

Driving in style

India's growing affluence is driving the luxury car market, luring in leading makers of premium vehicles from around the globe. **Annamma Oommen** tracks the frenetic pace of growth of this segment.

INDIA is fast turning out to be a coveted destination for luxury car manufacturers. And the reasons are not hard to spot.

Firstly, a booming domestic market is attracting luxury brands across categories. Secondly, a highly skilled engineering work pool combined with the labour arbitrage opportunity has resulted in India becoming an export hub for global car manufacturers like Hyundai and Suzuki. Finally, the Indian auto ancillaries industry has achieved world class status through not just high quality manufacturing but also through global mergers and acquisitions.

Thus, an "India plan" is a must for any car company, even luxury brands. Skeptics might question the size of the domestic luxury car market and what returns could

be generated by investing in manufacturing but such doubts could be dispelled by looking at the recent history of premium car manufacturers in India.

Led by DaimlerChrysler, the big daddy of premium cars – Mercedes Benz – luxury car manufacturers are increasingly banking on India for the future. While DaimlerChrysler has been around for over a decade, Audi, Porsche, Bentley, Lamborghini, Rolls Royce and Land Rover entered India only in the last few years.

DaimlerChrysler AG entered India over a decade ago and began manufacturing at a plant leased from Indian auto major Tata, in Pune. Recently the company announced that it would be investing \$67.5 million for a second plant that will have a capacity to produce 5,000 vehicles annually and

will employ 350 people initially. The plant will be DaimlerChrysler's first fully owned production facility in the country with the first car expected to roll out in early 2009.

"As a company, we have enjoyed steady and profitable growth in India and we are looking forward to continue our success story here in our own premises," says Wilfried Aulbur, managing director and chief executive at the company's Indian subsidiary. Although small compact cars clog Indian roads, high-end luxury cars are increasing their toe-hold on Indian roads.

India sales of the Mercedes-Benz S-Class, E-Class and C-Class sedans shot up to 2,121 units in 2006, an 11 per cent growth over the previous year. At \$1.5 million, the Maybach, is DaimlerChrysler's costliest car in India, but that hasn't



STYLE STATEMENT: There is growing demand for luxury cars in India, which has seen virtually all the top manufacturers set up a presence here

slowed sales.

And Mercedes' Bavarian rival BMW, just six months into production in India, is already planning to set up an assembly line for its sports utility vehicles (SUV) X3 and X5. "Consumption patterns are fast changing and I see a good potential for luxury car growth in India," says Peter Kronschnabi, managing director, BMW India.

Currently the X3 and the seven-seater X5 are imported as CBUs (completely built units) route and sold at \$150,000 and above due to high import duty. With the new assembly line, there could be a price drop by almost 50 per cent.

So what is it that warrants this attention from the world's elite car manufacturers? Rising upper and middle-class incomes and increased competition are expected to push car sales in India past the two million units mark by 2010.

India currently has about 100,000 millionaires (in dollar terms), and by 2010, that figure is expected to jump to 140,000. However, what is different about India is that these millionaires are not restricted to big cities but are spread across small towns as well. In terms of population the very rich may represent just one per cent of the entire population, but with a base of one billion people, it still adds up to 10 million - more than the population of many small countries.

A Keystone India report, 'The World's Top Auto Markets by 2030,' projects that over the next 25 years, emerging markets will account for a stunning 69 per cent of industry sales and 87 per cent of vehicle registrations. China and India will be the major players as their combined shares of motor vehicle registrations will rise from 5.3 to 37 per cent by 2030.

Although China is likely to become the world's largest motor vehicle market by 2017, India, due to its late start, is projected to catch up quickly, surpassing Japan within 10 years to third place in sales. By 2030, India's auto market is expected to be similar to that of the United States in size.

Premium carmakers recognise that in India they are in for a long haul. While DaimlerChrysler hopes to sell 4,000 units a year by 2010, Audi has taken a similar low-key approach. Launched in mid-2004, the German carmaker targeted only 100-150 units of its A8 and A6 in the first year.



READY TO ROAR: The luxury car market is expected to grow at a rate of 15 per cent annually

Recently, Audi added an SUV — the Q7 — to its India portfolio, taking the total number of models in the country to four. Audi estimates the luxury car market will cross 5,000 units this year and analysts estimate a continued growth rate of 15 per cent per annum.

Porsche, which entered India in 2004, had a similar experience. The Cayenne is outselling the Boxster 911 although both sell in limited numbers. The prime reason is of course Indian roads which lend themselves better to SUVs than to low

slung sports cars.

Selling its cars through dealerships in, Porsche has now incorporated its Indian subsidiary. It has centres in Delhi and Mumbai and plans to expand to Hyderabad, Bangalore and Chennai too. By 2009, it plans to open its own assembly line in India and launch the Panamera model. Porsche sold about 300 cars ever since it began operations in India in 2005.

Not to be left behind, the Volvo Car Corporation is also set to enter the Indian market through its sedan S80, and SUV XC90, in both petrol and diesel variants before end-2007. These cars are currently undergoing the homologation process and will be sold through dealerships in Delhi, Mumbai and Chandigarh.

Volvo is already present in the commercial vehicles segment in the country. "Improving economic condition of the people is going hand in hand with an increase in the purchase of luxury goods," says Belgium-based Paul de Voijis, managing director, Volvo Car India.

Although Bentley's introductory product was the powerful, two-door GT, it followed this up with the Flying Spur — a four-door luxury limo priced at \$175,000, and is targetting volumes in India.

A favourite of erstwhile royals, the Maharajahs, the Rolls Royce made a comeback to India after five decades, in April 2005. In one year, eight Rolls Royces

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HIGH MERCS: DaimlerChrysler's has a large customer base in tier-two cities

were sold. "Despite over 100 per cent import duty, sales of imported BMWs were soaring. So the Rolls also followed suit to India," says Sharad Kachalia, marketing head at Mumbai-based Navnit Motors, dealers for Rolls Royce, BMW and the Land Rover.

Porsche, Lamborghini and Bentley are present in India through the imported/distributor route while, Lexus, Jaguar, Ferrari, Volkswagen and Aston Martin, plan to enter India soon. Since an initial entry most of these have gone for the import route although, CBUs carry their own set

of problems, the biggest being the waiting period: from order to delivery can take anywhere from two to seven months.

While the rich across the world might share similar characteristics, those in India are different because they might not always be from the big cities. While it's easy to serve those in the metros, rural

buyers are a different segment.

An NCAER (National Council of Applied Economic Research) report further emphasises the need for a rural sales and service network as one in four households that earn over \$250,000 a year is based in small towns and rural areas.

DaimlerChrysler has already discovered this as its biggest customer base lies in the city of Ludhiana in the Punjab and in Chandigarh. From 15 service centres in 2000, it now has 22 dealers. The newer entrants, though, are still sticking to the major metros.

An analyst says brands like Toyota reach where the Audis and BMWs are yet to drive in. This is helping Toyota Camry and Land Cruiser eat into what could have been luxury car sales. Considering that these too are CBUs/imports, the prices definitely fall close to the luxury segment pricing. However, some innovative thinking helps these super luxury brands adapt to the Indian market. For example, Bentley, instead of investing in a far flung after sales network, just sends the mechanic over for a house call. Obviously, one does not expect any major problems from these premium brands and the niggling ones can be taken care of by your house-calling mechanic.

Finally, while premium brands make the rush for India, Indian companies are



PREMIUM BRANDS: Many customers have to wait for months to acquire pricey models

not far behind in trying to acquire some premium names. Leading domestic auto majors are keenly looking at acquiring Ford's Rover and Jaguar brands that are up for sale. It seems that one way or another, India's tryst with luxury car brands is only just beginning.

Non-luxury car manufacturers have already been falling over themselves to make investments in India's automobile sector. Obviously, many of these players also own premium brands that could then be produced from these same lines, as and when the market matures (Lexus, Acura, Cadillac etc.).

Honda plans to triple its car sales to 150,000 by 2010, and is in talks to build a second plant near New Delhi, while Toyota and Daihatsu will invest \$86 million in a Bangalore plant to build 100,000 cars annually, ramping up to 200,000 by 2010.

General Motors has decided to spend \$300 million for a second plant that would raise its Indian capacity to 140,000 cars a year, from 60,000, while Volkswagen and BMW are building their first factories in India. Volkswagen's sister company Skoda already has a plant in Aurangabad and is doing quite well in India.

Hyundai, which was one of the first multinational to set up its own production facility in Tamil Nadu has reaped rich dividends with a close to 20 per cent market-share. By October 2007, Hyundai will finish work on a second factory nearby, doubling annual production to 600,000 cars. "We have a very clear target. India will be our export hub, which means all our small cars will be produced here," says Heung Soo Lheem, chief executive of Hyundai's India operations.

Suzuki Motor Corp., which owns a controlling stake in Maruti Udyog, India's largest carmaker, is investing \$2 billion in India and plans to export 200,000 cars from the country by 2010, according to chairman Osamu Suzuki. Ford too has its own facility at Tamil Nadu while Citroen, Renault and Nissan are also finalising plans to assemble cars in India.

With global automobile majors shifting into top gear, and accelerating their production facilities, luxury carmakers too are cruising into what is emerging as one of the most buoyant auto markets in the world.



MERCEDES REVS UP ITS PRODUCT PORTFOLIO

With a host of luxury car players jostling for space in the Indian market, German car maker DaimlerChrysler, one of the early players is fast expanding its portfolio of products. DaimlerChrysler India managing director and CEO Wilfried Aulbur talks about his plans for the Indian market, in an interview with our correspondent. The Pune-based luxury car maker recently launched the S320 and the CL Class Coupes 500 and 600. Plans are on to launch a new M class too early next year.

How does the luxury car market in India compare with other global markets?

The luxury car market is still small in India and there is a huge potential for growth. Consumption patterns have changed in the last few years. In India, the luxury market is 4.4 per cent of a total of 1.3 million cars. Among the BRIC (Brazil, Russia, India, China) countries, Russia's overall luxury car market accounts for two per cent of two million, in China it is seven per cent of five million units per annum.

When will your new Pune plant start production? Do you have any plans for exports?

Cars will start rolling out from this new plant in early 2009 and this would give an additional 25-30 per cent capacity. Currently DaimlerChrysler has no plans to export cars from India. We do use India for global sourcing of components.

Is there any difference in the models you sell in India as compared to China or Russia?

Russia and China are heavily skewed towards S Class and fully loaded E Class cars. In India too, we sell quite a few S, SLK and E class cars. The preference of most Mercedes lovers in India is for the high-selling E-class (914 units sold in 2006, and 642 during the first eight months of 2007) even though there is no dearth of those wanting to buy the much superior S-class (248 units sold in 2006,



and 111 between January and August in 2007) and the highly aspirational C-Class (883 units and 583 units respectively).

Would you consider launching A and B class cars here?

Currently there are no plans for market introduction of the A and B class cars in India as of now. As a matter of fact, we have the most comprehensive product portfolio in comparison with any Indian luxury carmaker. A strong product portfolio, well entrenched sales and service network and ensuring least time to market are the hallmarks of our strategy in India.

We recorded a growth of 22 per cent in sales (January-July 2007), which is almost double of last year's annual growth rate. We sold a total of 1,385 cars, which includes the E-class, C-class, S-class and completely built imported models from January - July 2007.

Your views on the diesel market in India?

We have observed an increasing demand for Mercedes-diesels and today, almost 50 per cent of our market belongs to the diesel segment. Diesel is powerful, fun to drive and efficient option for mobility.