

## **BUSWORLD facilitates closer connect between the Indonesian bus industry and Indian automotive suppliers**

### **Confirmed and potential Indian exhibitors at Busworld Southeast Asia engaged in a fruitful dialogue with Indonesian body builders and policy makers.**

BUSWORLD recently organised the final webinar of a three-part series to build up momentum towards the third edition of BUSWORLD Southeast Asia to be organised from May 15-17, 2024. The theme of the webinar was '**COLLABORATION OF INDONESIA AND SOUTH ASIA FOR THE FUTURE BUS INDUSTRY?**'

Accordingly, the webinar comprised the following panellists:

- 1) AG Giridharan, Deputy CEO, Safety and Comfort Systems, Uno Minda
- 2) Mohammad Ridwansyah Saidi Ungsi, Director of the Indonesia Investment Promotion Centre (IIPC) in Abu Dhabi,
- 3) Aditya Patankar, Managing Director, Operations, Migma Packtron
- 4) Sriram Muralidharan, Director, Telma Induction Brakes, India
- 5) Sommy Lumadjeng, Sales & Marketing Director PT. Mekar Armada Jaya (New Armada)
- 6) Daiftri, Plant head, PT Minda ASEAN Automotive

In their opening remarks, organisers, Vincent Dewaele, General Manager Busworld International and Baki Lee, Director, GEM Indonesia emphasised that Indonesia's resurgent bus industry needs collaborations with manufacturers and suppliers from many countries. To this end, South Asia happens to be a key target market. India with its developed bus market and supplier industry, coupled with price-sensitivity would be a good fit for Indonesia.

### **Keynote Address**

**AG Giridharan, Deputy CEO, Safety and Comfort Systems, Uno Minda** made a keynote address chronicling the company's two-decade presence in Indonesia including a manufacturing facility. The objective was to enlighten potential Indian suppliers seeking to serve the Indonesian bus market. Established in 1958, the group turnover of the company stood at USD 1.57 bn in 2022-23. It has 73 plants globally, employing 29,300 employees. Uno Minda operates 33 R&D centres globally. Combining its own technology with 19 JV partners, the automotive components major boasts of 26 product lines. Product groups are grouped into electronics and control systems, light metals and power train systems, safety and comfort systems, lighting and acoustics systems. The company is supported by 1,500 suppliers, 35,000 retailers and 72,000 service points.

Giridharan lays out the strategic importance of the Indonesian market by stating that is the third largest two-wheeler market, with sizeable demand locally from global automotive manufacturers, besides being an export base for the ASEAN region.

PT Minda ASEAN Automotive entered Indonesia in 2004 and began manufacturing operations in 2005. When setting up manufacturing operations in Indonesia, the company had little to worry about by way of import regulations and quotas. Supported by a single window submission to the Indonesian BKPM (Investment Coordinating board), Trade Ministry and Customs Department, Uno Minda secured all approvals within 3-4 months.

**Daiftri, Plant head, PT Minda ASEAN Automotive**, associated with Minda since 2005 has been handling plant operations for the last couple of years. In the initial days, it was a challenge for an Indian company coming via the 100 percent Foreign Direct Investment route, to secure human

resources and train them to adopt a global mindset. The Indonesian company has also learnt from competitors and reduced supply chain costs.

In 2008, Uno Minda set up a plant in Vietnam. By 2016, the company was trading automotive seats with localisation occurring in 2021. Uno Minda is now considering an entry into the Indonesian bus market beginning with the exhibition of seats at Busworld Southeast Asia. The company also has a strong suite of electric vehicle products to cater to the emerging demand for green mobility in Indonesia.

Benefitting from a strong local supply base and leveraging its own technology, Uno Minda has been able to achieve 70 percent localisation, much above the Indonesian government's requirement of 40 percent localisation to qualify for incentives. This achievement enables the company to provide right products of the right quality at the right time and price. The Indonesian market is price-sensitive but demands a higher level of quality and reliability vis-à-vis India. Price-competition with the Chinese being very difficult, the best option for Indian suppliers is to offer better technologically-led value. They can succeed in this strategy by focussing on design and supply chain management.

Indonesia had a population of 2,43,890 buses in 2023, which is expected to climb to 2,71,500 units by 2032. With USD 70 billion being invested in infrastructure, road length is expected to scale up to 18,800 km in 2030, while the Jakarta BRT network will scale up from 431 km currently to 2149 km, over the same period.

### **Inputs from the panel discussion**

**Mohammad Ridwansyah Saidi Ungsi, Director of the Indonesia Investment Promotion Centre (IIPC) in Abu Dhabi**, reckoned that Uno Minda's success story to be 'music to our ears'.

Both Indian and Indonesian economies are growing at a rapid clip. Indonesia is India's second largest trade partner in the ASEAN region, trade growing from USD 6.9 billion in 2007 to USD 38.84 billion in 2023. India's investment in Indonesia has increased from USD 58.3 million in 2019 to USD 191.5 million in Q3, 2023

35 global trade agreements have been concluded and implemented making Indonesia a production base for the global market. Tariff rates for 96 percent of traded products among ASEAN countries are zero enabling free mobility of capital and resources in the region.

Indonesia is ASEAN's largest economy and projected to be the world's 7<sup>th</sup> largest economy by 2030. It is the fourth most populous country in the world with a 50 percent working age group and a rapidly growing middle class with disposable income.

The Ministry of investment through BKPM provides end-end services, from promoting investment, bridging potential partners and related stakeholders, assisting through procedure and licensing process, assisting financial closure, to facilitating redressal of hurdles until production stage. BKPM has 9 investment offices in Abu Dhabi, Singapore, Seoul, Tokyo, Sydney, Beijing, New York, London and Taipei

The Ministry is committed to ease of doing business in Indonesia and liberalising more sectors for foreign investment. Where earlier, it took 3-4 months to get approvals, now companies can make online single window submissions from anywhere at any time. Instead of a negative list, Indonesia now have a positive list or priority sectors, where the government would like to seek investments. The priority list extends to 245 business fields, partnership with local Small and Medium Enterprises to 46 fields, 60 fields are reserved for local SMEs. Foreign ownership limitation, (JV with local

companies) has been reduced to 37 fields from 350 previously. BKPM has identified 69 ready-to-invest projects.

The basic requirement for foreigners to invest in Indonesia, is that the minimum investment and paid-up capital should be at least USD 700 thousand, while complying with the priority list for investments.

There are two ways to establish a legal entity in Indonesia:

- If the investor has decided on the sector, zeroed in on the location, partner and undertaken market research, and intends to start immediately, they can establish a Limited Liability Company (LLC/PTPMA)
- If the investor wants to invest but is not sure about regulations, locations and market conditions, they have the option of establishing a local representative office.

Below are applicable regulations for either kind of entity

Indicators	LLC	Representative office
Purpose	Commercial and Business Activity	Limited to Market research
Minimum investment	USD 700 million	None
Ability to make invoice	Yes	restricted
Workforce	Depends upon sector and company	3-5 only
Company leadership	Board of Directors supervised by board of commissioners	Head of representative
Obligation to ministry of investment	Quarterly reports of investment activity	None
Period of validity of permit	As long as the company is active	Needs to be renewed yearly
Eligible for incentive	If they comply with certain criteria	None

### How to establish legal entity and register for investment license in Indonesia

1. **Location survey:** Define project and office location in Indonesia
2. **Legality aspects of your company**
3. Find a notary to establish a legal entity in Indonesia  
Deed of establishment of PT PMA
4. Ministry of Law and Human Rights: Notary will register company to get approval through AHU online
5. Get tax id of your PT PMA at tax office.
6. Register your company through online single submission <https://oss.go.id>. Secure company name and password. Get business id number (NIB).
7. NIB and related data of your company's legality will be referred based on ministerial ratification
8. **Investment licensing process**
9. Fulfilment of licensing requirements and commitments, license or permit from local government along with license or permit from Central government (Technical Ministries).
10. Requirements and commitments completed and fulfilled post audit
11. Apply for commercial or operational license

## Providing various investment incentives for investors

Investment incentives	Remarks
Import duty exemption for machines/capital goods/materials	Import duty exemptions for industries and service sectors
Tax/mini-tax holiday	Exemption of 50-100 percent corporate income tax (CIT) from 5-20 years for investment in priority industries
Tax allowance	Reduction of CIT by 30 percent of investment value for 5 years for investment in certain business fields
Tax incentive for labour-intensive industry	Reduction of CIT by 60 percent of investment value for 6 years for investment in labour intensive industries
Tax incentive for R&D and vocational training	Incentives on net income tax for companies involved in such activities

### Corporate income tax rate brought down from 25 percent to 22 percent in 2020.

A company investing 30 trillion Indonesian Ruppiah (USD 1.9 bn) in a pioneer industry, of which making motor vehicles is one, and with a quantitative score of at least 80 percent - in areas like using local raw materials, import substitution, number of similar companies in the same area, employing a large workforce, investment location, using eco-friendly technology, new manufacturing technology, supporting national strategic projects, making Indonesia a local production base, and development of local infrastructure - can get a 100 percent tax holiday for 20 years.

### Sriram Muralidharan, Director, Telma Induction Brakes, India

The over 75 years-old Telma is the world leader in electromagnetic induction braking. In 2018, Telma Induction Brakes Pvt. Ltd was established in India, with production commencing in 2021. Since 2022, regulations in India require buses over 5 tonnes GVW to comply with endurance braking regulations, which has resulted in big demand for Telma's retarders. Around 6,000-8,000 intercity buses over 5 tonne GVW are sold annually in India. Almost 80 percent of them are fitted with retarders. Sriram feels that the Indonesian market, with its rapidly expanding highway network and growing fleet of high-powered buses will eventually mandate retarders too.

Electromagnetic retarders promise friction and emission free braking. Full braking power is instantaneously available, which remains effective even after the vehicle stops or the gearbox is in neutral. The service brake does not overheat, brake linings wear is curbed and there is greater control over hilly terrain. Driver fatigue is also considerably reduced.

Telma sells 15,000-20,000 retarders worldwide, placing it a long distance away from competition. Telma's retarders are versatile, with options for cars, trucks, buses, bullet trains and even wind turbines.

Already some mining trucks in Indonesia have been fitted with Telma's retarders. With indigenisation in India being to the tune of 50 percent, the company looks forward to offering cost-optimised products for the Indonesian market. Localisation could follow with growing volumes.

### Aditya Patankar, MD Operations, Migma Packtron

Established in 1958, Indore-based Migma Packtron has been developing thermoformed products for commercial vehicles and electric vehicles. The company counts most major Indian OEMs as customers, with some clients in the middle-east.

The chief draw for products manufactured using thermoforming is that they promise superior aesthetics, faster turnaround time and lightweighting relative to sheet metal or FRP alternatives. Moreover, the former don't require painting.

Migma manufactures its own vacuum forming machines as well as tooling and fixtures. The use of robotics for precise trimming underscores the company's quality assurance.

Soon to set up a plant in Pune to support exports, Migma targets a global presence by 2028, in which Indonesia could be a key market. In participating in Busworld Southeast Asia, the company seeks local partners who can assure substantial demand to drive localisation and help leverage local supply chains. A key imperative for Migma is to be involved with the customer from the design stage to optimise on time and cost.

**Sommy Lumadjeng, Sales & Marketing Director PT. Mekar Armada Jaya (New Armada)**

Having taken in all the perspectives of the Indian suppliers, Indonesian body builder New Armada, which celebrates its 50<sup>th</sup> anniversary this year seeks a suitable value proposition. The Indonesian bus market hasn't tested Indian products so far, but they are open to it so long as the price and quality parameters are to its satisfaction.

Sommy states even quality leading Turkish companies are able to match Chinese prices, notwithstanding high logistics costs. So, there is no reason why Indian companies cannot offer quality products at these prices.

Indonesia is a price-sensitive market, where body builders themselves are forced to accept low margins. Safety remains a matter of priority for New Armada, with Sommy encouraging Telma to make a representation to the Indonesian government during Busworld Southeast Asia. Similarly, the market is short of locally-made bus seats, something that Uno Minda can address given its competence of manufacturing seats across a range of specifications. Migma Packtron's thermoformed products could help Indonesian body builders reduce time to market in relation to the fibre glass parts that they currently use.

**Closing remarks**

**Jan De Man, Managing Director, Busworld Foundation**

Southeast Asia is the fastest growing bus market in the world. The Indonesian government is shifting focus from personal modes of transport to public transport. That explains the mandate for 45,000 electric buses. Price and quality are both important in Indonesia, with the body builder and bus operator clearly articulating their demands.

A conference will be organised as part of Busworld Southeast Asia. Public transit Authorities from London, Madrid as well as others from China and India are expected to share insights into their journey towards ushering in sustainable e-mobility. Consequently, a large number of Indonesian PTAs, policy makers and private bus operators are also expected to attend the event.