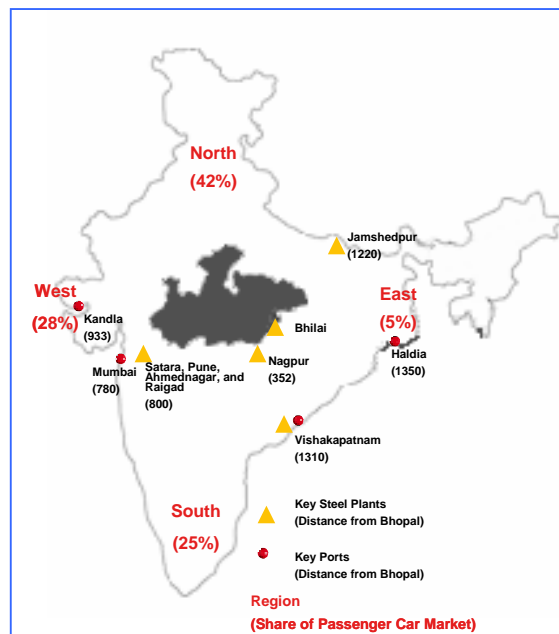
The cluster would be equipped with the world's largest testing facility, with capabilities of testing various categories of vehicles in different climatic conditions at different stages. The track would also issue certificates for vehicles produced in the Country and abroad.

The cluster at Pithampur also has significant locational advantages on following three aspects:

**1. Proximity to steel plants** of Bhilai, Nagpur etc is likely to result in reduction of raw material costs. The cost of raw material is around 60% of the total production costs, of which steel is the key component within the raw material.

**2. Proximity to ports** both in east and west coast provides a vital linkage to the international markets. Since, the auto industry is exports driven this linkage is critical to the development of the cluster. Further, water linkages to both sides provide better linkages to countries.

**3. Proximity to Markets:** Being centrally located and being well connected to major cities such as Delhi, Mumbai, Pune, Kolkatta etc. assists the companies to reduce logistic costs.



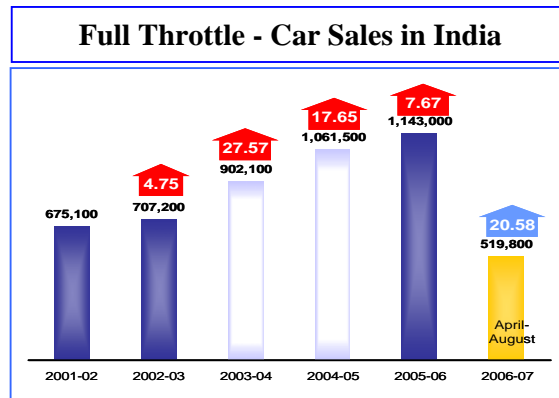
Further, automobile manufacturers are spread across the country. Being centrally located the auto component manufacturers would have access to a larger client

base in the country.

The State presents an enviable value proposition for the automobile industry in term of availability of support infrastructure and other strategic locational and functional benefits. The central location of MP facilitates cost effective logistic and uninterrupted supply chain functions, which is critical for automotive industry especially due to the increasing implementation of advance inventory management approaches such as Just-In-Time.

### Market Potential and Demand Dynamics:

The Indian automotive industry has flourished in the recent years. It has been growing at a CAGR of 15% from the last couple of years, and is expected to continue in future. At present the total vehicle sales in the Country is about 10 mn and by 2015 it is projected to increase to 30 mn.



The annual car sales in the Country

is around 1.1 mn out of which 70% is constituted by small cars. The sales are expected to double within the next four years. Indian auto market has immense growth potential due to lower penetration of cars at present. Only eight Indian out of 1000 own a car compared to 450/1000 in developed western markets.

The key growth drivers of Indian automotive market are rise in income levels and consumption and increased availability of credit in the market. Further, significant demand is generating from the rural market especially for the economic and small size cars. The key demand drivers for rural market are improved agriculture performance, increasing purchasing power Governments initiatives on building rural roads and improving connectivity with major towns and cities.

India is the third largest manufacturer of compact cars in the world. Most automakers of the world either have active presence in the Country or they source components from Indian component manufacturers. The leading global players such as Hyundai, Ford, Mercedes, Toyota, Suzuki and GM have set up base in India.

In 2007-08 several new launches are planned by industry leaders including Maruti, Honda, Hyundai and Tata Motors. Many prestigious global brands such as Porsche, BMW and Lamborghini are also in the process to launch their key models in India.

### Why Madhya Pradesh?

- Well established auto cluster.
- Presence of large number of auto components manufacturers.
- Proximity to steel plants of Bhilai, Nagpur etc.
- Ample availability of commercial land.
- Ample availability of skilled and semi-skilled manpower.
- Low manpower and land cost.
- Strategic central location facilitates cost effective logistics functions.
- Well developed connectivity with Country's key commercial centers and major ports.
- Peaceful labour environment.
- Government incentives to the industry.

### Location Analysis:

The envisaged plant would be located in the auto cluster at Pithampur near Indore.



### Government Support:

The Government would act as a key facilitating agency for the project and would extend major fiscal and policy incentives to the private player.

The key incentives for industrial units located in Pithampur industrial estate are as follows:

Exemptions from-

- ✓ Registration Fees & Stamp Duty
- ✓ Sales Tax
- ✓ Entry Tax
- ✓ Octroi
- ✓ Works Contract Tax
- ✓ Property Tax
- ✓ Other Local taxes

<b>Proposed Capacity and Estimated Cost:</b>
The plant would have a capacity of around 2500 cars per years.
<b>Proposed Investment:</b>
The total capital investment is estimated around USD 44.4 or INR 300 crores.
<b>Returns:</b>
The estimated Internal Rate of Return from the project is in the range of 20 – 25%.
<b>Coordinating Agency:</b>
<b>Madhya Pradesh State Industrial Development Corporation</b>