

# 'A Great Shift'

**India has leveraged its engineering and design skills to become a hot spot for auto parts.**

**By Jason Overdorf**

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Nov. 28, 2005 issue - With a wandlike wave of his mouse, 27-year-old Saurabh Rawat displays a 3-D model of a new precision gearbox for Porsche's Boxster on his computer screen. Rawat works in the quiet 14th-floor office of Hi-Tech Gears in Gurgaon, Haryana, on the outskirts of New Delhi. On the street below, flashy new Hyun-dais vie for space with battered scooters, overloaded bicycle rickshaws and rawboned cattle. All around them a satellite town mushrooms out of the desert, growing on the strength of the IT-services outsourcing boom.

Rawat—and hundreds of thousands of workers like him—is part of another kind of revolution. Once considered incapable of making quality products and meeting shipment deadlines, India is leveraging its skill in engineering and design to emerge as a hot spot for auto-parts manufacturing. The sector has grown more than 20 percent a year over the past three years, while export growth has topped 40 percent. A host of local entrepreneurs are reaping the benefits. Hi-Tech Gears, for example, has become a global supplier for the German firm Robert Bosch International, while other Indian firms like Bharat Forge—now the second largest forging company in the world—have begun acquiring companies in the United States and Europe.

As some big global players begin to rethink their exposure to China, India is starting to attract some of the foreign investment once directed toward the dragon to the east. A recent study by McKinsey Co. suggests India's auto-components market could grow from roughly \$9 billion in sales now to as much as \$40 billion by 2015—including \$20 billion to \$25 billion in exports—as the parts business shifts from the West to low-cost nations like China, India, Thailand and Turkey. Struggling carmakers are under great pressure to chop their production costs, and parts suppliers in these big, developing markets are increasingly reliable.

To reach its goals, India's auto-parts industry will require lots of investment—as much as \$20 billion over the next decade—and the capital inflow has already started. Last year, for example, the Bosch Group announced plans to invest about \$225 million to build manufacturing capacity in India. Goetze India, in which U.S.-based Federal Mogul holds a 30 percent stake, says it plans \$45 million in capital expenditures. And Sona Koyo Steering Systems, a joint venture with Japan's Koyo Seiko Co., has said it will invest about \$30 million. "There's a great shift underway," says Hi-Tech Gears chairman and managing director Deep Kapuria, a two-term president of the Automotive Component Manufacturers Association of India.

Kapuria says that some U.S., Japanese and European automakers and their first-tier parts suppliers have admitted to him that they're now overexposed in China. Volkswagen entered China aggressively in 1985, and quickly grabbed 60 percent of the embryonic auto market. But since then, even as China's car sales have exploded, the German automaker's market share has dwindled steadily, reaching just 18 percent in the first half of this year. The falloff prompted the company to announce last month that it will stop investing to expand production capacity in China, and will scale back its 2003- 2006 investment plans in the country by 40 percent. VW and other global car companies have suggested to Kapuria that Indian parts companies would be getting more business.

India's auto market is attractive for two reasons. First, though still only about a third the size of China's, it's growing faster than its eastern neighbor. Car sales in India last year grew by 24 percent, compared with 14 percent in China. Beyond that, unlike China, India has demonstrated its willingness to comply with intellectual-property rules and the global patent regime. That commitment is essential, because it's allowed India to build on its strength in engineering and to achieve a competitive advantage making advanced components such as exhaust manifolds and machined gears.

There are potential potholes for the industry, to be sure. The Chinese have a huge advantage when it comes to making products that depend on economies of scale. And the infrastructure problems and bureaucratic impediments for which India is notorious continue to discourage foreign investors. "India has a three- to five-year window to get its act [together]," says Kapuria. Carmakers are betting that it will.

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