The Economic Times
Friday, December 02,2016

Car Exports to Lanka May Hit a Bump

Nabeel.Khan
@timesinternet.in

New Delhi: Car exports to Sri Lanka — the fifth largest and fastest growing market for India-made passenger vehicles — is likely to hit a speed bump as the island nation has increased the import duty to 175% from 150%.

Martuti Suzuki is the market leader in Sri Lanka, and all the vehicles it sells are imported from India. French carmaker Renault uses its facility near Chennai to supply to the Sri Lankan market.

India's automobile exports to the southern neighbour nearly doubled in the fiscal year ended March 31, 2016, to $305 million (nearly ₹2,100 crore at current exchange rate).

The Sri Lankan passenger vehicle market has been growing rapidly — new registrations rose to more than 1.05 lakh in 2015 from about 28,000 two years earlier — according to data on the ministry of transport and aviation website.

The fast growth and the potential offered by its underpenetrated market are attracting automakers, even as Colombo is trying to encourage them to invest locally instead of importing vehicles. The increase in tax announced in the latest national budget is in part aimed at this, said industry experts.

Top Markets

Country	Car Export Value		Change
	FY16	FY15	
Mexico	$1 b	$788 m	32%
South Africa	$566 m	$732 m	-23%
UK	$316 m	$336 m	-588%
Italy	$312 m	$197 m	58%
Sri Lanka	$305 m	$158 m	92%

"It (new tax rate) will have an impact, but volume is very less. It would be good for the companies to have local production as their policy keeps fluctuating," said RC Bhargava, chairman of Maruti Suzuki.

"Sri Lanka is pushing for local assembly to generate employment and also manage its current account deficit" said Abdul Majeed, partner at Price Waterhouse, a network firm of PricewaterhouseCoopers.

"Indian carmakers exporting to Sri Lanka will have to start thinking about local assembly and also manage cost to compete with Chinese manufactures. The only challenge is that volumes are low."

Chinese carmaker Geely, which sells the most number of cars after Maruti in the Lankan market, already has a local assembling facility. Among others, Volkswagen recently announced plans to set up a plant in joint venture. According to sources, Maruti Suzuki is looking at setting up an assembly plant there. But Chinese manufacturers seem to be more aggressive in tapping the market, said experts.

"Chinese OEMs are actively looking at the export market since their domestic market is slowing down. Indian OEM's who have aggressive export plan will encounter more competition from Chinese OEMs," said Majeed.

Sugato Sen, deputy director-general of the Society of Indian Automobile Manufacturers, called frequent changes in Sri Lanka's tax structure "very unfortunate".

This will impact Indian companies more as their peers in China will be at an advantage, as the manufacturing cost is much lower there, he said.

Adding to the burden of automakers, Sri Lanka has also made air bags and anti-lock braking system compulsory for all cars, which will further increase the cost of vehicles. Sri Lanka is also looking at stringent emission control rules to promote green vehicles.

While presenting the 2017 budget earlier this month, Finance Minister Ravi Karunanayake proposed a carbon tax for all motor vehicles run on carbon fuels. He also announced a reduction in production levy on electric cars with a capacity less than 100 kilowatts.

In fiscal 2016, India's passenger vehicle exports to Sri Lanka grew 92% in value, the fastest among the top five foreign markets for the Indian auto industry.

The second fastest growing market for Indian automakers was Italy, with a 58% expansion. Exports to South Africa, the second largest exports market for India behind Mexico, however, saw a decline of 22%.