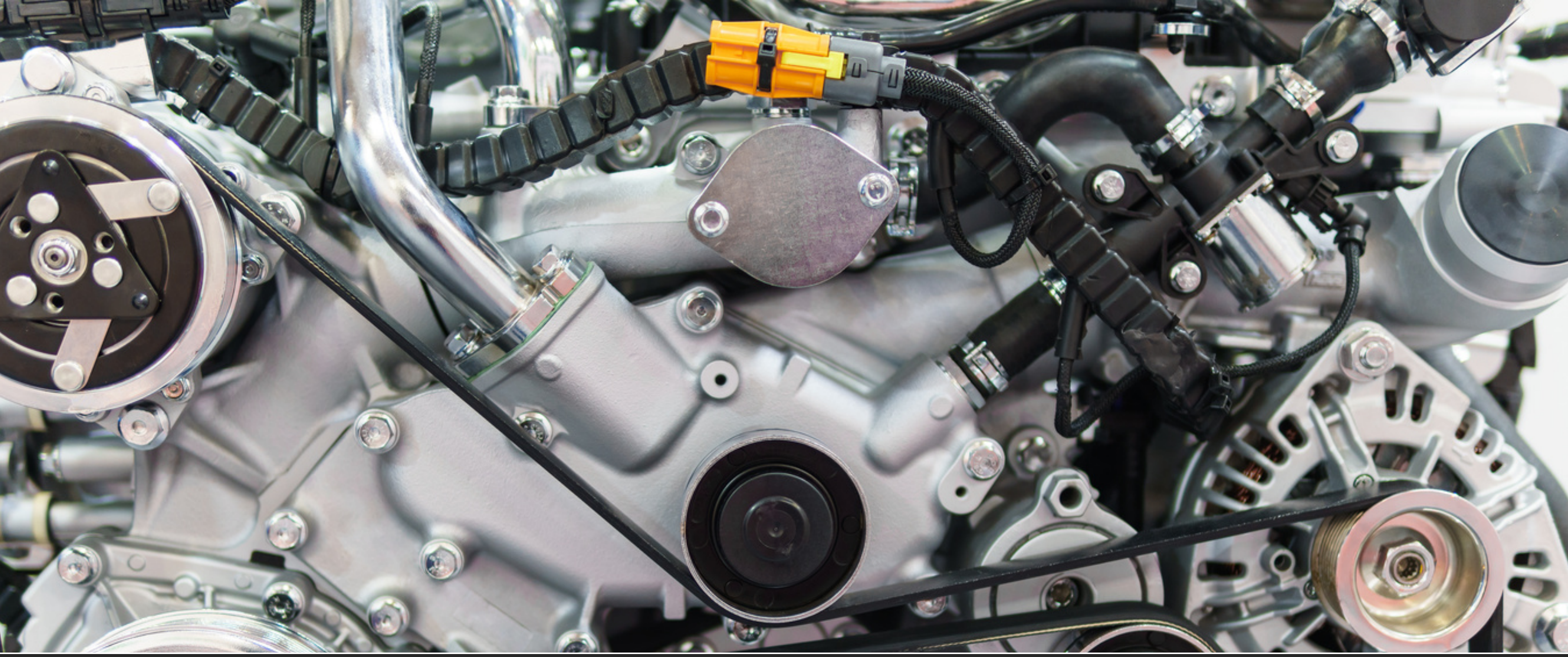


DEEP DIVE

The Employee Cost Trend in the Auto Component Industry
December 2023

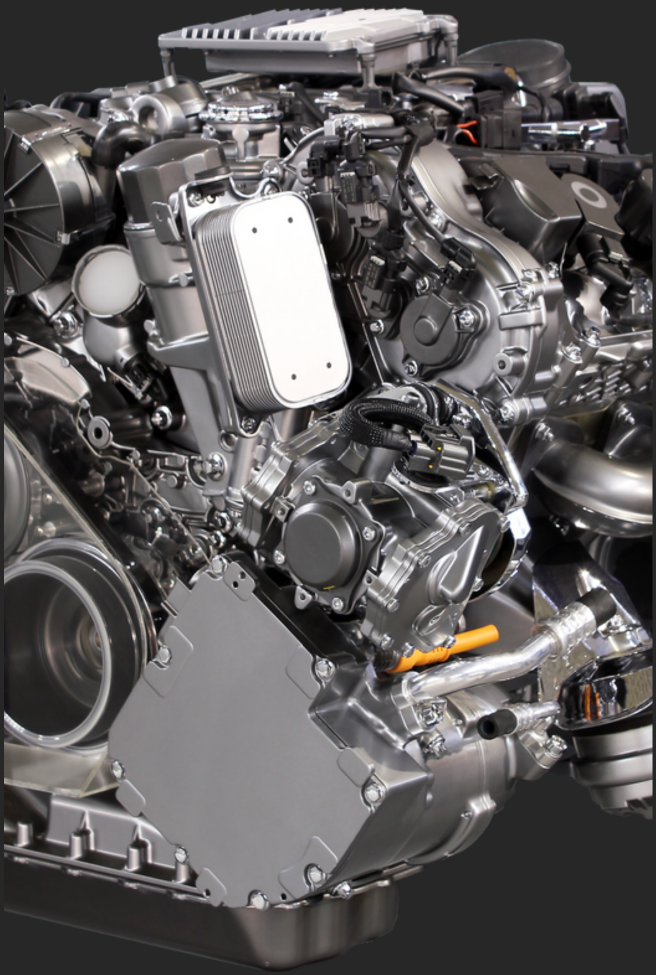
talentonic

PREPARED BY TALENTONIC HR SOLUTIONS

FY18-FY23

OVERVIEW

Talentonic has worked closely with the auto component sector and over the last 8-10 years has closely watched the HR challenges which this sector has faced and overcome. Employee cost has been central on this cockpit reflective of the internal productivity pressures as well as demand led jolts to the sector.



BACKGROUND

By 2026, the India Auto component sector is slated to become the third largest component manufacturer in the world with an expected turnover of approx. $200 billion and an export performance of $30 billion. By then, the sector is expected to constitute 5% of the GDP and a very significant direct employer. It's expected to provide "direct incremental employment" to 3.2 million people in the decade from 2016-2026.

The manpower productivity in this sector has always been under some pressure with an opportunity for improvement in EBITDA levels. For the last 6 years, Talentonic HR Solutions has been studying the employee cost trends in the industry basis the published data provided by the 68 listed companies in this sector.

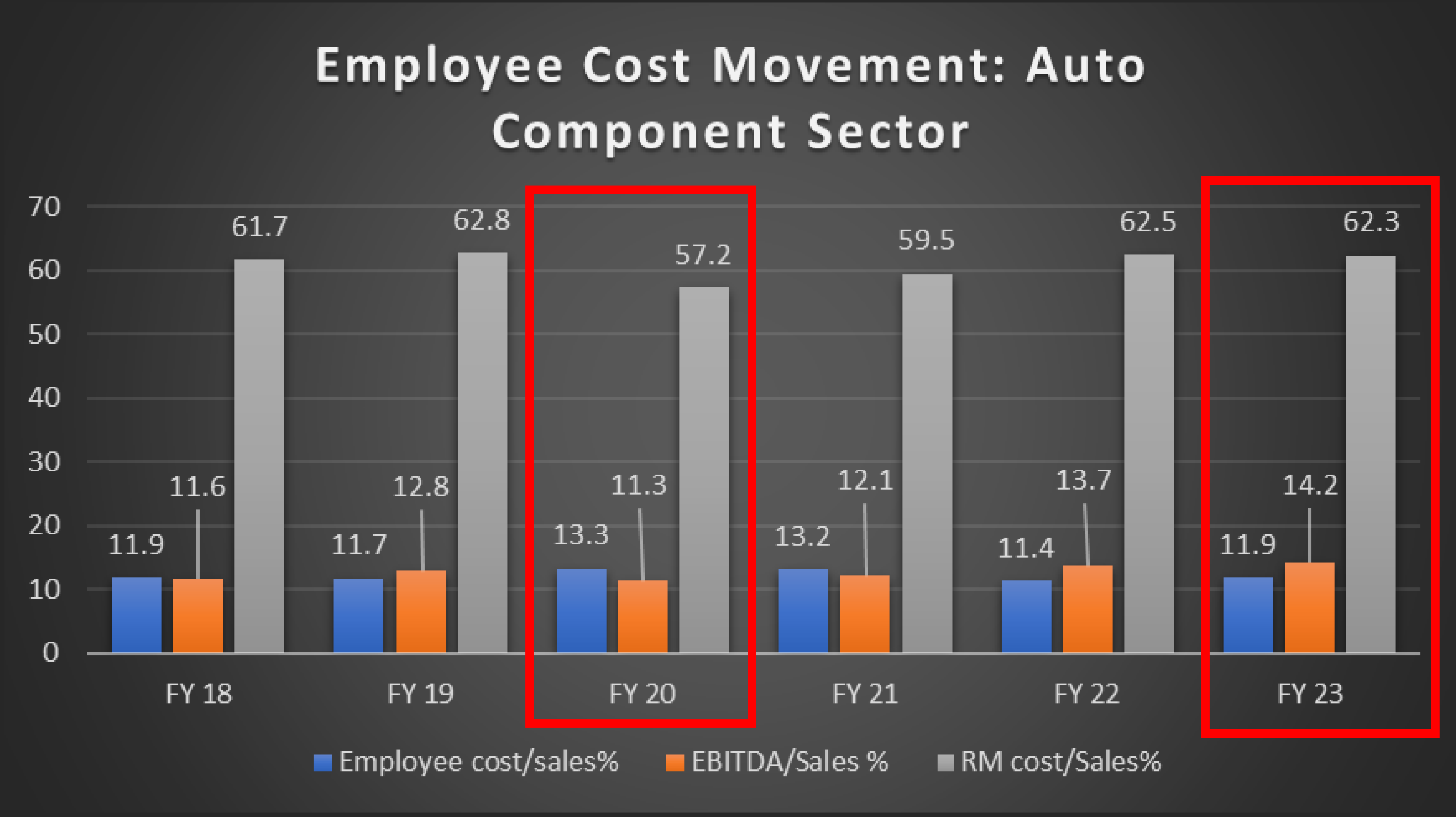
Source : Money Control

BIG PICTURE

From a high of 13.3% employee cost in 2020 the auto component sector has taken advantage of the almost 60% increase in revenue in the intervening 3 years to reduce the employee cost to 11.9% in 2023.

This has directly funded EBITDA levels which have increased from 11.3% to 14.2% during the same period

The graph below shows the big picture across the last 6 years spanning the covid period



The sector has recovered the losses it incurred in FY 20 and 21. However its unclear if they have been able to make any strategic or structural moves to increase manpower cost efficiency during this period

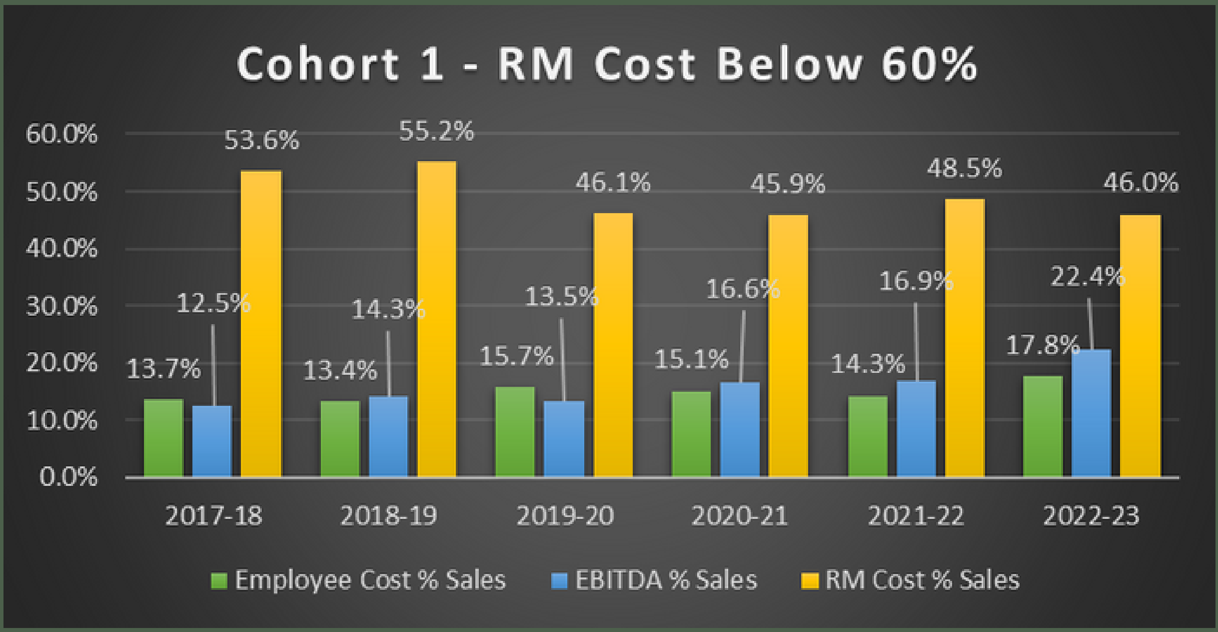
DETAILED ANALYSIS (1)

Employee cost in this sector is a product of the make-buy business model. At the gross level this relationship does not show up other than the dip in FY 20. Therefore, we divided the data base into 3 categories:

- Cohort 1: RM Cost less than 60%
- Cohort 2: RM Cost between 60-70%
- Cohort 3: RM Cost over 70%

*RM= Raw Material Costs

This shows the true variation in employee cost basis the business model

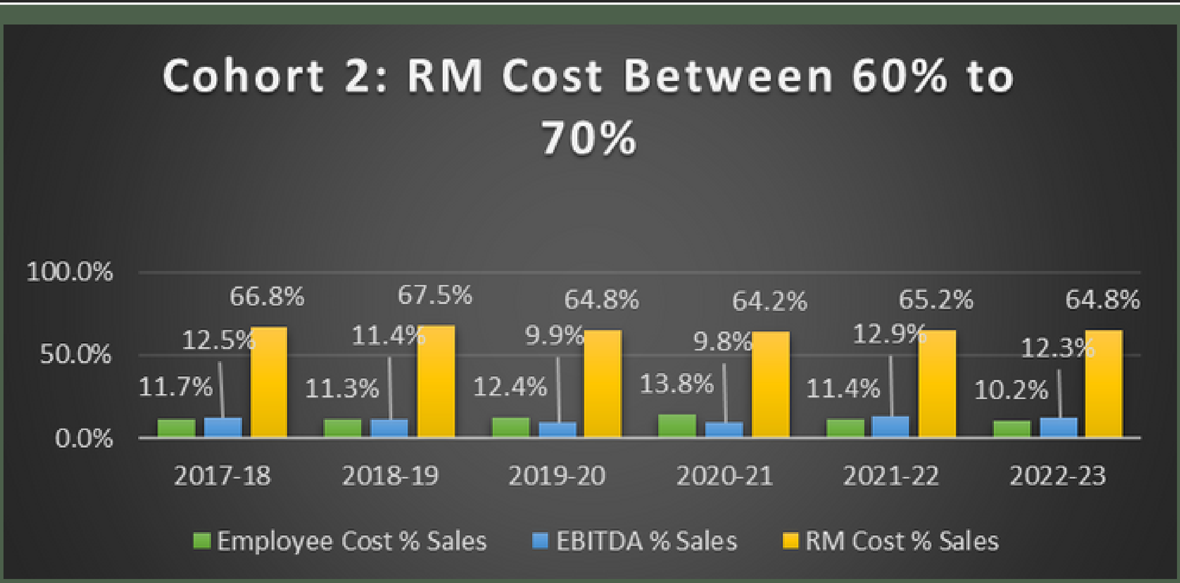


There were 22 of 68 companies in this category. Some examples are names like LG Balakrishnan, Sundaram Clayton, Federal-Mogul, Timken India, Talbros Auto, Rane Brake. Revenue growth was 66%

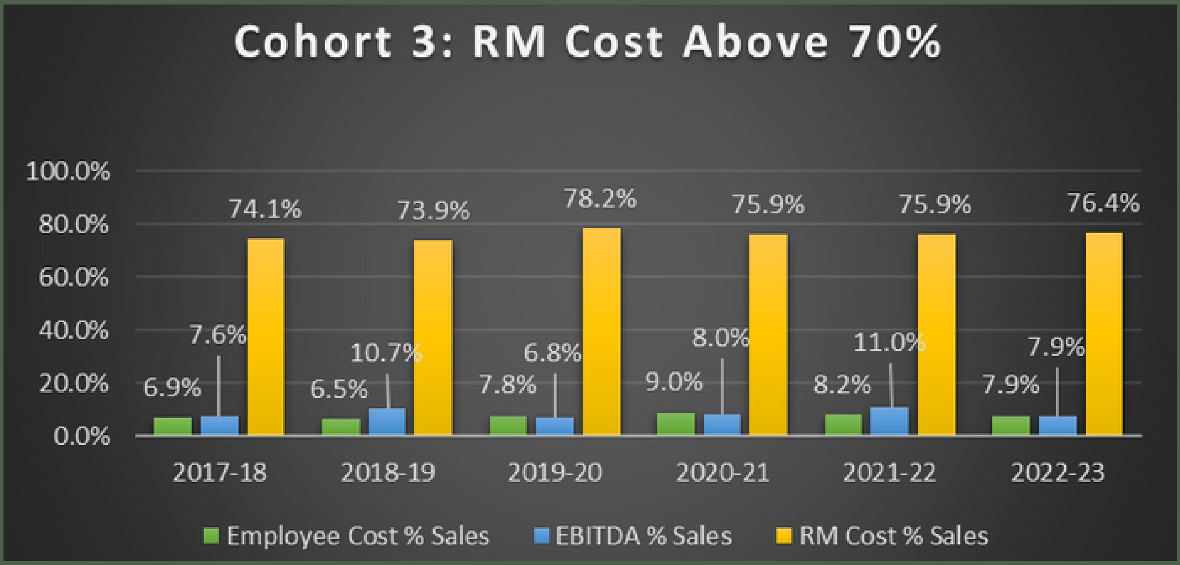
The current employee cost is 17.8% significantly up from 13.7% in FY 18. Companies with a higher in-house content exhibit more favorable EBITDA levels, indicating a strategic correlation between increased investment in employee costs and the facilitation of profitable revenue growth. In the 5 years from FY 18 to FY 23, employee cost went up by 30% and EBITDA climbed by a whopping 80%.

The learning here is not to have a narrow single minded focus on employee cost but to look at profitable growth. In a model where the in-house content is high, the capability to exploit the upside is the true story here.

DETAILED ANALYSIS(2)



Cohort 2 has 25 of 68 companies. Some examples are names like Bosch, Motherson Sumi, Amara Raja, Lumax. **Revenue Growth was 60%** Employee costs has reduced by 12% over the last 5 years while EBITDA has been flat. This cohort could have shown a better performance.

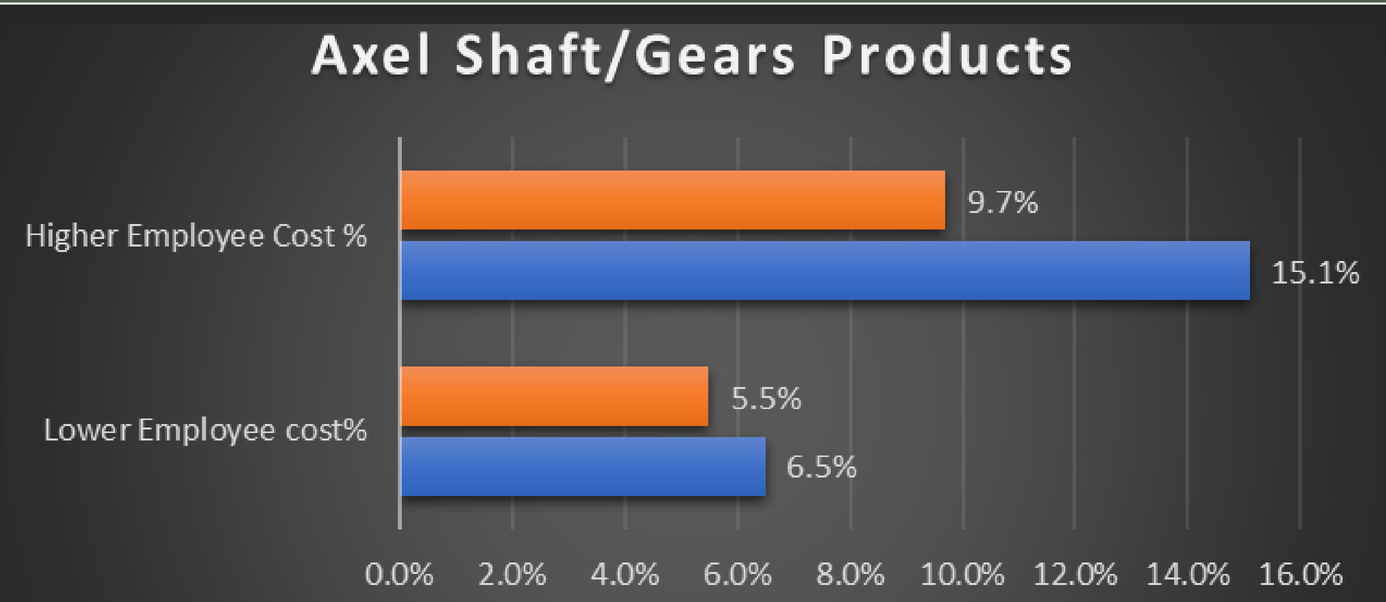


Cohort 3 had 21 of 68 companies. Examples of names are: Exide, Wheels India, Subros, Gabriel, JBM Auto. **Revenue Growth was 59% .** Employee cost and EBITDA remain flat. There appears to be an absence of a concerted effort toward operational efficiency, presenting a clear opportunity for improvement. With more than 70% material cost, a lot of the growth economics is in the hands of the vendor.

SUMMARY

REVITALIZING PROFITABILITY

The automotive component sector has effectively navigated the challenges, demonstrating resilience in restoring productivity levels to pre-COVID standards, and in many instances, surpassing FY18 benchmarks. As we approach FY25, the sector has yet to take advantage from a strategic and structural examination of manpower costs.



	Lower Employee cost%	Higher Employee Cost %
70% >	5.5%	9.7%
45% -55%	6.5%	15.1%

Talentonic's expertise in enhancing organizational effectiveness within the manufacturing domain showcases a commendable 15% reduction in legacy staff structures achieved through meticulous role analysis, optimization of work methods, workload estimation, and judicious implementation of simple automation. A number of illustrative case studies underscores the success of these endeavors.

Among the 68 companies assessed, numerous benchmarking opportunities have surfaced, offering valuable insights. Notably, companies within the same product group and adopting similar make-buy models exhibit noteworthy disparities in employee cost structures, presenting a strategic avenue for optimization and improvement.

CONTRIBUTORS

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