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Muscles are in vogue
2015 NORTH AMERICAN INTERNATIONAL AUTO SHOW
TARANG JAIN, MD, VARROC GROUP
B2B SECTION Pages 55-82
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EXCLUSIVE
VARROC GROUP
SMART INITIATIVES, GIANT STEPS
varroc

VARROC GROUP

Smart initiatives, Giant steps

Report: **P. Tharyan,** Photography: **Mohd. Nasir**

Motown INDIA COVER REPORT

Not many in the Indian auto components industry may have realised, but Aurangabad (Maharashtra)-based ₹8,000 crore Varroc Group headed by Tarang Jain has done something what Tata Motors did with Jaguar Land Rover. It bought a company much bigger in size, took a very calculated risk and is today reaping the benefits of this acquisition. But Jain is not resting on his laurels; he is hungry for more and has set a target for his group, to reach a turnover of ₹20,000 crore by 2020. In short, it means he has to achieve additional sales of roughly about ₹12,000 crore in the next five to six years.

"We have to look at inorganic growth always. This ₹20000 crore is not going to be possible organically so we are going to be looking at inorganic growth. We are going to look at opportunities in India and abroad, we are definitely going to look at it for us to achieve the target in 2020. Without inorganic growth in my opinion it would be difficult to achieve this target," says Tarang Jain, Managing Director of Varroc Group in an exclusive interview with Motown India at his group headquarters in Aurangabad.

The company that employs more than 10,500 people has 32 manufacturing plants of which 23 are in India and the rest spread across various countries including Mexico, China, US and Italy. The company has nine engineering centres worldwide with five of them in India. In India, Varroc is the largest supplier in the two wheeler industry riding on its diversified product portfolio. Customers include Honda, Hero MotoCorp, Bajaj, Mahindra, Royal Enfield and Suzuki in the two wheelers space. In the four-wheeler segment it has Maruti Suzuki, Tata Motors, Mahindra & Mahindra, Volkswagen, General Motors and Fiat as major customers in India. VECV and Daimler are the recent additions. The company has won lighting and interior plastics business from VECV and interior plastics from Daimler. Abroad the company focuses only on lighting for passenger car segments, where it has won programmes with Chrysler and JLR.

The group is now 25 years old and Jain feels that luck as well as great focus on the business have helped him achieve success in these years. Looking back, Varroc, when it started operations, had a turnover of ₹1 crore in 1990 that jumped to ₹100 crore ten years later in the year 2000. But from 2000 to 2014, it grew to become a ₹8,000 crore company. "It feels very good to have turned 25 and it gives one a sense of achievement. We have been able to reach this stage and this size, which we could not have imagined. Luck has also played its part but we have been very focused on the basics, whether it is basic execution for customers, financial discipline, etc. Those things have not been compromised. We have focused and understood individual and customer needs right from day one. The growth has happened through the inorganic route but it is still a part of Varroc. Whether it is organic or inorganic, we have got an opportunity to take opportunities. We have made full use of the opportunities we got. Somewhere we have failed also and we have learned from those mistakes. Not every acquisition worked out for us. We have tried some other acquisitions before but we failed. There were always lessons to be learned. Today almost 62 pc of our manufacturing business is abroad and only 38 pc is in India. This is our 25th year already which we end on 20th of March. March 21, 1990 was when we did our first sale. So this is actually our 25th year in progress," says a delighted Jain.

VARROC GROUP, A DIVERSIFIED ENTITY

The Varroc Group is currently into several businesses ranging from polymers, electricals & electronics, metallic and lighting. The group business is broadly divided into Varroc Polymers and Varroc Engineering. Varroc Polymers has 11 manufacturing units, all based in India. In the area of electricals and electronics, it has five manufacturing plants. In metallic, it has eight manufacturing units of which six are based in India and two are based in Italy. Varroc Lighting systems (acquired from Visteon) has one domestic manufacturing unit and six international manufacturing units based in Mexico (1), China (2), Czech Republic (2) and the US (1). The Tri.O.M. 2 wheeler lighting business has four manufacturing plants, one in Pune and one each in Italy, Romania and Vietnam. The Visteon acquisition resulted in Varroc catering to global companies like Ford, JLR, PSA Peugeot Citroen, GM, Chrysler and Volkswagen. Roughly 58pc of Varroc business comes from passenger car lighting, 19pc from Polymer, 12pc from Electrical and 11pc from Metallic. Approximately 62 pc of the group's total business comes from international operations and the rest from India.

The group has three technical collaborators—Mitsuba and Umicore (in electrical) and Scorpion Automotive (the latest technical partner from the UK for vehicle securities). The group has also a joint venture with Scarpa & Colombo for valves. Successful acquisitions include that of Visteon global lighting business, IMES and Triom.

This year the group companies put together will be doing about ₹8,000 crore in terms of sales. Out of that amount, ₹5,000 crore would be from operations abroad and out of this, ₹4500 crore will be solely from the erstwhile Visteon entity the company bought--Varroc lighting systems. "It is a global company (Visteon lighting) with plants in Mexico, Czech Republic, China and India. The other ₹500 crore is from our two entities in Italy. One is called Triom (The two wheeler lighting business). We bought it more for technological purposes. Triom has plants in Turin (Italy), Romania and Vietnam. Our larger interest when we bought it was the fact that it was a very sound company in terms of two-wheeler lighting and also that it had a plant in Vietnam. The other plant, IMES, was the first acquisition we did in Italy. It was the first acquisition we did outside India. IMES runs large forgings for Caterpillar and the oil & gas business. It is in a way the only entity which is non-auto for us. So these two entities in Italy are ₹500 crore, ₹4500 crore is the Varroc lighting systems and ₹3000 crore is from India," explains Jain. IMES was acquired by Varroc in January 2007.

The polymer business entails manufacturing of air filters, rear view mirrors, seat assembly, painted fairing and seat cowl, HVAC components, rear quarter trims and door trims. The electrical business consists of making digital instrument cluster, regulator rectifier, starter motors,

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The Varroc Group Head office in Aurangabad handlebar assemblies, catalytic convertors and flywheel magnetos. The metallic business comprises engine valves, 2 wheeler transmissions, hydraulic components and forged and machined components. Products include crank shafts, transmission assembly, crank pins, cam shafts and links and rollers. In the lighting business, the company makes a range of lamps for both four-wheelers as well as two-wheelers.

Varroc group also has a small share of business coming from the aftermarket, Jain notes. In India out of Rs. 3000 crore sales, 2 pc is from the aftermarket division. “That is an interesting business for us. The organised aftermarket sector is a tough market. There is an unorganised sector as well but we don’t play in that. In the organised sector it is not that big and the kind of products we produce has some limitations in terms of growth. At the moment it is at 2 pc of the India sales but it is an interesting business for us. By 2020 when we reach a certain sales size in India which could be around Rs. 10,000 crore plus then the aftermarket should be around Rs 300 crore. It will still remain a smaller percentage even though it will grow. As you can see we are largely in the B2B business. We are supplying to various OEMs in India and the world,” says Jain. Primary aftermarket products of the company include 2W electrical and electronics, engine valves, and exterior lighting

VISTEON LIGHTING, THE BIG BITE

Explaining the reasons for looking at businesses out of India, Jain says that since 1994-95 all auto companies saw a growth till 2008 when things started slowing down. “Around 2005 we got the sense that growth was slowing down, that is the reason we went outside India to maintain our growth and to de-risk from India. We went and bought IMES. Largely in India, 90 pc of our business was in the two wheeler space. I had the vision to be a global player in the auto components sector. In the two-wheeler space and the four-wheeler space it is very difficult to be a global player by growing only organically. The only way was through an acquisition. So right from 2007-08 we were looking at a couple of companies, mostly in the electrical field for a buyout. We looked at global companies and then we got the chance in 2011, where we got a call from a financial advisor who asked us whether were interested in a global lighting entity. Then I went through the details and the size was right for us. They were bigger than us at that point of time. I was always wary of the price. It was a bidding process where they contacted another 30-40 people globally or maybe more. At that point of time I was quite excited but at the same time I wondered whether we can really afford it. We have always been very financially disciplined. So I would not over leverage and buy anything. So what we did was that we gave a very fair offer. I felt we would not get into the second round of bidding with that offer. Fortunately for us, we got into the second round and the reason I feel we went to the second round was that we were a strategic player. We were one of the only auto component players who they felt would be a good fit for the existing management of the lighting business globally. That is the reason I feel we got into the second round. Once we were in the second round then I became very serious,” recalls Jain.

The making of an engine valve

Then there was no looking back for Tarang Jain. He began firing from all cylinders. He took a bit of risk too in terms of money. He was determined to go all out to win. Jain roped in global advisors PwC and Bain Consulting for his legal, accounting and business diligence. He also got in someone from the environment side so as to avoid being saddled with environmental issues at a later stage. Further, Citibank USA was roped in as advisors for valuation and for helping the company bid correctly. “These were expensive. I would have probably been down 2-3 million US dollars had we not succeeded. That is the cost you pay for betting if it does not work out. I just said lets go all out. Let me do my best. I wanted to be a global player and that was my ambition. This was a good opportunity as it was a very good product group. Lighting is the jewelry of a car. This entity of Visteon was number 6 globally with a 6-7 pc market share. They were a global player with the right level of technology and they had a very good global customer base which could help us even with our Indian side of the business. It was something very exciting for us. I said lets go all out, what is the harm? If you want to do well you have to take some risks. So we went all out and luckily we won the bid. In the sense that we visited every plant, we created a positive impression as we brought in all these advisors who were also marquee names and they felt that we were very serious. We increased our bid as well, so our bid was also much more interesting for them and they saw our seriousness in the whole exercise. Eventually we won the bid and acquired the company. There were quite a few companies involved in the bid,” Jain recalls gleefully. Eventually, by February end 2012, Varroc signed that binding MOU (Memorandum of Understanding) with Visteon.The rest, as they say, is history.

The mega acquisition of Visteon Lighting gave Varroc a global level of technology, access to global customers and also global talent. “Today the kind of leadership which exists in this entity is also in a way, superior to what we have in India. India is a much younger country. It is an emerging market while USA and European countries are obviously more mature than what we are. There are a lot of things we learned which would help our Indian side of the business. Global talent, global customer bases, global technology and also relatively low cost operations like the Mexican plant which is servicing the North American business. There were no plants in USA and Canada where the wages are higher. They were in Mexico which is a relatively low cost option. There were three plants in the Czech Republic which was servicing the whole of Europe. Germany, France and Russia were all being serviced out of the three facilities in the Czech Republic. China anyway is low cost. The manufacturing footprint was also very exciting. Everything was exciting and we were lucky to get through,” says Jain in all humility.

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Early 2015, Varroc entered into a technical collaboration with Scoprion Automotive Pvt Ltd of the UK which is a leader in vehicle security. "At the moment it is for the two wheeler space, but they also do four wheelers. We need to go into more advanced products going forward and we need to go in for these kinds of tie ups. They (Scorpion) talked to other players as well but they found us to be the right partner. These kinds of electronics in two wheelers through security systems are something of the future. In India, as you know, two wheelers are the biggest form of mobility. This is an industry which will not de-grow. That is why Varroc in India is largely present more in the two wheeler space. Globally it is the passenger car segment but in India we are 90 pc in the two wheeler space. There are a lot of prospective customers. There is Bajaj, Honda, Hero MotoCorp, etc. we have approached a couple of people already and they find it very interesting," informs Jain about the scope of his new business with Scorpion.

RESEARCH & DEVELOPMENT, A MAJOR THRUST AREA

R&D is an important thrust area for Varroc. The company has increased spending in R&D to fund advanced engineering that will develop next generation products such as laser lighting, matrix LED headlamps, lightweight engine valves and powertrain components, smart electrical systems, LED headlamps for 2 wheelers, fuel efficient powertrain systems, robust security systems besides others.

"In our global business we are very well equipped in terms of R&D. When it comes to the lighting systems and exterior lighting for cars, almost 6 pc of our sales goes into R&D. We are very much there. We have got every level of technology when it comes to lighting like LED, Xenon, etc. What even the bigger players have is with us and we keep on working more on high level of technology and at the same time we are working on what is more important for customers like affordable technology. So the whole focus is how to give these technologies at an affordable cost even to companies like Daimler. Daimler may be a premium OEM but even they want more affordable solutions. So our objective is come out with more affordable products for the customers and is closely aligned to the customer needs and their individual needs and develop products at their requirement and this has to be affordable.

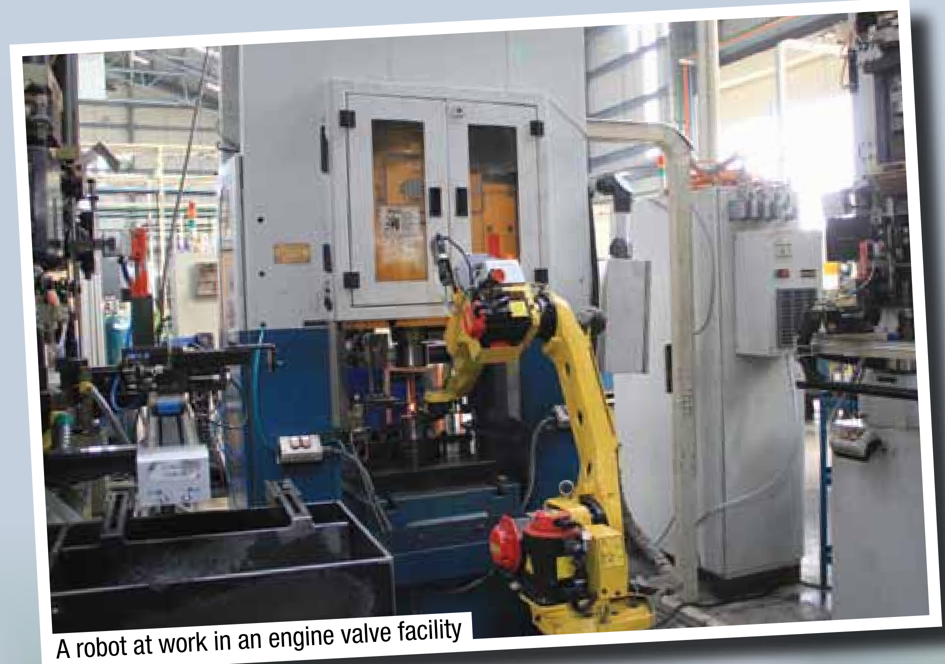
"In India if you have to see historically, the country has never really invested in technology, they have always relied on the easy way out like technical collaborations, agreements, JVs, etc. They never really invested in R&D. They have enjoyed the profitability over the years. Till 2007-08 I would say, we were also in the same boat. We realised we need to invest in technology. But if you ask me how much is the investment in technology it would not be more than 1 pc. Before it was less but today it will be around 1-1.5 pc. We will probably be increasing these numbers with all these tie ups that we are doing and we are going for more advanced R&D projects now for the future of our products. Everything will not be done in house. Also, the increased demand for electronics and light weighting will drive more systems engineering capabilities in Tier 1 suppliers," says Jain.

Speaking on technology Jain points out that the company's metallic division, which makes engine and transmission components has a lot of scope for light weighting (hollow parts for example – the company is already developing hollow engine valves). The Electrical division is developing systems (security, powertrain etc.) by integrating wireless communication, sensing and computing technologies. "The biggest challenge is that this industry is not prepared for the technology wave and those who invest in this area will stand to benefit. Unfortunately very few Indian suppliers have invested in creating technology capabilities in the last two decades. It is still not too late and collaborative R&D can forge the way forward as we are doing," he notes.

THE MEGA TARGET

On his group's targeted sales of ₹20,000 crore by 2020, Jain reveals, "You see that growth is huge. We are betting big on India because we are hoping that with this new government in place there will be right policies and right reforms taking place. We also hope there will be investment in infrastructure which will drive GDP growth and also drive the automotive market. So if we are close to ₹20,000 crore we will be happy and would have done a fantastic job to achieve that. Each of our divisions has a strategy and they know which customers to focus in India or abroad."

Knowing Tarang Jain's capacity to take risks, his financial discipline and his foresight, it's only correct to assume that he will be meet his 2020 target with considerable ease!



A robot at work in an engine valve facility

Crankshafts ready for dispatch