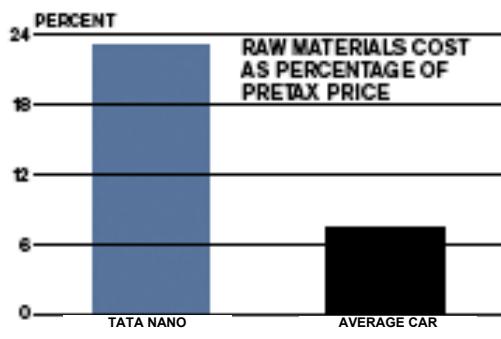


Tata's Nano Hits A Speed Bump

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MATERIAL WORLD



Data: Global Insight



Ratan Tata made headlines unveiling the Nano in January Sanjit Das/Bloomberg News

When Tata Motors unveiled its tiny Nano at the Delhi auto show in January, the car made global headlines. The Nano, with a 623cc engine that gets 50 miles per gallon, was to be sold for a mere 100,000 rupees, or about \$2,500. It instantly won praise as a showcase of frugal Indian engineering and set competitors scrambling to reassess how cheaply they could make vehicles. "I hope [the Nano] will be the car that changes the manner in which people in...India travel," Tata boss Ratan Tata said at the time. Even better, he said, the company could do it at a profit.

That last promise may be the hardest to fulfill. To keep the price down, Tata has done away with most higher-margin gizmos found in modern cars. So commodities such as steel and rubber, which have soared in price recently, account for a bigger percentage of the Nano's cost than they do in other models. "There are some questions about [the Nano's] economic viability in this new, harder environment," says Tim Armstrong, emerging markets director at consulting group Global Insight. Armstrong estimates that costs for raw materials represent 23% of the Nano's pretax price, up from 13% when Tata began developing the car five years ago. By contrast, raw materials make up about 7% of the cost of the average American car. "The impact of rising input costs is felt by all automakers," Tata Motors Managing Director Ravi Kant acknowledges, "and Tata is no exception." But given the Nano's diminutive size, he says the impact will be manageable.

The Nano factory is also behind schedule. Construction of the plant near Kolkata was delayed when villagers protested the way the government seized farmland to hand over to Tata for the factory site. Then in May, the area was flooded by the monsoon, which meant further delays. All told, Tata has invested \$470 million in the Nano, double the amount expected when the project was unveiled. But Kant says Tata still plans to start selling Nanos in the fourth quarter.

The problems come at a tricky time for Tata. On July 30 the company said net earnings fell by 30%, to \$77 million, for the quarter ended in June because of rising costs. Tata Motors' stock has also been hurt by its \$2.3 billion acquisition of Land Rover and Jaguar from Ford. The shares are down 44% this year, compared with 32% for the Bombay Stock Exchange's benchmark Sensex index.

Other automakers, eager to join the cheap-car parade, are watching closely. Korea's Hyundai Motor is planning a \$3,500 car for India, even though rising costs have forced it to pull the plug on a \$5,000-\$6,000 model it wanted to build in China. And in May, Nissan-Renault and Bajaj Auto, an Indian motorbike manufacturer, said they would develop a car with a production cost of \$2,500 to go on sale in 2011. Judging from Tata's troubles with the Nano, many say the target prices will have to rise. Because of "cost pressures coming through, it is hard to see \$2,500 remaining realistic," says Andrew Phillips, an analyst at KBC Securities in Tokyo.

With the \$2,500 starting price not up for negotiation, one option is to sell more Nanos with extras, such as a radio, air conditioning, or power windows. But while spiffed-up Nanos will be more profitable, higher prices risk edging out many customers. "If we pass on all costs to the consumer, it will affect demand," Ratan Tata said at Tata's shareholder meeting on July 24. "If we don't, it will affect margins."