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VIEWPOINT

It is advantage India Inc in global automotive markets

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India's $906 billion economy has grown at more than 9 percent since April 2005, making it the second fastest after China among the world's top 15 economies. Booming technology exports, rising domestic consumption from a burgeoning 300 million-strong middle class and continued macro-level economic reform are key drivers of this sustained growth of the country.

With 70 percent of India's 1.1 billion people still under the age of 35, it is on the threshold of unlocking some of the biggest investment opportunities for international investors keen to capture a slice of rising domestic demand and booming exports.

Growth across sectors

The exciting phase that India is going through is marked by growth that has come about as a result of almost homogenous contribution from across industry sectors. Information technology and IT services are the most visible faces of growth in the Indian economy, a sector that is of the size of about $40 billion and annual growth rate of 30 percent.

Less visible sectors, however, are growing equally fast. Consumer finance is a sector worth more than $40 billion in India, and maintaining a growth track of 35 percent. With increasing per capita income and low interest rates, the sector is expected to continue its high growth. Healthcare is a $30 billion industry, growing at 42 percent annually, and expected to increase to more than $50 billion in the next five years. The size of Indian automotive sector is approximately $34 billion today, and it is expected to grow at approximately 15 percent compound annual growth rate (CAGR).

The world's fastest growing mobile phone market that adds more than 5.5 million new customers each month, is driving the $23 billion telecom industry in the country, which grew at 22 percent in 2006-07 and is set to almost double to $43.6 billion in four years. The media & entertainment industry grew 20 percent in 2006-07 to $9.7 billion. Bollywood, the film production industry centred in Mumbai, produces four times as many films as Hollywood, and was worth $1.5 billion last year.

Automotive growth

The annual domestic motor vehicle sales between April 2006 and March 2007 saw the industry sell 1,076,408 units of passenger cars, 467,882 units of commercial vehicles and 6,553,664 units of motorcycles. India's car pro- The vast pool of English-speaking skilled managerial and technical manpower matches, if not surpasses, the best in the world. These factors have led numerous multinational companies to not only establish operations in India but also to count it among their key markets.

The automobile sector is not alien to this aspect. The Indian automotive industry, currently producing about eight million vehicles annually, is the second fastest growing in the world after China. The country is fast emerging as a low-cost destination for global manufacturing and sourcing base for small cars.

Auto sector – cruising ahead

India is already the third largest manufacturer of small cars in the world after Japan and Brazil. About 70 percent of the cars sold in India belong to the small cars segment. The reduction in excise duty and budgetary benefits extended on manufacturing of small cars encouraged global as well as domestic manufacturers to set up new capacities for this segment in India. The new capacities are being generated to cater to both domestic as well as global markets. Automobile manufacturers are expected to invest more than $5 billion (about Rs 25,000 crore) in India over the next three-four years, according to estimates.

Collectively Indian compa- will try to export as much as 40 percent of its total sales with an export target of 400,000 cars on an estimated annual sale of one million units by 2010. Analysts peg this export target worth about $3 billion.

Hyundai Motor India, a subsidiary of South Korea's Hyundai Motor Co, has already implemented this strategy for some time now. The second largest car manufacturer of India exported 39 percent of its total sales in 2005-06, and plans to take this percentage to 50 percent after commissioning its second plant in the next couple of years.

Tata Motors, the largest automotive company of India, has announced investments worth $2.6 billion (Rs 12,000 crore) for its various projects over the next four years. It has formed an alliance with Italy's largest manufacturer Fiat SpA to set up a new plant for cars and engines near Pune with an investment of about $435 million (Rs 2000 crore). It is also setting up a Rs. 1,000 crore ($222 million) plant for its one lakh ($2,200) car slated to be launched in year 2008.

In the last two years, some of world's leading car manufacturers such as Detroit-based General Motors, South Korea's Hyundai Motor, Fiat SpA as well as Japan's top car producers Honda Motor and Nissan Motor have announced investments in India worth more than $1.5 billion.

cars, 467,882 units of commercial vehicles and 6,553,664 units of motorcycles. India's car production capacity is expected to surpass two million units by 2008 from the current capacity of 1.4 million units. India is expected to move ahead of the UK and Canada as a car-producing country by 2008. India is also the third largest car market in Asia-Pacific after China and Japan.

Such growth trends in the Indian economy are attributed to its key strength that comes from a dynamic and competitive private sector that accounts for more than 75 percent of its GDP. It offers considerable scope for collaborations, a sound and independent legal system apart from the large and growing consumer market.

next three-four years, according to estimates.

Collectively Indian companies export 13.5 percent of the total car production annually, and this percentage will move up further considering the enhanced thrust of Indian automakers on the global markets. Even global automakers are now looking at India as a manufacturing hub for other markets.

Under the $1.95 billion (Rs 9,000 crore) capex plan, Maruti Suzuki India, India's largest car manufacturer, will bring a new small car to the market in 2008 with a clear focus on exports. It will target to export 150,000 cars out of the total 200,000 cars of this new model produced annually. And after 2009, the company

Motor and Nissan Motor have announced investments in India worth more than $1.5 billion.

These investments mirror the exponential growth expected from this market since only eight out of every 1,000 people in India own a car, compared with 16 in China and 500 in developed markets. It is clear there is a lot of room for growth.

World auto markets drop

The growth in the Indian automotive market is in contrast to that in developed markets. The US auto sales were down more than four percent in 2006, while European new car sales dropped to 1.08 million vehicles from 1.11 million units a year earlier. In Japan, automobile sales fell 1.9 percent to 5.73 million, the lowest level for 20 years and 25 percent off the 1990 peak. For 2007, the Japan Automobile Manufacturers Association projects that total vehicle sales will fall a further 1.9 percent to 5.63 million units.

Inorganic pace

The Indian automotive sector, characteristically driven by traditional and conservative business conglomerates is undergoing a fundamental shift as companies set out to unlock the benefits of global scale of operations exhibited by the increasing merger & acquisition (M&A) deals in the sector worth more than $633 million from 20 deals so far this year, i.e. surpassing the value of deals done by the sector in the whole of last year at $517 from 23 deals.

The acquisition bids for Land Rover and Jaguar, the UK-based iconic marques owned by Ford Motor Company, the US-based world's third largest automaker (behind GM and Japan's Toyota) has the potential to raise the Indian automotive sector to the

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highest level to compete with Sports Utility Vehicle (SUV) brands like Mitsubishi Pajero, Toyota's Land Cruiser Prado and Highlander, Jeep Wrangler by American automaker Chrysler, and Hummer from General Motors, among others on the one hand and luxury car manufacturers such as Audi AG, Bayerische Motoren Werke AG (BMW), and Mercedes-Benz on the other.

The outcome of the bidding war for an estimated price of approximately $2 billion, which features Tata Motors and Mahindra & Mahindra is symbolic of the evolving Indian businesses making a mark in the global market place.

The show of growing ambition by the companies in the sector mirrors the growing aspirational value among consumers in the Indian market – not only to own a car, but also associate with a brand and upgrade to a luxury car, a segment that is growing at 25 percent annually commanding a share of almost 27 percent in the current sales.

Such aspirations have seen more than 5,000 luxury cars being added to the Indian roads in 2006, up from 3,000 in 2005 and just 1,000 in 2004, according to estimates. It's just a matter of time, before global luxury car brands Volkswagen, Lamborghini, Rolls Royce Phantom, Bentley, Porsche, Aston Martin and Ferrari roll out their India plans in full steam.

With the deal expected to go to an Indian entity, the moment will be historic, as it will mark the automotive sector's entry into the elite billion-dollar acquisitions club. With the two cult luxury brands in its armory, the winner will see itself take the first steps into the unexplored premium segment and expanding global market place, with niche patrons apart from a combined workforce of 20,000 and state-of-the-art engineering platforms.

The Indian partner on its part will bring on board the management expertise to save cost and improve production processes by virtue of coming from a country where economies of scale is the foundation of a profitable enterprise. Tatas have been widely talked about as the frontrunners to clinch the Land Rover and Jaguar deal.

Tata Motor's parent company Tata Group, with revenue of about $55 billion and equivalent to about 5.5 percent of the country's GDP, is not new to such inorganic growth that has eased the group's access to new markets, product categories, technology and world-class brands. Tata Motors' international footprint includes Tata Daewoo Commercial Vehicle in South Korea; Hispano Carrocera S.A., a bus and coach manufacturer in Spain in which the company has a 21 percent stake; a joint venture with Marcopolo, the Brazil-based body-manufacturer of buses and coaches; and a joint venture with Thonburi Automotive Assembly Plant Company of Thailand to manufacture and market pickup vehicles in that country.

Cross border deal making

The other reason why Jaguar-Land Rover deal will be significant is that it will further reinforce the prominence of the Indo-UK merger & acquisitions deal activity, which has already seen two of the country's largest deals – the acquisition of Hutchison Essar, India's second largest GSM mobile service provider by the UK's Vodafone Group and the acquisition of the UK's largest steel maker Corus Group by India's Tata Steel.

Of the $46 billion worth of cross-border M&A deals so far this year, the UK contributed to about 40 percent of all overseas acquisitions by Indian companies (outbound) in deal value and about 83 percent of the deals clinched by overseas companies in India (inbound).

The Tata Group had also acquired UK-based Tetley Group, then the world's largest manufacturer of tea, for $407 million in February 2000. The group has already spent more than $15 billion to fulfill its inorganic growth strategies and the acquisition of Land Rover and Jaguar will likely be the second most expensive buy for the group after Corus.

The investments by India Inc. in Britain during the fiscal year 2006-07 has created 5,130 jobs, second to the US, according to the UK's Department of Trade and Industry. In terms of the number of new projects, India has been ranked third with 69 new projects, after 540 new projects of the US and 95 new projects of France.

Indian investment in the UK had gone up 111 percent to 76 projects, creating almost 4,000 jobs during 2005-06. The Indian investment has contributed $67 million (£33 million) to the London economy in 2006-07, according to Think London, an agency promoting investment into the city.

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