

Limited impact from push towards electric vehicles

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Fleet replacement, encouraged by better operating economics of higher axle vehicles and pre-buying before the Bharat Stage VI (BS VI) emission norms, will drive commercial vehicle (CV) sales this fiscal, said Jatinder S Gujral, CEO, Setco Automotive. Setco is a leading supplier of clutches to commercial vehicle manufacturers and has a sizeable after-market presence. Excerpts from an interview:

CV sales has slowed down in recent months. What are the prospects for this fiscal?

In the last few months, CV sales has slowed. Despite that, the industry will end 2018-19 with a positive growth of 12-15 per cent. We expect sales volumes in the first quarter of 2019-20 to be around 10 per cent lower than last year due to uncertainty around the elections.

However, what we have understood from the market sentiment and our customers is that, the second and third quarters of this fiscal are going to be on par with or better than 2018-19. The fourth quarter will be better than last year because of pre-buying before the BS VI norms come into effect from April 1, 2020.

How is the industry expected to

manage the transition to BS VI norms?

In the last quarter of 2019-20, you will have a customer-driven demand for BS IV, which could be 50-60 per cent of the total demand. The balance, which is usually production for selling in future, will not happen this time as sale of BS IV vehicles have to stop on March 31, 2020.

Our customers are smart enough to produce only that many BS IV vehicles which they will be able to sell by then.

This practically means all of them will be forced to move to BS VI production as early as January and, in some cases, even before. The BS IV vehicles will get into 'bill to order' in the second half of this fiscal.

So it will not be 'bill to stock' as no one wants to be saddled with unsold stock.

Thus, the ruling (that sale of BS IV vehicles must stop on April 1, 2020) has forced manufacturers and the supply chain to be more efficient.

Backward integration into castings provides raw material security and savings on transportation costs, besides better quality products.

JATINDER S GUJRAL
CEO, Setco Automotive

Schemes such as FAME II encourage shifting to electric vehicles in public transport. Since you supply clutches to buses as well, how will this move impact you?

Unfortunately, electric vehicles don't have a clutch. Of the total CVs, 80 per cent are goods vehicles and 20 per cent are passenger (buses). Of this 20 per cent, 12-13 per cent could be inter-State buses and the rest 7-8 per cent run within the city. So the real threat is on this 7-8 per cent.

Otherwise, if I were a car or two-wheeler clutch manufacturer, I would be worried. That way, it was a thoughtful decision on our part to diversify into supplying clutches for tractors than cars. As far as electric commercial vehicles go from a 10-year-perspective, I would say we are insulated from changes.

How has the



backward integration into castings through Lavacast helped Setco?

When we envisaged the Lavacast business, the idea was to have a facility which gives us control over a critical part of the clutch. Almost 85 per cent of our castings requirement is now supplied by Lavacast. A total of 60 per cent of Lavacast's capacity is earmarked for us.

Inherently, there are advantages such as raw material security and savings on transportation costs. The third advantage is that this is the state-of-art foundry. So the quality and finish is much better than what we used to get. If I look at costs with interest, depreciation of a new facility, it would not be offering any cost advantage as of now since it was commissioned only two years back.

Utilisation is around 65 per cent in the just concluded year. Next year, we will hit around 80-85 per cent utilisation at which foundries usually make money, which we will make.

You have also begun in-house manufacturing of diaphragm springs. How has it picked up?

About three-fourths of the CVs sold in India continue to use coil spring-

based clutches. Only the balance 25 per cent use diaphragm springs. The latter is popular with European manufacturers and some Indian makers use it for bigger vehicles. Diaphragm spring is less labour-intensive and operates as use and throw. So if labour costs are high, diaphragm is the way to go. We set up this facility because earlier we were importing diaphragms from Germany to cater to our client's needs. The plant was set up two years back. While the pick-up has been a bit slow due to various testing and validation requirements, we have recently moved to two shifts.

The writer was recently in Kalol, Gujarat at the invitation of Setco Automotive

Auto parts suppliers switch gears

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With EVs all set to revolutionise the auto industry, it becomes imperative for auto component makers to chalk out their strategies for supplying parts to EVs. The key difference in the EV regime will be the replacement of the internal combustion (IC) engine, transmission and drivetrain parts with batteries, motors and other electronic components. Hence, suppliers of parts such as cylinder blocks/heads, pistons, valves, shafts, fuel injection, clutches, axles, gears, radiators, coolants and lubricants will be impacted. Many companies have begun drawing up their EV strategies to counter this risk of obsolescence.

Chalking out strategies

Global auto component major Bosch, a supplier of fuel injection systems to IC engines worldwide, is gearing to meet this challenge both in India and abroad. The company has developed an integrated electrification system, including motor, control unit, battery and charger that can power two-, three- and four-wheelers.

Bharat Forge, which supplies powertrain parts, is also developing products for EVs. It has set up an EV R&D centre in the UK and has picked up stake in Tork Motorcycles, a drivetrain company focused on electric two-wheelers. It has also invested in Tevva Motors (Jersey), a company that provides electric powertrain solutions to commercial vehicles. Mahindra CIE, another powertrain supplier, is also working with global and Indian clients on their EV portfolio.

With the government focusing on electrifying buses, three-wheelers, two-wheelers and cars initially, companies which supply to trucks are shielded from the move to EVs. Clutch-maker Setco Automotive and steering gear supplier ZF Steering, for instance, supply predominantly to trucks, although they earn some portion of revenues from other vehicle segments. Suspension product-maker Jamna Auto Industries, lighting suppliers Lumax Industries and FIEM Industries, makers of shock absorbers such as Gabriel India and Munjal Showa, and tyre makers are other players that are not impacted negatively by EVs in a big way. Wiring harness-makers such as Motherson Sumi will be impacted positively, as EVs are expected to have higher wiring content per car.

In the line of fire

But listed lead-acid battery makers such as Exide and Amara Raja Batteries are in the direct line of fire. But they are taking steps to reinvent themselves to suit the lithium ion battery regime that EVs demand. Exide has tied-up with Leclanche SA based in Switzerland to build these batteries for Indian EVs and is setting up a plant in Gujarat.

Though Amara Raja Batteries had announced the setting up of an assembly plant for lithium ion batteries, the recent termination of its relationship with technology partner Johnson Controls is a worry. Plans of auto manufacturers to set up their own battery plants of EVs also heightens the competition for these two players.

The board of **Setco Automotives** has approved purchase of entire stake (1.346 crore shares of ₹10 each) from **Lingotes Especiales, S.A.** in its subsidiary **Lava Cast Private Ltd** for €950,000 (approx ₹7.70 crore at the current exchange rate). The purchase is subject to necessary regulatory approvals, the company said in a statement to the exchanges. The board also authorised **Harish Sheth, CMD**, and **Udit Sheth, Vice Chairman**, to discuss and finalise the modalities of the transaction with **Lingotes Especiales, S.A.** and enter into agreements as may be required to give effect to the transaction. The stock of **Setco Automotives** slipped 1.9 per cent at ₹32 on the NSE.