

'We are confident of being a sought-after partner for OEMs in India'

Auto components and engineering solutions business of VE Commercial Vehicles (VECV) has had a rough ride this year due to the major downturn in key market segments. Not only was its domestic business in the commercial vehicle (CV) segment badly hit, but also its key market for engineering solutions in North America took a severe beating. Auto Monitor caught up with Chief Executive, Eicher Engineering Components and Eicher Engineering Solutions, VECV, PK Kapse to understand the implications of downturn on the components business and the ensuing opportunities emanating from the Volvo joint venture. Excerpts:

Abhishek Parakh

Q What is the current scenario in the CV sector and what are the implications for your company?

We cater to different markets and the scenario for each segment of the market is very different. There is a significant recovery in the domestic CV market over the last six months and the current scenario looks positive. Though the scenario in the medium and heavy commer-

cial vehicle (M&HCV) segment in the domestic market is looking up but it is likely to take a while before it regains its former momentum. The LCV segment has been growing with a double-digit growth rate and outlook for the segment appears very positive at the moment.

We have a major presence in the OEM and the aftermarket segments, mainly catering to the CV sector. We have maintained our identity under the brand name 'Demm' in the aftermarket, while catering to the OEM segment as Eicher Engineering Components. Due to persistent overloading across vehicle categories and applications, the life of transmission and drive-line is reduced and replacement demand for such transmission is reasonably stable irrespective of OEM demand.

In heavy-duty applications like mining and infrastructure the wear and tear of components is very high, a scenario that creates significant demand for components in the aftermarket. For instance, the axles and transmission are replaced as frequently as three to four days in tippers deployed for mining

activities. Though the replacement market is not lucrative business, it is a steady business. We have around 25 percent business from international markets, 30 percent from in-house within the Eicher Group, 30 percent from OEMs and remaining from the aftermarket.

Q How does the Volvo JV impact the component business of Eicher group?

The JV has come at an opportune time when the entire market of trucks priced from Rs 15 lakh to Rs 70 lakh is there for taking and there are likely to be multiple introductions in different tonnages from different manufacturers in coming months.

The domestic CV business is likely to undergo massive change in terms of product offerings as well as volumes. That will certainly create good opportunities for us. Eicher Trucks and Buses as an entity, with Volvo's support and assistance, will be in a position to grow its presence in the domestic market and that's how we will benefit. More importantly, Volvo has a presence in developed and developing countries through its four brands. There are several markets where its high-end trucks and buses are not competitive or have very low volumes and it makes more sense to have lower-end CVs in these developing markets. That is the potential growth opportunity for us as a company to supply parts to Volvo to meet their component demands in these developing markets. So, not only will the domestic production grow as far as Eicher-made trucks and buses are concerned but also the demand for components from Volvo is also likely to go up and create significant opportunities for us.

Initial feedback has been positive and we are expecting major demand mainly for manual transmissions. Generally speaking, enrolling supplier in a sourcing arrangement is a



PK Kapse, Chief Executive, Eicher Engineering Components and Eicher Engineering Solutions

long-drawn process but we are expecting a major handholding to come from Volvo, since it is a JV partner.

Q How is the engineering solutions business faring?

Eicher Engineering Solutions business gets almost 90 percent of its revenues from North America and that business has been badly affected in the downturn. We had acquired two engineering and design entities in US earlier and we have consolidated the operations there to Eicher Engineering Solutions in Michigan. Major customers include key passenger car manufacturers in the US like General Motors (GM), Ford, Toyota and Nissan, among others, and we have been adversely affected as the passenger car market has shrunk by almost 50 percent in North America.

We have been gradually growing business in India and China in the engineering solutions. We have diversified from catering mainly to passenger car manufacturers to providing solutions for electric cars, hybrids, farm equipments and CVs to mitigate the impact of downturn. But we

have not been able to escape unscathed because the product development process has also slowed down significantly and is only likely to pick up once OEMs get their cashflows in place and conceptualise new products and platforms. We were operating at around \$18 million in North America and that has come down to less than \$10 million last year. We do hope that things will improve from early next year onwards.

Q How is domestic market developing in terms of trucks and buses manufactured locally?

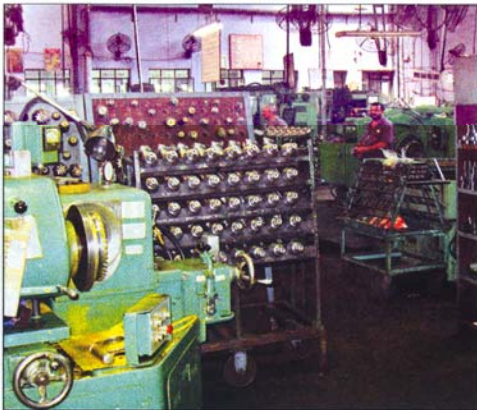
We are seeing a major awareness from customers who are beginning to appreciate a truck as a value proposition in terms of its entire lifecycle as opposed to just initial cost. This will lead to range of offerings getting more varied to suit customers requirements and affordability brackets.

There are only three-four component suppliers in India who can effectively design, develop, test and supply parts for most vehicles in India and thus we are confident of being a sought-after partner for all OEMs in India.

We clocked a turnover of around Rs 140 crore in the components business last year and aiming for a turnover of around Rs 250 crore next year. We are in talks with John Deere, Caterpillar and other CV and farm equipment manufacturers in North America and Europe and are confident of getting higher share of business from these players. In some of these businesses we are likely to be a single source supplier as well.

We have the capacity to manufacture around 60,000 transmissions per month at our Dewas, Madhya Pradesh, facility currently and will be moving up to around 120,000 transmission units per month by next year at Dewas.

Our capacity at the Thane, Maharashtra, facility and Dewas is running at 300 tonne of components per month, while the facility coming up in the SEZ at Pithampur in Madhya Pradesh is much larger and would more than double our existing business. So we are unlikely to have any capacity constraints in the near- to medium-term. **AD**



Eicher Engineering's Thane facility manufactured around 60,000 units of components last year

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