

# Research India in the Spotlight as an Emerging Market for Automobiles

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## 1. The economy of India is taking off

It has been about five years since the term BRICs became well known. In that time, India has achieved economic growth averaging more than 9% a year, and the expectation is for continuous development in the future due to the expanding domestic demand generated by 1.1 billion people in the world's second most populous nation.

Promoted since the 1980s, the development of the IT industry has been of great contribution to economic growth in India, especially by improving India's international competitiveness as the driving power for the export industry. Today, the industry has secured its position as an overseas outsourcing partner for software development for the West. There are many R&D facilities for Microsoft, Google, Oracle and other major international IT companies, and highly qualified Indian engineers are working in cutting-edge technical development fields.

The Indian government is also making strong efforts to promote secondary industries where job creation and the economic ripple effect are significant, and has been working to boost the competitiveness of the automobile industry since the 1990s. Supported by the expansion of domestic consumption in step with economic growth, the market is expanding at a high rate of growth, averaging more than 15% annually with annual domestic sales figures for automobiles reaching 2 million vehicles in 2007. In addition to the size of the market, the activities of local automobile manufacturers in India are also intensifying. In particular, the launch of the ultra-cheap Nano (January 2008) and the purchase of Jaguar and Land Rover (March 2008) by Tata Motors made a great impact on the global automobile industry, drawing even more attention to the automobile market in India from the rest of the world.

The expansion of Japanese automobile manufacturers to India has progressed in step with the development of the Indian automobile industry. Starting with the entry of Suzuki in the 1980s, Honda and Toyota made advances in the 1990s. At that time, GM, Hyundai, Ford, and other leading international automobile manufacturers also made successive moves. At present, there is a trend for increasing the scale of production in India with most manufacturers building new factories and reinforcing their production lines including Nissan, which is in the process of building a factory for their foray into India.

Hitachi Research Institute is undertaking investigative research of business opportunities in the booming Indian automobile market, focusing the analysis on 3 points: (1) Industrial development policies and future outlook for domestic demand, (2) Analysis of technical trends, and (3) Strategic issues for local expansion.

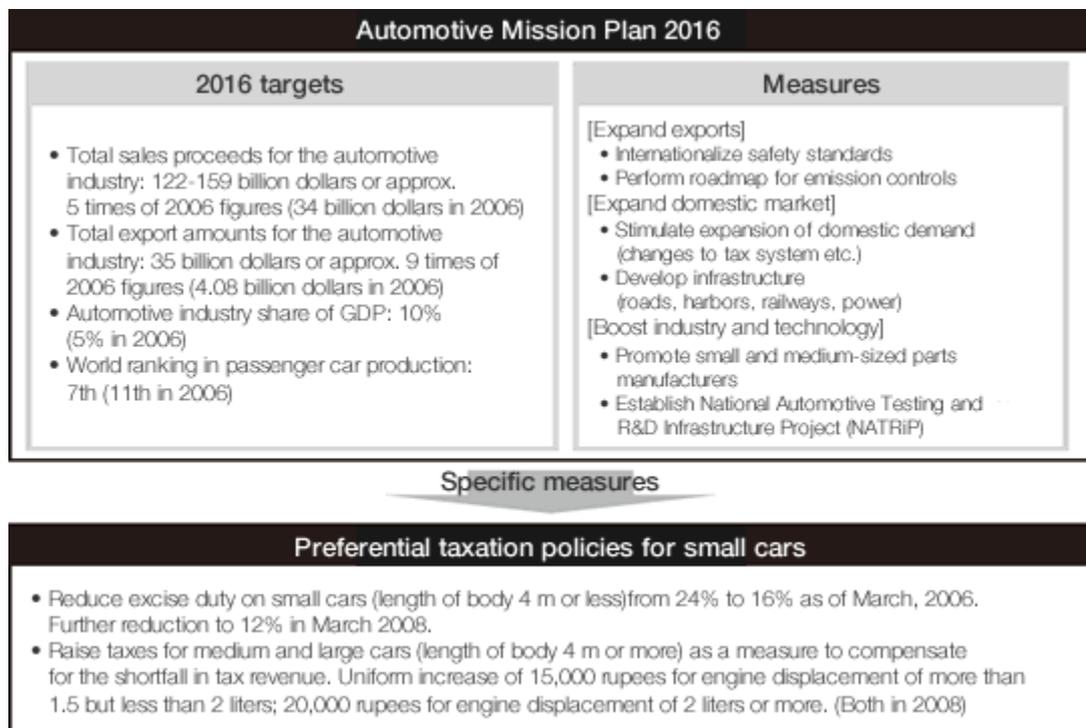
## 2. Development policies of automotive industry and future outlook for domestic demand

The industrial development policies of the Indian government play a major role in the growth of the automobile market in India. The start of development to date was triggered by the policy shift from protection of domestic industry to the policy of strengthening industrial competitiveness by aggressively introducing foreign capital including the relaxation of foreign currency import regulations undertaken in the first half of the 1990s. As a culmination, the Automotive Mission Plan was announced in December 2006,

spelling out plans to expand the scale of the industry five-fold and to grow the scale of exports nine-fold over a period of 10 years. (Fig. 1) With passenger car development and promotion of the automotive parts industry as the pillars of development, the government is advancing policies to make the plan reality such as making safety standards and emission regulations etc. compatible with standards in the West, improving product quality by maintaining a technical development environment such as the National Automotive Testing and R&D Infrastructure Project (NATRiP), and accelerating motorization by constructing roads. Specific measures for promoting compact cars include the gradual reduction of excise duties on compact cars since March 2006, and automobile manufacturers are committed to investment in compact cars.

“Annual income equals to automobile purchase price” is said to be the criterion for car sales in the Indian automobile industry. There are expectations for further growth in the market for compact cars in step with the expansion of the middle classes in India, referred to as the “new middle class” with an annual income of 90,000 to 200,000 rupees (1 rupee is approx. 2 yen), and the “middle-rich class” with an annual income of 200,000 to 1 million rupees.

In 2008, sales stalled due to the rise in the cost of living and the steep increase in oil prices, and with interest rates on car loans rising (approx. 15%), and lending tightening up due to stricter checks on loans, November recorded the largest ever sales drop with a year-on-year decrease of 23.7% in automobile sales figures. However, supported by a large buying public, there are high expectations for an early recovery in the Indian automobile market. The Indian government has already started to take measures to revitalize demand, implementing a decrease in the excise duty and gasoline prices in December. They are also carrying out a gradual decrease in policy interest rates, and in January 2009, some state financial institutions reduced the interest rates on car loans to the 10% level. The effect of the policies are showing quick results with sales figures for Maruti Suzuki, which has 60% of the market for compact cars in India, pointing to a recovery with an increase of 5.6% compared to the same month in the previous year in January.



Source: Created by Hitachi Research Institute based on, “Automotive Mission Plan 2016”

Ministry of Heavy Industries and Public Enterprises, India

Fig. 1 Indian government policies to boost the automotive industry

### **3. Trends in automobile technologies**

In order to boost cost competitiveness, Japanese automobile manufacturers in India have increased their procurement rates for locally made parts in products for the domestic market. However, since products exported to Europe and other developed countries require a high quality, technical development cooperation with Japanese parts manufacturers and supplies of parts are indispensable in the present situation. Above all, there is a high need for low emissions technology to comply with emission regulations in Europe. Domestically, India is also starting to introduce emission regulations in recognition of the European standards, and the demand for technological development to alleviate the impact on the environment will grow even more in the future.

The demand for safety technologies and parts will also increase. This is because the traveling speed of automobiles is expected to increase in the future as progress is made with the longstanding issue of road improvements, including the Golden Quadrilateral, the huge national highway network that connects north-south and east-west in a quadrilateral shape, which is nearly completed. The need for safety technologies is already rising with the increase in built-in ABS and airbags for compact cars.

The development of compact cars made in India is also intensifying. The Nano from Tata Motors uses innovative product design and production techniques to deliver the ultra-cheap price of 100,000 rupees. Depending on the success of the Nano, there is potential for an impact on future automobile manufacturing worldwide, further raising demands on parts manufacturers to scale down the size and price of parts.

### **4. Strategic issues for local expansion**

In correlation with the expansion of Japanese automobile manufacturers to India, Japanese parts manufacturers are making greater inroads locally. They are building factories in the vicinity of the sites of automobile manufacturers, and strengthening systems to facilitate a stable supply of products and prompt technical support. However, there is a chronic shortage in the supply of sites for factories in India, and it is not easy for Japanese manufactures to obtain the required sites. Even if a site has been obtained, many corporations must install electric power and water supplies as well as sewerage at their own expense at industrial parks in India as the state governments only sell the land for the industrial park to the corporations. It is possible to receive supplies from the power company, but since power outages are frequent, the power cannot be used for continual operation of production lines, and all companies use their own diesel generators. The cost burden of equipment and operation is heavy, and voices have been raised in the hope of a solution.

With the impact of the global financial crisis increasing on a daily basis, growth rates of about 5% are expected for the Indian economy in 2009. Despite having their own manufacturing locations as bases to supply the promising Indian market, the automobile manufacturers that have entered India are starting to build up capacity in order to become global supply bases for compact cars. The importance of India to automobile parts manufacturers will increase in the future, and it will be important to build an Asia-wide structure including new-builds in Indian locations and collaboration with existing locations in China and the ASEAN.