

GUEST COLUMN

Empowering Auto SMEs to Steer the Indian Economy

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The Indian automotive industry is the sixth largest in the world with deep forward and backward linkages propelling the economy ahead by its strong positive multiplier effect. In fact the automotive and auto components industry account for almost 40 per cent of Indian manufacturing. It is therefore not surprising that the 'Make in India' campaign launched by our Hon'ble Prime Minister, which is a blueprint to develop the country's manufacturing, resonates well with the auto component Industry's roadmap of a vibrant global manufacturing and sourcing hub in India.

Despite the volatility in the automobile sector in the last years, the auto component sector has continued to grow steadily in the last decade. The component sector has turnover of approx. USD 40 billion, with exports accounting for 28% of the production at over US\$ 11 Billion. Consistent growth in auto component export is a clear indication of the growing credibility of Indian-made auto components in the global supply chain. Practically every major OEM in the world is either sourcing or has plans to source auto components from India and this includes all the big names like Ford, General Motors, Toyota, Honda, Suzuki, Daimler, BMW,

Volkswagen, Volvo and many more.

Let us see what does the future hold for the auto component industry. In the Automotive Mission Plan 2016-26 announced recently by the Government of India, target for the Auto Component Industry has been set at an impressive USD 200 billion in turnover by 2026, with exports in the region of USD 80 billion. These targets may seem a bit ambitious, but are achievable. Here are some reasons why the sun will continue to shine on the auto component sector and what more needs to be done.

India remains one of the most under-penetrated markets for automobiles, with passenger vehicle ownership of less than 15 per 1000 people. This pales in comparison with ownership levels that 3 to 10 times higher in Thailand, Indonesia, Malaysia and China. Therefore, there is huge latent demand for mobility and there are millions of Indians aspiring to own their first passenger car, or motorcycle. Additionally, exports of automobiles from India are growing, with manufacturers like Hyundai, Ford, Volkswagen, etc. are using India as a manufacturing base to export vehicles, engines

and components. Simultaneously, the Indian auto component manufacturers in India are improving their quality capability and become more cost competitive, which is opening up more markets around the world.

However, there remains a lot to be done. The automotive industry in India cannot flourish without the active support and contribution of its Tier 2s and Tier 3s, which are essentially small and medium enterprises (SMEs). In fact, close to eighty per cent of the component industry is dominated by such enterprises. It is imperative that for a robust automotive industry in India, we must ensure that our Tier 2s and Tier 3s remain not only healthy but also become globally cost competitive.

Some of the key challenges being faced by the SMEs in the auto component sector are akin to those of the large enterprises (example: infra deficit complex regulations, etc.) but considering the relative smaller size of the sector, the issues become more pronounced and acute: whether it be access to capital, access to technology or attracting and retaining the right talent – ingredients that are essential for global competitiveness.

While the traditional advantages of low cost and skilled engineering manpower backed by a robust domestic demand for vehicles have stood in good stead for the smaller component manufacturers so far, however going forward there is need to focus on building in-house design capabilities, frugal engineering for cost competitiveness, innovation for product differentiation, and zero defect quality to meet the evolving needs of customers that are continuously looking for maximum value for money in a highly competitive auto market.

What is worrisome is that most of the component Tier 2s and Tier 3 enterprises have poor EBITA margins. In most cases the return on capital is lower than the cost of capital. Thus such units are actually eroding capital. It is for this reason that more SMEs fail to attract the attention of potential investors, and scale up.

While it is the primary responsibility of the Tier 1s, as also that of OEMs to some extent, to ensure that we create factors of growth and sustenance for the smaller enterprises, a lot however rests on the shoulders of the SMEs themselves. For example, maintaining process discipline and not taking short cuts is essentially the responsibility of the SMEs. No amount of handholding from OEMs or Tier-1s can substitute this. Similarly, investing in the training and development of people, providing a stable career, investing part of the profit towards upgrading technology and periodically modernising machine tools rests with SMEs.

As India catches up with new technology trends such as light weighting, electrification of powertrains, safety and emission norms, the Tier 1 along with smaller Tier 2s and Tier 3s industry will have to evolve and innovate to meet the stakeholders' expectations. SMEs have the advantage of relatively uncomplicated operations, flexibility to change fast and innovate. It is for this reason that globally more innovations come from smaller enterprises than large enterprises. Innovation, R&D and new product development need be urgently focused upon to scale the industry to the next level. Most importantly, the urgent need to move away from 'Build to Print' to "in-house design" and creation of IP.

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A vertical completely absent in India is that of electronics manufacturing, which India simply cannot afford to miss. Electronic hardware is already the third largest item of import into India and imports are growing. The electronic content in automobiles is growing rapidly and we risk becoming totally import-dependant. Neither the auto industry nor the country can afford this. Therefore, there is urgent need to create an ecosystem for a vibrant and innovative auto electronics sector to develop. We have already reached the critical state of 'now or never'.

In conclusion, I would like to leave the following 5 points to consider for the Small and Medium Enterprises (SMEs) to play a bigger role in India's manufacturing sector, particularly the auto component sector:-

i) The market in India for automobiles, to satisfy domestic demand and demand in exports, is expected to grow continuously for the next years. Therefore, SMEs have to think of scaling up. Small is not beautiful for the high volume, high growth auto sector.

ii) It is difficult to attract and retain talent in Small and Medium enterprises. However, it is also a fact that without investing in good talent it is not possible to achieve efficient manufacturing and cost competitiveness.

OEMs and larger Tier-1s must come forward to share resources with SMEs to train their manpower, upgrade their skills and if necessary, loan their experienced personnel for knowledge sharing.

iii) If the SMEs have to seize the growth opportunity, the biggest challenge is to focus on quality. The new mantra is not to reduce PPM, but to achieve zero defect.

This requires a new look and new approach towards process discipline, with no one allowed to tinker with specialisation of raw material, or design of tools and fixtures or the approved Manufacturing Processes.

iv) SMEs cannot remain cost competitive only on the basis of lower wages and salaries. SMEs have the advantage of being entrepreneurial and innovative and this is their best bet to become not only locally cost competitive, but globally cost competitive. The mantra for SMEs is to innovate, innovate and innovate.

v) OEMs, Tier 1s and small Tier 2s and Tier 3s are joined at the hip. They have a shared destiny. If any part of the supply chain is weak, all the participants will stand to lose. Therefore, just as developed countries have the responsibility to assist developing countries in their self-enlightened interest, similarly OEMs and Tier-1 companies must extend themselves to help SMEs to grow.

Simple gestures like fair business dealings, making payments on time, training shopfloor personnel, sharing technology etc. can help to create a robust and vibrant SME sector.

When the small enterprises develop a strong backbone, the entire auto component sector will become globally competitive and help us achieve the dream of "Make in India".