

# ASIAN AUTOMOTIVE NEWSLETTER

Issue 48, September 2006

A quarterly newsletter of developments in the auto and auto components markets

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## INTRODUCTION

BDA is an Asia-focused corporate finance advisory firm which assists multinational clients to identify, assess and execute cross-border transactions, including acquisitions, divestments, JVs and restructuring. We have offices and professional staff in all of the major Asian automotive markets, as well as in the US and Europe.

The 2006 automotive components market has been marked by increasing activity by Asian companies, particularly Indian and Chinese companies, seeking to acquire US and European automotive components assets. We expect this trend to increase markedly during this year and beyond. BDA has close relationships with many of the larger Asian potential acquirers, and if this is an area of interest to you, please do not hesitate to contact us.

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## CHINA

**ArvinMeritor Inc** will open a new wholly-owned operation in Wuxi, Jiangsu Province, China. The 300,000-square-foot facility will initially manufacture trailer axles and suspensions for key trailer manufacturers in China, as well as for export of components to North American and European plants. Other drivetrain and brake components will be added to the operation's portfolio, as the company continues to pursue its strategic enterprise model. Investment in the Wuxi operation will include US\$35m for new equipment. The company has identified local sourcing for its components, which furthers its integrated manufacturing strategy to bring all aspects of the supply chain within close proximity of the facility. (August 7, 2006)

**Autoliv** bought an additional 20% shares in **Nanjing Hongguang-Autoliv Safety Systems Co Ltd**, a Chinese seat belt company. Autoliv now holds 70% of the company's stock. NHA was established in 1989 as a 50/50 JV to deliver seat belts to Volkswagen in Shanghai. Now its customers include **PSA/Peugeot-Citroen, GM, Ford., Mazda** and **Chery Automobile**. (July 26, 2006)

**Brose** opened its third production facility in Changchun, China in September. The €10m (US\$12.7 million) facility is the German supplier's first wholly-owned operation in China and will produce seat adjusters and window regulators for **FAW-VW**, as well as other suppliers including **Shiroki, Faurecia, Johnson Controls, Lear** and **Sitech**. The new Changchun facility will allow

Brose to supply to other original equipment manufacturers (OEMs) in China, as well as a number in Japan and Korea. Brose expects the facility to generate a turnover of €30m in the Asian market in 2006. (September 12, 2006)

Korea tire manufacturer **Kumho** is planning to build its fourth tire plant in China after reaching a preliminary agreement with the city of Nanjing. The company already operates a factory in the outskirts of Nanjing and the plan is for construction to begin next January with completion scheduled for the first half of 2008. Kumho has set aside US\$220m for the investment. (July 12, 2006)

**Nanjing Automobile Group** set up a US\$226m (RMB1.8bn) unit to oversee the development of its own-brand cars based on technology acquired from failed British car maker MG Rover. Nanjing Auto will hold 22.2% of the new subsidiary, set to roll out its first self-developed car by March 2007 with six other local firms sharing the remainder. The firm will also assemble vehicles at Rover's now-closed Longbridge assembly plant near Birmingham, England, and at its home base in China. **SAIC** has committed US\$214.8m (RMB1.71bn) to develop its own-brand cars based on the acquired Rover 25 and 75 platforms, with an eye on developed markets, including Europe. (August 29, 2006)

**Nanjing** has signed an agreement with **XPart** to supply aftermarket **MG Rover** parts from China. The first two shipments recently left for England. XPart, based in Leicester, England, is the only dedicated source of genuine parts for MG Rover models according to its website. The parts supplier is owned by **Caterpillar** of the US. Nanjing bought the assets of MG Rover in July 2005. Nanjing's purchase included MG Rover's production lines, including many that are specially tooled to make replacement parts for MG Rover models. (June 26, 2006)

**PSA/Peugeot-Citroen** will build a new plant with its Chinese partner, **Dongfeng Motor**, in central China capable of producing 150,000 vehicles per year. Construction in Wuhan will start before the

end of 2006. The plant would begin operations in 2009. PSA/Peugeot-Citroen is also in the process of doubling the capacity of an existing facility in Wuhan to 300,000 vehicles per year by 2008. (July 7, 2006)

**TRW Automotive** announced plans to start production of electronic parking brakes for the Chinese market in 2007. The supplier will add a new building at its Beijing JV, **LucasVarity Langzhong Braking Company**, to build the brake systems. The plant currently produces front and rear calipers and other brake parts for the **FAW-VW JV**, **Chery Automobile**, **Nissan** and **BMW**. (June 29, 2006)

**SAIC Motor**, China's biggest carmaker, has reached an agreement to buy the rights to the *Rover* brand from Germany's **BMW**. The deal, reportedly worth £11m (US\$20.7m), is subject to a decision by **Ford**, which bought the *Land Rover* brand from BMW in 2000 and has the first refusal on the Rover brand. SAIC already owns the design rights to two Rover models – *Rover 75* and *Rover 25*. (August 25, 2006)

**Ssangyong Motor** signed a licensing agreement with **SAIC**, paving the way for the Chinese firm to produce Ssangyong's SUV's on the mainland. The 10-year agreement will allow a unit of Shanghai Automotive to produce Ssangyong Motor's *Kyron* SUVs in China from engines and chassis platforms supplied by the Korean automaker. The financial details of the agreement were not disclosed. In exchange for the technological assistance, Ssangyong will receive an unspecified amount from licensing fees, running royalties and others. The agreement remains subject to the Chinese government's approval. (June 26, 2006)

**Valeo**, the French auto supplier, has announced the formation of a 50/50 Chinese JV with **Ichikoh** to make auto lighting systems for Japanese automakers in China. The new company, **Foshan Valeo Ichikoh Auto Lighting Systems Co Ltd**, is expected to begin production April 2007 at a new plant in south China. Valeo also announced

that it has increased its shareholding to 100% in **Hubei Valeo Auto Lighting Systems Co Ltd**, its other Chinese JV. (July 13, 2006)

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## INDIA

**American Axle & Manufacturing Holdings** has announced plans to build a driveline plant in India. The plan would position American Axle to supply both **GM** and Indian automaker **Tata Motors**. The company is also considering a JV with a Tata supplier. (August 14, 2006)

**Amtek Auto**, the Indian component supplier, purchased **Amforge Industries'** connecting rod production line for around Rup100m (US\$2.15m). The acquisition will give Amtek a near-monopoly of the Indian connecting rod market, and is expected to add Rup500m in revenue in the coming year. The line will be moved to Amtek's unit in Gurgaon from Amforge's facility in Faridabad, and will increase Amtek's connecting rod capacity from 4 million units to 5.5 million units. Amtek supplies **Maruti-Suzuki**, **Hindustan Motors** and **Tata Motors** amongst others. (August 25, 2006)

**Amtek Auto** announced a major acquisition strategy for both the overseas and domestic market in the current year. The company is currently in talks with companies in Europe and the US for acquisitions. The targets operate in the machining, casting and forging arena and the turnover of these companies range from US\$50m to US\$700m. Amtek Auto currently has cash reserves of about US\$300m. On the domestic front, Amtek is believed to be in acquisition talks with two autoparts manufacturers. (September 5, 2006)

**Ashok Leyland** announced that it has signed a framework agreement to acquire the truck business unit of Czech company **AVIA A.S.**

However, the transaction details were not divulged. This would be Ashok Leyland's first overseas acquisition. AVIA manufactures the *D Line* trucks in the 6T-9T GVW range that are marketed in Europe. The acquisition covers the company's manufacturing facility that is located in the heart of the Czech capital. AVIA's manufacturing facility is equipped to manufacture 20,000 vehicle units annually. (July 19, 2006)

**Bellsonica Corporation** of Japan and **Maruti Udyog Ltd (MUL)** have entered into a JV to manufacture car body metal components, including high tensile strength steel. Maruti will hold 30% in the JV, called **Bellsonica Auto Component India Pvt Ltd**, and Bellsonica the rest. The proposed JV will be a core supplier to **Suzuki's** automobile ventures in India, including **Maruti**, and the recently reborn two-wheeler JV, **Suzuki Motorcycles India**. The operation is expected to go on stream in November 2007. (July 12, 2006)

**Bharat Forge Ltd (BFL)** announced plans to set up a forging unit in West Bengal. Unconfirmed reports stated that the company would be investing around US\$130m. The auto component manufacturer exports goods to China and Southeast Asian countries and stated that West Bengal would be an ideal destination to access these markets in an efficient and cost effective manner. (August 3, 2006)

**DaimlerChrysler India** forayed into the commercial vehicle market in India with the launch of *Actros*, a heavy duty special application truck. The commercial vehicle, launched with two variants – *Actros 4040K* and *Actros 4840K*, features a robust build with a 12-litre engine with delivery output of 400 HP at an rpm as low as 1800. These trucks would be completely built with imported chassis. (June 26, 2006)

**Delphi's** Indian subsidiary, **Delphi India**, is looking at selling or spinning off facilities into a JV as part of the supplier's global restructuring, according to local news sources. The plants involved would be a steering plant in Bangalore, and a suspension

plant in Noida. Production at these facilities is now considered to fall outside of Delphi's core business. Delphi's restructuring will see it focus on more profitable safety, navigation and electromechanical systems and this restructuring in India reflects the goals of this plan. (September 12, 2006)

**Ducati Energia** of Italy and **Kinetic Communication**, the auto component unit of the **Kinetic Group**, has formed a JV with an initial capital investment of US\$3.2m to produce auto-electrical components in Pune. This JV, called **Ducati Energia India**, would produce auto components like flywheel magnetos, CDI, ignition system, regulators and ECU for two and three wheeled vehicles. The company aims to earn revenues of US\$4.3m during the first year of operations. (August 25, 2006)

Chennai-based **El Forge Ltd** has announced plans to raise its stake in **Shakespeare Forgings Ltd**, a UK-based company it acquired in July 2005. El Forge bought a 74% stake in the company for Rup28m (US\$0.6m). El Forge will increase its stake in the company to 100% from 74%, for a consideration of about US\$200,000. Shakespeare Forgings is based in Birmingham and caters to the automotive, agricultural and mining segments in the UK. (August 15, 2006)

**Endurance Technologies Private Limited (Endurance)**, producer of aluminum die cast auto components, suspension systems, transmission systems, braking systems and alloy wheels, announced that the Company has concluded a US\$33m private equity financing round with **Standard Chartered Private Equity Limited (SCPEL)**. Endurance is expanding its capacities, and pursuing acquisitions in Europe and US, in its various product categories to cater to the growing needs of its OEM customers in India and increasing business opportunities with its overseas customers. (August 31, 2006)

**Escorts** announced plans to sell a 49% stake in **Carraro India** to its JV partner, **Carraro S.p.A.** of

Italy, for €20m. Carraro India manufactures transmission and axles for tractors. The funds will be utilized to pay down the company's debt and reduce interest costs. Escorts also stated that the divestment would help the company focus on and expand its core tractor and construction equipment business. (August 31, 2006)

**Exide Industries** has decided to carry out a US\$26m (Rup1.2bn) capacity expansion in all its facilities in India and is setting up second manufacturing facility at Haldia in West Bengal to primarily cater the export market. The facility will manufacture industrial batteries. (July 22, 2006)

**General Motors** is building a second plant in India as it seeks to gain 10% of the country's fast-expanding market for passenger vehicles by 2010. The factory, to be located in the western state of Maharashtra, would have a capacity of more than 100,000 units and would require an investment of about US\$428m to US\$471m. (August 3, 2006)

**Honda** announced it will invest US\$650m in India over the next 10 years to expand capacity. The company plans to expand its car business capacity to 150,000 units by 2010. Honda is also planning capacity expansion for its two-wheeler business and also plans to set a new auto component division in India. Honda is present in Indian two wheeler market through its 100% subsidiary **Honda Motorcycle and Scooter India Ltd (HMSI)** and a JV with **Hero Honda Motors Ltd**. In the car business, the company holds a 99% stake in **Honda Siel Cars India Ltd**. (July 3, 2006)

**Hyundai** will reveal details of a US\$500m investment plan in India to build an engine and gearbox factory in the country. The company is already building a second car manufacturing plant alongside its existing plant in Chennai that will give Hyundai's Indian operation a capacity of 600,000 units per annum when it goes on stream in late 2007/early 2008. Hyundai is looking to expand India's importance as a hub for serving overseas export markets, as well as the domestic market. (September 18, 2006)

The **India Government** has initiated the sale of a 10.24% holding in **Maruti Udyog Limited**, to raise more than US\$545m. The government stake in the company is held by the Ministry of Heavy Industry. As many divestments of public sector companies are on hold for now, a sale of shares in PSU Maruti will offer much-needed resources to the government. (August 21, 2006)

**Isuzu Motors** announced plans to produce and market commercial vehicles in India in partnership with a local affiliate of general trader **Sumitomo Corp.** Isuzu aims to start making buses as early as 2007 and will also explore the possibility of producing trucks. Under a deal signed with **Swaraj Mazda Ltd**, an Indian maker of commercial vehicles in which Sumitomo holds the leading stake of 41%, Isuzu will export bus components for assembly at the Indian firm's plant in the state of Punjab. The buses will be sold under the Isuzu brand name through the sales network of the Indian partner. Isuzu aims to sell 100 units in 2007 and 1,000 in 2009. (July 3, 2006)

**Motherson Sumi Systems Ltd** acquired **ASL Systems Ltd UK**, a manufacturer of wiring harnesses and related products. The transaction gives Motherson its first manufacturing footprint in the UK. According to industry sources, ASL Systems was a loss-making firm. It was not clear whether Motherson would shift part of the production to India. Motherson Sumi supplies wiring harnesses to material handling, earth moving and farm equipment, white goods and electronics among other industries. The transaction details were not disclosed. (August 8, 2006)

**PK Ruia Group** acquired a 100% stake in the Mumbai-based **Monotona Tyres Ltd (MTL)**. Promoted by the Monotona group of Mr. Dipak Poddar, MTL has capacity to manufacture 300,000

units of two and three wheeler tires, and supplies to **Bajaj Auto, LML** and **Kinetic**. The exact transaction value was not disclosed; however, experts believe the acquisition has been in the range between US\$11m and US\$17m. The company will be merged with Falcon Tires. (September 1, 2006)

**Suzuki** entered into discussions with **Nissan** to construct in India a new factory capable of producing 250,000 vehicles a year. This plant would require an investment of around US\$543m (Rup25bn). Only Nissan brand vehicles would be produced at the facility. The automakers have yet to decide on specifics, such as exactly where the factory would be built and when it would come on-stream. (September 8, 2006)

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## INDONESIA

**Nissan Motor** plans to invest US\$50m in the expansion of its Indonesian operations, according to news sources. **Nissan Motor Indonesia (NMI)** aims to raise the production capacity at its plant in Purwakarta to 1,500 units per month from the current 1,000 units, while also expanding its local dealership network. The expansion will accommodate the arrival of the new *Levina MPV* model. (August 30, 2006)

**Toyota** plans to increase its vehicle production capacity in Indonesia by around 20% next year, from 100,000 units per annum currently. Total vehicle sales in the world's fourth most populous country plunged about 50% in the first half of 2006 compared to the year-ago period, and industry association Gaikindo predicts sales will only be between 370,000 to 400,000 units this year. (July 13, 2006)

To submit stories to future editions of this newsletter, please contact Ms. Sora Ahn in New York on 212.265.5300 or sahn@bdallc.com.

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## JAPAN

**Asahi Tec Corp** announced that it will buy US auto parts maker **Metaldyne Corp** for US\$1.2bn in an effort to improve its ability to supply parts overseas. The Shizuoka-based company, which is 63% owned by Ripplewood Holdings. (September 1, 2006)

**Daihatsu Motor** announced plans to invest about US\$85m (¥10bn) to build a new engine plant in Kyushu as it ramps up production to meet surging demand for mini-cars. The new factory, the company's first in 34 years, is slated to go operational in fiscal 2008 and will have an annual capacity of approximately 200,000 engines. The factory will manufacture 660cc engines for mini-cars and may also make 1-to-1.5-liter engines for sub-compacts. (July 12, 2006)

**Denso Corp** has earmarked about US\$12bn (¥1.5tr) for capital investments at home and abroad over five years starting in fiscal 2006, about 35% more than the past five years, on projections of stronger demand for electronic parts designed to make vehicles greener and safer. For the year through March 2007, Denso plans to spend a record US\$2.8bn (¥327bn) on facilities, up 13% from the previous year. While about 70% of the figure for the current fiscal year will go toward domestic facilities, Denso also plans to boost the production ratio of overseas sites. (July 27, 2006)

**Honda** announced plans to build a new manufacturing plant to produce key components used in its hybrid cars. The facility, which is scheduled to be operational in 2008, will enable the automaker to quadruple its annual output capacity for electric motors to 200,000 units and reduce the cost of making a small hybrid car due to be released in 2009. The project is expected to cost about US\$70m, the plant will have 15,000 sq. meters of floor space and be built on the grounds of Honda's Suzuka factory in Mie Prefecture. (July 23, 2006)

**NTN Corp** announced would spend about US\$171m (¥20bn) to take a controlling stake in French carmaker **Renault SA's** bearings unit **SNR Roulements**, in a move that will make the Japanese firm the world's third-biggest bearings maker. NTN will buy a 51% stake in SNR within a year and an 80% stake within five years. NTN, which makes bearings for automobiles, said in a statement it aims to expand its business and boost its presence in Europe by working together with SNR, France's biggest bearings maker. (July 25, 2006)

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## KOREA

**ArvinMeritor Inc's** light-vehicle systems business group has formed a JV with **Pyeong Hwa Automotive**, a Korean company that specializes in automotive door systems. The JV will assemble fully integrated door modules for a Kia plant in Slovakia. (September 4, 2006)

**GM Daewoo**, Korea's third-largest automaker, announced it had completed construction of a US\$290m engine plant in the port city of Gunsan. The plant will produce diesel engines for GM Daewoo's first SUV which is expected to go on sale next month. The plant has an annual production capacity of 250,000 diesel engines. GM Daewoo is majority owned by GM along with other foreign partners, including Suzuki Motor. (June 15, 2006)

**Goodyear Tire & Rubber Co** agreed to sell its global tire fabric operations to **Hyosung Corp** for about US\$80m and signed a tire fabric supply deal with the Korean company. The largest US tire maker said it expects purchases of about US\$350m to US\$400m in the first year as part of the multi-year supply agreement. Manufacturing plants and assets covered in the sale include facilities in Alabama, New York, Brazil and Luxembourg. The move should improve cash flow

and allow the company to focus more on consumer and commercial tires. (September 7, 2006)

**Kumho Tire Co**, Korea's second-largest tire maker, reached a preliminary agreement with the city of Nanjing to build its fourth Chinese factory to tap China's market for bus and truck tires. Kumho Tire plans to invest US\$220m to build the new factory, which will be about 27 km from its factory already operating in the Chinese city. (July 12, 2006)

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## MALAYSIA

Korean carmaker **SsangYong** has launched production of the *Rexton II* SUV at the Pahang plant in Malaysia and is preparing to produce two other models as the company plans to make Malaysia an export hub for the Southeast Asian market. However, SsangYong and its local partner **Competitive Supreme** will first have to increase the Rexton's local content from the current 20% to 40% to be eligible for lower tax under the ASEAN free-trade agreement, in order to be competitive on the export market. The *Rexton II* is assembled in Malaysia on a completely knocked-down (CKD) basis. Export to the ASEAN region should start within 18 months. (August 21, 2006)

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## THAILAND

**Honda** announced it would be investing US\$32.7m to build an auto components plant in Thailand to keep pace with strong demand especially in Asia. **Asia Parts Manufacturing Co Ltd**, the new Honda subsidiary, will have an

annual output capacity of 550,000 auto body parts and start production in June 2007. The company plans to book ¥1.5bn in annual sales in three years. The company wants to eventually stop importing spare parts from its automobile factories and suppliers throughout Asia-Oceania and consolidate production into one location. (August 22, 2006)

**Nissan Motor** will set up an auto parts export base in Thailand that will ship about US\$300m worth of locally procured components to its manufacturing plants around the world in 2007. The facility would be Nissan's biggest parts export base outside of Japan. The move is part of Nissan's strategy to reduce costs by increasing the share of parts from markets that are less expensive than Japan. Exports from the Thai base, which will ship components initially sourced from 94 local suppliers, will include body panels and roof assemblies for the *Tiida* compact car to be assembled in Mexico and other countries. The Thai facility is expected to be fully operational in January 2007. (July 18, 2006)

**Yantai Shuchi Group**, one of China's top five carmakers, has announced a multi-billion baht investment to produce natural gas for vehicles (NGV) in Thailand for export to the ASEAN countries. The group signed an MOU with bus services operator Siri Project Construction and PS Natural Gas to produce the first batch of 300 NGV-powered vehicles to serve Thailand's southern bus routes. The company plans to invest up to US\$1bn in Thailand to produce NGV buses and passenger vehicles and to operate NGV service stations along with car leasing services. (August 11, 2006)

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## VIETNAM

**Honda** has started auto operations in Vietnam with the launch of the new *Civic* compact vehicle.

The new plant of **Honda Vietnam Co**, which has an annual production capacity of 10,000 units, will conduct engine assembly the first for an auto plant in Vietnam in addition to welding, painting and assembly of complete vehicles. By 2010, the cumulative investment for the auto operation is expected to reach about US\$60m, including the plant and the new sales network. (August 7, 2006)

The **Vietnam Daewoo Motor Ltd (Vidamco)** has begun exporting automobile fuel tanks to Thailand as part of its plan to export spare parts worth US\$6m in 2006. Vidamco, a wholly foreign-owned carmaker, has set a revenue target of US\$10m from exports of automobile spare parts to the Association of Southeast Asian Nations by 2007, and of more than US\$20m by 2008. (July 20, 2006)

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## ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists multinational companies in expanding their businesses in Asia through JVs, acquisitions and divestments. For further information on BDA's services or on any of the articles in this newsletter, please contact the offices below.

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