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Global Car Makers' Rough Road in India

Ford's merge-and-retreat deal offers a template for how manufacturers might improve returns in the world's fourth-largest auto market

A Ford showroom near Mumbai. Ford will transfer most its operations in India to Mahindra & Mahindra as part of a joint venture.
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China's beleaguered auto sector has received all the attention, but car sales in India also have been in free fall this year.

The good news for investors is that global manufacturers have surprisingly little to lose in the world's fourth-largest car market by sales—and will soon have even less.

Ford last week sounded a partial retreat from the country. On Tuesday, it signed a deal with Indian manufacturer Mahindra that involved transferring ownership of the U.S. company's local assembly factories to a joint venture that its partner will run.

Ford, which is in the middle of a major restructuring program under Chief Executive Jim Hackett, had its own reasons to move. Still, a rough patch for the Indian car market—a difficult one for Western brands at the best of times—likely made the decision easier.

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From April through August, passenger vehicle sales were roughly a quarter lower than the comparable period last year, according to the Society of Indian Automobile Manufacturers (SIAM). There are no signs that September will be different. Market leader Maruti Suzuki last week said its domestic sales fell 24.8% in September versus the comparable period in 2018.

One big problem has been the weakness of the nonbank lenders on which Indian car buyers, dealerships and small businesses all rely. The collapse a year ago of Infrastructure Leasing & Financial Services, one of India's largest shadow banks, triggered a funding squeeze from which the sector still hasn't recovered.

Another is rapid vehicle-price increases as manufacturers try to recoup the costs of stricter regulation. A number of safety features, such as ABS brakes, air bags and seat-belt warnings, became mandatory in India this year. Next year a stricter emissions regime enters force.

Even in better times, India is a headache for most global car makers. It is a big market—only China, the U.S. and Japan bought more passenger vehicles last year—and offers strong growth potential. At the same time, gaining the local scale necessary to make fair returns has proven to be challenging. Only a couple of East Asian small-car specialists have really succeeded.

Japan's Suzuki is one, through its controlling stake in Maruti Suzuki. The subsidiary sells roughly one in every two cars in India—an unusually dominant position by any standards, let alone those of the fragmented auto industry—and made a 9.6% operating margin for the year through March. Then there is South Korea's Hyundai, which sold 18% of India's passenger cars from April through August, according to SIAM data.

That only leaves scraps for a long tail of remaining players, including both locals like Tata Motors and global manufacturers such as Toyota and Volkswagen. Luxury marques like BMW and Mercedes-Benz, so important in China, account for a negligible 1% of total sales.

Given this competitive backdrop and the currently dismal market, Ford's decision to pool resources with Mahindra makes a lot of sense. The Indian company, already the No. 3 player in the market, will manage the joint venture alongside its much bigger wholly-owned business, which specializes in utility vehicles. Mahindra gets access to Ford's technology and global network, while Ford gets a cheaper engineering base and better local knowledge—a crucial combination in India.

“The key for global auto makers is to bring in products made for India and not just to ship in higher-cost global models,” says Ammar Master, a senior manager at forecasting company LMC Automotive.

GM stopped selling cars in India in 2017 as part of its global retreat. For those mass-market manufacturers intent on keeping a toehold in the country, Ford’s merge-and-withdraw deal provides a useful template for how returns might be improved.

As Warren Buffett said, “it’s better to have a partial interest in the Hope Diamond than to own all of a rhinestone.”

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