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DEMAND DROP

# Auto component makers cut staff to stay afloat

**Delhi-NCR has seen a 20% cut in workforce between Apr 2012 and Aug 2013; smaller firms have been hit hardest**

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Faced with slowing demand from automakers and under-utilized capacities, autoparts firms are retrenching their workforce to try and keep themselves afloat, according to senior officials at various auto firms.

On an average, the Delhi-National Capital Region has seen a 20% cut in workforce between April 2012 and August this year. The average capacity utilization rate in the autoparts industry has dropped by 30-35% during the same period, according to the lobby Auto Component Manufacturers Association, or ACMA. A few have closed down some of their units for an indefinite period.

Auto sales in India, Asia's second fastest expanding market, have hit a slow lane in the last 12 months as a slowing economy, high borrowing and fuel costs have deterred buyers from new vehicle purchases.

The top 10 mid-cap autoparts firms reported dismal performance in the June quarter compared with a year ago. While cumulative net sales

were flat at 0.19%, net profits contracted 12% from the year ago-period.

Smaller firms have been hit harder, forcing them to sack workers.

"Unfortunately, we had to lay off as many as 300-400 out of the 5,000-strong workforce that we have," said Sanjay Labroo, managing director and chief executive at **Asahi India Glass Ltd.** The manufacturer of glass for automotive, architectural and consumer segments saw its net loss for the quarter that ended in June rise to ₹27 crore from ₹25 crore a year. Demand for automotive glass, the key revenue driver for the firm, dropped.

Madhukar Sharma, global head at **Jamna Auto Industries Ltd.**, said his firm has reduced its workforce to 1,800 from 2,500 over the last 12 months. The company is also shuttering three of its seven units indefinitely.

"A sudden drop in demand during the last month will force us to close three of our plants. These will be closed till the recession is there." These are mostly assembly plants, he added.

The company counts major commercial vehicle maker such as **Tata Motors Ltd, Ashok Leyland Ltd, Eicher Motors Ltd** and **AMW Motors Ltd** as its clients.

ACMA does not have figures for job losses.

Ashok Taneja, managing di-



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rector and chief executive at **Shriram Pistons and Rings Ltd** said, "In the Delhi NCR belt, we have seen at least 15-20% job losses, which, of course, is limited to blue-collared workers. But what is even more worrisome is that almost all the companies have a freeze on hiring. What are we going to do with the new engineers who will be waiting to join? We don't have an answer to that."

ACMA president Harish Lakshman termed the economic current crisis worse than the one in 2008-09. "Back then it was very sudden but it was only for four to six months and once the credit markets improved, we came back. But this time we

have been down for 12 months and the next nine months are also looking quite bad," Lakshman said.

His firms, **Rane Engine Valve Ltd** and **Rane TRW Steering Systems Ltd**, have suffered significant production losses. "We are operating at 60% of our capacities. Everything else is in negative," he said. And automakers have stretched the payment cycle from 50 to 90 days, he added.

Meanwhile, on back of under-utilized capacity, fresh investments in the sector are also likely to take a hit. Against a combined investment of a billion dollar last year, the current year may see a cutback of at

least 40-45%.

According to a study by global consulting firm **Accenture Plc**, the key operating and profit indicators of auto component manufacturers are coming under increased pressure in India as they continue to operate in an environment of "VUCA" (volatility, uncertainty, complexity, ambiguity).

Auto component manufacturers are operating in a "low sales growth, high inflation environment", it said. "Even as the industry has internalized the fact that growth will be cyclical, it is the coming together of the "trough" phase of all the segments of the vehicle industry that has made the slowdown

so acute," said ACMA in a note.

Sales of all vehicles (two- and three-wheelers, trucks, buses, cars and utility vehicles) dropped 2.09% to 5,790,184 units from 5,913,933 units in the four months to July, over the last year, according to the Society of Indian Automobile Manufacturers, or Siam.

However, some components firms that have diversified across the vehicle segments appear to be responding better to the recession and seizing the opportunity to get rid of some flab. "I feel this is an opportunity for us to get rid of the excessive fat we accumulated in good times," said Nishant Arya, executive director at **JBM Group**. His company employs 20,000 people but it's not considering sacking—indeed, it is re-skilling them.

The company is also increasing its share of business with railways. "We are identifying long gestation projects with them so that we don't get hit during a slowdown," Arya said.

Deepak Jain, managing director, **Lumax Industries Ltd**, echoed similar sentiments. "Our company has a different situation, the diversified customer base—two-wheelers, cars, trucks—has helped and we have maintained our earnings," he said. "What is hurting is the depreciation in the balance sheet as we have made lot of investments in the last two-and-a-half years."

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