

## Industry Focus

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# Auto Expo 2008

## Crazy About Cars!

- **What's new** — We visited Auto Expo 2008 last week, the sector's biannual trade fair, which showcased far more new model launches than the past 3 Expos. With 41 OEMs and 1,900 component makers (almost 2x the number in Expo 2006), it reflected the aspirations of a resurgent auto industry. Automakers from around the world that are present in/intend to enter the Indian market exhibited concept cars, models they plan to launch and their current product ranges.
- **What's hot...** — The spotlight this year focused on the passenger car segment. The products that impressed the most were by Tata Motors (the Nano and the Indica replacement), Maruti (A-Star, Splash), Skoda (Fabia) and Fiat (Grande Punto, Linea). The truck space witnessed a slew of launches in the heavier segments (31-49 MT segments) by both majors (Ashok Leyland and Tata Motors).
- **...And what's not** — The 2-wheeler sector was relatively sedate in comparison – most of the models were variants of the extant product line-up, indicating OEMs' desire to stretch the life of the current product line-up. Most of the majors chose not to showcase their new product initiatives, citing competitive concerns, while some stated that they launch vehicles through the year and this was not the right platform to showcase new products.
- **Focus on new product development** — Sentiment among the OEMs remains high, despite a relatively sedate FY08. Focus on product development activity – for both domestic and export markets – remains high. Given the backdrop of high oil prices and ever-stiffening emission norms, the emphasis continues to be on small cars/hatchbacks, in both petrol and diesel variants. The strategy cuts both ways – and while it might stimulate further growth, capital efficiency and profitability measures will be strained over the short term.
- **The dark side** — Competitive pressures will escalate. The focus in the car market appears to have shifted to the upper A2 and lower A3 segments where most international players are looking to launch new vehicles (from their extant product portfolios), but tweaked to meet Indian conditions (stronger suspensions, lower bhp to improve fuel efficiency).
- **Auto component manufacturers** — The mood among auto component manufacturers remains upbeat and quite a few of them mentioned business inquiries were significantly greater at this Expo than the previous one.

See Appendix A-1 for Analyst Certification and important disclosures.

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<sup>1</sup>Citigroup Global Markets India Private Limited

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**Jamshed Dadabhoy<sup>1</sup>**

+91-22-6631-9883

[jamshed.dadabhoy@citi.com](mailto:jamshed.dadabhoy@citi.com)

**Hitesh Goel<sup>1</sup>**

[hitesh.goel@citi.com](mailto:hitesh.goel@citi.com)

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We visited the Auto Expo 2008 last week. Located at New Delhi's Pragati Maidan, Asia's (ex-Japan) largest auto show exhibited far more models than the prior 3 Expos. With 41 OEMs and 1,900 component makers (almost 2x the number in Expo 2006) and display space ~70% more than Expo 2006, Expo 2008 was an impressive event, bucking the trend witnessed over Expos (02/04 /06), which saw limited launches and majors declining from attending the events.

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**Figure 1. Auto Expo – Snapshot**

	<b>Expo 2006</b>	<b>Expo 2008</b>
	2006	2008
Number of exhibitors	1,200	2000+
No of vehicle manufacturers	24	41
No of component makers	840	1,900
Space (sq m)	70,000	120,000

Source: Autocar Professional

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All the major domestic OEMs – across segments – were present. In relation to the 4-wheelers, the 2-wheelers had a relatively sedate presence – reflective of the currently sedate environment in the 2-wheeler industry. Even the 2-wheeler majors present chose to push their existing product range rather than display new models. Among MNC OEMs, the most notable absentees were Toyota Motors and Ford.

## **Passenger Cars - Something for Everyone**

All major OEMs in this segment were present in strength - except for Toyota and Ford, the key absentees. Most OEMs exhibited a variety of vehicles ranging from concepts to new launches and also exhibited products that will be launched later in the fiscal.

Overall, the most noteworthy (and roadworthy) launches in the passenger car space segment were Tata Motors' Nano and the Indica replacement, Maruti's A-Star and Splash and Skoda's Fabia hatchback.

Diesel cars continue to gain traction in the domestic market – the recently launched Skoda Fabia has 3 diesel and 1 petrol variants, while the Suzuki Splash when launched in India (either late 2008 or 2009) will also come equipped with a 1.3L diesel engine.

In-line with both export plans, and also stiffer emission norms in India, we noted that many of the new models being manufactured are now being produced/ capable of being upgraded to Euro 4 norms (Bharat Stage 4 norms, being implemented by April 2010). Some of the newer engine platforms being manufactured are all-aluminum; a departure from the more conventional cast iron/steel engines. Aluminum, although far more expensive than steel, ensures lower weight and enables the manufacturer to meet emission norms more easily (the lower weight leads to lower fuel consumption).

Figure 2. Maruti- A Star (Concept Version)



Source: Citi Investment Research

Figure 3. Maruti- Splash



Source: Citi Investment Research

Figure 4. Skoda- Fabia



Source: Citi Investment Research

Figure 5. Tata Motors- New Indica



Source: Citi Investment Research

The table below highlights the major new launches, expected price points and the threat perception to other players in the segment.

Figure 6. Passenger Car- New Launches

	New Products	Likely Launch Time	Expected Price Point (Rs Mn)	Threat Perception to existing models
Maruti Suzuki	Maruti A Star	Dec 08	NA	High- will complement Maruti's products in compact segment
	Splash	CY09	NA	Moderate – but diesel variant could strengthen MSIL's presence in diesel segment
Tata Motors	New Indica	2HCY08	0.4-0.45	Medium
	Nano- 1 lakh car	Sep-Oct 08 Launch	0.125-0.13	Medium- will create its own niche, may impact price of Maruti 800, Alto – impact on residual values of pre-owned vehicles could be substantial
	Indigo CS	Feb 08	0.55-0.75	Low
	Sumo Grande	Launched	0.65-0.75	Moderate
Volkswagen/Skoda	Volkswagen Up Concept	2010-11	NA	Low
	Skoda Fabia	Controlled Launch	0.5-0.7 Petrol, 0.6-0.8-Diesel	Low- quite expensive on the value proposition
	Volkswagen Jetta	Jetta-1HCY08	NA	Medium
	Volkswagen Phaeton	Phaeton-2HCY08	NA	Low
Fiat	Fiat Linea	2HCY08	NA	Medium
	Fiat Grand Punto	2HCY08	NA	Low
GM	SUV Captiva	Launched	1.6-1.8	High- attractive price point and features
M&M	Eco version of Logan	end CY09	NA	Low
	Bio Diesel Scorpio	na	NA	Low

Source: Auto Expo, Citi Estimates

Figure 7. Tata's Nano



Source: Citi Investment Research

## Tata Motors' Nano: Good Things *Do* Come in Small Packages

One of the primary reasons to attend this year's auto expo was to catch a glimpse of the 1 lakh car - christened the *Nano*. The car's specifications are detailed below:

- Physical dimensions - 3.1\*1.5\*1.6m (l\*w\*h)
- Engine - 2 cylinder, 623 cc displacement, all aluminum MPFI engine, generating 33bhp. The engine is BS3 compliant, and is also designed to upgrade to Euro 4 norms. More important, the car is supposed to give around 20kmpl under standard road conditions.
- Design – Appears well designed and is visually appealing, given the cost constraints. Reports on performance are awaited, especially on-road tests.

### Our view:

**1 - It's a platform and not a product** - Given the media hype, the tendency is to view the Nano as a product. Various comparisons have been made of the Nano with the M800, the Maruti Alto, 2-wheelers et al. In our view, that's not the point. The point is that Tata Motors today possesses a very credible (but yet untested) 623cc engine and transaxle technology that is internally designed. Tata Motors is *not a licensee* - which implies 2 things - a) it pays no license fees or royalties, b) it may modify the technology as it sees fit - enabling the engine to be modified to meet various applications, indeed, even developing diesel variants. We view this as the most significant positive of the engine - except for the Japanese companies (which produce mini-cars that run on 660cc engines), engine technology in this scale doesn't exist. In the backdrop of high oil prices, and given that alternative technologies haven't really become mainstream as yet, possessing a small fuel-efficient engine provides TAMO a significant technological edge, ensuring its permanent transition to an

automotive company - and not just a truck company that also manufactures cars.

**2 - Profitability** - We don't expect the Nano to be extremely profitable at its current price point (c Rs100,000), given that the price point was stated almost 3-4 years ago, and costs of all major inputs – steel, aluminum, tires, etc have increased substantially since then. However, we do expect the company to introduce several variants and platform extensions at higher price points, enabling the company to exploit elasticities of demand at various prices ranging from Rs130,000-260,000 (the price point of the Alto). Higher price points, coupled with economies of scale, will enable the company to improve the overall return on the project. TTMT's track record in platform extensions is very strong - the 207 platform used for the 207DI, the Sumo and the Safari, the Indica shares the same platform with the Indigo and the Marina, and the Ace and its variants are the most recent (and successful) examples.

That said, we think it will be 12-18 months before these variants will come to market - hence the impact on the company's financials will probably come through in 2HFY10 and FY11.

## Commercial Vehicles – Spanning the Spectrum

We found some extremely interesting product launches in this segment spanning 1MT GVW light trucks right through to 49MT trucks. We also saw that most manufacturers - MAN, Ashok Leyland and Vectra – exhibited various heavy-duty tippers designed for the mining sector and construction activity. In the table below, we highlight some of the key offerings of the larger players in both the LCV and MHCV segments.

Figure 8. Commercial Vehicles – New Launches

Company	New Products	Estimated Launch Time	Target Price Point / Range (Rs mn)	Threat Perception to current models
Tata Motors	ACE CNG	deliveries scheduled from March 2008		0.3 High - might cannibalize some sales of ACE
	ACE (large variant)	June - Aug 2008		NA High, especially for products like the Mahindra Max
	909Ex reefer truck	Launched		NA Moderate - will impact players that retrofit current vehicles
	Xenon Pick Up truck (single cab)	Mar-Apr 08		~0.7 Moderate - given the quality and finish, it might be targeted only for export markets
	3118 multi axle vehicle	Launched		1.55 High - will take share from the current 25 tonne range of trucks
Ashok Leyland	4923 tractor	Launched		2.8 Low - will create a new segment
	4935 tractor	NA		NA Low - will create a new segment
	3135 tipper	Mar-Apr 08		4 High - appears well positioned – but price might be an issue
Tatra Vectra	3121 multi axle vehicle	Launched		1.8 High - will take share from the current 25 tonne range of trucks
	Kamaz 6540	NA		3.2 Moderate - attractive pricing
	Kamaz 5460	June / July 08		3.5 Moderate - attractive pricing

Source: Citi Investment Research

Interesting to note, Ashok Leyland's new range of heavy trucks – both the 3135 tipper and the 4935 engines – are utilizing Cummins engines while the other smaller trucks continue to utilize the H (Hino series of engines).

Figure 9. Tata Motors – 31MT Multi Axle Truck



Source: Citi Investment Research

Figure 11. Tata Motors – Xenon Pick Up Truck



Source: Citi Investment Research

Figure 10. Man – Cement Mixer



Source: Citi Investment Research

Figure 12. Ashok Leyland – Heavy Duty Tipper



Source: Citi Investment Research

## Two-Wheelers – Extremely Subdued

Two-wheeler majors had no major launches displayed at the expo. Among the 3 majors, Bajaj was relatively impressive. Bajaj displayed its new variants of Xceed (Xceed Sprint), 150 cc Discover and new 125cc Blade scooters, which will be launched in FY09. KTM's superbikes 690cc Duke and its other range of bikes were also seen at the stall. TVS displayed its new Apache RTR Fi and its CNG 3-wheeler, which will be launched in South India first in Feb 2008 before the nationwide launch. Hero Honda did not display its forthcoming launches but has stated that it will be launching 12 new products over the next 18 months. We reckon that with the launch of the Nano and slew of new product launches, the competitive pressures will continue to intensify, which may affect margins of these companies. Bajaj's 3-wheeler range of products is coming under increasing competition from other players in the segment – Piaggio,

M&M, while we think that the ACE passenger variant (and the Nano too) could have an impact on volumes.

**Figure 13. Two-Wheeler Majors- New Launches**

	<b>New Products</b>	<b>Estimated Launch Date</b>
<b>Bajaj Auto</b>	Motorcycles- XCD Sprint, 150 cc Discover and 125 cc Blade DTSi	XCD Sprint, 150 cc Discover and Blade-FY09
	690 cc Duke (KTM range) and 250 cc Kawasaki Ninja	NA
<b>TVS Motors</b>	3 wheelers - 2 stroke and 4 stroke Petrol, LPG and CNG	Feb-Mar 08
	Apache EFI	NA
	TVS Flame	launched in select cities
	Electric Scooters	Jan-Feb 08
<b>Honda Motors</b>	Scooter - Aviator – 102cc – price of around Rs40,000	Launched
<b>Suzuki</b>	Scooters - Access – 125cc – price point of around Rs39,000	Already Launched

Source: Companies, Citi Investment Research

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### **Auto components – enthusiasm unabated**

The mood among auto component manufacturers remains upbeat, and quite a few of them mentioned business inquiries were significantly greater at this Expo than the last one. It must be noted that trade fairs provide a better and more immediate market for auto components than for the automobile sector, for whom these serve more as a display, feedback and review platform. At the current Expo, given the number of Tier 2 participants, we noted that a lot of players were grouped by nationality, with healthy representation from countries like Germany, Canada and Italy.

## Appendix A-1

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