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As Foreign Rivals Pull Back, Lada Expects Profits

By The Moscow Times

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Lada cars in different colors are placed near the headquarters of Avtovaz in Moscow.

Russian carmaker AvtoVAZ, producer of the much-derided but best-selling Lada, expects to grab a bigger share of the shrinking domestic market as its international rivals pull back.

With Russian car sales plunging, U.S. automaker General Motors Co. said Wednesday it would shut its plant in the country and wind down its Opel brand in the once-promising emerging market.

Other foreign car firms have also cut back due to a recession deepened by the low price of oil, Russia's main export earner, and Western sanctions imposed over the Ukraine conflict.

But AvtoVAZ president Bo Andersson has said the Lada is Russia's car for a crisis and forecast it would increase its share of the economy vehicle sector from 40 to 50 percent.

"Our job is not to compete with the main international producers," he told reporters at the

Russian Automotive Forum in Moscow. "The important thing is that in the economy sector we must be competitive — and we can be competitive."

AvtoVAZ, which is controlled by the Renault-Nissan alliance, has not escaped unscathed. It reported a net loss of 25 billion rubles ($416 million) in 2014 and had to raise prices after the Russian currency dived, pushing up the cost of imported components. It expects first-quarter car sales to be 24 percent lower than a year earlier.

But it also hopes to shake off poor customer approval ratings to target the Russian middle classes who are looking for more competitively priced cars as they tighten their belts.

Feeling the effects of the ruble's slide against the dollar, consumers are cutting back on large purchases and new car sales in Russia fell almost 40 percent in February compared with a year earlier.

Among the remaining sales, demand is shifting to the kind of low-priced models that AvtoVAZ makes.

Rock-Bottom Ratings

In the first two months of this year, AvtoVAZ's overall market share rose to 16.9 percent from 15.2 percent a year ago, according to the Association of European Businesses (AEB). In the same period, GM's share fell to 3.4 percent from 9.2 and Ford's to 1.3 percent from 2.9.

Japan's Nissan Motor Co. also said Wednesday it would halt production at its St. Petersburg factory for 16 days.

Founded as a state producer in the 1960s, AvtoVAZ is known around the world for producing the box-like and notoriously unreliable Lada Classic, which became a symbol of the Soviet Union's industrial shortcomings.

Last year, its customer satisfaction rating was 44 percent, against 60 percent for its nearest competitor, Nissan Datsun, but Lada remains Russia's best-selling brand with 14 million customers nationally.

The three best-selling cars in 2014 were all priced below 540,000 rubles ($8,972) and AvtoVAZ's Lada Granta, which at 349,000 rubles ($5,800) is 40 percent cheaper than the second best-selling Hyundai Solaris, topped the table with over 150,000 sales, AEB data showed.

"[There aren't] that many players left in the segment below 600,000 rubles [$9,982]," Andersson said in his comments, made on Tuesday shortly before the announcements from GM and Nissan.

However, the Lada's reputation with Russia's quality-conscious middle classes is a drawback.

"What matters is that people are still buying Ladas," said Alexander Sorokin, General Director of Kaliningrad-based car producer Avtotor. "Of course, it does not mean that they would recommend them to a friend."

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