‘Brexit has not hurt us, since we don’t manufacture in the UK’

VIDYA RAM

London, November 16

Apollo Tyres has been steadily building its businesses in Europe and India -with the setting up of its new factory in Hungary, due to commence production in early 2017, and heavy investment into its Chennai facility. Now it is among the contenders for the South Korean tyre maker, Kumho Tire, its first major takeover attempt since the failed 2013 bid for US-based Cooper Tire. Managing Director Neeraj Kanwar spoke to BusinessLine about the company’s expansion plans and the impact of Brexit, and the US presidential elections. Excerpts

THE BL INTERVIEW

What is the status of your bid for Kumho?

We have made a non-binding bid that has been taken to the board. We made the non-binding bid to get into the process. We know it is a good brand across the world, specifically in Asia and that they have invested heavily in the US, which is a good market to be in. There is a long way to get into the data and to see if it’s a good fit for us.

What timeline would you envision for the acquisition, assuming you do go ahead and are successful in the bid?

Given the political instability in Korea, I see delays happening.

What are the learning points for Apollo following the failed Cooper Tire bid?

Diligence with respect to China was a big learning point for us from the Cooper bid - that is what failed the transaction. If and when I do go into this [Kumho] deal, a very microscopic level of diligence has to be done, given that they are in countries in which we don’t operate.

What would this acquisition do to the company and your vision for 2020?

My vision for 2020 is not a number: we want to be a leader in the Indian tyre industry in all categories that we operate in - truck, bus passenger, two-wheelers, agriculture. We want to not only be the volume leader but the price leader. In Europe, we want to get into the premiumisation of the product in passengers cars. We are pretty small in Europe and cannot achieve a leadership position but we can get up the ladder of pricing into the premium sector. Between 2017 and 2020 - a lot of top brands of cars will have Vredestein brand tyres in Europe.

How do you see balance of portfolio in the long term?

Today, India accounts for around 60 per cent and Europe around 30 per cent . Obviously, you want to derisk yourself and you want a good distribution across the world. You want to have your foot in America, Europe and India continue to grow for us. New markets are South-East Asia, Middle East going all the way to Africa and South Africa. We have seen that profit pools are better outside India. You want to put the seeds in America and the Far East, and see which grows faster. With Hungary coming up in January 2017, we should have an equal mix of Europe and India, and slowly see other regions picking up.

What is sentiment like in Europe, particularly after Brexit?

Brexit was a shock to everyone, but I see the German market, which is a main market for us, is strong and sentiment is positive. We are seeing a healthy growth of 2-2.5 per cent. I don’t think Brexit has hurt us. Coming to the UK, yes it’s a dampener but we don’t manufacture here so it doesn’t have a huge impact, we don’t employ too many people here. We still have to see what happens: of course, we do import tyres to the UK so it could have an impact but its too early to say.

Do you see the recent US elections having any impact on your business plans for the country?

I don’t think that it has any affect on businesses. Yes, it was a big surprise, but I’ve been maintaining that the US is a good market for us - it’s a strong economy with far less risk than China. We already supply to some of the top US original equipment manufacturers [in Europe and India].

What is the future of the US market?

We currently send tyres from India and Europe but eventually if America picks up for us — above revenues of $100 million — you should see a near manufacturing facility coming up because freight is expensive.

What are your growth projections?

In the US, it’s too early to say - we are in the midst of making the product categories. We currently have 5-6 per cent in terms of coverage of product categories. It’s a journey: it will take two to five years to get to a coverage of 70-80 per cent, only then you become someone who can compete. But as a company we are pretty optimistic about expansion with the ₹3,000-crore investment we’ve put into Chennai and the plant in Hungary. Next year we will hopefullysee double digit growth in terms of volumes - prices have been going up and down, we’ve seen a degrowth in Europe last quarter. But on volume and market share increase we’ve been gaining.

You’ve often voiced concerns about Chinese imports in the Indian market - what is the long-term impact on the industry?

Around 35-40 per cent of the market share of truck radials is Chinese and they are selling at 50 per cent of our selling price - we cannot cut to that extent. We will have to start competing with the Chinese but the government needs to step in and help the Indian industry. Its putting great pressure on ‘Make in India’ and jobs. Some of the smaller operators may have to close down and that’s a lot of jobs.

In Europe, we want to get into the premiumisation of the product in passengers cars. We are pretty small in Europe and cannot achieve a leadership position but we can get up the ladder of pricing into the premium sector.

NEERAJ KANWAR

MD, Apollo Tyres