

Indian Automobile Sector: Going Smooth And Fast

The website of Tata Nano, the world's cheapest car, recorded more than 20 million hits in merely 15 days since its launch on March 23, 2009. Between April 9, 2009 and April 25, 2009 Tata Motors Ltd, the manufacturer of Nano and India's largest commercial vehicle company, received 203,000 orders for its much-awaited car.

The strength of India's automobile sector is not just limited to the success of a single wonder-car. Contrary to the global automobile sector, Indian automobile companies have continued their growth even in the current situation of economic slowdown. Indian automakers sold 929,596 vehicles in May 2009, up 8.86% compared to the corresponding month of year 2008, according to the Society of Indian Automobile Manufacturers Association (SIAM), the apex Industry association representing 44 leading vehicle and vehicular engine manufacturers in India. This is in sharp contrast to the U.S. automobile market, which recorded 33.7% decline in May 2009, when compared to the corresponding month a year ago with sales sliding to 925,824 vehicles. There are certain sections in this sector, which are feeling the pinch of economic slowdown. But the Indian auto companies are seeking only some tax cuts from the government to run their business smoothly, not bailout packages.

India: An Attractive Market For Global Companies

Toyota Motor Corporation, the largest automaker of the world that has relatively smaller presence in the Indian market so far, has recently brought its Sports Utility Vehicle (SUV) model Toyota Land Cruiser in the car market of India with a price tag of about \$170,000 (Rs.80 lakh). The success of SUVs such as BMW X5, Audi Q7, Porsche Cayenne etc. offered by other global competitors signaled Toyota that it can no longer afford to avoid this segment of the Indian market. So it decided to face the challenge with no other model but its flagship SUV brand Land Cruiser.

Toyota has a joint venture in India named Toyota Kirloskar Motors Private Limited, in which 89% stake is owned by Toyota and Kirloskar Group, one of India's largest Engineering and Construction Conglomerate, holds the rest. With the demand getting better, Toyota Kirloskar has decided to raise its production. During 2008, it sold 51,800 units that include the models such as Innova, Corolla Altis, Camry and SUV Prado.

Global automotive companies are also using India as a manufacturing hub for their exports market. Toyota Kirloskar is identifying export markets for the small cars produced by it in India. The company is setting up its second plant at Bidadi near Bangalore, the capital of the south Indian state of Karnataka, with an investment of about \$680 million (Rs.3,200-crore), which is expected to produce about 100,000 units per year. Toyota might export these small cars to Russia, Brazil and China in the initial stage.

Another Japanese company Suzuki Motor Corp, which specialises in small cars, holds more than 54% stake in India's largest carmaker Maruti Suzuki India Ltd. Suzuki had identified the opportunity in India as early as in 1981 when it partnered with the Government of India and formed the joint venture company in the following year as Maruti Udyog Ltd. In 1983, it

brought Maruti 800, a 796 cc model that was dubbed as India's first affordable car. The model became so successful that even after 26 years; it is one of the best-selling cars in India, although the company plans to gradually phase it out now. Suzuki got the majority control of this company in 2002 with 54.2% stake, when the Government of India sold its stake to Suzuki as part of its disinvestment strategy.

Relying on the Indian market is now paying off to Suzuki a handsome reward. Today, Suzuki not only controls 62% market share in India's domestic car market (and about 50% share in the total car production of India), but also getting a much needed cushion for its global operations contributing almost half of the Suzuki's global consolidated profits. Maruti Suzuki's share in Suzuki's profit moved up to 46% in 2008-09 from 30% in 2007-08. At a time when Suzuki is facing a downturn in all of its key markets such as Japan, the U.S. and Europe and a 14% fall in its net sales in 2008-09, Maruti Suzuki posted 14% increase in its net sales. Now, in order to save costs and ease its burden, the Japanese parent is considering shifting a major portion of its small car manufacturing activities to India.

The dominance of Suzuki in the small car segment in India has forced Japan's second-largest carmaker Honda Motor Co. to introduce its first small car named 'Jazz' in India on June 11, 2009. It aims to sell 20,000 units of its first small car in India, in the first year. Honda has invested about \$345 million (Rs.1,620 crore rupees) in the country and has plans to invest another \$210 million (Rs.10 billion) for its second plant, which will increase its production capacity in India to 160,000 vehicles annually by 2010.

Renault-Nissan Automotive India, a 50:50 JV between Nissan Motor Company, Ltd of Japan and Renault S.A. the French automaker, has targeted to gain 5.7% of the total market share in the passenger cars segment of India by 2012. Nissan has allocated 350 billion yen for its global investment plans in 2009 and India will likely receive the largest share of the amount. It has set up a car manufacturing plant in Chennai, the capital city of the Indian state of Tamil Nadu, that will cater to the exports market also. It plans to export 110,000 units by 2011. Nissan Motor India will begin its exports to Europe from the second half of 2010. Nissan's light commercial vehicle project with the Hinduja Group's, the London headquartered diversified conglomerate, flagship company Ashok Leyland is also expected to take off in 2011.

General Motors Corporation, the world's second-largest automaker, which filed for Chapter 11 bankruptcy protection in the U.S., has its Indian operations that continue to grow at healthy pace, hence are not being included in the U.S. filing for Chapter 11. Expansion plans of GM India are intact. The company is going ahead with its plans to introduce three new cars this year. GM India has invested more than \$1 billion in India over the past 14 years. Its manufacturing facility in Gujarat, the western state of India has an annual capacity of 85,000 vehicles, while its facility in the state of Maharashtra produces 140,000 vehicles per year. To compete with Tata's Nano, GM India plans to introduce a new mini car by the end of 2009. One can expect that if General Motors emerges from bankruptcy in the next 2-3 months, its India operations would have a more effective role in the reshaped GM.

Indian Automobile Market: Going Strong Even In Tough Environment

Indian automobile sector's growth is primarily driven by the two-wheeler segment, which continued its fast pace in May 2009 with sales reaching at 727,937 units, 12.5% higher than the sales in May 2008. In the two-wheeler market, the motorcycle segment grew by 12.34% at 576,000 units compared with 513,000 units in May 2008. Passenger car sales grew a bit slow, but remained positive, with 2.47% growth at 113,490 units. The one segment, which is not having good performance, is the commercial vehicle segment comprising of trucks and buses. This segment reported a drop of 13% in sales to 60,642 units last month.

Maruti Suzuki, the largest car manufacturer of India, registered a 10% growth with its sales reaching at 62,878 units during May 2009 when compared to the corresponding month in the previous year. Earlier, in April 2009, the company had sold 64,857 cars with a growth of 9% over April 2008. Hero Honda Motors Ltd, the largest two-wheeler manufacturer of the world, sold 359,000 motorcycles with year-on-year growth of 21%. It is noteworthy that Hero Honda, a joint venture of India's Hero Group and Japan's Honda Motor Co. Ltd., is the world's largest two-wheeler company for the past seven years primarily on the strength of domestic consumption, because it exports only to those countries where Honda is not present due to non-compete arrangement with Honda Motor.

Recent Performance Of Prominent Indian Automakers					
Company	May 2009	May 2008	YoY growth	April 2009	MoM growth
Maruti	79,827	69,001	15.8%	71,748	11.3%
Tata Motors	40,196	46,339	-13.3%	38,723	3.8%
Mahindra & Mahindra	30,366	30,123	0.8%	34,821	-12.8%
Hero Honda	382,678	312,317	22.5%	370,575	3.3%
TVS Motors	118,574	112,770	5.1%	113,119	4.8%
(Source: Respective Companies)					

Trends In The Recent Years:

If we look at the production figures of Indian automobile sector in the recent years, it's quite visible that the growth continued to be very strong till 2006-07 with annual growth in the range of about 14%-17%. For the last two fiscal years, production has stagnated, particularly due to pressure on commercial vehicle segments. This segment has suffered due to two reasons, a) very high interest rates, and b) slowdown in the economy. Now, with the banks easing the interest rates again and an improvement in the economic outlook, it is expected that sales of the commercial vehicle segment would start picking up in the next few months.

Automobile Production Trends (No. of Vehicles)						
Category	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Passenger	989,560	1,209,87	1,309,30	1,545,223	1,777,583	1,838,697

Vehicles		6	0			
Growth	36.81%	22.26%	8.22%	18.02%	15.04%	3.44%
Commercial Vehicles	275,040	353,703	391,083	519,982	549,006	417,126
Growth	35.02%	28.60%	10.57%	32.96%	5.58%	-24.02%
Three Wheelers	356,223	374,445	434,423	556,126	500,660	501,030
Growth	28.73%	5.12%	16.02%	28.01%	-9.97%	0.07%
Two Wheelers	5,622,741	6,529,829	7,608,697	8,466,666	8,026,681	8,418,626
Growth	10.77%	16.13%	16.52%	11.28%	-5.20%	4.88%
Grand Total	7,243,564	8,467,853	9,743,503	11,087,997	10,853,930	11,175,479
Growth	15.34%	16.90%	15.06%	13.80%	-2.11%	2.96%

(Source: SIAM)

India Emerging As A Prominent Force In Global Auto Market

Indian auto companies have started increasing their presence in the global auto market. For this purpose, these companies are not only focusing on increasing their exports, but also acquiring companies, brands and assets overseas. The most prominent example of a foreign acquisition by an Indian company was the acquisition of the U.K. based Jaguar and Land Rover, two iconic British brands by India's largest commercial vehicle manufacturer Tata Motors Ltd in March 2008. Tata Motors had acquired these two brands from Ford Motor Company for a net consideration of \$2.3 billion.

The company has just introduced the Jaguar and Land Rover (JLR) brands in the Indian market giving the discerning Indian customer direct access to these prestigious brands. The launch of JLR by Tata Motors in India mirrors the growing aspirational value among consumers in the Indian market - not only to own a car, but also associate with a brand and upgrade to a luxury car, a segment that is growing at more than 25% annually. Such aspirations have seen more than 7,500 luxury cars added to the Indian roads in 2008, up from 5,000 in 2006, according to estimates.

In fact, Tata Motors had started looking beyond Indian markets quite early, when it set up its first assembly operation in Malaysia in 1974. Currently it has franchisee/joint venture assembly operations in Kenya, Bangladesh, Ukraine, Russia and Senegal. In 2004, Tata Motors acquired Daewoo Commercial Vehicle Company, South Korea's second largest truck maker, which has got rechristened as Tata Daewoo Commercial Vehicles Company now. Thanks to this acquisition, two-thirds of heavy commercial vehicle exports out of South Korea are from Tata Daewoo. In 2005, Tata Motors had acquired a 21% stake in Spanish bus and coach manufacturer Hispano Carrocera with an option to acquire the remaining stake as well. Tata is using Hispano's presence to expand its reach in other markets. In 2006, the company formed a joint venture with Marcopolo, a Brazil-based company specialising in body-building

for buses and coaches. In the same year, Tata Motors entered into another joint venture with Thailand-based Thonburi Automotive Assembly Plant Company to manufacture and market the company's pickup vehicles in Thailand.

Bajaj Auto, the second largest two-wheeler manufacturer of India, registered 25% increase in its exports during 2008-09. It has set up a manufacturing facility in China to cater to the exports market.

Overall, India exported 1.53 million vehicles in 2008-09, up 23.6% from the previous fiscal year. A segment-wise break-up of India's exports suggests that passenger vehicles segment registered the highest 53.7% growth in 2008-09, followed by 22.5% growth in two-wheeler segment.

India's Automobile Exports Trends (No. of vehicles)						
Category	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Passenger Vehicles	129,291	166,402	175,572	198,452	218,401	335739
Growth	79.56%	28.70%	5.51%	13.03%	10.05%	53.73%
Commercial Vehicles	17,432	29,940	40,600	49,537	58,994	42673
Growth	42.24%	71.75%	35.60%	22.01%	19.09%	-27.67%
Three Wheelers	68,144	66,795	76,881	143,896	141,225	148074
Growth	57.14%	-1.98%	15.10%	87.17%	-1.86%	4.85%
Two Wheelers	265,052	366,407	513,169	619,644	819,713	1004174
Growth	47.51%	38.24%	40.05%	20.75%	32.29%	22.50%
Grand Total	479,919	629,544	806,222	1,011,529	1,238,333	1,530,660
Growth	56.17%	31.18%	28.06%	25.47%	22.42%	23.61%

(Source: SIAM)

Better Times Ahead For The Indian Auto Sector

The coming months are set to be exciting for the Indian auto sector with a series of new models being introduced, both by domestic and foreign companies. With the inflation touching almost zero, the Indian banks are expected to cut their lending rates sooner or later. India's finance minister Mr. Pranab Mukherjee, in an attempt to spur the growth rate again, has already urged the banks to reduce interest rates. Indian auto industry is set to benefit from the lower rates, as it will increase the demand for vehicles.

Rural initiatives of the new government will have a positive impact on the rural demand. The benefit of rural demand getting stronger will spread across segments including tractors, commercial vehicles, two-wheelers, multiple-purpose vehicles and small cars. With the low penetration level of two-wheelers in the country, the companies still have a sizable potential upside left. Once the industrial production starts improving, which is expected by July or August 2009 according to economists, the commercial vehicle demand will also pick up.