

SIDDHARTHA LAL

In a candid conversation with **Darius Lam**, the managing director and CEO of the one-year-old VE Commercial Vehicles reveals the company's gameplan for this year and beyond.

What are your goals for VE Commercial Vehicles during 2009?

A major goal is to integrate Volvo and Eicher operations since our joint venture VE Commercial Vehicles is just about a year old. It involves integrating our personnel culturally because they are what make the company tick, and also process integration, which includes product development process, marketing, sales, HR, and vendor development process. There is much happening on these fronts which involves taking the best practices from both the Volvo system, which is a globally well formulated system, and from the Eicher system, which is locally oriented and coming up with the best way of doing business.

The second key area we are working on is quality. We have support from Nissan Diesel which is the quality leader in CVs in Japan, which makes it the global quality leader in this segment. With its help, we are building up our quality and reliability programme within VECV, particularly for the Eicher range of trucks and buses. Ours is a long term, concerted and very Japanese-oriented plan. It's something we can embrace very easily because we've had Japanese partners in Eicher Motors in the past, so it's part of our DNA but we are now putting a renewed effort into this activity. Our goal is to make quality a real differentiator in the Indian market.

The third goal is product development, which can be segmented into light and medium duty vehicles, heavy duty vehicles and buses. Much work is underway in the HCV segment – we have already announced one new product which is our 25-tonne tipper that will be launched in early 2010. And there are other products in the pipeline, some in the much longer term.

We have strong products, systems and aggregates in Eicher and also some aggregates from the Volvo side. More importantly, we are getting a lot of support from Volvo on the testing and validation systems, which is particularly helpful in testing vehicles for applications such as mining where Volvo has global expertise. We are making sure we use that expertise in validating our trucks to ensure they are top of class when they are launched in India.

How is your JV with Volvo structured?

In VE Commercial Vehicles, Eicher Motors owns 54.4 percent and Volvo owns 45.6 percent but in turn Volvo also owns 8.1 percent of Eicher giving

it an economic interest of 50 percent. However, the JV is run as a 50:50 venture and this is reflected in our agreement with them. Also, there are no plans for Volvo to take a majority stake in the JV in future and we are very well capitalised in terms of our future needs.

How do you see the automotive market and in particular the CV market shaping up this year?

The market will continue to be lower for the next three or four months as compared to last year but by October 2009 it's going to start looking better. This is because a huge downturn hit around that time last year where the market for trucks dropped 70 percent and retail sales are certainly under pressure.

We see this as a tough year and the overall mood is one of making slow and steady progress rather than an absolute V-curve in terms of the recovery. In the past there was certainly an



"We are addressing two main segments: the higher end segment through the Volvo range and the middle- and mass market segment through the Eicher range."

oversupply situation in the market and also a lot of credit being available in September 2008, so we are now seeing a correction.

This downturn has also set the industry back a few years to 2005 levels of sales, despite the current rise in sales that we are witnessing. So it will still take a year or maybe more to get back to 2007 and 2008 numbers.

What trend do you perceive in commodity prices for inputs like steel and rubber, and how will these evolve in the coming months?

We are working hard toward realising the benefits of the commodity price reductions. Of course commodity prices have just started to creep up once again, but there has been a substantial reduction from last year. While different commodities have seen different reductions, there has been a huge overall decline in prices compared to 2008.

The challenge is to realise these reductions in our cost structure since a number of vendors are in a difficult position due to the lower overall volumes. Also, they may have bought or contracted to buy a lot of raw materials at higher prices. So the challenge really is to get over all of that and realise the benefits of the reduction.

At VECV, we have been able to pull back a very large chunk of the increases that had happened in the past. So we are getting back to early 2008 levels of cost. But it's still a challenge to make sure that we realise all of the benefit.

What new products do VECV and Eicher plan to launch this year?

Other than the 25-tonne tipper, there is our rear-engined, semi-low floor city bus which is due in 2010. There is a lot of effort going into it but it is also a moving target because the government keeps changing the specifications for buses that would be bought under its JNNURM programme. This means restarting the development from scratch.

What segments of the CV market are you targeting?

We have two main segments: the higher end segment addressed through the Volvo range and the middle- and mass market segment addressed through the Eicher range. We have the entire Volvo range at our disposal to use as we think fit. In case there is any truck we think will fit a requirement in India, we can bring it





in straightaway. The Eicher range is more mass market and it's really going to drive our market share and volume in the heavy duty segment.

We believe that the industry today is really backward. Eicher has been able to roll out really good products in the 9-tonne and 12-tonne range and the competition had to follow us. Today an average 9-tonne vehicle has a 90bhp engine, but the best-selling 25-tonner has a 120bhp engine. This means different power-to-weight ratios and different levels of trucks. Our trucks have light cabins with very good safety, comfort and ergonomics. We also have a fully built steel cargo body which is durable and light weight as well.

The majority of heavy duty trucks in India today are cows with locally built cabins and bodies, which mean they are heavy, underpowered and not so reliable or durable. We have a long-term approach and we do not want to make a traditional truck. But that does not mean we are niche players as far as the HCV segment is concerned. In fact we are present in the middle of the market and fighting for share with the other players.

Our goal is to drive modernisation and this gels very well with both Eicher and Volvo. Eicher has always stood for modernisation in the Indian market and Volvo globally is a very forward-thinking CV company. But this does not mean that we want to double the cost of the truck, so we will ensure affordable costs while upgrading the market.

At the end of the day you have to deliver operating economics — it's not just about making a pretty truck, after all no one buys

a truck for its looks. We want to offer more comfort, safety, driver productivity and hence better operating economics, productivity and asset utilisation. I feel that we are better placed compared to our competitors to drive this change in the Indian market.

Tell us about your vendor development activities?

To start with, we take a really holistic view of our relationship with our vendors. Every company calls their vendors their partners but this is tested during tough times like we are going through at the moment. As far as payments are concerned, VECV has absolutely the best track record with vendors because we really respect our vendors for who they are in good times and bad times.

We are also trying to bring them closer to us in terms of location, particularly for bulky parts, and we are trying to involve them more closely in our product development efforts right from the start of the programme. This includes areas like cost targets and design parameters so that they are able to come up with the relevant and interesting alternative solutions. We believe that 70 to 80 percent of the cost is built in during the design process itself, so getting early involvement from vendors is important to keep costs down. In fact, some of our vendors now have sufficient scale and are coming closer to our plant in Pithampur.

" We are planning to launch a 25-tonne tipper this year, followed by a rear engine, semi-low-floor city bus sometime in 2010."

How do you decide on procuring parts locally versus importing them?

This is an extremely rigorous process and we have been much more conservative compared to our competitors, in terms of using say Chinese parts in our products. I think we have prospered because of that because some people have had bad reactions, not because the parts are bad but perhaps the particular batch was not properly manufactured. We have been very cautious because we want to make sure that parts quality, durability and serviceability are of the highest order. Serviceability is particularly important for power train components and tyres. We also have a very strong approval process for our parts and even if we do go externally we follow the same process to make sure there are no short cuts basically from a quality point of view.

What are your plans for the export markets?

We have a very India-centric strategy and we expect the domestic market to account for a large part of our growth over the next five to 10 years. At present, exports comprise around 10 percent of our business. We are looking to export to developing markets including South Asia, which is similar to India in some aspects. Other markets would include the Middle East, Africa and some markets in South-East Asia. Initially, we would be looking at light and medium duty vehicles, moving to buses and eventually heavy duty vehicles. And, we would seek to leverage on Volvo distribution in some of these markets. ■