

The China challenge



Tarang Jain, MD, Varroc Group is planning organic, inorganic moves to expand into 'niche areas in the four wheeler space.

THE WORLD HAS recently seen its worst possible recession since the Great Depression of the 1930s. The US as well as China have had to resort to massive rescue financial packages which has brought about some stability to the world economy.

However, we are still not sure whether the problems are really over for the world at large. The European Union has given huge rescue packages to Greece and Ireland. The US has seen another infusion of funds or stimulus in form of tax cuts to stimulate their economy. Unemployment in the west is still close to 10 percent and a major issue which is compelling it to resort to protectionist measures.

For a like the G 20 in which the world's heavyweights were supposed to put their heads together, have left more issues unresolved than they cared to address (especially the artificial rate of the Chinese Yuan) which is a big concern for western economies.

India, however, is poised for a good growth in the

coming decade. One could expect between an 8-9 percent GDP average yearly growth in this period due to our demographics, increasing income levels and a surging rural sector.

The Indian government's commitment to social welfare programmes for the poor and the \$ one trillion investment in infrastructure will definitely support future growth in the Indian economy.

India's automobile industry has been doing very well since the recession, especially this year with overall automotive growth at over 30 percent over the previous year. India is fast becoming the global hub for small cars and the country's overall car production could touch 2.5m numbers this financial year. The two-wheeler and commercial vehicle segments too have seen remarkable growth.

The auto component industry too has seen a good year especially as previously unused capacities are not only fully utilised, but there has come about an urgent need by all auto OEMs, in view of the phenomenal demand in asking the component industry to further invest in capacities which has been a major challenge this year.

Though the auto component industry will see good growth in the future (also suggested by the Ernst & Young 2020 vision report); I see some real challenges in front of us such as -

- Firstly, the ability to sustain margins and therefore the ability to invest. There is a continuous need to give productivity discounts in view of the year on year

growth, which is a real challenge.

- Secondly, will be the ability to retain and attract good talent in view of the robust growth ahead.
 - Third, will be the ability to manage the workforce in the machine shops especially with rising aspirational levels, and also the challenge to get more skilled workers in plants.
 - Fourthly, the four wheeler OEMs will be looking at further localisation in the future therefore the ability for Indian companies to be able to assimilate and upgrade their R & D will be a real challenge as foreign auto component makers who have the requisite technology are looking at majority stakes in existing new ventures with Indian firms. It will then obviously be more difficult to assimilate the necessary technology needed, as it will have to be home grown.
 - The threat from China is very real as cheaper imports from that country have been growing not only for the after market in India but for the OEM market as well.
- The Varroc group is a Rs 2,500 crore entity with over 20 plants in India and Europe. At Varroc, a large part of our sales currently go to the competitive 2 and 3 wheeler market. It will be our future strategy - either organic or inorganic - to find niche areas especially in the four wheeler space which form an entry barrier in view of the large investments needed or high technological needs. There will also at the same time be

an effort to understand the Chinese market better and look at certain alliances so as to remain competitive in the coming years.

The Varroc group is currently creating a new HR architecture which helps retain existing talent and also attract new talent. There will be a stress on promoting the core values of Varroc of sincerity, humility, integrity, passion and self-discipline. As the industry grows, there is a need for more leaders to emerge from within the organisation to take up greater responsibilities.

There will need to be greater emphasis on stronger recruitment procedures, training and development and an impartial performance management system. There will be a focus on attracting fresh new talent into the organisation, some of who may well become leaders of the future. There will be a focus on strengthening brainpower in the organisation in R&D to increase product development strengths and also come up with value engineering ideas to stay competitive.

On the shopfloor, the need will be for reduction in manpower through automation and outsourcing of some non-critical production. The Varroc group will also be looking at adopting an ITI institute close to our facilities so as to get a steady stream of skilled workers. It is looking at a minimum 25 percent growth year-on-year for the coming decade. By the end of this decade, the Group could well become a Rs 15,000 - Rs20,000 crore group. ■

Ability for Indian companies to be able to assimilate and upgrade their R & D to cater to global four wheeler OEMs in India will be a real challenge.