SME-dominated automotive aftermarket to consolidate

The industry has registered negative growth of 10–15 per cent in the current year

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Chennai, 19 November

The small and medium enterprise (SME) dominated automotive aftermarket in India has in the first few months of the current fiscal year, for the first time in its history, reported negative growth of 10-15 per cent. The industry, with annual revenues of around ₹28,000 crore in 2011-12, will consolidate, industry experts say. Small and medium-sized players will either pool resources to execute orders, or be taken over by larger units, or will close down.

Wholesalers and distributors will do well, while semi-wholesaler numbers may be drastically reduced, said R Dinesh, joint managing director, T V Sundram Iyengar & Sons Ltd.

The automotive aftermarket is the industry that maintains, repairs and accessorises vehicles after they are sold to their owners by a car or truck dealer. The industry encompasses all products and services purchased for cars and trucks after the original sale — including replacement parts, accessories, lubricants, service repairs, and the tools and equipment necessary to conduct repairs.

According to Dinesh, whenever the automotive industry reports negative growth, the aftermarket shows positive growth, but this is the first time in its history that the industry has registered a negative growth of 10-15 per cent.

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Ananth Narayanan, partner, McKinsey & Co, which has brought out a report titled *Scaling the Indian Automotive Aftermarket: Path to Profitable Growth*, said the automotive aftermarket is poised for robust growth. However, the market structure in India is quite fragmented and will remain so in the foreseeable future and there is significant risk that margins will erode across the value chain unless players take specific initiatives to improve profitability.

The report says the aftermarket has grown at 13 per cent annually since fiscal 2007 to reach around ₹28,000 crore in fiscal 2012, while the service market (excluding parts) has grown at 13 per cent to reach around ₹10,000 crore. The growth outlook continues to be positive, driven by sustained increase in vehicle population and a shift towards higher-end vehicles.

However, except for large automotive distributors, players across the aftermarket industry have faced margin pressures in the last few years. This trend is likely to continue, as most players are still sub-scale and will be at risk of declining margins due to pricing pressures as well as rising costs.

While the market structure of the industry will begin to consolidate, to realise the benefits of scale, it will still be necessary for players to make smart choices on "where to compete" and "how to compete" to achieve sustainable and profitable growth. To decide on "where to compete", players must explore opportunities along three dimensions, said the report.

These include geographic coverage by entering the top 100 districts (as these account for over 50 per cent of the total potential), product/service engagement and exploring forward integration along the value chain — for instance, independent distributors can integrate into retail and multi-brand services.

The report said the number of distributors and wholesalers is likely to drop by six per cent to 7,500 by fiscal 2017 from 8,000 now; semi-wholesalers by 10 per cent to 18,000 from 20,000; and retailers by 28 per cent to 90,000 from 125,000.

On the servicing market, the number of OEMs authorised would grow by 21 per cent to 23,000 from 19,000; multi-brand service by 120 per cent to 2,200 from 1,000; semi-organised service will grow by 41 per cent to 85,000 from the current 60,000; and unorganised garages will come down by 17 per cent to 250,000 from the current 300,000.