

ASIA IS A BUSINESS IMPERATIVE... NOW MORE THAN EVER

# ASIAN AUTOMOTIVE NEWSLETTER

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

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## INTRODUCTION

Automotive logistics encompasses everything from manufacturing components to assembling vehicles and warehousing surplus stock. Auto logistics providers often collect components from different domestic locations, aggregate them at regional hubs and then deliver them to carmakers' plants. This month's focus profiles several leading Asian logistics providers.

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Charles Maynard  
Managing Director

## CHINA/HK

**Fuji Heavy Industries** of Japan and a 20% shareholder in the company, US-based **General Motors Corp**, have agreed to jointly manufacture Fuji Heavy's Subaru *Pleo* minicar and *Sambar* minitruck at **Shanghai GM's** plant in China. The vehicles will be sold in the Chinese market by 2005. (May 24, 2001)

**Tachi-S Co**, a Japan-based car seat and interiors supplier, has formed a China-based JV with three other firms to produce car seats in Henan Province. Tachi-S will have a 40% stake in the JV, which will supply seats to a local plant owned by Japan-based **Nissan Motor Company**. The JV will be Tachi-S' third factory in China and will initially produce seats for 10,000 vehicles. By 2003, the JV is anticipated to make seats for 30,000 vehicles and record revenues of US\$4m. Separately, Tachi-S has opened an office in Shanghai to coordinate the activities of its three ventures in China. (May 11, 2001)

**Teksid Company**, an affiliate of Italy-based **Fiat Motor Company Ltd**, and China-based **Shanghai Automotive Industry Group** and **Yuejin Automotive Group** have formed an automotive foundry JV called **Huadong Teksid Automobile Foundry Co Ltd**. The Chinese and Italian parties will each hold half of the JV's shares. The JV will manufacture one million engine cylinders per year. Based in Zhenjiang City in Jiangsu Province, Huadong Teksid Automobile Foundry Co Ltd has signed deals to supply its products to domestic motor companies such as **Nanjing Iveco**, **Shanghai GM** and **Shanghai Volkswagen**. (May 4, 2001)

**Volkswagen AG** of Germany has agreed to form a gearbox production JV with its Chinese vehicle assembly partners, **Shanghai Automotive Industry Corp (SAIC)** and **First Auto Works (FAW)**. The three partners will invest US\$96m to build a gearbox production facility in Shanghai. Volkswagen will hold a 60% stake in the JV, **Volkswagen Transmission (Shanghai)**, while SAIC and FAW will each hold a 20% stake. The JV will become operational in 2003 with an annual production capacity of 300,000 units. (May 3, 2001)

**Volvo Truck Corp** of Sweden and **China National Heavy-Duty Truck Corp (CNHTC)** have started production at their China-based heavy truck JV, which has faced numerous problems since its inception in 1999. The key obstacle to the JV has been CNHTC's US\$700m debt, which was largely concealed from Volvo Truck. The **Chinese Government** ordered the restructuring of CNHTC before permitting the launching of the JV, which presently assembles vehicles with imported components. Annual production capacity is expected to reach 2,000 by 2003. (May 14, 2001)

**Volvo** of Sweden has secured an order for 219 low-emission buses from operators in Hong Kong. The vehicles feature Volvo Emission Control (VEC), which complies with the Euro 3 emissions regulations that come into effect in Asia in October. (June 13, 2001)

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## INDIA

**Ashok Leyland**, an India-based commercial vehicle manufacturer, will join **Dana Corp** and **Arvin Meritor** of the US to locally produce axles for its own vehicles. The company intends to invest US\$9m to upgrade its existing plant to facilitate the licensed production of axles for use in Ashok Leyland trucks and buses. Production will initially focus on off-highway agricultural axles. Dana will produce off-highway axles

at its wholly owned unit in Chakan, Maharashtra, while Arvin Meritor will use its Indian subsidiary Meritor HVS as its operating base. (June 1, 2001)

**China Motor Corp (CMC)** of Taiwan and **Premier Automobiles Ltd (PAL)** of India intend to form a JV to produce the CMC's economy van *Varica* for the Indian market. The two companies entered into a technical agreement in 1997, when CMC introduced the Varica to the Indian market on a trial basis. The JV will begin producing the van locally in Q4 2001, setting its annual sales volume at 10,000 units for the first year of operation. CMC is the first Taiwanese carmaker to market its products in India. (June 4, 2001)

**Hyundai Motor India**, a subsidiary of Korea-based **Hyundai Motor**, has decided to increase the number of finished cars it exports each year, eventually making India a key global CBU hub. In 2000 the company exported 3,798 finished cars, while in Q1 2001 alone the company exported 2,039 CBU passenger cars. The company has also resolved to raise annual production capacity to 200,000 units. (May 1, 2001)

**Mahindra & Mahindra (M&M)** of India and **Proton** of Malaysia have formed an agreement, which entails the manufacture of the Proton *Waja* at M&M's production facility in Nashik, Maharashtra, where the Ford *Escort* was previously assembled. Separately, the two firms are discussing distributing the **Lotus Elise** in India. Proton acquired British sports car manufacturer Lotus in 1998. When an agreement is reached, the Elise is likely to be sold for US\$42,500 through M&M's local distribution network. Sale of the Elise is expected to enhance M&M's image. It also creates the possibility of using Lotus' engineering expertise in M&M's Indian cars. (May 25, 2001)

**Tata Engineering and Locomotive Company (Telco)** of India and **Peugeot** of France are considering forming a partnership to develop a mid-size car for the Indian market and for export. A study, assessing the feasibility of manufacturing passenger cars based on the *Citroen II* platform at Telco's plant in Pune, Maharashtra, is almost complete.

The partnership is unlikely to be an equity alliance. Separately, in 1997 Peugeot pulled out of an India-based JV, which failed to generate revenues, with local firm Premier Automobiles Ltd (PAL). (June 2, 2001) **Stanley Electric Co Ltd** of Japan and its Thailand-based subsidiary **Thai Stanley Electric Plc** will form a JV in India to design and manufacture lamps and production molds for motorcycles, cars and other automotive accessories. The JV is being launched in response to the high demand for Stanley Electric's products by carmakers in the Indian market. It will have a registered capital of US\$1.3m. (May 30, 2001)

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## INDONESIA

The **Astrido Group** of Indonesia, an authorized dealer of automotive products of **PT Astra International**, has acquired 91% of **Bank Akita** by investing Rp72.5bn (US\$7.3m). With the takeover, 60% of the bank's funding operations will be for automotive consumers, with the remaining operations earmarked for the retail sector. The deal has reduced the bank's non-performing credits from 35% in FY00 to only 4% in May, 2001. (June 14, 2001)

**Nissan Motor Company** of Japan plans to increase its stake in Indonesia-based **PT Ismac Nissan Manufacturing (INM)** from 35% to 75%. It will subsequently change INM's name to **Nissan Motor Indonesia (NMI)** to reflect its effective ownership of the company. Through NMI, Nissan Motor Company intends to buy Indonesia-based **PT Wahana Wirawan's** trade rights on Nissan vehicles in the country. Through the integration of its local manufacturing and sales operations, Nissan Motor Company hopes to become more profitable in Indonesia. (May 24, 2001)

**Renault** of France will relaunch in Indonesia through an import/sales group to be set up by the **Indomobil** group, **Nissan Motor Company's** local joint production partner. Absent from Indonesia since 1990, Renault will re-enter with four models, targeting initial sales of 100 cars per month. The company

hopes to achieve a share of 1.5% by 2004 in a projected market of 400,000 units. (June 14, 2001)

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## JAPAN

**Goodyear** of the US, the second biggest tire producer in Asia, after Japan-based **Bridgestone**, reported an 11% increase in tire sales to 18 Asian markets in 2000. The company has cited limited production capacity as the reason it has not yet been able to surpass Bridgestone, and it has expressed its intention to challenge Bridgestone's position as the market leader in 2001. Goodyear has eight plants in Asia: one each in China, Indonesia, Taiwan and Thailand and two each in India and the Philippines. The combined annual production capacity of these plants is 11.6 million tires. (May 14, 2001)

**Japan Automobile Manufacturers Association (JAMA)** has revised its membership rules to allow foreign automakers join the organization. Prior to US-based **General Motors'** application for membership in 2000, JAMA's membership rules stated that only companies that manufacture cars in Japan could join. Under the revised rules, foreign auto companies can join JAMA if their Japanese subsidiaries are involved in car manufacturing. As GM will manufacture the *YGM-1*, a car intended for the Asian markets, in Japan with local affiliate **Suzuki**, it meets JAMA's new membership criteria. (May 21, 2001)

**Mitsubishi Motors** of Japan is undertaking a turnaround plan initiated by Rolf Eckrodt, its COO seconded from 37.3% shareholder **DaimlerChrysler AG**. Reminiscent of the **Nissan** revival plan of 2000, the turnaround plan is meant to cut parts and material procurement costs by ¥148bn (US\$1.2bn) by March 2004. To achieve this objective, the company will raise overseas parts procurement to 30% from the current 6%. It will also reduce the number

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of suppliers by 30% from 650. The turnaround plan is said to have the complete support of Mitsubishi group chairman Minoru Makihara. (May 18, 2001)

**NSK** of Japan and US-based **Timken Co** have agreed to form an alliance, which would create the largest group in the bearings manufacturing sector. **NSK** ranks second in the global bearings market with a share of about 13% while **Timken** ranks fifth with 8%. Together their bearings revenues exceed US\$4bn surpassing industry leader **SKF** of Sweden. (June 7, 2001)

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## KOREA

**BMW Korea** and **Volvo Automobile Korea** are leading the industry in providing hands free mobile phones free of charge or standard in their vehicles, slightly ahead of news laws that will require the equipment beginning June 30th. **BMW Korea** has offered specialized phone systems for all of its cars above series 3 since last June. Developed by **BMW** and **Motorola**, drivers use buttons installed on the steering wheel to operate the phones while driving. (June 15, 2001)

**DaimlerChrysler** and **Hyundai** of Korea are expected to establish a diesel engine production JV by Q3 2001. The two companies have not yet agreed to terms regarding a commercial vehicle JV. There is significant opposition to the idea among **DaimlerChrysler's** shareholders, who are concerned about further investment in the financially troubled **Hyundai**, which has not yet integrated **Kia Motors Corp.** **DaimlerChrysler** acquired an 11.12% stake in **Hyundai** in Q2 2000. (May 29, 2001)

**General Motors (GM)** of the US has submitted a formal proposal to acquire **Daewoo Motor** to the latter's main creditor **Korea Development Bank (KDB)**. In 1999 **Daewoo Motor's** creditor banks rejected **GM's** bid for US\$5bn. **GM** is not expected to offer more than US\$2bn at present, as **Daewoo Motor** is reportedly worth much less now than it was

in 1999. **Daewoo Motor** chairman **Lee Jong-dae** said that **GM** is not interested in purchasing **Daewoo's** overseas factories or its domestic truck and bus factories. If **GM's** proposal is accepted, it is likely to set up a new company to take over **Daewoo Motor** and to offer a 33% to 49% stake in the new entity to the Korean automaker's creditor banks. (May 30, 2001)

**Motor Joy Corp**, a Korean manufacturer of car audio equipment, has announced that it will supply its products to **Fiat** of Italy and **Volkswagen** of Germany. In May 2001 the company signed agreements with US-based **Ford** and Japan-based **Toyota** to export 30,000 and 50,000 audio units, respectively. **Nissan Motor Co** and **Ssangyong Motor Co** are also among **Motor Joy Corp's** clients. The company anticipates revenues of US\$37m for 2001 and US\$75m for 2002. (June 4, 2001)

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## MALAYSIA

**DRB-Oriental-Honda**, a JV between **Honda** (49%), **DRB-Hicom** of Malaysia (36%) and **Oriental Holdings** of Malaysia (15%), has announced the location of its new assembly plant. The facility will be located in Malacca and is expected to begin production of **Honda** cars by 2003. The partners will invest RM\$170m (US\$44.8m) to build the plant. The first phase of production calls for an annual capacity of 20,000 cars. The JV will assume distributorship rights for all **Honda** cars in Malaysia from July 1. (June 14, 2001)

**Daihatsu** of Japan wants to assume management of its Malaysian car production JV, **Perodua**, prior to increasing production. **Daihatsu**, a **Toyota** subsidiary, owns 25% of **Perodua**, with Japanese trading house **Mitsui & Co** holding 7% and three Malaysian firms holding the remaining 68%. **Daihatsu** hopes to form a new holding company in which it will be the lead shareholder, thus securing direct management control over **Perodua's** operations. Such a move would require approval of the Malaysian government. (May 7, 2001)

## PHILIPPINES

**Jidosha Denki Kogyo Co.** (JDK) of Japan will increase production of windshield wiper motors and power window motors in the Philippines to 6.5 million by the end of FY02, representing a nine-fold increase over FY00. The move follows JDK's main customer, **Nissan Motors**, which is set to spend US\$10m to improve production facilities in the Philippines. JDK will shift about 70% of its motor output to the country by FY05. (May 17, 2001)

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## TAIWAN

Taiwanese car manufacturers **China Motor** and **Yulon Motors**, affiliates of Mitsubishi and Nissan respectively, suffered significant dips in income over the first four months of 2001. Reduced domestic sales are blamed for the disappointing returns, as is a slowdown in the sale of export CKD kits to Japan. Over the first four months of the year, China Motor delivered 35,396 cars within Taiwan and exported 13,900 CKD kits, down by 13.1% and 39.7% YoY respectively. Yulon Motors chalked up revenues of T\$2.8bn in May, down 29.1% YoY while January-April turnover was down 9% YoY to just over T\$17bn. Currency exchange rate swings lowered the cost of components imported from Japan and this, allied with healthy non-operating income from securities investments, enabled pre-tax profits to remain strong. (May 7, 2001)

**Kenda Rubber** of Taiwan will produce tires for **Cooper Tire and Rubber Company** of the United States on an OEM basis. Although relatively new to radial tire production, Kenda is the fourth largest radial producer in China behind **Nankang Rubber, Federal Corp.** and **Chen Cheng Shin Rubber Industrial**. Kenda established a T\$1bn (US\$29m) factory last year in Kunshan, in China's Jiangsu province. (May 13, 2001)

## THAILAND

**General Motors Thailand** announced it would produce a multi-purpose vehicle in Thailand for **Fuji Heavy Industries** of Japan. To be sold under the **Subaru** nameplate in Japan, this car based on the *Zafira* seven-seater is the first vehicle assembled in Thailand for export to Japan. Production will begin in May and is expected to be in the range of 7,000-1,000 vehicles per year. GM and Fuji Heavy Industries established their alliance in 1999 with GM taking a 20% stake in the Japanese company. (May 23, 2001)

**General Motors Thailand** will produce *Alfa Romeo 156* sedans for Fiat at its Rayong plant. Production is expected to commence by the first quarter of 2002. Annual output is projected to reach some 4,000 cars. Fiat Auto's overall industrial investment will total approximately US\$10m. Alfa Romeos manufactured in Thailand are targeted for export to Asia-Pacific markets such as Brunei, Hong Kong, Indonesia, Malaysia, Singapore and Sri Lanka. Fiat established a strategic industrial alliance with GM last year, with GM taking a 20% equity stake in Fiat Auto, and the Fiat holding company taking an approximately 6% stake in GM. The partners operate two 50/50 joint ventures in the areas of purchasing and powertrain in Europe and Latin America.

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## VIETNAM

**United Motor Vietnam Company**, a wholly owned subsidiary of China's **Chongqing Engine Manufacturing Company**, has started construction work on a new factory to make frames and plastic accessories for motorbikes. The US\$9.8m factory, based in the Noi Bai Industrial Zone outside of Hanoi, will have an annual production capacity of one million motorbike frames, one million handlebar sets and one million sets of plastic components. (May 15, 2001)

## **FOCUS:**

### **Automotive logistics in Asia**

Logistics is the comprehensive management of a supply chain, from raw materials through to the distribution of finished goods. When applied to the automotive industry, it ranges from the sourcing and distribution of the components that make up a vehicle to the distribution of finished vehicles to dealers and consumers. It encompasses manufacturing, assembling and warehousing.

Auto logistics providers usually collect components from different domestic locations, aggregate them at regional hubs and deliver them to carmakers' plants. Manufacturers facilitate this process by sharing their production schedules with components suppliers and keeping them informed of any changes that are made.

The following paragraphs profile Asian firms that provide logistics services to carmakers operating in Asia:

#### **AN Ji TNT Automotive Logistics Company [China]**

Created in late 2000, An Ji TNT is a JV between TNT Post Group (TPG) of the Netherlands and the Chinese Shanghai Automotive Industry Corporation (SAIC). The JV represents a US\$30m investment by the Dutch company, which controls 50% of the new company. AN Ji TNT will supply high quality logistical services throughout China.

#### **Dynamic Logistics [India]**

Established in 1993, Dynamic Logistics is a Pune-based firm that provides third-party logistics (3PL) and supply chain management services to Ford India. It is the flagship company of the Talera Group and is an ISO 9002 accredited company. Dynamic Logistics has an electronic data interchange system and provides contract warehousing services to more than 250 clients, including Coca Cola, Delphi, Emerson, Lipton, Nestle and Tata. It services over 450 locations in India through its eight warehouses, which equal 1.1 million sq ft of warehousing space and are located in

western and southern India. The company reported 2000 revenues of US\$4.4m and is targeting revenues of US\$6m in 2001.

#### **Korea Logitech [Korea]**

Established by Hyundai Motors in Q1 2001, Korea Logitech is a comprehensive distribution company, which handles domestic and overseas transportation of Hyundai-built cars. By establishing Korea Logitech, Hyundai Motors will no longer need to commission logistics services from Hyundai group companies such as Hyundai Merchant Marine, Hyundai Corporation and Diamond A. The Korean automaker is reportedly severing relations with its parent company, the Hyundai Group.

#### **Transystem Logistics International Pte Ltd (TLI) [India]**

Established in Q1 1999, TLI is a 51:49 JV between Japan-based Mitsui & Company and Transport Corporation of India (TCI). It provides customized logistics solutions for the automotive industry in India and is the logistics partner of Toyota Kirloskar Motor Pvt Ltd (TKM), a JV between Japan-based Toyota Motor and Kirloskar group of India. TLI provides original equipment manufacturer (OEM) logistics services to TKM. This involves procurement, consolidation and transportation of parts from over 50 India-based vendors to TKM's plant near Bangalore. It also transports TKM's finished cars from its plant to regional stockyards in Pune and Delhi and dealers throughout India.

#### **United Seino Transportation Sdn Bhd (UST) [Malaysia]**

UST is a Malaysia-based subsidiary of Seino Transportation Company Ltd of Japan. In 1999 UST began to provide 3PL services to Malaysian carmaker Perodua. UST collects and delivers to Perodua auto parts supplied by local vendors, and it sources auto parts from Indonesia, the Philippines and Thailand. It also handles all of the storage, sorting and packing required by Perodua. When it was established in 1996, UST was a 50:50 JV between United Engineers Malaysia Bhd and Seino Transport. However, in 2000 United Engineers Malaysia Bhd sold its entire stake to its JV partner to concentrate on its core businesses.

### Yulon Motor Company

#### [Taiwan]

Yulon Asia Technical Center (YATC), Nissan's auto R&D and logistics center in Asia outside of Japan, was established in Taiwan by local carmaker Yulon Motor Company in 1998. Yulon Motor exports body and interior parts for the *Sentra* and *Cefiro* to Nissan plants overseas, including those in Indonesia, Malaysia, the Philippines and Thailand. The company invested US\$22.6m to establish YATC. In addition to serving as a regional parts hub for Yulon and Nissan facilities throughout Asia, YATC will also serve the venture the two companies plan to launch in mainland China.

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