



India: The Next Automobile Giant

by Aditya Nath, CEO

(This is the first in a series of articles on the Global Automobile industry. The author is the CEO and Managing Partner of CGN & Associates Inc., Aditya Nath.)

A powerful force in the global auto market

The last few years have witnessed revolutionary changes in the management systems and manufacturing innovations of the worldwide automotive industry. The focus has tilted away from volumes to a lower cost model as espoused by the emerging markets. Of these emerging markets, India stakes a major claim with its role in shaping and leading the outsourcing market.

India has been hailed by market analysts as an emerging hub for the manufacturing industry with its focus on engineering, innovation, and overall growth leading it to the bastions of market leaders. Recently, a United Nations Development Program (UNDP) report hailed India as a powerful force in the global automobile industry, and recognized that it has the strength to sustain leadership and growth in the face of the global trading order.

The growth curve of India Auto Inc. has been on an upswing for the past few years. According to the Society of Indian Automobile Manufacturers (SIAM), the Indian automobile industry has maintained a steady growth of 20 percent till May 2005, with passenger cars and utility vehicles growing around 13 percent and 16 percent respectively.

Consequent to liberalization, the arrival of new and contemporary models, the availability of financing at relatively low interest rates, and price discounts offered by the dealers and manufacturers appear to have stimulated vehicle demand and a strong industry growth.

According to SIAM's projections, domestic sales of passenger vehicles (cars and utility vehicles) are set to grow at 20 percent over the next two years given the current GDP growth and exports are expected to grow at 40 percent.

Foreign automotive companies in India

There is a long list of foreign companies that are forging alliances with their Indian counterparts. Corporate participation in these alliances varies from 10 to 100 percent (i.e. wholly owned foreign subsidiaries). The Government of India is no longer regulating the alliance's equity participation and instead allows the drivers such as the technological, financial and market strengths of the partners to set the participation percentages. The setting up of joint ventures has led to an enhanced capacity creation in the vehicle sector, particularly in the passenger car sector where the additional capacity is forecasted to produce 3 million passenger cars in the next five years.

India has become a preferred destination for American, European and Japanese automotive companies because they realize that in the future, auto manufacturing will require world-class, cost effective IT and engineering expertise and India has an abundance of both. Furthermore, the low cost of manufacturing and a supportive government have been the key drivers for companies shifting focus to India.

GM India posted a staggering growth of 121 percent in December 2005 compared with its performance in 2004. Its Japanese competitor, Toyota, which has a partnership with the Indian firm, Kirloskar Motors, posted its highest ever retail sales in 2005. Another Korean giant, Hyundai Motors, which has made its Indian subsidiary the manufacturing hub for small cars, exports to around 60 countries globally. Recently, they made a foray into the UK where they shipped over 8,000 units in December 2005 alone.

Earlier this financial year, Ford Motor Company announced its intention to launch its fifth new product in India where the Chairman noted that among the growing markets around the world - India tops the list.

Coming out of the shadows

India and its biggest competition in the changed global order, China, share several similarities as emerging economies, but India does not receive the same global attention as compared to China, yet. This fact reflects itself in the automotive industry where China has been losing ground in terms of its markets; but still continues to attract the major percentage of global investments.

Having said this, I am tempted to predict that this scenario may be changing. A growing impetus in auto sales coupled with the fact that only a handful of individuals in India own a vehicle is making foreign investors take notice of this emerging auto giant.

Market watchers and analysts agree that in recent years, India has displayed its economic potential and the impact it promises for the global auto industry. It already seems to be on its way to becoming the giant that market research firms are predicting it to become in the next decade or so. India's preparation to embrace this opportunity with aplomb is evident in its well developed components industry and the current production levels of over a million four-wheeled vehicles a year.

India is now the fastest growing global auto market as is emphatically apparent in the record 2004-05 auto sales. India has clearly arrived in the big leagues. Recording a 24 percent growth in 2004-05 car sales, India has emerged as the fastest-growing car market in the world, comparing favorably to China's 13.7 percent growth last year. Recently the investment banking firm Goldman Sachs predicted that India will have the largest number of cars by 2050.

The immediate future looks very promising. The Society of Indian Automobile Manufacturers (SIAM) predicts that the next three to four years could see the industry pump in as much as \$5 billion in investments, out of which foreign direct investment would be close to \$3 billion. I concede that this figure still makes India a David to the Chinese Goliath, but India cannot be compared to China on figures alone. The Indian auto market is more stable than China and it has steered its own growth momentum as vouched by the Goldman Sachs report.

The Indian auto industry and its increasing competitiveness has driven an enormous amount of innovation in the sector. They have made sure to utilize the available low-cost labor instead of expensive automation, and the abundant engineering talent has developed innovative new products such as the Scorpio—an SUV that sells for a fraction of the price of an equivalent car in the United States.

An educated workforce, a large middle class, and a sincere desire to become a major player in the industry globally are some of the key drivers which are propelling India into the big league. The government's zeal to push through further reforms in the industry bodes well for this emerging giant.

Foreign ventures

Indian auto companies realize the opportunity they are sitting on and are moving aggressively

into foreign markets. They are following a two pronged strategy to not only tap the Indian and overseas market potential, but also to lower their production costs by outsourcing from other countries.

In the recent past, utility vehicle manufacturer Mahindra & Mahindra (M&M) emerged as the fourth-largest tractor brand in the US in the 15-90 horsepower (HP) segment. During the last financial year, Mahindra US touched sales of \$128M and is expected to cross \$250M by December 2008. It has already successfully created a market for itself in the Latin American and South African markets. It has opened an assembly line for its Bolero Range vehicles in Uruguay. The firm also launched its sports utility vehicle, the Scorpio, in July 2004 in Kuwait.

Another of India's leading truck manufacturers, Tata Motors Ltd., acquired a Daewoo truck manufacturing unit in South Korea last year. The firm now plans to introduce its heavy-duty trucks in India in the next 12 months. These trucks will be launched in India and select countries as part of Tata's strategy to enter the global transportation market.

The old horse of the Indian market, the Ambassador, is back in demand in Wales. Merlin Garages of Carmarthenshire, the UK's only importer of the Ambassador, is now planning a new, soft-top version of the Ambassador for the British market.

With changes at all levels and looking at India's preparedness for the global challenge, it seems to be fully equipped and ready to become a leading player in the worldwide automotive sector.

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Society of Indian Automobile Manufacturers

USA > CHINA > INDIA > NETHERLANDS > UNITED KINGDOM

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