

# Investing in low-price small cars

By Anand Kumar

WITH automobile sales zooming on the fast lane in India, international manufacturers continue to invest huge sums in new manufacturing facilities or in tie-ups with local producers.

While all leading global manufacturers from the US, Europe and the Far East (Japan and South Korea) have a significant presence in the country, other producers who had missed the bus in the past are now toying with the idea of setting up facilities in India.

The Malaysian major Proton, which has been keen to enter the booming Indian market, is now finalising plans for a facility in a tie-up with a local partner. According to Syed Zainal Abidin Syed Mohamad Tahir, Proton's managing director, India is a very important market for the Malaysian carmaker. "We should be able to produce a small car in India in the one to 1.5 litre engine range, within about two years," says the Proton chief.

While the Malaysian company was in talks with the India's leading automaker, Mahindra & Mahindra, a few years ago, it is now in discussions with a different company, which it has not identified. The new small car to be produced in India – which will also be exported to other parts of Asia and the Middle East – will also have the Proton's UK subsidiary, Lotus, as a partner.

The Malaysian carmaker had earlier sought an alliance with the Volkswagen (VW), but the plan did not materialise.

The European auto major – which last year acquired a 20 per cent stake in Japan's Suzuki Motors, that controls India's largest carmaker, the Maruti Suzuki – is also gearing up to introduce small cars. According to Christian Klingler, the VW group board member and head

of its global sales and marketing operations, the company plans to launch a new small car in the mass-market segment, positioning it below the Polo.

The VW has a production unit near Pune, with a capacity for 110,000 cars. While the company launched its compact car Polo last year, it now plans to introduce the Vento in India.

The VW might develop the new small car in a possible joint venture with the Maruti Suzuki. Klingler says the VW could seek the Maruti Suzuki's help while developing new products for the Indian market, considering its dominance and expertise here. Klingler also sees a lot of synergy between the two companies, especially relating to supplies of components.

Another joint venture project for a small car – that would be priced just a little above the Tata Nano – is the one between the Bajaj Auto, a leading two-wheeler manufacturer, and the Renault-Nissan alliance. Last week, the Bajaj signed a memorandum of understanding with the Renault-Nissan venture to produce an ultra-low-cost car.

The new car, to be introduced in 2012, is to be priced around \$3,000. The Bajaj Auto will be looking at the design, engineering and manufacturing aspect of the new car, while the French and Japanese firms will look after the marketing and distribution of the vehicle. The Bajaj Auto will be investing over \$100 million in the new venture, which will also operate out of Pune.

Interestingly, both the Renault and Nissan have their own individual projects in India. The Nissan is launching its compact car, the Micra, in India this month, while the Renault will launch its vehicle next year.

Another French-maker that is keen on starting a manufacturing facility in India is the PSA Peugeot Citroen, which is looking at a \$850 million project. The company is expected to develop the facility in Andhra Pradesh.

\*\*\*\*\*

INDIA has emerged as one of the most buoyant automobile markets in the world in recent years, with both domestic (Maruti Suzuki, Tata Motors, Mahindra & Mahindra) and international (General Motors, Ford, Toyota, Honda, Hyundai, besides luxury carmakers such as Mercedes Benz and BMW) ramping up their production to meet the

huge demand for cars.

Sales of cars in India is expected to expand by 12 per cent in the current fiscal (ending March 31, 2011), according to estimates put out by the Society of Indian Automobile Manufacturers (SIAM). The industry lobby expects total car sales to top 1.7 million units, as against 1.53 million units last year.

Pawan Goenka, the SIAM president, notes that "as infrastructure and income levels improve and cars become more affordable, more people would like to buy vehicles." Auto sales are rising despite manufacturers jacking up the prices (four times since January), the government hiking fuel prices (petrol, diesel and gas) and a rise in interest rates. Almost 80 per cent of cars in India are bought by consumers borrowing funds from banks.

Goenka notes that while the first quarter of the current fiscal saw healthy growth in auto sales, they are likely to slow down in the second quarter. Car sales in June shot up by more than 30 per cent (as compared to the figures for June 2009); over 140,000 cars were sold in June (as against 108,000 last year). This, however, was lower than the record 148,000 cars sold in May.

The Indian government expects car sales to top three million by 2015. Over 75 per cent of the 1.53 million cars sold in India last year were in the 'small' category. These compact cars are extremely

popular in India, as they give high mileage; the Tata Nano has a mileage of 23.6 km per litre (kmpl), while the Maruti Alto gives 19.7 kmpl.

In cities like Mumbai, Delhi, Bangalore and other major metros, parking is also a major problem. Smaller cars are easier to handle and park, so demand for these vehicles is huge.

\*\*\*\*\*

THE Maruti Suzuki, originally a joint venture between the Suzuki Motors of Japan and the Indian government, introduced its hugely pop-

ular 800 cc car in the 1980s, launching the era of small cars in India.

For the last quarter century, the Maruti has dominated the Indian automobile segment. But with a growing number of Indian and domestic majors introducing their small-car versions, the Maruti is gradually losing market share, though in sheer numbers it continues to dominate the industry.

In June, the Maruti saw a 28 per cent decline in sales (as compared to May), mainly because of a maintenance shutdown at its plant. But when compared to sales for June 2009, there was a growth of 17 per cent (at 88,000 vehicles sold in June 2010).

But significantly, for the first time the Maruti has seen its market share dip below 50 per cent. For the January-June period, Maruti's sales have declined to 47 per cent, indicating growing competition in the small-car segment.

While the Maruti continues to see huge demand for its small cars – with consumers having to wait for weeks for some models – it has embarked on a major expansion drive. It is expanding capacity by 250,000 units to meet the growing demand.

But other car manufacturers are also launching newer, low-priced models. The Nano from the Tata Motors is slowly picking up sales and has helped the domestic major to increase its market share to nearly 15 per cent. The Ford Motors has launched its Figo, while the General Motors has launched the Chevrolet Beat; the American giant, which sold over 9,500 cars in June, saw sales of the Chevrolet Beat top 3,400 units, just months after the launch. The company also offers another small car, the Chevrolet Spark.

The Nissan is launching its small car, the Micra this month, while the Toyota is launching its first small car in India, the Etios. Hiroshi Nakagawa, managing director, Toyota Kirloskar Motors, points out that for the Japanese major 2010 will be a turning point in India. The company, with a mere three per cent market share (despite an over 10-year presence in India), expects its share to touch the double-digit mark this year, with the launch of the Etios.

Indeed, with demand for small cars soaring, most international carmakers are hoping to raise their revenues in India by introducing a slew of new low-priced models over the coming months.

