EXCLUSIVE

HARISH LAKSHMAN

ACMA's newly appointed president speaks on the gameplan to tackle the downturn, backing SIAM's call for a stimulus package, getting members to invest more in R&D, why cluster programmes are the right way ahead, and how the component industry will benefit more from the right footfalls at Auto Expo 2014. An interview by **Shobha Mathur**.

You have just taken over the mantle of ACMA when industry is witnessing turbulent times. What are your priorities going forward?
Yes, I am taking over during a difficult time. In many ways this downturn is worse than the 2008-09 crisis but despite this the long-term ACMA Vision 2020 remains intact.

The key in the immediate term is to work closely with all our stakeholders, the first being the government encompassing the various ministries including our parent Ministry of Heavy Industries, as well as Finance and Commerce, to see what stimulus we can get from the government to boost the auto sector. Secondly, our aim is to work closely with our customers and OEMs – during these difficult times, there needs to be some give and take, be it in payment terms or price increases. We need to stay together and not end up pointing fingers at each other. Third, we need to reach out more to our members to help them improve their cost structure.

ACMA also has many initiatives like the cluster programme that helps improve the profitability of our members. These are now needed more than ever before to keep our heads above water.

Lakshman, who is also the MD of Rane TRW Steering Systems, addressing the 2013 ACMA Convention in New Delhi on September 5.

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Does this mean that increasing the number of ACMA members is on the cards this fiscal?
Yes, definitely the focus on increasing the membership will be there. In fact, this year we are also trying to reach out to Uttaranchal which has become a major auto hub. ACMA is planning to open an office there very soon and has also posted staff in the state.

Similarly, a lot of activity has started in Coimbatore in Tamil Nadu where there a number of auto companies and we are trying to step up our engagement with them. Ludhiana has also been reasonably active but we want to raise the activity level further.

Overall, we will be adding more members by reaching out to newer areas.

On the stimulus package front, SIAM has made some recommendations to the government. What is ACMA looking for?
We don't look for a direct stimulus but there are some other things for which we are seeking support from the government. As far as the immediate stimulus is concerned, excise duty cuts on vehicles are required. What is good for SIAM is good for us. Whatever SIAM has recommended to the government, if implemented by the government, will drive demand and in turn will translate into growth for us. I am very hopeful about receiving the stimulus package.

How do you see the Indian component industry's growth panning out in 2013-14? How deeply has it been affected by the depreciating rupee?
We were hoping to grow at 7-8 percent but that's not going to happen. Right now, we are in the negative but are bullish about ending the year at a flat growth across all segments.

In India the downturn is more severe this time along with currency depreciation. Europe is in a bad shape since the past two years but the US is doing better. Russia and Brazil are also impacted but India is one of the worst hit. Even the ASEAN is affected but maybe not as deeply as India.

SIAM sales numbers indicate a downtrend during April-August 2013 but August itself has given some reason for cheer. Do you think the festive season will ring in a change of fortune?
We will have to wait and see. Generally the mood is pessimistic; people feel there will not be enough momentum even during the festive season. There will be some marginal growth compared to July-August, but compared to last year I doubt whether it will be significantly higher. The feedback from our customers is that enough traction is not happening at dealerships.

The recent ACMA Convention saw speakers talk about lower investments by the auto component industry. How much lower do you expect investments to be in FY'14?
In the long term, I don't see investments undergoing a significant change. We have been investing roughly around $ 1.5 billion (Rs 9,408 crore) every year. But this financial year will witness cut back in capex; in fact companies have already scaled back because there is excess capacity with many plants having a capacity utilisation of only 65-70 percent. I expect a reduction of 30-35 percent in investments.

Last year while exports grew higher than imports, imports continued to dominate the forex basket. In countries like Korea, the government provides a lot of sops and incentives to their suppliers for boosting exports. Has the Indian auto industry taken any learning from them?
We have discussed some of these points in a ministerial meeting last fortnight. Higher imports are a big concern but export is clearly a focus area in the future and now with the rupee depreciation our competitiveness has also improved. We are today able to quote better prices because of the dollar.

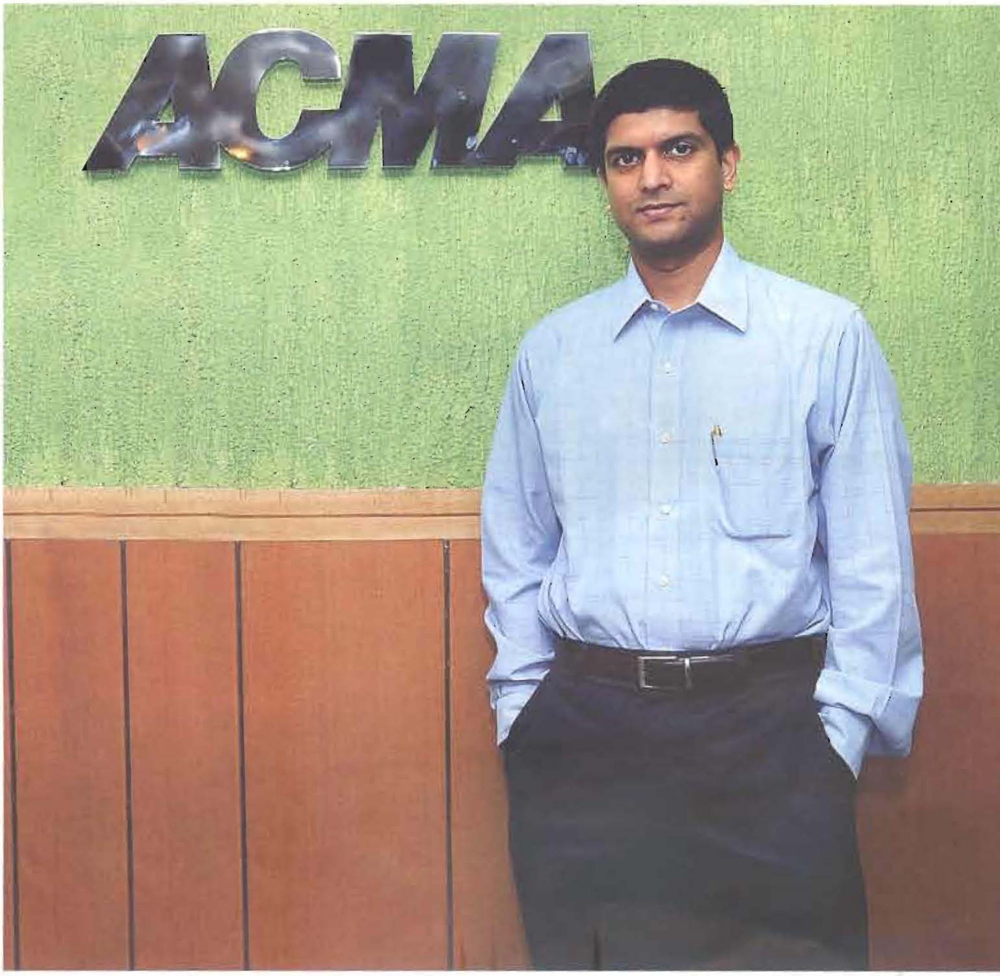
All our members are focusing on exports. We are getting some sops from the government and even though the Duty Entitlement Pass Book (DEPB) was rolled back, there are some other schemes that the government has introduced like the market focus linked scheme and the product focus linked scheme from which companies are benefitting. So, obviously, we are trying to get the government to increase some of these benefits further so that we can be even more competitive and get more business.

As far as trying to understand from other economies is concerned, ACMA undertakes some CEO missions wherein we visit other countries to understand what they are doing and the Automotive Mission Plan 2006-16 is being revisited. To facilitate that, some teams drawn from the government, ACMA and SIAM will be visiting some countries across the world to understand their manufacturing and automotive policies to see what we can incorporate in our AMP. We have already initiated the work on it and by the first quarter of next year, the AMP review will be out.

The AMP was a 2006-16 document and now after the review it will possibly be extended till 2026. It is going to be a very intense study with teams going out to the East – largely China, Indonesia and Thailand. Indonesia is now an emerging market and of concern to the automotive industry. In the West, we will be looking more at emerging economies like Poland, Slovakia, Russia and further west to Brazil.

We will not be looking at the developed markets because there is enough information available on them but countries like South Africa, which are high cost and high margin regions, with limited suppliers for critical components is a high potential for exports and for developing synergies. Brazil, which had a very open door policy, has now become more protectionist in nature. While Brazil has emerged as an even greater area of export potential than Mexico, it is also an area of concern. So we are focusing on it.

What steps will you take towards modernising the auto component industry in terms of product portfolio and technologies?
Our medium and long-term focus needs to be on continuing product development and innovation. As a country, we need to move up the value chain from parts to print to undertaking actual design and R&D investments. At present, our R&D investments are abysmally low, ranging around just 1 percent of sales compared to Germany where it is 5 percent.



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While some companies have started to take action in this sphere, a lot of us need to take action so this is an area where hopefully we will see increased action. At ACMA, we are driving this message internally within members asking them to look at R&D and innovation in a bigger way.

Will ACMA look at facilitating joint ventures and inorganic growth to enable this?
ACMA cannot evolve the roadmap for each company; broadly, we can provide the umbrella and framework and joint ventures are company-to-company relationships that the individual members have to forge. For better access to technology, there is the Fraunhofer Institute of Germany and ACMA is facilitating a relationship between the institute and our members. Besides, we also undertake overseas missions.

ACMA had been petitioning for a Technology and Development Upgradation Fund from the government. What is the current status?
It is not happening since the government is more on a revenue collection mode rather than a spend mode; so it is unable to allocate funds for this sector but what has been suggested to us is an interest subvention on R&D and technology. That is a long-pending request of ACMA and part of that will come through under the National Electric Mobility Mission Plan (NEMMP). One of the objectives of the Mission is R&D and technology and part of it will get addressed under NEMMP.

Is the component industry ready to cater to the requirements of the Electric Vehicle sector?
No, that will take some more time. We are

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asking for an interest subvention scheme for R&D which includes availing funds at low interest rates.

Do you think that the Free Trade Agreements with Japan and Thailand are giving them undue advantage in terms of exemption from customs duties on components brought into India? What is your stand on it?

Yes, they are definitely impacting some components. Those FTAs have been entered into and cannot be revisited. We are only increasing the awareness of the government so that in the case of future Free Trade Agreements we can be more careful in what we commit.

The government should also look at signing FTAs with Brazil and South Africa where import tariffs are significantly high so that Indian companies can benefit from a lower tariff.

How is the component industry working towards becoming more cost effective, especially during the ongoing slowdown?

Ultimately being cost effective will be productivity-based with sops from the government contributing a small part. We are already competitive against the US and Europe in terms of labour costs and frugal engineering, our inherent advantages. But we also suffer from a host of disadvantages like power costs and other infrastructure costs, so there are both pros and cons.

The key is to improve our productivity and manage our costs better. Here cluster programmes are very important in helping improve productivity and lower costs.

Can you cite some examples of cluster programme benefits?

We undertake it at a two pronged level – we have the ACMA Centre of Technology that runs these programmes and we have also taken up a pilot phase where we obtained funding from the government and took up a project with UNIDO. Several component companies have benefitted from it. The criterion is the company's CEO involvement and the programme is now being carried forward in the second phase. We have the government's approval for its implementation wherein we will introduce new subjects like energy management into the programme.

How severely is the component industry impacted by rising fuel prices?

It is definitely impacted from both a sales and costs standpoint because power is not available. Diesel is more expensive on the cost side that is hurting the market sentiments and leading to a drop in passenger car sales.

Do you feel there is a need for the industry to get its act together in some areas of components?

Yes, in transmissions and in electronics that will be the future of automobiles. The current content of localisation in electronics is fairly low. This can be achieved through product development, R&D and innovation as well as enhancing the productivity of workers both blue and white collared.

Auto Expo 2014 is around the corner and for the first time SIAM and ACMA will be represented at different sites. What are ACMA's expectations from the Expo?

We may be physically separate but otherwise SIAM and ACMA are like husband and wife and the show is happening together. The earlier exhibition ground at Pragati Maidan had some issues. The Greater Noida exhibition venue may experience logistical issues but overall ACMA is not interested in footfalls the way SIAM is.

We are more interested in the right feet coming to our stalls. We want the OEMs' purchasing and engineering teams to visit our stalls and SIAM has already committed to bringing all its purchasing and engineering people to the ACMA show. Some special buses are being arranged to bring them. We are not interested in public footfalls.

How do you visualise the growth potential and challenges in the Delhi-NCR region?

Maruti Suzuki and Hero MotoCorp, the number one car and two-wheeler manufacturers respectively in India, are located in this region, so any growth will directly impact this region positively. Both hold a market share of around 50 percent; so once sales for Maruti and Hero pick up, it will positively impact growth in this region. The main issue in this belt is human resources. What has been happening in the past couple of years on the labour front is unfortunate; otherwise, this belt has a lot of engineering talent, lot of resources and scale. What is required are changes in the archaic labour laws.

What steps is ACMA taking to skill workers?

ACMA has an HR and Skills Development Committee which conducts various initiatives like training programmes. Also, the National Skills Development Corporation and under it the Automotive Skills Development Council (ASDC) and ACMA have started to work closely together. The past ACMA president (Jayant Davar) has now been nominated as the ASDC president and we are hopeful of working together even more closely on skill development.

How has the aftermarket been impacted by the slowdown and what is the current status on counterfeit components?

The aftermarket is also not growing significantly and is experiencing negative to flat growth with a lot of it due to lack of credit availability that is hurting the market sentiments. But we are still bullish that with liquidity improving, the aftermarket should pick up in the latter part of the year. ■