

## **Auto component makers build resilience to cope with the disruption of pandemic**

India's auto component sector that contributes 2.3% to country's GDP, around 5% to exports and approximately 20% to the manufacturing employment is a critical sector for India's sustainable economic growth. This article delves into the strategies adopted by the auto component manufacturers to become resilient in the face of the disruption brought by the pandemic.

Auto component manufacturers resorted to business process re-engineering to make their operations leaner, cost effective, more flexible and agile to adapt to this challenging time. All the partners of the entire supply chain, right from original equipment manufacturers (OEMs) to auto-component makers to tier 2 and tier 3 suppliers cooperated efficiently to help each other cope with this challenging time.

Since the outbreak of the pandemic, auto component makers faced rise in cost of raw materials such as steel, aluminium etc. Manufacturers faced shortage of labourers as most of the migrant workers returned to their hometown. Even when the economy reopened, not all the workers resumed work, which caused shortage of labour. Apart from rise in material cost and labour shortage, auto component makers faced disruption in their supply chain as they could not import components and parts from China because of restriction in production and movement of goods amidst the pandemic. Further, the added cost of adhering to safety protocols such as thermal scanning, COVID testing and sanitising the factory floor increased the operational expenditure of the manufacturers.

In order to overcome some of these challenges, Indian auto part manufacturers took several corrective measures to make their operations leaner, flexible and they also diversified their sourcing to de-risk their operation from supply chain disruption.

The first corrective measure they took to make their operation resilient was bringing back the migrant labourers from native place. These firms assured accommodation, food and healthcare facilities for the returned labourers and took them to confidence. Auto component makers had to utilise their existing infrastructure efficiently to provide space for accommodation, food and healthcare facilities for migrant workers.

Manufacturers also hired some fresh workers and trained them on critical manufacturing process such as die cast pouring at high temperature, gravity casting etc. As a result of intensive training given to new workers, the industry could meet 100-120% of the per-pandemic order level despite having only 80% of the labourers back in their factory. Auto component suppliers deployed cutting edge technologies such as Robotic Process Automation (RPA) to automate repetitive jobs such as reconciliation of sub-contractor accounts, maintaining pay rolls etc.

Secondly, they diversified their sourcing of raw materials and components. Auto component makers reduced global sourcing in favour of local sourcing and shifted from single sourcing to multiple sourcing to de-risk their supply chain. As a result, the dependence on China for input materials has declined from 80% to around 30% for some auto-component manufacturers. In the process, they also expedited approval process for hiring alternative suppliers. Auto-component manufacturers had to train their new vendors to adhere to the desired quality standards. Training was also given to ensure quick decision making by the tier 1 supplier for hiring new tier-2 and tier 3 suppliers down the value chain.

Better inventory management was one of the key strategies adopted by automakers to reduce cost of carrying inventory. Auto component makers reduced the inventory stuck in work in progress by minimising the throughput time and simultaneously they increased the finished goods and raw materials stocks. Some manufacturers increased the raw material stock from three days to 15 days and increased the stock of finished goods from three days to 10 days, while minimising the work in

progress days. Such an agile inventory management increased cash to cash cycle. All the supply chain partners relaxed payment terms to ease working capital condition.

On account of pandemic, movement of people was restricted. As a result, officials of auto-component manufacturers could not visit the factories of tier 2 and tier 3 suppliers for inspection, testing and validation. Similarly, officials from the original equipment manufacturers could not visit the factories of auto-component makers for inspection and quality testing. To overcome this issue, all the supply chain partners deployed digital technologies and visual control process for conducting reviews, evaluation and monitoring from remote places. Original Equipment Manufacturers conducted remote inspection of the facilities of their component suppliers to evaluate their safety protocols. It is very important for all the supply chain partners to follow strict COVID safety protocol as even if there is minor lapse in safety measure at one end of the supply chain, it can affect the entire auto industry because of the inter-connectedness of the supply chain partners. Large automobile OEMs created dashboard to gather data on the safety measures taken by their suppliers.

All the supply chain partners had to plan their operations to synchronise their schedules and minimise disturbance. Therefore, suppliers and OEMs synchronised their production shifts, exchanged data on the availability of workers per shift in order to avoid disruption in the supply chain.

Thus, auto component makers improved the efficiency of their operation through better management of their firm infrastructure, Human Resource and technology to maintain their margin amidst this challenging situation. Thus, the auto component industry holds an illustrious example on how to make their operations lean, agile and responsive to cope with the disruptive forces.

*(Information for this article has been collected from the presentation made by a senior official of Endurance Technology, which is an auto component supplier based out of Aurangabad, at a recent industry event)*

## Notifications

### Press Information Bureau

**Government constitutes Advisory Council for Open Network for Digital Commerce (ONDC)**

<https://pib.gov.in/PressReleaseDetailm.aspx?PRID=1732949>

**Ministry of Tourism signs MOU with YATRA.COM to strengthen Hospitality & Tourism Industry of India**

<https://pib.gov.in/PressReleasePage.aspx?PRID=1732850>

### CBIC

**Application of Customs Act section on bilateral agreements**

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-nt2021/csnt58-2021.pdf>

**Exchange rate notification**

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-nt2021/csnt57-2021.pdf>

## **DGFT**

**Mandatory Export Inspection Certification for rice export to Europe**

<https://content.dgft.gov.in/Website/dgftprod/3bff43e1-7bb2-4379-bfbb-ea7104d6b6c7/Noti%2012%20Eng%20.pdf>

**Period of modification of IEC extended only till July 31, 2021**

<https://content.dgft.gov.in/Website/dgftprod/5baa33d0-13d0-4b7a-9f78-5a3543681416/Notification%2011%20dt%2001-07-21%20Eng.pdf>

**Oriental Chamber of Commerce and Industry can issue certificate of origin (non-preferential)**

<https://content.dgft.gov.in/Website/dgftprod/82b76b7b-4134-4e2d-bf20-2342bc7de061/PN%2011%20dt%2001-07-21%20Eng.pdf>