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CARS: THE COMPETITION INTENSIFIES

India has become a global front-runner in the production of small and fuel-efficient cars, and can look forward to a bright future with respect to exports, as countries across the world are promoting the use of such cars. Within the country, car manufacturers are vying with each other for market share, with Maruti continuing to sell every second passenger car bought in India.

All major players in the passenger car segment in India have announced new models. The premium compact car segment, classified as above Rs 4.5 lakhs, is experiencing sea changes. Maruti Suzuki has launched its Ritz hatchback, its second launch in less than six months. Other companies moving in this direction include Hyundai Motors, Honda Siel cars (HSCL), Toyota Kirloskar, Fiat Auto,

Volkswagen India and Ford.

In recent months, car manufacturers have dropped prices of new cars and also started offering discounts to clear inventories. Of course, this has had a direct bearing on used car prices. The car industry experienced an annual growth rate

of 12 per cent till July 2008, when demand started dwindling. However, car sales rose from 87,724 units in July 2008 to 1.15 lakh units in July 2009.

Car sales in India rose for a third straight month in April 2009, helped by lower borrowing cost, rural demand, and the



Maruti Suzuki Ritz

Table I
Highest Selling Cars in India

(in units)

Brand	January 2009	February 2009
Maruti Alto	19,691	20,300
Maruti WagonR	12,822	13,800
Tata Indica	11,433	11,315
Hyundai i10	9,119	10,800
Hyundai Santro	8,190	6,200

government stimulus measures. Automakers sold 102,899 cars in April 2009, 4.2 per cent higher than a year earlier. Car sales had slid for four months, before starting to rise in February 2009. However, the climate is still not favourable. Job losses and wage cuts in the wake of the financial crisis, along with tight financing conditions, have dampened vehicle sales in India since mid-2008.

On the export front, the country's car segment is not well placed. India's car exports grew 54 per cent to 3.35 lakh units in 2008-09. Valued at \$6 billion, India's annual auto exports still lag behind those of several smaller countries such as Thailand

(\$15.6 billion) and Brazil (\$20.5 billion).

Maruti Suzuki

Maruti Suzuki India Ltd (MSIL) plans to launch a 660cc car. The company also plans to upgrade the Omni engine to make it compliant with the latest emission norms.

However, the launching of the 660cc car will take time. Maruti invested Rs 18,000 million in 2008-09, and plans to invest another Rs 16,000 million in 2009-10 in its production units. The company also wants to set up a chain of warehouses across the country to store cars and spare parts that will ensure quicker delivery and reduce dealer inventories. Maruti has reached a production rate of a million cars a year. The company has a market share of over 55 per cent in the cars and vans segment in India, and has no idle capacity.

What does the future hold for the Maruti 800 and Omni? As per latest indications, Maruti 800 may be kept on the road beyond the official deadline set by the company to phase it out. The company is

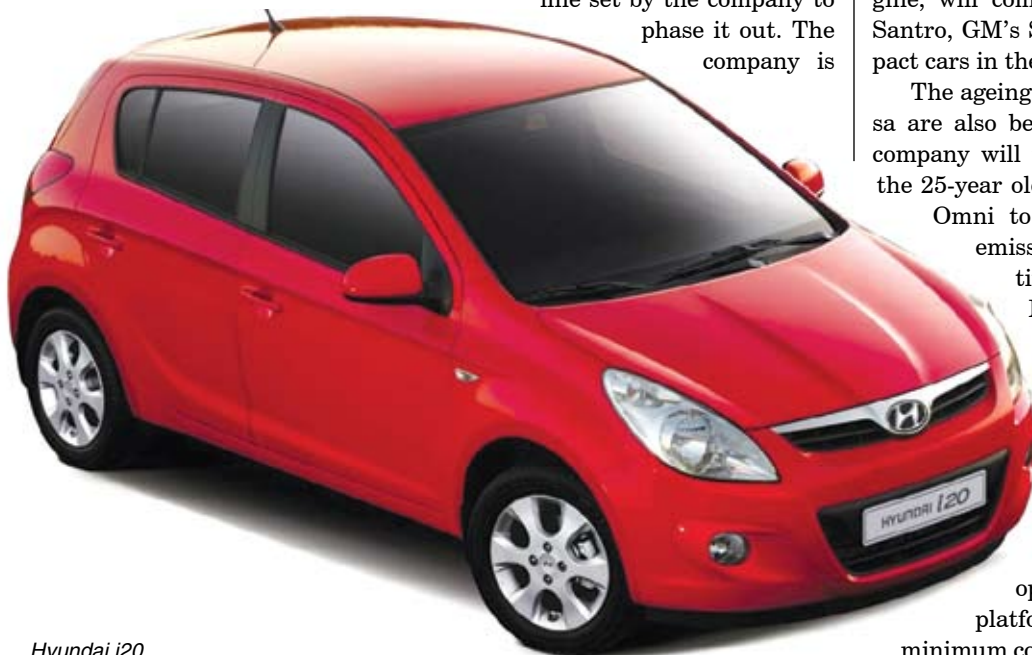
unable to comply with the Bharat State (BS) IV emission norms, which came into force in April 2010. Omni, a multi-purpose vehicle, too, needs to be phased out. But, this may not happen because of a spurt in demand for the vehicle. Its engine may be fine-tuned to adhere to the new emission regulations.

The M800 and Omni became popular because of their low prices and are today common in rural and semi-urban areas. The M800 sells about 2,500 to 3,000 units every month, while the Omni sells about 5,000 units. Launched in 1983, M800 has sold over 2.7 million units and was the highest selling car for MSIL until recently, when the Alto took over the lead.

Maruti Suzuki sells every second car bought in India. It is going to give its portfolio a makeover during 2009-11. Swift, the largest selling premium hatchback in the country, will get a fresh design and a new petrol engine, while Maruti's largest selling product, Alto, will come in two variants. One will compete with the Nano, and an upmarket variant loaded with the new KB series engine, will compete with Hyundai's Santro, GM's Spark and other compact cars in the market.

The ageing WagonR and the Versa are also being over-hauled. The company will tweak the engines of the 25-year old Maruti 800 and the Omni to meet the new BS4 emission standards, operative from April 2010.

MSIL has introduced eight new models in India in a period of three years. By refurbishing its portfolio, Maruti will save on the huge incremental costs that go into developing new cars and platforms. As against the minimum cost of Rs 500-1000 mil-



Hyundai i20

lion for upgrading a car, developing a new car could need an investment to the tune of Rs 6000-10,000 million.

On 15th May, 2009, MSIL launched its latest small car, Ritz, in both petrol and diesel variants. As 85 per cent of its components have been made locally, the price of the Ritz is in an affordable range of Rs 3.90-4.99 lakhs. The petrol version costs between Rs 3.90 lakhs and Rs 4.80 lakhs. The diesel version costs between Rs 4.65 lakhs and Rs 4.99 lakhs.

Maruti cars are exported to over 100 countries, and the volume of exports is likely to cross one lakh units in 2009-10. Exports of small cars forms a major part of the company's future growth strategy. MSIL exported 70,023 units in 2008-09.

Hyundai Motor India Ltd

The country's second largest car manufacturer, Hyundai Motor India Ltd, recently (July 7, 2009) unveiled two new i20 variants in addition to the existing three. The first i20 variant comes with a 1.4 litre CRDi diesel engine and the second comes with a 1.4 litre Gamma petrol engine with automatic transmission.

Prices of the new 1.4 litre diesel engine i20, available in three variants, range between Rs 6.19 lakhs and Rs 7.20 lakhs. The price of the petrol engine fueled i20, available in two variants, ranges between Rs 7.31 lakhs and Rs 7.72 lakhs. Cars that cost Rs 6 to 8 lakhs are defined as super premium compact cars.

The new 1.4 litre diesel engine fueled i20 is the only compact car model that competes directly with Skoda's Fabia

Table II
Passenger Car Exports from India

<i>(in units)</i>		
Fiscal year	Exports	Percentage change
2004-05	166,402	29
2005-06	175,572	06
2006-07	198,452	13
2007-08	218,401	10
2008-09	335,739	54

compact car strapped with the 1.4 litre Tdi engine and available in four variants. The Tdi equipped Fabias are priced between Rs 6.13 lakhs and Rs 8.0 lakhs.

Mercedes Benz India

Luxury car manufacturer Mercedes-Benz India plans to invest Rs 150 million in the expansion of its retail network during 2009-10 (June to June). The company also plans to launch new models like the E-class by the end of the calendar year, 2009 to boost its image.

In 2008, the company's commercial vehicles business saw a growth of around 53 per cent. The company is focusing on this segment, and has

begun talks with several state governments like Andhra Pradesh, Karnataka and Maharashtra, among others, for its luxury coaches.

In the past, Mercedes-Benz had invested around Rs 2500 million in its Pune plant, which now holds a passenger vehicle manufacturing

capacity of 5000 units per annum in a single shift, and a commercial vehicle manufacturing capacity of 2,400 units per annum. At present, the company manufactures only 3,800 passenger vehicles as against a capacity of 5,000 units.

Ford Motor Company

Ford Motor Company of the US will bring its hatchback to India in early 2010. The vehicle is expected to be an upper B segment car. It will be pitted against the models of Maruti, Hyundai and Tata Motors with high localisation content. The compact car will come in both petrol and diesel options.

The company has seen a significant increase in



Tata IndicaV2

Basic Features of the Nano

Specs	Four-Speed manual, rear-wheel drive
Engine	624cc two-cylinder (three cylinders for European version), 33Bhp@ 5500 rpm, 351 lb.
Performance	0-100 km per hour in 17 seconds, top speed: 105 km/hour
Dimensions and weight	600 kg steel; 3100-1500-1600 mm
Mileage	20 km/litre (estimate)
Body	Sheet metal with crumple zones
Safety measures	Seat belts and instruction resistant doors

primary sales—the sales from company to dealers—with the Endeavour SUV (sports utility vehicle) and Ikon diesel maintaining high sales. The company’s portfolio also includes the Fiesta and Fusion models. It may be noted that Ford’s small car, Focus, is the largest selling vehicle under the US government’s incentive programme.

The Nano story

Nano on the road has become a reality. In July 2009, Tata Motors began delivering these cars from its Pantnagar plant in Uttarakhand. The car is available in three versions. The Basic Tata Nano, which has no extras; the Deluxe Nano CX, which has air-conditioning; and the luxury Nano LX, which has air conditioning and power windows, as well as central locking. Nano Europa, the European version of the car, has all these features and a three-cylinder engine, anti-lock braking system, besides a larger body. It meets the European emission norms and crash standards.

Though the Tatas’ have promised a Rs 1 lakh ex-factory price, ‘on road’ prices including taxes are expected to range between Rs 1.3 to Rs 1.7 lakhs for the premium versions of the car. Nano is being assembled at Pantnagar in Uttarakhand until the new Sanand facility in Gujarat is ready in a year. The Tata group has announced that Nano’s upcoming

Sanand facility would produce about 2.5 to 3 lakh cars annually, which would be later ramped up to 5 lakh units per annum. Simple engineering applications, like its modular design, helped Tata Motors to keep production costs under check, and achieve the target price tag of Rs 100,000.

There are indications that Nano will continue to be manufactured from Pantnagar even after the Sanand plant starts operation. According to the Uttarakhand government, the auto giant has given a commitment to set up a permanent satellite plant at its Pantnagar facility for producing the ultra-cheap car. Tata Motors was given more than 1000 acres at Pantnagar by the state government for setting up its manufacturing facility. Of course, the state government is hoping to earn an additional tax revenue of around Rs 1500 million through VAT collections.

The mono-volume (single box) construction, with wheels at extreme ends, has provided a great deal of space. Also, the manner in which the Nano achieves its top speed of 105 kph surprises you. The engine is spinning away lazily at these speeds—it is not stressed—and that implies longer engine life.

There is direct correlation between lower carbon dioxide (CO₂) emissions and higher fuel efficiency. The Nano has the lowest CO₂ emission levels among small cars. It emits 101g of CO₂ per km. The

Nano’s gasoline engine technology has been developed by German auto major Bosch. The Nano, with its lowest CO₂ emission, delivers the high mileage of 23.6 km/litre. The A-Stat travels 19.6 km for a litre of fuel, and Hyundai’s i10 gives 18.1 km/litre.

Nano has been developed to meet all the safety norms that are applicable for passenger cars in India and will be able to meet upcoming safety norms, too. Current norms stipulate that cars sold in India should meet norms set for full frontal crash, head impact on steering wheel, body block impact on steering system, and seat belt anchorage strength etc. The car has only one rear-view mirror, though.

Tata Motors may roll out the Nano diesel by mid-2010, after extensively testing the product. This version could come with a price tag of Rs 2 lakh, making it the cheapest diesel car. Historically, the company has fared much better in all of its diesel versions compared to petrol versions.

Tata Motors has now turned its attention to the global roll-out of the \$2000 compact car. It is not only looking at markets like the US and Europe, including Russia, but is also banking on Latin America and the South Asian nations. In fact, recently, Nano passed the crash test held in the UK. It was Nano’s Indian model, and not Europa (the model designed specially for European markets), which passed the 40 per cent offset crash test at 56 kmph and the side-impact tests at a high tech test facility at Birmingham.

The softening of steel prices is likely to improve the wafer-thin margins of the Nano. Steel accounts for 60 per cent of a car’s weight and 65 per cent of its total material costs.

Nano is not going to affect the two-wheeler segment. The Nano volumes will not compete or threaten this segment, as the two-wheeler segment is broadly seven times

larger than the entire four-wheeler segment. Two wheeler sales are believed to be about 6 million units per annum.

One outcome of the introduction of the Nano is that used car dealers have slashed prices by nearly 30 per cent in recent months. Dealers are trying to move prices closer to the Rs 1 lakh mark to be competitive with Nano. They are offering the four-to-five year-old Ford Ikon, Maruti Esteem, Opel Corsa or Fiat Siena for around Rs 1 lakh.

Recent developments

With the luxury car makers getting ready to launch upgraded versions of models, dealers are offering discounts ranging from Rs 1 lakh to Rs 4 lakh on models that are being phased out to clear inventory.

Carmakers are under pressure to

roll back all price hikes announced recently. This is because of a 4 per cent excise duty cut on all types of vehicles. The government has warned auto companies that it will not consider any stimulus package for the industry in the future unless they reduce the prices of popular brands.

Other car majors are also planning to produce small cars on the Nano pattern. Ford is planning to launch a small car in India in early 2010 even as its small car, Focus, is topping the charts in the US. The new model, the four-door hatchback, will be powered by a diesel engine manufactured at Ford India's Chennai plant. Ford plans to make India an export hub for its small car. The company will target all global markets except the US, and will focus on Asia Pacific and Africa.

Falling steel prices may raise the profit margins of auto companies.

Steel is a key input for car making, constituting around 65 per cent of the vehicle input cost. Overall, steel prices have come down by around 30 per cent in the financial year, 2008-09. Steel makers such as JSW, SAIL, Bhushan Steel and Uttam Galva have been compelled to pass on the reduced price to the auto-makers under the long term contracts (LTC).

The share of government banks in automobile finance is on the rise. The reason: these banks are offering cheaper loans than the private sector banks. Lower interest rates offered by the public sector banks have hit private car financiers too.

India, the world's largest small car producer, is going to gain from the recent decision of Germany, France, UK, Italy and South Korea to give tax breaks and fiscal incentives to people buying small, fuel-efficient cars. ■