CHAPTER SEVEN

TATA ENGINEERING & LOCOMOTIVE CO.

7.1 Evolution of the Company

7.2 Corporate Objectives

7.3 Organisation Structure and Management

7.4 Strategic Shifts

7.5 Capital Acquisition and Finance

7.6 Marketing Policies

7.7 Production and Operations Policies

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7.9 Strategic Plans and Future Outlook
TATA ENGINEERING AND LOCOMOTIVE COMPANY

7.1 EVOLUTION OF THE COMPANY

Tata Engineering and Locomotive Company (TELCO) was incorporated on September 1, 1945 at Bombay to manufacture locomotives for the Railways, pulp and paper-making machinery. Later, in 1954 TELCO began production of commercial vehicles in collaboration with Daimler Benz AG, West Germany. The commercial vehicles, which were known as 'Tata Mercedes Benz' (TMB), are now known as TATA vehicles after the expiry of the collaboration agreement with Diamler Benz in 1970. The manufacture of locomotive, a major activity of the company in the past, progressively tapered off since 1961 and finally stopped in June 1970. The company established a joint venture in September 1977 in Kuala Lumpur -- Tata Industries Sdn. Bhd. -- for manufacturing and assembly of commercial vehicles.

7.1.1 Business Operations

TELCO manufactures and markets heavy, medium and light diesel vehicles for commercial use and their relevant parts under the brand name 'TATA'. The company also manufactures excavators, industrial shunters, dumpers, high quality steel and alloy iron castings, a variety of heavy forgings and machine tools. The company also has facilities for the manufacture of truck and bus bodies. Recently, TELCO has made its appearance in the passenger car segment by introducing two models of totally indigenous cars.
7.2 CORPORATE OBJECTIVES

TELCO is committed to a programme of technological autonomy, quality-consciousness and positive foreign exchange earnings. It is the endeavour of the company to develop its capability to be a world class manufacturer of vehicles. Values are the unwritten principles of Tata culture.

"My goal is to attain market leadership", says Ratan Tata, Chairman of TELCO. Such objectivity is not new to TELCO. Earlier also, the company's former Chairman, late Sumant Moolgaokar had said, "My objective has been to prove, through results, that when we in India work together with commitment and eye on the future, the organisations and products we build are second to none in quality and performance.

The corporate goals of the House of Tatas to which TELCO belongs, are to: (1) Achieve technology-driven leadership (2) Focus on selected products and markets (3) Tap synergies within the Tata group of companies.

7.3 ORGANISATION STRUCTURE AND MANAGEMENT

The Board of Directors of the TELCO consists of sixteen members -- including four Executive Directors -- and is headed by its Chairman Mr Ratan Tata. Mr J.E. Talaulicar is the company's Vice-chairman & Managing Director. The company
has many divisions and sub-divisions. Many divisional heads report to the Executive Directors who in turn report to the Vice-chairman & Managing Director.

Tata Sons Ltd is the apex holding company of the Tata Group. It has 2 per cent stake in TELCO. Legally, the writ of Tata Sons Ltd does not run across all the Tata companies. They have their own boards which lays down the policies. However, the individual companies rarely depart radically from the guideline(s) evolved at the holding company.

"The Tata Group has a unique structure", says Raju Bhinge, who heads the Tata Strategic Management Group. The structure comprises several clusters of companies which have independent boards but are overseen by key personalities. What the Group lacks is the unifying vision and control of a central figure overriding the formal structure.

Ratan Tata drew up an integrated business plan for the whole Group in 1983 which was largely ignored by the major Tata companies. This experience made him alter his strategy for the nineties. The biggest change is that he has stopped planning for the Group, at least formally. Instead, Ratan Tata has set up a strategic planning services cell which offers independent consultancy to Group companies.

In view of the above, the Tata Group is a management oddity in the Indian setting. Unlike the Birlas, Ambanis, Modis or
Mafatlals, the Group is not tightly controlled by a family. And yet, certain clusters of Tata companies are headed by professionals whose hold on them is as complete as those in family-run fiefs. Ratan Tata may publicly be seen as the Group head, but even he has little say in the management of individual companies like TELCO. Top Tata managers control capital like individual entrepreneurs, often duplicating one another's efforts.\(^\text{17}\)

The new business environment has thrown big growth opportunities for the Group, both in new business and old ones. But there will probably be new threats too. To meet the threat, the Group may have to close ranks. "We have to consolidate and regroup quickly", says Ratan Tata.\(^\text{18}\) He further adds: "We have surveyed the areas of overlapping businesses. We are just getting them (the individual companies) to talk". Says N.A. Soonawala, a member of Tata Sons board and one of the most respected professionals in the group, "If the constituents themselves feel it makes sense to get together, there could be mergers".\(^\text{19}\) Probably, in the long run, Tata companies may have to squarely face the issue of ownership and management control.

7.4 STRATEGIC SHIFTS

One of the flagship companies from the country's largest business house of Tatas, TELCO has come of age over the
recent past and has emerged as the largest private sector company in India.

TELCO is one of the most respected companies in the country and is known for its good management, unquestioned product quality and self-developed technology. However, to meet the challenges of the new business environment, it is pursuing its corporate objectives with greater vision. Since mid-1980s, it has increased its capacity, production, strengthened R & D facilities, increased investment and has entered into newer market segments.

7.4.1 Size of the Company

The company increased its licensed capacity of commercial vehicles from 36,000 to 56,000 vehicles per year in 1979-80 after its Pune plant was completed. Later, in 1984-85, the licensed capacity for manufacturing vehicles at Pune was increased from 20,000 to 35,520 numbers per annum.

Consequent to the Government's liberalisation policy, TELCO received a letter of intent in 1985 for establishing a manufacturing facility at Lucknow with a capacity for making 9,000 vehicles annually. Commercial vehicles assembly at Lucknow is likely to commence shortly. Exhibit 7.1 shows the total capacity of the company as on March 31, 1991.
### Exhibit 7.1: Capacity Statistics of TELCO (in nos.)

<table>
<thead>
<tr>
<th>Class of Goods</th>
<th>Capacity Per Annum</th>
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<tbody>
<tr>
<td></td>
<td>Licensed</td>
</tr>
<tr>
<td>* On road automobiles with 4 or more wheels (at Jamshedpur)</td>
<td>33,480</td>
</tr>
<tr>
<td>* On road automobiles with 4 or more wheels (at Pune)</td>
<td>35,520</td>
</tr>
<tr>
<td>* Lucknow plant</td>
<td>9,000</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>78,000</td>
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TELCO expanded its capacity primarily between 1980 and 1985. Besides, TELCO has a licensed capacity of 2,160 numbers per annum to manufacture truck and bus bodies which is fully installed at its Pune plant. At the Lucknow plant the company’s vehicles will be initially assembled with the use of components from both the Pune and Jamshedpur units. As of present, TELCO’s capacity utilisation is about 89 per cent.

### 7.4.2 Growth of the Company

Shortly after World War II, when the German industry lay in tatters, Daimler-Benz approached TELCO with a proposal to manufacture diesel road transport vehicles. The
collaboration became functional in 1954 on the condition that within four years, TELCO would indigenise considerably—a commitment that was met. Thereafter, the company embarked on a growth path. After the technical tie-up with Daimler Benz ended in 1970, TELCO build a base of its own.27 Says Nani Palkhivala, member of TELCO's Board of Directors, "After all, TELCO is not merely the first engineering unit in the country, it is a national institution."28 In short, the country's largest automotive and engineering unit—TELCO—consistently followed a strategy of aggressive volume expansion from its very inception.29

During the period 1970-86, the growth of the company was average. However, the expansion of capacity by TELCO between 1980 and 1985, and the opening of diversification possibilities as a result of broad banding of capacity policy introduced in 1985, resulted in exceptional growth in the company's production. TELCO recorded a rate of growth of 312 per cent in the eighties.30 The production of commercial vehicles (heavy and medium) which was merely 36,312 in 1980-81 went up to 46,671 in 1985-86 and further increased to 65,321 in 1991-92.31 Taken together with LCVs, production of vehicles increased from 46,984 in 1985-86 to 81,831 in 1990-91 and further to 90,638 in 1991-92.32 Earlier, in 1960, TELCO produced just 9,655 vehicles which increased to 24,463 in 1970, and to 25,289 in 197533. Exhibit 7.2 shows the growth in production of the company since 1980-81.
Exhibit 7.2: Growth in Production (in nos.)

<table>
<thead>
<tr>
<th>Year</th>
<th>M &amp; HCVs</th>
<th>LCVs</th>
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<td>1981-82</td>
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<td>1985-86</td>
<td>46,591</td>
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<td>1986-87</td>
<td>44,190</td>
<td>5,052</td>
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<td>1987-88</td>
<td>47,357</td>
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<td>1988-89</td>
<td>50,520</td>
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<td>1989-90</td>
<td>52,927</td>
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<td>1990-91</td>
<td>62,123</td>
<td>19,808</td>
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<tr>
<td>1991-92</td>
<td>65,309</td>
<td>24,249</td>
<td>89,558</td>
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Source: Adapted from Automotive Industry of India, Facts & Figures, 1991-92, Automotive Component Manufacturers Association of India, New Delhi, 1993, pp. 6-7.

Although the company has grown in the past seven years, the current recession in the automobile industry has also hit TELCO\(^{36}\). As a result, till June 1992, almost 10,000 trucks and buses were lying unsold at TELCO's Pune plant against average monthly inventory of 3,000\(^{37}\). The cumulative growth rate of the company during 1980-81 and 1985-86 was 22.5 per cent while it was 48.25 per cent during 1985-86 and 1991-92.

7.4.3 Distinctive Competencies

Vertical integration, constant technical innovation, research and development, and self-reliance are TELCO's engineering tenets\(^{38}\) that have helped the company in maintaining a dominant position not only in the automobile
or engineering industry but in the whole of the Indian private sector. TELCO's apparent advantage over its competitors, especially in the LCV segment, is that it does not have to depend on costly imports whose value is directly related to the depreciating Indian rupee.  

Single-minded concentration on product excellence and the commercial vehicles market have been a source of great strength for the company. TELCO's products are well-known for their reduced fuel emissions, improved fuel-efficiency, high level of safety and greater driver comfort besides good after-sales service.

7.4.4 Key Strategic Actions and Events

To start the machine tools division, TELCO took over Investa's plant at Chinchwad in 1959. As mentioned earlier, TELCO had a technical tie-up with Daimler Benz for the manufacture of buses, trucks and diesel engines which ended in 1970. Remembers K.G.K. Rao, former Director (Research & Development), "Once the writing on the wall was clear that the Daimler Benz collaboration was ending, we started planning ahead."

TELCO entered into a technical tie-up with Daimler Benz for manufacture of direct injection engines in 1969. The agreement came to an end in 1974. Later, the company entered into a collaboration agreement with Kuhnle Kopp &
Kausch AG of Germany for manufacture of turbo chargers for IC engines for the period 1977-85.  

For the manufacture of ductile / SG castings, TELCO entered into a technical collaboration with George Fischer Ltd (Switzerland) for the period 1978-88. In 1985, the company imported technology from Nachi of Japan for the manufacture of NC (Numerically Controlled) and CNC (Computerised Numerically Controlled) special purpose machine tools. The company also obtained know-how in 1989 for the manufacture of thin-walled automotive aluminium castings from Kloth Senking Metallgiesserei GmbH, a subsidiary of Salzgitter Stahl GmbH, Germany. These castings provide a key input for the lighter range of vehicles. The agreement will terminate in 1994.

TELCO signed a technical collaboration agreement with Hitachi of Japan in 1989 for the manufacture of 'EX' series of hydraulic excavators. The company also signed a technical collaboration agreement with Ricardo Consulting Engineers, UK in 1990 for improvement in the performance of diesel engines for medium and heavy commercial vehicles.

Last year (1992), the company entered into a technical know-how tie-up with AVL GmbH of Austria for improvement in performance of diesel engines for lighter range of vehicles and conversion to a petrol version. Recently, TELCO has taken over the Pune-based sick company Noduran Foundries.
Maharashtra Ltd (NFML) and has converted it into the company's casting division. TELCO had been buying over 80 per cent of NFML's products. Prior to take-over by TELCO, NFML had the capacity to manufacture 9,000 tonnes per annum of spherical graphite iron castings and semis.

7.5 CAPITAL ACQUISITION AND FINANCE

TELCO had a paid-up capital of Rs 103.67 crore which increased by approximately 25 per cent on conversion of the rights debenture. TELCO has a promoter's share of 19.26 per cent in the company while financial institutions have a 40.73 per cent stake. Other major shareholders in the company are Daimler Benz (12 per cent) and public (28.1 per cent).

In 1980-81, the company obtained foreign currency loans equivalent to about Rs 6.86 crore from ICICI and a foreign currency loan equivalent to Rs 1.10 crore from International Finance Corporation (IFC) for the import of machinery and equipment required for its expansion programme. A foreign currency loan of DM 20 million (about Rs 8.5 crore) was obtained from M/S Thyesan Rheinstahl Technik GmbH of West Germany for the import of special machine tools required for the company's expansion programme from 36,000 to 56,000 vehicles per annum. During 1982-83, the company obtained a foreign currency loan of DM 27 million (about Rs 10 crore) from a consortium of banks led by Dresdner (South East Asia).
Ltd, Singapore for financing the import of machinery for the company's modernisation and replacement programme.

TELCO raised funds through the issue of 12.5 per cent convertible debentures in 1987 for use in its capital expenditure programme and working capital requirements. Later, in February 1991, the company issued 12.5 per cent partly convertible debentures aggregating Rs 311.02 crore on a rights basis to shareholders. The funds are being used for capital expenditure of the company.

From a turnover of Rs 609.65 crore in 1980-81, TELCO reached a turnover of Rs 1905.86 crore in 1989-90 and to Rs 3024.36 crore in 1991-92. Although turnover of the company increased by over 20 per cent in 1992 over the previous year, profit after tax declined by about 3.8 per cent for the year ended March 31, 1992. TELCO's profit after tax in 1990-91 was Rs 142.05 crore while in 1991-92, it was Rs 136.60 crore. This was largely due to the fact that during the year interest charges on borrowings had risen by about 70 per cent.

One strength of TELCO lies in its finance structure. The company's debt to equity ratio has moved from 0.83 to 1.43 but is yet comfortable. However, "TELCO has not been too innovative with its tax planning", says Ratan Tata. Exhibit 7.3 and 7.4 show the consolidated balance sheet, and profit and loss account of the company for the period 1981-90.
**Exhibit 7.3: Balance Sheet of TELCO**

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<thead>
<tr>
<th>Date</th>
<th>Sales</th>
<th>Cost of Goods</th>
<th>Other Operating Expenses</th>
<th>Profit After Tax</th>
<th>Dividends</th>
<th>Retained Profit</th>
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7.6 MARKETING POLICIES

TELCO is the largest private company in the country. Over the years, the company has introduced numerous models of different commercial vehicles in order to meet the changing consumer preferences. However, the dent made in its truck market by the Indo-Japanese commercial vehicles joint ventures in the post-liberalisation period led to a perceptible change in the company's marketing strategies.

7.6.1 Product

Originally and initially, TELCO was licensed to manufacture only 5-tonne trucks. But seeing the market potential and demand for 7.5-tonne trucks, it rapidly built up its production base for 7.5-tonne trucks. TELCO has had two models in the MCV range for quite some time -- an 8-tonner called 809 and a 9-tonner 909. Over a period of time, TELCO has introduced various models and products in the heavy, medium and light commercial vehicle segments. Presently, the product range includes commercial vehicles ranging from 2-ton to 24-ton gross vehicle weight.

Till 1986, TELCO had no presence in the LCV market. Now it has the largest market share in the light commercial vehicles segment. TELCO's new four-door passenger car -- Tata Estate -- was launched on March 19, 1992. Ten months earlier, the company had launched Tata Sierra. Says Pushpen Sinh, Executive Director in-charge of sales, "For
TELCO, it is not merely the product that is important, but also how the product is dealt with. The company's prime motto with respect to product is to identify a customer need and design a product to suit that need.71

Failing to get the Government permission in 1986 to tie-up with Honda Motor Company of Japan, for the production of passenger cars, the company concentrated on what is knew best -- developing different models of diesel commercial vehicles. TELCO is all set to launch model 609, the bus version of 608, which resembles the Dyna range of vehicles of DCM Toyota. A full forward version of Tatamobile -- the company’s station wagon model -- is also on the cards. "In fact", says Ratan Tata, "we have six or seven ongoing projects for new models to be launched."73 A five-door version of Tata Seirra and an upmarket monocoque car are the pick of these projects. New product or not, the fact is that TELCO is more vertically integrated than its competitors.74

7.6.2 Pricing

TELCO's mission of technical excellence and product development aims at providing quality vehicles at a reasonable price. To ensure cost effectiveness, several aspects are kept in mind: excellence in technology, which has to be kept in line with that in the rest of the world. The products have to meet rigorous quality standards to be competitive. Excellence in marketing -- the quality of
customer service is extremely important and is taken care of by the company. And finally, the overheads are kept at the minimum level.

The company has always tried to manufacture products at a viable scale of operations so as to enable it to price the product on the basis of its production efficiency. Between 1981 and 1986, cost of major inputs -- like steel and power -- went up by 200 per cent to 300 per cent while TELCO truck prices, since 1981, have increased only by 32 per cent. However, TELCO hiked the price of its LCVs in 1990 by almost 15 per cent despite the fact that it has no significant import content. The reason for this was that the company's ancillary units have also raised prices after their own raw material costs went up.

TELCO hiked the prices of its medium and heavy duty trucks by Rs 3,000 to Rs 4,000 due to an increase in special excise duty from 10 to 15 per cent as announced in the 1992-93 Union Budget. A month earlier, the company had to increase the prices of its vehicles due to rise in the prices of tyres. Otherwise, in an overall industry perspective, TELCO's vehicles are priced lower than its major competitors.

During the recessionary phase in 1991-92, TELCO did not revise the commercial vehicle prices for the fear of
precipitating the slide-down despite the fact that material costs moved up by 20 per cent and labour costs by about 6 per cent. Says TELCO’s Vice-chairman and Managing Director J.E. Talaulicar, “We have not made any price correction for a long time.”

7.6.3 Promotion

About a decade ago, in a shortage situation, the company downplayed marketing of its products and concentrated on sales. But this emphasis visibly changed with the arrival of competitive forces in the automobile industry. Consequently, TELCO launched an aggressive marketing and advertisement campaign during the period 1991-92. A series of advertisement campaigns were launched through the print media highlighting the company’s commitment to team work, social responsibility and training of its workforce through its slogan, “A Revolution called TELCO”.

Total expenditure on sales promotion in 1989-90 was Rs 245 lakh and in 1990-91, it went up to Rs 394 lakhs. Commissions and discounts amounted to Rs 168 lakhs in 1989-90 and Rs 241 lakh in 1990-91. Expenditure on advertisement and publicity was Rs 77 lakh in 1989-90 and Rs 153 lakh in 1990-91.

To counter the effect of the deepening recession, TELCO has devised a strategy -- interest on hire-purchases has been
reduced since June 1992 from 13.5 per cent to 12.5 per cent. Says J.E. Talaulicar, "We expect this reduced-interest strategy to have an impact. Hire-purchase should be the next alternative to bank finance and sales should pick up soon."82.

The fallout of the Rs 4,000 securities scam has affected the promotion of the company's HCVs most severely, especially since HCV sales are heavily loan-financed. And with market interest rate as high as 24 per cent, even hire-purchase schemes did not bring many consumers to the company83.

Though the HCV market is a duopoly, TELCO has the obvious edge and is now promoting its products harder in the southern market which has traditionally been dominated by its competitor Ashok Leyland. In the LCV segment, TELCO has been promoting its product on the basis of its lower price and easy availability of spares and services84.

7.6.4 Distribution

TELCO delivers its vehicles to 64 centres in the country. Normally, it takes the vehicles 4 to 5 days to reach these centres from the plant85. After-sales service of Tata vehicles is rated very good by the buyers. Not only are the spare parts less costly but are available at "every nook and corner" of the country86.
Besides, the company’s widespread distribution network, its clout with dealers and bulk buyers have made Tata vehicles a success in the market.

TELCO attaches great significance to after-sales service of its vehicles and making available spare parts. The company has service centres and spare parts dealers in almost every state of the country. Technical staff of dealers are occasionally trained in after-sales service by the company.

7.6.5 The State of Competition

Primarily, there are three manufacturers in the HCV and MCV segments, including Hindustan Motors which produced just 448 vehicles in 1990-91, and 25 vehicles during April-November 1991-92. TELCO holds the major share (73 per cent) of the segment followed by the other major producer Ashok Leyland (27 per cent). In 1984, TELCO’s share in medium and heavy commercial vehicles segment was 75.4 per cent.

In the LCV segment, TELCO has 46 per cent market share. The rest is shared by eight other manufacturers. The company has a marginal presence in the car segment, though cars constitute 50 per cent of the four-wheeler market. Exhibit 7.5 shows the major players and their market shares.
Exhibit 7.5: Major Players & their Market Shares (1991-92)

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>MCVs &amp; HCVs Market Share (%)</th>
<th>LCVs Market Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TELCO</td>
<td>73</td>
<td>TELCO 46</td>
</tr>
<tr>
<td>Ashok Leyland</td>
<td>27</td>
<td>Bajaj Tempo 28</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Eicher Motors 8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DCM Toyota 5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Others 15</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100</strong></td>
<td><strong>TOTAL 100</strong></td>
</tr>
</tbody>
</table>


Even with improved performance in the operations of Ashok Leyland, the company's major competitor in M & HCV segment, TELCO's market share has not been much affected.

The growth of TELCO has also played a significant role in the development of numerous small scale and ancillary units. TELCO is a big customer for a host of ancillary units not only in Maharashtra but also in other regions. Nearly 60 percent of the TELCO truck comprises of bought out items sourced from nearly 4,000 suppliers.

TELCO began export in 1961-62 while still under the collaboration with Daimler Benz. Starting from 1968-69, TELCO established its own export operations and developed a
large number of overseas markets. Tata vehicles are now successfully operating in about 40 countries around the globe. TELCO's major markets include Africa, West Asia, South and South East Asia. There are plans to begin exports to developed countries in the European Community. TELCO has consciously developed export markets despite the fact that there has always been more than adequate domestic demand to account for virtually all of its production.

Exports, including deemed exports to Nepal and UN agencies, amounted to Rs 131 crore in 1990-91 -- an increase of 28 per cent over the previous year when exports were of the order of Rs 105.63 crore. In 1991-92, export of TELCO vehicles were worth Rs 270 crore. In 1984-85 exports amounted to Rs 63.04 crore. As of present, TELCO holds fourth position in the list of top ten foreign exchange earning Indian companies in the private sector.

The effort to target newer markets, particularly hard currency areas, forms part of the company's strategic corporate plan. The company already has a fully-owned subsidiary in Zambia (Tata Zambia) whose main activity is to assemble and service Tata vehicles. The company has two other subsidiaries; Tata Namibia and Tata Zimbabwe. TELCO depends on Tata exports -- a group company -- for infrastructural, legal and liaison work overseas.
7.7 PRODUCTION AND OPERATIONS POLICIES

To achieve its goal of product development, the Company has embarked on programmes to improve the fuel-efficiency and reduce emission of engines to meet world standards rather than Indian standards alone. Plant modernisation and value engineering have been undertaken by TELCO to reduce manufacturing costs and to substantially offset cost increases. Quality standards and manufacturing tolerances are constantly upgraded to improve the quality, reliability and appearance of vehicles. TELCO's production and operations policies aim at designing a newer and broader range of products so as to enable the company to be more competitive in international markets, while at the same time providing the Indian buyer with a world-class range of vehicles. In short, TELCO aims to be competitive in both quality and cost in domestic and export markets.

In the recent past, TELCO has continued to invest in the modernisation and upgradation of its manufacturing facilities with a view to improving the fits and finishes of products and to improve labour productivity. Value engineering has also received a special focus with the objective of reducing the cost of vehicles through design and material optimisation. Training of key personnel and special surveys have been initiated for identifying further fruitful avenues for value engineering.
At TELCO, the materials department has been completely computerised. Monitoring supplies helps when rates are renegotiated with vendors every year. TELCO is able to confront them with their delivery delays, the faults in the components supplied and their rivals' pricing patterns.99

Investment plans for TELCO too have not been put to hold. During 1991-92, TELCO's capital outlay on modernisation added up to Rs 250 crore. And Rs 325 crore has been earmarked for 1992-93. Says Ratan Tata, "TELCO will invest 900 crore over three years in modernisation and capacity expansion in some cases."100 At present, average production capacity is about 120 vehicles per day.101 However, production had hit an all time low of 40 vehicles per day at TELCO's Pune plant last mid-year (June 1992) due to recession.102

At the Engineering Research Centre shop at Pune plant, a number of sophisticated tooling and testing machines are installed. The country's first 500 tonne forgings press is also installed at TELCO.103 The ERC is one of the best designing, manufacturing and testing facilities for automobile prototypes in the country. TELCO also has the laser cutting machines for steel (probably found in no other engineering workshop in India) and the CNC machines in large numbers.
The average age of TELCO's plant and machinery is less than 10 years and much of it represents the latest technology. Production programmes at both the plants—Pune and Jamshedpur—are inter-related. However, "the manufacture and passenger cars would be confined to the company's Pune factory only", says Ratan Tata. "The Lucknow plant of the company would look after the manufacture of heavy vehicles and concentrate on exports of spare parts and components," he adds.

The company's designing skills have been put to good use even in modifying the older vehicles. Pushpen Sinh, Executive Director, says "TELCO's mainstay -- the 12-tonne Tata 1210 -- is not merely a Daimler Benz derivative. The direct injection engine of the 1210, the synchromesh gear box and large number of other features have been made by TELCO."

A manufacturing and technology driven company, TELCO has laid emphasis on establishing flexibility of operations. All the dies and many of the machine tools and production devices required for the 407 series were produced by TELCO's own Capital Goods Producing Division. Says Subodh Bhargava, Managing Director, Eicher Motors Ltd, "TELCO's lead in the LCV segment is a result of its ability to increase production quickly enough to take advantage of production problems of the Indo-Japanese LCV makers."
7.7.1 Research and Development (R & D)

In 1967, TELCO established a Engineering Research Centre (ERC) at Pune. Over the last 21 years, the company has invested over Rs 115 crore in this facility and has developed a team of designers and technicians who have been responsible for the development and improvement of all the commercial vehicles being manufactured by the company.

Apart from new product development, considerable emphasis is given to the improvement and enhancement of the present range of vehicles with a view to improving fuel-efficiency, reducing emissions as well as attaining higher levels of safety and greater driver comfort.

Starting with a direct injection diesel engine for its trucks in the early seventies, TELCO designed several other parts of trucks, forklifts and earth moving machinery. The biggest challenge, however, came from the Japanese LCVs that flooded the Indian roads in mid-1980s. The answer to the Japanese LCVs was the ERC-designed 4-tonne Tata 407 launched in February 1986 and the 6-tonne Tata 607 launched exactly a year later.

For the first time in India, a passenger vehicle has been entirely designed in-house. It must be mentioned that designing a passenger car is an extremely complicated technological exercise. In fact, there are very few motor
car companies in the world which have their own design capabilities. Says K.G.K. Rao, former Director (R & D) of TELCO, "We may not be like General Motors, but in principle we are not far behind them".111

The company strongly asserts that the original Benz produced has been technologically upgraded as well as fully adapted to Indian conditions by TELCO's own efforts. Says Arun Maira, former Executive Director in-charge of exports, "The TELCO truck is perhaps not modern looking, but it is certainly the best designed for the Indian market, or for markets similar to India's".112 Adds V.M. Raval, resident director of the company, "Our vehicles have many state-of-the-art features which can only be found in upmarket cars abroad. These are not available in any Indian models".113

TELCO's expenditure on R & D in 1989-90 was Rs 14.46 crore which went up to Rs 18.16 crore in 1990-91114 and further to Rs 19.19 crore in 1991-92,115 which is 0.6 per cent of the total turnover. TELCO's R & D centre at Pune employs close to 500 engineers and has, in the last 10 years, introduced a new vehicle every year.116

7.8 MANAGEMENT OF HUMAN RESOURCES

The high level of operations at the country's biggest private sector company has been possible due to the equally high level of professionalism in TELCO's management of human...
resources. The company has developed professionals in every function mostly through its own in-house training.

The doyen of Indian industry and at present Chairman Emeritus of the Tata Group, J.R.D. Tata, founded the Tata Administrative Service (TAS) in 1955, which is a unique corporate management cadre. "The basic idea of the cadre is to attract bright young men with high academic qualifications as they come out of the university for the purpose of building on administrative or management cadre for the Tata companies as a whole," said J.R.D. Tata on December 8, 1955.  

Modelled along the lines of the Indian Administrative Services, TAS recruits only a few fresh graduates every year. After they sign-up, they are put through an induction programme and a formal apprenticeship. After the training, TAS recruits are offered for placement to all Tata companies.

The company pays great attention and assigns high priority to the training of its employees. The first building at the Pune plant to be constructed was the Training Centre which today runs not only apprentice training courses but refresher and retraining courses too. The company has also initiated special programmes for training in the areas of value engineering, total quality management and computer
literacy, to name a few. The investment in training at all levels has become an integral part of the Tata culture. The company has also successfully institutionalised corporate level programmes where top executives can build team spirit gaining an intensive exposure to developments in the environment and in basic disciplines of management.

Around 27,000 employees went through retraining during the year 1985-86. Special programmes were conducted to keep technical personnel in touch with the latest developments in their fields of specialisation. The company also trained around 1,000 full-time trainees in various disciplines. Training schemes were also designed to help dealers to face the challenges of increasingly competitive markets.

Out of the total workforce of 36,321, 35,000 people are trained and retrained in areas that may be far removed from their jobs. In the year 1991 itself, three-fourths of the workforce was trained over a period totalling more than 96,000 mandays.

At TELCO, a graduate engineer trainee spends some part of his two-year training period on the shop floor. A group of 25 executives of the company attend a sharply focussed 25-day seminar every year, with a curriculum encompassing everything from marketing to finance. To simulate the real world, ongoing TELCO projects are used as case studies. TELCO spends Rs 6 crore on training alone.
TELCO, or Tata group as a whole, is known to be a fair and generous employer. The company has one of the highest wage structures in the Pune region. The company offers one-time incentive to boost production. Workers are eligible for a minimum of Rs 1,000 if the daily average production over the last three months is above 160 vehicles, and more for every extra vehicle produced. Every year, a quarter of the workforce acquire a higher skill -- all promotions and increments being skill-related. At TELCO, the policy is to promote people from within. Such a policy though carrying an inherent advantage of motivating personnel has certain demerits too. "This", says V.F. Banaji, General Manager (Corporate HRD) of the company, "means that executives often lose touch with the outside world"; unless of course, their skills are constantly upgraded.

For the workers, every facility is provided to enable them to enhance their living standards. Almost 85 per cent of TELCO's workers today own a house and a two-wheeler. For the purchase of durables like colour TVs and refrigerators, the company provides soft loans. TELCO has set up voluntary institutions, for its workers, their wives and also their unemployed male dependents. Taken together, these welfare schemes provide employment to over 2,000 people.

Labour relations at TELCO is a plant level function and senior executives are called upon to intervene only when
there is a major problem. Although the company has had a fairly placid labour history, TELCO plunged into a crisis due to labour problems in October-November 1989 due to wage settlement problems. Go-slow and tool-down tactics had disrupted production during the year. Says Ratan Tata, "We are willing to be flexible provided we do not jeopardise our right to manage". Otherwise also, TELCO has always put up resistance to any outsider's entry into its labour affairs. Overall, employee relations at all locations have been cordial and a commendable effort has been made at every level to re-establish constructive and professional industrial relations at Pune following the labour disruption in 1989.

Combined with the recession in the industry, labour costs moved up by about 6 per cent during 1991-92. Employee costs in 1992 is around Rs 345 crore against previous year's Rs 280 crore. Meanwhile, TELCO has been cutting output and laying off temporary hands in its plant. During the first quarter of 1992, the company retrenched about 2,000 casual workers.

In a significant move, the directors of Tata Sons Ltd have decided to fix 75 years as the age limit for non-executive chairmen, deputy chairmen and vice-chairmen; and 65 years for executive chairmen, executive directors, managing directors, joint managing directors and whole-time directors
Ratan Tata explained the move as an attempt to introduce a practice in the group that is prevailing in professionally managed companies all over the world. This decision, however, is quite new and radical in the Tata set-up where, it is often said that the old men never step down. The action of fixing retirement age, is being viewed as a key factor in encouraging succession planning within India's largest business house.

7.9 STRATEGIC PLANS AND FUTURE OUTLOOK

TELCO is implementing plans to rationalise the product-mix of commercial vehicles to better meet market requirements. To satisfy the increasing demand, the company has taken up a massive modernisation and expansion programme. This move is expected to not only help increase productivity but would have a fair chance to absorb some surplus workers. Ratan Tata visualises the company's turnover to be around Rs 5,000 crore in two years' time. TELCO's investment programme involves spending of about Rs 150 crore a year.

The company is also attempting to commercialise the engineering expertise built at its plants over the years. It has identified domestic and export markets for CNC machines and some other engineering products. TELCO is also exploring the possibility of exporting steel castings for excavators to its collaborators, Hitachi Construction Machinery Ltd, Japan. The company also plans to double its export turnover.
to 10 per cent of its production of projected one lakh vehicles.

TELCO is likely to come out with updated and improved versions of both the Tata Sierra and Tata Estate. Says J.E. Talaulicar, "We are raising facilities for Tata Sierra and Tata Estate vehicles. Their production is being gradually raised and should form a good portion of total output in the next few years. Plans are to introduce a new series of commercial vehicles."

Adds Talaulicar, "The company is also looking at acquisition of units which are technologically weak but could be turned around with its skills. Such units should not however be in totally different sectors. The acquisition should help TELCO in creating synergistic advantages. This would also help create tax shelter. TELCO also plans to export components for Daimler Benz in a big way. The company is already exporting sub-assemblies to Benz.

TELCO is also planning to start manufacturing engines and ancillaries for Daimler Benz. While a major part of the production will be bought back by Daimler, some of it will be used in TELCO's export models. Also, components like gear boxes, clutches, axles, and propeller shafts for Benz's Indonesia plant will be sourced from TELCO.
Probably, the crux of TELCO's long term strategy to emerge stronger, however, lies in its long-standing interest in roping in its 11 per cent stakeholder and erstwhile collaborator Mercedes-Benz. Says Ratan Tata: "Dialogue with Benz is still on for the manufacture and export of vehicle sub-assemblies to their units in various third world countries". Adds Talaulicar "The understanding is that both TELCO and Mercedes-Benz will look at all possible areas of mutual help and cooperation".

TELCO is currently having a dialogue with Cummins Inc. of USA (the largest diesel manufacturer in the world) for supply of engines which are fuel-efficient and emission free. Slated for launch in 1993 is the luxury passenger vehicle, the 10-seater Tata Calypso, targeted at the top end of the market. The focus is also on the new Tata 609 model.

As a part of its export offensive, TELCO is revving up to turn out its existing range of commercial vehicles in Bangladesh in a joint venture there. For the moment, TELCO has identified the 9-tonne TELCO 909 and buses for immediate production in Bangladesh.

Foreign forays apart, TELCO's long-term growth strategy lies in widening the range of more user-friendly niche-market commercial vehicles which can stand the test in any export market. Efforts are also on to identify countries to set up
manufacturing bases, mainly auto ancillary units\textsuperscript{143}. Various proposals for technical collaboration or joint ventures abroad for the assembly and sale of vehicles are also under examination\textsuperscript{144}.

To capture the 1990s for the Group, Ratan Tata and some of the close advisers are formulating a groupwide restructuring that would involve spinning-off divisions into separate companies, and closing down unprofitable divisions\textsuperscript{145}. It is envisaged that the strategic plan for the nineties will push Tatas onto the growth path of acquisitions and mergers. Confirms N.A. Soonawala, finance director of Tata Industries, "Growth through mergers, amalgamations and acquisitions will be part of our strategy in the nineties"\textsuperscript{146}. The plans of the Tata Group as a whole for the newly liberalised business environment envisage getting out of sick and unviable companies and concentrating in areas where the group has strength. This is being done through restructuring so that the major Tata companies which are in core sector and have hitherto operated in near monopolistic conditions can follow through expansion unhindered by the erstwhile MRTP restrictions and through mergers and acquisitions\textsuperscript{147}.

* * * * *
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