

Commercial vehicles on a roll, but 'tractors need a rural boost'

Road building in rural India will help the auto sector, says Wheels India MD Srivats Ram

Srivats Ram, MD of Wheels India, talks about both the bright and grey spots in the auto sector and the need for the Make in India initiative.

The Centre is expediting roads and rail projects. Do you see this translating into better vehicle demand?

The government seems to have a clear direction on what needs to be done with regards to road and railways and has plans for funding the initiatives. There is also expected to be state-level infrastructure development coming up, with a few State elections planned in the coming year. We are seeing anticipatory demand for excavators, pavers and soil compactors used in road building.

With BS IV emission norms to be implemented pan-India from April 2017, the next year may see commercial vehicles sustain double digit growth. The pre-buying ahead of the new regulations may see operators going for higher tonnage vehicles, to improve their costs. The same factor would also contribute to a dip in demand in 2017-18, as has been the case in Western markets when new norms were introduced.

We expect muted growth in the passenger car segment as growth momentum in the economy is yet to pick up. A recent survey of industries shows the slowest expected growth in salaries in the last few years, which will affect car industry growth. However, market leaders with new products will continue to do well. There is also likely to be a more pronounced shift from diesel to petrol vehicles, given the current urban sentiment especially in the NCR.

What are the challenges for the auto sector?

As I see it, the rural segment is the big concern. Unseasonal rains and global commodity prices being low at a time when the government is also looking to control inflation, have put pressure on rural incomes. Agriculture has been badly affected and the sentiment is very negative. It is understandable that the government wants to curb inflation and reduce sops. But I do think that rural distress needs to be addressed through investments in rural infrastructure and development. Yes, good rains this year can improve sentiment. But road building in rural areas and rural development is also required. I think budget allocation on this will be keenly watched.

On the power sector, there is some progress on discoms with UDAY but a lot more inter-governmental coordination is required to make the scheme a success. The government has started taking steps in the right direction.

Vehicle sales have improved, but why have Wheels India's sales and profits shown such muted growth in the first nine months of this year?

While there has been decent volume growth in the company overall, that has been negated by price deflation following the drop in commodity prices. The slowdown in exports and the tractor market has been compensated by our growth in the truck segment and in energy components. We also introduced a new product category – lift axle suspension systems in the second part of the year.

While the truck and wind energy sectors will see good growth in the coming year, we are seeing a bottoming out of the downturn in the off-road segment and believe that we will be in a strong position when the industry picks up globally. In the wind segment, we have learnt at a fast pace and have got the confidence of domestic and international manufacturers. We are now able to ramp up to grow in line with the industry. The thermal power segment is hampered by liquidity concerns and funds. We are diversifying our portfolio. In the passenger cars and tractor segment, we are looking at differentiated products.

Steel prices are down sharply. Is this translating into better profitability?

To an extent, but this is affecting both the numerator and denominator. We have undertaken a lot of initiatives in improving our yield and manufacturing processes that will give us a cost advantage. In India, we have been able to manage costs and profitability when industry sectors were growing at 10-12 per cent. At lower growth, it has been a struggle to manage costs to maintain profitability.

The steel sector had made major investments, but demand and global prices came down. So there was a need to protect the industry. There have been multiple interventions. The auto component industry is a large exporter of steel based components, and managing domestic steel prices comparable would encourage use of domestic steel for exports. While there is need to support the steel industry, this should not increase in domestic steel prices.

Do you think the Centre is on the right track with its Make in India initiatives?

Make in India is a move in the right direction. The Centre's role in a democratic capitalist society would be to provide basic infrastructure to enable business, where India has been lacking in the past. There is intent in this government to make up the deficit. Plus, India is one of the few economies globally which is growing. For global companies which are looking for regions where they can invest and grow, India is a big opportunity. Large global companies setting up a base in India will help downstream industries to develop and a supply chain to spring up. The Make in India policy can attract such investments. With increasing automation, will manufacturing investments really create more jobs in the future?

The kind of skill sets we would look for in the workforce would change. This is already happening. At Wheels India, earlier there was a lot of requirement for mechanical engineers. But the mix is now changing more towards electrical engineers with programming capabilities. There is definitely a move in manufacturing from hardware-oriented, to electronics and software-oriented aspects. There is a requirement for companies to re-skill their workforce. It is important for educational institutions to keep in line with these changes. India will move towards automation. India should also look at jobs which cannot be automated and focus on them. We haven't really leveraged our IT and programming capability in manufacturing so far. How India will marry the gap between IT and the soft skills and use that in manufacturing will be interesting to see.