'We need pro-employment labour laws'

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TALKING BUSINESS

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The Rs.2,687 crore Rane Group, a leading auto parts group in the country, is redrawing its long-term growth plans after getting hit by the ongoing slowdown. While its domestic business is awaiting recovery, the group managed to do better on exports and in the new aerospace business it entered about three years ago. **L. Ganesh**, *Chairman of the Rane Group, spoke to* **The Hindu** *about the slowdown impact, new business and the way ahead. Edited excerpts:*

Has the longer-than-expected slowdown hit your growth plans significantly?

To be frank, the entire industry has lost two years. So, 2012-13 and 2013-14, we can consider as lost years and lost opportunities. Yes, it has affected our long terms plans. To catch up in one or two years is very difficult. Even if things come back, it is not going to make up for the losses in the past two years. To that extent, long term plans have been affected.

Where did you see big impact of the slowdown and what did you do to minimise it?

We had to prune down our capex to a large extent in the past two years. We focussed a lot on cost management and used this opportunity to reduce fixed cost, make ourselves leaner, cut down organisational locations and trying to consolidate operations. We are still in the process of consolidating our operations. So, we took a re-look at our cost structure and have done lot of improvements by cutting back on fixed cost. Also, did a lot of work on energy improvements. We expect all that should pay us some good dividends when the volumes come back and hopefully we will not again lose these advantages. Despite all that, profitability took a huge beating as the volumes were significantly lower. Fall in commercial vehicles was very high and that really affected us badly. But only saving grace was exports. It was better and weak rupee also helped us boost export revenues.

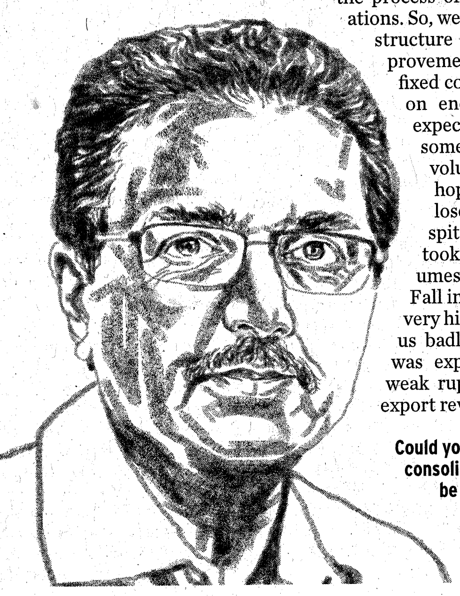

Illustration: P. Manivannan

Could you elaborate on the consolidation exercise? What will be the key outcomes?

Few years ago, everyone was talking only about blue collar productivity. Today white collar is equally or even more important in terms of cost management. We sensed this even before the slowdown that managerial cost was going up and white collar productivity had become very crucial. So, we took a call that going forward we should have larger factories. We could do with small plants in the past for various other strategic reasons. But that is not working anymore. Also, we decided to vacate from some of our very old plants, which were located in heart of the cities, due to cost as well as environment reasons. We vacated one plant near Chennai airport. We will be vacating Velachery (Chennai) plant by the end of this year and Bangalore unit by the end of 2015. We are consolidating the activities that were going on in those units in other bigger plants.

How did exports grow during this period? Are you scanning more geographies to widen export basket?

For the past 2-3 years, we have been working on export strategy seeing the slowdown in the domestic market and started putting more efforts on export promotion. So that has also given us some orders. In the next 2-3 years, we will grow significantly in exports. In 2013-14, exports accounted for 17 per cent of our total revenues. We intend to take it 20 per cent in the next couple of years. But, our major portion of exports will still be destined to US and Germany, while we have also got some breakthroughs in South America and Europe. In Asia, we are looking at more countries. We have started exporting to Thailand in small way. We would like to diversify our geographic mix as export opportunities are definitely better.

We gather that there is an increased thrust on Research & Development (R&D) area. What are the key focus areas now?

We have increased our R&D spend from 0.8 per cent (as a percentage total turnover) in 2012-13 to 1.3 per cent in 2013-14 and we intend to sustain the spending at 1.5 per cent of turnover. Our primary R&D focus is on testing and validation of modified or new products and materials. This is the major requirement of all the customers here. So, major portion of investments will be on state-of-the-art equipment, testing track, durability testing equipment, among others. This will be our focus for next two years. In the second phase, the focus will be more on developing new products or extension of existing products.

Has the aerospace foray paid dividends?

We think it's the right decision we made and we want to invest more in that area to grow that business. SasMos HET Technologies Ltd (in which Rane picked up 26 per cent stake in 2011) did very well last year. It clocked revenues of about Rs.48 crore and about Rs.4 crore of profit. The segment the company is operating in is opening up in a big way. We think that in the next five years anywhere between 5-7 per cent (on a conservative estimate) of our sales would come from aerospace and defence segment. Maybe if a couple of projects that we are looking at click, it can go as high as 10 per cent of our total sales.

Are you planning further expansion and investments in aerospace venture?

We have committed an additional Rs.10 crore of investments in aerospace business in the next two years. But it is for only the identified opportunities. The investments are mainly for creating more facilities, value-added products and new testing equipment. We are thinking of growing to electromechanical control systems from wiring harness as the next step. We may also need one more location for this business as Bangalore is becoming little crowded. We are now evaluating whether we should start a unit outside Bangalore. Though this business is still export-centric as 75 per cent of revenues come from exports, we will see more contribution from domestic market with the privatisation of defence.

What is the mood in the industry and how are you approaching the next growth curve?

Sentiments have definitely improved and expectations from this government are very, very high. There is general euphoria especially in the financial community and stock markets. Though this government is expected to do a lot of right things, it will take time to have effect on the ground. We, at Rane Group, will probably wait till September when we will do our mid year review of our plans. By then, we hope to get a clear idea of market outlook and monsoon play to decide our course of action.

What, according to you, should be the key focus areas for the new government to make India a strong manufacturing base?

Sentiments have already picked up. I think if the government does a few things like getting mining sector back in action and clearing road and power projects, I don't see why our industrial sector shouldn't pick up. If it wants to improve the manufacturing content of the GDP from the current low levels of 15-16 per cent to about 25 per cent over the long term, it has to do some basic things. The broad focus should be to make India an easier and better place to do business. With strong IT industry, government can think of online approvals, certification by authorised certifying professional agencies like TUV etc. A lot of things can be simplified. All the old antiquated laws like labour laws have to be modified. Today, it may sound a cliche, our labour laws are presently pro-employee. It should be pro-employment. The law should encourage the industry to employ more people. You cannot say you shouldn't lay off people whether you have business or not. This is not right in a competitive environment because today customers are ruthless. The way they cut down schedules from Germany or US is ruthless. If we want to take more risk there, we should also have some flexibility. Most importantly, government should bring a simple law with respect to engaging non-permanent workers.

It has to define wages, hygiene conditions, preferences and norms during recession period, among others. Globally, every factory uses 40-50 per cent temporary workers to keep the costs down. Concerted efforts to improve our power situation are also essential. 24/7 power at a fair price should be made available and I don't see why it cannot be. You cannot go on squeezing industrial and commercial customers through high tariff and give it free to others. Lastly, states should be empowered to compete with each other.

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