

THE AUTO WARS



Gujarat goes into overdrive to upset Tamil Nadu's position as the country's auto hub. Can it succeed?

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In June 2011, the Tamil Nadu government issued a press release saying PSA Peugeot Citroen would set up a car-making facility in the state. Within months, the French automaker denied the news; in early September, it announced setting up its plant elsewhere — in Sanand, Gujarat.

Said a top automobile executive of Tamil Nadu's gaffe: "To us in the industry, it looked as if the Tamil Nadu government did this out of the tremendous pressure to drive home the point that it is the country's automobile hub."

It is a tag Tamil Nadu hasn't lost yet. But the state would be in denial if it ignored the new challenger in the ring, one that is possessed with the ambition to become the country's new Detroit.

CRYPTIC INVITE

When Ratan Tata, in October 2008, decided to relocate the Nano car project from Singur in West Bengal, following a prolonged anti-land acquisition agitation, he received a cryptic invitation via SMS from Chief Minister Narendra Modi: "Welcome to Gujarat."

The invitation was accepted. Realising that the Tata project could be the magnet to woo other auto majors, Modi moved with astonishing speed, transferring land to the company in all of three days.

When Ford India, a Tamil Nadu resident since the mid-1990s, decided to set up its second plant in Sanand, there was palpable concern in the corridors of Fort St. George, the seat of the Tamil Nadu Government. By the time Peugeot made its announcement, Sanand had gone from being an obscure village near Ahmedabad, once ruled by the Vaghelas, to a fashionable word in the auto industry.

ENTER, MARUTI

It is another matter that Peugeot, which got 584 acres and announced an investment of Rs 4,000 crore, backed out because of economic slowdown in Europe. But the Gujarat story was not over. In 2012, the government allotted 700 acres to Maruti Suzuki, the country's biggest automobile maker. Maruti plans to set up a plant with an initial capacity of 250,000 units, investing Rs 4,000 crore.

UNFAIR COMPARISON

Despite the auto rush, it is unfair to compare the two states in some respects. Tamil Nadu

has had a long auto history — Austin cars were assembled here as early as 1948 by Ashok Motors, the predecessor of Ashok Leyland. In the 1990s, an auto renaissance spread in the State with the entry of Ford and Hyundai. Since then, it has welcomed big brands such as BMW, Renault-Nissan and Daimler Commercial Vehicles.

Right now, the gap between Sanand and Chennai is enormous. Chennai accounts for around 40 per cent of the country's car production and about 60 per cent of automobile exports. As the accompanying chart shows, Chennai is far ahead of Sanand if you go by installed capacity of projects, completed and on the anvil.

AND NOT VERSUS

"From our point of view, we don't see it as Tamil Nadu versus Gujarat but Tamil Nadu and Gujarat," says Joginder Singh, President and Managing Director of Ford India. "We have excellent relationships with both governments. In Gujarat, since it is a new plant, we have the advantage of bringing in new technology."

Kel Kearns, Ford's Director of Manufacturing for the Sanand plant, is upbeat about the facility, which should be operational in a year or so and which is among the American automaker's largest in Asia-Pacific. Why Sanand? "We wanted to buy government land to start with. This was the first sort of call we made about the sites that were available."

Of course a clutch of other factors was responsible for

the choice — including the cost of labour, good industrial relations, adequate power, road connectivity, and overall governmental support. But land and financial concessions are most talked about in discussions on Gujarat's automobile foray.

ROW OVER SOPS

Sometimes, this has erupted in a controversy, as in 2009, when the Congress opposition accused the Modi government of doling out concessions of Rs 33,000 crore to Tata Motors over 20 years.

The drive from Ahmedabad to Sanand to the Ford facility, via the Tata Motors plant, provides a glimpse of the change in what was once a sleepy hinterland. Land prices have gone up and are likely to go up further thanks to perceptions that it will develop as an auto hub.

Ford's Sanand plant is being commissioned at a time when Ford is on the fast track with its BRIC (Brazil, Russia, India, China) strategy. To that extent, the plant will have a far bigger role to play than the Chennai unit. But Singh says both plants will be used for exports. "For our Chennai plant, we would like to have better connectivity with the port. We use the Ennore port for exports. In Gujarat, we will use Mundra, for which too we would like good connectivity so that we can move vehicles multi-modally."

MANPOWER DEMAND

Once operational, the plant would need about 5,000 people with a range of skills. "We need the state government's

support for skill development others to take a serious look at and we have been assured that this is a strong area of focus for the government," Singh says.

Skilled manpower and English knowledge are the traditional advantages Tamil Nadu has over other auto hubs such as Pune. This is coupled with a sound engineering base. This means if the one mother plant comes in, it will bring hundreds of ancillary components sector in the vicinity. The automobile industry has the highest multiplier effect," he says.

GUJARAT'S PR BLITZ

Also, in the PR blitz about land acquisition problems in Gujarat, Tamil Nadu's attempt to woo the auto industry gets short shrift. M Raman, who was Director of Tamil Nadu's Guidance Bureau and involved with wooing Ford and Hyundai as well, says the American automaker was given the concessions it wanted as well as the land the state had readily available at Maraimalai Nagar, in Chennai's southern reaches.

He recalls that Ford considered "some 72 points" and many different places before settling on Chennai because of the advantages it offered and the government's willingness to go that extra mile to support the project.

Even so, the Tata Motors plant at Sanand is a reminder of the incredible speed at which the Nano project made its journey from Singur. It is here that Gujarat signalled that it could be a viable automotive destination. The government pulled out all stops so operations could kick off in less than 18 months from the time the Tatas dropped Singur. There is no doubt that it is the Nano project that spurred

others to take a serious look at the State.

M. Sahu, Gujarat's Principal Secretary, Industries and the Trade-Ministry Department, dwells on the special auto hub status of Gujarat. "Backward integration is one of the highest in sound engineering base. This means if the one mother plant comes in, it will bring hundreds of ancillary components sector in the vicinity. The automobile industry has the highest multiplier effect," he says.

Gujarat has not faced any land acquisition problems because, as Sahu explains, the government believes farmers are partners in progress. "They get good money for land which is not fertile. There is no forcible acquisition. He then reveals a "disruption in strategy" where a rift is happening towards a policy of land aggregation (land) acquisition. Anmalai Nagar, in Chennai's southern reaches.

AIL CONNECTIVITY

The Gujarat government is already preparing a rail network that will involve setting up sidings to the mother plant at the logistics park. "For railway siding, we are running a special purpose vehicle with DMIC (Delhi-Mumbai Industrial Corridor) and the Gujarat Industrial and/or Corporation as partners. We will rope in industry too," Sahu says.

Chief Minister Narendra Modi has declared that by 2020, Gujarat should account for 50 per cent of expansion in the automobile sector. This is the kind of ambition that will

pose a challenge to Tamil Nadu and threaten its auto hub position. For the moment, though, the State is sitting pretty with a string of big auto brands and a robust supplier base.

Yet, Tamil Nadu has issues it must deal with. CEOs complain about the infrastructure in power, ports and roads. Ford's Singh concedes rail connectivity to the port is an issue. "We continue to discuss that with the government and hope things will happen soon," he says.

TN'S POWER WOES

Says Harish Lakshman, non-executive Director of the Rane group, a component manufacturer, "right now, the big concern in Tamil Nadu is power. Anyone looking at short-term investments will rethink their strategy in the state." "But," he says, "in the long term, the state will get its act together." The Chennai-based Rane group has a plant in Sanand and has begun preliminary investigations in Gujarat for another plant for other vehicle makers. "Overall, we have had a positive experience in Gujarat. Government approvals happened easily. The credit goes to Tata," says Lakshman.

Auto industry observers believe it is difficult for Tamil Nadu to maintain the tempo because of such factors: shortage of land, which is parcelled out as a fiscal sop, is not going to help either. As companies like Ford, Renault-Nissan, Honda Motorcycles, Bajaj Auto and Hero MotoCorp expand, Gujarat will look to make the most of the opportunity.

There is a lot of hard work ahead, especially in skill-building, but Sahu says the government has assessed the requirement at over 2.5 lakh people a year after three years. "We are setting up skill-upgradation centres in a PPP mode with professional agencies and industries as partners," he says.

As for Tamil Nadu, it faces larger problems in sustaining its position, given the impediments are infrastructural involving erratic power supply and absence of a proper freight corridor from the manufacturing areas to the port.

The story of the auto war is far from over. Perhaps, it has only just begun. (With inputs from Virendra Pandit in Ahmedabad and Swetha Kannan in Chennai.)

TAMIL NADU		GUJARAT
Ford	Hyundai	Tata Motors
2,00,000 + 3,40,000 engines	6,30,000 + 6,00,000 engines	2,50,000
Rs 4,000 cr	Rs 9,000 cr	Rs 2,500 cr
BMW	Daimler-Benz	Ford India
5,500	36,000	2,40,000 + 2,70,000 engines
Rs 180 cr	Rs 4,400 cr	Rs 4,000 cr
Renault-Nissan	Ashok Leyland-Nissan	Maruti Suzuki
4,00,000	1,00,000	2,50,000
Rs 4,500 cr	Rs 1,000 cr	Rs 4,000 cr

Installed capacity Investment (Rs crore)

	TAMIL NADU	GUJARAT
STRENGTHS	<ul style="list-style-type: none"> Strong light-engineering base Long tradition in manufacturing Availability of skilled manpower Large number of technical institutions 	<ul style="list-style-type: none"> Enjoys the challenger status Land available in plenty Surplus in power capacity Committed political leadership
WEAKNESSES	<ul style="list-style-type: none"> Infrastructure bottlenecks Power shortage Rising labour costs Land availability Labour environment getting vitiated 	<ul style="list-style-type: none"> Lack of skilled technical manpower Not much of a tradition in manufacturing Power may become a problem if all planned projects come up
OPPORTUNITIES	<ul style="list-style-type: none"> Push more industrial development to the southern districts where land and labour are available, but infrastructure - physical and social - needs to be improved 	<ul style="list-style-type: none"> Situated along the proposed Delhi-Mumbai industrial corridor, with access to two of the largest markets in the country. Freight costs for companies will come down
THREATS	<ul style="list-style-type: none"> Other industrially backward states may become more proactive and attract manufacturing industries 	<ul style="list-style-type: none"> All development now driven by political leadership, which may change. Is the bureaucracy equally committed?

"We are involving industry in improving skills"

Maheshwar Sahu, the Principal Secretary, Industries and Mines Department, Gujarat, has a major task on hand. Gujarat aims to become the next automobile hub. The Chief Minister wants half the expansion in the country's automobile capacity to come from the State. By getting a clutch of investments, Gujarat announced its arrival on the automobile scene in a big way. In this recent interview, Sahu talks of Gujarat's drive in the automobile industry. Edited excerpts from the interview:

On the special focus on automobiles

The backward integration

required in the automobile sector is one of the highest. One mother plant will bring hundreds of ancillary units. The automobile industry has the highest multiplier effect. Skilled manpower availability at the supervisory level will not be a constraint. Good quality jobs and availability of the ecosystem which can promote this industry prompted us to look into this.

On land availability

We have not faced land

acquisition problems in a big way. That is because our government looks at land acquisition in a perspective that farmers are partners in progress. They get good money for their land. You take land that is not fertile. Basically no forcible acquisition. We are now changing our strategy and are shifting towards a policy of land aggregation, where development planning and town planning become the tools to enhance the value of the land.

On improving skills

We have assessed that we will need about 2.5 lakh people per year after three years or so. We are setting skill-upgradation centres in a PPP mode through professional agencies, industries being partners in that. Maruti, GM, Toyota and Bosch are participating in this. We have invited some institutions that will design the curriculum. IIT-Bombay oversees everything. In one of several investment regions, here Maruti is building a plant, we are making provision for 10-12 universities of international standards.



Hyundai Santros at the Chennai Port, waiting to be loaded on to a ship for export.



Employees assemble engines at Ford India's plant at Maraimalai Nagar, near Chennai



Nano cars at Tata Motors manufacturing plant at Sanand near Ahmedabad.



Kel Kearns, Director of Manufacturing, Ford India's Sanand plant explaining the construction work at the plant.