

COVER STORY | MANUFACTURING



THIS IS HOW IT'S DONE

A handful of Indian companies has kept the Make In India flag flying high. Three notable ones are Bajaj Auto, Trident and DRL. Lessons from their journey for Modi's pet project...

By Joe C. Mathew



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AJAJ AUTO, Dr Reddy's Laboratories (DRL) and Trident are among the leading foreign exchange earners in some key Make in India segments identified by the central government. In fact, these companies achieved an admirable global presence long before the launch of Prime Minister Narendra Modi's grandiose mission.

The industries they represent — automobiles, pharmaceuticals and textiles — have also done well. India ranks second in global textile exports, third in the volume of medicines produced, and sixth in terms of commercial and passenger vehicle manufacture.

Yet the growth opportunities provided by these industry segments are still quite big as India's share in the \$772-billion global textile trade is just 5.2 per cent while China, the leader, has a 36 per cent market share. The Indian pharmaceutical industry is half the size of US pharmaceutical major Pfizer, which registered \$51.6 billion in sales in 2013. In the case of automobiles, India's share is just 4.4 per cent of global production. *BW | Businessworld* gets up close and personal with Bajaj, DRL and Trident to understand how they became leading exporters, and what Make In India means for their respective industries in times to come.



IN THE FAST LANE

Bajaj is India's biggest two-wheeler exporter

EVERY 26 seconds, a motorcycle is made in Bajaj Auto's production facility at Chakan, near Pune. Over 60 per cent of these are exported. Bajaj Auto, as a whole, accounts for 66 per cent of India's motorcycle and 73.8 per cent of three-wheeler exports. The company dwarfs almost every other Indian automobile maker, including larger players such as Tata Motors, Mahindra & Mahindra and Maruti Suzuki India when it comes to foreign exchange earnings.

"We are running today at Rs 10,000 crore worth of exports. It has trebled in the past five years, and our ambition is to double it in the next four," says Rakesh Sharma,

president, International Business, Bajaj Auto.

India's share in the global two- and three-wheeler market is much bigger than it is in the commercial and passenger vehicles segment. India is, however, not the biggest player. The Chinese and the Japanese have 65-70 per cent share of the global market. While the Japanese are known for their quality, the Chinese have gained ground through commoditisation. Bajaj has fought them both to create its own loyal customer base in Africa, South America and, to a lesser extent, in South-east Asia.

The Price Is Right

In 2003, when Bajaj first participated in a motor show in Brazil with its 150 cc Pulsar motorcycle, that country was virtually a monopoly market for Japan's Honda. Bikes powered by 135 cc Honda engines enjoyed a 90 per cent market share. But the minute Bajaj entered, Honda introduced bikes of higher power and also slashed prices.

"That was the first time the Japanese faced real compe-

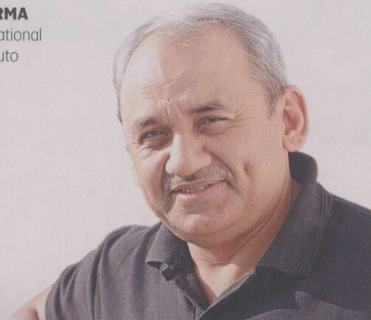
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“WE DID THREE THINGS RIGHT. R&D, A LONG-TERM COMMITMENT TO THE MARKET AND THE WILLINGNESS TO LEARN”

RAKESH SHARMA
President, International Business, Bajaj Auto



tion in the affordable commuter motorcycle space. We were able to make a desirable, good product and export it at an FOB (free on board) price of \$500-700, that is, an extra value of 30-40 per cent compared to the Japanese bikes,” says S. Ravikumar, president, Business Development, Bajaj Auto. If it was the pricing game that allowed Bajaj to counter the Japanese, quality helped the company check the Chinese advance, especially in Africa. “We did three things right. The first is R&D, the second is a long-term commitment to the market, and the third, the willingness to learn,” says Sharma.

Premium Partner

Bajaj’s international business got a boost after it acquired a 14.7 per cent stake in Austria’s loss-making sports motorcycle manufacturer KTM in 2007. Bajaj went on to become its largest shareholder with a 48 per cent stake and, in the process, turned KTM around.

And how did Bajaj do that? Well, it started manufacturing KTM’s low-end models at its Chakan facility. In 2013-14, Bajaj manufactured 36,047 units of KTM Duke, two-thirds of which found their way to the export market. The

result was telling: Calendar year 2013 proved to be a record year for KTM, with sales and turnover touching the highest ever in its history. It sold 1,23,859 motorcycles, a growth of 15.6 per cent and achieved a turnover of €716.4 million, a growth of 17.1 per cent. Profit after tax was at €36.5 million, a growth of 44.3 per cent.

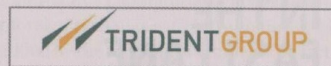
Like Bajaj, other Indian automobile companies have also made acquisitions overseas. Mahindra has acquired South Korean firm Ssangyong. Tata owns a majority stake in Europe’s Jaguar Land Rover. But the synergy that Bajaj has achieved indicates the direction in which India’s automobile sector is destined to grow.

Push Needed

India has the demand, the engineering talent, and proven capabilities in two-wheeler exports. Can it then become a global two-wheeler manufacturing hub?

Not yet. “A shipment to Bangladesh today goes to Singapore first and gets re-routed to Dhaka,” points out Sharma. Changes in the rules of origin, easing of visa rules, active engagement of embassies, risk funding — the list of trade facilitation measures the government can take to strengthen India’s global prowess are many.

Sharma says the ingredients for growth are all there. It’s the ideal mix that is required. Given the strengths in two-wheeler manufacturing, this sector could perhaps be off to a great start. “But you will have to decide whether it should be a sprint or a hurdle race.”



WEAVING A SPELL

Trident’s terry towels are sold in 75 countries

LAST October, Ludhiana-based Trident inaugurated the world’s largest terry towel plant in Budni, Madhya Pradesh. It took 15 years for Trident to achieve the size and scale in terry towels it has today.

The company started with only a spinning unit in 1993. Yarn, however, was not very profitable, which led the company to go beyond making yarn and spinning. It created a niche business in home textiles.

“Having invested money over a period of time, we understood the potential in home textiles. Hence the scale-



Warp & Weft

Trident boasts of having the largest terry towel plant in the world. It has carved out a niche for itself in home textiles.

up," says Rajinder Gupta, chairman, Trident Group. "When we entered the textile segment, 25,000 spindles was the highest size for a unit. Today, we have 1,25,000 spindles in one location. So, practically, we have gone from 10,000 spindleage to 2,00,000," he says. Unlike several other sectors in Modi's priority list, textiles is a more traditional area where India's strengths are well known. The country is a net exporter of raw cotton, it has a manufacturing base for rayon and synthetic fibres, and technology and human skills are handy. But can India

leverage these strengths? "If the world can, why not India" says Gupta. He says industries that are not very high-tech but can depend on local inputs can flourish in India. "We are net exporters of cotton. If China can buy cotton from us and be a world leader in textiles, why can't we? Textiles was an obvious choice for us. This industry does not have high technological barriers. Besides, the capital expenditure is not a big constraint," he adds. Trident's customer base spans across over more than 75

Photograph by Sanjay Sakaria

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countries and six continents and comprises global retail brands such as Ralph Lauren, Calvin Klein, JCPenney, IKEA, Target, Walmart, Macy's, Kohl's, Sears and Burlington. With the turnover from exports accounting for around 50 per cent of total sales (Rs 3,868 crore in 2013-14) of the company, Trident is looking at broadening its product portfolio in the home textiles space.

"The right technology, scale and cost competitiveness, combined with innovation, have helped us grow. We have a research collaboration with the National Institute of Design," says Gupta.

In addition to terry towels, the company is moving into the bedsheet segment. It is also widening its focus to other foreign markets besides the US.

"One third of our revenues comes from the US. We were overbooked in that geography till now. But with new capacity, we will be able to serve the European and Australian markets too," says Gupta.

The home textiles range is wide. In addition to towels, there are tremendous growth opportunities in bedsheets, floor covers, window and wall cover segments.

It's not just Trident. Textile companies such as Vardhman, Welspun, Alok and Arvind have all gone interna-

tional with world-class technology and global scale of production in India in recent years.

That said, it will take more than individual efforts to turn India into a global hub of garment and home textile manufacturing.

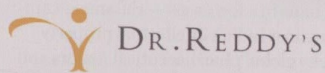
The biggest hurdle when it comes to capacity expansion of existing companies and the entry of new players is infrastructure. "If you go to tier-2 cities, capex goes up. If you go to tier-3 cities, holding talent becomes a problem. Industry cannot afford to invest more as margins are very thin in this industry," says Gupta.

The success of textiles in the Make In India campaign thus depends wholly on the government's ability to set up integrated textile parks and the logistics and infrastructure support it can provide in the coming days.

"IF CHINA CAN BUY COTTON FROM US AND BE A WORLD LEADER IN TEXTILES, WHY CAN'T WE?"

RAJINDER GUPTA
Chairman,
Trident Group





TAKING THE GENERICS ROUTE

US and EU account for 57% of DRL's revenue

EUROPE and North America accounted for 57 per cent of the \$2.2 billion in revenue generated by Hyderabad-based Dr Reddy's Laboratories (DRL) last year. Only 15 per cent came from India. So DRL makes for a perfect case for Make in India.

The company's revenue model, like most leading Indian drug makers, is to sell more pills, capsules and vials outside the country than within. "Export is in our DNA. We supply to the most discerning of customers globally," says Satish Reddy, chairman, DRL. "We were the third largest producer of ibuprofen in the world."

The 30-year-old company started with manufacturing high blood pressure drug methyldopa for India and the world. It was the first bulk drug (active pharmaceutical ingredient or raw material) successfully launched by DRL.



First Mover

DRL was among the first Indian drug makers to take advantage of a US law aiding the growth of generics

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In 1987, after the company got approval from the US Food and Drugs Administration to sell methyldopa in the US market, it ended up supplying the drug to the innovator company, Merck, Sharp, Dohme (MSD) to meet increasing global demand.

What worked in DRL's favour? The very year it started its manufacturing operations, came a US law that directly aided the growth of the generic drug industry in the country, which accounts for 40 per cent of the global pharmaceutical market. Known as the Hatch-Waxman Act, it helped establish a drug regulatory system that rewarded early entry of low-cost generic medicines to supplement patented drugs. DRL and Ranbaxy were among the Indian companies that utilised this opportunity to make in India and sell in the US and other markets.

As a result, India has the largest number of FDA-approved drug manufacturing facilities outside the US. Forty-nine per cent of all drug master files, a detailed document for marketing approval of bulk drugs submitted in the US, are from India.

According to Reddy, the focus of Indian companies should be on high-value complex products and acquiring partners and development houses. "We need to identify and develop alliances."

"We give a significant push to ensure that more revenues come from overseas, through fewer markets and deeper penetration. Most of it comes through alliances. It has worked very well for us," says Reddy.

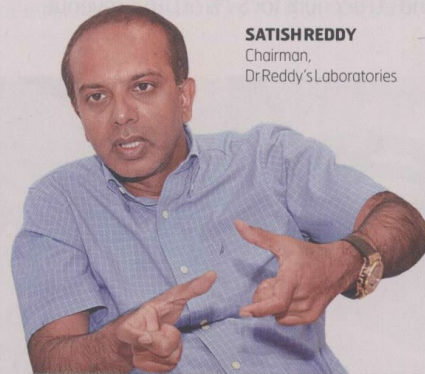
Even if more home-grown drug makers try and follow DRL's model, India will still find it impossible to catch up with the US in terms of the value of pharmaceutical sales as the bulk of the latter's numbers are derived from the patented drug business — an area in which India is yet to make a mark. That said, it is already an established player in the low-value generics business and, with a Make In India push from the government, things will only improve for the generics segment. But some hurdles remain.

"EXPORT IS IN OUR DNA. WE SUPPLY TO THE MOST DISCERNING OF CLIENTS GLOBALLY"

Preception Problem

The biggest threat to the Indian pharmaceutical industry today is the increasingly negative publicity around the questions raised by the US FDA regarding the regulatory compliance level of Indian drug companies. In addition to heightened US FDA investigations — which resulted in product recalls and bans in a few cases — the smear campaigns carried out against India's intellectual property rights environment by global pharmaceutical majors and lobby groups is really beginning to hurt.

The industry is also facing a problem of Chinese dependence as a majority of its production is based on supply of raw materials from that country. "Especially when it



SATISH REDDY
Chairman,
Dr Reddy's Laboratories

concerns high-volume and low-value products, we are dependent on China (for bulk drugs)," says Reddy.

According to him, the government can help revive the Indian bulk drug industry, especially manufacture of those ingredients that are needed to make high-volume, low-revenue medicines. "A private company will not find it feasible to set up such facilities as margins are very thin. But if the government provides necessary infrastructure, the private sector can produce such bulk drugs here."

India's pharmaceutical sector could perhaps be the easiest among the 25 priority sectors to boost. Strengthening of regulations and enforcement mechanisms within the country could play a key role in achieving this target. **BW**

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