

Avtec inks licensing agreement with Magna Powertrain

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CK Birla Group company, Avtec, a leading powertrain manufacturer in India, has entered into a 10-year licensing agreement with US-based Magna Powertrain Systems, an operating unit of global automotive supplier, Magna International.

Under a structured agreement that was inked last month, Magna Powertrain would supply design and technical knowhow to Avtec for developing transmissions for commercial vehicle (CV), sports utility vehicle (SUV) and multi utility vehicle (MUV) segments.

'Magna Powertrain's range of transmissions in the US is ideally suited for the Indian CV, SUV and MUV markets. Moreover, it is the right time to develop special transmissions for the sectors as

the CV and SUV segment is poised to grow exponentially in India in the years to come, according to market feedback. Hence, the agreement with Magna will give Avtec a foothold to expand its customer base further by lever-

aging on existing clients who are venturing into new product lines or from business accruing from new customers,' Chief Executive Officer, Avtec, Kadapa Prabhakar told *Auto Monitor*.

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Magna Powertrain will provide designing and technical assistance to Avtec for CV, SUV and MUV transmissions

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Magna Powertrain and Avtec would jointly market the transmission products in the Indian market under the Avtec brand name.

Avtec has been supplying components to Magna Powertrain since last five years, and the licensing agreement is seen as a natural culmination in strengthening the existing relationship further. Plans are afoot to manufacture the full transmissions at Avtec's Pithampur plant in Madhya Pradesh, where adequate space is available for expansion.

At present, the Pithampur facility produces engines and transmissions, as well as components for General Motors, Hindustan Motors, Mahindra & Mahindra, Daimler, Tata Jaguar Land Rover, Magna and Eaton.

The production unit manufactures a variety of products of which engines constitute 50,000 units and transmissions 60,000 units per annum.

The company's Hosur plant in Tamil Nadu houses the power products division (PPD). Recently, a new trans-axle plant was set up at the plant for exclusive requirements of Ford's Figo. Spread across 67 acres of land, the Hosur facility possesses about 35 acres of green cover, which can be utilised for future expansion of the plant.

The power products unit at Hosur manufactures 2,200 transmissions per annum for off-highway vehicles of Caterpillar, Bharat Earth Movers

and Teicon, besides components for transmission precision engineering requirements and transmissions for metal handling equipment like forklifts for Voltas and Godrej.

The trans-axle plant for Ford, located in the same premise, has a production capacity of 150,000 transmissions annually. So far, it is supplying 10,000 transmissions per month for Ford Figo starting January this year, with full capacity expected to be achieved once Figo volumes pep up further.

Another plant of Avtec, located within the Madras Export Processing Zone in Chennai and part of the Hosur PPD is focusing predominantly on export of transmission components for off-highway vehicles like wheel loaders for Allison Transmission, US, at present.

The Chennai plant also provides a small amount of transmission components for Allison Transmissions requirements for on-highway equipment.

'About 60 percent of the total revenue from the Avtec plants comes from the automotive sector and the balance from off-highway equipment,' Vice President, Avtec, S Girish said.

Expansion Plans

Avtec has invested Rs 30 crore in setting up the trans-axle plant and on an average has spent Rs 60 crore annually as capital expenditure on expansion of both the Pithampur and Hosur plants together, during the last

three years. An exception was witnessed during the slowdown when the capex level could not be maintained and the capex tripped to Rs 20 crore.

Last year, the company had announced an investment of Rs 200 crore for a new plant in Kharagpur, West Bengal, its fourth, which is to be dedicated for manufacturing transmission components for Tata Nano and the Tata World Truck range.

Prabhakar said, so far the company had invested Rs 140 crore of the proposed investment and was in the process of investing further.

'Avtec's capex for 2010-11 and 2011-12 is Rs 60 crore and Rs 75 crore, respectively. This will be spent on developing new-generation products and for buying equipment, tooling and development processes,' Prabhakar said. The funding of the capex would be through part internal accruals and bank loans, he added.

Meanwhile, with Daimler India Commercial Vehicles gearing up to rollout its 6 to 43 tonne truck portfolio from Oragadam in Tamil Nadu from mid-2012; the Ashok Leyland-Nissan joint venture (JV) preparing to launch its light commercial vehicle early next year from their individual plants at Chennai; and construction and mining equipment company, Caterpillar in expansion mode in Tamil Nadu, Avtec is exploring possibilities for further ramp up of capacity to match the growing sales volumes.

'There is adequate landbank

available at Pithampur and Hosur plants so these will be utilised first, but once volumes go up substantially, we may look at setting up a greenfield facility in Chennai to suit market and customer requirements by around 2012-13,' Prabhakar said.

He explained that normally a greenfield facility for such products would require an investment of around Rs 100 crore for generating a turnover of Rs 150 crore in three-four years time. According to him, ideally, a 25-acre piece of land would be sufficient for such a project.

Moreover, Avtec is expecting opportunities to come its way in different product lines.

'At present, Avtec is supplying some products for the Caterpillar loader but as they expand in India we expect to graduate to full transmissions for them,' Prabhakar added.

Avtec is currently working closely with the Ashok Leyland-Nissan JV for developing different products for them including transmissions.

'They want to launch a slew of products and we will be developing two to three products for them,' Prabhakar confirmed.

Moreover, Avtec is also developing an engine for the Daimler India Commercial Vehicle's truck.

The 4-litre CRDI engine for the Daimler truck, being developed at Pithampur, has so far been tested and been developed in conformance with the BS-III and BS-IV emission norms, Prabhakar said.

According to him, it was the latest generation engine, with a powerful torque, highly standardised and proven for India and in tune with global standards.

Delivery of engines would commence sometime next year, as Daimler has planned to hit the market with its products in 2012.

Financial Performance

Avtec a tier-I supplier to OE manufacturers posted a topline of Rs 500 crore in FY10 and has a target of crossing Rs 600 plus in the current fiscal and further scaling upto Rs 1,000 crore over the next three years as client orders shore up.

Girish said that it normally took around 10 months to enhance capacity in plants with every fresh capital infusion, and with the automotive sector upbeat post recession, Avtec was optimistic that the company would benefit both as a manufacturer of engines and transmission systems as well as a tier-I supplier to OE manufacturers who preferred to develop these products independently.

Further, the performance of the powertrain industry has also given reason for comfort growing at a CAGR of 20-25 percent, though the slowdown had limited the growth trajectory to around five-eight percent.

Following on the lines of the industry's growth, Avtec has registered a growth rate of 15 percent with expectations of chugging along with a similar momentum during 2010-11. **■**