

Interview: Mahle India Aftermarket on industry trends in India

15-Mar-2024 17:47 GMT

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The resurgence of the unscrupulous parts and service industry and aggressive aftersales strategies by OEMs is putting pressure on tier 1 suppliers in the aftermarket.

The Indian automotive aftermarket is of keen interest to global and national automotive and aftermarket stakeholders.



Source: Getty

According to S&P Global, the number of vehicles in operation (VIO) in the country is the fastest growing compared to any other market in the world, estimated to reach over 80 million units by 2030, up from 44 million in 2020. The average age of the fleet is also increasing gradually every year, with over 32 million units expected to be out of warranty (above the age of five years) by 2030, compared to 21.3 in 2020. The combination of these factors is expected to provide a considerable aftermarket potential for both parts and services in the future.

In addition to the volume growth of the VIO, there is a tremendous change in terms of the technology and features that are being included in these vehicles, especially mass market. There has been a much higher proliferation of advanced technologies like direct injection, dual clutch transmissions, mild and full hybrid systems, even battery electric vehicles, alongside more immersive infotainment and interior convenience systems. This is expected to lead to a fast-growing demand for quality parts and services and especially accessories for the aftermarket.

In addition, the growing alternative fuel market, especially battery electric vehicles (BEVs), is expected to give rise to more unique repair and service procedures, driving a new industry in terms of tooling, equipment and training, especially in the aftermarket.

To cater to the current and future demand and also streamline their business processes, especially distribution, aftermarket companies have embraced a much higher level of digitalization across their companies, with the aim of enabling them to reach a wider audience and at the same time, be quicker with more competitive pricing. But with this increased demand for parts and services and despite the higher level of digitalization in the industry, competition from spurious parts dealers and the unorganized service sector remains a considerable and consistent challenge.

According to the auto component manufacturers association's (ACMA) industry estimates, the country's thriving spurious parts market was roughly 30% of the share of the service and parts market in the country before the pandemic. During that time, this area took a significant hit during the COVID-19 pandemic due to lockdowns but has rebounded and is once again creating competitive pressures on the established players.

In addition to this resurgence of the unscrupulous parts and service industry, original equipment manufacturers are also pushing their aftersales strategies, by pricing their spare parts more aggressively in the market.

To understand what leading global suppliers are thinking along these lines and in general about the Indian automotive aftermarket industry, S&P Global spoke with Sharad Bhatia, head of Mahle India Aftermarket, Mahle Service Solutions, Asia-Pacific.

Here are some excerpts from the interview, which has been edited for length and clarity:

S&P Global Mobility: From ACMA's estimates, for the next four years, the market is looking to exponentially grow compared to the same previous time period. What do you

think is going to fuel this drive?

Sharad Bhatia: We expect the biggest demand driver to be the sales of new vehicles, especially given the trends that have been happening in terms of the tremendous growth overall of the vehicles, over the past decade. This is our bread and butter in the later part of a vehicle's life cycle because all these vehicles which are coming out of the warranty would come into the aftermarket typically. This data of VIO would be key for us to understand.

The challenge, of course, is that on the other side of this growth, the OEMs are getting very aggressive with their aftersales. That is a common sentiment that we tier 1 manufacturers in the aftermarket share. On a broader spectrum, everything seems to be very rosy in terms of the VIO and vehicle consumption level. But if we go a bit deeper, then the share for players like us is shrinking or at least is being challenged because of the OEMs getting aggressive.

From our perspective, we expect growth of about [compound annual growth rate] 7.5% between 2024 and 2028 for replacement parts in the aftermarket industry. For commodities like filtration, lubricants, etc., they would see a bit of a lesser growth because of the high competition many players who could see a between 1 to 3% depending on the brand.

As you mentioned about the OEMs getting more aggressive in their approach toward the aftermarket, we expect that the ratio of players within the aftermarket pie is going to change. So what's your growth strategy to maximize profitability?

At Mahle, we want the industry to see us as a complete service solution provider, which starts with the parts and end-to-end service solutions. When we talk about service, we are already deep inside the garage network with our equipment including AC charge gas refrigerant, nitrogen tire inflators, and transmission flushes where we have product lines established.

The second thing, and also related to service, is that we are very active in diagnostics. With our hardware, software and dongle capabilities, we have all the data available in the cloud, and we are in a position to provide information to any aftermarket player and be considered as one stop shop for all their aftermarket needs. We are able to provide them with thermal, engine and filtration components, that we can club together with the service solutions. We want to be aggressive in the market and try to exploit as much potential as possible.

Do you think the strategy for consistent growth in the future in India would be to make your basket of solutions bigger or to offer more products within the same basket?

First and foremost, we have to be the strong player in our own core products in terms of the product coverage. For example, in filtration, among engine components or thermal, when I go to a primary distributor and if I cover only about 70% of VIO, it doesn't make sense. You have to be at a minimum of 90% and we have to be the champions of our own very strong product coverage.

We would also like to enter into the non-core business, which specifically targets what our principal markets don't have, but we would like to enter in sync with our core product lines. An example of this is spark plugs. In no other country does Mahle do spark plugs, but we decided to launch it in India because spark plugs are related to the engine, and when it comes to the engine parts in India, we are known as key providers of engine parts.

In addition to the solutions that we already offer, we are also looking at offering battery diagnostics. Very soon you would be entering into the aftermarket with that tool. The market is bullish about the electric vehicle, and factors like range anxiety and charging infrastructure are the most spoken

about. However, in addition we have to think about the resale of these electric cars.

Very soon it's going to happen that used BEVs could start appearing on the market, and in reality the cost of the battery is 70% of the vehicle itself. If the car has run for so many odd kilometers in two or three years, the used vehicle buyer would have to understand what is the life of the battery. Where then we would come in is that using our product, we can give a certificate as on date with the state of charge and therefore advise on the health of that particular battery. This way the customer can make a more informed decision.

Even though there is a lot of talk about BEVs, the largest chunk of vehicles on the road will still be internal combustion (ICE). To continue catering to that particular section of the aftermarket, how do you plan on investing, or is this even a challenge to consider now?

We already announced that, as far as the ICE platform is concerned, we would be the last man standing. Till the time anywhere across the globe, any vehicle that requires a filter or an engine component, we would be there to support that. That's our key vision.

But we also have a vision 2030 where we talk about three topics. One is the electrification, because that's inevitable and we have to be in sync with the market. The second one is on the thermal management because this is something that [is] imperative to all vehicles and will have more potential to offer in the future. The third, of course, is that we will continue to provide cleaner solutions to the ICE platform. In a nutshell we have a very strong outlook on all aspects definitely.

For garages in India, digitization is still at a nascent stage with the old forms of customer recordkeeping or ordering parts remains the norm. Is there any way that you see that changing in the near future?

Especially because of electric mobility becoming more popular, this is inevitable. There has to be a lot of upgrading of the workshops. The first initiative will have to be taken by the OEMs itself, because of the technology, and vehicles would first go into the aftersales workshop. In parallel, we tier 1 manufacturers also have to take that onus.

For example, Mahle have displayed virtual reality solutions that we have created for a mechanic to understand as a training tool as to how he has to do troubleshooting of a vehicle once it comes to its garage. It can be also app-based.

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