Interaction between Mr. Pisharody, Executive Director, Commercial Vehicles and Ms. Swati Khandelwal, Bloomberg

Hello and welcome to this episode of Shifting Gears, a show where we put the spotlight on automotive sector and today I am going to talk to Tata Motors, Executive Director Mr. Ravi Pisharody. Thank you very much, sir, for talking to us.

Mr. Pisharody

Thank you

Q. Great to have you on our show. Commercial vehicle sector is back to great levels or at least good levels, if not great. This year FY'17, I believe you pegged a growth of 14 to 15% for the sector. Tell us what's really going to drive the growth, and do you think that's achievable and if the momentum is likely to continue from here on?

A. Commercial vehicles again has to be split up into at least two or three parts as far as growth is concerned. The medium and heavy commercial vehicle, cargo and construct started growing almost two years ago, in the middle of 2014. And usually they are the indicator of a recovery or even a downturn. Even the recession the country went into, we saw the M&HCV segment leading this in the early part of 2012, almost January and February. It took almost a year for people to accept that India was in a recession. And in a sense, the light and small commercial vehicles and buses followed a year later. So we have seen somewhat of that trend. The medium and heavy commercial vehicles started growing. And in last year, 2015-16, the total industry volume had actually just shot up the previous peak which was in 2011-12. So this year we are expecting that peak to be crossed. I am saying this because we do have an extraordinary factor which will drive demand in the second half this year which is the conversion of BS3 to BS4. While in cities it has already happened, which is why for the small vehicles and buses, it is not such a big change because many of them are already but even there, there will be a complete shift. But M&HCV has hardly moved to BS4 because the registration happens in smaller highway towns. So, that change will be quite radical. So even if on a high base the growth in the first half will not be dramatic, in the second half I think we will see good growth. So, I think on a relatively high base, we will see somewhere between 12 to 15% growth in M&HCV and smaller vehicles for very different reasons, the base is still low. And gradually the economy is picking up and we are seeing some long distance movement starting which means the last mile transport will also be required. So, we have seen again growth of about 15% coincidentally though the factors are very different on a small base. So net-net, we do expect growth to be of that order for the full year.

Q. But LCV which has been a pain point for last many months, how is that sector looking going ahead? You did mention that it is starting to recover but not entirely. What is your outlook and the sense in terms of the growth one can see in LCV sector?

A. We are seeing steady growth for the last 6 months. In fact for most of last year, Tata Motors in particular had a problem that when we were reporting CV numbers, a lot of the M&HCV growth was being offset by continuing LCV decline.

So, it looked like we were growing into 2-3%, whereas others were growing faster. But if you look at only M&HCV, I think we were quite alright. That started changing from January onwards. We have been reporting double digit growth for most of the months, and so that we are seeing now consistently. Even in June, the LCV growth was around 13- 15%. But it's still not really in a good shape because if you look at the peak numbers we are in 2011-12 and 2012-13, we are still far away from the peak and my sense is even though financers have tightened and the peak loan rate have dropped to 80-85%, there is still a lot of early defaults in terms of financers' portfolio. So I think growth is on a slow base but I am not seeing it in the way that we would like to see it.

Ms. Swati Khandelwal,

That will take time.

Mr. Pisharody

That will take time, it usually takes at least a year to play out. The good signs are that besides the BS3 and BS4 business, economy is picking up.

Q. So, you are saying you see that the cycle has turned and you know, the worst of the sector is sort of over in this cycle?

A. Yes. Since we are in a cyclical business, I'd say the worst in the recent past is over.

Q. For your company, you know, very specifically and your own outlook for FY'17 you did give me a broad sense of 15 to 16%. Is that for the industry or is it for Tata Motors?

A. For us also and I think the only answer to this is how sharp will be the pre buying in the second half. Because from 1st April the base for norms will kick in. What is difficult to fathom is that there will be some advance buying but obviously the economy has also to keep pace. Otherwise customers are not going to buy the vehicle just for keeping them idle. When they see just a bit of robustness in the industry then I think there will be more of an appetite because in this case unlike BS2 to BS3, BS3 to BS4 the cost and price increase is going to be fairly significant. I would say somewhere in a way to 8-10%.

Ms. Swati Khandelwal

And that's pretty big.

Mr. Pisharody

That's pretty big. So, I think we will see some advance buying. So, I was saying for our company we are looking at that sort of a growth.

Q. But how are you preparing yourself for the shift, I mean all manufacturers will be but for you being the market leader, how critical or difficult or challenging task will it be. As you said it's going to be quite radical but if you can tell us more?

A. It is challenging because of the quantum. Because we are full range company, I would we have a unique portfolio starting from a small micro truck which cost 2½ lakh rupees and going up to the biggest truck or bus. So, for our width of portfolio mix, it means that we have to move in to BS4 platforms on all these sectors. So, there is a lot of work for new projects and our engineering people to do. So, that's mainly the thrust this year. But besides that, it's not about just complying at any cost. If you come up with a solution which is very expensive and your competition does not follow suit or they give a very basic solution, while you message that your innovation is superior from the life of the vehicle's standpoint, still volumes could fall.

And the problem is not just this year. For last one year, we have been battling this. First it was ABS and then it was the speed limiting device. So continuously we are facing regulation which in case, broader the range the more you have to do.

Ms. Swati Khandelwal

But that's good for the country.

Mr. Pisharody

Good for the consumer and the country. So we are welcoming that but obviously we have to do a lot of work to keep up with this fast pace.

Q. How much investments does this involve, I mean each time you put in these regulations what are the kind of numbers that you are working with?

A. Investments are not significant. If you look at CV, we invest between 1500 to 2000 crores. Only 500 or 600 crores of that is in terms of design development. The rest is when we have to invest in tools and dyes or in a new campaign like in Signa. So the work which is required is more in terms of engineering resource. So the actual investment does not go up by more than a couple of 100 crores as a result of all this. So the bigger push is on the material content and that should not increase phenomenally.

Q. How is the macro picture looking, sir, when you talk about FDI and all, 7th pay commission, of course, these are just announced, we are yet to see the results of it, but generally does it boost sentiment and eventually is it good for the industry?

A. Yeah, I think before even these announcements, we witnessing a lot of infrastructure activity in the last 6-8 months. So for infrastructure construction resulting in cement and goods movements and a very good demand for construction tippers, they have been really quite active. So we are seeing that and all these recent announcements like the central government pay, the monsoon we are now into, it looks like the monsoon will be good. And clearly we can see that the reforms agenda is picking up pace. The first one and a half year seemed to be disappointing. The second year has been much better and I think we are seeing a better environment. So I would say the macro picture, I think the indicators are all there. For CV in particular, the second quarter, which is the monsoon quarter now is very good because people tend to wait for this period to get over which results in September being a bit of a peak.

Q. So I wanted to ask you about monsoon as well, a separate question about how do you foresee that impact, typically as you said it is not going to be good for the company or for any commercial vehicle manufacturers.

A. For two months. But the benefits of a good monsoon outweigh those two months. But that is not whether the monsoon is good or bad. In these months people feel their vehicles will not be utilized heavily due to which they just postpone the purchase. Otherwise the vehicles take a long time to move so there is now no incentive to advance your investment by two or three months.

Q. But festive season this time, I mean October is the month where you have everything, all possible festivals. Do you think this is going to be really a bumper year for auto companies or commercial vehicle manufacturers, you know, after a couple of difficult years?

A. I wouldn't say October in particular because we have typical peaks which are February-March. February-March is the peak for CV because we get the model year. So the model year changes in January, so people tend to slow down purchases in October November and December. In festival seasons we do get a peak on the smaller vehicles, people who want to buy metal and you know, so I think the FTU goes by those beliefs but the bigger fleet is much more dependent on the economy. So there we have a push in September which is ahead of the festival season. So that will be an indicator of how strong the sentiment is and then there will be the Jan-March quarter. Again a good monsoon will mean that, you know, one of the sectors for transportation is agricultural goods which has been weak in the last two years. So if the monsoon is strong, agricultural goods will also see a lot of movement.

Ms. Swati Khandelwal

And that will help?

Mr. Pisharody

Yes, yes.

Q. Sir, your market share which is 45% and you're a market leader. How do you see that by the end of this year, you know, growing with the volume growth projection that you have set up?

A. So, firstly in terms of 45%, it is increasingly becoming almost misleading to look at total CV pockets. Nobody else looks at it. Only because we are in the role of commercial vehicles we look at the market share where we combine from a small Ace to a big truck. If you look at all our competitors, they are either in big or in the middle or in the small. So nobody really talks about total market share, the total has been impacted more recently because of the fall in SCV. So as SCV starts improving we will get a natural correction in our market share because we have 80-85% market share, 70 plus in cargo and 80% plus in passenger. I think the market share which is really meaningful is the M&HCV market share where we still have about 55-66% market share, in a segment where there are 8 players today. And we are targeting to get back to somewhere around 60% market share.

Ms. Swati Khandelwal

By the end of this year?

Mr. Pisharody

That's right.

Q. What about the launches then, I mean typically these are hundreds of launches, you know, with variants and set to a different model, how much are we looking at this year and also in terms of margins, you think they are going to improve this year?

A. So let me answer the first question which is regarding launches. I think at any given point, there were large number of launches both for domestic as well as overseas.

Ms. Swati Khandelwal

But any significant one?

Mr. Pisharody,

Yes, the one which is really playing off right now is the new Signa cab. This is the product which we showcased in the February Auto Expo. So, we've just started shipments in May-June with the 49 tonnes and we are moving it top down. The new cab will finally come to all our main stream products. So, these are Prima as the premium and Signa will be just below that. So gradually, all our main stream products will migrate to Signa. By September we will finish the migration of all tractor trailers, 40 tonnes and 35 tonnes. Then we will move to tippers. So this is a fairly important innovation because for a nominal price increase of about 35-40,000 rupees on a 20 lakh product, we have given a lot of features. It is a completely new dash board, suspended seat, a lot of cabin comfort and the outside is also with fits and finishes of a very high order. So one big launch will be there on rolling out the Signa products. Similarly, in Ultra we've just introduced two products which is the 8 tonne and the 10 tonne, whereas there is a big market in the 13 to 15 tonne segment which is where a lot of the ICV market is moved. So, we are launching two products one is the 1412 and 1518 and many of these products will be configured on our new engines. There are two new Tata engines about to hit the market, a 3 litre engine and 5 litre engine. So, you know our strategy now. For 180 horsepower and above, we are using Tata Cummins engines and below that, including ACE Zip, we use Tata engines. But we have been using some old generation engines which we have been pushing, making a common rail, good for BS4. But now we have moved into a completely new generation which will be good for BS6 also.

So, the new 3 litre and 5 litre engines products we will be launched in this quarter.

Ms. Swati Khandelwal

That will be significant

Mr. Pisharody

Very significant.

Ms. Swati Khandelwal

For keeping in mind the future requirement and the way we are moving to higher emissions

Mr. Pisharody

And even if there is, there seems to be a move by some of the players to pull 16 tonne trucks on to a four cylinder engine rather than 6 cylinder for cost reasons. I think 5 litres is able to do that and hence becomes a very important product.

Q. Sir, could you tell me what about buses and how the response has been on that. You know, along with that I wanted to understand about the whole change of JNNURM scheme to Amrut, has it moved anywhere because I believe lot of it got stuck and didn't go as per plan, What's the status?

A. So, buses in general which is a retail market, we are doing quite well. The April-June quarter which is the school bus season. The school bus has become an important part of the bus market. In the LCV and ICV bus, I think we had double digit growth in that market for this quarter and the big buses where government purchases are extremely critical, I think that has been still very sluggish. We are now seeing some activity on the STU chassis business.

Ms. Swati Khandelwal

Okay.

Mr. Pisharody

And in the last one month we got a number of new orders from Gujarat, UP etc. But JNNURM has been disappointing in the sense that the orders which were received last year, I think when the government changed, it was not clear how that funding to the states will get translated. Since then there has been some work on that and the funds have been flowing but at a very slow rate. My sense is that the industry has not executed more than 60-65% of the orders and currently there doesn't seem much of a pull also.

Ms. Swati Khandelwal

And you do not foresee any big orders coming from any states.

Mr. Pisharody

No, I mean they are now back to the old orders which is the chassis only order which we need which comes from state funds, not from JNNURM funds. As regards the revamped, we talked about Amrut, I think that's still….

Ms. Swati Khandelwal

Under work.

Mr. Pisharody

Still a concept we have not seen. I mean JNNURM was not only of buses, similarly Amrut may not be only about buses. So, as and when there is a grant for buses we have to wait and see.

Ms. Swati Khandelwal

So, no big push or play coming in from states.

Mr. Pisharody

The retail market has come back in line with rest of economy. But government buying is still very muted.

Q. Also on your Prima truck racing on that I think it's the third edition.

A. Third, we just completed third.

Q. Third, right. So, that's come up pretty well and some interesting things that you have done there. How is the fourth season looking?

A. So, I think, I need to talk about third season first because this was really a breakthrough. In the first and second season it was about the concept, we used to keep getting the questions back in terms of how is it relevant for the actual trucker and the actual driver. So, we embarked on a mission where we said we will have the third season for Indian drivers. And there was a lot of possibility that we could get typical Indian racing drivers, who are used to racing cars they are very keen to do trucks but we said that's not right. So, we had something called TRP, which is the Truck Racers Program, where we shortlisted from our customers to start with about a few hundred customers. Then based on their paper profiles, we short listed down to 50 and then again based on medical checks and their Willingness to stay away from work, we bought it down to a smaller number. And then we took them to Sriperambadur because we don't need such a big track for the trials. So, over and above 2 or 3 weeks, we trained them and tested them and also had the process of elimination and finally we had 14 drivers whom we selected. So, this year in addition to the typical race with British drivers, we also had this race and these drivers were so emotional. The drivers are typically, the one reason we did this, drivers are typically not really recognised for the service they do.

Ms. Swati Khandelwal

Okay.

Mr. Pisharody

Today you and me may consume some food or drink which has been moved by some truck from one place to the other. So, they were extremely delighted.

We felicitated the drivers, we felicitated the owners of these drivers, and they had a race, they had two races in fact. So I think this is now something which we will build on. We have still not made our plans for the fourth season. Now there is a real connect to the actual user. It is not just something where you go and have good fun on the day, you know. And of course, Prima brand advertising is also happening at the same time.

Q. Sure, let us move now to the global markets and understand from you on the exports. How they are looking like with global uncertainty, volatility that we have seen across many markets, what is the outlook on exports?

A. So exports continue to be a thrust area and a lot of the work that we are doing today in terms of product development, new products are also about exports, that's much more complicated. Every market needs a different variant, somewhere it is like left hand drive somewhere right hand drive. But it is a fact that the last 12 months has been a bit challenging. Challenging on the export front because Africa where we are well entrenched, I think the commodity downturn, a lot of the markets were dependent on commodity pricing, so that's impacted the market. Currency fluctuations. You will be surprised if you talk about the rupee depreciation. We should be happy that we have seen only 10-15% depreciation.

Ms. Swati Khandelwal

Yes.

Mr. Pisharody

In all the markets the depreciation is 15-18% which means whether you bill on rupee or dollars does not matter, the products are becoming expensive. Some countries have actually started rationing foreign exchange. Somewhere in Middle East, because of the petrol price we are finding some challenges, so I think export is still a lot of headroom for growth. We are still gunning for 20% growth, but it is becoming challenging in terms of trying to speed up the growth to a faster pace.

Ms. Swati Khandelwal

But do you see any pockets of growth in the export markets where you find an opportunity to grow and you see, good results coming in, do you think there are pockets.

Mr. Pisharody

So fortunately some of the South Asian markets have been doing well, Bangladesh, Nepal as well as Sri Lanka have been growing well and Far East which is South East Asia- these are markets where we have just launched. So on a low base we are beginning to grow. I am talking about Indonesia or Philippines and Thailand so these are markets where we are seeing growth but otherwise it is parts of eastern Africa, Kenya, Tanzania they are seen to be doing well. So we are seeing pockets of growth here and there but even in these pockets it could have been better if the global situation was improving.

Q. Less than what we thought, coming back to our own market, and GST now is something that everyone is talking about, at least there's been one big hurdle that has been crossed. How do you see finally GST coming through and impacting the sector?

So, GST has always seen to be a very important development because our consistency of price and you know otherwise different products having different prices. Or even dislocation at borders when vehicles move from one state to the other, vehicles get disrupted, as a result of multiple taxation we as a company have 20-25 stock points in different states. I think GST would provide …

Ms. Swati Khandelwal

Ease of doing business.

Mr. Pisharody

Absolutely, predictability. So I think that is something we definitely look forward to, we have been waiting for a long time. I know the last two weeks, the mood is still turning somewhat positive so we are keeping our fingers crossed, but definitely I think all industries there is a big support for GST implementation.

Q. For Tata Motors commercial vehicles business the Capex continues to be in the range of 3000 odd crores?

A. Yeah, 3000 to 4000.

Ms. Swati Khandelwal

That you continue to invest and anything specific that we should watch out for FY'17.

Mr. Pisharody

I think we as far as CV goes we keep introducing new products. We are not launching a completely new platform this year. We launched Prima and Ultra and launched Signa, so a lot of the opening up of those modular platforms have to happen in the current year. For example, Prima it is still largely consigned to tractor trailers and dippers, so Prima Multi Axle trucks is going to come out, but otherwise we keep having new introductions through the year.

Ms. Swati Khandelwal

And we hope for 15 odd percent growth this year.

Mr. Pisharody

That's right.

Ms. Swati Khandelwal

Thank you very much, it is always good to speak to you.

Mr. Pisharody

Thank you.