



INTERVIEW WITH D.Y. MANAGING DIRECTOR

Much was expected from the autocomp industry, but it seems to have belied expectations in general, at least in the short-run. How would you take stock of the industry as a whole, and maybe your sub-sector. Your comments on the recent past, and your expectations of the future.

Like I have said before, it is wrong to treat autocomp as a single, undifferentiated industry with the same generic patterns applicable to all. There are commodity players, with their own cyclical trends. There are technology players, who are attempting a scale change by opting for a new customer mix, especially with an export thrust. The dynamics of the international market are very different from that of the domestic market. Some of the disappointment comes from the fact that returns in the export market are very different from the domestic market.

Many companies are slowing down because they are learning new technologies, bringing in new people, systems and products, all together. You will see multiple trends in this sector, but on the whole, the broader story is on track. Topline will grow first, but bottomlines will also come, once the new products/ technologies referred to above are absorbed.

In our sub-sector (Gear & Transmission components), the basic story remains bullish. Growth in the domestic markets is available, so it would appear to be difficult to keep up with such spectacular growth in both domestic and export markets. The real challenge is to try and scale up so fast, over so short a time period.

What are the special features to be considered in tracking your company?

We have divided our business into 3 verticals: gears for two-wheelers, Engine Gears and Engine Components, primarily for exports. We also have a new business in Gear Shafts, entirely for exports. This is the first time we have prototyped a product for a global OE.

The 2-wheeler business is domestically focused, while Engine Gears, Engine components and Gear Shafts are primarily for exports. All our verticals sell only to top-of-the-line OEs; there

are no retail sales. The relative mix between these verticals will drive our profitability.

Each of the above verticals has different levels of profitability, technology, throughput, investment requirements and growth potential. They also have different levels of investment in Working Capital, which impacts the Return on Investment.

Significantly, a reduced investment in Working Capital means a faster payback in cash terms, which is our current focus. Once we have a leaner Balance Sheet, we might go back to looking at Gross Profitability; for the time being, our Balance Sheet cannot bear the impact of the huge investment into Working Capital, needed in some verticals.

By changing our relative focus to quick-gestation projects, we hope to do much better this year.

What are your investment plans and growth strategy this year?

We will be focusing on the domestic market, where we have recently given up significant turnover and profits by growing exports too fast. Only balancing investments and normal capex is planned for this year.

We will be looking to extract maximum mileage from the investments into Manesar last year. This will be a year of consolidation. You will see us extract turnover growth with minimal expansion of our Balance Sheet.

How do you expect to fare this year?

Well, top line will continue with the same growth momentum that we have seen last year. In fact, I might even be adventurous enough to assert that this growth momentum may last even beyond the current year. Given our shift in product-mix, you can expect higher profitability than last year as our new investments start to produce at capacity. New product investments will slow down, resulting in lower development charges. Higher throughput per unit of capital



will result in higher capital efficiency, which you will see in our bottomline.

Significantly, you will see a leaner Balance Sheet for our kind of turnover, more cash generation and better liquidity. As the excess leverage is worked away, you will see a far healthier company over the coming year.

Longer-term, what is your outlook? Last year, you sounded pessimistic.....?!

The key challenge we have is to manage growth, without significantly straining our Balance Sheet. In the past, we have taken on long-gestation projects that exceeded our financial capabilities. Too much growth can give you indigestion.

Our core businesses remain profitable, but we need to shore up our competitiveness by enhancing scale and reducing costs in line with customer expectations. This is our strategic imperative for now.

Once this is done to our satisfaction, we will acquire newer segments: products, customers, technologies and markets (i.e., exports Vs domestic). But this will be done carefully, with an eye on the Balance Sheet. We have learnt recently that trying to do too much can strain our resources.

Subject to the above caveat, our growth prospects look very attractive. We are ahead of the Learning Curve, compared to our peers, both in India and in other emerging markets. We have excellent customer reputation, a technology partner who is a world leader and sole (or dominant)-supplier positioning in all our major products/ customers. The important thing is to make our commitments carefully, and then ensure that we do not fail on delivery. If we keep a steady reputation on that count, our shareholders have nothing to worry about.

