

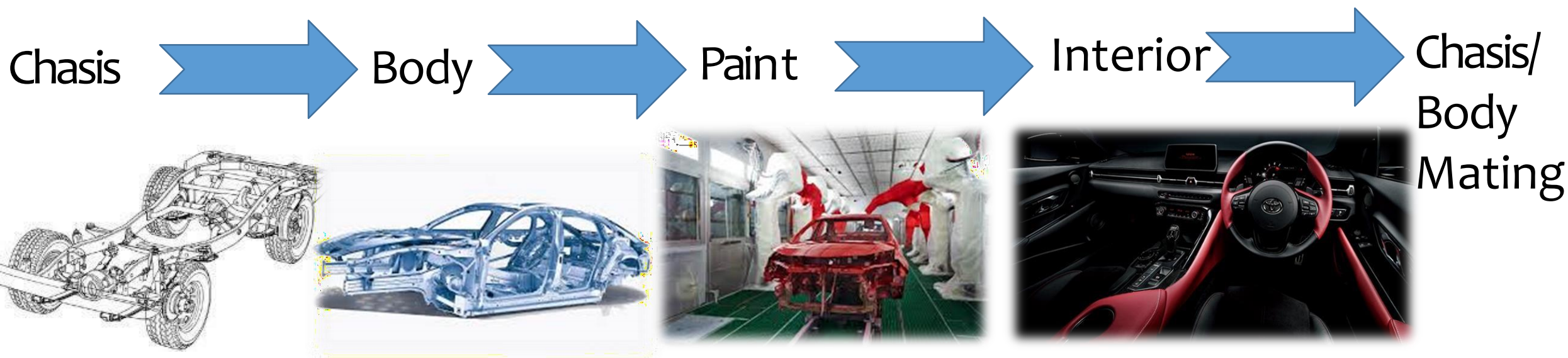
Motor Vehicle Assembly



Real Sector Division - Economic Research Department
Central Bank of Sri Lanka

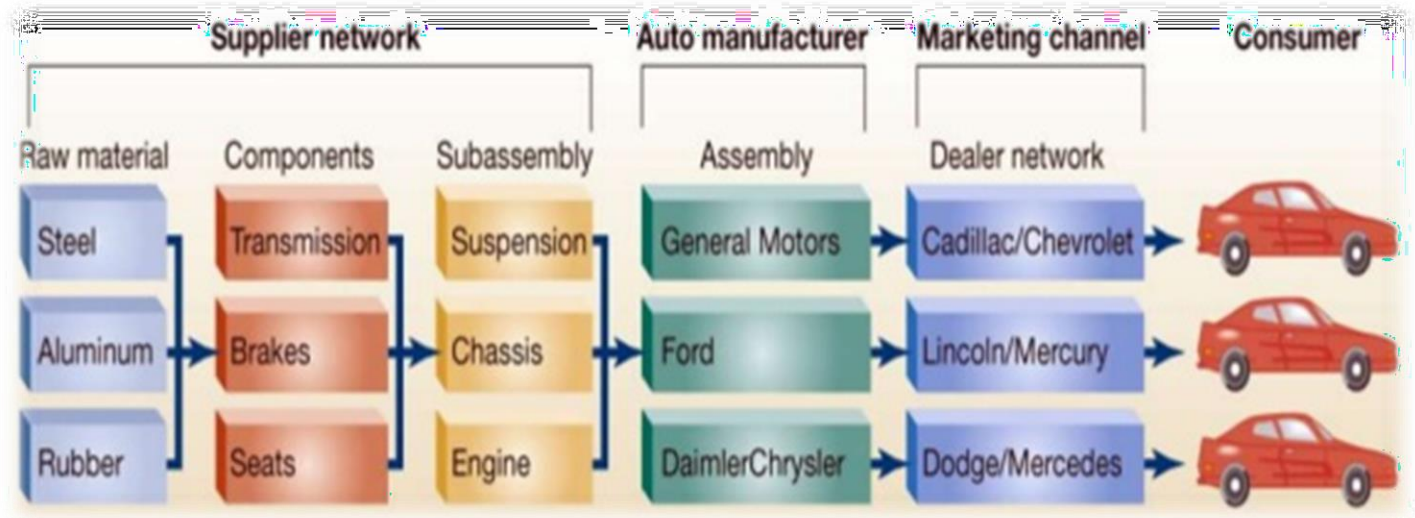
Industry Background

- Interchangeable parts of a motor vehicle are added as semi-finished assembly and moves from one workstation to another in sequence until the final assembly is produced.
- Henry Ford introduced mass production assembly line reducing assembly time considerably
- Frame of an automobile forms the base on which the body rests and from which all subsequent assembly components follow
- The frame is placed on the assembly line and clamped to the conveyor to prevent shifting as it moves down the line.
- From here the automobile frame moves to component assembly areas.



Automotive Supply Chain

- ✓ Powertrain (Engine & Transmission)
- ✓ Electronics
- ✓ Lighting
- ✓ Tyres
- ✓ Sheet material
- ✓ Interior (Seats, Dashboard, Carpet)
- ✓ Glass
- ✓ Tyres & Brake Systems

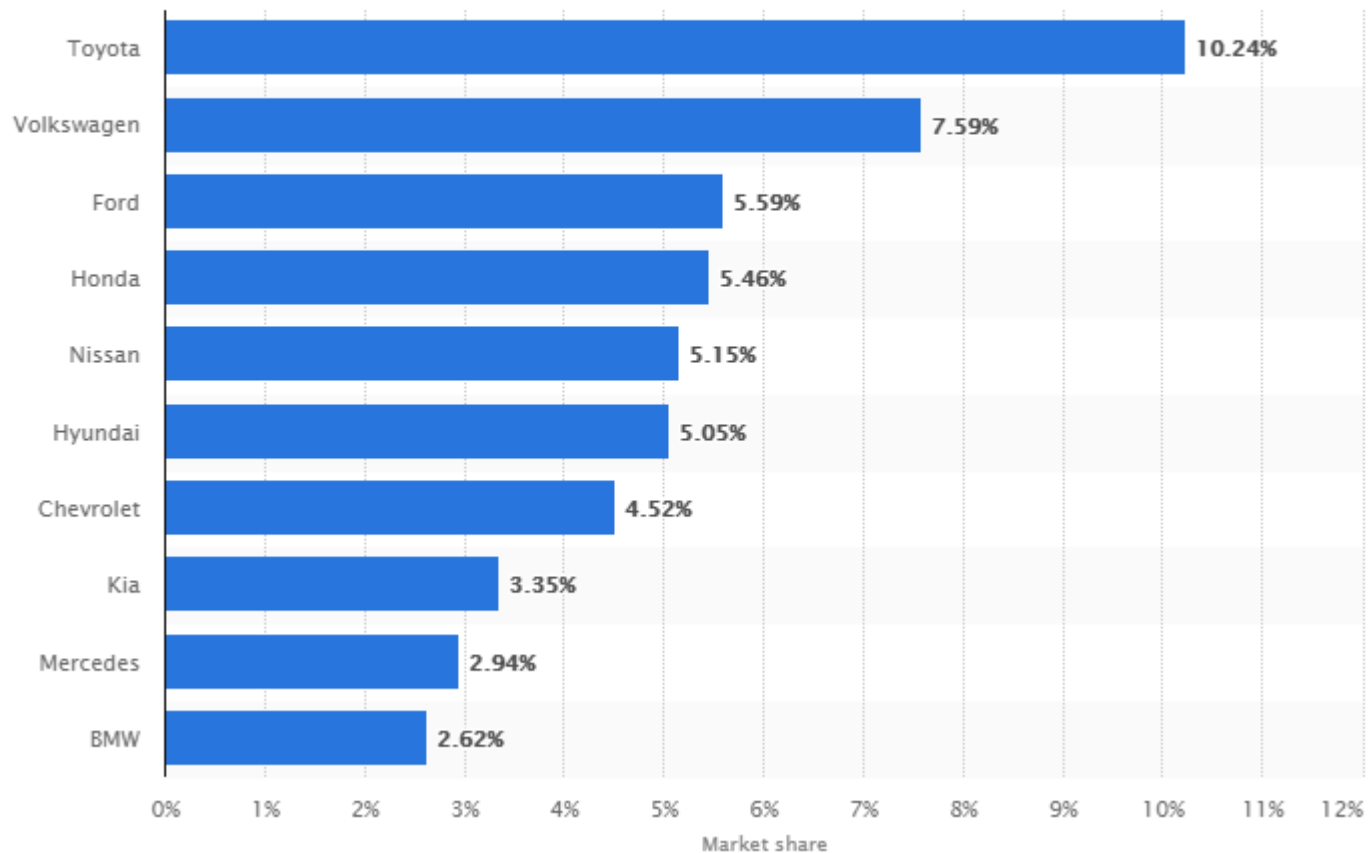


What do Sri Lankan Companies do?

- ✓ Chasis & Engine are imported from foreign countries
- ✓ Seats, Tyres, Outside bumpers are manufactured locally
- ✓ Empower skilled labour to increase the local value addition

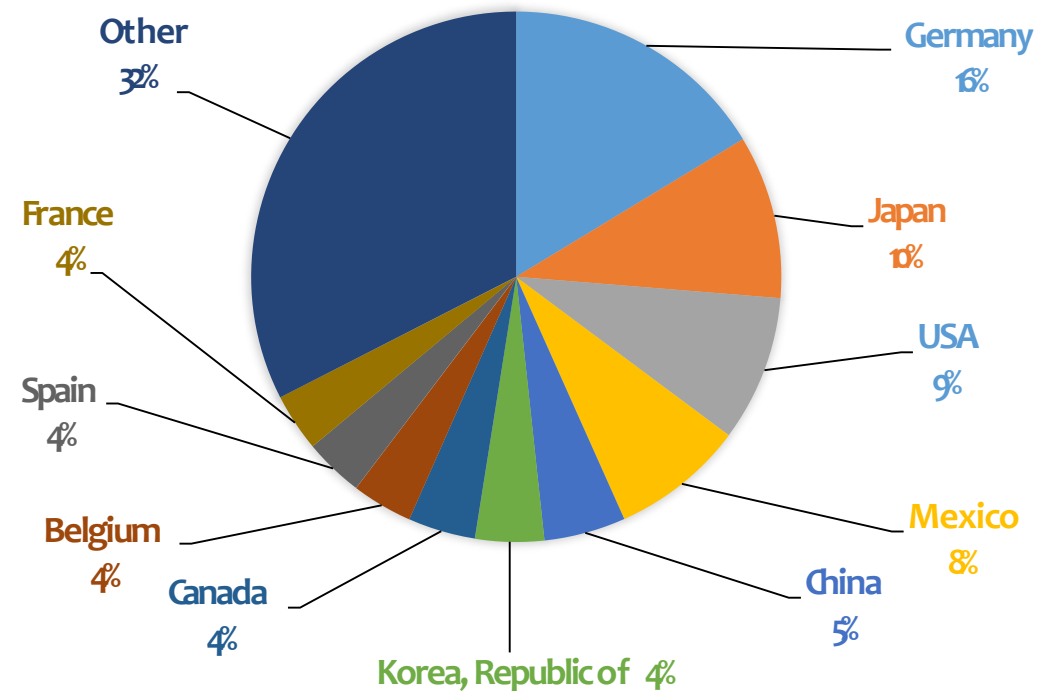
Industry Status – Global

Global automotive market share in 2019, by brand



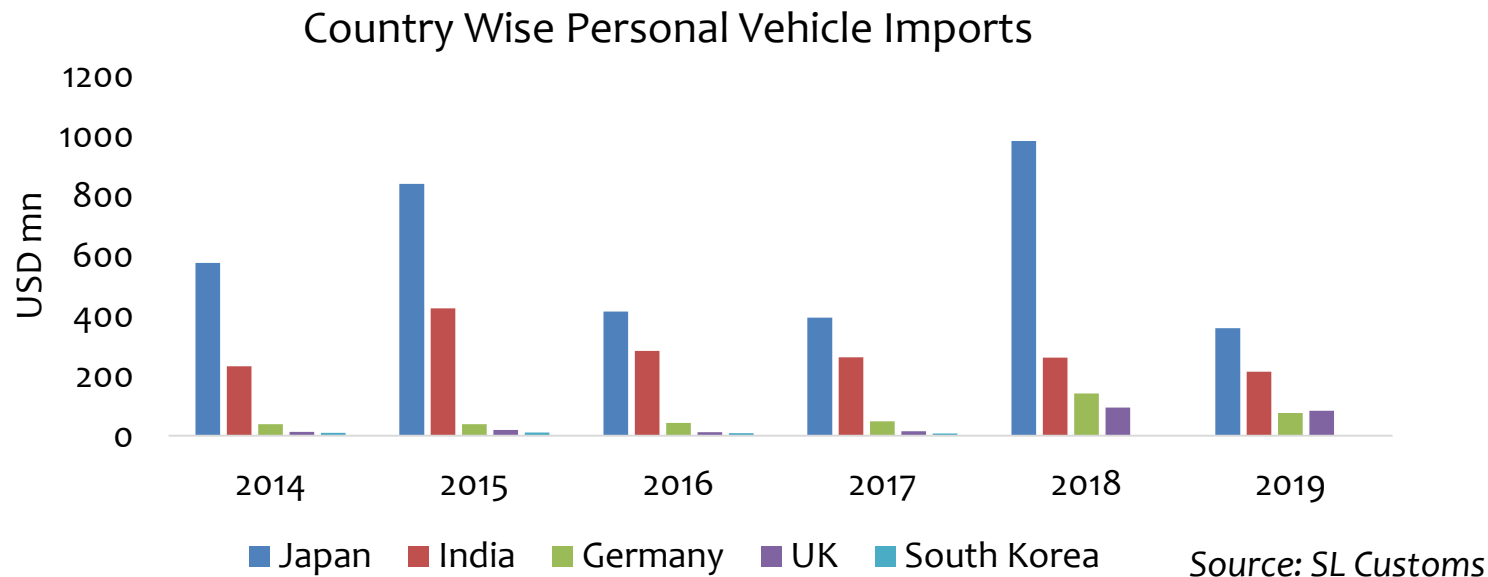
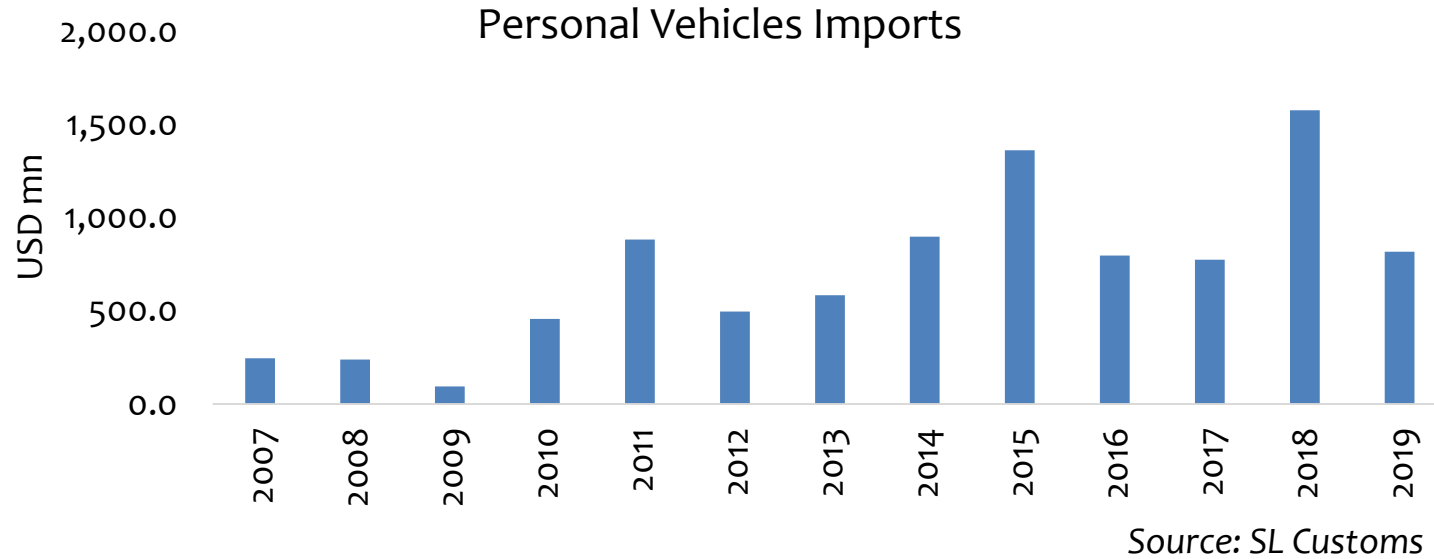
Source: Statista.com

MAJOR EXPORTERS OF MOTOR VEHICLES (MARKET SIZE 1,493 USD BN IN 2019)



Source: Trade map

Industry Status – Sri Lanka



Quick Facts about Imports

- ✓ Major import origins for Sri Lanka
 - Japan
 - India
- ✓ Jan-Sep 2020: 50.3%(USD 281mn)
- ✓ Vehicle Prices reduced due to Importation Restrictions

Key Local Players

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Company	Company Focus
Micro CarsLtd	Vehicle Assembling
Mahindra Motors	
United Motors (DFSK)	
Autogroup International PvtLtd	changing mirror image of luxurious vehicles
Vega Innovations	Vega EVXall-electric-battery-powered two-seater sports car (planned to enter production in 2022)



Autogroup International

- ✓ Mirror image conversion of cars, trucks and SUVs
 - 2005: 1 vehicle per month
 - 2020: 12-20 vehicles per month
- ✓ Major export destination is Australia (85% of total exports)
- ✓ Financing: 100% foreign operating capital
- ✓ Output: 20% can be sold domestically, but unable due to higher engine capacities (over 5000cc -higher import duties)
- ✓ Focusing on high end market and not affected by COVID-19
- ✓ Comply with **Australian Design Rule/Australian Transport Authority Audit** after importing
- ✓ Cheap labour is a favourable factor (SL – 4 AUD/hr, Australia –100 AUD/hr)

Local value addition

- ✓ Dashboard: 100% design & manufacturing
- ✓ Steering rack: 100% designing and assembling (hope to produce domestically during next 4 months)
- ✓ Heating and cooling system: 100% production
- ✓ Electronics designing: 100%
- ✓ Import PCV board from China and value adding according to the requirements of particular vehicle



Potential: Automobile Restoration

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- ✓ Export only business
- ✓ **Import** → **RESTORE** → **Export**
- ✓ High cost in EU region compared to SL (USD 300,000)
- ✓ Earns considerable foreign currency inflows

Bottlenecks:

- ✓ Customs ordinance restricts the importation of vehicles manufactured more than 3 years ago
- ✓ Not approved for two years



Cost = Imported items + Locally produced items + Labour + Overheads

- ✓ 40% of total cost is borne in Sri Lanka
(started at 30%)
 - ❖ Seats
 - ❖ Outside bumpers
 - ❖ Exhaust systems
 - ❖ Most rubber parts
 - ❖ Tyres and Batteries
- ✓ No tax reductions required if industry performs well
- ✓ Production process stopped due to import restrictions and hope to recommence in late 2020



Local value addition

- ✓ Seats: Ideal Auto Seating
- ✓ Battery: Excide
- ✓ Tyre: Ceat
- ✓ Exhaust System: Modicom PVT Ltd

Other Discussion Points

- ✓ 30% tax reduction from SL government
- ✓ Established NVQ 4 training centre
- ✓ Delay in Batch wise approval for chassis number



Find your Mahindra

ALL MODELS



Three Wheelers
From LKR 590,000



Light Commercial Vehicles
From LKR 1,550,000



Pick Ups
From LKR 2,370,000



Intermediate Commercial Vehicles
From LKR 2,495,000



Bus
From LKR 3,595,000



Tipper
From LKR 7,095,000



Construction Vehicles
Price Available on Request



Haulage Trucks
From LKR 6,095,000



Prime Movers
From LKR 4,795,000



Double Cabs
From LKR 6,995,000



SUV & MPV
From LKR 3,250,000



Electric Vehicles
From LKR 1,695,000

Perodua

✓ Targeted marketing for different consumer categories

Eg.-Perodua Myvi launched targeting individual or family use

Perodua Viva for customers who are looking for more convenience

Perodua Alza for big families

✓ Demand from public sector + State Owned Company

Eg.-Perodua Myvi, Perodua Kancil, Perodua Viva are provided to the government for the use of National Parade Day

✓ Special vehicle loans

Eg.-EON bank, RHB Bank and Islam Bank provided a loan scheme to by Perodua cars with a minimum monthly payment

✓ Promotional campaigns

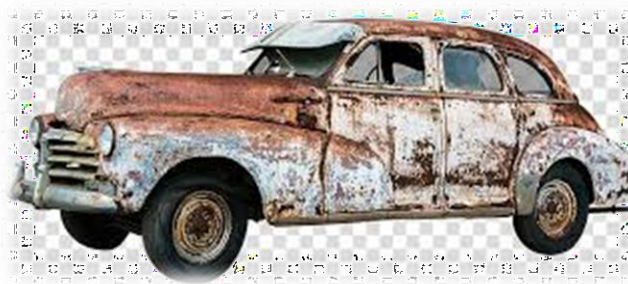
Eg.-television advertisements and world wide web

✓ Providing training opportunities to employees

Eg.-workforce of Perodua was sent to Japan for a special training to learn more about engineering skills and assembling skills



- ✓ Current importation restrictions
- ✓ Vehicle prices are exorbitantly high in the domestic market
- ✓ Local manufacturers can use this **window of opportunity** to cater to this unfulfilled demand for vehicles at reasonable prices
- ✓ **Autogroup International** possesses technology and expertise to restore vintage cars; can tap into demand from the Euro region
- ✓ Reconditioning existing vehicles in Sri Lankan market



Sri Lanka's Strengths

- ✓ Cheaper labour rates compared to countries such as Australia (Sri Lanka's labor costs are 1/25th or 4 %of that of Australia!)
- ✓ Currently caters to vehicles for consumers in higher income categories who have rather inelastic demand and remain largely unaffected by unexpected events such as COVID-19
- ✓ Skilled labour force in addition to presence of required training institutes (eg. Ceylon German Technical Training Institute)
- ✓ BOI provides concessions to companies in motor vehicle industry (eg. Autogroup International)
- ✓ **30% import tax reduction** provided by SLgovernment to Mahindra Motors
- ✓ Plenty of research undertaken in this area

- ✓ Policy Inconsistencies
(Poor level of long-term investments because of volatile interest rates, inconsistent tax policies etc.)
- ✓ Lack of financial support
- ✓ Lack of R&D institutions
- ✓ ‘Negative perception and attitudes’ towards locally manufactured vehicles
- ✓ Inefficient & time consuming process to obtain approval for new project proposals



Discussion with Industry specialist

Mr. Dimantha Jayawardena - President/SLACMA



Mr. Dimantha Jayawardena
President / SLACMA

- ✓ TATA (light commercial vehicles), Peugeot, Hyundai & KIA are in discussion to start manufacturing plants in SL
- ✓ Indra Traders came up with a proposal to develop their own brand
- ✓ Standard Operating Procedure (SOP) for automotive industry is in progress for SL (eg. Tamil Nadu)
- ✓ Potential to manufacture tyres, air filters, oil filters, ABS sensors, Bumpers, Seats (Mahindra Motors Technical Collaboration with Magna Seating)
- ✓ Continue TS for two years So it permits locally manufacturers to get closer to OEM standards
- ✓ Interest Rates – banks are not flexible, requirement of collateral for companies with sound financial history, youngsters are unable to fund projects
- ✓ Exchange Rates - favourable around 150-160
- ✓ Tax structure on importation of machinery is favourable
- ✓ Drawbacks of using old vehicles
- ✓ Increase LTV ratio for locally assembled vehicles



Way Forward

- ✓ Establish linkages between industries and universities so that they would be able to come up with synergies and develop innovative products
- ✓ Tax holidays
- ✓ Streamlined processes of granting approvals
- ✓ Industrial banks to support national development
- ✓ Deregistration process
- ✓ Offer loans with concessionary rates and less collaterals to emerging industries
- ✓ Disposing old vehicles
- ✓ Budget proposals
- ✓ Develop public transportation

