



A constructive strategy for growth

An aspiration to be among the 25 top world-class players is driving this construction equipment company down the path of growth and profitability. With the 2008 JRD QV Award sitting pretty on his shelf, managing director **Rana Sinha** talked to *Gayatri Kamath* about Telcon's acquisitions, ambitions and achievements.

Although Telcon has been in business since 1961, the last few years have seen a growth spurt. What are the reasons for this? How has the Hitachi partnership helped?

Telcon started in 1961 as the construction equipment division of Telco (now Tata Motors) with the manufacturing of cranes in collaboration with P&H, USA at Jamshedpur. In 1999, the unit was hived off as Telco Construction Equipment Company. Those initial

years were a hard struggle as the company had to focus on restructuring operations and processes in order to compete in the marketplace.

Telcon's partnership with Hitachi has played a vital role in its success. The relationship dates back to 1984, when Telcon entered into a technical collaboration with Hitachi Construction Machinery Co of Japan for manufacturing hydraulic excavators in India. This partnership was strengthened in 2000 with Hitachi taking a 20 per cent stake in the company and then increasing it to 40 per cent in December 2005.

Through Hitachi, Telcon has leveraged its access to world-class technologies into a strong market presence by launching new products in the Indian market at a much faster pace than competitors. With our core competence in customising and integrating technologies along with Hitachi's experience, the company now has a strategic advantage in being able to deliver the widest range of technologically superior excavators. This ability to offer a full line of construction equipment to meet diverse industrial needs is a key success factor in the construction equipment industry globally.

When did Telcon achieve the market leader position?

We reached the leadership position in the Indian construction equipment industry in 2004.

What were 2007-08 figures for revenue, net profits and employee strength? What percentage of your production is assembled in-house and what is sourced from outside?



Telcon achieved a sales revenue of Rs2,735 crore during the year 2007-08 which was a growth of 49 per cent over the previous year. Our net profits during 2007-08 were Rs324 crore, a growth of 77 per cent over the previous year. Employee strength is at 1,600 as on March 31, 2008. We assemble 100 per cent of our products and manufacture more than 40 per cent of components and aggregates in-house.

Telcon's vision is to be in the global top 25 by 2012, that is, within four years. What is your growth strategy?

To reach the level of global top 25 companies by 2012, the company has formulated a five-year strategic plan called Game Plan 2012. This plan incorporates several strategic directions including:

- ▶ Expanding product range through partnerships with Hitachi and other global associates.
- ▶ Expanding presence in under-penetrated markets.
- ▶ Acquiring technologies through partnering or acquisitions (to become what is known as a full liner).
- ▶ Exporting components to Hitachi and other global associates.
- ▶ Exporting fully-built machines to Hitachi and other global partners for select geographies.

How do the Serviplem and Comoplesa acquisitions fit in?

One key component of Telcon's mission and strategy is to become a full liner. In the industry, the concrete equipment value chain (comprising dry bulk tanks, concrete batching plants, transit mixers, concrete pumps, and concrete pavers) has been identified as a key market segment. In fact, the growth of the ready-mix concrete business in India is expected to drive demand for transit mixers and concrete pumps by about 30 per cent over the next five years. This is where Serviplem, the world's sixth largest manufacturer of transit mixers, fits in. In March 2008, we acquired Serviplem; in return we got access to superior technology, a manufacturing footprint in Europe and China, and a distribution network in Europe, the Middle East and China. Telcon will launch a range of transit mixers in India at the end of the year.

The Comoplesa acquisition is also in line with the company's mission to become a full liner. Comoplesa Lebrero provides Telcon access to the latest range of compaction equipment used primarily for construction of roads. With the current economic thrust on investments in road infrastructure, the demand for compaction equipment in India is expected to grow at a very healthy rate over the next five years. Also, we expect that global demand will

grow. Since Hitachi does not have a presence in compaction equipment, Comoplesa's technology and manufacturing base will provide compactors for distribution through Hitachi's network in Europe, the Middle East, Africa, CIS countries and south east Asia. Thus, the acquisition of Comoplesa is in complete synergy with the Hitachi partnership.

What is the current product range and market? What are the plans for the domestic and international markets in the coming few years?

Telcon's current product range includes hydraulic excavators ranging from two tonnes to 350 tonnes, wheeled equipment including backhoe loaders and wheel loaders, crawler cranes ranging from 25 tonnes to 250 tonnes, off-highway rigid dump trucks of 35-tonne capacity, soil compactors, tandem asphalt compactors, motor graders, asphalt plants, and multi-utility loaders. In accordance with Telcon's joint venture agreement, we currently sell in India and a small number in SAARC countries.



Hydraulic excavators

In the domestic market, Telcon has plans to introduce a wide range of excavators, loaders, cranes, tunnel boring machines, dump trucks, concrete pumps, dry bulk tanks and transit mixers. In order to augment manufacturing capabilities, the company is setting up its third manufacturing plant at Kharagpur with an investment of about Rs600 crore. The plant, expected to start production by October 2009, will have a vendor park for components and sub-assemblies.

Telcon is also working on enhancing the customer support network through channel partners by locating customer touch points at every 100km across the country. In addition to direct support, the company will also provide trained equipment operators in order to strengthen our position and image in the industry. The company is setting up four operators' training schools at Dharwad (southern India), Jamshedpur, Kharagpur (eastern India) and Chandigarh in northern India. These schools will provide training and employment opportunities to local youth as a commitment to affirmative action.

With regard to international markets, Telcon is working on enhancing export of components to Hitachi's global manufacturing plants. A joint development team set up by Hitachi and Telcon is working closely on development of components that meet Hitachi's global requirements. The two companies have jointly agreed to make Telcon the sourcing base for 35-tonne to 100-tonne off-highway rigid dump trucks for global markets. The company will be also be a major sourcing base for components for Serviplem and Comoplesa; this will have the dual benefit of making them more cost-effective and helping Telcon achieve global quality levels.

What role does R&D and innovation play in the company?

R&D and innovation are key levers used for achieving our vision and mission of becoming a full liner. Even our core competencies hinge on our R&D capability and innovation.

For example, in a bid to exceed customer expectations, we indigenously developed a fuel efficient wheel loader with a fuel saving of 33 per cent. This was possible because of our culture of innovation and our design and development capabilities. We are also setting up a R&D centre at the Kharagpur plant in the state of West Bengal in collaboration with Hitachi.

How has globalisation impacted the company's vision and growth?

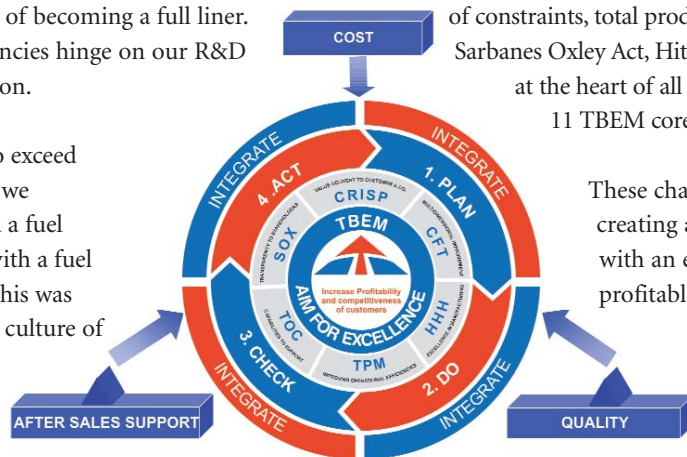
The growth in Indian GDP along with projected investments of over \$500 billion in infrastructure, construction and mining projects over the next five years, has meant that India today is a preferred destination for global players such as Caterpillar, Komatsu, Volvo, Terex, JCB, Kobelco, etc. Other high-growth economies such as Brazil, Russia, and China, and countries in Middle East, eastern Europe, Africa and South East Asia have also experienced a similar influx.

Globalisation has meant that Telcon was faced with a tremendous opportunity for growth, but also the prospect of intense competition from world class companies. To achieve growth, the company set a focused vision for itself — being amongst the world's best, in terms of revenues and profitability, line of constructive solutions, as well as technology, reliability, and cost-effective products and services. We are in the process of

achieving a global footprint through inorganic growth options that will provide access to global technologies and markets, and a faster time-to-market.

What role has the Tata Business Excellence Model played in the growth of Telcon? What have the major changes been in the company?

For improving the profitability and competitiveness of our customers, we embraced the Tata Business Excellence Model (TBEM) as the central improvement model. Then based on our strategic pivots of cost, quality and after sales support, we tailored the PLAN-DO-CHECK-ACT and INTEGRATE approach to management, marketing and customer relationship, manufacturing and service processes, and established improvement initiatives such as cost reduction initiatives for sustained profitability, theory of constraints, total productive maintenance, Sarbanes Oxley Act, Hitachi hand-holding, etc. But at the heart of all these improvements are the 11 TBEM core values and Telcon values.



The 'plan-do-check-act and integrate' approach at Telcon

These changes have helped in creating a sustainable organisation with an exponential degree of profitable growth. TBEM has helped in changing the DNA of the organisation and in making improvements a way of life at Telcon. In fact, we are the only company to have applied

for TBEM external assessment process every single year.

What are the company's plans for the climate change initiative?

Climate change is a part of Telcon's core competencies. Based on customer requirements, we embed green technologies at the design and development stage so that we not only surpass customer expectations but also conform to triple bottom line. Our proactiveness has meant that Telcon is a pioneer in the construction equipment industry's green movement.

For instance, Telcon introduced the concept of road recycling for the first time in India to conserve natural resources like bitumen and stone aggregate to the extent of around 80 per cent. The company has also dedicated construction equipment for the purpose of rain water harvesting in villages around plants in Jamshedpur and Dharwad. We have surpassed the emission norms by providing tier II compliant engines in equipment. The new plant under construction at Kharagpur has embedded green building concepts. ●