'Demand for cars is highly price elastic'

Ramesh Adige is a whole-time director of Italian car giant, Fiat India. He has over 25 years' experience in the automobile industry. In an interview with Sanjeev Sharma, *where he insists his views are personal, he talks of issues before the auto industry.*

ET INTERACTIVE

What growth trends do you anticipate for the Indian car industry?

The growth rate of over 55 per cent seen in the car market in 1999-2000 is unsustainable. In the next few years, the car market is likely to grow at a compounded annual rate of around 10 per cent. A lot depends on the overall growth of the Indian economy and the fiscal policies of the government.

Is there over-capacity in the car industry and why?

The installed capacity at the moment is around 12 lakhs, whereas the market is expected to hover around 7 lakhs. So there is no doubt that there is over-capacity. Such a situation is always created in a free market and may persist until consolidation takes place.

How will global consolidation impact on the Indian auto indus-

cycles. All this leads to unstable market conditions making planning very difficult. When consolidation filters down to India, companies will see an improvement in their bottom lines because of sharing of resources of men, money and materials. But the competition will still be tough, resulting in India getting the latest vehicles in terms of technology, safety, performance and value for money. The pace of consolidation of the Indian auto industry depends a great deal on the vision and corporate policies of the parent companies overseas.

With the QR restrictions to go next year, what will be the global auto majors' strategy?

Most of the global car players have already invested heavily in India.

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government of India must keep this in mind. The delay in global majors entering the commercial vehicles sector in India is only because the market is yet to get mature and sophisticated enough to absorb better technology and relatively high priced commercial vehicles. Road infrastructure has also to improve. In the case of 2-wheelers one may expect 100 per cent subsidiaries to become very active. I am of the strong opinion that considering the tariff levels, localisation would continue to be an economic necessity for all global majors wishing to operate in India.

What are the policies required to make India a buoyant car market and a major export hub?

Demand for cars is highly price

senger car attracts only around 15-20 per cent VAT. The passenger car industry in India pays an excise duty of 40 per cent which is the peak rate in the country's excise duty regime. This industry also pays 12 per cent sales tax, which again is the peak rate. The government must recognise the fact that this industry can impel the economy forward and contribute significantly to GDP growth, by reducing tax rates to realistic levels in order to encourage demand.

As far as exports are concerned, the common view is that it will not be easy for India to become an export hub for completely built up cars. The most encouraging aspect is the serious bid being made by the car industry in India to identify component manufacturers in India who are able to supply components to car manufacturers located in other parts of the world, in their global sourcing strategy. Considering price and quality, there appears to be an opportunity for global sourcing of auto components from India. Over a period of time this may lead to India becoming an