



IMPORTED CARS MADE IN INDIA

The hike in customs duty is set to perk up local manufacturing by luxury brands, as desired

by Malabika Sarkar and Abhinav Sharma



WITH finance minister Pranab Mukherjee hiking basic customs duty on imported cars valued over \$40,000 and with engine capacities over 3,000 cc (petrol) and 2,500 cc (diesel) to 75 per cent from 60 per cent, luxury car makers are looking at reining in price costs by ramping up manufacturing through CKD (completely knocked down) operations in India.

Consider this: Mercedes-Benz India plans to start manufacturing the M-Class and GL-Class vehicles — which are CBU (completely built units) now — in India by 2012-end. “With the excise and import duty hikes, sales of our CBU models will be badly hit,” says Debashis Mitra, director of sales and marketing at Mercedes-Benz India. Though the German carmaker has been mulling over the need for assembling its high-end SUVs in India, the latest hike has fast-tracked the need for it to go local.

“India is an important market for us and we are bullish on assembling our CBU models here,” says Mitra. “We are at a slight advantage when compared to our competition as 90 per cent of our business is CKD,” he adds. With the CBU category registering a 100 per cent growth in sales for the 11 months of fiscal 2012 — at 403 units over 197 for the same period last year — Mercedes is loath to fritter away this advantage.

Tata Motors-owned British marque Jaguar Land Rover (JLR) is also looking at assembling more car models in India. “We are looking at further possibilities for assembling more products in India. However, there is no timeline to it,” says Del Sehmar, spokesman for JLR India.

Brand	Price*	Expected CKD operations	Competitor
Mercedes Benz M-Class	Rs 45.39 lakh	End of 2012	BMW X5
Mercedes Benz GL-Class	Rs 60.99 lakh	End of 2012	Audi Q7
Toyota Camry	Rs 21.58 lakh	July 2012	Honda Accord
Mitsubishi Pajero Sport	Rs 24.23 lakh	September 2012	Toyota Fortuner, Ford Endeavour

*Ex-showroom prices, Delhi

The company, at present, assembles the Land Rover Freelander-2 SUV at its plant in Pune. It sells the Jaguar XJ, XF and XFR, among others, and Land Rover's Discovery, Range Rover Sport and Range Rover Evoque as CBUs. JLR is also working with Tata Motors to set up an engine plant in India that can meet the requirements of both companies. It plans to launch 40 new products in the next five years.

Hindustan Motors sells the Montero and Pajero Sport in India as CBUs priced at Rs 41.34 lakh and Rs 24.23 lakh respectively. To bring down prices, the company now plans to start localisation of the Pajero Sport from August-September and pass on the benefit to customers. The new-age Pajero — no. 3 in the segment — could give stiff competition to its rivals Toyota Fortuner and Ford Endeavour once the CKD versions roll out. "We expect the Pajero Sport to be a game-changer for us," says A.S. Narayanan, director, Hindustan Motors.

BMW India, on the other hand, is tight-lipped on its India strategy after the budget. "There is no immediate plan. We might increase prices of some models, if not all. Nothing has been decided on local assembly," says a company official. BMW, at present, assembles the X1, X3, 3-Series and 5-Series vehicles in the country.

When the Indian automobile industry was growing at 27 per cent in FY 2010, the luxury segment, which consists of players like BMW, Mercedes and Audi, grew at 70 per cent. However, FY 2012 was a bad year for the auto sector with an overall growth of just 3-4 per cent owing to multiple fuel hikes in addition to the strike at Maruti-Suzuki's Manesar plant. Even then, the luxury segment grew at 35 per cent — a far cry from the time when only a couple of hundred units sold a year, in no way justifying local production. The decisions to hike customs duty on imported vehicles, combined with an increase of excise duty by 2 per cent for large cars and 5 per cent for SUVs, is expected to further dampen consumer sentiment and impact sales even in the luxury segment to an extent. "As a sustainable long-term strategy, luxury automakers will have to explore local assembly of their products," says Abdul Majeed, partner and leader, auto practice, Price Waterhouse. "By ramping up CKD operations or adding a new shift, carmakers can cater to the robust demand in the market right now," he adds.

Bucking the trend, Toyota is not going to take its globally popular SUVs — Land Cruiser and Prado — down the CKD route. "Right now, we

sell about 350 CBUs in India, these numbers will go down. But, we are focused on the 131,000 units that we produce in India. We do not promote CBUs as such; they are brought in due to customer demand. As far as the Camry is concerned, we are going to start production in India from July 2012," says Sandeep Singh, deputy managing director, marketing, Toyota Kirloskar Motor.

As a fallout of the budget, Audi India has already hiked prices of its CBU models by 13-14 per cent. The A7 Sportback, A8L, A8L W12, Q7, RS5, R8, R8 Spyder and the Audi TT coupe are the CBU models available in India. "Our current assembly line rolls out the A4, A6 and Q5 in India. We have plans to add another assembly line for the Q7 soon," says Michael Perschke,

75%
The basic customs duty now levied on imported cars against 60 per cent earlier



head of Audi India. Mercedes-Benz too will increase prices of its CBU models by a whopping Rs 8 lakh to Rs 10 lakh. Its CKD models such as the C-Class, E-Class and S-Class will also sport heftier tags.

For some, CKD is not an option. "Unless you are selling more than 1,000-2,000 units, it's not economical to localise," says Murad Ali Baig, a leading auto analyst. Volvo Auto India's MD Tomas Ernberg says the company will continue to import cars into India. "At this stage, we are not considering CKD as we believe that our products will continue to be sold at a relatively competitive price point despite the correction," he says. Post-budget, Volvo has hiked prices of the S60, S80, XC60 and XC90 by 3 per cent.

The VW Touareg, Beetle and Phaeton will stay CBUs. "We have no plans for starting CKD operations for these cars," says Neeraj Garg, director, Volkswagen Passenger Cars India.

That said, most players in the auto space are keen on tapping the growing luxury car market. Local assembly will help them cut costs and introduce products at competitive prices.

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