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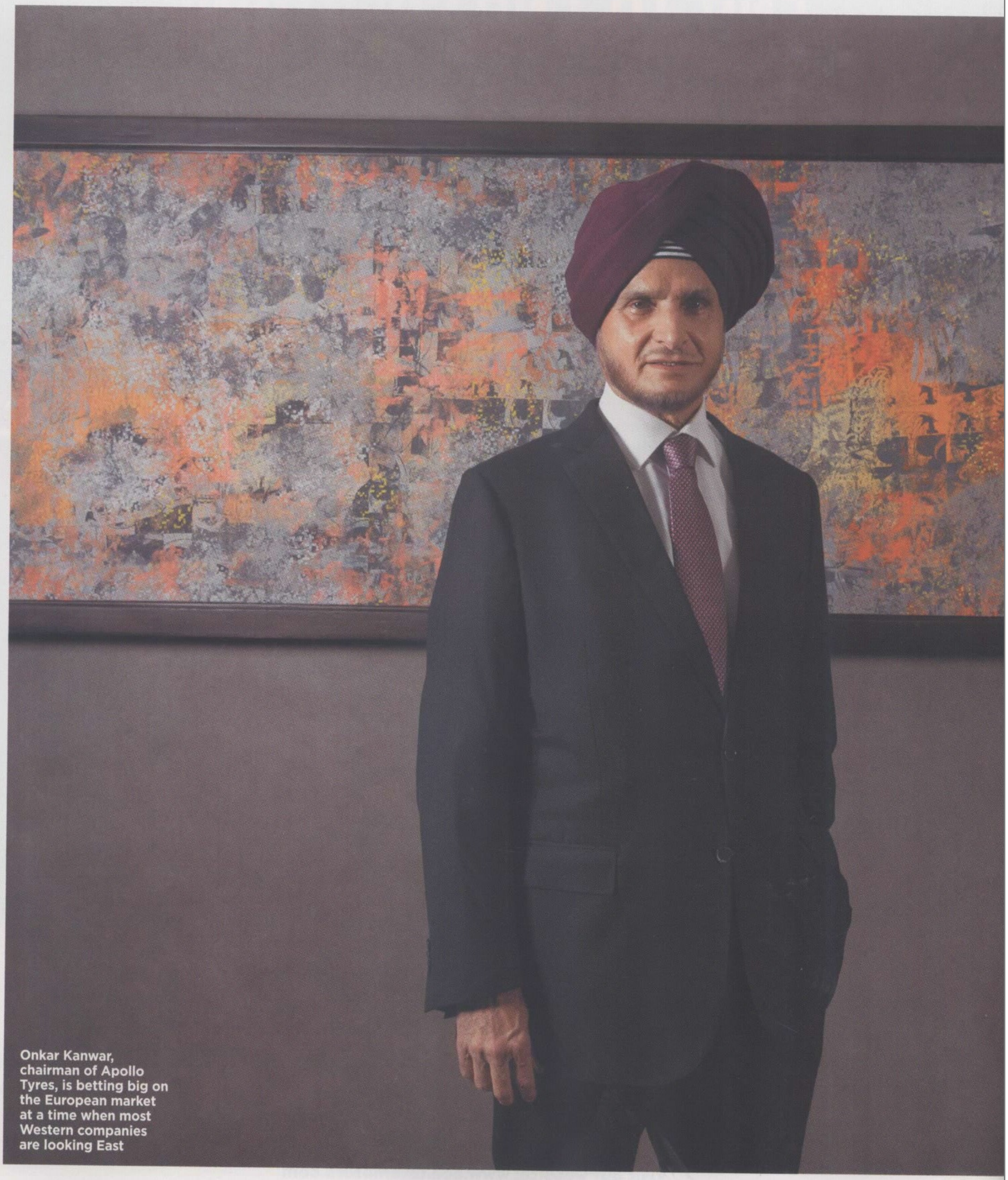
Apollo Tyres has emerged stronger from its trials and is straddling international and Indian markets with elan

Onkar Kanwar, chairman of Apollo Tyres, is not afraid of competition



Onkar Kanwar, chairman of Apollo Tyres, is betting big on the European market at a time when most Western companies are looking East

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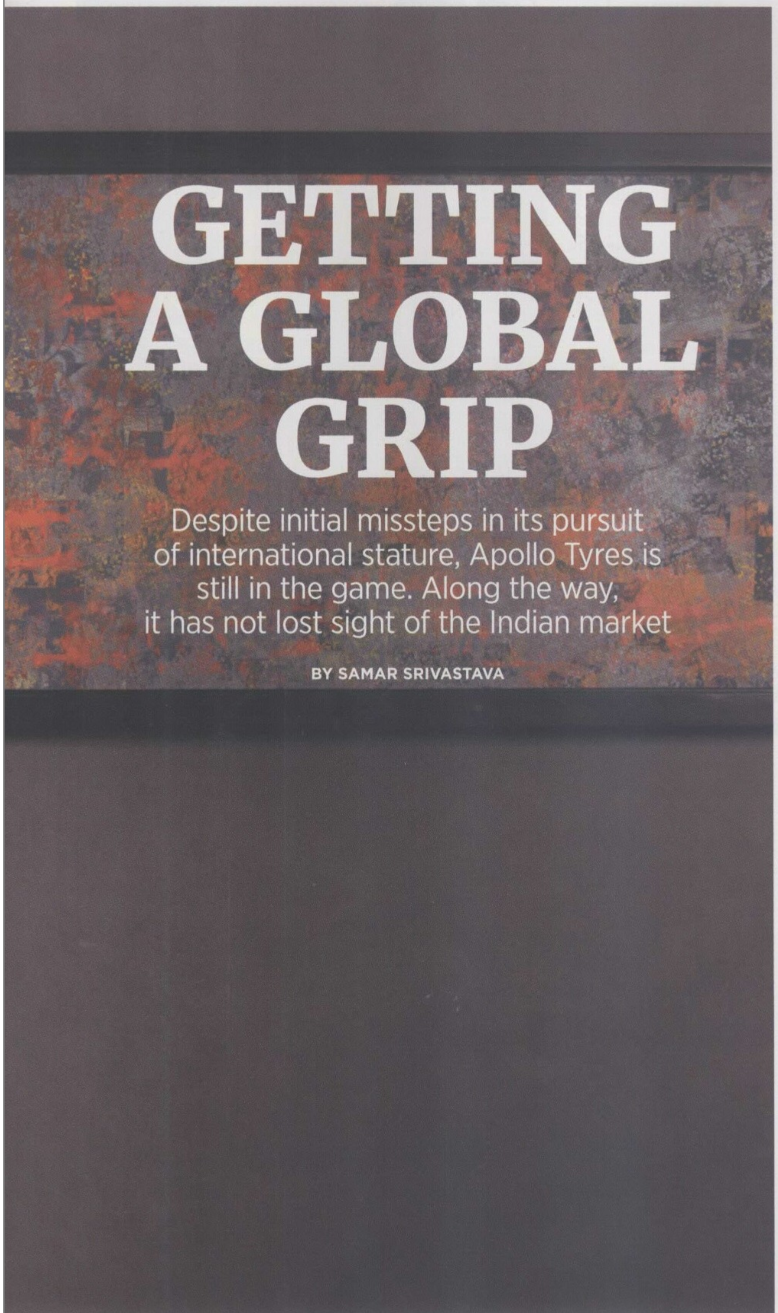

GETTING A GLOBAL GRIP

Despite initial missteps in its pursuit of international stature, Apollo Tyres is still in the game. Along the way, it has not lost sight of the Indian market

BY SAMAR SRIVASTAVA

In 2005, the Onkar Kanwar-led Apollo Tyres was at a crossroads. The tyre manufacturer had just pulled out of its two-year joint venture with French peer Michelin. The partnership that was forged to make radial tyres for trucks and buses never took off because the Indian market was not adopting radial tyres at the projected rate. Hence, for the first time in its 29-year history, Apollo Tyres was without a partner and, more ominously, without a technological tie-up.

Kanwar's younger son Neeraj, who took over the day-to-day operations of the Gurugram-based company from his father in 2002, knew it was time to sharpen its focus. The junior Kanwar decided to take his 18-member management team to Wildflower Hall in Mashobra near Shimla for a strategy session chaired by the Boston Consulting Group. Three themes emerged at the meeting. "We had to de-risk our business from the Indian market by going global, become self-reliant in technology and also train our personnel," recalls Neeraj, 45, who is the managing director.

Measured against these objectives, Apollo Tyres' journey is still a work in progress. Neeraj has tried his hand, and in a manner of speaking, burnt it, at taking the company global. (The company sold its first acquisition and the second is an unfinished project. A third deal fell through.)

Apollo Tyres, and the tyre industry in general, has also had a stroke of bad luck in recent times. Cheap Chinese imports and global woes have impacted topline. For the year ended March 2016, revenues were down to Rs 11,793 crore from Rs 12,815 crore in the previous year as the rupee appreciated by 6.25 percent against the euro in the period.

Apollo Tyres' global designs began to take shape in 2006 with the Rs

290-crore acquisition of Dunlop Tyres International's South Africa operations. Besides helping it go global, the purchase would give Apollo Tyres access to the technology behind radial tyres, which it lost after the tie-up with Michelin was severed. (Apollo Tyres was able to start a Rs 2,500 crore radial tyre plant in Sriperumbudur near Chennai in 2007.) The deal came through Robert Steinmetz, an Apollo board member who had worked with the German automotive company Continental AG for most of his career, and not through any traditional investment banking channel. The company was funding the all-cash deal through internal accruals and, on the face of it, there was little that could go wrong.

And yet, as Suman Sarkar, president and chief business officer, Apollo Tyres, explains, things soon started to head south. "Post the 2010 Fifa World Cup in South Africa, there was a lot of industrial unrest. Electricity rates rose rapidly and the entire tyre industry went on strike for a month. Cheap Chinese imports to South Africa also caused a lot of pain to domestic tyre manufacturers." Moreover, labour costs in South Africa rose rapidly to 28 percent of the cost of making a tyre, compared with 16 percent in Europe, 6 percent in India and 3 percent in China.

This was clearly a risk the company could not take. To make matters worse, Apollo Tyres had the rights to the Dunlop brand only in South Africa. "Why invest in building a brand when you can only go so far with it?" asks Neeraj. Ultimately, the business was sold to Japan's Sumitomo Rubber Industries in 2013, which had the global rights to the brand.

Meanwhile, Apollo Tyres forayed into Europe in 2009 with the purchase of the Dutch brand Vredestein Banden for an undisclosed sum. Again, in 2013, eyeing the lucrative US market, the company made an aggressive $2.5-billion bid for the Ohio-based Cooper Tire & Rubber Company.

COURTESY: APOLLO TYRES

Apollo Tyres MD Neeraj Kanwar has relocated to London to focus on the European market

The deal could have catapulted Apollo Tyres into the league of the top ten tyre manufacturers globally (the US market has shown a healthy 4-5 percent growth in the last two years and there has been a big decline in rubber prices), but it was called off after opposition from the American company's Chinese unit.

Currently, the Kanwars are making a couple of big bets and, if it plays out as planned, will place the company in a different orbit. "At a time when most Western companies are looking East, we are going to Europe," explains Onkar Kanwar, 74, who serves as chairman of Apollo Tyres. (The Indian market is expected to expand at 7-8 percent a year while the European at 1.5-2 percent a year.)

The company is investing 475 million euros (around Rs 3,500 crore) in a greenfield plant in Hungary and also for a research and development

(R&D) centre in Frankfurt. It is also investing Rs 2,500 crore in its Sriperumbudur plant to double radial tyre capacity to 12,000 tyres a day.

In line with the global stature that he aspires for, Neeraj has relocated to a London office to ensure that his plans to capture the European market with the Vredestein acquisition materialise.

"One of the main reasons why we did this deal [with Vredestein] is that the European market is far more technologically advanced [than India]," says Kanwar. Sarkar and Neeraj had visited the plant way back in 2002 and were impressed with its technology. When the company came up for sale, they jumped at the opportunity.

What the missteps with Dunlop taught Neeraj was that acquiring an international business is as much about cultural integration, brand building and technology transfer as it is about making the economics of the business work. A slip-up on any of these counts would make the acquisition a millstone. It is these learnings that the company is making good use of in managing Vredestein.

In the first 100 days itself, a plan was made to utilise Vredestein's best talent. A global R&D centre was set up in The Netherlands. The centre has developed a tyre that can withstand speeds of 320 kmph besides snow tyres for Europe and tyres for the Indian market that last 100,000 kilometres.

Keeping with the Wildflower Hall session's resolve to train its personnel, Vredestein employees have been sent to Apollo Tyres' plants in India to showcase to them what Indian values mean. Neeraj proudly states that there has been no significant loss of talent in the Dutch company since the takeover.

Breaking into the European market for after-market tyres (or replacement tyres) has proven to be harder. Here, Apollo has worked on a two-pronged approach. Brand building has been done through a tie-up with English football club Manchester United. They've also worked with trade magazines to get Vredestein Tyres reviewed. "In Europe, these reviews are taken seriously," says Neeraj. In 2015, Apollo acquired Reifencom, a German multi-brand distributor of tyres, for Rs 322 crore. "This will help us significantly scale distribution both online and offline," says Kanwar. Currently, the company has a 3 percent share of the European after-market.

The last leg of the strategy is tying up with carmakers to use Vredestein tyres in cars as they roll out of factories. Starting next year, some models of Audi and Mercedes will come with Vredestein tyres marking a significant breakthrough for the company. This should also help after-market sales as 70 percent of buyers continue with the same brand when they replace tyres. With margins that are 300-400 basis points higher than the Indian market, Apollo Tyres hopes to make Europe a significant engine of growth in the years to come.

SINCE 2004, THE APOLLO TYRES STOCK HAS CLOCKED A COMPOUNDED ANNUAL GROWTH RATE OF 19%, TRANSLATING TO AN OVER 10-FOLD JUMP IN MARKET CAPITALISATION

Alongside its global play, the company has not lost sight of its home turf. In March this year, Apollo decided to plug the last significant gap in its product portfolio and enter the market for two-wheeler tyres. This was the company's fourth attempt in doing so. Satish Sharma, president, Asia-Pacific, Middle East and Africa, says, "We could get far better support from the dealers if we are in all segments of the market. Step outside cities and tyres are sold very differently. There one dealer stocks everything from truck tyres to car tyres and two-wheeler tyres to tractor tyres."

Apollo Tyres knew that if it had to get the dealers to push its brand, it would have to be in all segments. The company says it has started selling 150,000 two-wheeler tyres a month and hopes to take this up to 350,000 a month by the end of the year. (The total size for after-market two-wheeler tyres in India is around 2.5 million a month).

The company made a late entry into the passenger vehicle segment in 2000 and was primarily known as a manufacturer of commercial vehicle tyres. Today, in the car tyre space, the top spot is rotated among MRF, Bridgestone and Apollo Tyres.

Apollo Tyres' other big success has been in rolling out radial truck tyres in India with the help of Dunlop's technology. It helped the company garner a leading share of the market although some industry watchers say MRF has a better brand perception.

In recent times, the dumping of cheap radial tyres—at prices below the cost of manufacturing of Indian tyres—by Chinese manufacturers has dented its India business. In the past year, two tyre plants—belonging to JK Tyres and Birla Tyres—have shut down and the industry fears this could happen to other manufacturers as well.

Chinese radials have taken away as much as a third of the market. They first gained entry into India as truck makers wanted radials and there wasn't enough manufacturing

COURTESY: APOLLO TYRES

Apart from manufacturing car and radial tyres, Apollo has entered the market for two-wheeler tyres. The company claims that it sells 150,000 two-wheeler tyres a month at present

capacity in India. (OEMs have since discontinued using Chinese tyres due to poor quality). They then went to the after-market and have served cost-conscious buyers and severely dented the profitability of Indian tyre makers.

"This is an issue I feel very strongly about," says Kanwar. "We have no problem with anyone coming to India and setting up a factory and competing." But the industry cannot compete with the Chinese cost structure and is working with the government in imposing an anti-dumping duty.

Some of the excess capacity at Apollo's plants—the company has plants in Thrissur (Kerala), and Halol, Gujarat, besides the one in Sriperumbudur—has been converted to manufacture off-highway tyres.

Apollo already has a leading presence in the tractor tyre market but it now also makes tyres for mining vehicles (through a tie-up with Bharat Earth Movers Limited) and other vehicles like tippers, forklifts and so on.

This is a far more lucrative segment with higher margins and one reason why companies like Ceat have also entered this market. "Our learning here is that the off-highway tyre segment is more than a mere extension of our business," says Sharma. A new team has been formed to tap the opportunity more systematically.

Sharma has, in the last decade, also built a large exports business for Apollo. "We thought of ourselves as local players in the markets we entered," says Sharma. Local offices were set up in Bangkok, Dubai and Kuala Lumpur. They understood the peculiarities of each market and went about supplying them. For instance pick-ups in Thailand were regularly overloaded and needed stronger tyres.

Currently, 66 percent of Apollo Tyres' revenue comes from India and 24 percent from Europe.

APOLLO TYRES IS INVESTING 475 MILLION EUROS (AROUND Rs 3,500 CRORE) IN A GREENFIELD PLANT IN HUNGARY AND ALSO FOR AN R&D CENTRE IN FRANKFURT

"We've taken huge risks over the years but they have been calculated risks," says Neeraj. While Apollo's work with the Vredestein acquisition is, at best, a work in progress, there is little doubt that the company has come a long way since the split with Michelin.

The technology aspect is no longer in doubt and while brand building will take time, there is little to suggest the company doesn't have what it takes to do it.

"Vredestein provided them with a platform for growth in Europe. Apollo Tyres' domestic capacity expansion proves that they can now smoothly implement the next step in Europe. We were truly impressed when we visited their Sriperumbudur plant," says Knut Harald, portfolio manager at SKAGEN Kon-Tiki, which has invested in the company. "We increased our investment in Apollo Tyres after the shares fell sharply following the failed attempt to acquire Cooper Tire. [The company's] long term theses are intact."

Since 2004, the Apollo Tyres stock has clocked a compounded annual growth rate of 19 percent, translating to an over 10-fold jump in its market capitalisation from Rs 1,000 crore to Rs 11,000 crore. The stock has, however, lagged behind domestic rivals MRF and Ceat Ltd particularly after 2013, when the Cooper Tire deal was called off.

For the time being, though, Kanwar agrees that most of the growth in the years to come would be organic and not through acquisitions. Plus, with Verdestein, he's already got his work cut out. Ⓕ