THE INDIAN CAR INDUSTRY ANALYSES

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INTRODUCTION

On seeing the US and European car hitting the roads and making the mobility of man from place to place easier and safer the idea of making cars spread far and wide on the globe. In India, such a dream took shape in the industrial city of Bombay in the 1930s.

Initial efforts to start a car manufacturing plant in India, dated back to 1935, when Sir M. Visvewaraiah, supported by a few Indian businessmen met at the Tata House in Bombay (now called "Mumbai") and put forth a plan to start a car manufacturing unit. It was believed that with Tata's steel plant at Jamshedpur and Bombay's metallurigical workshop, it was possible to manufacture a car in India. An Automobile Factory Committee was setup on April 17, 1936 by the Indian Merchants chamber in Bombay to prepare a detailed proposal, but not much progress could be made.

Meanwhile, two leading businessmen, Walchand Hirachand and Ghanshyamdas Birla also had plans to start their own automobile company. In 1942, Hindustan Motors Ltd was established by the Birla Group at post Okha near Gujarat. In 1944, Premier Automobiles Ltd. was established by the Walchand Group in Bombay. Both companies were set up without any support from the government.

After gaining independence in 1947, the Indian Government adopted a protectionist approach in the automobile industry. A licnese had to be obtained from the Indian government for import of technology, components, increasing capacity or setting up a new unit. Obtained a licence involved tedious bureaucratic procedures, while imports of technology and components were to difficult and unprofitable. As a result, the barriers to entry were high. The automobile market was dominated by "Ambassador" of Hindustan Motors and "Premier Padmini" of

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premier Automobiles from the 1950s to early 1980s. These cars were costly in relation to the purchasing power of most Indians, had low fuel efficiency, were of old obsolete technology and were unattainable by the common man. The production levels remained low at around 30,000 vehicles a year. Consumers had to wait for their turn, even if they could afford it. It was an era of ration and scarcity.

In 1983, in a landmark event for the Indian car industry, Maruti Udyog Ltd. (Maruti) was established as a joint venture between the Indian government and Suzuki Motor Corporation of Japan to manufacture a low cost car within the means of the common man. Soon after, in 1985-86, the government initiated certain policy measures in the automobile sector to liberalise the import of technology. The impact of these measures, however, was nominal and no much growth took place. Only the new entrant Maruti, who had entered the market with small and fuel-efficient cars and new technology, achieved tremendous success and leadership in the market.

Until 1991, there were only three major players in the passenger car market. Maruti occupied the largest market share of 62.5% followed by Hindustan Motors and Premier Automobiles. In 1991, the government of India initiated the process of Economic Liberalization in the country. In 1993, the automobile industry was de-regulated. The salient features of the new auto policy included delicencing, abolition of Phased Manufacturing Programme (PMP), automatic approval of 51% equity by foreign holdings in Indian companies and reduction in duties. Consequently, many players were attracted by the duties cut. Many players were attracted to the passenger car market in India. Between 1993 and 2000, around 10 global players namely Hyundai, Daewoo, Ford, Honda, Toyota and General Motors entered the Indian Car market through different routes (Table 3.1) sensing a growth in the auto sector. Other Indian manufacturers like Telco (New Tata Motors) also ventured into the small car segment in the late 1990s.

The passenger car industry in India grew rapidly in the late 1990s. Companies launched new models in different segments to fulfill consumer aspirations (Appendix III(i)). According to the Society of Indian Automobile Manufacturers (SIAM), domestic car sales increased from 3.88 lakhs in 1997-98 to 8.19 lakhs, in 2004-05. Exports became another big market for auto majors in India.

The Car Initiative

Major-Indian Automobile manufacturers are now co-operating in pooling their resources to develop next generation automobile components and products with the help of government research laboratories. Mahindra & Mahindra, Ashok Leyland, Bajaj Auto, Tata Motors, Maruti, TVS Motors and Hitech Gears are some of the companies who have taken an initiative called Core Advisory Group of Research (CAR). The US auto majors had earlier taken such initiative to develop the fuel cell technology.

The CAR project was taken up in 2002. In early 2003, an expert panel was formed comprising professionals from automotive companies, research institutes, the IITs, Indian Institute of Science and Industry bodies like ACMA, SIAM and Society for Automotive Engineers to identify the core areas for R&D. CAR has identified six areas for collaboration and research :

1. Embedded control systems (Covering power train controls, chassis control, suspension control, climate control)
2. Telematics (covering open standards, digital maps, inter-vehicle communications)
3. Hydrogen and Alternate Energy (Covering hydrogen production technology, storage, fuel cells)
4. Low cost safety (Covering new anti-brake locking systems, sensors)
5. Advanced materials (Covering new materials to reduce weight, cost and materials for power sources)
6. Recyclability of materials (covering use of metal scrap, recovery of plastic material)

Measures to Control Vehicular Pollution

According to a study, the automobile exhaust contributes to more than 60% to the atmospheric pollution in metropolitan cities. With the growing number of vehicles, the pollution in the cities is ever increasing. Government initiated controls by notifying emission standards from the year 1992 which were further tightened in April, 1996 under the Motor Vehicle Act. For meeting these norms, unleaded petrol was also introduced in metropolitan cities from 1995

which enabled fitment of catalytic converters on new petrol driven vehicles. The norms were further tightened from April, 2000 when Indian's stage-one-norm equivalent to Euro-I became effective. For 2 wheelers, India has announced one of the tightest norms in the entire world. In the national capital territory region of Delhi, India's stage 2 norms equivalent to Euro-II norms were made effective from April 2000, as per the order of the Hon'ble Supreme Court. This applies to passenger cars (both petrol and diesel) also.

Indian automobile industry is also trying to meet the emerging challenges of environmental pollution and better safety standards. This will help in not only reducing atmospheric pollution in India. But would also contribute to export worthiness of Indian automobiles. Euro-I emission norms have already become applicable throughout the country, though they are being scantily followed in places other than the metropolitan cities. Euro-II norms were inducted across the country from April 2005. Euro-III norms have become applicable from April 2005 in 7 metropolitan and 4 other major cities but they are applicable to new vehicles only. They are applicable in NCR of Delhi, Chennai, Mumbai, Kolkatta, Ahmedabad, Bangalore, Hyderabad (including Secunderabad), Pune, Kanpur, Agra and Surat.

To meet this emerging challenge of new emission norms, the Indian automobile industry has started making investments in inducting new technologies. A higher safety and emission standards regime requires adequate infrastructure of testing and certification of domestically produced and imported products. However, the existing testing infrastructure in the country is limited and grossly inadequate to meet the emerging requirements of the industry. Therefore, the Government is in close co-operation and coordination with the industry and has initiated steps for upgrading the existing testing facilities and setting up of new testing infrastructure in the country.

TABLE-1

PRODUCTION OF AUTOMOBILES IN INDIA

Description	Passenger vehicles cars
1996-97	407,539
1997-98	401,002
1998-99	390,355
1999-00	574,369
2000-01	513,415
2001-02	564,052

2002-03	608,851
2003-04	843,235
2004-05	1,027,876

Source : Society of Indian Automobile Manufacturers (SIAM)

The domestic sales of passenger cars rose by 28.57%, to 6,96,207 units in 2003-04 from 5,41,496 units in 2002-03. The sales of compact cars (like Tata's Indica, Maruti's WagonR and Hyundai's Santro etc.) rose by 23.4%, to 3,69,537 units in 2003-04 from 2,99,359 in 2002-03. The sales of Mid Size C segment cars also rose by 50%, i.e., from 46,700 units to 1,39,400 units in 2003-04 and from 92,638 units in 2002-03. The sales of executive cars (like Skoda Octavia, Toyota Corolla, etc.) rose by 101%, that is to 16,576 units in 2003-04 from 8,237 units in 2002-03. The sales of Toyota Corolla rose to 9,547 units and Skoda Octavia 5,950 units. The sales of Maruti 800 rose to 1,67,561 units in 2003-04 from 1,43,322 units in 2002-03.

TABLE-2

DOMESTIC SALES OF AUTOMOBILES IN INDIA

Description	Passenger vehicles cars
2000-01	6,90,560
2001-02	6,75,116
2002-03	7,07,198
2003-04	9,02,096
2004-05	10,61,290
2005-06	11,43,037

Source : Society of Indian Automobile Manufacturers (SIAM)

Though the three major players – Maruti Udyog, Hyundai and Tata Motors – accounted for the significant growth in sales, General motors, Honda and Toyota also saw Significant rise in sales in 2003-04 when they came out with new models in the mid size and Executive segments. In 2003-04, the sales of Hyundai Santro was 1,00,017 units Tata Indica was 80,205 units, Maruti Zen was 64,654 units, Suzuki Alto was 60,634 units, Accent was 26,231 units (19,512 units in 2002-03), Indigo was 28,000 units (6,813 units) Honda City was 18,384 units (11,992 units in 2002-03), Ikon was 20,881 units (14,961 units in 2002-03), Honda Accord was 2,109 units, Hyundai Sonata was 1,224 units and Toyota Camry was 1,117 units.

Indian Car Market

During the past five years, the market for compact cars (like Santro, Alto, Wagon R, Zen, Indica, Palio and Corsa sail) has gone up from 17.5% to 50.4% while that of minicars (like

Maruti 800 and Omni) has fallen from 62.1% to 30.6% of the total car sales (excluding utility vehicles). One reason for this could be that many buyers of Maruti 800 in 1997-98 and later were selling their old cars and were buying new compact cars due to increase in their incomes. The sales of new Maruti 800 probably fell due to a rise in the sales of second-hand cars also.

The market for mid size cars (like Esteem, Corsa, Accent, Ikon, Indigo and City) did not grow by the average 8% of the all car makers but a modest growth of 5%. The market for executive premium and luxury segments, comprising cars sized upto 4.5 meters long rose by 4% only. Their share in the sale of cars total declined from 1.4% to 1.1%. In 2003-04 many first time buyers directly bought compact cars instead of buying mini-car first and shifting to compact car later on.

TABLE- 3

DOMESTIC SALES AND EXPORTS OF PASSENGER VEHICLES

Description	Domestic sales		Exports	
	2002-03	2003-04	2002-03	2003-04
Mini	143342	167565	6682	10479
Compact	299359	369539	33755	84077
Mid – size	92389	139304	29901	30739
Executive	2195	14337	-	-
Premium	4135	5368	25	32
Luxury	71	96	-	-
UVs	113620	144981	1171	3067
MPVs	52087	59564	565	922
Total	**707198**	**900752**	**72005**	**129216**

Source : Society of Indian Automobile Manufacturers (SIAM)

The general pattern of ownership level of cars in India is still very low, that is at 5 cars per 1000 people against 8/1000 in China, 35/1000 in Thailand and 450/1000 in the developed countries. In the 18 months (June 2003-December 2004) more people bought new cars because of income rise, price cuts and levy discounts due to stiff competition and cheaper costs of loans. As per the automobile ranking of the International Organisation of Motor Vehicle Manufacturers, India occupied 13th position in 2003 against 15th in 2002 among the top 15 car manufacturing countries in the world.

During 2004 Diwali festival season, car makers were offering a discount of Rs.20,000 – 27,000 on B-segment cars to boost their sales. In 2004, Indian companies sold 10,44,597 passenger vehicles, which was up by 25% when compared to that of 2003.

With ready acceptability of Hyundai's Getz and Ford's fusion in the Indian market in 2004, companies like Skoda GM and Fiat were planning to introduce premium, hatchback models of their cars in the Indian market in 2005. While Skoda was planning to introduce a hatchback version of "Fabric", GM was planning to introduce Daewoo's Kalos as Chevrolet Aveo in India.

Imports of cars

Till now, cars costing $ 40,000 and are were exempted from homologation, but now the government has introduced a new rider. The engine capacity of petrol cars should be more than 3 litres and more than 2.5 litres for diesel cars to be eligible for exemption from homologation.

TABLE -4

MARKET SHARE OF SOME CARS IN 2003 AND 2004 (%)

Description	2003	2004
Maruti 800	34.0	22.0
Maruti Alto	9.4	18.6
Hyundai Santro	18.6	17.4
Tata Indica	15.5	16.3
Maruti WagonR	8.8	12.0
Maruti Zen	12.4	11.3
Palio	2.0	0.9

Source : Society of Indian Automobile Manufacturers (SIAM)

Homologation basically involves making some changes in the car to make it suitable for running on Indian roads from a technical point of view. Italian cars like Marques, Ferrari and Moserati have higher engine displacement but German cars like Porsche and Audi may require homologation. The premium cars in India have a small market and they are imported as completely-built-units rather than as CKDs.

Exports of cars

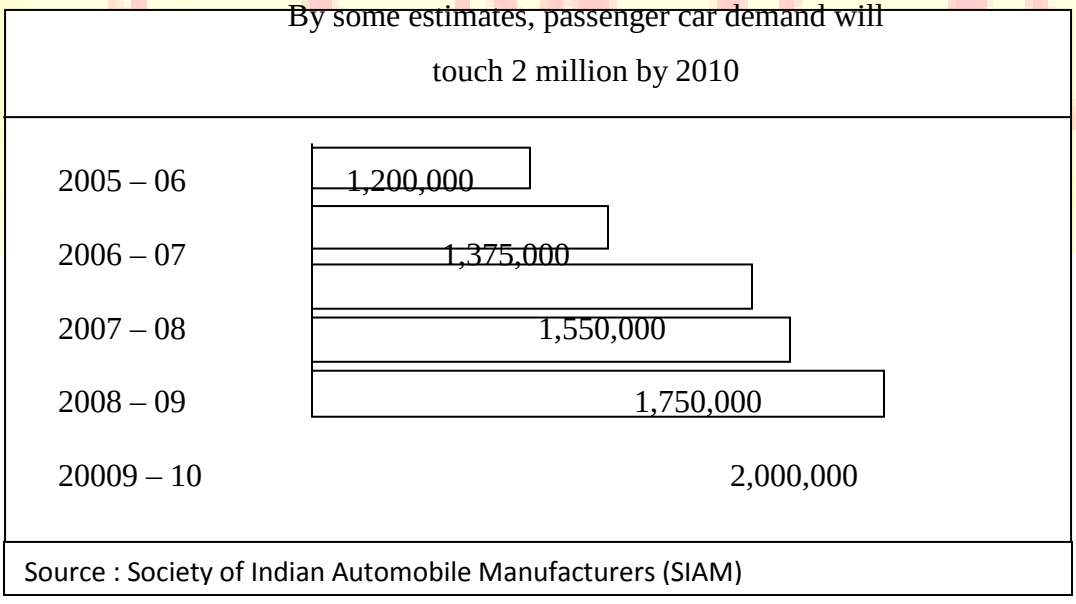
In 2003, while Maruti Udyog remained the top exporter of cars, Hyundai replaced Ford as the second largest exporter. Now, while the South Korean parent of Hyundai wants to make its Indian plant a hub for global exports, Maruti is expected to face tough competition in the years to come. Hyundai was planning to double its export range to $280 million in 2004. In 2003, while Maruti Udyog's exports of cars rose by 84% to 45,475 units, Hyundai's exports rose by 269% to 30,433 units. The exports of Ford fell by 17.74% to 23,836 units. Tata Motors fell by 17.74% to 23,836 units. Tata Motors was much behind but its exports were also up by 64% to 6,913 units. In 2004 – 05, Hyundai was planning to raise its capacity to 4 lakh units per annum. Earlier, the company had raised its capacity from 1.2 lakh units to 1.5 lakh units in 2003- 04, worldwide. Hyundai wanted to raise its capacity from 3 million units to 5 million units and to become the fifth largest producer of the world. Hyundai exports its "Santro" and "Accent" from India to German, Netherlands, Italy, Spain, Indonesia, Algeria, Morocco, South and North America and SAARC countries.

In 2005 – 06, India's exports of cars rose by 5.92% i.e., to around 1.7 lakh units. Hyundai's exports rose by 24.36%, to 1,02,092 units in 2005-06 (i.e., from 82,092 units in 2004-05), Maruti's fell by 29.52% to 33,594 units (47,663 units in 2004-05), Tata Motor's rose by 128.32% to 18,531 units (from 8,116 units in 2004-05). ford India exported 15,925 units (from 22,625 units in 2004-05) and Honda Diesel 51 units (160 units earlier in 2004-05).

FIGURE -1

DEMAND FORECASTING

By some estimates, passenger car demand will touch 2 million by 2010



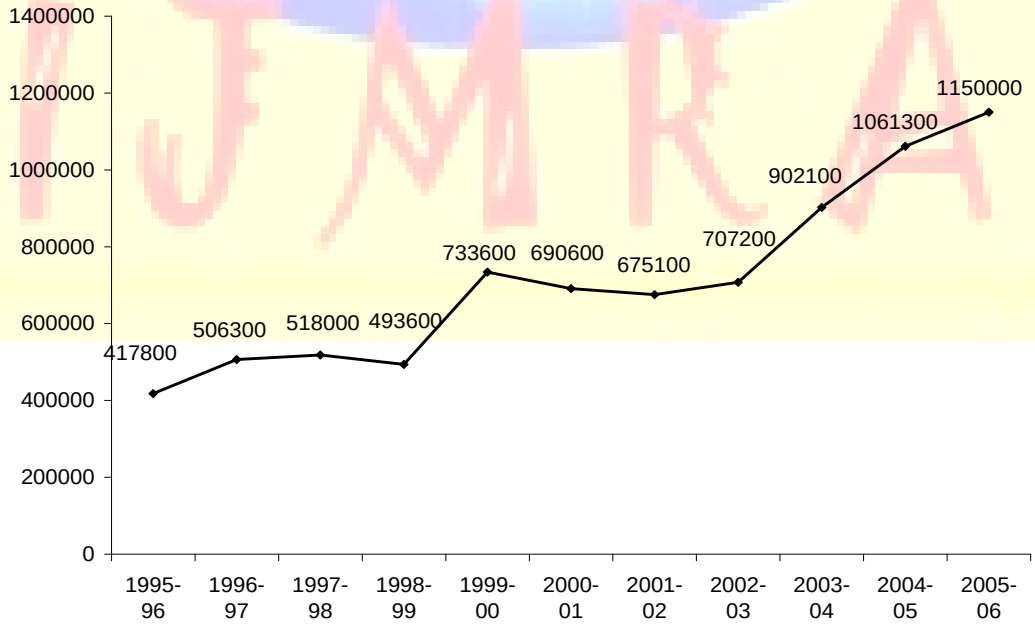
Source : Society of Indian Automobile Manufacturers (SIAM)

The huge untapped market has prompted car makers to revise their plans. MUL along with its Japanese parent Suzuki Motor Corporation, was setting up a new plant not far from its existing facility in Gurgron near Delhi that would roll out 250,000 cars a year by the end of 2006. At their full capacity MUL's two plants will churn out 850,000 vehicles a year, MUL's bitter rival and #2 in the market, Hyundai Motors India (HMI), is mulling a second plant right behind the one it already has in Sriperambudur near Chennai. Tata Motors, which stroked car demand with its diesel-engined Indica way back in 1999, is working on an Ultra low-priced car (Rs.1 lakh or so) that could revolutionise motoring in the country. Toyata Kirloskar Motors, a nominal joint venture that doesn't yet offer sub-compact cars, has openly set a 10 percent market share target by 2010.

Even companies that don't have "small-cars" (as understood by the Indian buyer) in their portfolio are wooing buyers with contemporary offerings that they would come up with ones. Ford India for instance made a global launch of its new Sedan Fiesta in the Indian soil, and cutting the ribbon was done by Ford CEO Bill Ford himself. General Motors, despite its precarious position in the US, plans to bring the Daewoo small car spark

FIGURE -2

SUDDEN SPURT



to India. And as for those car markers who thought India wasn't a big enough market and thus stayed out for the past 10 years, are now scrambling to set a foot in. BMW recently announced the setting up of a $ 39 million (Rs.175.5 crore) plant, albeit to manufacture its 3 and 5 series Sedans. Volkswagon, despite an embarrassing scandal has its sight set on India and in fact will be displaying its new Beetle besides Touareg, Pjaeton and Passat at the recent Auto Expo. The cautious French company Renault - it refrained from entering China because it feared overcapacity has setup a joint venture with Mahindra & Mahindra (M & M) to launch in Sedax Logan in 2007.

As such, it seems the promise that originally lured car marketers to India – a booming middle-class – is finally closer to delivering. In terms of aspiration, millions of Indian consumers are ready for their first four wheeler. The question is, can car markers manufacture to a price that will be convincing to a nation where the per capita income is a bare $ 650 (Rs.29, 250).

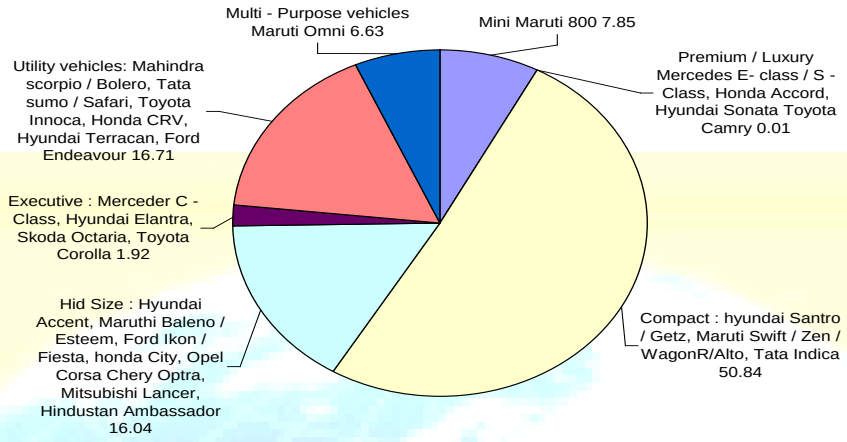
Pricing of Small Cars

A quick look at the passenger car market (including utility vehicles) in 2004-05 reveals that , 1.06 million cars were sold. Out of these, 610,000 were in the A and B segments which include Maruti 800, Alto, Zen, Santro, WagonR, Indica, Getz, Swift and Palio. Almost half of the sales were in the top 10 cities. The annual market for pre-owned cars is estimated at another 7 lakh units. All told, there are about 10 million cars on Indian roads, still not a big enough number, considering that more than 27 million Indians paid income tax last year. All of them according to MUL are potential car buyers. Yet at least 17 million of them aren't buying because "either they can't afford" it or they think, as MUL's Khattar suspects, "they can't afford it". This research believes that the former may be plausible reason considering that 95 out of every 100 cars by Indians are bought on finance. "you have to make attractive vehicles at affordable prices, and if you make more options available in the A – segment, the market could boom", says Tata Motors Ravi Kant, obviously referring to their proposed Rs.1 lakh car.

FIGURE -3

THE SMALL CAR RULES

Car Buyers Still want the Zens, Santros and the Indicas



Since affordability is the issue ,companies need to offer cheaper cars. There are two broad ways in which this can be done; either reduce the absolute price of a car (for example on 800 for, say, Rs.1.50 lakh instead of Rs.2.17 lakh) or make the financing cheap enough to lessen the impact of car ownership on the household incomes and expenditure. Expanding the reach of financiers to smaller towns, something that has been happening over the years, and lowering interest rates (possibly because delinquency in car loans is just over 1 percent, one of the lowest in the world) are things that could help stimulate demand.

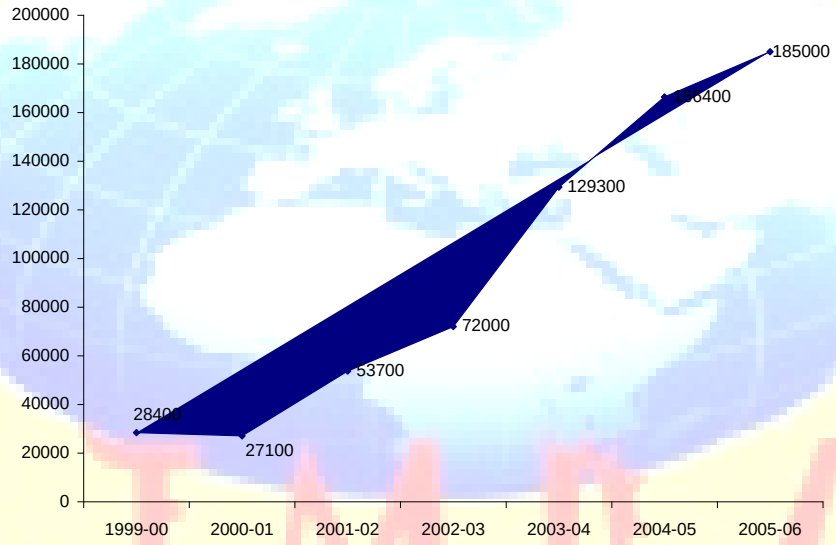
But lowering, the sticker price is a different ballgame. Tata Motors, for instance is questioning every conventional car-making rule in a bid to make its dream small car at Rs.1 lakh or so. That's because incremental cost-cutting will not result in a new pricing paradigm. If that were possible, MUL would have long ago cut the Maruti 800 price to Rs.1 lakh and decimated competition. But fortunately or unfortunately, excise tax to be paid to the Government alone accounts for 24% of a car's cost. It's unlikely that the government will cut excise rate too steeply, especially when it is not sure if the resulting demand will makeup for the revenue loss. Still, it's a possibility and one that can straight away make cars cheaper, triggering a cascading effect down the market is the fact that buyers of small cars are graduating to bigger cars now and pre-owned cars will become cheaper still, allowing millions of two-wheeler owners to buy their first set of four wheels. They too will turn buyers of new cars eventually.

Possibly because Maruti Udyog Ltd., makes the cheapest car in the world (the Maruti 800) Maruti Udyog Limited has been working on convincing consumers that they can indeed afford a car. Under a "2 ka 4" scheme, it has been going out into small towns to sell its cars to school teachers, public sector employees, state government staff and even railway foremen and getting them to switch over from motor cycles and scooters. Since the pilot scheme (targeting school teachers) was launched in early 2005, MUL has sold 22,000 cars to such consumers.

FIGURE-4

A GLOBAL CAR HUB

Low cost of manufacture in India is helping manufacturers step up exports



Source : Business Today, Estimates

At the moment, capacity is a constraint, besides which tax on component makes cars that much more expensive to export. "Exports are of more strategic importance to companies like Tata Motors and Mahindra & Mahindra. For the other multinational carmakers, it's the Indian market that is the main attraction. To be sure, there will be the odd dip to deal with".

TABLE NO. 5

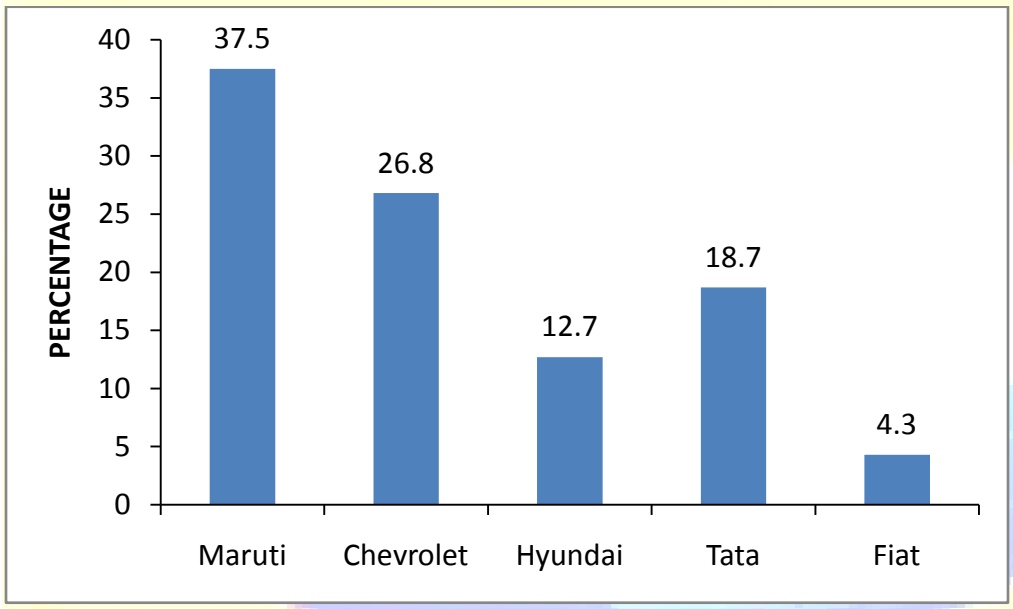
BRANDS USED BY THE RESPONDENTS

S.No.	Opinion	No. of Respondents	Percentage
1.	Maruti	225	37.5
2.	Chevrolet	161	26.8

3.	Hyundai	76	12.7
4.	Tata	112	18.7
5.	Fiat	26	4.3
	Total	600	100.0

CHART NO. 5

BRANDS USED BY THE RESPONDENTS



It is observed from the above analysis that 37.5 percentage of the respondents are using Maruti brand. It is understood from the analysis 26.8 percentage of the respondents are utilizing Chevrolet brand of small cars. Hyundai brand of cars are purchased by the selected sample respondents at 12.7 percentage. The brand Tata have been utilizing at 18.7 percentage of the sample respondents. On the other hand, only 4.3 percentage of the respondents are using Fiat brand of the small cars. It is found from the above analysis that most of the small car users are using Maruti and Chevrolet cars in the study area.

TABLE NO. 6

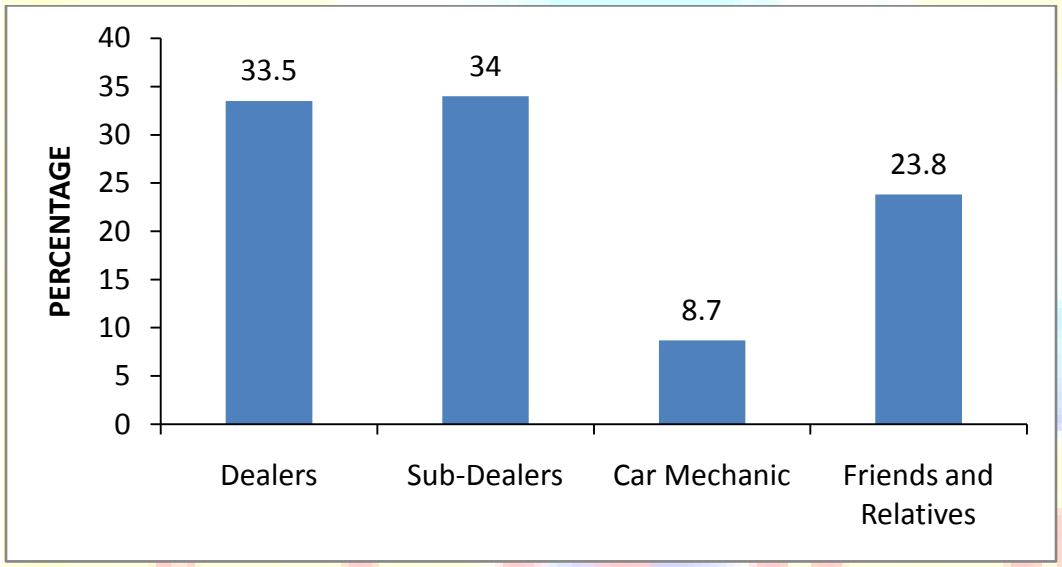
PLACE OF PURCHASE OF THE CAR

S.No.	Opinion	No. of Respondents	Percentage
1.	Dealers	201	33.5

2.	Sub-Dealers	204	34.0
3.	Car Mechanic	52	8.7
4.	Friends and Relatives	143	23.8
	Total		

CHART NO.6

PLACE OF PURCHASE OF THE CAR



The above table reveals that 33.5 of the respondents are purchase the small car from dealers. It is followed by 34.0 of the respondents purchase the car from sub-dealers, 8.7 percentage of the respondents are purchase the car from car mechanic and remaining 23.8 percentage of the respondents purchase the car from friends and relatives. It is concluded from the above analysis that majority of the respondents are purchase the car from sub-dealers followed by dealers.

CONCLUSION

Since the study reveals that dealers prefer Maruti and Hyundai companies' dealership and Tata's small cars are found to be not so attractive by them. Tata company should take efforts to impress the dealers as well as consumers and may reduce the cost of their small car a little to capture the market.

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