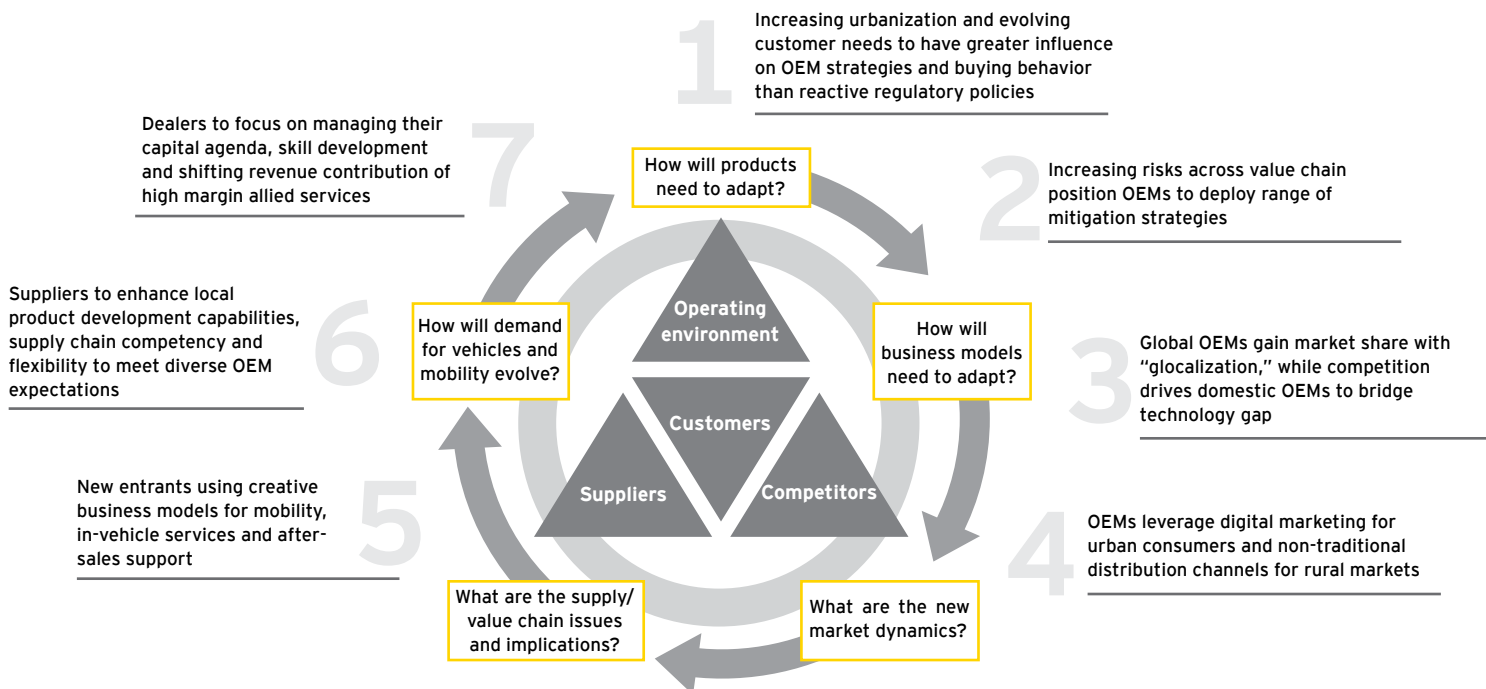


Mega trends shaping the Indian passenger vehicle industry

Executive summary

Stakeholders across the Indian passenger vehicles industry are likely to be impacted by fast changing events across the automotive ecosystem – be it in the operating environment, customer preferences, competition, distribution channel or supply chain. To prepare for the years ahead, automotive companies need to raise the following five questions and assess how well they are prepared to respond to the opportunities and challenges they present:



In answering these questions, Ernst & Young has identified seven mega trends that will significantly impact the revenues, costs and profitability of participants in the Indian automotive industry during this time of tremendous change. From the urban digital marketing phenomenon to non-auto companies using creative business models, these diverse trends influence vehicle manufacturers, suppliers and dealers on multiple fronts. To capitalize on opportunities that lay ahead, players old and new must leverage their ability to innovate and remain flexible. In summary, the times ahead in the near and not-too-distant future will be a major stage of evolution for the Indian auto industry.

1 Increasing urbanization and evolving customer needs to have greater influence on OEM strategies and buying behavior than reactive regulatory policies

An estimated 200 million people are likely to be added to India's urban population by 2020, piling further pressure on an already strained transport infrastructure. Simultaneously, customer needs are also evolving in terms of fragmentation of urban demand, cost of ownership considerations and propensity to spend on extra features. While regulatory policies on environmental compatibility and safety norms continue to lag global standards, the uncertainty related to diesel subsidies is likely to hurt demand for diesel vehicles. In response to changing demand characteristics, OEMs are likely to increase their offerings in terms of alternate fuel variants (CNG, LPG and hybrids) and advanced safety features across segments.

2 Increasing risks across value chain position OEMs to deploy range of mitigation strategies

Over the next few years, OEMs in India are likely to face growing risks not only in terms of skills shortage, inadequate labor policies and weak transport infrastructure, but also various economic and geo-political uncertainties that could threaten competitiveness of their operations in the country. While some reforms in labor policies are anticipated under the recently announced National Manufacturing Policy, implementation is likely to take time. These policies will apply to OEMs that are in the National Investment and Manufacturing Zones (NIMZ) that are to be operationalised in the near future. In the meantime, industry needs to proactively undertake steps to address labor-related issues through appropriate training, labor retention and compensation policies. While treasury functions such as hedging will become critical to tackle volatility in exchange rates and commodity prices; the procurement function will play a critical role in managing raw material price uncertainties and imports. With transport infrastructure lagging behind the pace of the auto industry's expansion, OEMs will need to consider multi-plant strategies and clustering of suppliers to be closer to regions with strong demand potential and also have better control of the supply chain and labor markets.

This is an executive summary of a detailed analysis conducted by Ernst & Young's Global Automotive Center. Please contact the automotive professionals on the back of this document for more in-depth information.

Mega trends

3 Global OEMs gain market share with "glocalization," while competition drives domestic OEMs to bridge technology gap

Global OEMs in India continue to increase their market share with a shift in strategy to mass market small vehicles. In response, domestic OEMs are strengthening their technological capabilities through organic and inorganic investments. Apart from localizing production to achieve cost parity and product differentiation, global OEMs also continue to expand their distribution network to tier II, III and IV cities. While meeting local demand remains the priority of domestic and global OEMs, they will be looking to leverage India as an export hub to emerging markets including Africa, Eastern Europe and Southeast Asia.

4 OEMs leverage digital marketing for urban consumers and non-traditional distribution channels for rural markets

With increasing internet penetration and availability of new information channels, digital media will play an increasingly important role in areas from product marketing to customer relationship management. Urban markets have witnessed significant social media penetration with India being among the top users of social networking sites and consumers leveraging the available sources to make informed purchase decisions. In response, OEMs are likely to increase their digital marketing spend, especially on social media, with a focus on innovative promotion tools such as live launch webcasts and online customer service among others. In rural markets, OEMs will increase their focus on non-traditional distribution methods including resident sales executives and satellite outlets, in addition to aggressive promotion activity at local festive events to spread awareness and increase brand visibility.

5 New entrants using creative business models for mobility, in-vehicle services and after-sales support

With India's urban population expected to reach 500 million and the growing infrastructure concerns, consumers will need alternative personal mobility solutions. New entrants such as car rental companies, multi-brand service networks and group buying companies are already taking a lead to leverage the Indian consumers' needs for mobility, after-sales services and enhanced bargaining power. Some front-runners have already

made headway with creative business models to cater to unmet needs and have announced elaborate expansion plans. Increasing penetration of smart phones and mobile devices is also presenting an opportunity for companies to provide in-vehicle services ranging from introduction of usage-based insurance, route planning services, fraud prevention and theft recovery services. OEMs and automotive suppliers are currently lagging behind new entrants, but may need to replicate some of these models as observed in markets like Europe and North America.

6 Suppliers to enhance local product development capabilities, supply chain competency and flexibility to meet diverse OEM expectations

India's auto component industry has significant growth opportunities considering the rapidly expanding OE, aftermarket and export demand as global and local suppliers adopt various strategies to establish their positions. Domestic suppliers are focused on forming alliances/partnerships to access advanced technologies and global best practices in R&D to meet the needs of OEMs for faster new product introductions and greater levels of outsourcing. Global suppliers are setting up R&D centers in India to increase local content in vehicles and at the same time leverage it as a global hub for design and technology. In particular, the supplier community will need to adapt to diverse expectations of OEMs, with domestic manufacturers expecting greater flexibility and closer engagement and global OEMs expecting quick responsiveness and global quality standards. The lower tier suppliers will particularly receive attention over the next several years as OEMs expect their tier I suppliers to take responsibility for and manage the tier II and III suppliers. While domestic suppliers are not likely to achieve system integration capabilities in the short-term, they would certainly become strategic partners to OEMs in terms of managing the supply chain.

7 Dealers to focus on managing their capital agenda, skill development and shifting revenue contribution of high-margin allied services

Dealers will need to improve financial sophistication, retain skilled personnel and get access to capital to fund network expansion. In particular, franchises of global OEMs will become attractive because of higher margin offers and flexible payment options. Apart from expanding their portfolio of brand franchises, dealers will also look to increase share of high-margin allied businesses including service, parts and vehicle financing/insurance. New global OEMs entering the market will look to expand their network faster and resort to cost-effective ways of setting up new facilities such as pre-fabricated dealerships.

While the Indian automotive industry defied the recent global recession, the cooling of domestic demand in 2011 has taken the industry by surprise. As competition intensifies among vehicle manufacturers, companies across the value chain must adjust and modify their strategies to aim for market share growth, sustainable profitability and operational flexibility to preserve their long-term competitive position.

For more information on the automotive mega trends:

India contacts



Rakesh Batra
National Leader Automotive Sector
Tel: +91 124 464 4532
Email: rakesh.batra@in.ey.com



Ankur Kulshrestha
Industry Coordinator Automotive Sector
Tel: +91 11 4363 3108
Email: ankur.kulshrestha@in.ey.com

Global contacts



Michael Hanley
Global Automotive Leader
Tel: +1 313 628 8260
Email: michael.hanley02@ey.com



Jeff Henning
Global Automotive Markets Leader
Tel: +1 313 628 8270
Email: jeff.henning@ey.com



Anil Valsan
Lead Automotive Analyst
Tel: +44 20 7951 6879
Email: avalsan@uk.ey.com

Media inquiries



Pushpanjali Singh
Marketing Communications
Tel: +91 124 464 1872
Email: pushpanjali.singh@in.ey.com



Regan Byron
Marketing Manager
Tel: +1 313 628 8974
Email: regan.byron@ey.com

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

How Ernst & Young's Global Automotive Center can help your business

The global recession reset the automotive industry landscape. As the industry recovers, automotive companies across the value chain must focus on profitable and sustainable growth, financial and operational stability, investments in new technologies and seizing opportunities in high-growth markets. If you lead an automotive business, you need to anticipate trends, identify implications and make informed decisions that support your business goals. Our Global Automotive Center enables our worldwide network of more than 7,000 industry-focused assurance, tax, transaction and advisory professionals to share powerful insights and deep sector knowledge with businesses like yours. These insights, combined with our technical experience in every major global automotive market, will help you to accelerate strategies and improve performance. Whichever segment of the automotive industry you are in – from component suppliers to commercial or light vehicle manufacturers or retailers – we can provide the insights you need to realize your potential today and tomorrow.

© 2011 EYGM Limited.
All Rights Reserved.

EYG No. ED0050

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

www.ey.com