

## **Motor industry may find salvation in India's growing economy**

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MICHAEL MCALEER reports from India, where a growing economy may herald the next generation of car giants

AMID THE turmoil at General Motors, Chrysler and virtually every dealership in the western world, it would seem hard to find much to be positive about in the auto sector. Car firms are faltering under the pressure of over-capacity on forecourts and at production plants in western economies where buyers are simply not prepared to commit to any major spending until they see for themselves these mystical “green shoots of recovery”.

However, amid all the doom and gloom, there are opportunities further afield for an industry that’s supposedly in crisis. While some manufacturers are fighting for survival over cut-throat sales in Europe and the US, in the burgeoning Asian economies of China and India, the future looks a lot brighter. There, the public is only starting to discover the joys of independent motoring.

It’s there, also, that the next generation of car giants may well reside. While the ageing behemoths of the US teeter on the brink, the Chinese are busy investing in European brands and shopping around for bargains, while the Indians are well-established as owners of western brands. Ratan Tata has already purchased two prized brands – Jaguar and Land Rover. It’s not just the potential in foreign established markets that attracts these investors.

The rapid rise in car sales in China has been well-reported, but India is proving to offer equally lucrative potential growth, particularly due to its burgeoning middle classes eager to adopt western lifestyles.

Car ownership remains miniscule – in an estimated population of 1.1 billion, just 1.2 million new cars were sold last year. However, with India seemingly bucking the global downturn and still recording economic growth, the potential is enticing.

Admittedly in the teeming cities where roads are already gridlocked with bicycles, scooters and motorbikes, you start to wonder where more cars will fit. If the population were to adopt the car with the same appetite as in the west, one suspects India would immediately grind to a standstill.

Rules of the road are frequently ignored. A family of four riding on a single motorbike – all without helmets – is a common sight, particularly outside the city, as are the regular fatal collisions. Dual carriageways are accessed by industrial estates and work sites. Rather than turn left and follow the flow of traffic until the next junction, we came across trucks laden with bricks pottering down towards us on the outside lane of the carriageway, heading on the wrong side of the road until the next junction in their direction. There they could cross over to the proper side.

On a more positive note, Indians aren't aggressive drivers: the volume and chaotic nature make it risky but there is a natural order in the way it works and hundreds of millions of Indians get around relatively unscathed every day.

The most evident form of motorised transport is the motorcycle. They are everywhere and act as family cars for many, shuttling up to five passengers in some instances. The relatively simple mechanics make them easy to maintain; their versatility and flexibility suit the tough terrain; and ultimately the price makes sense to many living just above the poverty line for whom some form of transport is vital.

Aspirations by the local Tata car firm to tempt two-wheeled Indian motorists into its new Nano and the coverage the car has received in the western media is regarded by many in India as hyped.

More realistic local estimates suggest the Nano will create a new niche in the Indian market between motorbikes and small cars. It's a sizeable potential market but not quite the great social change suggested.

The Nano must prove its worth in terms of reliability and fuel economy compared to the motorbike before it really takes off. Simple production limitations suggest it might not replace the two-wheeled transport of India for some time. A price tag of less than €1,500 on the local market certainly meets the initial cost criteria for Indian buyers. However, according to Srinivas Krishnan, associate editor for motoring at the Business Standard newspaper, there are other equally important factors for those buying cars in India. "The purchasing criteria for Indian motorists are dominated by price, running costs, space and reliability. Safety and styling come after that."

The issue of price is obvious in a nation where a booming economy still hasn't lifted all ships.

Space is judged on a very different scale to European standards. "The Hindustan car can supposedly carry up to 22 people in it and on it," says Krishnan, referring to the Indian-produced replica of the Morris Oxford that was the motoring staple for Indians from the 1950s to the 1980s.

During this time it was one of only a handful of cars licensed for sale by the Indian government and is still one of the most common sights on Indian roads.

Old shells litter the streets of many villages where broken Hindustans have been stripped for every possible part to use as a spare. Indians still look for the characteristics of the Hindustan – an easily repaired workhorse – in their motoring transport.

The need for reliability is obvious – modern dealer networks, though rapidly expanding, remain sparse and in rural areas a breakdown can put livelihoods at risk. Into this tough motoring climate, several foreign brands have made impressive in-roads. Dominating the Indian car market is the joint-venture of local brand Maruti with Japanese small-car maker Suzuki, which holds a 50.4 per cent share.

Next up is a surprisingly strong foreign entry: Hyundai. The Koreans, who have made enormous strides in the US of late, have so far secured a 20.4 per cent market share in India, building on a reputation for small-car reliability, well-suited to the local demands. The Koreans have also pursued production opportunities on the Indian sub-continent. Some 10 years ago Hyundai opened a production facility on the outskirts of the south-eastern city of Chennai, formerly known as Madras.

Here the firm now turns out over 643,000 new cars a year, 240,000 of which end up in the local market. The rest, such as the recently launched i10 and i20 models, are exported across the globe, including to Ireland.

Its 535-acre plant is a Korean oasis of modern industrial technology in a semi-rural dustbowl. Outside the gates, modern India struggles with the seismic challenges of moving from agrarian to industrial society. Inside, verdant gardens surround production facilities that house robots as advanced as in any car plant in Europe or Asia. Locals work alongside Korean counterparts, having trained for several months in sister plants in Korea. Costs are one critical benefit. The average wage remains high for the area and the jobs, with their technical and engineering qualifications, are highly sought after. But there are tax benefits to producing cars locally that make it attractive for the Korean brand to have local market access.

Aside from the usual array of robots and modern plant technology that could as easily be in Cologne as Chennai, the facility also features a large test facility that includes an outdoor track, on which every car that comes off the production line is tested. That means every i10 or i20 built in Chennai and sold in Europe has completed not only the usual quality inspections but also a series of suspension and cornering tests on the track before leaving the Chennai plant.

According to Arvind Saxena, vice-president of marketing and sales at Hyundai India, that's a practical example of the importance of reliability.

“In this market, the buyers may not have the spending power of western motorists, but reliability and quality are even more important. What might be regarded as a small city car or second car in Europe is the fully-fledged family car in India.” Here the i20 is sold as a five-seater, although it often carries six or seven people.

Hyundai's ambition to be a top-tier global brand now seems assured. The firm – which also owns the Kia brand – has not only mastered the tough US market, but has established a foothold in the ultra-competitive European markets, while taking early advantage of the opportunities offered by Asian growth. India seems to have a lot more to offer the motor industry and future growth clearly won't be confined to high-profile models like the Tata Nano.

Globally, the small-car market is price-conscious and, with low margins, it has never proved attractive to car firms when they can make greater profits on bigger models.

However, with consumers downsizing, motor industry executives may well see the opportunity to compensate for lower margins with greater volume sales in places like India.

The sub-continent, fast becoming a global economic powerhouse, is starting to look like it could help carry the motor industry into a new era of small cars – and not just for newcomers like the Nano.