

Automotive

Industry overview

The automotive industry in India is one of the largest in the world, and accounted for 7.1% of the country's GDP for fiscal 2021. The sector has grown sharply on rising demand, thereby prompting automakers to undertake considerable investments. As per CRISIL MI&A, total passenger vehicles sold in India stood at 3.07 million in fiscal 2022, and commercial vehicles and two-wheelers, 0.7 million and 13.45 million, respectively.

The Indian auto components industry was valued at ~Rs. 4,138 billion during the fiscal. The industry, however, is highly fragmented, with over 600 players operating in the organized segment and many unorganized players catering to the replacement market. Organized players cumulatively contributed ~75%

of industry revenue in fiscal 2021. The replacement auto component market size, though, was also sizeable at Rs 645 billion, which is expected to grow at 7-9% CAGR between fiscals 2021 and 2026.

While the original equipment manufacturer segment does not have to contend with counterfeiters on account of direct sales from company-controlled channels, but the after market is often the target of illicit activity, primarily comprising defective auto components and accessories. Counterfeiters have considerable opportunity to infiltrate the supply chain because of the vast product portfolio within the segment. Counterfeit versions of parts such as clutches, filters, lamps, wipers, bearings, steering arm, brakes, and brake linings having high availability.

Table 9: Stakeholder/reports for counterfeit expectations-Automotive

| Stakeholders | Counterfeit expectation |
|---|--|
| FICCI study 2012/ Automotive Component Manufacturers Association | ~30% |
| Original equipment manufacturers (OEMs)/ aftermarket workshops/ service centres/ industry experts | 20-25% overall; 30-40% in aftermarket |
| Survey: Customer's perception | 25% |
| Associations / Industry experts | 20-25% |
| Consumers | Customers are aware of high prevalence of counterfeiting in the auto-components industry. Price-sensitive customers in the non-urban market are easy targets. |
| Industry players – manufacturers/ industry experts/ workshops | Counterfeiting is prevalent in suspension breaking items, drive transmission and consumables, which contribute almost 50% of the automotive parts business. Even the sticker of a genuine part is available to counterfeiters at a lower price. The counterfeit industry is on the rise because of lack of consumer awareness, ease of manufacturing and packaging, and import of counterfeits. Auto companies are aware of counterfeiting and are collaborating with not only auto-parts OEMs but also component suppliers, branded automotive workshops and independent automotive workshops for delivery of genuine parts. |

Source: CRISIL MI&A

The high proliferating is not only in cars, but also in two-wheelers, buses, and trucks. Counterfeiting is highly prevalent in lubricant oil and all other types of auto spare parts; as per the service centre survey, counterfeit mechanical parts are the highest followed by electrical parts and interiors parts.

The extent of counterfeiting in the automotive segment is estimated at 20-25% by industry experts and service centres. In fact, a FICCI, Automotive Component Manufacturers Association study, and industry sourcing indicated that nearly 30% of automobile components in the after market in India were counterfeit.

Counterfeit parts pose enormous risk to safety

As per a report by the Ministry of Road Transport and Highways (MORTH) and the Society of Indian Automobile Manufacturers Association (SIAM), 20% of road accidents in India were because of mechanical failure of auto components, with several of these accidents on account of faulty and counterfeit parts. Yet, India lacks mandated safety standards for aftermarket products because of which import of counterfeit products cannot be checked, and neither is it possible to gauge the unorganised sector's production and trading of counterfeit parts. Additionally, genuine parts are not easily available, especially for older vehicle variants, which results in purchase of counterfeits.

About 90% of service centres surveyed felt that using counterfeit auto parts were moderately harmful. And ~40% of these stated that they were able to identify fake products by looking at the branding and design of the product.

In automotive segment, end-users are usually not directly involved in the purchase of auto components. These are mostly purchased by mechanics, garage owners, and service centres on behalf of the end-users. Lower cost of the fake products is a major driver for purchase of counterfeit products. Still, as per the consumer survey, ~36% of customers willingly purchased counterfeit auto parts, of which, 41% brought it due to lower cost or because of lack of product availability.

Extent of counterfeiting: city-wise consumers who have come across counterfeit products

Prevalence of counterfeit auto component products is across cities. However, it was the highest in Chennai, Indore, and Patna, according to the consumer survey.

Largely, counterfeit auto parts have the following:

- Pitman arms with mis-spelt name, and do not meet the minimum requirement of OEM fatigue test
- Brake pads are made of poor-quality steel backing plates, with weak or no shim bonding to the back plate. Also, brake pads are made of inferior products, such as compressed wood chips and sawdust.

- Counterfeit windshields fit poorly, causing wind noise, leakage, and appearance issues. These are often not shatterproof glass. Also, untested fuel filters are sold in attractive packing.

| DELHI NCR | AGRA | JALANDHAR | MUMBAI | AHMEDABAD | JAIPUR |
|-----------|---------|-----------|---------|-----------|-----------|
| 10% | 15% | 17% | 9% | 18% | 14% |
| INDORE | KOLKATA | PATNA | CHENNAI | BANGALORE | HYDERABAD |
| 26% | 4% | 34% | 38% | 15% | 12% |

Figure 15 : City wise extent of counterfeits-Automotive

Source: Consumer survey, CRISIL MI&A

Identifying a counterfeit automotive component

In most cases, the customer is not directly involved in the purchase of an auto component. Customers rely on service centres for auto component purchases, and as the auto service industry is unorganized, it is inclined to source counterfeit products.

Methods adopted by the industry to check counterfeiting

OEMs conduct regular raids against traders and manufacturers dealing in counterfeit products. The companies have in-house intellectual property right enforcement teams, which work along with the local police to keep a check on counterfeit products.

Companies in the automotive segment are also selling auto parts directly to end-users, and using anti-counterfeiting measures, such as holograms on products, security MRP labels with holograms, bar codes, and QR codes on the packaging, which can be easily identified by the brand protection team during audits of distributors, as well as by incentivising mechanics, garage owners, and service centres to use genuine parts by providing them cashback/ monetary benefits for each genuine product used.

- **High security MRP labels:** Most brands have a high-security MRP label on spare part products for easy identification. These labels comply with stringent quality norms and meet the brand's global quality standards

- **Laser-marking serialisation:** Laser-marking of the data matrix for traceability and security purposes is an important aspect of the automotive industry. Industrial laser markers and marking systems are ideal for marking legible alphanumeric serial codes, 1D barcodes, and 2D data matrix codes on nearly all materials, including gears and bearings
- **Creation of separate brand:** To address counterfeiting in auto parts, Maruti Suzuki has created a separate brand, Maruti Genuine Parts, or MGP. There are more than 480 MGP retail outlets that supply parts to Maruti Suzuki workshops as well as local garages. There are also over 80 MGP distributors that store parts and accessories, such as brake pads, coolants, bumpers, clutches, etc, and these can be ordered online in 100+ cities as well across India through the Maruti Suzuki Genuine Accessories website.

Duplicates → The products are completely fake and are often used in the after-sale market because of their low costs and visual similarity.

Defective original parts → In cases where manufacturers outsource production of components, certain production overruns of legitimate parts find their way to the grey market, being sold alongside counterfeit, recycled or stolen goods. The mixed sale of unauthorized 'legitimate' goods and counterfeits makes it difficult to control the market, and differentiate legal from illegal items.

Tampering/ Re-packaging → Counterfeit automotive components entering the supply chain through local manufacturing, import from China in the form of fake packaging, or in original packaging sourced from mechanics or service stations.

Figure 16: Types of counterfeiting

Table 10: Most commonly counterfeit parts and accessories

| Engine and exhaust | Suspension and braking | Body and structural | Electrical components |
|--|--|------------------------------------|--|
| Oil filters, air filters, distributor caps, fuel filters, coolant and transmission fluids, bearings, oil pumps, water pumps, spark plugs, piston and piston rings, lubricants, sealing rings | Steering arms, tie rods, bakers, brake linings | Sheet metals, bumpers, windshields | Alternators spares, head lamps, tail lamps, wipers, starter motor spares |

Source: ACMA/FICCI



Laws against counterfeiting

Notification allowing motor vehicles and parts to be affixed with microdots:

The Ministry of Road Transport & Highways issued a draft notification, GSR 521(E), on July 24, 2019, amending the Central Motor Vehicle Rules, allowing motor vehicles and their parts, components, assemblies, and sub-assemblies to be affixed with permanent and nearly invisible microdots that can be read physically with a microscope and identified with an ultraviolet light source.

Key markets for counterfeit automotive parts in India

The auto services aftermarket is acutely unorganised in India, which is the key reason for prevalence of counterfeit auto components. There are many unorganised garage and service centres for all types of vehicles across India, where chances of getting counterfeit products are high.

Instances of counterfeit auto component seizures in India

The reporting for auto components is low for ASPA, but the counterfeiting in auto components is tracked by OEM and manufacturing industry associations.

Table 11: Instances of counterfeit auto component seizures in India

| Sr no. | DD/MM/YY | Location | Incident |
|--------|------------|--------------------------|---|
| 1. | 07-02-2022 | Sitamarhi, Bihar | Fake TVS Motor parts located; shopkeeper arrested |
| 2. | 09-12-2021 | Hathras, Uttar Pradesh | Two arrested while selling counterfeit brakes |
| 3. | 27-11-2021 | Sitapur, Uttar Pradesh | Four arrested for selling counterfeit parts |
| 4. | 10-07-2021 | New Delhi | Factory manufacturing fake bike tubes raided; owner arrested |
| 5. | 17-02-2021 | Bihar, Muzaffarpur | Shopkeeper selling fake tubes of branded company jailed |
| 6. | 05-09-2020 | Jaipur, Rajasthan | Factory manufacturing fake motors of branded company seized |
| 7. | 26-02-2020 | Ghaziabad, Uttar Pradesh | Individuals arrested for selling fake tubes |
| 8. | 17-02-2020 | Hathras, Uttar Pradesh | Four shopkeepers caught, including sellers of fake auto parts of Bajaj Auto |
| 9. | 04-11-2019 | Ghaziabad, Uttar Pradesh | Fake tyre and tube factory raided; two brothers arrested |
| 10. | 27-09-2019 | Lucknow, Uttar Pradesh | Fake auto parts sold; two arrested |