

India: Bumpy road to a future of prosperity

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As familiar as the Ambassador's bulbous curves may be, India's best-known saloon car lumbers far behind rivals. Of the country's 1.3m annual car sales, only 15,000 are Ambassadors, sold mostly to government officials and taxi services.

Since market liberalisation of the 1990s, competition from domestic and foreign carmakers has eroded the dominance it enjoyed since it was launched in 1957.

But as it celebrates its 50th anniversary, the Ambassador is striving for a new lease of life.

Parent group **Hindustan Motors** hopes that the Indian yuppie's growing taste for classic cars will help revive the "Amby", as it is affectionately nicknamed.

It invested \$17m in a factory opened in 1998 and began equipping Ambys with **Isuzu** engines.

Today, high-end models come in hues of sleek Champagne and scarlet, in addition to traditional cream and black. Some have sunroofs, reading tables and lights above a roomy back seat that "feels like sitting on a sofa", says the company.

"The idea is not to create brand awareness but to bring about a brand perception change," Hindustan Motors says.

Attempts to revitalise the Ambassador are set against the dramatic growth of the Indian vehicle industry, which last year produced 11m cars, trucks, buses and motorcycles. An ambitious government and private-sector "Automotive Mission Plan", outlined last year, set targets to produce 3.2m passenger cars by 2016 compared with 1.3m in the financial year 2006-07.

The plan aimed to quadruple total industry sales to \$145bn over the next decade, called for big investments in research and development and increased emphasis on exports.

Car exports were projected to reach 1m in 2016, from less than 200,000 last year.

But despite India's robust appetite for vehicles, sales have suffered indigestion in recent months. Rising interest rates have dented domestic demand. India is the world's second-largest maker of two-wheelers, but sales fell 9.18 per cent from April to July compared with last year. Motorcycle sales, which dominate the two-wheeler category, dropped 15 per cent, according to the Society of Indian Automobile Manufacturers (Siam).

Between April and July, year-on-year sales growth of passenger vehicles slowed from 20 per cent to 12.63 per cent. The slowdown is a result of recent tightening of India's fiscal policy to curb inflation as annual economic growth swells to more than 9 per cent.

Rising interest rates and tighter credit have slowed vehicle sales and spurred more defaults, particularly on two-wheelers.

Yet some analysts suggest the dip in sales is temporary. "The general outlook is very bright on the domestic front and will be strong for years to come," says Gautam Benjamin, a director at investment bank Allegro Advisors, based in Mumbai.

"It goes hand-in-hand with growth of the general economy."

Until the recent stutter, domestic sales have been rising on the back of the increasing incomes of a growing middle class. While cars seem to clog the roads of big cities, national penetration remains low at about six cars per 1,000 inhabitants, compared with 750 per 1,000 in the US, according to the World Bank.

The country will move from being the 12th largest producer of passenger cars and light commercial vehicles to the fourth-largest by 2016, according to automotive research group CSM Worldwide. It is the world's fastest-growing automotive market in those categories with an annual growth rate of 14 per cent compared with 9 per cent in China.

As well as trying to win a share of the growing domestic market, vehicle makers are gearing up for exports.

Passenger carmaker **Maruti**, majority owned by **Suzuki Motors** of Japan, last year sold 40,000 units to countries in the Middle East, Africa and Asia and aims to boost exports to 250,000 by 2010.

Honda, **General Motors** and **Nissan** are a few of the manufacturers keen to build compact cars in India.

Compact cars comprise more than half of India's car sales because of lower prices, better fuel economy and the ability to navigate crowded roads. However, local production is not confined only to compact cars.

BMW this year opened an assembly plant in Chennai to cater solely to the domestic market.

Multinational companies are also entering India.

Hyundai of South Korea, India's largest exporter of cars and second-largest car manufacturer, in August shipped its 400,000th car for export since setting up in the country eight years ago.

Hyundai's India-made exports are sold in Europe, Africa, Latin America, Asia and the Middle East.

India's component industry is also promising. It generated sales of \$15bn in fiscal year 2006-07, including \$2.8bn of exports, according to the Auto Component Manufacturers' Association (ACMA), a trade group.

It forecasts industry sales will swell to \$40bn by 2016 with half that in exports. This bullish projection contrasts with a painful restructuring at many US and European companies.

But in spite of strong growth, potholes remain. Automakers stress that implementation of the ambitious automotive mission plan is critical.

Infrastructure such as shaky power supply, outdated ports, roads and airports are an ongoing concern for all manufacturers in India.

Finding land on which to build also remains a challenge. Local opposition stalled construction of **Tata Motors'** factory in West Bengal state where it wants to produce a \$2,500 compact car.

India's poor roads and poor enforcement of traffic rules make driving increasingly hazardous.

Last year's automotive mission plan called for new traffic and road safety policies, but little progress has been made.

There is a long way to go: India has the world's second-worst record for road fatalities, with 95,000 last year according to the World Health Organisation.

Training millions of industry workers; investment in research and development; raising quality; innovation and marketing; and branding India as a credible automotive player are also part of the long list of challenging tasks.

And in spite of India's ambitions to become a global export hub for compact cars, most foreign investment for factories primarily target the Indian domestic market – with the exception of Hyundai.

Other countries such as Thailand have provided strong financial incentives to automakers and “taken the lead in establishing themselves as manufacturing hubs”, says Mohit Arora, senior director at JD Power.

The road ahead for India's auto industry “needs to be addressed with concrete actions, not just a plan,” he says.

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