

## Indian passenger vehicle market expected to be 3.75 million by 2014, Ernst & Young

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NEW DELHI, 29 June: The Indian passenger vehicle market is expected to grow at a compounded annual growth rate of 12% over the next five years, reaching 3.75 million units in 2014 from current sales of 1.89 million units in FY09, reveals a latest analysis by professional services firm Ernst & Young. While exports are expected to contribute with volumes of 1 million units, the balance of 2.75 million units is estimated from the domestic market.

The study identifies that economic growth with changing demographics and aspirational lifestyles are the main drivers for the growth in domestic market, supported by government support in the form of reduced excise duties, concessions on cleaner fuels and the ongoing improvement in highways. The entry of the ultra low-cost cars is also expected to increase car penetration from the current levels of 9 per 1,000. The ultra-low cost segment should perform well given the appeal to a larger customer base. Exports are poised to grow significantly due to India's fuel-efficient low-cost product range.

The Ernst & Young analysis shows that overcapacities would increase and profitability may decline. "In this scenario, we expect global players with financial muscle to play on price and offer discount in the market. The manufacturers' brand equity is also expected to play a significant role in the purchasing decision by consumers. Indian industry is generally drifting towards monopolistic scenario where in there will be large number of players selling similar products as against a current oligopoly where we have fewer big players," says Rakesh Batra, Partner and National Industry Leader - Automotive Practice, Ernst & Young. "There is an upside risk on exports as it is dependent on the recovery of the global markets," he added. Providing an overview of the industry in India and worldwide, the research has pegged capacity utilization in India at an average of 65% in FY09, close to the current global average at 64%. Significant capacity has been added in virtually all BRIC countries in the last three years. Stimulus packages will prevent the market from a free fall and are expected to continue till assurance of sustenance of manufacturers is established, says the analysis. It also notes that while several vehicle manufacturing plants have been closed in the U.S, no plant has been shutdown in the EU so far.

In India, considering the auto industry growth of 17 % from FY03-08, one third of the total capacity (ie 0.83 mn) was added during FY05-08. However, there was no growth (0.13%) in the market during 2009, resulting in excess capacity. An unfavourable product mix also make matters worse as there is limited flexibility between models. "The long term growth drivers are in place" adds Mr. Rakesh Batra "which is leading both international as well as domestic players to add to their capacities significantly". Both national and global players are expected to add to the capacities, forecast to increase from 2.89 million units currently to 5.42 million units in 2014.

Further, although some manufacturers have postponed their investment plans, looking at the long-term potential they are expected to resume these projects in the near future. New technologies like hybrids and fuel cells are expected to emerge, notes the analysis. After China, US and Japan, the next set of countries with output of 4-7 million per year - Germany, India and South Korea. Of these India is forecast to grow significantly with its strong indigenous industry and cost advantage.

According to the analysis, the current overall industry capacity utilization has been significantly lower averaging to 65% in FY09 than the industry break-even level, estimated to be at about 75% per cent currently. In the current environment of shrinking demand and declining sales volumes, global auto-makers are expected to consolidate their operations, resulting in a reduction in the number of sites, with production shifting to low-cost countries. Indian companies with unutilized capacities stand to benefit from this opportunity, says the analysis.

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