
Speech by the Chairman

Mr R J Shahaney

at the Fifty-fourth Annual General Meeting on

July 22, 2003

Ladies and Gentlemen,

I have great pleasure in extending to you a warm welcome to this fifty-fourth Annual General Meeting of the Company. The report of the Directors and the audited accounts for the year ended March 31, 2003 have been with you for some time and with your permission, I shall take them as read. The Management Discussion and Analysis Report has exhaustively dealt with the Company's performance in all its aspects and I shall, therefore, limit myself to say that your Company performed well in a year of robust demand expansion, recording the highest ever turnover of Rs 30.7 billion. With the upturn in the Indian economy in almost all sectors, overall demand for commercial vehicles will continue to grow though not at the rate of last year. The Company will continue to give an aggressive thrust to product development to further improve vehicle performance and quality standards.

Is globalization bypassing the Indian commercial vehicle industry?

This question is often asked, especially in the context of visible changes and wide customer choices rapidly emerging in the car segment which has already entered the second phase

of globalization, by making international products in India, for world markets. That is the promise envisioned by globalization, of a seamless world where national boundaries are not marked by tariff walls, where technology and products have universal mobility.

With compulsions of a phased manufacturing programme no longer an impediment and market access made free with effective import tariffs being less than half that for cars, why is it that, foreign investment in commercial vehicle industry has been negligible and a handful of Indian companies still service well over 99% of the market requirement?

This has two short answers.

1. Unique market, unique products

Unlike personal vehicles, a commercial vehicle is a means of livelihood and an investment driven by profitability. It is a product configuration determined collectively by the quality of roads, the loading patterns, the freight rates, the customer and driver expectations, and, dictated by these, an aggregation of technologies. Evolved over the years to answer the uniqueness in these shaping factors, the Indian commercial vehicle is unique.

This uniqueness can be best understood by a comparison between India and the developed markets. Even at the present low interest rates, the cost of capital in India is still more than twice as in the USA, and four times compared to Japan. Our freight rates – and operating margins – are among the lowest in the world. This reflects on compensatory loading and the other operating practices. It also determines the driver's remuneration, his profile and therefore the comforts and safety sought by the customer. Our average road speeds are low. In the USA and Europe, high engine power delivers fast turnaround, helping optimization of driver's time which is a major factor in the operating cost. In India, fuel cost accounts for around half of the operating cost. Therefore, fuel consumption – and not time taken – becomes pivotal to operational profitability in India. The Indian commercial vehicle is the net result of these factors and therefore unique.

2. Relevant technology

Considerations of Return on Investments – and even more telling, the buffer between earning potential and repayment burden – determine the affordable acquisition cost. The cost of an Indian commercial vehicle is one of the lowest in the world – and yet, in terms of reliability and durability of the vehicle survives longer than in most parts of the world, despite the abysmal operating and maintenance practices in India.

Where international options are available and the customer chooses indigenous models, he is clearly casting his vote for what is relevant to him. A product is meaningful only when it fulfills the task for the customer at an

affordable cost. The technology that makes such a product possible is the right and relevant technology for that market. When the Delhi-Lahore service was resumed and the buses made by your Company were again pressed into service, the customer was reaffirming his faith in their reliability, proved during two years of operation, for the country's most high profile cross border service.

This does not mean that the technology used by the Indian commercial vehicle manufacturers for producing the major aggregates that go into the vehicle is in any way inferior to international standards.

Through collaborations and alliances, the industry has made the core of the vehicle contemporary. They have been able to address the prime customer concern of fuel-efficiency. They have coped with accelerated progression of emission standards. However, the rapid strides made by Indian manufacturers in product and production technology are unfortunately marred by the exterior of Indian vehicles which are often not made by the manufacturers. Again, a case of customer choice, not for want of better options, but because of faulty fiscal laws that favour non-factory built buses and truck bodies.

This is not to suggest that this technological isolation of the Indian market will continue, and even less that it should. At the last Annual General Meeting, I had shared with you my thoughts on what it takes for an accelerated holistic modernization of the Indian commercial vehicle industry. Simultaneously, it is vital for the industry and for the country to whose economy and treasury it contributes handsomely, that it should capitalize on the various opportunities that globalization offers.

Global shop floor

India's greatest competitive advantage in the total value chain lies in manufacture. Indian industry has the opportunity – and capability – to move up from being suppliers of non-proprietary auto components to becoming a level one supplier offering integrated systems and full aggregates to at least some parts of the world.

Vehicle exports

Worldwide production of 6T GVW plus trucks exceeded 1.65 million last year. India's share of this was little over 118,000, in its total truck production of around 200,000, of which exports account for just 5.5%. Can we grow our market beyond the traditional regions? After the developed countries, the next technologically contiguous block has China, India, Russia and some countries of Africa, South Asia and Middle East as its members. This is the arena for India to focus on. These are also the regions where growth is expected in this decade.

At the same time, unlike in the case of cars, truck markets tend to be more insular, with indigenous manufacturers and products servicing each market. Much like in India, one of the lessons from your Company's successes in exports is the importance of local value addition through market-centric assembly operations. No export market, however, similar in technological terms, is ever a mere market extension. Success in new markets will have to be preceded by painstakingly seeking insights.

Needless to say, a demanding and dynamic home market provides a springboard for industry's export. The last decade has been a

good learning period for Indian commercial vehicle industry which has improved its low cost manufacturing capabilities by rationalizing internal processes covering the entire length of supply chain – and with timely help from IT. Model lifecycles are getting shorter. Just as emission regulations exerted a significant influence on vehicle development in the last decade, the next one will be dominated by safety regulations. Every step forward in emission standards, safety, power, driveline, styling and aesthetics, must open up more and more contiguous regions for exports.

India at the vanguard?

On a realistic and pragmatic level, we must recognize that our current level of technology, knowledge base and economic capabilities do not allow us in the short term to catch up with the developed world. The good news, in this context, is that we do not need to. Dispelling anxieties of the last decade, it is clear that the latest technologies for the core of the vehicle are available outside the manufacturing sectors of developed world, with independent aggregate technology specialists. Technology tie-ups and alliances are also taking place between manufacturers. Therefore, in proverbial language, India need not reinvent the wheel. China has realized that. Despite its far larger production base, there is, for example, very little original research on IC engines in that country. Indian commercial vehicle industry has the expertise and the experience to work on bought-out core technologies and make contemporary derivatives not just for the home market but for the larger world market.

At the same time, there are significant business opportunities in frontier technologies worldwide, but unless we create and own

intellectual property, we cannot attain leadership position. Our greatest opportunities, therefore, lie in selecting those frontier technologies where we have the knowledge base, competence and resources as a nation.

A beginning has been made in India with the formation of the core group on automotive R&D, with the meaningful acronym of CAR. This initiative, spearheaded by the Government of India, has the support and participation of academia, the auto and auto component industries. This group expects to identify technology streams where India does not have a historical handicap. It is a commendable initiative and gives rise to the hope that eventually India will have a technology platform that can propel it to the league of leaders. The initiative will draw from our proven expertise in niche areas such as IT, Telecom, the knowledge that now lies fragmented in research establishments and our domain knowledge in automotive engineering.

These are long haul projects, requiring Government support and backward linkages with universities. The Government's role becomes that of an enabler. Equally, the tariff structure has to reckon the emerging focus on new technologies and R&D inputs such as electronics.

Acknowledgement

I am grateful to the shareholders for their continued faith and confidence in the management of the Company. The guidance and technological support from our principal shareholders, the Hinduja Group and IVECO, acting through LRLIH Limited, has been crucial, and deserves a special word of appreciation.

The dedication and commitment of our employees has been a constant source of strength and my special thanks to them all. We shall continue to need this support in ample measure, to face up to the many challenges that still lie ahead of us.

Thank you.