

The Ongoing Success of the Indian Automotive Sector



The Indian online newsletter, ETAuto.com, has just run an article on the progress of Mercedes in India. In 2007 the company acquired a 100 acre site in Pune. Currently 80% of the Mercedes cars sold in India are produced locally. Capacity has been doubled in the course of 2015. Sales in 2015 are 34% up on the same period a year ago and they are planning for significant growth in 2016. The company are looking for more local suppliers but they want partners who can also operate globally.

Besides Germany, Japan has a beneficial history of economic collaboration with India. India's largest automaker is currently Maruti Suzuki India which is wholly owned by Suzuki Motor Corporation. In the last fifteen years royalty payments from the Indian subsidiary to its parent have increased by a factor of 6.6.

It has just been announced that Japan is offering to finance 80% of India's first high speed rail project, the 505km route between Mumbai and Ahmedabad, at an interest rate below 1% provided India buys 30% of the equipment from Japanese firms. The cost of the project which is subject to a competitive bidding process has been estimated at \$15bn. In August 2014 the national government lifted the ban on FDI in Indian railways and now 100% finance is allowed. The limit in the defence sector has been raised from 26% to 49%.

These three examples illustrate the record level of success of the Indian economy currently in attracting Foreign Direct Investment (FDI). The latest global results for 2015 show India as leading the global economy in inward FDI having moved up four places since 2014 to the top position in the global FDI rankings overtaking China and the U.S. The share of manufacturing within the FDI total has been increasing and currently stands at 47% with a further increase likely. The traditional view had been that Indian strengths were in services rather manufacturing. In 2014, 18,600 jobs were created in the automotive sector by FDI with Germany and Italy providing nearly half the capital. Aerospace is also emerging as a strong sector for FDI.



This success is down to the confluence of several different factors but part of the credit must go to the effectiveness of the Indian government in making potential investors aware of its future national plan for manufacturing which was launched in September 2014 by the Prime Minister. The Made in India programme has the major objective of job creation and skill enhancement in twenty-five sectors of the economy. These sectors include: automobiles, chemicals, IT, pharmaceuticals, textiles, ports, aviation, leather, tourism and hospitality, wellness, railways, design manufacturing, renewable energy, mining, bio-technology, and electronics. A recent survey of investors found that India's attractiveness included labour costs, market growth prospects with 18 per cent of the population in the 16 to 25 age group, R&D capability and the stability of the social, economic and political environment. Infrastructure investment is seen as a priority for further FDI. The first high speed rail project ties in neatly with this.



Comparisons between China and India are inevitable especially as they are the two largest economies in the BRICS group of emerging economies. Infrastructure is recognized as an issue where China is ahead. On the other hand, India has the advantage of a long familiarity with English, the language of international business.

A useful way of understanding how India's auto sector has developed is provided by Gautam Sen's book, *A Million Cars for a Billion People*. He sees 1980 as a benchmark year when vehicle production in China was negligible and in India it was well under 100,000. In contrast Japan produced 11 million vehicles in that year.

By the turn of the century the Indian automotive scene had been transformed, initially through collaboration with Suzuki in the firm Maruti Udyog. Indira Gandhi gave the keys to the first vehicle from the firm to a lottery winner at the end of 1983. The millionth vehicle was produced after eleven years but the next million only took four years overtaking the total volume of the Ambassador.

But in terms of overall sector development, the important next step came from truck manufacturer, Tata. In 1994 Tata produced its first non-truck success in the form of a multi utility vehicle. The vehicle side of the Tata group is TELCO and when Rajan Tata took over in TELCO he set some very ambitious development goals. Many observers thought they were unrealistic but by the end of 1997 TELCO had over 400 engineers working on their car for India. An abandoned Nissan factory from Australia had been transferred to India for the project. The car was launched at the start of 1998 and had taken 31 months to develop. As the first all-India car it was developed into a family of four vehicles which had sold a million units in total by 2009.

Sen's book also covers a number of fascinating topics such as the response of Maruti and Korean automakers to Tata's success and how Tata went on to start the low cost Nano programme. The lesson of this brief review of the development of the Indian automotive sector is that the goals set for the sector for 2020 should be taken very seriously especially in the context of India's current success in attracting international investment.

- The Make in India campaign for automotive explains the sector of the sector in the following terms
- Tractor sales in the country are expected to grow at CAGR of 8-9% in the next five years,
- Two-wheeler production has grown from 8.5 Million units annually to 15.9 Million units in the last seven years.
- India's car market has the potential to grow to 6+ Millions units annually by 2020.
- Large automotive clusters in the country have emerged: Delhi-Gurgaon-Faridabad in the north, Mumbai-Pune-Nashik- Aurangabad in the west, Chennai-Bengaluru-Hosur in the south and Jamshedpur-Kolkata in the east.
- Electric cars are likely to become a sizeable market segment in the coming decade.

It will be fascinating to watch the relative progress of Make in India and Made in China: 2025 in coming years.

Author: Iain Cameron, SMMT Industry Forum Ltd
