

ASIAN AUTOMOTIVE NEWSLETTER

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

The Asian auto sector continues to grow rapidly, as evidenced by both inbound and outbound M&A in the region. Given the flurry of activity by financial investors as well as Western and Asian OEMs and suppliers, BDA remains committed to keeping our readership up to date on the latest news in the Auto sector through our newsletter.

Business Development Asia LLC (“BDA”) is an investment banking firm which specialises in executing cross-border

transactions involving Asia, including acquisitions, divestments, JVs and restructurings. We have offices in all of the major Asian automotive markets, as well as in Bahrain, London and New York. If you are interested to discuss any of the articles in this newsletter, please contact me directly.

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China

Beijing Hyundai has opened a US\$1.2bn manufacturing facility, the first of several new facilities being considered by overseas carmakers in the increasingly competitive mainland market. This is the second facility in China for Beijing Hyundai, the JV between **Beijing Automotive Industry Holding** and Korea’s **Hyundai Motor**. Built on the outskirts of Beijing, the facility is expected to produce 200,000 redesigned *Elantra*, a family sedan. It will reach a capacity of 300,000 vehicles and 500,000 engines after a further expansion scheduled to be completed in 2010. The company aims to double the total capacity at its two facilities to

600,000 units by 2010. *April 9, 2008*

BMW Brilliance Automotive Ltd, a JV between BMW and **Huachen Automotive Group Holding**, will invest US\$1.6bn to build a second facility in China. The second facility will have capacity of 70,000 cars and its first product will be the BMW *1 Series*. This facility will boost the venture’s total capacity to 100,000 cars. *May 28, 2008*

Auto parts maker **BorgWarner** has opened a facility in China to meet growing demand in that country’s automotive market. The 194,000 sq ft facility -- BorgWarner’s largest facility in China -- makes fan drives

and water pumps and employs 260 people. The facility, which is heated and cooled using geothermal technology, is located at the company’s Ningbo campus. BorgWarner, which makes engines and drive trains, derives nearly two-thirds of its revenue outside North America. *April 23, 2008*

US-based **Cummins** has announced that it has opened its first fuel systems facility in China. The plant, located in Wuhan, Hubei Province, has involved investment worth US\$10m, and will manufacture common-rail fuel pumps and Cummins’ CELECT fuel pump and injectors. Much of the production

will remain for domestic use. *April 9, 2008*

Cummins and China's **Beiqi Foton Motor** have officially launched China's biggest engine production JV. The 50:50 JV, **Beijing Foton Cummins Engine Company**, will have capacity of 400,000 units. At an investment of more than Rmb2bn (US\$285m), the plant will produce 2.8- and 3.8-litre engines based on Cummins technology. The plant will become operational in September 2008 with commercial production of the 3.8-litre engines to begin in May 2009 and the 2.8-litre versions to follow in September 2009. This will be Cummins largest light diesel engine plant outside of the US. *May 1, 2008*

Italy's **Fiat**, which suspended co-operation with **Nanjing Automobile (Group) Corp** late last year, is near to closing a deal with **Chery Automobile** to set up a new JV. Chery Automobile, the fourth-largest carmaker on the mainland, signed a contract to sell engines to Fiat last August. The company sees that as a way to tap the western European market. Both companies plan to further cement their tie-up by producing and distributing Alfa Romeo, and the branded cars of Fiat and Chery. In December, Fiat terminated its relationship with Nanjing Automobile once Shanghai Automotive Industry Corp, the largest carmaker in the country, had acquired the assets of Nanjing Auto. *April 19, 2008*

GKN Driveline plans to open a production facility during the first half of 2009 in Wuhan. The 474,000 sq ft facility will supply driveshafts for **Dongfeng Motor Co** and its JV programs with **Honda** and **Citroen**. The facility will have a capacity of more than 1 million driveshafts. GKN Driveline makes sideshafts, propshafts and other driveline components for the automotive industry. *May 12, 2008*

Kiekert, a leading supplier of latch systems for the automotive industry, is expected to begin production at its first China facility by the end of 2008. With capacity of 10 million latch systems, the Changshu, Jiangsu province-based facility will become Kiekert's development and production hub for China and the rest of Asia. The first phase of production will mainly target exports to North America and Europe, with the second phase targeting China's domestic market. Total investment in the facility will reach €20m (US\$31m). *May 9, 2008*

Lear Corp has agreed to acquire a 75% stake in the automotive fabric business of **New Trend Group**, a Chinese fabric maker. Financial terms of the agreement were not disclosed. This will further vertically integrate Lear's seat trim operations by adding low-cost fabric supply to its existing cut and sew capabilities. New Trend is a leading supplier of trim to China and exports to the US and Europe through its two

automotive textile manufacturing facilities in China. The company produces fabric used in vehicles made by **Ford**, **GM**, **Nissan**, **Toyota**, **VW** and other OEMs in China. *June 16, 2008*

Nissan and its Chinese JV partner, **Dongfeng Motor**, will invest US\$95.7m to construct a new facility in China to produce small commercial vehicles. The new facility is expected to come on stream in 2010 and to raise local capacity to 160,000 units by 2012. The existing facility is already running at full capacity at 60,000 vehicles a year. The JV has signaled that it intends to accelerate joint development and production at the facility, pledging that it will introduce one new model a year from 2009 to 2012 under the Nissan brand and one under the Dongfeng brand. The new vehicles slated for development are SUVs and smaller trucks. *May 28, 2008*

French carmaker **Renault** will invest US\$210m to produce a new minibus by 2011. The automaker is targeting an initial production of 40,000 units. Renault will build its new minibus at a facility previously known as **Sanjiang Renault Automotive**, based in Xiaogan, 40km north of Wuhan. The French firm produced the *Traffic* light commercial vehicle in China with partner **Sanjiang Space Industry Group** between 1994 and 2002. Renault has been eyeing a re-entry into the Chinese market ever since. *April 30, 2008*

Shanghai Volkswagen, the JV between **Volkswagen** and **SAIC Motor**, has agreed to take over Fiat's former car making facility in east China. Shanghai Volkswagen will buy the facility from SAIC, which acquired it during last year's merger between SAIC and **Nanjing Automobile**, a Chinese partner of Fiat. The facility had suspended production but was on track to resume operating in May, targeting production of 50,000 to 60,000 cars for 2008. Capacity is planned to increase to 150,000 cars in the next few years. SAIC Motor, China's largest carmaker, is also investing heavily to develop its own-brand cars. The own-brand car business generated US\$429m in sales in 2007 out of the firm's total sales of US\$15bn. *April 16, 2008*

Toyota Motor will invest US\$215m to expand production capacity at its JV with Jilin-based **First Automobile Works**. The facility in Tianjin is scheduled to begin production by next year with a capacity of 150,000 units per year, compared with the original target of 100,000 units. After the expansion, **FAW-Toyota** will be capable of producing 450,000 units a year. *May 14, 2008*

Toyota has announced it will invest an additional US\$380m in its JV in China to build a second production line. Toyota's JV with **Guangzhou Automobile** group, **Guangzhou Toyota Motor**, will build the new line to produce Toyota's *Camry* model at its plant in Guangdong. Guangzhou

Toyota already has one plant that produces Toyota's *Camry* and *Yaris* models, with capacity currently at 200,000 vehicles. The new line, which is scheduled to start in mid-2009, will have a capacity of 120,000 vehicles, which will boost Guangzhou Toyota's total capacity to 320,000 vehicles. *June 17, 2008*

Volkswagen plans to cut one-third of its suppliers in China in five years, but the suppliers which it will retain will have a better chance to supply to its ventures in China -- **Shanghai Volkswagen Automotive** and **FAW-Volkswagen Automotive**. To cut costs, VW plans to buy 75% of the parts for the two JVs from the same suppliers. Currently, VW only buys 20% of parts for the two ventures from the same suppliers. VW will further concentrate on key partners by reducing the number of its suppliers in China from 750 last year to less than 500 by 2012. *April 28, 2008*

India

India's **Apollo Tyres** plans to invest Rp20bn (US\$467m) over the next three years to increase its production capacity both in India and overseas. That includes a €200m (US\$316m) investment in a greenfield plant it is setting up in Hungary, which will serve as a hub to service buyers of radial tires for passenger cars in Europe, North America and elsewhere. *June 2, 2008*

Forgings major **Bharat Forge** has acquired an 89% stake in French forgings company **Groupe Sifcor (Society of Industrial and Financial Courcelles)**. The acquisition will give Bharat Forge an entry into the French automotive sector and access to big Sifcor clients like **PSA Citroen** and **Renault**. Bharat Forge has been steadily building up a global presence through acquisitions in select markets in recent years. *April 8, 2008*

JBMAuto has entered into a 50:50 JV with **Magnetto Automotive** of Italy for manufacturing skin panels, body, welded parts and subsystems for 4-wheeler OEMs in Pune. The company will be named **JBMAgnetto Automotive**. Magnetto is a major supplier of upper and lower body structures, inner and outer panels, doors and lid systems. JBMAuto has also entered into 50:50 JV with **Sandhar Technologies** to operate and maintain the tool room and technical service centre of **Pithampur Auto Clusters** located in central India. *March 17, 2008*

JBMAuto has signed a JV with **Ashok Leyland Ltd** to supply sheet metal components. The venture, in which JBMAuto holds a 74% stake, will invest US\$25m. The commercial operations will start from 2010. *May 12, 2008*

Japan-based **Kasuya Seiko Company** will sign a JV agreement with **Ghaziabad Precision Products** to manufacture OEM engine parts.

The JV, **Kasuya GPP Auto Products**, will be located in Ghaziabad. GPP manufactures engine and transmission parts like push rods, rocker arms, rocker shafts, shifter rails and springs, while Kasuya makes diesel engine and chassis parts. *March 24, 2008*

Kirloskar Oil Engines has agreed to sell the valves division of its auto components business at Nashik and Ahmednagar in central India to **Eaton Industrial Systems**, the subsidiary of US-based **Eaton Corporation** for a consideration of up to US\$22.5m. The agreement is subject to approval of the shareholders. *April 30, 2008*

Magneti Marelli, a subsidiary of Italian automobile major **Fiat Group**, is in talks with **Endurance Technologies** and **Unitech Technologies** to set up JVs to manufacture four-wheelers auto components. Magneti will hold a 49% stake in the Endurance JV and a 51% stake in the JV with Unitech Technologies. Endurance is an Aurangabad-based company that manufactures casting, suspension, transmission and braking products with 2007 sales of US\$510m. The JV is expected to be located in Maharashtra and will manufacture front and rear shock absorbers. The JV with Unitech Technologies will manufacture electronic components like automotive body computer and instrument cluster for four-wheelers. *May 9, 2008*

Mahindra & Mahindra (M&M) and **ICICI Venture Funds** have signed an agreement to acquire a 100% stake in Italian gear maker **Metalcastello**. Metalcastello has revenues of US\$100m. The company was founded in 1952 and is among the top gear manufacturers in Europe, focused primarily on the off-highway segment. *April 3, 2008*

Mahindra & Mahindra (M&M) is in advanced negotiations to acquire Belgium gear-maker **VCST**. The transaction size could be in the range of US\$475m. The deal will be part of M&M's strategy to increase its footprint and share of the gear market, particularly in Europe. VCST, which designs and manufactures gears, gear sets and shafts for automotive engines and brakes has a presence in India, including a 50:50 JV with **Amtek Auto**. *April 21, 2008*

Mahindra and Mahindra (M&M) will buy out partner **Hitachi Metal's** stake in **Mahindra Hinoday**, a manufacturer of components for automotive, electronics, telecom and other sectors. Financial terms have not been disclosed. M&M holds 66% in the Pune-based JV while Hitachi Metals owns the remaining 34% stake. M&M bought the stake in 2005 from **DG Piramal**, in what was then **DGP Hinoday**. Mahindra Hinoday has revenues of US\$62m and three product lines - ductile iron castings for the automotive sector, ceramic magnets for auto electrical and industrial DC motors and ferrite

cores for electronics, telecom and specialized applications. *May 21, 2008*

Renault, Nissan and Bajaj Auto have agreed to manufacture their proposed small car in India, scheduled to be launched by 2011. The three companies announced their intention to develop, produce and market the US\$2,500 car. Bajaj will own 50% in the JV, while the rest would equally be held by Renault and Nissan. According to sources, the car will be manufactured at a facility to be built at Chakan, near Pune. *May 13, 2008*

Rolex Rings (RRPL), a major Indian forged and rolled rings supplier to leading global brands such as **FAG Bearing** and **SKF Bearings**, is set to buy a Latin American forging company for US\$37.5m. The deal is likely to be completed in a month. RRPL, a US\$75m company, plans to raise US\$25m from private equity sources. *May 2, 2008*

US-based bearings maker **Timken** has begun building a new US\$25m industrial bearing manufacturing facility in **Chennai**, its second facility in India. Upon completion of the first phase of construction by October 2008, the facility's capacity will be 310,000 bearings, which will be expanded to 420,000 bearings by 2009. *April 16, 2008*

Wabco Holdings, a supplier of electric and electromechanical products for commercial truck, bus

and passenger car manufacturers, has opened two manufacturing facilities in India. It has also extended an existing software design center owned by **Wabco-TVS India**, an affiliate of Wabco and its JV with the **TVS Group**. *May 15, 2008*

Indonesia

Isuzu has further increased its holding in its JV with Indonesian commercial vehicle manufacturer and distributor, **Pantja Motor**, which will change its name to **Isuzu Astra Motor Indonesia**. In February 2008, Isuzu increased its stake in Pantja from 12.5% to 39.9%, at which point Pantja was 50% owned by **Arya Kharisma (AK)** and 10.1% by **Perusahaan Perdagangan Indonesia**. Isuzu has now purchased an additional 5.1% from AK to increase its share to 44.9%, equal to AK's share. **Astra International**, AK's parent company, transferred its license rights and functions as the Isuzu distributor in Indonesia to Isuzu Astra Motor Indonesia, and Isuzu has taken control of the management of the commercial vehicle business. *April 30, 2008*

T. Rad Co will set up a radiator factory in Indonesia, bringing it online next summer to produce 600,000 units a year. The firm has been making radiators at its Thai facility and then shipping them to Indonesia, but transport costs have become prohibitive. T. Rad will

invest US\$9.6m to buy a factory in Bekasi, a Jakarta suburb, from a local manufacturer, and will begin construction of new facilities in January 2009. T. Rad will also form an Indonesian unit and take a 50% stake. Its Thai production subsidiary will own 40% of the new unit, with the rest of the capital to be solicited from Japanese trading companies. *April 23, 2008*

Japan

The ElringKlinger Group has increased its stake in Japanese gasket manufacturer **Marusan Corporation**, from 10% to 50%. The two companies initially set up a separate JV, **ElringKlinger Marusan Corporation**, in 2004. This JV will be merged with the newly formed entity. The combined entities will be registered under the name of **ElringKlinger Marusan Corporation**. Marusan and its three affiliates produce cylinder head gaskets, specialty gaskets and thermal shielding modules for the automobile and truck industry. The company has targeted sales for 2008 of US\$70m. The purchase price for the 40% stake is in the range US\$21m to US\$28m. *May 2, 2008*

Mitsubishi Corp and **Meiji Flow Systems Co Ltd** - a subsidiary of **Meiji Rubber and Chemical Co Ltd** - bought the 51% of Bloomington-based **Flexitech Inc** they did not already own along with 100% of **Flexitech**

Europe in France and **Flexitech** in Romania. This divestment will allow Flexitech to exit the automotive hose business and concentrate on its sealing and vibration control technology as one of its core competencies. *March 10, 2008*

Toyota Motor has acquired nearly 2% of **Daido Steel Co** in an effort to widen its network of suppliers of specialty steel. The Japanese automaker has been incrementally buying shares of the leading specialty-steel producer since last fall, with a total investment estimated at US\$67m. Toyota is now among the top five shareholders in Daido Steel. Toyota began procuring specialty steel used to make transmission components and other autoparts from Daido Steel in 2006. *April 30, 2008*

Toyota Motor will increase production of its hybrid vehicles, which includes setting up a third battery facility in co-operation with **Matsushita Electric Industrial**. **Panasonic EV Energy**, the JV between the two, will invest around ¥30bn (US\$290m) in the new Taiwa-based facility, which will become operational in 2010. The facility will produce nickel-metal hydride batteries, with capacity of 200,000 units, although production will begin at around half that level. *June 1, 2008*

Germany's **Volkswagen** and Japan's **Sanyo Electric Co** will develop lithium-ion batteries for hybrid

vehicles. Sanyo will invest ¥80bn (US\$770m) to expand production by 2015 of such batteries, with plans to start mass producing them in a Japanese facility by 2009, making 15,000 to 20,000 batteries a year. The deal with VW follows a 2006 agreement between Sanyo and VW agreed to work together in nickel metal hydride batteries, now used in most gas-electric hybrids like Toyota's *Prius*. *May 28, 2008*

is forecasting that revenues will reach US\$640m by 2011. Chery already sells vehicles in Malaysia through a relationship with ALADO, but this will be the first time it has assembled vehicles there. This will put the Chinese automaker another step closer to achieving its goal of exporting 40% of its total sales by 2010, by which point it is aiming to sell 1 million units globally. *April 22, 2008*

operation in ASEAN after Malaysia, the Philippines and Indonesia. It plans to produce 500,000 diesel common-rail systems, 2.5 million fuel injection units, 500,000 fuel rails and interior electronics components. *May 16, 2008*

Mitsubishi Heavy Industries has signed an agreement with Thai estate developer **Amata Group** to set up a new JV to produce turbochargers. The partners will establish a JV called **Mitsubishi Turbo Charger Asia** and invest US\$221m in a new facility located on the Amata Nakhon Industrial Estate. The unit will have the capacity to produce 2 million turbochargers. While the majority of output will be exported to Europe, around 500,000 units will be supplied to the local automotive market. *April 29, 2008*

SRF, India's largest tire cord manufacturer, is acquiring **Thai Baroda Industries (TBIL)**, the Thai tire cord company, for US\$25m. The loss-making TBIL has sales of around US\$50m. After the acquisition, SRF will become the third-largest tire cord fabric manufacturer in Asia and the fifth-largest globally. RBIL has capacity of 12,000 tons of dipped nylon tire cord fabric. With four existing production units in India and one wholly-owned subsidiary in Dubai, the combined production capacity of SRF for tire cord following this acquisition will rise to 65,000 tons. *May 28, 2008*

Korea

Leoni, the German cable manufacturer and supplier to the automobile industry, is to acquire a 50% holding in Busan-based **Daekyeung**, one of the leading automotive wiring system vendors in Korea for an undisclosed consideration. **Daekyeung** reported revenues of US\$105m in 2007 and has facilities in China. In 2007, Leoni and Daekyeung had signed a cooperation agreement on joint development projects for GM compact cars. The deal will give Leoni access to OEMs such as GM-DAT and Volvo Construction Equipment. *March 15, 2008*

Malaysia

Chery Automobile has formed a JV with the **ALADO Group** of Malaysia to build vehicles in Malaysia. The models will be sold in Malaysia and other ASEAN markets. Chery

Thailand

Bridgestone Holdings (Thailand) Co Ltd, a subsidiary of **Bridgestone**, a Japanese tire maker, has agreed to acquire **Shell Autoserv (Thailand) Co Ltd (SAT)**, the Thai car maintenance service provider, from **Royal Dutch Shell plc**, for an undisclosed consideration. SAT owns 64 Shell Autoserv stores which generated revenues of US\$39.8m in 2007 and has 856 employees. Simultaneously, **Bridgestone Tyre Sales (Malaysia)** also acquired eight Shell Autoserv car maintenance stores in Malaysia. These acquisitions will enhance Bridgestone's presence in the retail sector and will enable it to meet the growing tire demand in these markets. *April 4, 2008*

German automotive supplier **Continental AG** plans to invest €100m (US\$154m) to build its first facility in Thailand, aiming to expand into Southeast Asian markets. The Thai plant is the company's fourth

Vietnam

India's **Phillips Carbon Black Ltd** will establish a JV for carbon black production with three Vietnamese companies: the **Southern Rubber Industry Joint Stock Co (Casumina)**, the **Da Nang Rubber Co** and the **Sao Vang Rubber Joint Stock Co**. The new factory is slated to open in the southern province of Ba Ria-Vung

Tau. The facility will be able to produce up to 110,000 tons of carbon black a year. The JV has capital of US\$65m and will be the first company to make the material for rubber tire production in Vietnam. The three Vietnamese companies will hold 22% of the JVs capital. Half of the factory's production will be used domestically, and the rest will be exported to Korea and Japan. *May 14, 2008*

To submit stories to the Asian Automotive Newsletter, please contact Charles Maynard in New York at (1) 212 265 5300 or email cmaynard@bdallc.com.

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