

**SPEECH FOR MR. DEEP KAPURIA FOR INAUGURAL OF ACMA AGM ON 2ND SEPTEMBER
2003, NEW DELHI**

Friends, it is my honour and privilege to welcome you all this morning at the 43rd Annual Session of ACMA and National Conference on The Vision 2010 for the Indian Automotive Industry.

I would like to extend a very cordial welcome to Mr. Anand Mahindra, President, CII and Vice-Chairman & Managing Director Mahindra & Mahindra. I begin by thanking you Mr. Mahindra for the "Anand" that you have afforded us by being present with us this morning as our Guest of Honour and the key OEM Speaker. The passion that you displayed, Anand, when I first approached you on the 25th July, to speak at the AGM was truly remarkable, to the extent that when you mistook the date as 2nd August, instead of 2nd September, you were still considering it positively. You are not only the Captain of one of the largest Automotive companies in India, but also the President of CII which represents the entire industrial sector of the country, which places you in a most unique position. I would also be speaking for all of us in the room when I say that you and your Team Mahindra have done the entire industry proud. The highly successful and cost-effective development of the Scorpio put India firmly on the automotive map, and has also strengthened and supplemented India's position as a "Vehicle Manufacturing Nation" subsequent to the similar success of the Indica a few years ago. It was a matter of great pride for us during our recent visit to USA, when we heard two of the Big 3 in Detroit making highly complimentary references to the Scorpio. Today, the world recognises that we are not a "one miracle" industry.

What I am talking about is the "Anand" of an immense amount of Inspiration, Encouragement and the Confidence that this has given to us in the component industry. Thank you very much Anand! I am sure that you will talk to us today in your own inimitable style and lay a perspective for the Future Vision for the Automotive and the auto-component industry, which is the theme of today's Session.

I would like to particularly welcome Mr. R.R. Shah, Secretary IPP, Ministry of Industry for having agreed to grace the occasion today as Chief Guest. I must thank you Mr. Shah for having accepted so readily to be with us this morning. Mr. Shah, I have had the occasion of interacting with you only a couple of times so far. However, I must say that I have been highly impressed with your sharp intellect and quick understanding of the issues that concern industry. I saw this at the CII Ascon meeting and subsequently at the meeting chaired by you to discuss the WTO Tariff negotiation issues. Thank you once again for being with us this morning Mr. Shah.

Friends, The ACMA Annual Session has always been an occasion to reflect on status of the industry and to do a bit of crystal gazing & to look at possible future strategies for growth. Thus, we have today, the Theme for this Annual Session as Vision 2010 for the Indian Automotive Industry. We are fortunate to have Speakers from the OEMs as well as from the Indian industry who would share their Vision with us which will lay down a future Roadmap for the industry and the huge opportunities that await us. May I welcome our Speakers for the day : Mr. Randall Pappal, Vice President, Worldwide Purchasing, Asia-Pacific, General Motors; Mr. Baba Kalyani, Managing Director, Bharat Forge Ltd and Mr. A. Toyoshima, Managing Director, Toyota Kirloskar Motor Company. Thank you very much for supporting this Theme today.

Let me begin by briefly covering the current status of the industry. The last one-year has seen a marked revival of growth in the automotive industry. This has come as a welcome change after a period of fluctuating fortunes over the last 3-4 years. The domestic automotive market is now on a fairly even keel with a somewhat stable and a sustained growth pattern as predicted at the last AGM. India Inc. is today at its confident best! I am convinced that one of the many reasons for the general high level of confidence is due to the good performance of the Automotive Industry and the infrastructure development activity that has kick-started the economy. Quite rightly, the Auto Industry is recognised as the Engine of Growth and its deep upstream and downstream linkages and it impacts the growth of every sector of Manufacturing. A good monsoon and robust market has also brought in great optimism in the manufacturing sector. Friends, there is no doubt – Manufacturing is back in business, with the Automotive Industry leading this Revival.

The growth during the first quarter of 2003 compared to last year has been quite remarkable. A huge 40% growth in passenger cars, a high growth of 20% in LCVs, 10% in motorcycles and a very decent 14% growth in 3-wheelers. The Commercial vehicle segment overall has grown by about 11% during this period, but has shown a dramatic improvements over the last four months. In case of two-wheelers, the growth may seem to have flattened out, but, this growth is on a fairly high base and hence the volume growth is still substantial. However, it has been the passenger car sector that has stolen the limelight recently. Not only has the domestic demand exhibited a very high rate of growth, more importantly, exports of passenger cars from India have been almost doubling year-on-year. Exports of cars in the April to June quarter has grown by more than **91%** over the same quarter last year and we do hope to be exporting 100,000 cars this year. The recent developments of Indica being marketed in UK under the Rover brand, the plans of Hyundai to make India as the hub for their small car production, Ford's export plans etc, make us feel quite bullish on this front. We also hope that the good monsoons and a lowering of the interest rates for the agricultural sector would also help the Tractor industry to turn its fortunes this year and to emerge from the recessionary trends of the last 2-3 years.

The Auto-Components industry has seen a comparatively a good year. The last one-year saw the output of components increase by 16% to breach the US \$ 5 billion mark. Exports of auto-components also saw a 35% jump from a level of US \$ 578 million in 2001-2002 to US \$ 800 million in 2002-2003. However, while the overall output and exports of the industry grew, the operating margins of most companies came under an unprecedented squeeze due to the increase in raw material prices on the one hand and the pressures for price reduction on the other hand.

This brings me directly to the challenges, opportunities that await us to the components of a possible Vision that we can make into a reality.

1. The first challenge shall be of **Technology Development**. In today's world, competitive advantage does not mean just "price competitiveness". To achieve a holistic competitive advantage, it is vital for us to be able to develop our low-cost technologies and become the owner of Intellectual Property. Today India makes 700,000 passenger cars. This level of scale does not permit a viable R&D base. Without our own R&D and Technology development effort, hopes of becoming a global player in the automotive industry in the future would be bleak. This, I believe would be our first and foremost challenge. Technology is the key advantage and also the key differentiation that the developed countries enjoy over the developing ones today, irrespective of where the Cost Advantages are. If we can marry our low-cost advantage with our own developed Technology, we can emerge as world-beaters, like Korea did in the 1970s. If the current growth trends in the domestic and export markets continue, I believe that India has the potential to achieve a much higher level of scale can very quickly cross the 1.5 million mark in the passenger industry within the next a few years. This will give us the viable volumes that could support our own R&D efforts and even allow us to acquire imported technologies that could be converted to leapfrog into the next generation of technologies. Here, I would like to make a mention of a very important initiative that has been taken by TIFAC under the guidance of Dr. R. Chidambaram in having set up the CAR Group, where ACMA and SIAM are core members. Six key Sub-Groups have been set up covering subjects like: -

- Telematics
- Embedded Systems
- Low Cost Safety
- Advanced materials
- Propulsion Systems, Hybrid, Hydrogen and Alternate Fuels
- Recyclability including Re-manufacturing of components

India has not only a large resource of engineers, but also of the scientific community in the world. This initiative aims at bringing together the Indian automotive industry and this strength of scientists and academia for developing low-cost automotive solutions. One clear

potential here is to synergise with the Indian competitive advantage in the IT industry and to integrate our diverse strengths in component hardware with Indian software.

2. Our second key challenge would be to make a reality of the huge potential for **Global Outsourcing** of components. Over the last a few months, we have seen a major transformation taking place in the policies of the global OEMs and Tier 1 in respect to global outsourcing of components from India. Severe cost pressures being faced globally is driving these OEMs and Tier 1s to increasingly look at low cost countries like Brazil, East Europe, ASEAN, India and China for sourcing out components of internationally acceptable quality at low cost. Much has been said and written in the media on this subject and I think that it would be, but appropriate, to put things in the right perspective. Global Outsourcing is definitely a real opportunity and ACMA's target is to achieve a US \$ 2.5 billion export by 2010. However, if the global outsourcing opportunities are grabbed, then the export can increase substantially and could even double by that timeframe. What are the pre-requisite "enablers" that will have to be put in place by the industry as well as Government if we have to achieve such targets? This is a critical question that we would need to answer.

As I mentioned earlier, simple "manufacturing cost competitiveness" is not enough to be able to become Globally Competitive or Global Suppliers. There are a whole lot of other skill-sets required by the industry to meet the rigours of global supplies. These relate to areas like Logistics Support, Warehousing, Product Liability, Product Warranty, Engineering Support, and many other issues. A comparatively simple process like responding to Request-for-Quotations (RFQs) of the global OEMs in a timely manner itself poses a challenge to many of our companies. In fact, it emerged very clearly that one of the basic requirements to supply to the global OEMs would be to position senior decision making personnel on Logistics, Quality and Engineering Support in the same time zone as the OEMs. These are capabilities and skills that we have to develop in double-quick time. Another crucial aspect in global outsourcing is that it is important to convince the "engineering community" at the OEMs end for changing an existing supplier and to move on to a new supplier. The engineering costs involved and the cost of homologation and product approval may take a lot of time and can be very expensive. Hence, for the global OEMs and Tier 1s this is not an easy decision. How do we prepare ourselves physically and mentally for this task? How many of our companies are geared up for this kind of operation? We need to take stock of our own operations and then proceed with cautious haste to accept this huge opportunity.

3. The third challenge I see for our industry is on understanding how **International Trade Diplomacy** is shaping in the world and to manage it effectively to our advantage. The recent developments at WTO are going to impact our daily lives dramatically. The WTO Modalities for Tariff Negotiations which proposes zero tariffs on auto-components by all WTO member countries in a 3-phase period, is currently the hot topic and taking up a lot of our attention over the past a few days. ACMA had immediately organised a 4-member Team that visited Geneva and interacted with the WTO Missions of more than 12 countries that included developing as well as developed countries. This Mission was like a kindergarten lesson to us in the art of sophisticated international trade negotiations. On some occasions, we were even asked by some of the developed countries as to why we really need to develop an auto industry in India? I think their implication was that if you do not have the right scales and the technology, you should exit that industry and allow the domestic demand be met through free global trade!!

ACMA and SIAM after extensive consultations have jointly taken a considered stand that the zero-for-zero approach shall not be in the interest of the industry. Our view is strengthened by the experience of some of the other sectors that have agreed to low/zero tariffs in the past and to see how those sectors have been negatively impacted in terms of Technology Investment inflows. We are also concerned that such a proposal would create major anomalies in Tariff structure where components could be imported at zero duty, but the raw materials continue to attract higher levels of duties. The negative impact on technology inflows together with the inverted duty structure that would emerge, could kill the potential

for value addition at home and therefore seriously hurt the industry and its efforts at building the capacity and scales I touched upon earlier. This also has a direct impact on the country's employment potential. We have represented the case at various quarters of Government including the Commerce Minister and to you Mr. Shah not to agree to this proposal in the interest of the survival and future development of the automotive-component industry. We do hope that Government would put up a strong stand on this issue at Cancun and at other forums. A high-level team from ACMA shall complement the CII delegation at Cancun to provide the necessary support to GOI.

Closer to home, our own initiatives to establish RTAs and FTAs with various countries pose a further stimulation to our intellects and I definitely hope for our industry as well. India has been a late starter in this area. Our own experience is limited to SAARC, which has not made a great difference to us in industry. So, our industry's understanding of the nuances of such Agreements is at a low level of maturity. But, most of our competitors have already had extensive experience with FTAs and RTAs. The ASEAN has been in existence for many years now. NATFA, Mercosur, EU etc are highly matured Agreements. This maturity, or lack of it, in industry, is clearly reflected in our thinking now as India goes in for its own negotiations with Thailand, Singapore, China, Bangladesh etc for FTAs. Our reaction, naturally, is a defensive one. While such a defensive reaction may be the correct one in certain cases, I am sure that we shall miss out major opportunities in international trade, if we do not perceive the benefits of such Agreements and respond with a certain degree of calculated aggression. Where we need to be defensive and where we can be aggressive is a trick we shall have to learn rather rapidly. This calls not only for more education on issues pertaining to global trade diplomacy, but also a change in our mindsets.

4. The Fourth challenge is linked to the previous one and this has to do with **Global Harmonisation of Automotive Standards and WP-29**. While WTO aims at dismantling the Trade barriers, in the Automotive industry globally there are many sophisticated non-tariff barriers that are employed by the developed countries. Most of these are in the form of technical Barriers to Trade (TBTs), including technical standards and regulations and the methods to implement these regulations. WP-29 is the Working Party 29 of the WTO that aims at harmonising the automotive standards globally so that the Technical barriers to trade in the automotive industry could be neutralised. This would therefore promote freer global trade in the automotive industry. India has joined the WP-29 as an Observer recently and has now started to play an active role in understanding its implications on the automotive Indian industry. One aspect is clear. WP-29 would impact each and every segment of the component industry directly. The standards being formulated at WP-29 pertain to all type of components. Japan, Europe and USA have been the key drivers of this initiative and there are regular meetings to work out a consensus for the technical standards on the various components and systems. India has taken a decision to become actively involved in Wp-29, but we need to assess its impact on the industry and make suitable recommendations to Govt. This task will not only be huge, but will also require the involvement of a very large number of companies in the ACMA membership who could contribute technical inputs in making such assessments.

Once we start aligning ourselves to these emerging international trends, the world will open up its markets to us. So the stakes are high and as an industry sector, we have to hone our capabilities to take well-informed and rational decisions in such matters.

All the four Challenges that I have enumerated can be converted into major areas of Opportunities, thru the joint efforts of the Component manufacturers, the OEMs and the Government.

The Firm Level Actions

Let me first address the Firm level actions that need to be taken by the component manufacturers.

- a) In today's competitive world, the only way to protect your domestic market is through aggressiveness in the international market. Companies should start drawing up their firm level strategies to become Indian Multinationals and to expand their footprints in other countries thru JVs or technology tie-ups. Countries like China, Iran, Egypt, ASEAN Region, Mediterranean countries have a lot of potential and they too look upon India as a senior partner in technology. The movement for globalisation has already started in the Indian automotive industry in a limited manner, with Sundram Fasteners starting their operations in China and also a few other companies looking seriously at investing abroad. We are proud of these Role Models and I do believe that the trend set these pioneers shall guide many more of our firms to tread the same path.
- b) Another firm-level action would be to place a much higher emphasis on R&D than has been placed before. Are we satisfied to always remain a simple sub-contractor in the automotive supply chain? Or do we also want to move up the value chain and provide "value added" to the customer? This is a question each CEO needs to ask himself. While there is nothing wrong in being a sub-contractor, I believe that in most cases our industry has the potential to move up the value chain. Firms need to use this positive mindset and work out the best methods of providing higher value to the customer. This "value added" need not be embedded in the product itself in every case. It could come out of Delivery, Service, Packaging etc. This "value perception" of the customer has to be identified. One very good example of this could be the marriage of the component we are producing with our software capabilities. We could go in for embedded systems, low-cost telematics solutions, Systems integration etc. I personally believe that there is great potential there and each company needs to assess their own competitive position and draw up their strategies for improving the Value to the customer.

Let us humbly admit that the competitive edge of low manpower cost, that we have today, is more by default rather than by our design. But to sustain this edge, we would need to build specific strategies and re-design our competitive advantage for the future and not leave it to default.

- c) Convert our defensive mindsets into positive & aggressive mindsets. Let your vision not be limited to the domestic markets. The domestic base can be a good springboard for the global market, but it can never be as big as the global market itself. Let's be more ambitious than we have been in the past. As Prof C.K. Prahalad says, India has the potential do capture the global market, but does it have the aspiration? Lets rise our aspirations to a more global platform, because when there is a lack of aspiration, the full potential cannot be actualised.
- d) Lastly, but most importantly, each firm needs to continuously strive to eliminate waste from their system and improve productivity and therefore reduce cost. Here again, the automotive sector has shown the way to other sectors. The entire manufacturing industry is today taking lessons from the experiences of the automotive sector in its quest to improve quality and productivity. This thrust and focus has to continue and further intensify. I would suggest that companies who are going through such initiatives should also horizontally deploy these good practices not only in their own firms, but also their upstream suppliers. This will impact the entire supply chain and impart a much more sustainable competitive edge in our manufacturing.

The OEM level

- a) At the outset, I can say without any reserve that the relationship between the component suppliers and the OEMs at the institutional level has been one of total partnership and great unity. I must thank SIAM and CII for their support to ACMA in many of the critical issues specially the WTO issues.
- b) Similarly, we have seen a much closer working between the OEMs and suppliers over the past a few years. I am sure that this close working would naturally graduate into an

organisation-wide partnership approach from the initial stages of product design and development. Again, we have seen such partnerships emerging with the development of the new vehicles in India and we are sure that this trend shall be further reinforced as OEMs accelerate the development of their own designed vehicles. Our vision is that the OEMs in India should launch new locally designed and developed vehicle on a regular basis, which will give a fillip to the Indian component industry's capability and hone their technical expertise.

- c) The component industry has full empathy to the challenges faced by the OEMs where the market dynamics are much more intense. Therefore, price reductions have been a very critical part of the supplier-OEM relationship. We have seen a severe squeeze on our margins over the last one-year. The prices of raw material, specially steel has seen an unprecedented increase of more than 30% in some varieties. Moreover, the growth in production of the steel industry has seen a decline from 10% last year to 7% this year. Is this a good trend and why is this happening? The component industry has somehow managed to keep its head above the water through regular exercises to reduce waste from the supply chain and by improving its productivity. We would wish to see a more collaborative approach between the suppliers, OEMs and the raw material manufacturers in this respect. There can be joint initiatives for productivity improvements with sharing of the benefits. Simultaneously, we would seek a more flexible approach by the OEMs on issues like input price hikes. This shall create a win-win situation for both the OEMs and the suppliers.

The Government

I now turn to the Role of the Government as we see it in ACMA.

At the outset, I must acknowledge that the Industry-Government Partnership has truly started taking place now. I have personally seen a close working between The Ministry of Heavy Industry, Ministry of Industry & Commerce, Ministry of Road Transport with industry on various policy related issues, may it be WTO, FTAs/RTAs, WP-29, Standardisation and Technology and formulation of the Auto Policy. In ACMA are also very fortunate to be working closely with the Ministry of Industry on the UNIDO Partnership Project, led by Mr. D.K. Jain. This project is already having its extremely positive impact being felt in 45 component manufacturers across the country in terms of improving their productivity and overall manufacturing competitiveness. I see this as a beginning of a new chapter in Government-Industry partnership and I would like to extend my thanks to all those who have been involved in making this happen.

The automotive component industry was liberalised in the first phase of reforms that took place in 1991, and is therefore no stranger to operations of market forces. We are also clear that the industry will have to accept an environment of continuous trade liberalisation and freer movement of goods and the industry has been well preparing itself to meet free global competition. It is often said that "it is firms that compete and not countries". However, it is also true that there are two distinct elements to a firm's competitive position – one its own internal competitive advantages and the second the competitive position of the environment it operates under. A recent study conducted by ICRA on the competitive position of the Indian automotive industry Vs China reveals that there Indian component industry has a 5% competitive advantage over their Chinese counterparts insofar as internal manufacturing strengths are concerned. But the overall environment creates a competitive disadvantage of about 20% for the Indian industry. This competitive disadvantage is attributable to a higher level of taxation, the incidence of embedded taxation, higher cost of infrastructure and logistics and many other policy related issues. In the past, the relatively higher tariff walls had protected the industry from this gross disadvantage. Now, when the tariffs are coming down, the environmental disadvantages are becoming a stark reality that have to be overcome. We have to work together to convert the "micro-level competence" of industry into "macro-level competitiveness" of the sector as a whole. This is an area where we need the support of Government, in terms of accelerating the Internal Reform process and by creating an environment that will enable us to effectively compete globally in a regime of ever-reducing tariff walls. In the interim period, Government will have to continue with adequate level of tariffs to offset this environmental disadvantage to main our competitive advantage. Interestingly, I had an

opportunity of meeting the Director General of DTI of South Africa recently and I learnt from him that the Ministry of Infrastructure of South Africa has been renamed as the Ministry for Logistics. I hope that something like this happens here too as this reflects a result oriented and holistic in approach, involving a number of different Ministries.

Development of viable scales in the industry can be achieved only thru the support of Government. As long we see automobiles as an item of conspicuous consumption that deserves penal taxation, we shall never be able to achieve the necessary scales. Rather, we should re-orient ourselves to see this industry as a major generator of employment and one that provides a living to a very large population directly as well as thru its deep down the line linkages. If that perspective becomes clear, the overall strategy for expanding the market will automatically follow.

In terms of globalisation of the industry, I feel that Government has to continue to play a constructive role in some of the initiatives like WP-29 and in export promotion. ACMA has prepared a detailed strategy paper on Exports of Auto-components and we would now like to follow-up on the proposals with the Ministry of Industry and Commerce. I would like to emphasise that the automotive industry has its own peculiar nuances and it cannot be compared to other sectors of the industry. There are many elements of global networking and relationships that shape the business of this industry. This perspective has to be kept in mind while making sectoral policies.

Lastly, all three of us, the firms, the OEMs and Government have to put our heads together to develop long term and mutually beneficial relationships with the raw material suppliers. Raw Materials are a critical part of the automotive supply chain and the backward linkage between the component manufacturer and the raw material suppliers is as important as the forward linkage between the component supplier and the OEM.

I would like to end by recapping some of the critical questions facing us today: -

- i) What strategies can we adopt to develop a virtuous scale of the industry, which could enable us to invest in R&D and how do we synergise with our other competitive advantages to develop a sustained leadership in Technology?
- ii) How do we address the various "enablers" that need to be addressed to make the huge global sourcing opportunities to actualise.
- iii) How can the industry respond to the challenge of growing number of RTAs and PTAs and become global players?
- iv) How quickly can we address the Internal Reform agenda? This, we feel is one of the key contributors to the Industry's defensive attitude towards global trade liberalisation efforts.

We hope to get some answers and vital leads to these questions today.

With this, I would like to invite Mr. Anand Mahindra to address us.
