

J.D. POWER
ASIA PACIFIC



**India Automotive Monthly
Executive Summary**

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On India



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Deeper Issues Lie Behind The Maruti Suzuki Labor Stir

The ongoing strike action at the Manesar plant of Maruti Suzuki, India's largest producer and seller of vehicles is not just a battle between workers' rights and an unjust management. In fact, Maruti Suzuki is one of the better paying automakers in India.

Then, why did the 2,500 workers at Manesar put down their tools in end-August? And why did 5,000 more workers at Suzuki Powertrain India Ltd, Suzuki Motorcycle India Pvt Ltd and Suzuki Castings (a part of Suzuki Powertrain India) also struck work for two days to support them?

We believe there are two main issues behind the Maruti Suzuki labor stir. The first, and perhaps more important, is the widening income gap between contract and permanent workers. The automotive industry is increasingly hiring cheaper contract labor, which account for an estimated 60% of workers employed at OEMs and their suppliers.

In addition to being paid lower, contract workers in most cases also do not get many of the same amenities (such as subsidized food at the company canteen or free bus rides) as permanent members. Furthermore, automakers are reluctant to fully absorb contract labor as permanent staff.

As a result, these workers are stuck at the same position with the same pay and benefits for several years. Contract workers perform the same jobs, but are treated as inferiors. Importantly, widening inequality in India could snowball into a huge political issue for the country, and not just for the automotive manufacturing sector.

A second issue – and this is perhaps why Maruti Suzuki is not ready to accept the Manesar workers' demand to recognize their newly formed Maruti Suzuki Employees Union (MSEU) – is the involvement of the Communist Party of India backed All India Trade Union Congress (AITUC).

The AITUC has openly supported Manesar workers and is playing a key part in the negotiations. The sticking point for Maruti Suzuki is the MSEU's proposal to have one-third outside members, which in effect would create a backdoor entry for the politically affiliated AITUC to play a major role in the affairs of Maruti Suzuki.

The battle here is for control of the Gurgaon-Manesar region, and having members in a Maruti Suzuki union will be a major coup d'état for the AITUC, which in the past has attempted similar attempts. In 2005, it played a role at a strike in Honda Motorcycle & Scooter India Ltd. Again in October 2009, the union helped organize a day-long strike of over 100,000 workers from 70 companies against component maker Rico Auto.

In their defense, workers at Manesar claim they formed the MSEU because the existing Maruti Udyog Kamgar Union is dominated by workers of the Gurgaon plant, and thus does not address their concerns at Manesar.

Their latest industrial action is an ongoing struggle that first flared up in mid-June when Maruti Suzuki failed to recognize the MSEU. That strike cost the automaker an output loss of 12,600 units, estimated at a value of USD 90 million, at Manesar where Maruti Suzuki produces the Swift, SX4 and A-Star (which is also the automaker's biggest export model going mostly to Europe).

This work stoppage began when Maruti Suzuki demanded workers sign a 'good conduct bond' to enter the factory's premises, alleging that the quality and quantity of cars being built at the Manesar plant have been suffering since the end of the previous 13-day strike in June. The automaker also suspended about 60 workers for sabotaging the cars manufactured at the plant.

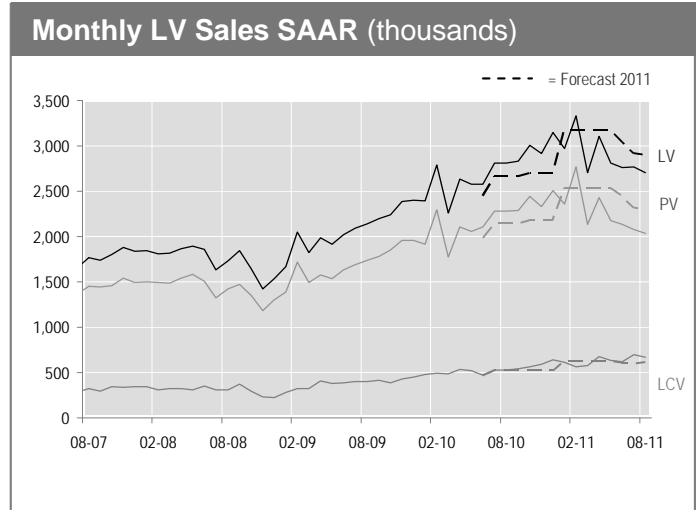
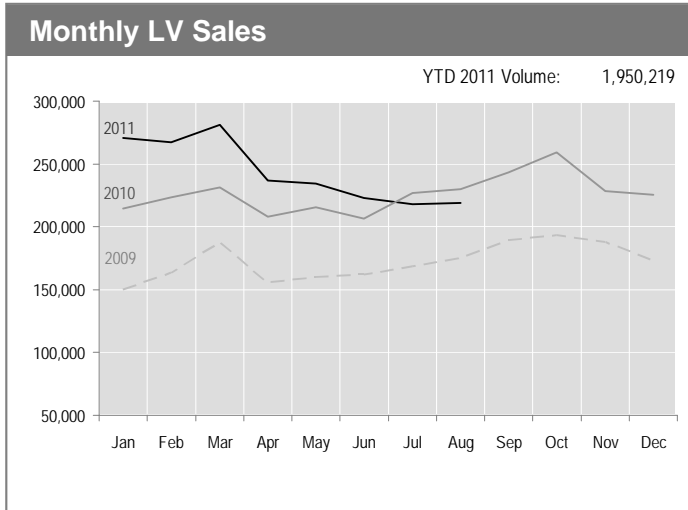
To minimize the impact, the automaker has hired more contract workers and brought in employees from its Gurgaon plant. Following the strike in June, Maruti Suzuki moved production of the Dzire out of Manesar to Gurgaon.

It is now doing the same with the just-launched next generation Swift although it is not yet clear if this will be a permanent solution. With bookings reaching almost 100,000 units and due to the ongoing struggle at Manesar, Maruti Suzuki has stopped taking additional orders for the new Swift. Still, we estimate an output loss of 10,000-20,000 units at the end of this strike.

These measures may work in the short term, but Maruti Suzuki and indeed the automotive industry will have to address the inequality issue at their facilities.

Agreed, that it would be difficult to absorb all contract workers. However, it is important for automakers to pay contract workers better wages and reduce the income gap between them and the permanent staff. At the same time, offering contract labor the same amenities as permanent staffers would also be welcome. Removing inequality (and feeling thereof) would possibly be the best long-term solution for the industry.

Light Vehicle (LV) Demand	AUG	-5%	YTD	11%
Passenger Vehicle (PV) Demand		-11%		8%
Light Commercial Vehicle (LCV) Demand		23%		23%



Petrol Price Hike, Interest Rate Rise to Hurt Sales

Light vehicle sellers in India are not happy. Their hopes of reviving sales during the festival season in India were dashed when oil marketing companies raised petrol prices and the Reserve Bank of India hiked up its key lending rate yet again. Both events occurred only a day apart, and are likely to keep less confident vehicle buyers away from the market.

Oil marketing companies raised the price of petrol by INR 3 per liter (USD 6 cents), blaming a weak Indian rupee that has made imports more expensive. Petrol prices in India, which were de-regulated in June 2010, have been constantly rising. We expect the fuel price hike to partly hurt Maruti Suzuki models like the Alto and Wagon R as entry level buyers stay away from the market.

Because the price of diesel is still being controlled, the widened price gap between petrol and diesel is also likely to further fuel demand for diesel models. These vehicles are in short supply as manufacturers are still coping with a steep increase in demand earlier this year.

For manufacturers like Honda who only have petrol models, it is going to be doubly tough to sell vehicles in a market where inflation, higher fuel prices and rising costs of financing vehicles has already hurt demand.

While the government is unlikely to de-control diesel price any time soon, a marginal hike in prices cannot be ruled out. Naturally, the government will take inflation into account before making any such decision.

The absence of a clear auto fuel policy from the government, especially its stance on diesel pricing, is further compounding the problem for automakers.

A day after the fuel price hike, India's central bank raised its key lending rate by 25 basis points to 8.25%. This is the 12th rate hike in the last 18 months to tame inflation which was at 9.75% in August.

We anticipate the mini car and sub-compact car segments to be particularly hit from the twin events, as first-time car buyers defer or cancel purchases. Automakers are likely to provide more incentives to boost sales. However, it is not going to be easy.

Sales have already slowed since April, with light vehicle volumes in August shrinking 5% year on year (yoy) to 219,000 units. In particular, passenger vehicle sales slumped by 11% yoy to 164,000 units. On the other hand, sales of light commercial vehicles have been strong, up 23% yoy to 55,000 units due to pent-up demand.

The total market expanded by 11% yoy to 1.95 million units in the year through August, comprising of 1.53 million passenger vehicles (+8% yoy growth) and 419,000 light commercial vehicles (+23%).

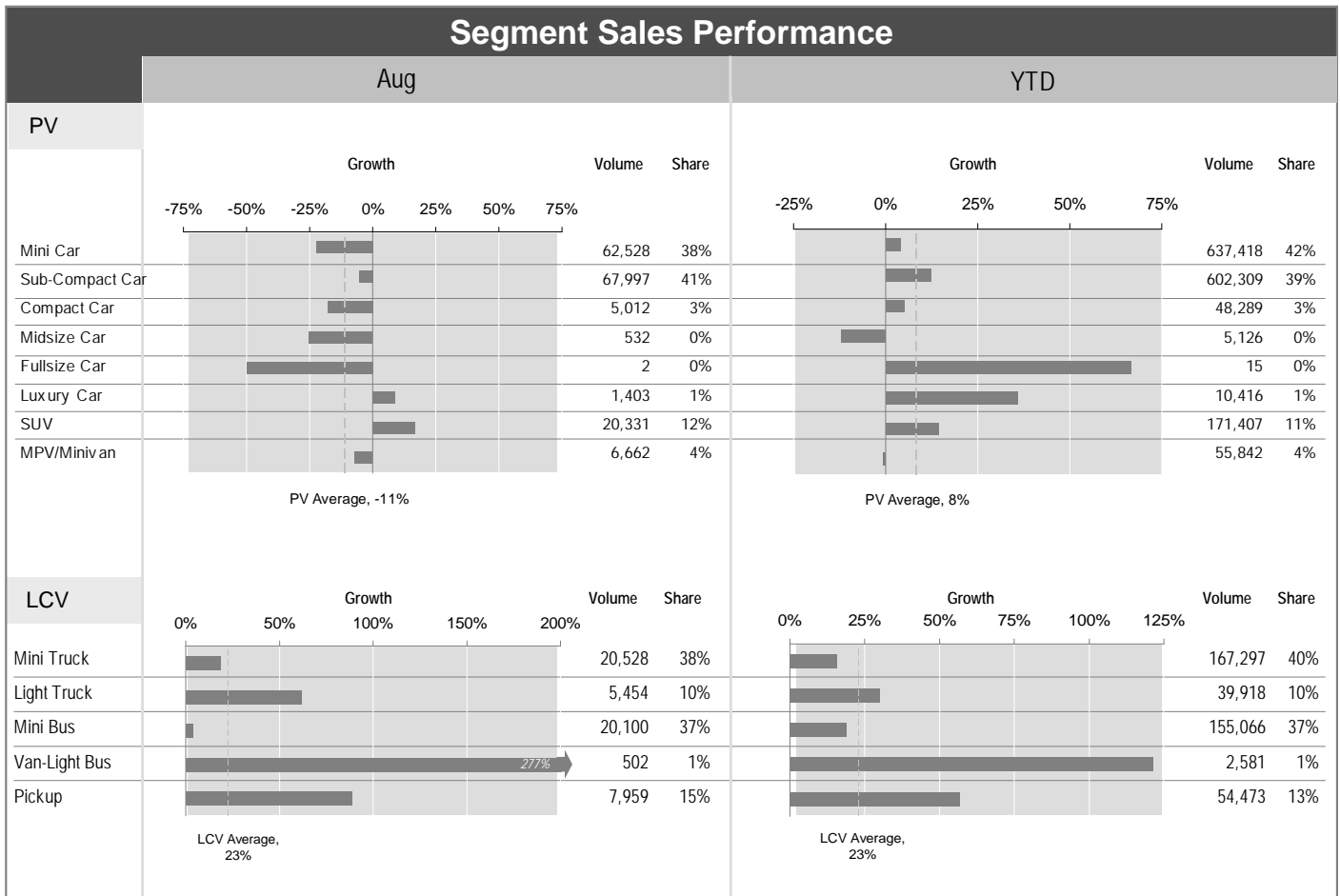
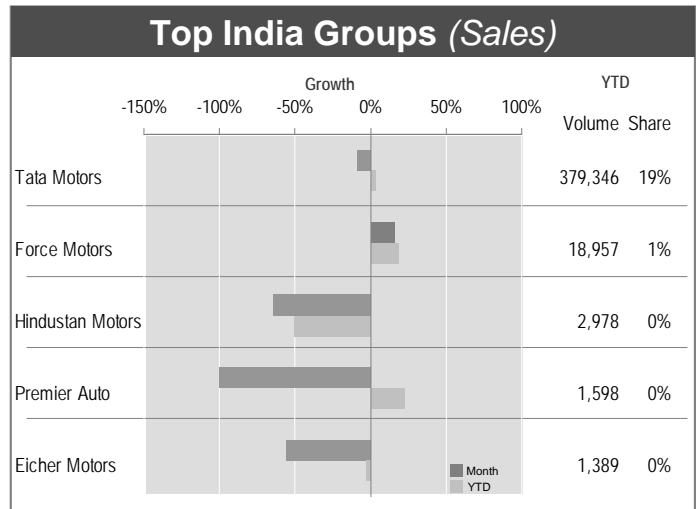
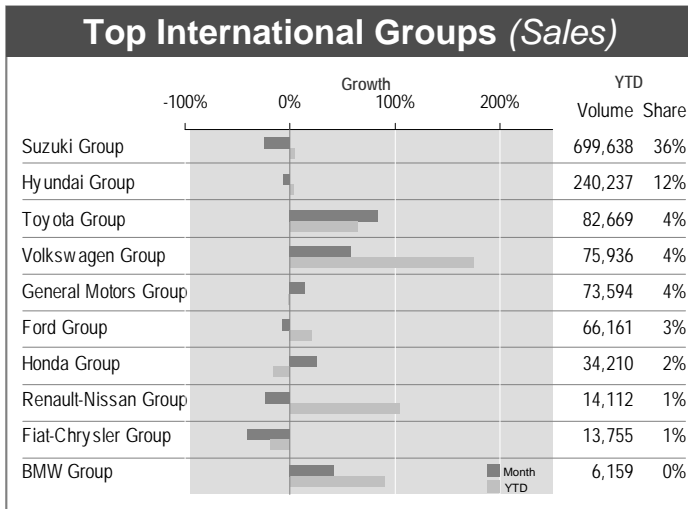
On a seasonally adjusted annualized rate basis (SAAR), sales in India came in at 2.71 million units in August compared to a selling rate of 2.77 million units in July.

Our 2011 light vehicle outlook for India is at 2.90 million units, up 7% from a year ago. Passenger vehicles are expected to be at 2.29 million units, and light commercial vehicles at 613,000 units.

We are, however, reviewing our forecast in light of the hike in petrol prices and interest rate.

Market Top Lines						
	Aug	Growth	YTD	Growth	2011f	Growth
Sales	249,151	-3%	2,199,011	11%		
PV	164,476	-11%	1,530,884	8%	2,291,710	5%
LCV	54,543	23%	419,335	23%	612,621	16%
M&H CV	30,132	12%	248,792	9%		
Production	308,614	0%	2,706,867	16%		
PV	208,738	-10%	1,965,979	14%	2,870,511	8%
LCV	64,610	28%	467,075	24%	665,663	14%
M&H CV	35,266	21%	273,813	14%		

Best Selling Models						
	Aug	Growth	Share	YTD	Growth	Share
PV						
Maruti-Suzuki Alto	23,170	-19%	14.1%	226,437	27%	14.8%
Maruti-Suzuki Wagon R	10,913	-16%	6.6%	101,924	7%	6.7%
Hyundai i10	9,185	-19%	5.6%	98,949	-5%	6.5%
LCV						
Tata Ace	14,610	16%	8.9%	119,413	21%	7.8%
Maruti-Suzuki Omni	7,053	-10%	4.3%	61,677	2%	4.0%
Maruti-Suzuki Eeco	5,447	-14%	3.3%	46,848	41%	3.1%



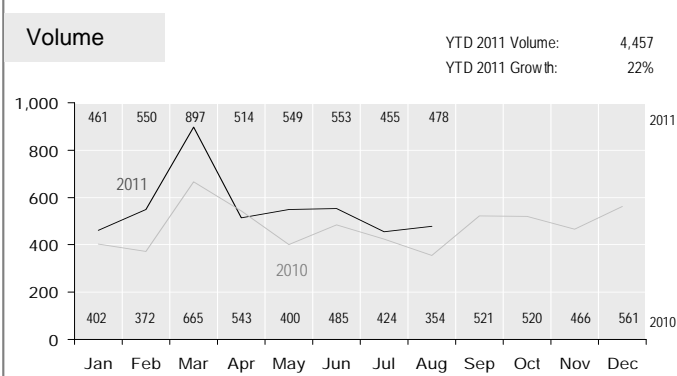
Top Brands (Sales)

	#	Brand	Aug	Growth	YTD	Growth
Passenger Vehicle	1	Maruti-Suzuki	57,562	-27%	591,113	2%
	2	Hyundai	26,677	-7%	240,237	3%
	3	Tata	16,242	-36%	185,574	-10%
	4	Mahindra	15,663	21%	131,133	24%
	5	Toyota	11,679	84%	82,669	64%
	6	Chevrolet	9,012	14%	73,594	-2%
	7	Ford	7,382	-7%	66,161	21%
	8	Volkswagen	6,091	73%	51,960	293%
	9	Honda	6,907	25%	34,210	-16%
	10	Skoda	1,812	20%	20,386	62%
	11	Fiat	1,069	-41%	13,755	-19%
	12	Nissan	1,384	11%	13,439	416%
	13	BMW	816	42%	6,159	90%
	14	Mercedes-Benz	614	9%	4,695	36%
	15	Force	312	-54%	4,598	-14%
	16	Audi	514	88%	3,590	91%
	17	Hindustan	226	-65%	2,837	-50%
	18	Mitsubishi	275	-24%	1,819	-15%
	19	Premier	-	-100%	1,598	22%
	20	Renault	171	N/A	673	N/A
Commercial Vehicle	1	Tata	25,435	23%	193,364	20%
	2	Maruti-Suzuki	12,500	-12%	108,525	16%
	3	Mahindra	13,390	80%	91,031	34%
	4	Force	2,039	51%	14,359	34%
	5	Piaggio	1,100	56%	10,526	55%
	6	Eicher	64	-56%	1,389	-3%
	7	Hindustan	15	-29%	141	-56%
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	9					
	10					

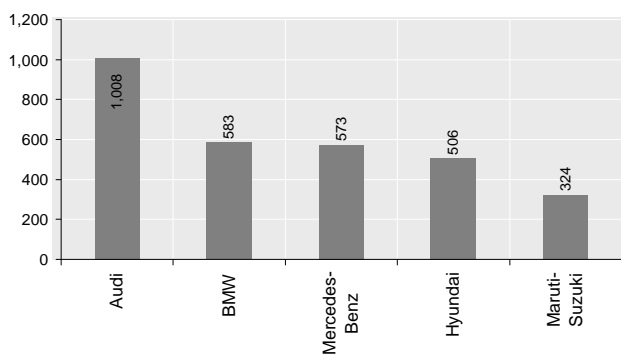
Top Manufacturers (Production)

	#	Manufacturer	Aug	Growth	YTD	Growth
Passenger Vehicle	1	Maruti Suzuki India	69,041	-29%	723,493	0%
	2	Hyundai Group	50,523	2%	412,070	4%
	3	Tata Motors	12,221	-50%	175,409	-2%
	4	Mahindra	16,957	8%	137,117	21%
	5	Renault-Nissan Group	10,201	207%	82,594	1830%
	6	Toyota Kirloskar India	12,207	87%	82,211	63%
	7	Ford Group	9,316	-1%	81,080	34%
	8	General Motors Group	7,284	0%	79,615	8%
	9	Volkswagen Group	8,320	154%	73,725	466%
	10	Tata-Fiat	4,215	1%	52,972	38%
	11	Honda SIEL Cars India	4,577	-32%	31,538	-24%
	12	Skoda Auto	1,603	-12%	12,836	1%
	13	BMW Group	857	85%	6,476	204%
	14	Daimler Group	601	28%	4,806	52%
	15	Hindustan Motors	503	-54%	4,196	-46%
	16	Force Motors	312	-51%	4,193	-18%
	17	Premier Auto	0	-100%	1,648	23%
	18					
	19					
	20					
Commercial Vehicle	1	Tata Motors	31106	28%	227881	27%
	2	Maruti Suzuki India	14291	0%	113135	18%
	3	Mahindra	15896	66%	100957	25%
	4	Force Motors	2147	62%	15446	40%
	5	Piaggio	1082	28%	7556	2%
	6	Eicher Motors	68	-62%	1966	11%
	7	Hindustan Motors	20	-59%	134	-60%
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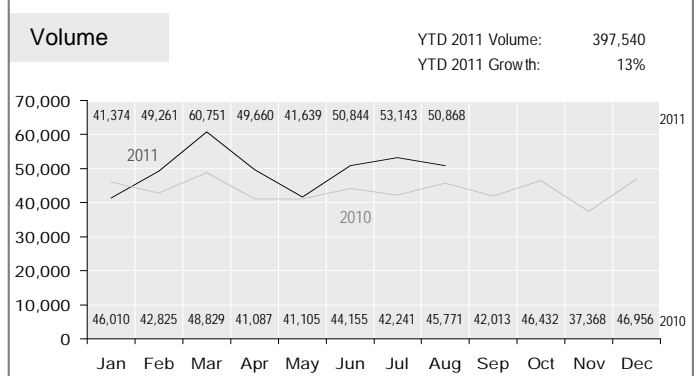
Total Imports



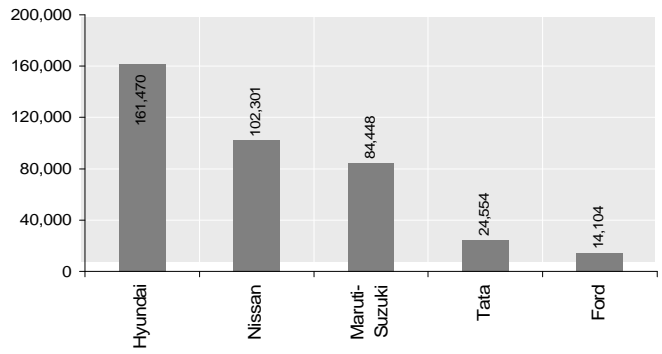
Brands



Total Exports



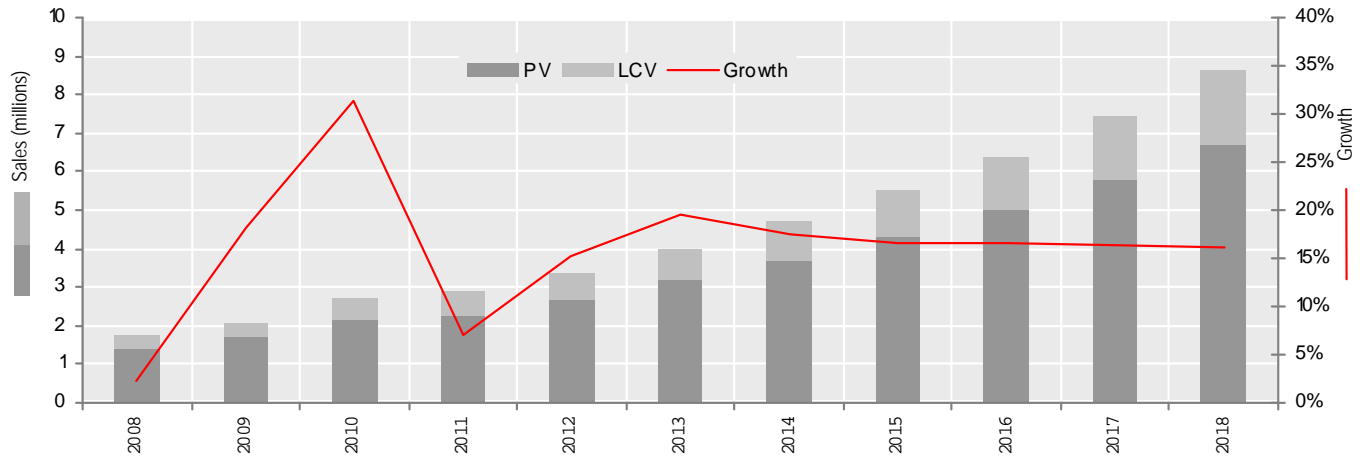
Brands



India Outlook

India Light Vehicle Sales Outlook

- We forecast light vehicle sales in India to reach 2.90 million units in 2011, which is an increase of 7% yoy, divided between 2.29 million passenger vehicles and 613,000 light commercial vehicles up to GVW 6 tons.
- We are positive over the long-term growth of India's light vehicle market. By 2018, total sales are projected to reach 8.64 million units, with passenger vehicles accounting for 6.71 million units and light commercial vehicles 1.93 million units.

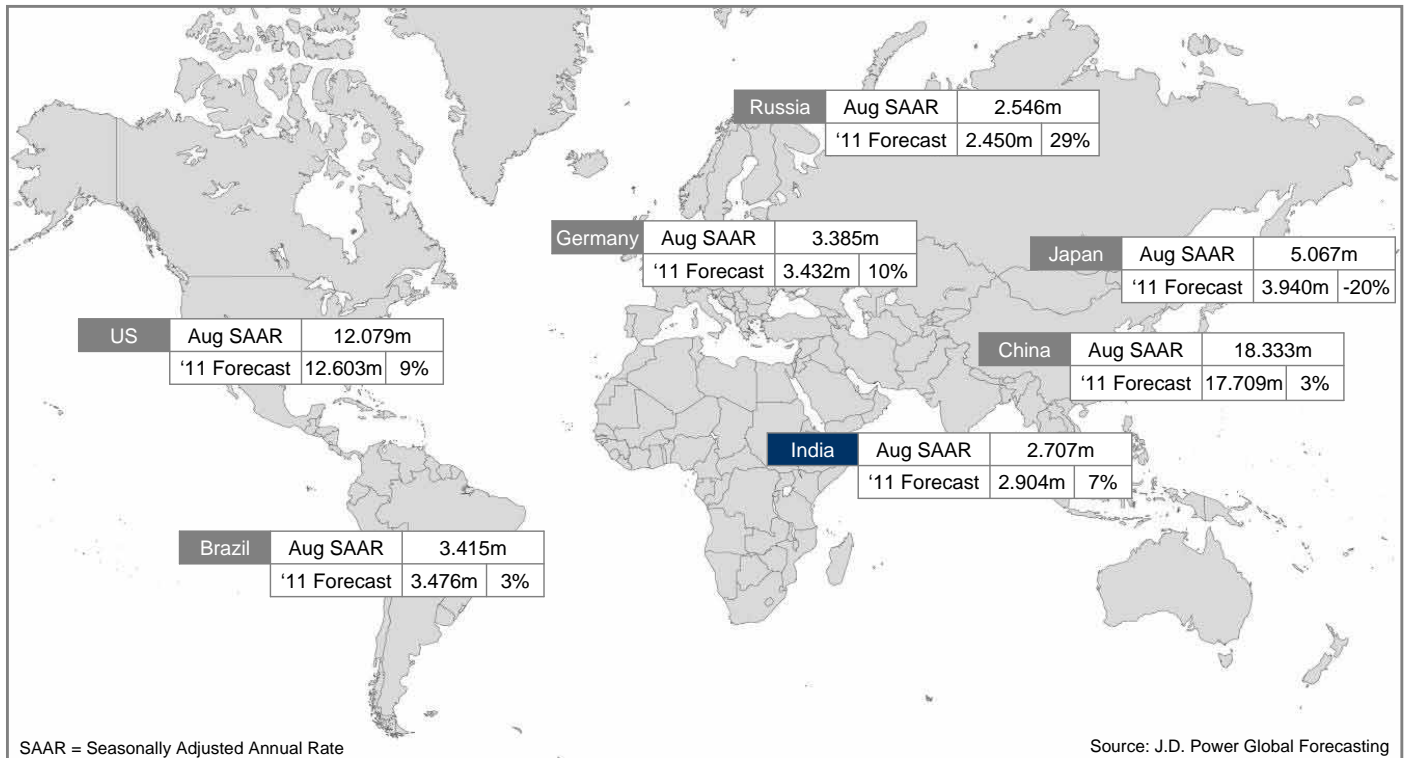


Factors Driving Market Outlook

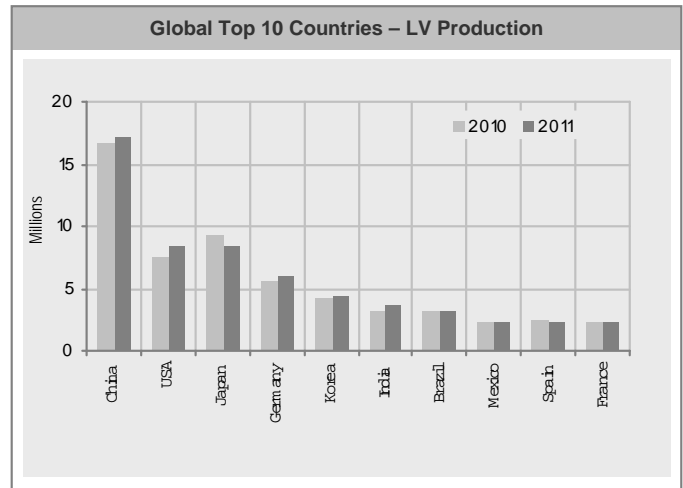
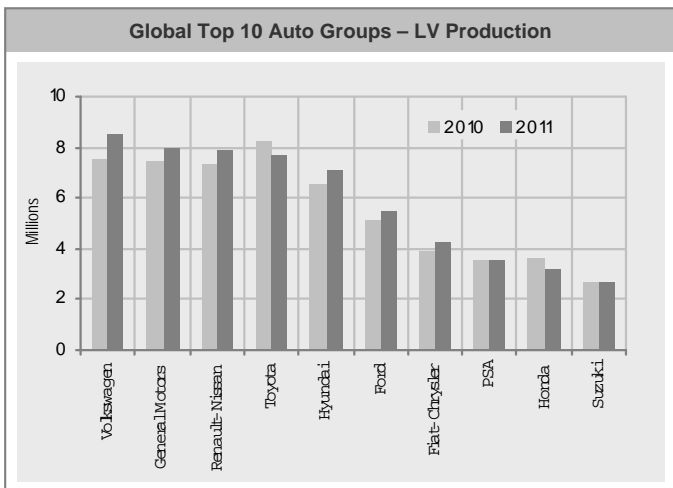
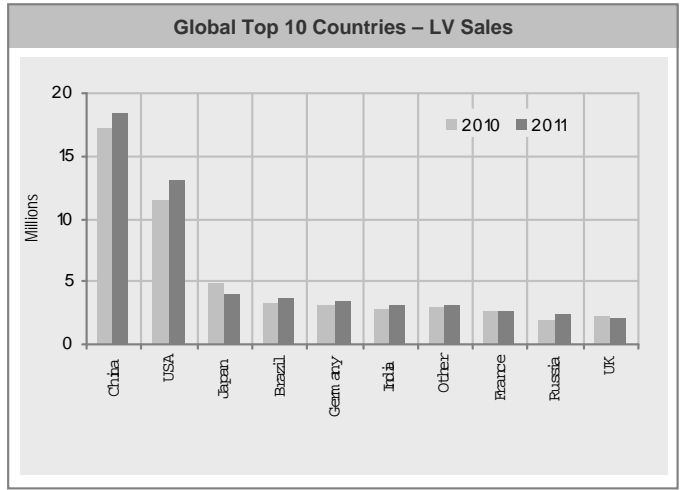
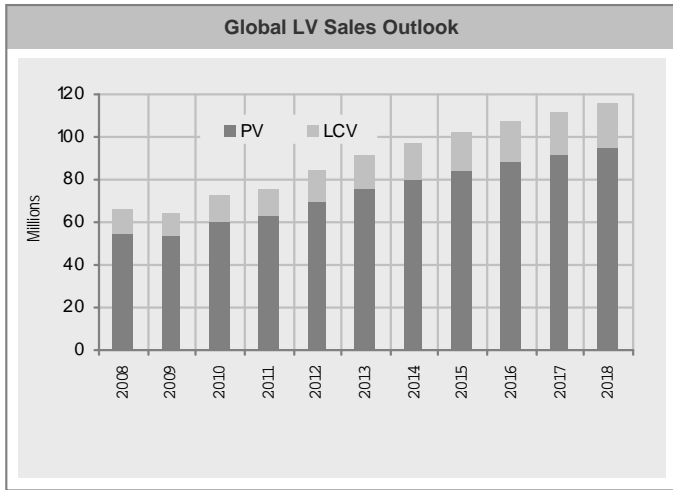
		2011	2012	Beyond 2012
Economy	GDP Growth (% chg)	7.4%	8.1%	Improving through 2013, then declining
	Private Consumption (% chg)	7.6%	8.8%	Improving through 2013, then declining
	CPI (% chg)	8.4%	5.6%	Expected to come down to 3.7% by 2018
	Short-Term Interest Rates	7.6%	7.9%	Expected to be stable at 7.5% from 2014
Consumer	Population (bn)	1.23	1.25	Approaching 1.34 bn by 2018
	Car Buying Pop. (affordability)	Positive	Positive	Growing middle class, higher incomes are increasing affordability
	Unemployment Rate (%)	8.0%	8.0%	Stable at 8% through 2018
	Savings Rate (%)	28.2%	29.9%	Rising to about 32% by 2014 and then stable through 2018
	Vehicle Finance	Positive	Positive	Improving due to public sector banks expanding their portfolio
Policy	Stability	Neutral	Neutral	Neutral
	Infrastructure	Positive	Positive	Positive
	Taxes	Neutral	Neutral	Neutral
	Emissions	Positive	Positive	Positive

Global Perspective

2011 Light Vehicle Sales Growth



Executive Summary



Understand the Territory



Strategic Advisory Group



Reports	Focus	Delivery
India Automotive Monthly; Market Trends	<ul style="list-style-type: none"> • By model report on monthly sales and production • JDPA perspective on trends and outlook - by brand 	<ul style="list-style-type: none"> • PDF, Excel • Monthly
India Automotive Monthly; Market Assessment	<ul style="list-style-type: none"> • By model report on the impact changes in the business environment will have on sales and production. • Detailed manufacturer profile and by-model outlook 	<ul style="list-style-type: none"> • PDF, Excel • Monthly
Asia Pacific Forecast	<ul style="list-style-type: none"> • By model report on the impact changes in business environment will have on sales and production. • Ten countries in Asia Pacific 	<ul style="list-style-type: none"> • Hard copy • PDF • Quarterly
Global Forecast	<ul style="list-style-type: none"> • By model report on the impact changes in business environment will have on sales and production. • 60 countries covered 	<ul style="list-style-type: none"> • Hard copy • PDF • Quarterly

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