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We are here to create institutions: Rane chief

Need management bandwidth to grow at an accelerated rate

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It has seen 75 summers. Still, it is yearning for more. This is not something that comes naturally to every corporate entity. More so when the challenge is to evolve with times and sense opportunities. The Rs.2,500-crore Rane Group, whose foundations lay firmly entrenched in Chennai, is taking all the changes in its strides to create a larger footprint. Rane group Chairman **L. Ganesh** *in this interview to* **The Hindu** *speaks on a wide range of issues. Excerpts:*

Your group is 75 years old. Are you happy with the growth?

We have been a conservative group. Many of our stakeholders felt that we could have grown more aggressively. In the initial years, the industry was growing at a much slower rate, and only since the 90's, after liberalisation, the industry started growing at a more aggressive rate. Now we are accelerating our plans, and, in the next ten years, Rane will grow more aggressively.

Is this because of the mindset of the industrialists in this part of the world or something that applies to only the Rane Group?

It is a bit of both. In this part of the country, we are more conservative when it comes to risk appetite and debt-to-capital structuring.

Hasn't this strategy of steady growth paid you good dividends in the long-run?

If you look at it from a financial market perspective, we have not been going to the capital markets very often. The capital structure of this group has been built through initial public offers (IPOs) and bonus issues. That way, the shareholders have done well. But today's expectation in the financial markets is for a much more quick return, they are not willing to be patient. Some of the feedback we have been getting is that Rane should be capitalising on its brand equity, quality image and grow faster. From whichever perspective you see, we have done well for many stakeholders.

In a world where numbers matter more than value, how have you resisted the temptation for big numbers?

We have discussed this internally many times in the last few years. Our aspirations that we must grow faster are there.

TALKING BUSINESS

One thing we feel comfortable is that growth for the sake of top line alone should not be the approach. I think we get into businesses with a slightly different mindset. We are in it to create some institutions and to create a long-term value. We look very deep rather than getting into things for a very short-term.

When everybody is going everywhere, you continue to be classified as a Madras company. Is it a handicap?

We have presence in the North, too. We have a new plant in Bawal, Haryana. We have three plants in Rudrapur, Uttarakhand. We have started another small facility next to Tata Motors in Sanand, Gujarat. In our industry, especially if you are in Tier-1 products such as steering systems, which are sensitive to packing and transport, being near to customers has certain advantages. Large customers such as Maruti Suzuki want us to be near them. In terms of management bandwidth, we are trying to develop it.

Tata Motors, Mahindra and Maruti are your top three clients. Do you also supply to the new generation automobile companies?

We are quite strongly present with Daimler for their truck project. We are supplying the power steering, manual steering linkages, steering columns, engine valves and friction materials. With Renault Nissan, we just have started on one or two friction materials. Friction material, for instance, is coming from most of our Japanese customers. Lot of new business has come from Nissan, Toyota and Maruti Suzuki.

What are the kind of adjustments do you have to make when you deal with a Maruti or a Nissan?

There is a difference. In fact, the Indian component industry has learnt a lot from Maruti Suzuki. They brought in this change in India — in terms of just-in-time delivery or essentially engaging with the vendor very early in the model development so that you really go through all the initial hiccups well in time for the launch of the model. So when you launch, it is largely fault-free. Early involvement in model development is one thing they brought in as a new system. Second is just-in-time. For Maruti, we do four deliveries a day. We have to gear ourselves so that their line doesn't stop.

The third is a very significant improvement in the reliability of our quality. How does one look at processes and improve so that you deliver consistent quality on a daily basis?

Do you see a lot of challenges in the automotive scene with more foreign companies coming in?

The first thing is that we have to create management bandwidth to grow at an accelerated rate. This is important especially with the kind of attrition and demand-supply mismatch in India, especially in pockets such as Chennai, Pune and NCR. Creating the right kind of talent pipeline is one thing, and developing managers to take on responsibilities much earlier is another.

If you take 15 years ago, in Rane, a plant head would be normally in the age group of 48 or 50. Today, we have plant heads who are 34, 35. To prepare people with the kind of all round exposure, we have to be able to accelerate exposure. We have to work on management and leadership pipeline, which is what we are doing now. It is a big focus area for us. The other thing is the TQM foundation. That has helped us in horizontally deploying good systems and processes. Today, if you want to start a new plant, it becomes that easy.

You decided to diversify into defence and aerospace. How are these plans coming along?

We had taken a stake in a Bangalore company, which is making wiring harness for both defence and aerospace. It was a technocrat-started company, which needed financing to grow. He had a good business plan. We were convinced about the background and have taken 26 per cent equity with an option to increase it in the future. We are also learning this business as we aren't experienced. We might look for one more opportunity for investment in the defence-aerospace area. In the next 3-5 years, if about 10 per cent of our revenue can come from this area, we will be happy.

On the one hand you see demand slump in the automotive sector. On the other, you see one too many players and products. How does one make a sense of this?

Without oversimplifying it, the fact is simple. There are only one or two markets in this world that are growing. The mindset is that if you don't come to India now, you will lose out.

Some of the players are also creating capacity for export also. How it will all play out will emerge over the next 5-7 years.

How does this impact you?

It opens up export opportunities for us as most players come in with an export plan.

As margins get squeezed in the automobile industry, are auto companies bringing more pressure on you?

That is true. This happen sometimes since our fortunes are so closely linked to the auto industry. The higher the volume, especially in passenger car and two-wheeler businesses, margins are under pressure. And, it continues to be so. The challenge is how do you improve the productivity of their assets? Profitability per se has been coming down. Better utilisation of assets and improving the capital productivity could improve the return on capital.

When foreign companies come in, they bring their own supplier base. How do you manage?

Wherever it is a technology and capital-intensive business, it makes sense for a Suzuki or a Toyota to deal with their supplier or one or two suppliers globally. Because of the investment required, scaling up is tough. Second, they also launch products in 4-5 markets simultaneously. Therefore, they want support for a same component across the world. Where it is a Tier-2 product such as an engine valve or brake lining or disc pad or aluminium casting, there we are on equal footing with their suppliers.

Do you piggy-back on these foreign firms for export?

Partly yes. But we also directly export to Volkswagen and John Deer in the U.S. Some, we do through our partners and some directly. We like to keep a diversified portfolio. U.S and Germany are main export markets. At present, 15 per cent of our sales are exports.

Will there be a change in the number of companies in your group?

Right now we have realised that the less number of listed companies we have, the better. This is because corporate governance is becoming time consuming and expensive. Compliances are becoming difficult. Given the product and partnerships, we might not be able to consolidate. Within those limitations, however, we are seeing if consolidation is possible. What we have realised though is that when it comes to listed companies in India, it is not worth having small listed companies anymore. Lesser the number of independent companies, we think, we can do more justice.

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