

AUTOVAZ: NEW MODEL – NEW RISKS

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Russia's AutoVAZ uncovers plans for future

A new RUB180,000 to 200,000 vehicle based on the Kalina model will be unveiled by 2012 (Lada Kalina is priced at RUB255,000). The cost will be lower because cheap interior components will be used. The project requires a \$3.3 billion investment and the company hopes for state support. Although the new car will most likely enter the market after the crisis is over, it is hard to overestimate the significance of this project.

For one thing, economy class vehicles will always be in demand, especially in remote areas where personal incomes tend to be lower. For another, the Russian automotive industry has a strong need for fresh ideas.

However, the analysis of the primary information reveals that estimates of the new model sales seem too optimistic.

The new development is meant to entirely replace the Samara II family (including (VAZ 21113, 21114, 21115) and partly – old models (VAZ 2105/2107). Taking into account that Samara II and old models account for 60% of the concern's sales, we estimate that the market will require 320 to 350 thousand units.

Obviously, the plant is unable to reach this capacity by 2011, but the goal is reachable in the mid-term provided there is a wide range of car body styles and engine options.

Supposedly, the new car will come with a 1.5 liter engine; yet, to be competitive, the producer should think about diesel engine options as well.

As for the body styles, the plant is not going to make wagons. Priora and Kalina come in estate car body style. Also, the classical VAZ 2104 vehicle has a wagon option, and there is no rumor that the production of this model will be halted. At the same time, planning to replace the Samara II family, AutoVAZ should think about making coupe cars as a substitute to Samara 113 coupes that replaced VAZ 2108 (21083) from the Samara I family (VAZ 2108, 2109, 21099).

Although VAZ 2105/2107 cars are ancient, they account for one-third of the plant's sales. If the new model will cost more than RUB200,000, the project's commercial success will be threatened. Kalina sells in the 250,000 to 270,000 rubles price category, and internal competition is not a good idea for a dull industry like Russia's car-making. In the up to RUB350,000 price category AutoVAZ (Priora) rivals Logan, Nexia and Lanos.