'With capacity in full use, we are putting up 2 plants'

G BALACHANDAR
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The ₹4,400-crore Rane Group is optimistic on the outlook for the rest of the fiscal amid pressures on commodity prices and manpower cost. The Chennai-headquartered group is confident of ending this fiscal with a strong double-digit growth. L Ganesh, Chairman & MD, Rane Holdings, the group's holding company, spoke to *BusinessLine* about the prospects and opportunities. Excerpts:

THE BL INTERVIEW

What is your outlook for the rest of the year and do you see any disruption that could affect growth?

We don't see any other disruptor now, while increasing commodity price is a concern. But the industry is doing well and volumes are growing, one would be able to pass the hike to the customers. So that's hopefully not going to be the dampener. The other indicators are good. Strengthening of the dollar will be beneficial to the automotive industry as it helps boost exports. So we expect 2018-19 also to be a good year for the automotive and component industry.

Indications are that the group is planning a significant capex this fiscal. Where are you investing?

Last year, our units were operating at 85-90 per cent capacity levels. So that has led to some kind of de-bottlenecking and capacity enhancement this year. Apart from this, we are setting up two new factories and doubling the capacity for hydraulic steering for tractors. Last two years, we have been seeing the shift happening faster in higher HP tractors — from manual to hydraulic steering. As our product has done well, the demand is good. So we are expanding the capacity at Rane Madras' Mysuru plant.

In engine valves too, we are adding two lines for specific customer requirements mainly for two wheeler valves. We are also expanding the capacity for commercial vehicle steering in our Rane TRW Tiruchi unit.

The only product line where our capacity utilisation is still not near the peak is die-casting. Overall, the capex for greenfield and brownfield expansion this fiscal will be ₹200 crore plus.

Where are the two new factories coming up?

One new factory is being built for seat belts and airbags as this market is evolving strongly due to regulatory requirements. Our plant in Chennai is almost full and hence we decided to set up the second unit in Tiruchi. The work started last year and this new factory may commence operations by November this year. We are also in the process of setting up a new plant in Ahmedabad, Gujarat for electric power steering. It will initially be an assembly operation as child parts will go from Bawal plant. Once the volume picks up with Suzuki Gujarat, we will take up backward integration.

How is the localisation drive progressing in occupant safety business?

In seat belts, except very little imports, almost all other parts have been localised. In airbags, except the inflator, all the other parts are being localised gradually. The inflator is a capital-intensive product and we understand that it may not be localised in the foreseeable future in India as volumes have to grow significantly.

Globally, only China is making inflators locally other than US and Europe. It will take 2-3 years for the Indian market to see localisation of inflators. Meanwhile, our capacity expansion is meant for both domestic and exports as we have also emerged as a strong exporter of occupant safety products.

From our Tiruchi plant, we will export some of the sub-assembly for airbags back to ZF-TRW in Europe. In seat belts, our exports are slightly larger than domestic sales.

How is the group preparing for the upcoming electric vehicle (EV) technology?

If you look at our product portfolio, the only product which will get directly affected is engine valves, while all the other products will continue to be part of electric vehicles with some changes here and there. We have already been exporting some aluminium castings and steering material to electric vehicles in the US.

As we are in the process of turning the engine valve business around, we don't see any big threat over a five-year horizon. The Indian market is continuing to grow at 10 per cent and we believe that given the challenges relating to cost of the vehicle, the ability of the government to offer subsidies, infrastructure requirement, the transition will take longer in India than Europe. So, for the next five years, we will still see growth for non-electric vehicles such as petrol, hybrids and CNG even as EV penetration progresses. We will evolve a strategy for engine valves business during this five-year phase.

In terms of opportunities, we continue to scan the market and get in touch with our partners to get inputs on the progress of the EV industry globally.

Capacity expansion meant for both domestic and export markets: Rane Holdings MD