

Impact of the planned Rs. 1 Lakh Car on the Indian Economy.

Executive Summary

The small car being planned by Tata Motors has the potential of changing the dynamics of the Indian auto industry in the same manner as Ford's Model-T and the Volkswagen Beetle did. Both these cars fulfilled a long cherished dream of millions of middle class customers – that of owning a car. The small car also aims to do the same.

If Tata Motors gets it right (and that seems to be the most likely scenario today), the small car will be a huge technological as well as commercial success. It would have the effect of making India the small car hub of the world. Currently, India is the second largest manufacturer of small cars in the world, next only to Japan, producing close to 7.5 lakh small cars annually as against 1.8 million by Japan. The small car has the potential of changing that.

The small car will lead to a change in the pecking order of the Indian auto companies. One of the immediate effects of the small car will be it will cause a change in the overall positions of different carmakers. Maruti has been the leading car maker in India for about two decades and enjoys a huge lead over the second largest carmaker i.e. Tata Motors. The success of the small would mean that for the first time Maruti's dominance will come under threat. As far as the two-wheeler manufacturers are concerned, the small car has the potential of causing substantial shift among the potential two-wheeler customers towards the small car. It will lead to a major impact on the manner, in which cars are manufactured, it will test the capabilities of Indian auto companies to innovate and come up with radical production processes and will lead to a lot of R&D in the country. The other major part of the Indian automobile industry is the auto component manufacturers which supply parts of vehicles to the car manufacturers. The small car holds immense potential for these companies as it promises volumes of between 2,50,000 and 1 Million units per annum which are unprecedented and huge by the standards of the domestic auto-component industry. The small car will also put the Research & Development capabilities of the auto industry to test and will call for huge investment in R&D by Tata Motors as well as the auto ancillary companies involved in the project.

That was the positive part of it. Now comes the controversial part.

With Tata Motors investing, Rs.1800 Crores in the venture, it plans to sell about 1 Million cars annually to make the venture profitable. As evident, it will be a low margin and high volume game. The question is – Are the Indian Roads capable of taking the load of an additional 1 million cars annually? Will the atmosphere be able to bear the pollution caused by the exhaust fumes of an additional 1 million cars annually? The environmentalists are up in arms against the small car. They allege that it will accentuate the problem of traffic congestion in the cities, will emit tones of carbon dioxide and pollute the atmosphere and will increase fuel consumption manifold which will make the country even more dependant on oil imports. No doubt, these are really significant issues facing the country today but it would be unfair to single out one car for all these problems. It is up to the Government to frame a National Energy Policy as well as a National transportation policy to address all these issues especially in the metro cities.

What will the car do for Tata Motors?

Pushing the envelope in search of path-breaking technology and new products is not new to TATA Motors. In September 1995, Mr. Ratan Tata said that he plans to have a car with the Zen's size, the Ambassador's internal dimensions, and the price of a Maruti 800. This statement had its share of criticism but Tata Motors was able to come up with the product Indica in 1998 which fulfilled the Mr. Tata's expectations. Again in late 1990s, it got down to develop a commercial vehicle of 1-tonne capacity to be priced at Rs.1.80 lakh which again was very aggressive. Tata Motors developed the commercial vehicle ACE by working closely with auto component suppliers and 80-85% components of the Ace were outsourced. The Ace was very competitively priced at Rs.2.25 Lakhs. The platform developed for Ace is now being used for developing other vehicles like passenger vehicles suitable for small towns. The small car may also work out in a similar way for Tata Motors. If the small car is able to achieve the volumes that Tata Motors is planning to sell then it will catapult TATA Motors to the leadership position of the Indian passenger vehicle market, something which has been the domain of Maruti for a long time. The on road price of the base variant of the vehicle is expected to be around Rs.1.25 lakhs. With that price it is going to fill the gap between the two-wheeler market and the cheapest small car i.e. Maruti 800. So, while the stated target market is the two-wheeler buyer, one thing is for sure, that is the sales of the cheapest small cars of Maruti i.e. the M800 and the Alto are likely to be affected the most. It will make TATA Motors the largest producer of small cars in the world with a 25% market share and India the small car hub.

Statements made by Mr. Ratan Tata indicate that the company plans to export the car to other similar markets like Malaysia, Indonesia and Africa. The company might have to make minor adjustments according to different markets to conform to local safety and emission standards.

Impact on Auto Industry:

As stated earlier, the car manufacturer which will be the most affected by the small car will be Maruti Suzuki. It will be the first serious assault on Maruti's virtual monopoly in the small car market (i.e. Segments A1 and A2). The 2 models from the Maruti stable to be affected the most would be: M800 and the Alto. The M800 sold 79245 units in FY07 while the Alto, Zen and WagonR sold 4,40,375 units in total. So, in terms of sales about 3 Lakh units of Maruti might be under threat.

The two-wheeler manufacturers also find their market under threat as a result of the small car. The stated target market of the small car is the two-wheeler buyers. The annual sales of two-wheelers are currently about 7.5 million units per annum, so Tata Motors will be looking to get take away about 10% of the from two-wheeler manufacturers. But a deeper analysis leads to an interesting point. About 90% of the two-wheeler sales are in the 30000-45000 category. Also the cost of ownership of such a two-wheeler comes to about Rs. 2000 per month while the same for the small car will be Rs.6000 per month. For a middle class customer, this difference will be substantial. Therefore, only time can tell the actual impact of the small car on two-wheeler sales.

Used Car Market – The other casualty of the small car will be the used car market. With a new car being available for as low as Rs. 1.25 lakh (it is the expected on road price), there will be a fall in the sale of used small and compact cars. This will lead to a glut of used cars and a fall in valuations of used cars.

Auto component manufacturers – The Company has involved a group of auto component suppliers right from the stage of conception.. The very nature of the project meant that the costs had to be cut down to the bone without compromising on quality. But what keeps the suppliers interested was the promise of unprecedented volumes. Huge investments are also being made both by Tata Motors as well as the suppliers to enhance R&D capabilities.

This will lead to path breaking innovations and will take India's well developed auto industry which has already achieved global standards a step further.

Impact on insurance premiums:

From January 2007, the government has allowed free pricing of motor insurance premiums. General insurance companies would be able to price the premium on motor insurance depending on factors like the driver's age and record, vehicle and usage, the traffic density of the city, as well as the cost of spare parts. More number of cars means that the insurers can spread their risk i.e. risk spreading will be more efficient and there will not be much impact on the premiums.

Impact on Environment?

Tata's small car project has raised concerns among the environmentalists, as they fear about the impact of a sudden surge in the number of cars on Indian roads.

Road Congestion: In India there are 7 cars per thousand people, this makes it less than 10 million vehicles in India. Even with such low penetration traffic is increasingly becoming unmanageable.

With one million more cars on the road each year, there is also the fear of the small car aggravating the traffic congestion problem that most Indian Cities are already grappling with. They will also need more parking space which will cause more problems.

Air Pollution: In countries around the world, transportation is one of the major causes of air pollution. The exhaust fumes of large number of passenger vehicles contain huge amount of Carbon Dioxide and other harmful gases. As per the 'Energy Efficiency and Climate Change Considerations for On-road Transport in Asia Report, Asian development Bank', on road vehicles emitted 208 Million Tones of Carbon Dioxide in 2005 which is expected to increase to 256 Million Tones in 2008. Let's do some number-crunching to find how much pollution will the small car cause assuming the sale to be 1 Million per annum.

Average usage per car per annum: 12000 kms

Average Mileage: 20km/litre. (The small car is expected to be very fuel efficient)

Usage of petrol by one car per annum: 600 Liters

Increase in petrol usage: 600 Million Litres.

One litre of petrol produces 2.5kg of Carbon Dioxide (Source: Environment Canada)

Carbon Dioxide emitted by the additional 1 million cars: 1.5 Million tones.

This is about 0.6% of the estimated Carbon Dioxide emissions by road vehicles in 2008.

Fuel Consumption: Another cause for concern is that, so many new cars will lead to increase in the fuel consumption and will increase India's dependence on imports. If we again look at the numbers, we find that petrol consumption will increase by 600 Million Litres (as calculated above), which is about 0.45 Million tones of petrol (1 litre of petrol weighs 0.75 kg). To put this into perspective, as per the ADB Report, the total on-road fuel consumption was 58 Million tones in 2005 and is expected to increase to 73 Million tones in 2008.

All the above calculations assume that the purchase of all these new vehicles will not cause any replacement. However, in reality there will surely be some replacement either of two-wheelers or of public transport vehicles.

Conclusion:

Here we see that the small car will come with its share of problems. But the opposition directed specifically towards the small car is unjustified as the problems of pollution and oil consumption are the being faced by all the sectors of the economy.

The Tata group is doing its job – providing the buyers what they want; now the government must do its part and develop public transport so that people choose public transport over personal.

As stated earlier, cost of ownership will be Rs. 6000 approximately. So the buyer will weigh his options and see that if his cost of travel is close to that figure then he will go ahead and buy the car. The government can influence his decision by increasing the cost of ownership by imposing taxes and by raising parking fee in central areas. But the government will also have to improve the public transport system and build monorails or underground railways to ensure that people get some form of transport. One way or the other equilibrium will work out because if cost of ownership is high people will use public transport and fewer cars will get sold.

There can be an integrated personal-private transport system where people would travel to the nearest Metro station by car, park their car and then travel to the CBD via Metro. This is what is being planned in Delhi – for connecting the main city to suburbs like Gurgaon, Noida. Research has proved that cars have the highest utility in short trips for instance from homes to public transport nodes like rail and bus station.

The world cannot live without cars and with the oil reserves declining, there is an opinion developing against big cars and SUVs which are fuel guzzlers.

All in all, we can conclude that we cannot live without cars and if we have to own cars then its best to own small cars which are the most fuel efficient, occupy least space and utilize resources effectively. If Tata Motors has to produce a car for 1 lakh, means that it will have to cut costs to the bone which means that it will have to use the resources in the most effective manner. Now that should soothe the nerves of environmentalists.

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EDUCATION:

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B.Com (Honours) | 64.75%
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| 2. Hariyana Vidya Mandir
All India Senior School Certificate
Examination | 72.4% | June, 2005 |
| 3. Hariyana Vidya Mandir
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PROFESSIONAL QUALIFICATION:

- Cleared PE-I of Chartered Accountancy Course in May, 2006 with 57% Marks.
- Cleared PE-II of Chartered Accountancy Course in May, 2007 with 60.5% Marks.

ACHIEVEMENTS AND POSITIONS HELD:

- Worked as a Junior Analyst in Sidhmangalam Capital Markets Ltd., a firm engaged in equity research for 2 months in July-August, 2006.
- Conducted a Market Survey on consumer preferences and Brand recall of Wills Lifestyle and Hrithik Roshan as its ambassador for ITC Ltd.
- Represented St. Xavier's College at a commerce fest organized by St. Aloysius College, Mangalore in October 2005. Won the 1st prize in Mock Stock- an event based on share trading and stood 3rd in the corporate quiz.
- Won prizes at quizzes, essay competitions, School Basketball tournament and National Science Olympiad.

COMPUTER SKILLS:

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