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## Engineering a 'Perfect' success story

*From a small SSI dream by five enterprising entrepreneurs started 25 years ago, Shimoga-based Perfect Alloy Components is gearing up to take on the big guns in the business with a prestigious joint venture with German giant MAHLE Group, writes SUBRAHMANYAN VISWANATH.*



Nestled in the quaint small town of Shimoga is an entrepreneurial success story that has changed the industrial landscape of now bustling city furiously catching up with modern times. Born as a SSI dream harboured by its visionary promoters, Shimoga-based Perfect Alloy Components Pvt Ltd (PAC), which completed 25 successful years in 2004 is looking toward another silver jubilee stint ahead.

Set up a small machine shop in 1979 for supply of liners to Pearlite Liners (P) Ltd., Shimoga, PAC, popularly known as Perfect, is today India's largest manufacturer of cast valve seat inserts for IC (internal combustion) engines. The company's valve seats are renowned for their technical supremacy and are first choice amongst all major OEMs in India and abroad. **Perfect pioneers**

Stringent quality commitment and customer's satisfaction has been the hallmark that has led Perfect becoming US \$4.2 million company spread over 2.5 acre area, with headcount of 280 with a clutch of around 21 ancillary units supporting its manufacturing process.

Over 35 per cent of Perfect's production is currently exported to countries such as Britain, Canada, Germany, Holland, Italy, Malaysia, Spain, Singapore and the US. Last year out of Rs 12 crore export turnover Rs 9 crore came from Germany alone.

Perfect's vision, says its enterprising promoters, is to become global leader in the supply of state-of-the-art quality valve seats on time, providing it at most competitive prices. The five pioneering and visionary stalwarts behind Perfect's chequered and stupendous growth and ascendancy are its dynamic directors — H S Divakar., H V Subrahmanya, R B Inamdar, B C Nanjunda Setty, and V K Divekar.

### Initial impetus

Perfect was born when H S Divakar, a diploma holder, who was running a lathe shop in Bangalore dreamt of starting his own small scale unit besides

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shifting home base to Shimoga.

A similar idea, as also personal yearning to move to the more sedate and quiet milieu of Shimoga was brewing in the mind of H V Subramanya, cousin of Mr Divakar. An engineer from Hassan, Mr Subramanya was looking after SSI development at HMT Limited, Bangalore.

The then Prime Minister Indira Gandhi government's announcement of an entrepreneurial scheme to spur industrial activity and encourage entrepreneurship in the country, came as a manna from heaven. With loan from State Bank of Mysore the two floated the small machine shop which today is legion as Perfect Alloy Component Pvt Ltd synonymous with valve seat inserts both internationally and within the country.

They were joined by Mr Setty, an arecanut trader, Mr Divekar and and Mr Inamdar, who had their own units. The five were also provided necessary impetus and inspiration from doyens of SSI movement in Shimoga like Narayana Sastry and Mr Gundu Rao (Mr Divakar's uncle).

"We wanted to start a SSI unit with our own item", recounts Mr Divakar, "and we selected off-hand this item about which we did not know much. Having made few sample valve seats we took it to Ashok Leyland".

But it was not a smooth ride for Perfect. As Mr Setty recollected the entire lot of 16,000 valve seats were rejected. Not to be deterred Mr Setty said, we took it as a challenge and from then on began Perfect's sojourn to fame, perfection, prosperity and success.

### The product

Today it's authorised capital stands at Rs 10.5 crore and paid up capital Rs 2.5 crore and equity holding distributed equally among the five directors each having 20 per cent share. The company's networth is Rs 20 crore.

PAC valve seats inserts are made individually (stack mould) and centrifugally cast, depending upon customer specifications. These inserts have a wide range of chemical composition, with right proportion of alloying elements and extensively used in engines of transport, marine, diesel generator and four stroke two wheelers.

One other reason for picking on valve seat inserts, says Mr Divakar, was it was production item comprising 12 components and volume and high value item. According to Mr Setty the valve seat inserts are alloyed steel ring in the cylinder head on which a valve moves and has an inlet valve seat and exhaust valve seat.

These are important components of engine, very vital for performance of the engine and in today's EU norms scenario critical for all major automobile and other users of engines.

### Expansion plans

Perfect enjoys virtual monopoly among OEMs with 90 per cent market share being single source supplier for several leading auto majors like Hero Honda, Telco, Ashok Leyland. In open market it boasts of 7 per cent market share with two others being Lonavala-based Perfect Engineering and Pune-based Pesco.

Flush with its success Perfect Alloy, which presently manufactures about 10.80 million valve seats annually, has embarked upon major expansion plan to enhance its capacity to produce 15 million valve seats annually.

It plans to set up a new foundry at a cost of \$0.14 million to melt 1,200 tonnes of valve seat casting, heat treatment plant costing US \$0.12 million, additional machine shop costing US \$0.58 million. Says Mr Setty with existing orders from Deutz AG Venture of Germany alone they will post revenues of US \$1.5 million.

Incidentally, the company directors Mr Divakar, Mr Subramanya and Mr Setty, the ones

Incidentally, according to Mr Divakar, Mr Subramanya and Mr Setty, they are now planning to adopt modern and in demand sinter route powder technology for manufacture of valve seat specially for car majors. This is to meet the huge global demand running over 350 to 400 million valve seats, they pointed out.

Mr Divakar and Mr Subramanya said, Stuttgart-headquartered MAHLE Group, one of 30 leading component manufacturers for automotive and engine industry has expressed interest in equity participation with Perfect Alloy. Stating that Perfect Alloy is engaged in talks with the German giant, they said, while MAHLE Group want to take majority 51 per cent stake, Perfect, however, was not keen to part with their majority holding and have proposed 49 per cent.

Once the talks, which are still in negotiation stage, fructify, they said, in six months time a new joint venture would be floated, for mass production of sinter valve seats for which they are scouting for another five acres of land nearby.

### **Project funding**

They discounted any plans of hitting the capital market to fund their expansion, stating they have their own internal accruals as also kitty of Rs 4 crore accumulated under Keyman Insurance Plan which they propose to utilise. The proposed Rs 11 crore project will be taken up in phases with initial phase seeing around Rs 1.5 crore funding. Once the project was ready with additional Rs 10 crore invested, the total capacity would go from 10 lakh valve seats to 20 lakh valve seats for meeting any export requirements. The new project will be creating employment for another 400 to 500 people within and among the ancillary units supporting them.

### **Financials**

Mr Subramanya and Mr Divakar pointed out that last year (2004) they touched 40 per cent growth and that on an average their year-on-year growth has been 20 to 30 per cent in sales volumes and 15 per cent in terms of profits. During 2005-06 they have set a turnover target of achieving Rs 36 crore turnover, against Rs 30 crore last year, of which they expect the profit to be around 16 to 18 per cent. In 2006-07 they hope to touch a turnover of Rs 44 crore and Rs 50 crore by 2007-2008.

The company spends around three to four per cent of its turnover on research and development. Describing the journey so far like a marathon they said as such in ten years time they visualised themselves as one among global leaders in the business and averred they can compete with any German or overseas company for quality and cost competitive valve seats inserts.

On their future prospects Mr Divakar succinctly summed it up as "till the last drop of diesel and petrol is there we will be there." Here's doffing the hat for the Five Men Army of Perfect Alloy and their team for their enterprise and entrepreneurial spirit for making success of their dream and spurring industrial activity in Shimoga in a big way.

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