

THE INDIAN AUTOMOTIVE MARKET

Overview

India ranks just behind China with the world's second largest population at over 1 billion people. Less than 1 percent of the population currently owns automobiles, which is a much smaller proportion than the rest of the Southeast Asia region. For example, the regional average of ownership is 16.45 percent.¹ Nonetheless, sales of passenger vehicles in India have more than doubled since 2001 to over 1.5 million units (see Table on last page). India also has one of the fastest growing economies, and many U.S. companies view India as a potentially lucrative market. It is expected that the automotive industry will play an important role in helping the economy to continue this growth. Not only are domestic sales expected to grow dramatically, but India will play a significant role in the global automotive market. The world's top manufacturers, General Motors, Ford, Toyota, Honda, and others, have a significant share of already established manufacturing bases. These manufacturers hope to not only capture an emerging market, but also to use these bases as export hubs to serve the region and the global market. As can be seen in the Table, exports of passenger vehicles have more than quadrupled since 2001.

State of the Indian Economy

India's economy has experienced a continued high level of growth in recent years. Some predictions are that India's rapidly expanding economy will soon be the world's third largest.² While growth is expected to slow this year, it is still expected that India will continue to be one of the fastest-expanding economies. Foreign direct investment (FDI) in India tripled from \$4.7 billion to \$15.7 billion from FY2005/06 (April 2005-March 2006) to FY2006/07 (April 2006-March 2007).³ The automotive industry is one of the leading industries in India for FDI, and the U.S. automakers have made considerable investments since the early-1990s. According to statistics from the Government of India, FDI in the transportation sector, the fourth largest sector in India, totaled \$3.5 billion from August 1991 through December 2006.⁴

Economic Reform Spurs Growth

In the early 1990s, the Indian market became increasingly open due to reforms implemented by the government, evolving from a quasi-socialist economy into a more market-based economy.

¹ Business Monitor International "India Autos Report Q3 2007." According to BMI data, .70 percent of the Indian population owned a car in 2006, while 1.10 percent of the Chinese population owned a car.

² The Economist Intelligence Unit. "Foresight 2020: Economic, industry and corporate trends." 2006.

³ Office of Industries, U.S. International Trade Commission "Competitiveness Conditions for Foreign Direct Investment in India"

⁴ The top three sectors in India are: 1) electrical equipment, 2) services sector, and 3) telecommunications.
http://dipp.nic.in/fdi_statistics/india_fdi_oct_2006.pdf

India embarked on this economic liberalization plan in 1991 in the hopes of spurring economic growth. These reforms included opening up India to FDI. In 2002, 100 percent foreign ownership was permitted.⁵

Growing at 8.7 percent for 2007-08, India has one of the fastest expanding economies in the world and the second fastest in Asia, and it has the potential for a sustained growth of 8-10 percent for the next several years. India's GDP is \$1.16 trillion, which equates to \$4,139 per capita for 2007-08.⁶ With a population of over one billion people, India provides potentially lucrative opportunities for U.S. businesses in a number of fields, as reflected by the growth in U.S. investments. With a large and growing middle class estimated to be in the hundreds of millions, along with a small wealthy sub-population, the Indian population provides a largely untapped opportunity for growth in the automotive sector.

Further Liberalization Needed

Some note that while growth has been strong, there has not been a reduction in poverty, especially in rural areas, to go along with this growth. For example, one government study by the National Commission for Enterprises in the Unorganized Sector (NCEUS) estimates as much as 77 percent of the population lives on less than 50 cents per day, and the World Bank estimates almost 30 percent of the population lives below the national poverty line. In addition, the 2007-08 United Nations Development Program ranked India 128th out of 177 countries on its human development Index.

While the Indian economy has shown remarkable growth, further liberalization of domestic and international policies could spur growth even further. The tariff structure in India is structured to encourage investment in the domestic market rather than trade. Automobiles currently have a standard duty of 100 percent.⁷ Given these tariffs, "it is likely that much of the FDI in the industry is for 'tariff jumping' purposes."⁸

History of U.S.-India Trade Relations

India gained independence from the United Kingdom in 1947 and its relations with the United States has vacillated since then. While the United States and India had strong economic ties through the 1950s and early 1960s, India developed closer ties with the Soviet Union

⁵ Office of Industries, U.S. International Trade Commission "Competitiveness Conditions for Foreign Direct Investment in India"

⁶ <http://www.buyusa.gov/india/en/motm.html>

⁷ United States Department of Commerce, Office of Aerospace and Automotive Industries. "Compilation of Foreign Motor Vehicle Import Requirements."

⁸ World Trade Organization, Trade Policy Review – India. 2007

following the Indo-Pakistani War of 1965 through the end of the Cold War. However, bilateral trade between the United States and India has been growing since the early 1990s and the two nations have been pursuing a strategic partnership since 2004. As part of this partnership, the United States and India, “agree that trade is essential to promoting global economic growth, development, freedom and prosperity.”⁹ On March 23, 2000, the U.S. India Economic Dialogue was established to enhance the two countries’ bilateral economic relationship. According to official U.S. trade statistics, from 1996-2006, bilateral merchandise trade between India and the United States grew from almost \$10 billion to nearly \$31 billion. Total trade between the U.S. and India for 2007 was \$41.6 billion. U.S. exports to India in 2007 totaled \$17.5 billion, a 75 percent increase from the previous year. Imports from India to the United States totaled \$24.1 billion, a 10 percent increase from the previous year. Today, the United States is India’s largest trading partner, with U.S. exports to India having doubled over the last five years.

Current State of the Indian Auto Market

The Indian auto market is currently small with potential for dramatic growth. While the regional average is for 16.45 percent of the population to own a car, less than 1 percent of the Indian population owns one. Given the large size of the middle class with increasing purchasing power and the youthful population (over half the population is less than 25 years of age and India has the highest proportion of population below 35), there is the potential to penetrate a largely untapped market. Also, given the availability of cheap, skilled labor, India has the potential to serve as a regional export hub for manufacturers in the Asia-Pacific region.

Small Vehicle Market

The Indian market is dominated by small, low-cost vehicles (two wheelers such as scooters and motorcycles make up about 75 percent of the market share). Approximately 75 percent of passenger car sales in India are small cars. Tata Motors has introduced the Nano, which is both fuel-efficient (about 50 miles per gallon) and cheap (\$2,500). Tata is expecting to launch sales of the Nano in 2008. A number of other manufacturers have already announced plans to develop small cars in a similar price range in order to compete effectively in this market.

Indian Exports and Top Manufacturers

Currently, Asia and Africa are India’s largest export markets, but the European market has seen recent growth as well. Exports of passenger vehicles nearly tripled from 72,005 in 2002-03 to 198,478 units in 2006-07.¹⁰ According to the Society of Indian Automotive Manufacturers (SIAM), approximately 1.4 million passenger vehicles were sold in FY06/07. The top India manufacturers, in descending order, are Maruti Suzuki, Hyundai, Tata Motors, Honda, Ford

⁹ White House Fact Sheet, <http://www.whitehouse.gov/news/releases/2006/03/20060302-13.html>

¹⁰ Society of Indian Automotive Manufacturers

India, General Motors India, Hindustan Motors, Skoda Auto India, Toyota Kirloskar Motor, and Fiat India. Most of these manufacturers are already calculating how to further expand production and sales in India. For example, Maruti plans to produce 1 million cars annually by 2010. Nissan, in a joint venture with Renault and Mahindra & Mahindra, plans to open a plant in 2009 with a 400,000 unit production capacity. By the end of 2008, Honda will double its production capacity to 100,000 units, with a second factory set to open in 2009. Toyota has also announced plans to invest \$340 million in a second production plant near Bangalore to produce small, affordable cars. Production at this new plant is scheduled to begin in 2010 with a production capacity of 100,000 units. With India's goal to be a major regional export hub, coupled with manufacturers' increased investments, it can be expected that the number of exports from India will continue to rise significantly.

Automotive Mission Plan 2006-2016

India's Automotive Mission Plan (AMP) 2006-2016 is a collaborative effort between the Indian government, the automotive industry, and academia.¹¹ The stated vision of AMP is for India "to emerge as the destination of choice in the world for design and manufacture of automobiles and auto components with output reaching a level of U.S. \$145 billion accounting for more than 10 percent of the GDP and providing additional employment to 25 million people by 2016."¹² India is currently the eleventh largest passenger car market in the world and aims to be the seventh largest market by 2016. While the auto industry has experienced strong growth over the past decade, it still plays a small role in the global industry. According to AMP, India has about 2.37 percent of the world production of passenger and commercial vehicles and exports from India contribute approximately 0.3 percent of the global auto trade.

The AMP makes a number of suggestions for actions to be taken by both the government and industry in order for India to fulfill the goals laid out in the plan. For example, they estimate an investment of approximately \$35-40 billion in the auto sector over the 2006-2016 time period will be required to implement AMP. The government's responsibility would be to "facilitate infrastructure creation, promote the country's capabilities, create a favourable and predictable business environment, attract investments and promote R&D."¹³ Industry's responsibility concerns issues such as designing and manufacturing quality products, improving productivity, maintaining costs, among others. AMP also calls for the formation of an appropriate development policy; improving road, rail, port, and energy infrastructure; expanding demand for automobiles domestically; and, developing a roadmap to address environmental and safety concerns.

¹¹ http://www.dhi.nic.in/Final_AMP_Report.pdf

¹² AMP, p. 26.

¹³ AMP, p. 26.

Barriers to Growth

Infrastructure

While India provides great opportunity, there are also a number of barriers limiting the potential growth of the industry. One of these barriers is the lack of an adequate infrastructure. Both the quality and number of roads are lacking, and ports need to be improved in order to support the demands of a growing economy. Without structural improvements, efficiency will be sacrificed at the expense of higher production costs. Without these improvements, it will be difficult to become an export hub. In addition, poor, heavily congested roads, with no parking available may reduce domestic sales. Electricity shortages are another obstacle that may limit growth in India. It is estimated that, “a company can expect nearly 17 significant power outages per month, against one per month in Malaysia and fewer than five in China. At the same time costs are higher.”¹⁴

Labor and Legal Restrictions

Another obstacle concerns the labor pool and inflexible labor regulations. While there is a large, low-cost labor pool, there is concern from some executives that demand for skilled labor exceeds supply. “Several interviewed executives noted the quality and quantity of skilled labor as problematic, especially the lack of engineers.”¹⁵ In addition, strict labor regulations and an inflexible system pose difficulties. The bureaucratic red tape makes it difficult to make changes and implement new economic policies and programs. Another concern is India’s poor protection of intellectual property rights. India is on the Office of the U.S. Trade Representative’s 2008 priority watch list because India needs to provide stronger protection for copyrights, trademarks, and patents.

State of the Detroit Three and Future Opportunities

General Motors

Given the competitiveness of the Indian marketplace and the opportunity for growth, GM and Ford have invested in the Indian market to varying degrees. As of 2006, Ford and GM ranked fifth and sixth, respectively, for car and light truck sales. In 2007, GM recorded a 68 percent growth in sales, selling over 60,000 units.

According to the company website, “General Motors India, incorporated in 1994 as a 50:50 joint venture company with the CK Birla Group of Companies, became a fully owned subsidiary

¹⁴ KPMG, “Manufacturing in India: Opportunities, Challenges, and Myths”, p. 36

¹⁵ IBM Institute for Business Value, “Inside India: Indians View Their Automotive Future”

of GM in 1999...and was converted from a Public Limited company to a Private Limited company.”¹⁶

GM’s original plant is located in Halol and has a capacity of 80,000 units. GM has invested in a second plant located in Pune, which is set to open in 2008 and will have an initial capacity of 140,000 units. Eventually, production capacity will grow to 300,000 units at the Pune plant. GM is also looking at investing over \$200 million in a third plant in India that would be devoted to manufacturing engines, transmissions and drivetrains. Engines manufactured at this plant would not only be used domestically in India, but would be used to meet GM’s needs around the world. GM has also opened the GM India Design Studio in Bangalore, which employs 100 engineers for research and development.

GM already has a number of models on the Indian market with plans for even more on the way. Currently, GM makes the Chevrolet Tavera, Chevrolet Optra, Chevrolet Aveo, Chevrolet Aveo U-VA, Chevrolet Optra SRV, and Chevrolet Captiva for the Indian market, with the Tavera being the best-seller. In early 2008, General Motors announced plans to tap into both the premium auto market and the low-cost market, both of which are expected to be high growth markets. For the premium segment, GM India is considering introducing the Hummer H3 SUV and will introduce the Cadillac CTS sedan in 2009. GM is also developing a mini car to rival the introduction of the Tata Nano. While it will not match the \$2500 price tag of the Nano, it is expected that this new model will be in the \$3500-\$4000 range, according to GM Asia/Pacific President Nick Reilly. In addition, GM has launched a program called Chevrolet Motors, under which GM refunds to the customer maintenance costs that exceed a fixed amount over a three year period, which plays well to the priorities of Indian consumers. According to one survey, the most important factors for purchasing a vehicle in India are price, fuel economy, brand image, and after-sales service.¹⁷ As a result, attractive after-sales service programs enhance the likelihood of the Indian consumer purchasing a particular vehicle.

Ford

As of May 2006, Ford had 115 dealer sales and service facilities across 79 cities in India. According to Ford, “Established in 1995, Ford India is a wholly owned subsidiary of Ford Motor Company, a global automotive industry leader.” In the FY2006/07 financial year, Ford’s sales rose over 60 percent.¹⁸ However, for the fiscal year ending in March 2008, Ford suffered a 19 percent decline in sales. Currently, Ford sells the Endeavour, Ikon, Fusion, and Fiesta for the Indian market. In addition, in early 2008, Ford introduced the Ford Endeavour Thunder+, an SUV.

¹⁶ http://www.gm.com/corporate/about/global_operations/asia_pacific/indi.jsp

¹⁷ IBM Institute for Business Value, “Inside India: Indians View Their Automotive Future”

¹⁸ Business Monitor International “India Autos Report Q1 2008.”

In April 2008, Ford India began a new initiative offering 24-hour Ford Service Roadside Assistance to all new car buyers. This program provides free roadside assistance, including mechanical services, fuel service, and other services, at no extra charge to the owner for two years from the date of the purchase. In addition, the program is also available, at an extra charge, to people who bought Ford cars prior to the announcement of this program.

In early 2008, Ford announced plans to invest \$500 million into Ford India. Part of this investment will be used to help achieve the goal of penetrating the small car market in India, which accounts for approximately 75 percent of car sales in India. This investment will be used to build a plant in India that will produce a small car by 2010. In addition, a new engine plant with an initial annual capacity of 50,000 units is being developed, with the first engine expected to roll off the assembly line in 2008. The eventual goal is for the plant to produce 250,000 per year for both the domestic market and for export.

Chrysler

Chrysler does not have a presence in India. Dodge, Chrysler, and Jeep vehicles are not currently available for sale in India. It was reported in February 2008 that India's Mahindra & Mahindra was discussing a project involving the Jeep brand with Chrysler.

Conclusion

Given the large population and growing middle class, India has the potential to develop into a significant market for automobile manufacturers. With a large, English speaking, relatively low-cost labor pool, India could eventually serve as a major regional export hub throughout Asia, Africa, and Europe. Mahindra & Mahindra, in fact, is already developing plans to begin selling automobiles in the United States. It plans to ship completely knocked-down (CKD) kits to the United States to be assembled in Ohio. These CKD kits would be exported from India and shipped to the United States for final assembly. These plans would make Mahindra & Mahindra the first Indian car manufacturer to set up a manufacturing facility in the United States.

However, there are a number of factors that must be overcome in order for India, along with automobile manufacturers, to fully realize the potential in the Indian market. In particular, logistical transportation infrastructure capabilities will need to be improved to meet domestic and export needs. Based simply on the amount of investments by GM and Ford alone, it is clear that foreign vehicle manufacturers view India as a crucial player in the future of the automotive industry as a regional export hub, and as a supplier of automobiles and automotive parts globally.

India Passenger Vehicle Trends

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total Passenger Vehicle Production	669,719	723,330	989,560	1,209,876	1,309,300	1,545,223	1,762,131
Total Passenger Vehicle Sales	675,116	707,198	902,096	1,061,572	1,143,076	1,379,979	1,547,985
Total Passenger Vehicle Exports	53,165	72,005	129,291	166,402	175,572	198,452	218,418

Source: Society of Indian Automobile Manufacturers