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# Volvo Eicher now guns for heavy truck market

After strengthening its position in the medium CV market, VE Commercial Vehicles is now set to take the challenge to the HCV segment, says **Sumantra Barooah**.

**Advantages of frugal engineering, sourcing and lower manufacturing costs than Europe made Volvo invest jointly with Eicher to build Pithampur as an engine sourcing base.**

VE Commercial Vehicles (VECV), the five-year-old joint venture between Eicher Motors and the Volvo Group, has drawn up a strategy to challenge the biggies in the heavy commercial vehicle market.

"In heavy duty vehicles, currently, we hover around a five percent market share from a starting point of 2010 when we had one percent. We still hold that we will reach 15 percent market share in the heavy duty segment. The time frame may move by a year because of the downturn. If not 2015, it will probably be 2016," says Siddhartha Lal, managing director, VECV.

If the confidence exuded by Lal is any indication, then it may be that the new pack of products slated to hit the market starting this year is much superior than the existing model range. The company plans to revamp its entire portfolio by 2015-16.

Volvo Eicher says it currently covers around 50 percent of the HCV industry effectively. It plans to cover the rest in the next two years. "We are all set in terms of product and production. Really, it's now the front-end. Our focus of the organisation is moving into service, aftermarket, and customer support in vehicle servicing, finance or any other area," says Lal.

**VECV's new pack of products slated to hit the market starting this year is claimed to be much superior than the existing model range. The company plans to revamp its entire portfolio by 2015-16.**

**30 SECONDS ON ... ENGINE-ERING THE FUTURE**

- VECV to be the global manufacturing hub and industrial base for Euro 3, Euro 4, Euro 5 and Euro 6 medium duty base engine requirements of the Volvo Group.
- Engine facility will be global hub for Volvo Group's medium-duty engine requirements for five- and eight-litre engines. The Euro 6-compliant diesel base engines will be supplied to Volvo Group plant in Venissieux, France. The same platform will be adapted to Euro 3 and 4 engine (BS III/BS IV) technologies to meet VECV requirements and other Volvo Group requirements for this type of engines in Asia.
- Initial plant capacity of 25,000 units per annum in Phase 1 with Rs 375 crore investment. Will be increased gradually to 100,000 units in line with market requirements with additional investment of Rs 125 crore.

**Volvo Group's Bertil Thoren, along with Siddhartha Lal and Vinod Aggarwal, CEO, VECV, at the inauguration on July 31.**

## Engine of growth

The key efficiency driver in a commercial vehicle is its engine. Therefore, VECV's brand-new engine plant in Pithampur, Madhya Pradesh, will play a key role in realising the joint venture' ambitious targets in India and abroad. Overseas, it will also help Volvo to be more competitive by sourcing engines from a low-cost base. The landed cost of the engines at Sweden may be 25 percent cheaper than what it would have cost Volvo if it had produced the engine in Europe.

"On one hand, it (the engine plant)will help Volvo Group reduce costs by sourcing engines from this plant, on the other hand, it will help VECV to source best-in-class Euro 3 and Euro 4 engines based on Volvo Group technology," says Bertil Thoren of Volvo Group. Frugal engineering, sourcing and manufacturing cost benefits made India the preferred choice for Volvo to invest in the engine plant together with Eicher.

The Pithampur plant, which has an initial annual production capacity of 25,000 units per annum, is Volvo's first engine plant outside Europe and sees an investment of Rs 375 crore. Engine manufacturing capacity will be increased to 100,000 units per annum with an additional investment of around Rs 125 crore. The Volvo-Eicher JV, which has completed five years of formation, has invested around Rs 1,600 crore. Another Rs 800-900 crore will be invested by the end of next year.

"The plant puts us in an extremely advantageous position versus the competition on engine technology. VECV will be manufacturing Euro 6-compliant base engines for meeting automotive requirements of medium duty engines of Volvo Group globally," says Lal. The engine platforms produced at the plant will have a power range of 180 to 350 hp. "They will provide the highest power-to-weight ratio in the Indian commercial vehicle space," says Vinod Aggarwal, CEO, VECV.

## Going Euro 6, going global

The engine facility will be a global hub for meeting the medium-duty automotive engine requirements of Volvo Group globally for five- and eight-litre engines. The Euro 6-compliant diesel base engines will be supplied to Volvo Group plant in Venissieux, France

**INTERVIEW** SIDDHARTHA LAL, MANAGING DIRECTOR, VE COMMERCIAL VEHICLES

**'Once you cross 10 percent (market share) in heavy duty, you are a serious long-term player. Till then, it's always a struggle. Even now, it's sweat and blood behind every truck we sell today.'**

**On which segments in the bus business do you plan to increase your focus?**

Generally, we are in all segments of buses but our focus is in premium mass rather than full premium. There's always a push up but it's still making sure that you are catering exactly to the volume market. We never wanted to be out of the volume market and get into niches.

**Perception-wise, you say you are No. 2 in the market. How long do you think it may take for that to translate into numbers?**

It will. Frankly, in our reviews and in our entire thinking, that's never a point of becoming number two. It's always about growing faster than the industry and that's important to us. Are we more profitable now? Which we are. We have crossed the profitability of all our big competitors. And, I would say that the third thing is to achieve a real critical mass in the heavy duty market. We believe that the real critical mass is 10 percent.

Once you cross 10 percent in heavy duty, you are a serious long-term player. Till then, there's always a struggle. Even now, we are working hard but it's sweat and blood behind every truck we sell today. But after 10 percent, we believe and hope then we have scale which helps to bring costs down in partnership with suppliers. The visibility and resale value will improve. The customers will see more vehicles on road. That positive cycle, we believe, happens at 10 percent. That's our holy grail.

In India, 10 percent currently means 1,000 trucks a month but soon it should be 1,500 a month. So, that's not very far in our horizon.

**Profitability is more important than volume. What has helped you achieve and sustain the profitability?**

We continue to invest tremendously. We did not cut down a rupee of investment during the last one and a half years. What has really helped us is our overall strategy. Among all CV firms, we are the most capital efficient. We have not over invested in huge plants. We like productive plants. So, we will squeeze more and more out of Pithampur than create a plant number two or three.

I believe we have been able to cross others because not that we are producing more in terms of scale but we have a better structure in terms of how we concentrate our resources in lesser locations. And our focus on issues which we believe are important from a future profitability angle such as aftermarket. The aftermarket to us is number one because it is the key driver for customer satisfaction and potentially for profitability in the future. Most global firms make large chunk of their profits from aftermarket.

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Euro 6 engine asembly line. Pithampur plant is the first engine manufacturing base of Volvo outside Europe.

where these engines will be assembled for the Volvo Group Euro 6 requirements. The same platform will be adapted to Euro 3 and 4 engine (BS III /BS IV) technologies to meet VECV requirements and other Volvo Group requirements for these kinds of engines in Asia.

## Bus plant in the offing

VECV's engine plant will be followed by a bus plant. The bus body plant is currently being set up and will start commercial production during the October-December 2013 quarter. Its initial capacity will be 7,500 units and will be scaled up to 15,000 units in the second phase. "The new bus plant, I would say is probably similar to this (engine plant). I can call it as world number one type of plant. So, we are not talking of Indian benchmark, we are talking about world benchmark in bus body building," says Lal.

While the bus segment has benefitted from JnNURM, the Society of Indian Automobile Manufacturers (SIAM) is in talks with the government on the second phase of the Mission which is expected to see sales in the region of 10,000 buses.

**VECV feels that crossing the 10 percent market share level will help in sustaining the momentum for its heavy truck business.**

Lal has said that starting end-2013 till 2015, VECV's Eicher Trucks and Buses division (ETB) will be renewing its entire product portfolio by launching its new range of trucks and buses across light, medium and heavy duty. "We continue to invest in all our strategic projects in VECV. By end of 2014, we would have invested Rs 2,500 crore since the creation of the joint venture in mid-2008," Lal said.

## Queing up for profit

Meanwhile, Eicher Motors has announced its second-quarter results. Total income from operations was Rs 1,669.9 crore and profit after tax was Rs 125.8 crore. In terms of numbers, the company sold 1,289 trucks in the above-16 tonnes category in Q2 as against 1,906 units in the year-earlier period. In the light and medium duty category, 7,724 units were sold as against 6,472 units, down by 28 percent. In the bus business, Eicher sold 3,331 units as against 2,784, an increase of 16.6 percent in the below five tones segment. In the above 5 tonnes segment, sales numbers were 10344 units as against 11,162 units, a decline of 14.3 percent.

In Q2 2013, Eicher reported its best-ever standalone quarterly total income from operations at Rs 381.8 crore, an increase of 49.7 percent over Rs 255.1 crore in Q2 2012. As regards Royal Enfield, a division of Eicher, which in April inaugurated a brand new Rs 150 crore 250,000 unit plant, Lal said in a press release that it had recorded year-on-year growth of 45.5 percent with record sales of 40,040 units as compared to 27,519 units in Q2 2012.

The Eicher-Volvo joint venture signed half a decade ago has clearly stabilised and is one of the successful joint ventures in the Indian CV space in recent years. At the end of 2012, Mahindra & Mahindra and Navistar International Corporation, which had jointly invested Rs 1,060 crore in the two JVs to manufacture light and M&HCV vehicles in India ended their JV with Mahindra buying out Navistar's 49 percent stake in Mahindra Navistar Automotives (MNAL) for Rs 175 crore.

While the Hero Group-Daimler JV did not take off, (Daimler India Commercial Vehicles is a 100 percent subsidiary of its parent Daimler AG), the 30:70 Force Motors-MAN JV is now a wholly-owned operation by MAN with Force Motors selling its stake to the German company. ■