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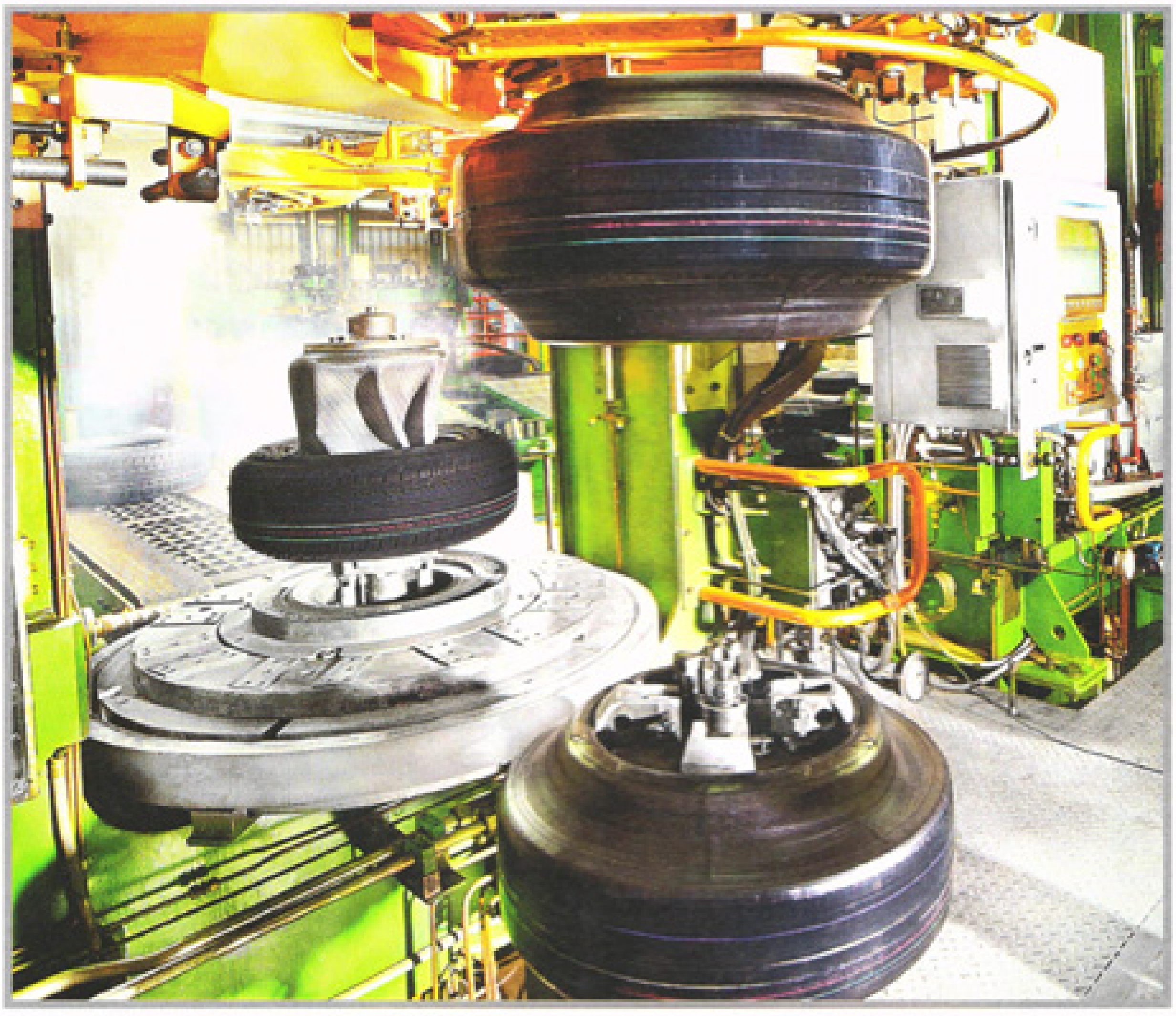

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haymarket

EXCLUSIVE

SATISH SHARMA: 'We have a product map for the next 10 years for different markets.'

Apollo Tyres' president, Asia Pacific, Middle East & Africa speaks to **Shobha Mathur** on the growing truck and bus radialisation in India, expanding capacity at the Chennai plant, a sharp focus on technology and R&D, the ASEAN market and the upcoming plant in Hungary.

Considering that the acquisition of Cooper Tire did not happen, is Apollo Tyres looking at another big-ticket acquisition to expand its global footprint?
Right now we are concentrating on a greenfield expansion in Hungary and expansions in India including brownfield expansion in the Chennai plant for truck and bus radial (TBR) capacity as well as off-highway tyres in Kalamassery (Kerala).

What's the latest on the Chennai operations and why does the South India market continue to be a growth story for the company?
Chennai has been a very happy ground for us. The first tyre got commissioned from this plant in March 2010. Right now in 2015, we are already hitting terminal capacities on the TBR installed capacity of 6,000 tyres per day; in passenger car tyres, we are nearing terminal capacity of 16,000 tyres per day. We have also sanctioned another expansion programme to increase our TBR capacity to 9,000 tyres per day in 15-16 months. The investment will be to the tune of Rs 1,500 crore funded through internal accruals. It is just an expansion in the same facility that takes Chennai to its complete capacity in terms of what the government allows.

Every market is significant but the south is more amenable to radialisation as the overloading tendency there is far lesser than in the north, western and eastern parts of India. Operator economics there run on rated loads and they are more disciplined in their driving habits and therefore in their understanding of cost per kilometre and extracting the full value from the product. Hence, the drivers in South India are slightly different from other markets. Therefore, radialisation gets propelled in the south far more than in other parts of the country.

In comparison in north India, drivers do not look for re-treading; rather they look for the first life of the tyre; it should take overloads and they find radials, even in an overloading condition, are able to give them 50-60 percent more life than a bias tyre and that is good enough for them. So if they don't get a second life, it is okay for them. In fact, radialisation has got pushed more in the overload category than in the segment that is signified by the southern markets.

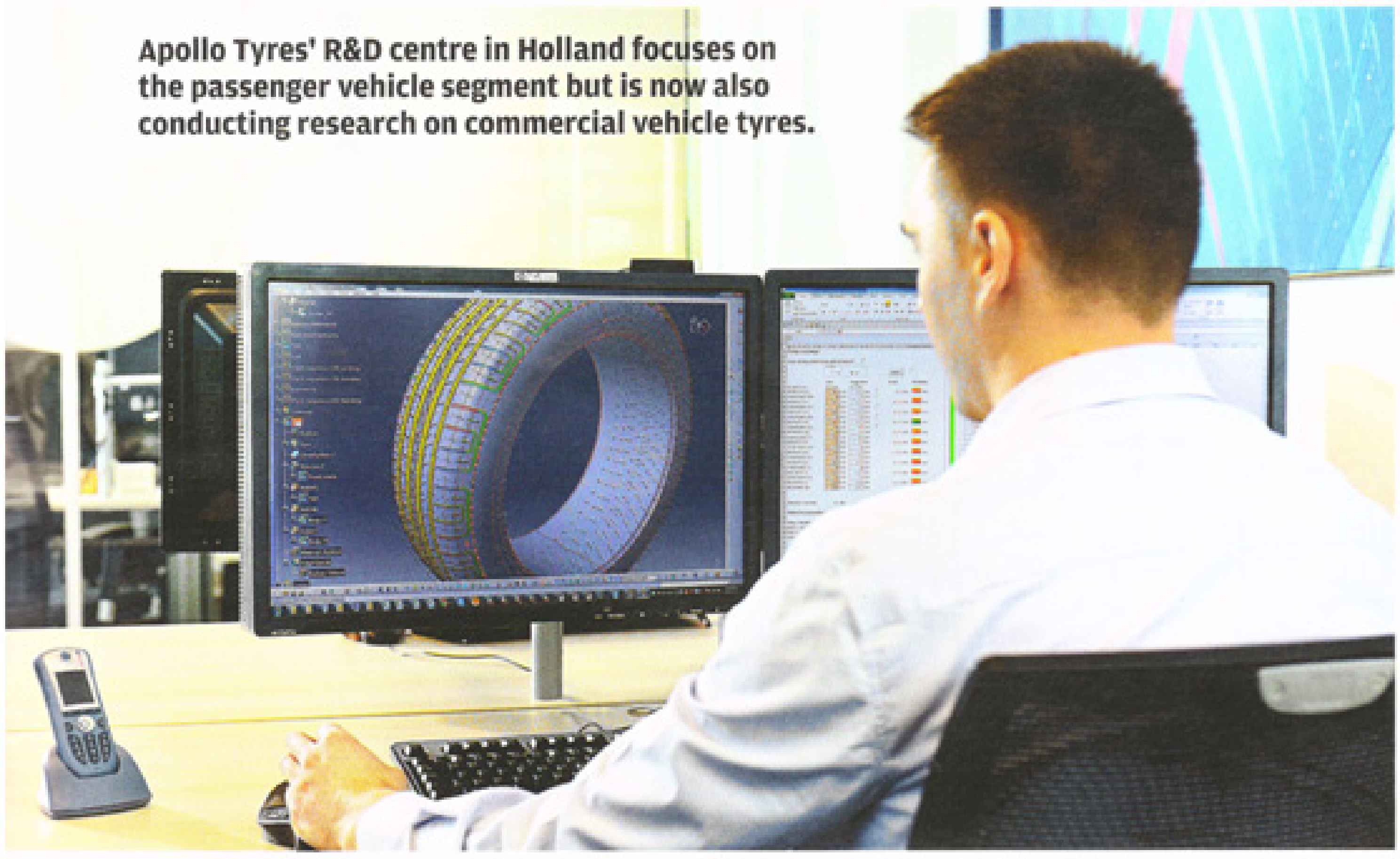

A truck and bus radial undergoes a quality check.

'SOUTH INDIA IS MORE AMENABLE TO RADIALISATION AS THE OVERLOADING THERE IS FAR LESSER THAN IN THE NORTHERN, WESTERN AND EASTERN PARTS OF INDIA.'

If you need to add further capacity, will Apollo look at setting up another plant?
That's right. We have other plants in Vadodara and Kerala. The old bias tyre technology will modularly reduce, so we have to formulate a strategy on whether we need another greenfield site or should we opt for converting the existing sites into what is relevant for the Indian operations.

How is the TBR market performing in India?
Radial tyres are growing at the rate of 5-6 percent a year, much of it propelled

PHOTOGRAPH MOHAMMED SHAFIQ



Apollo Tyres' R&D centre in Holland focuses on the passenger vehicle segment but is now also conducting research on commercial vehicle tyres.

by an early adoption of technology by OEMs. The loading infrastructure came down due to the ban on mining and the slowdown in construction activity, and improvement in road infrastructure enabled the absorption of radial technology with all the right variables to propel this technology forward.

Customers have seen that this technology is giving them more benefits in terms of lower cost per kilometre and hence the absorption has been fast. Also, in other countries once this technology passes the initial hurdle rate, then the absorption becomes pretty fast after which once it reaches 65-70 percent, it stabilises and plateaus and the two technologies have to find their own levels.

Right now in the aftermarket, TBRs are 28 percent of the total and as far as OEMs are concerned it is 70 percent. Vehicle production itself has gone down by 50 percent from the 2011 level and last year experienced 19 percent growth on the low base.

Due to a ban on mining, more buses, coaches and cargo trucks were produced as opposed to tippers and vehicles which are used in mining and construction and have a preference for bias tyres.

Apollo Zone outlets offer an enhanced retail experience as a one-stop shop for the brand and its tyre range.

The mining sector has opened up recently. FY2014-15 SIAM results reveal growth in M&HCVs as opposed to LCVs. How do you perceive growth in this segment going forward?

We will now see the real reflection of radialisation and which technology is used in which vehicle – this year will really be the right base to judge the potential of radialisation in the OE segment. Radial tyres are not yet used in LCVs as this category is dominated by overloading.

Tata Motors has brought out the world LCV in the passenger segment and has used tubeless radial tyre technology first in the Ultra LCV. This is the right way to go.

'THIS YEAR WILL REALLY BE THE RIGHT BASE TO JUDGE THE POTENTIAL OF RADIALISATION IN THE OE SEGMENT IN THE INDIAN MARKET.'

Kerala is also an interest area for Apollo where it is investing Rs 400 crore. How do you plan to tap this region further?

We have already established phase 1 of the modular project on off-highway tyres and as we understand this category, it is making of tyres that are exported to all parts of the world. As we expand that category and distribution footprint in a phased manner, the investment of Rs 400 crore will pan out.

What is the investment roadmap over the next couple of years for Apollo?

In India there is a very specific investment of Rs 1,500 crore in Chennai and Rs 400 crore in Kerala. Besides that, we have a maintenance capex of about Rs 150 crore annually that we do YoY in all our existing facilities.

Apollo has been looking to grow its export markets and was targeting a 14 percent share in FY'15. Has this been achieved and what will be the next milestone?

Exports have been a very happy hunting ground for Apollo Tyres and one of our core strategies, especially when the India market was down. Now we have established sales organisations in the ASEAN, Middle East, South Africa and Australia while we cater to the SAARC region from India.

All these regions are growing very well albeit the industry de-grew in exports last year. However, Apollo Tyres has grown by almost 20 percent thanks to the strategy and work that we have been doing over the past couple of years. It has now begun paying us rich dividends and we have managed to increase the product addressability by catering to specific needs of customers in those markets, across truck tyres, car tyres and off-highway tyres.

They are absolutely different markets and the needs are completely different and off-the-shelf products do not work. We have had to draw out a complete new product strategy for each of these specific markets; what is developed for ASEAN does not work in the Middle East. For instance 4x4s, SUVs or pick-ups are more important in these markets.

In Thailand this constitutes 30 percent of the market potential and even the bias tyres that they use are for very different applications and of very different construction. Whether it is Iran which is opening up or Iraq that opened up and then shut down, the tyre sizes that are needed are very different, like 1224 which is unheard of in India. There is Japanese domination in most of these markets as well as Chinese, so you have to find your space. We are not looking at these markets only as export markets; we are dealing with the dealers there directly and treating most of them as domestic markets.

Apollo's R&D base is in the Netherlands. The R&D Centre we understand actively collaborates with the India Chennai unit. What are the latest developments on this score?

There are two levers on which a lot of investments have been made in Apollo – one is technology and R&D and the other is marketing and brand.

On the technology side in India, we have consolidated all the technology from the manufacturing plants together in the Chennai R&D centre and the bulk of it caters to commercial vehicles.

In Holland, we set up an R&D centre which has been looking at the passenger vehicle segment since 4-5 years. Both of them have now mushroomed and become multi-product.

The Chennai R&D centre has added an R&D wing for PVs. Likewise, the Holland R&D centre has taken on the ability to conduct R&D for CV tyres. We have a new chief of R&D, who has vast experience and comes from Daimler Benz in Germany. We are now introducing advanced engineering electronics in tyres.

We also have a product map for the next 10 years for different markets, so the R&D centres have their hands full, not only in product development but in bringing in new technology and new concepts both in tyres for CVs and PVs. We are fairly strong with OEs in India but in the European market we have been mostly replacement-focused. Going forward, we want to enter the OEM segment, so these R&D centres are helping us, especially the Holland unit.

Many of the OEs, having found that the India growth story has spluttered in between, have looked at making India a hub for small cars for instance, and are concentrating on exports from this region and many of our products are fitted on those export vehicles. A lot of fusion of talent has been done in these centres. About 350 people totally work together in these centres.

Do you require an R&D centre in the ASEAN market as well?
We have technology personnel based in the ASEAN that functions as a satellite. We are addressing 60-70 percent of the market.

Apollo was mulling a manufacturing base in the ASEAN region, perhaps in Thailand, Indonesia or Philippines. When will this plan take off?
In the ASEAN region there are 10 countries and at some point in time we would think of manufacturing. The idea is to prepare the market much ahead of the manufacturing.

On the other hand, there is a duty reduction as per the FTAs and the WTO which are happening so some of these markets are becoming accessible even from India. You could still access a market like Thailand which has a duty structure of 6 percent but you cannot cater to a market like Indonesia or Philippines, so we transfer products to Thailand and the Thailand operation further re-exports to the sales offices or resident representatives in other ASEAN countries.

We would need one manufacturing facility in ASEAN – it could be in the Philippines, Thailand, Indonesia or Vietnam – but right now our concentration is on making our presence felt there and develop the market to a certain size. From the duty standpoint, Thailand is the most amenable market for us and we have a 3 percent share of the market but the market size is small.

When we have 5 percent of the ASEAN bloc (roughly estimated to be less than a percent now), then it will be the right time to set up a manufacturing facility. Thailand is the most attractive market in the ASEAN but the wage cost is increasing there; Indonesia, Philippines and Vietnam are also very attractive, so there are several options. But we are entrenched more deeply in Thailand with a stronger sales force and the manufacturing ecosystem is very decent there. Thailand has about 12-13 global tyre manufacturers in addition to local ones and all of them sell in the local market and then export. Within the ASEAN, it is duty free if you manufacture there.

PHOTOGRAPH MOHAMMED SHAFIQ

Sharma says Apollo Tyres is well placed with OEs in India but in the European market sales are mainly in the replacement market. It plans to soon cater to the OE market in Europe.

'WE WOULD NEED ONE PLANT IN THE ASEAN BUT RIGHT NOW OUR FOCUS IS ON MAKING OUR PRESENCE FELT THERE AND DEVELOP THE MARKET TO A CERTAIN SIZE.'

After the closure of the Durban plant in Africa, where do Apollo's African operations stand?
We have shut the manufacturing operations but given a new lease of life to our selling operations. South Africa is a major market for us and we have an organisation based out of Johannesburg with 20 people who are opening up distribution for both the Apollo and Vredestein brands there.

When we entered the South African market in 2006, there were 20 percent imports. Now when we have exited manufacturing, imports are 55 percent which is testimonial to the fact that it is expensive manufacturing in Africa unless you cross-strategise. For instance, Ford's plant there would produce 1 SKU (Stock keeping unit) and build economies of scale for it and build SUVs which it then exported worldwide.

So if you can align somehow, then it makes sense and even that over a period of time would be a challenge as the manufacturing cost is prohibitive. Now with the two brands coming from India or Europe, we can be more competitive and the distribution has given us a warmer welcome than when we were a manufacturer. The trade unions there are very strong and are for a particular sector, wage settlements are for entire tyre companies and productivity is very low and the manufacturing ecosystem is disappearing much like in Australia that was dependent on mining. They have European costs – for instance, in India cost is 6 percent of revenue in our industry and in South Africa it is 25 percent!

We have an organisation based in Dubai that caters to the Middle East, North Africa, East and West Africa. In Australia, we have a country representative and are exploring the right distribution for products. We are in the process of making a meaningful portfolio for that market that comprises mostly SUVs and big trucks. No tyre manufacturer is left in Australia.

Apollo has just begun work on its greenfield facility in Hungary. How will it leverage this location?
We just broke ground (on April 10). Production will come up only in 2017, largely for the European market and probably small exports to USA. Bringing tyres to ASEAN from there will not be cost effective but from Europe to Africa will be effective. Tyres are

freight-unfriendly products. The plant is coming up after thorough due diligence depending on proximity to OEMs, availability of talent pool and ease of doing business. It will be the most modern and latest plant from Apollo and evolve even over the Chennai facility.

What are Apollo's sales in the domestic market? Which region in India shows the most promise and which tyres are the most popular?
The Indian balance sheet size is close to Rs 9,000 crore or last year was around Rs 8,500 crore of which earlier exports were pegged at 10 percent and now constitute 12 percent. The growth rate has been close to 20 percent in 2014-15, a year in which the main exports have gone down.

For us every segment, be it south or north in terms of potential, is important and revenue is equally balanced. We have a dealer base of 5,000 outlets. With the advent of technology, we don't need physical infrastructure but there will be more consolidation. What is important is to ensure efficiency of supply chain and to expand retail dealers and that is an on-going process.

The consolidated revenue segmentation as of FY2014 is:

Market-wise
- OE: 22%
- Replacement: 78%

Product-wise
- Truck and bus: 45%
- Passenger vehicle: 36%
- Light truck: 6%
- Off-highway tyres: 11%
- Others: 2%

Revenue segmentation for Indian operations:

Market-wise
- OE: 24%
- Replacement: 67%
- Exports: 9%

Product-wise
- Truck-bus: 64%
- Light Truck: 8%
- Passenger Vehicle: 17%
- Farm & Others: 11%

We have a very modern robust retail format for the car category (Apollo Zones) and we are trying to expand it and have about 150. For rural India, we have around 600 Rural Exclusive Dealers and we plan to increase them to 1,000.

We have been focusing on rural markets since the past five years. 2014 was a bad year for the rural segment – due to unseasonal monsoons, our demand reduced marginally. But the opening up of the mining sector will give a big spike to our efforts and is just a blip in the larger scheme of things. Roughly about a third of our sales come from rural markets.

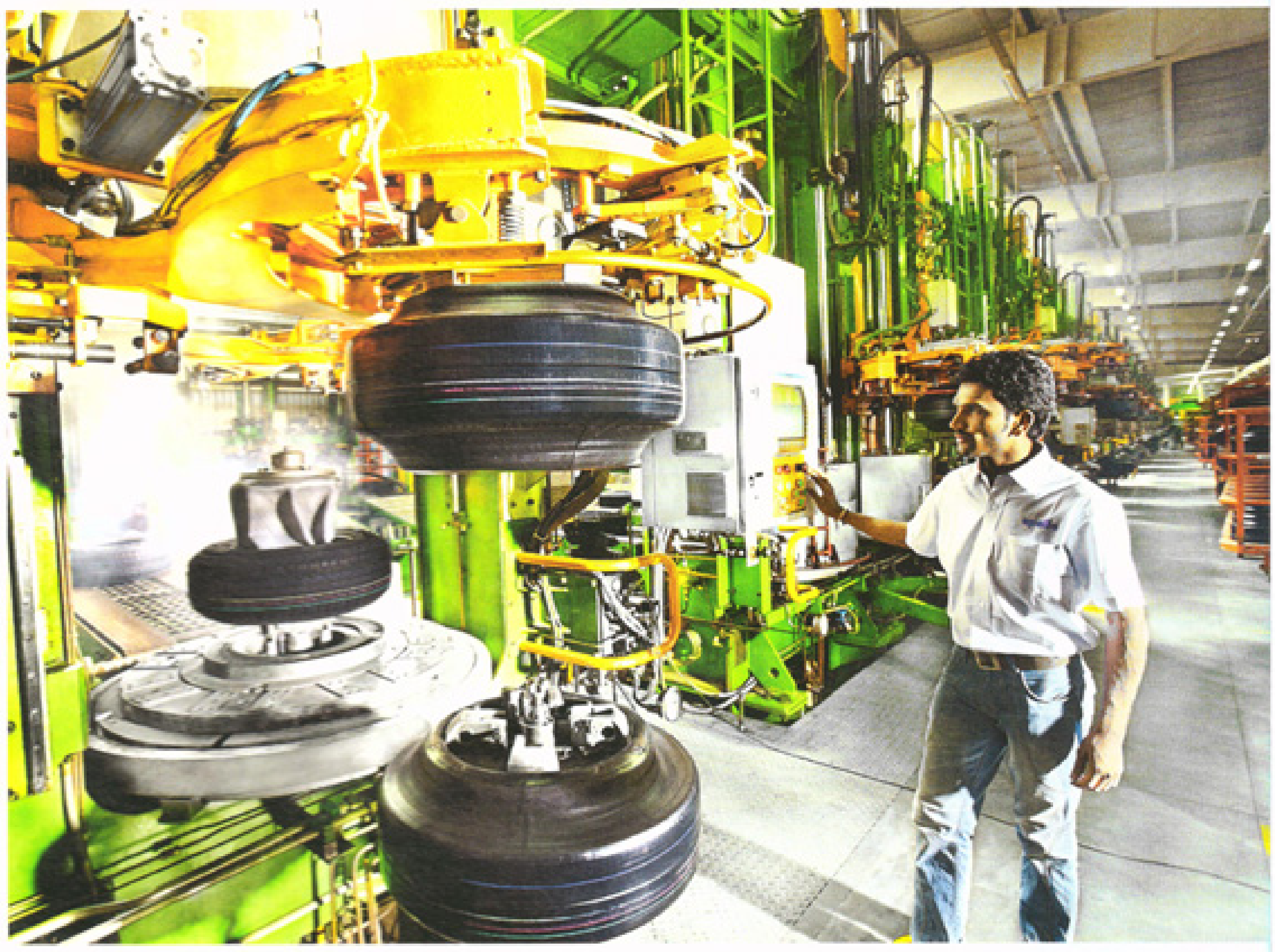
Has the automotive slowdown in the last couple of years impacted the performance of the tyre industry?
The revenue growth has been a concern for the industry as we are closely linked to the GDP, IIP and mining, construction, agriculture and all these tanked, which reflects in the tyre industry that has been experiencing low single-digit growth.

Going forward, this will improve to high single-digit growth and then next year perform even better. All the signs are in this direction.

Incrementally, every quarter, things are better than the previous one and now there will be a new phase of growth.

Other challenges include imports of low-cost Chinese tyres – these numbers have increased and constitute 22-25 percent of total supply in both CVs and PVs. The Chinese are dumping low-quality tyres in the Indian market as their economy has not done well and there is an anti-dumping duty in the US. So the tyres association is taking it up with the government.

Secondly, our industry suffers from an inverted duty structure – the customs duty has come down significantly to 5-6 percent on tyres while on natural rubber it is 20 percent.



Tyre curing underway at the Chennai plant, which has state-of-the-art facilities.

'IF THE TYRE INDUSTRY HAS TO FULFIL THE 'MAKE IN INDIA' AIM, AND IT IS WELL POISED TO REALISE THIS VISION, THE ISSUE OF DUMPING OF CHINESE-MADE TYRES HAS TO BE ADDRESSED.'

We urge the government to either reduce the duty on rubber or increase it on finished goods. If we have to fulfil the 'Make in India' aim – and the tyre industry is well poised to realise this vision as all the right companies have come here – the way the tyres are getting dumped here is a huge concern and has to be addressed. Earlier there was a duty on TBRs which ended on February 18 this year. However, even when it prevailed, imports continued, ensuring that it was completely ineffective.

Can you detail the new technologies that are coming up in tyre manufacturing?
Mostly the areas of progress in the industry are happening around low rolling resistance tyres. In Europe there is tyre labelling that has raised the bar on noise levels, emissions, carbon, and wet grip. OEs are progressing on fuel efficiency as per Euro IV norms, which calls for low rolling resistance tyres.

One advantage of being in Europe is that we are following regulatory norms there, all our tyres – even those made in Chennai – are labelled and our technology is way ahead of other players.

Now we are looking at bringing in electronics in tyres – we have put some people in advanced engineering in Bangalore though it is still in a nascent stage but they are working on a few projects. One is the tyre pressure monitoring system and the other is sensors that will tell a lot about what is happening when they are in the vehicle and even during manufacturing.

Technology is far-reaching – last year Apollo Tyres' R&D team, in partnership with Porsche, developed a new, variable front spoiler for the Porsche 911 Turbo and 911 Turbo S. The spoiler, branded 'Air Master by Vredestein', is an integrated part of the Porsche Active Aerodynamics system. It is dynamic as per air resistance and air flow and enhances the performance of the car in terms of aerodynamics.