

Sector:

Auto and Auto Components

Project Title:

Original Equipment Manufacturing (OEM) Unit

Project Description:

India has a thriving auto component manufacturing industry which is well positioned to realize the increasing opportunities arising in the global and domestic market. The industry is riding on the high demand of automobiles in the domestic sector as well as rising outsourcing opportunities at the global level.

Across the globe, key automobiles manufacturers are increasingly offshoring their inventory requirements to Indian OEM manufacturers. Further, leading OEM and auto component manufacturers are establishing their production plants in the Country due to greater cost efficiencies. Thus, India is rapidly emerging as a global manufacturing hub for auto components.

To assist the development of OEM industry in Madhya Pradesh (MP) the Government of Madhya Pradesh (GOMP) proposes to establish an OEM unit in the State. The proposed unit would be a high-end automated unit and would manufacturer components such as front and rear disk breaks, engine gears, oil and air filter etc. It would exclusively manufacture components used in cars and other commercial vehicles.

The proposed unit would be set up on 35 acres of land. It would have adequate facilities to manufacture components of different types and specifications for different kinds of cars. 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 OEM.

Project Rationale:

Madhya Pradesh has a prominent position in the Indian auto industry. The State has an auto component industry of around US\$ 306 million, 60% of which is controlled by auto component players.

The State is one of the leaders in auto and auto ancillary industry with around 5 OEM 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.

Already well established auto components cluster would assist the envisage OEM unit to realize greater benefits in terms of synergies of operations and economies of scale. Since, MP is likely to become the key auto manufacturing hub the presence of assembly plant within the cluster would aid the OEM manufacturer access to an assured market.

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

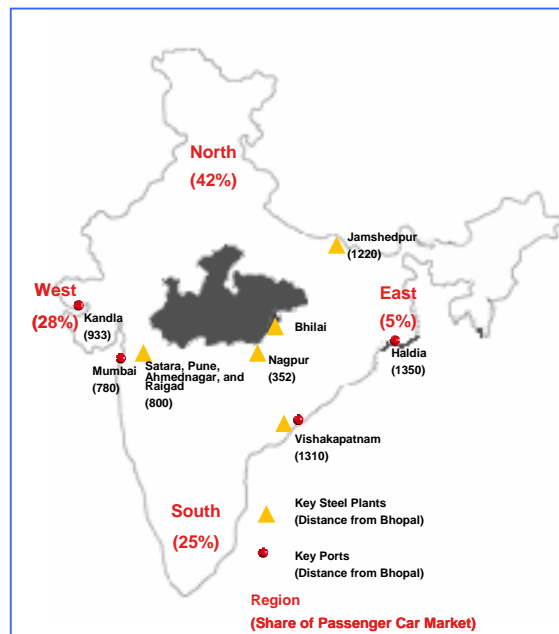
1. Proximity to steel plants: of Bhilai, Nagpur etc is likely to result in reduction of raw material costs. The cost of raw material is around 60% of the total production costs of which steel is the key component within the raw material.

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 OEM manufacturers in term of availability of support infrastructure and other strategic locational and

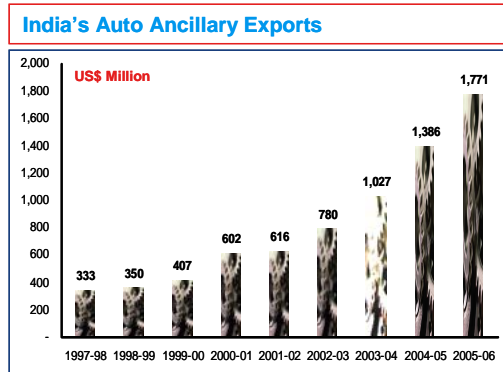


functional benefits. The central location of MP facilitates cost effective logistic and uninterrupted supply chain functions, which is very critical for automotive industry especially due to the increasing implementation of advance inventory management approaches such as Just-In-Time.

Market Potential and Demand Dynamics

Indian auto component industry is growing at a tremendous pace. It has grown from USD 6.7 bn in 2004 to USD 8.7 bn in 2005. Presently, the size of Indian auto component industry is USD 10 bn and is it expected to double to become a USD 22 bn by 2010.

Ample opportunity exists for Indian OEM in the exports market. In 2005 the values of total exports were 2% of the global industry value, which is expected to exceed USD 1.2 trillion. Exports of auto components from India have witnessed a record CAGR of 33% in the last 3 years due to increasing outsourcing demand from the developed countries.



As per the estimates of The Automotive Component Manufacturers' Association (ACMA) of India, the auto component sector will grow at a CAGR of 31% between 2005 and 2014 to reach USD 40 bn. ACMA aim to achieve an exports target of USD 20bn to USD 25bn by 2015 for Indian auto component industry.

According to estimates, India can achieve 3 – 4% share of the potential auto component outsourcing market by 2015, given the Country's strength in Manufacturing. Further, the domestic industry is set to grow manifold over the next few years as it is likely to invest about USD 1 bn towards ramping up capacities and acquire newer technologies every year for the next 10 years.

Indian auto component industry is well poised to realize the present outsourcing boom. The domestic auto majors have started developing design solutions for not only foreign collaborators but also for international OEM makers. Key auto makers such as Honda, Hyundai, Fiat, Ford, GM etc. are rapidly increasing their intake of components from the Indian market. Further, these players are contemplating to establish their manufacturing base in India to realize greater cost efficiencies and direct access to the Indian OEM suppliers.

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

Proposed Capacity and Estimated Cost

The Plant would have an annual capacity of around 1 million components.

Proposed Investment

The total capital investment is estimated around USD 2.2 mn or 10 crores.

Returns

The estimated Internal Rate of return from the project is in the range of 17 – 18%.

Coordinating Agency

Madhya Pradesh State Industrial Development Corporation