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India Cranks Out Small Cars for Export

By [ERIC BELLMAN](#)

MUMBAI -- India is becoming a small-car manufacturing hub for some of the world's biggest auto makers. Hyundai has boosted production in India to about 500,000 cars this year.

Annual passenger-car exports from India have jumped five-fold in the past five years. Industry analysts predict exports over the next three years will surge nearly 300% to more than half-a-million vehicles a year. India's homegrown auto innovation -- [Tata Motor](#) Ltd.'s \$2,500 Nano minicar -- has attracted global attention, but the export wave consists mainly of small cars built in local plants by Japanese and South Korean car makers, including [Suzuki Motor](#) Corp., Hyundai Motor Co. and [Nissan Motor](#) Co.

In late September, India's biggest car exporter, Hyundai, added a midnight shift at its southern India plant to boost production 40% and meet booming demand for its i10 minicar abroad. Both Hyundai and Suzuki unveiled subcompacts at the Paris auto show, targeting consumers in Europe, their main market for made-in-India exports. "Right now, India has everything -- the local market, the quality and the companies," says Shohei Kimura, managing director of Nissan Motor India, who moved to India last month to start building Nissan's capacity here to 200,000 units annually over the next three years.

A rising tide of exports will create much needed Indian jobs. Unlike China and many other Asian nations, India's economic growth has been powered not by manufactured exports but by its service sector and local consumption. To continue the strong expansion -- which has averaged more than 8.5% a year for the past five years -- and to absorb millions of new workers, India needs more manufacturing. Despite the rapid growth, India is still a relatively small player in auto exports, shipping about 200,000 cars in 2007, most of them minis and subcompacts. Japan, by contrast, exports about five million cars a year, and South Korea about three million.

Not all big auto makers are rushing to export from India either. [Honda Motor](#) Co., which inaugurated the first phase of a new plant in India in late September, is delaying full-scale operations there by six months, citing concern about its car sales in India. The company also says it hasn't yet decided whether to make India a major export hub. Politics can also derail big plans in India. Tata Motors last week decided to pull out of a new factory near Kolkata that was supposed to produce the snub-nosed Nano. It gave up on the site in response to violent protests demanding the return of part of the facilities' land to farmers. Full-scale production and export of the Nano will be delayed, analysts say, as Tata shifts production elsewhere.

Korean car maker Hyundai is at the forefront of the export drive, a position it earned by committing early to make cars in a then-unpromising market. When it began production 10 years ago, local consumers were purchasing only about 300,000 cars a year, despite the country's population of almost one billion.

At the time, most foreign companies couldn't count on much help from either the central government or local bureaucrats, who were often suspicious of overseas investors. Moreover, a decrepit transportation infrastructure and iffy power supplies often made it tough to keep factories running.

But **Hyundai Motor India Ltd.** started producing cheap subcompacts at a new plant with capacity of about 100,000 units a year near the southern city of Chennai. Hyundai trained most of the workers from scratch, often giving them two years of on-the-job training before hiring them full time.

Hyundai's timing turned out to be right. An emerging Indian middle class wanted an affordable car to squeeze the family into, and the \$6,000 Hyundai Santro fit the bill. Soon the car was selling well, but Hyundai needed even more sales to soak up its excess capacity and keep costs low.

"That is why exports become not just a viable option but a necessary option" for anyone that wants to remain competitive in the Indian market, says Ashok Jha, the New Delhi-based president of Hyundai Motor India. By 2004, **Hyundai** was India's biggest car exporter, selling 70,000 India-made cars a year overseas to more than 70 countries. Today, Mr. Jha says, Hyundai's smallest cars -- the Santro and the i10 -- are produced only in India and exported mostly to Europe.

The company has boosted production in India to about 500,000 cars this year and plans to raise that to almost 650,000 next year. It plans to export about half the cars, up from about one-third now, as rising interest rates squeeze domestic demand and higher gasoline prices heighten the appeal of small cars abroad. The company is also studying the U.S. market as a possible target for its India-made cars.

"Our factories are producing the highest quality cars," Mr. Jha says. "As others have realized India's potential, they are all setting up here," he adds.

Indeed, so-called "Little Detroits" have sprouted outside Chennai and Pune, near Mumbai, where regulatory barriers have been lowered -- along with tax rates and the cost of land and power for big factories.

Other manufacturers also plan to step up exports. Suzuki exported about 50,000 cars last year and hopes to increase foreign sales to 200,000 units in the next two years. When Nissan raises its output to more than 200,000 vehicles a year, about half will be exported, the company says.

"Previously, India was not taken into account by car companies, but now [it] has become the focus" as a market and a manufacturing base, says Paul Blokland, director at Segment Y, an emerging market automotive consultancy in Goa.