

India Autos Report Q4 2011

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While India's vehicle sales growth is undoubtedly slowing from the rapid rates of the previous financial year, which ended in March 2011, BMI's view that the market will outperform China in terms of more stable growth is playing out. In H111, India became the world's fastest growing passenger car market, although interest rates and fuel prices will continue to pose the main threats to this growth in the immediate future.

Data for June, released by the Society of Indian Automobile Manufacturers (SIAM), revealed a mixed bag for the Indian autos sector, as sales growth for all vehicle segments in the first three months of the current financial year (April to June) was 15.14%. This is far slower than last year and was dragged down by much lower demand for passenger cars, which posted their lowest growth for two years in June of 1.6%. Passenger vehicle sales growth for the three-month period was 8.77%.

As such we have lowered our forecast for passenger car sales growth to 12%, which is still a respectable rate of growth but an obvious deceleration from the 35% of FY10-11. On the upside, passenger car sales for the first six months of calendar year 2011 were up 18.2%, making India the fastest growing car market in the world. The commercial vehicle segment performed better in the April to June period, with sales up 14.1%. BMI is generally optimistic regarding India's commercial vehicle market, which reported growth of 17.8% in June, contrasting with the much weaker performance for passenger cars. Nevertheless, we have also revised down slightly our growth forecast for the segment to 15%, although we continue to see investment in the segment and still expect average annual growth of 12.7% over the next five years.

Despite slowing growth in car sales in India in June, largely owing to rising interest rates and raw material costs, major carmakers have announced expansion projects in the country, looking to the market's long-term growth potential. Ford Motor in particular has an aggressive strategy for India, and has announced investment of US\$1bn for a new vehicle and engine plant, which will more than double the company's current annual production capacity in the country. The Gujarat plant, due to come onstream in 2014, will have an annual production capacity of 240,000 vehicles and 270,000 engines. Ford's existing plant in Chennai can produce up to 200,000 units a year. Similarly, Toyota Motor is investing INR8.98bn (US\$203.9mn) in accelerating the expansion of its Indian operations. After originally planning to increase its annual production capacity from 150,000 units to 210,000 units by H112, the success of its recently launched Etios low-cost range has prompted a rethink. The investment will enable Toyota Kirloskar Motor (TKM) to raise its capacity to 310,000 units a year by 2013. TKM will also focus on raising the local content level of its models to increase competitiveness.

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