

Automobile design offshoring to witness accelerated growth

ValueNotes, July 2006

“Auto design and engineering services is a huge emerging opportunity that India is well positioned to exploit – given the growing maturity of its automobile industry and proven offshoring capabilities”, says Arun Jethmalani, CEO of ValueNotes.

The automobile industry, especially in the US and Europe is facing intense competitive pressures - rising labour costs, shorter product cycles, dropping profitability and rapid growth in emerging markets. This has created a set of enabling factors, or drivers, that are forcing Original Equipment Manufacturers (OEMs) and auto ancillaries to explore outsourcing and offshoring options.

Offshore Indian vendors stand to gain substantially, as outsourced engineering and design is set to witness double-digit growth for the next five years. According to a latest report by ValueNotes, revenues from automotive design and engineering offshoring are expected to cross US \$1 billion by 2010, from US \$270 - \$300 million in 2005. Estimates also show that the industry employs 12,000 people in India and is likely to see 30 per cent growth every year for the next three years.

Offshore Indian vendors can be categorized into four groups:

- Captives - GM, Delphi, Ford
- Subsidiaries of Indian auto OEMs - Mahindra, Hero, Eicher
- Independent engineering design firms - Plexion, DC Design, Neilsoft
- Indian IT services firms - TCS, Wipro, Infosys

Of these vendor groups, apart from the captives, subsidiaries of Indian auto OEMs are best positioned to offer end-to-end design and engineering services. This is on account of their domain knowledge, and financial muscle to invest in organic and inorganic growth to build capabilities. Rather than piecemeal sub-contracting of design, engineering and manufacturing jobs, auto companies would prefer vendors offering end-to-end services or complete solutions in future. This provides an entry point for more Indian auto ancillaries to move from pure manufacturing to providing the complete range of solutions – from design to manufacture to delivery.

Analyst Niranjana Natsu of ValueNotes says that *“IT firms will gain too, as they will be well poised to marry their expertise in embedded systems with the rising share of electronics in auto”*. However, it will become imperative for Indian service providers to move up the value chain because other countries such as China will provide tough competition for low-end services.

Independent engineering and design firms will be hot targets for mergers and acquisitions as companies with greater financial strength, primarily IT firms, subsidiaries of Indian OEMs and ancillaries look to acquire capabilities and clients.

The report “Offshoring Of Automotive Design And Engineering Services To India” is based on extensive interviews with key people at various automotive design outsourcing companies in India.

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