CHAPTER – 7
CONSOLIDATION OF THE INDIAN AUTOMOTIVE TYRE INDUSTRY

Shake-Out In Tyre Industry On Cards

"Like most other sectors witnessing changes, the Indian tyre industry is set to experience a shake-out as we have entered a consolidation phase necessitated by the need to be competitive, according Mr. R.P. Singhania, Managing Director, J.K.Industries Ltd.

Mr. Singhania said that the industry which had about 12 players a few years ago was now down to 6-7 major players. As is the case with most developed countries, India too will have about 4-5 players slugging it out, mainly to remain competitive.

"The tyre industry is seeing several changes and the consolidation phase will continue. We acquired Vikrant tyres in 1997 and managed to become a dominant player in truck and bus tyre segment."
From a traditional nylon tyre, the entire four wheel industry is gradually shifting to radials. Most of the manufacturers are offering radials as OE and this has significantly helped the growth of the industry. And radial as a concept is selling. With about 25 per cent additional cost, users are able to reap higher returns.

"Based on the company R&D, J K Tyre has introduced Green radials, which are eco-friendly. With this, we have become the second company to have such a facility." On plans for acquisitions, Mr. Singhaniya said "we are open to opportunities. As and when they present, we will take it." In India, the tyre industry has witnessed a drop in prices by about 8 per cent while the cost of production has gone up a few notches. As highways get better, the demand for quality tyres is set to grow. With T-rated tyres, four wheelers can cruise at 190 km per hour without hassles, he said.

**J K Tyres to Expand Mysore Plant**

The Mysore-based J K Tyre, which enjoys over 85 per cent of the market share in truck radial segment, is on an expansion mode.
It has undertaken a Rs 60 crore investment for capacity expansion by 50 per cent for the Mysore plant and will be commissioned by September 2005.

J K Tyre, the pioneer of radial technology in India, crossed another milestone on July 13 by rolling-out its one millionth truck radial tyre at its plant here. Incidentally, the Mysore plant is India's first truck/bus radial tyre manufacturing facility.

The merger of J K Tyres and Vikrant Tyres in 2003 set the pace for fusion of technological expertise, R&D infrastructure and a well-entrenched marketing network, resulting in consolidation of the former's leadership position both nationally as well as globally. With a turnover of over Rs 2,300 crore, J K Tyres on today competes with the best players across the globe.

It has established an independent R&D facility, the Harishankar Singhania Elastomer & Tyre Research Institute. It is engaged in the advancement of tyre technology and polymer chemistry and has been described as 'one of its kind research centre' in Asia.
While other tyre manufacturing units are recent entrants into the radial technology, JK Tyre has emerged as India’s leading tyre manufacturer, apart from being the first in India to use this technology.

In technological collaboration with Continental AG of Germany, the fourth largest tyre company in the world, JK Tyre continues to enjoy a market leadership in the segment.

The truck radial segment has witnessed a substantial increase in the country, registering over 69 per cent growth in the April-Jun Q-2005 over the same period last year. J K Tyre proposes to tap this emerging potential by the Rs. 60 crore expansion.

“The one millionth truck radial is a milestone achievement not just for JK Tyre, but also for the Indian tyre industry. It sets a new benchmark in the Indian tyre industry,” says J.K.Tyre Vice-Chairman and MD Raghupati Singhania.

Apollo Tyres Looking for Acquisitions in China

APOLLO Tyres Ltd, in its bid to become a transnational company, is on the look-out for acquisitions in China, Indonesia, and Africa.
"Right now the discussions with a Chinese company are in the advanced stage" and a final decision is expected soon, Mr. O.S. Kanwar, Chairman of the company, told Business Line on Sunday. At present, the company is sourcing tyres from China for export to various markets overseas. So far, such exports stood at Rs 50 crore.

He said that there would be a consolidation in the tyre industry in the country in 2004 as "it is going to be the survival of the fittest". Apollo had already held discussions with its technical collaborators, Continental Tyres of Germany, and they are expected to come out with their decision. He said that such a consolidation would leave only two or three companies in the field and "Apollo would be one among them".

He said the company was better placed in the industry with an estimated turnover of Rs 2,000 crore in the current fiscal and it was expected to cross Rs 2,500 crore next financial. There is a 12 per cent growth now in the demand for tyres in the country while there was 20 per cent growth for Apollo tyres for the first time. "We are confident of maintaining it at this level during the year," he said.
In the truck replacement market Apollo topped with 35-40 per cent share of the market. With a strong marketing network the company had succeeded in cornering a sizeable share of the truck tyre market, he said. The demand for tyres in the country is expected to go up in coming years especially when the Golden Quadrilateral projects (super express highways) were completed, he said. One of the major constraints faced by the tyre industry in the country is the high level of taxes that constituted 56 per cent of the cost.

Mr. Kanwar, who was here to participate at the Global Investor Meet, said that his company was investing Rs 200 crore in the State for capacity expansion of its two units at Perambra in Thrissur district and Kalamassery in Ernakulam district. The company had concluded long-term agreements with the workers unions in both the factories recently and it was a clear manifestation of the change in the attitude of the workers.

"The workmen are realising now that they have to change otherwise they will not be able to survive," he said. And it is visible in the attitude in recent months, he said.
Apollo Tyres Targets Rs 2,000-Cr Turnover

APOLLO Tyres Ltd (ATL) expects to record a turnover of more than Rs 2,000 crore during the 2002-03 fiscal, according to Mr. Onkar S. Kanwar, Vice Chairman and Managing Director.

Speaking to Business Line here, Mr. Kanwar said the company had recorded a turnover of Rs 1,710 crore during the fiscal 2000-01. The tyre major is actively examining the opportunities that are emerging from the neighbouring Sri Lanka.

"We are willing to take advantage of the opportunities that are arising from Sri Lanka, which we are examining. We hope the Indo-Sri Lankan bilateral agreement will give us the desired benefits in the coming years", Mr. Kanwar said.

He, however, declined to elaborate as to whether ATL was keen to takeover some of the existing facilities in Sri Lanka or enter into some form of collaborative arrangement with any of the companies there. Indications are that Apollo Tyres may evince interest in getting
into a production arrangement with a government controlled tyre company in Sri Lanka.

"We are going to aggressively pursue capacity additions during this year. The debate within the company is how to get more production of tyres", he said, adding that further consolidation will take place in the domestic tyre industry. Mr. Kanwar pointed out that consolidation in the domestic tyre industry was happening more out of default than by design. He held that there had to be a strong domestic production base before a company could look at buyout of foreign companies or production facilities.

Mr. Kanwar also said that Apollo International, a Apollo group company, was in serious talks for buying out a truck radial facility in China.

Withdraw CVD on Imported Tyres

The All India Tyre Dealers Federation (AITDF) on Tuesday demanded withdrawal of 16 per cent countervailing duty (CVD) on
imported tyres. The total incidence of duty, including CVD on imports, is currently 37.5 per cent.

In a submission before the Union Commerce Ministry, the federation has stated that withdrawal of the CVD would pep up competition in the tyre sector in the country, resulting in a likely check on prices. The tyre sector has witnessed a substantial degree of consolidation in last few years, resulting in a drop in number of players.

**Further Consolidation in Tyre Market Likely**

THE RECENT slowdown in the automobile sector has affected the performance of the tyre producers.

MRF, in particular, has seen a sharp decline in its profitability in recent quarters. Mr. Philip Eapen, Executive Director, Marketing, MRF, discussed with Business Line his views on the prospects and performance of the tyre industry.

After robust growth in 1999, the offtake of commercial vehicles has seen a sharp decline this year. What impact has it had on your
company's performance? Do you foresee an improvement in demand from the replacement market in the near-term?

Naturally, the recession in the transport sector has had an impact on our business. However, we have been able to contain it to a great extent. It is difficult to forecast any changes in the present scenario.

The price of crude oil and petro products has seen a firm trend for over a year now. What steps has your company taken to absorb the impact of the rise in production cost? Do you plan to increase product prices to minimise the impact of the rise in input cost?

The increase in the cost of inputs, particularly petro-products, had to be absorbed temporarily by us considering the recessionary nature of the market. We have not increased our prices for the last three years. We are approaching our original equipment (OE) customers to accommodate some price increases in view of the fact that they themselves are increasing the prices of their vehicles.

Bridgestone's entry has been confined primarily to the OE market. Our customers are now comparing our products with this
international brand. The suitability of our tyres for the Indian roads has clearly come out in the comparison.

Apollo Radials caters to the low end of the market, where we are not aggressively competing.

Given that all along MRF has been a major player in the replacements market, do you have any major plan to make inroads into the OE segment? Who are your major OE clients?

We do have a presence in the OE segment, apart from being the lead player in the replacement market. We are the largest supplier to Maruti. Apart from being the sole supplier to General Motors' Corsa, we are also the suppliers to the Honda City, Ford Ikon and Telco Indica.

With the Government's policy of liberalising imports, have cheaper imports affected the prospects of domestic tyre producers?

On the question of cheap imports, the import of cheap truck tyres (just as cheap electronic goods and toys) has had some damaging effect on the truck tyre market. We expect this to be a temporary
But that is not the case. A recent directive by the Centre, proposing imposition of a stiff anti-dumping duty on truck and bus radial tyre imports from China and Thailand appears to have opened a Pandora’s Box.

While the tyre manufacturers have welcomed the anti-dumping duty, the tyre dealers are opposing it.

The Automotive Tyre Manufacturers Association (ATMA) cited unfair trade practice by Chinese and Thai manufacturers, which are allegedly exporting tyre to India at prices even lower than those of some raw materials, while supporting duty on imports.

The Director General of ATMA, Rajiv Budhraja, told DNA, “In most cases, tyre imports are not happening because of any demand-supply gap. Imports are being done by small firms, at prices where the landed cost is much lower than domestic prices. We had requested for imposition of anti-dumping duty way back in 2007, and the government has only indicated now that it is planning to impose this levy. Any opposition to this duty is not right.”
We do not expect any growth in the automotive tyre industry except in the two-wheeler tyres. If there is growth, it is not expected to exceed 2 per cent.

**Increasing Exports to Combat Domestic Slowdown**

The past few months have not been particularly good for the automotive tyre industry.

The performance of almost all the companies has suffered due to the demand slowdown and increase in input costs. And industry major MRF has been no exception to the broad industry trend of a decline in earnings.

Mr. Philip Eappen, Executive Director, Marketing, MRF, shared his views on the industry and MRF's performance in an interview with Business Line.

The price of critical inputs such as natural rubber and carbon black have ruled firm in recent months. Has your company effected any price revision in the recent past to offset the increase in cost?
In view of the ongoing slowdown, we have had to absorb the impact of the rise in the prices of inputs such as natural rubber in recent months. MRF has not affected any price revision in the recent past, and in view of the current slowdown, we do not have any immediate plan to increase prices in the near future.

What has been the impact of the entry of Bridgestone ACC and Apollo Tyres on the radial market? Has their entry altered your company's position in the industry?

Bridgestone is predominantly an original equipment supplier, especially to the Japanese and Korean car companies. Apollo has only come out with some cheap radial tyres that have had only a temporary and minimal impact in the market place. Both factors have not affected our company's standing in any way.

With the Government's policy of liberalising imports, has there been a significant flow of cheaper imported tyres? What impact have imports had on the prospects of domestic tyre producers?
The cheaper import of tyres has not made any significant dent in the domestic market since quality is still the paramount issue with Indian customers.

Given that the earnings in the tyre industry is dependent on sales volumes, do you think there is scope for consolidation through mergers and acquisition in the tyre industry? Is MRF open to acquisitions/alliances?

There are possibilities of consolidation through mergers and acquisitions in the tyre industry. While we are not looking for any acquisitions at present, we are not averse to any acquisitions provided the offer is attractive.

Taking into account that the global economic growth per se has been affected, what has been the scenario on the export front? Has the global slowdown affected the export earnings of your company and the industry?
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Exports has always been competitive and it is even more so now. We are hoping to increase our exports in view of the slowdown in the domestic market.

Considering that the commercial vehicles industry is yet to recover and the economic growth being pegged down by various agencies, what is the broad outlook for the tyre industry?

The growth in the tyre industry will depend essentially on the recovery of the automobile sector, particularly in the heavy commercial market. It would not be possible to take a stance on when this recovery will take place.

No Tyre Company Here is Big Enough Not to Be Gobbled Up

Tyre manufacturer Ceat Ltd is on the road to recovery. Yet even as it leaves its losses behind, refuses to borrow and enhances sales, there are sectoral issues it must confront. Mr. Paras K. Chowdhary, Managing Director, Ceat, spoke recently to Business Line on the domestic tyre industry and challenges before it.
All the tyre companies had good results in Q1, we too. In Q2 also, that trend continued - Apollo was the most impressive and compared to the previous similar period Ceat was also impressive. Now at end-Q3, I am noticing a mild depression in demand. I don't know the reason - December demand is always a little low, but then this year even October-November demand saw a mild fall.

It could be due to some after-effect of poor rains. But Q3 is a period of high tyre production. Therefore, there is a little extra-supply in the market at present. Companies are now trying to export more to take care of this problem.

In fact, January-December last year most tyre companies posted good results. But yes, the kind of growth that was expected did not happen. However due to the 9/11 attack in the US, crude oil prices fell and when that happens everything else falls - synthetic rubbers, caprolactum - all went down by 20, 30 or 40 per cent.

The result was that even if the demand was low, it did not matter due to bigger gains on raw material costs. If good things happen for bad
reasons, nobody talks of it! Until June this year, the situation was good because crude recovered but did not go above $23-24. Later, owing to issues like tension in the Middle East, crude flared up, touching $30-31. I have not seen a scenario, where within nine months you see crude at $17 and $31. Almost 80 per cent up! If your main raw material swings by 80 per cent, its derivatives also swing. At this point in time, raw material cost is another issue facing the industry. It is a substantial increase.

It is seasonally a little weaker than Q2. But in this particular quarter, I think there will be some pressure on margins. In Q4, at least for the first two months, the pressure will be even more due to all the increases that started coming in from July/September - their real effect comes a few months later.

Two or three situations are likely. The tyre industry may be able to pass on the price increase. Can't say whether it will happen or not because there are now four major players and there is quite a fight going on in the market place. There is the possibility that in the Budget,
the import duty on raw materials will come down again - could be a five per cent decline.

There is also a feeling that by February/March the tension in the Middle East may settle down a bit, so you could see crude prices stabilising at $22-24. If so, raw material prices will fall. Besides, the rupee has not depreciated against the dollar; it has somewhat appreciated. Thereafter the industry may be on a stronger footing.

Strategy won't be any different for Ceat. For all, it hinges on three factors - topline, then technology - it changes every 4-5 years and most Indian players are not prepared for technology changes. They will have to look for outside help in the form of collaboration or partnership.

Modernisation and minimum critical mass is the other factor. If you try to do some of these things early - like we tried to set up a radial plant in league with Goodyear long time back but were doing it ahead of time - we lost heavily as a result and had to pull out of the joint venture.
Likewise, everyone is thinking when to get into radials; but when India will radialise is a million dollar question.

JK is attempting it, they have a radial facility in Vikrant; but they are unable to utilise that capacity. They have I think 20,000 plus capacity, but are able to sell around 3,000 in India. Apollo has announced they will put up a pilot radial facility in Vadodara and they will come up with production early next year.

All this is very nice to hear. If you go deep, you won't find clear answers from any company because it depends a lot on Government policy, how infrastructure comes up. If roads are not good, radials won't come.

But in the case of MRF and Ceat, there is no clear signal because we don't have a technology partner today. I am sure over time both of us will figure out who can be our technology partner.

Most of the tyre companies abroad are not well placed for equity participation. Bridgestone lost a lot of money in the US after which they are not keen to set up plants.
Michelin does not operate in partnerships, they like 100 per cent ownership or majority ownership with the rest held by the public. They don’t like to have a big local partner anywhere. The European economy has not done well, so the earnings of European tyre companies are down and they are not keen to invest.

The weakness with Indian companies is technology. But they are wary of joint ventures or partnerships.

On the other hand, retained earnings at our tyre companies is poor, Rs 10-20 crore a year. You can’t get technology for that price! So, it is not a simple jigsaw puzzle to be fixed.

Rolling out a new challenge

The Apollo Tyres tie-up with Michelin will trigger a new fight that could alter the contours of the Indian tyre industry. It has become a ritual for Apollo Tyres chairman Onkar Kanwar. Every few months for the last five years he has travelled to Singapore to visit his daughter who lives in the city-state.
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During these trips he always made it a point to drop in at Michelin’s Asia headquarters and stay in touch with top executives in the region. The world’s largest tyre company, however, was totally focused on China where it was trying to ensure returns on huge investments. India simply wasn’t on the company’s horizon.

Six months ago Kanwar realised that the mood had changed. Michelin was now well established in China and was suddenly ready to burn up the roads in India. At last, Kanwar’s courtesy calls and relentless networking were about to pay rich dividends.

Michelin’s new-found interest in India led to months of intense negotiations. But this week the over Rs 2,000 crore Apollo Tyres finally tied the knot with the French tyre giant. The two will set up a joint venture in India to manufacture bus and truck radial tyres.

Also, Michelin will pick up a 14.9 per cent stake in Apollo Tyres for around Rs 129 crore. The JV in which Michelin will have a 51 per cent equity stake will invest over Rs 350 crore to roll out Michelin tyres. The deal catapults Apollo — the country’s third largest tyre
manufacturer after MRF and JK Tyres — into the big league of the truck radial tyre market where it is conspicuous by its absence. And it will put the hard-driving company on a collision course with JK Tyres — which currently has 98 per cent of the radial tyre market. JK sells over 120,000 radial truck tyres in India.

Apollo’s moves will also impact the tyre industry in another way. The manufacturers who now produce large quantities of bus and truck cross-ply tyres will now have to compete with a world-class international alternative. Kanwar is already blowing the bugles of war to rally the troops. “We will have 60 per cent of the market from day one of our operation in the bus and tyre radial market. That’s because we have the best quality and the world’s best brand,” says an upbeat Kanwar. He adds confidently, that he doesn’t see much competition from entrenched players like JK tyres.

That’s not all. He and Michelin aim to alter the market and seize the leadership position from JK Tyres. They hope to convince customers to switch from truck cross-ply (truck and bus constitutes over 70 per cent of the tyre market) to radial tyres within the next five years.
Kanwar is convinced that radials will grab 10 per cent of the truck tyre market within five years from the current 1.5 per cent. Says Edouard Michelin, head, Group Michelin: “We have been looking at India for over 40 years. But the time is now ripe for the growth of radialisation in India.”

Apollo has already charted out an ambitious course of action. To begin with it will start selling imported Michelin radial tyres from April 2004. And it will start producing tyres in the next 18 months with an initial capacity of 100,000 tyres a year. That will be quickly ramped up to 1 million in three to four years. But Apollo can’t expect a smooth ride to the top. JK Tyres is getting ready to hit back. The company is already in negotiations with its technical partner Continental and is open to letting the foreign giant pick up a financial stake.

Says an equally confident Raghupati Singhania, vice chairman, JK Tyres: “We have a four-year lead over Michelin. And our products already compete with their imported tyres successfully. That’s why we are exporting a large part of our radial tyres capacity.” JK has ambitious growth targets for its truck radials. It expects sales to climb three-fold
to 25,000 tyres a month in three years. The company’s confidence is reflected in the fact that it is investing Rs 80 crore to increase radial capacity by 100,000 tyres per annum. Singhania says he is confident that JK will continue to maintain an over 60 per cent market share despite new competitors like Michelin.

So, how serious is the Apollo-Michelin challenge? Tyre manufacturers dependent on only cross-ply truck and bus tyres better watch out. Says a Mumbai based analyst: “With large volumes of radial tyres in the market there will be price pressure on cross-ply truck and bus tyre prices and margins will get squeezed.”

It could be a double-whammy too. Once the shift to radial takes place domestically, exports will also suffer. That’s because the domestic economies of scale which make Indian exports competitive will be hit (25 per cent of the cross-ply tyres are exported).

Adds another tyre analyst: “The Michelin brand name is very strong. JK Tyres does not have the same brand value and will not be able to command the same price.” Many tyre manufacturers, however,
do not foresee any immediate cause of worry — and they aren't planning to jump onto the radial tyre bandwagon. Says a Ceat spokesperson: "We do not see any major growth coming from this segment. It is a very nascent market and its growth will take time."

He has a point. So how will Apollo woo fleet owners and convince them to shift to radial tyres? After all, fleet owners have avoided going radial because the tyres cost about 30 per cent to 60 per cent more than cross-ply tyres. There's another problems unique to Indian roads and truckers. Overloading is an everyday fact of life in the trucking industry and radial tyres cannot take that pressure. Also, the tires require better-quality roads (they aren't effective on a dusty track, for instance). And for efficient use they need trucks and buses with power steering, which again aren't common on Indian roads.

Michelin is well aware of the challenges. Says Jean-Marc Francois, president Asia-Pacific, Michelin: "We will build products which cater to Indian roads and fleet. Also, we will train dealers to undertake concept selling of radials rather than sell it as another commodity, which is the way cross-ply tyres are sold." Michelin hopes that the revolution which
happened in the Indian passenger car tyre industry (where 75 per cent of the tyres sold are radials) will spill over to the truck and bus market.

Michelin has already developed a radial tyre that caters to the peculiar characteristics of Indian roads and can cope with overloads of twice the actual capacity of the vehicle.

Secondly, the company will drill home the message that the tyres cost more but are a saving in the long run. Their productive life is also 150 per cent more than a cross-ply tyre. It will also offer attractive financing schemes to woo customers.

Besides, Michelin and Apollo hope to push the fuel economy angle. Radial tyres help to boost mileage considerably and the result is a net saving of around 10 per cent on fuel bills. That's not a small amount considering that fuel costs account for 40 per cent of the cost of operation for trucks and buses.

The two companies are also working on a complete overhaul of the distribution system. So for instance only a few of the 5,000 strong dealers will be offered the radial tyres — this will depend on their
service abilities and their customers. Two, the company is planning to set up around 20 special outlets where demonstrations will be held to show the advantages of radial tyres.

Company executives aren’t talking about branding strategies for now, but customers will probably be offered Michelin radial brands at the upper end of the market while the Apollo brand will be positioned in the middle segment. Analysts point out that the tie-up has other rub offs. Says one: “It will help Apollo improve cost efficiencies. Rubber prices are rising and Michelin can help in improving processes which will lead to cost savings.”

But Apollo’s moves don’t seem to impress its competitors. Says Singhania: “Offering a tyre which can take overloads is a given, not an innovation. All our tyres can take loads twice that which is stipulated.” JK Tyres will, in fact, be leveraging its strong after-sales force which Apollo cannot match yet. For instance, it has set up over 14 service centres (to be upped to 50 this year) across the country which offer customers spare tyres free of cost if their radial tyres are damaged
within the first 100,000 km. Customers can use the spare tyres till the original tyres are repaired.

In order to ensure proper usage of the radials JK has introduced a “training for the fitters” scheme under which over 1,000 personnel have been trained on how to fit the tyre properly. Also, unlike Apollo, which is focusing on the end-user, JK is already pushing companies to make the changeover to radials. Singhania says it has already supplied tyres to Volvo and is in talks with Telco and Ashok Leyland. It hopes that three years down the line, 20 per cent of its radial truck sales will come from original equipment manufacturers.

JK is also clearly aware that global brands like Michelin have a pull which desi brands cannot match. Acknowledges Singhania: “We would be kidding if we claimed our brands were as strong as the global players.” That is one key reason why Singhania is open to talks with Continental for a financial tie up. Will the Michelin entry be the harbinger of a shake-up in the Indian tyre industry? One thing seems certain for now: radial tyres will soon be pushing the older cross-ply
tyres off the road. Another thing's also certain: a furious battle is about to break out.

**Michelin on the move**

Can Michelin do in India what it has just done in China? In the last three years the demand for radial truck tyres has zoomed in China. Company executives say it's because Chinese truck owners are discovering that they get better value with radial tyres. It's important to remember that Chinese road conditions are similar to India — and their trucks are just as overloaded.

The fact is that Michelin has been a big hit in China. The French company has grabbed around 30 per cent of the replacement market and become the country's largest tyre manufacturer. Since China is one of the world's fastest growing automobile markets, there's every likelihood that Michelin will grow with it. India and China are two of Asia's key markets, so Michelin would be in an extraordinarily strong position in the continent if it could build up its strength here.
A strong position in Asia would help Group Michelin in a big way. The tyre industry worldwide is brutally competitive and the top three players are constantly jostling for the top spot. Till recently Michelin, was the top player with around 19 per cent of the world market and over a billion dollars in profits. Now, however, it has been overtaken by Goodyear-Sumitomo with a share of 22 per cent. The other top player in the industry is Bridgestone. Making sure that Michelin is extremely profitable has been a key goal for 39-year-old Edouard Michelin who took over the company in 1999 from his father who ran it for 44 years.

Conclusion

The market in India is worth about Rs 10,000 crore. It is in the hands of four big players, two medium players and few small players. The big four - and here I am assuming Vikrant and JK are merged - are likely to have a 2002-03 turnover of Rs 8,000 crore. The two medium players - Goodyear and Birla - should account for Rs 1,000-1,200 crore. The rest should notch up another Rs 1,000 crore. About 15 years ago, we were 12 big players. But in my opinion, we will see further consolidation and nobody should be under the illusion that he is big
enough to be not gobbled up. I would expect in the next two years, the number of players from four plus two, to be reduced by at least one. One more player should get out of business in the next two years and every two years you should see a player getting out. Ultimately, it will be a business of just four players.

They may lose money, but they will stick around, they have deep pockets. Out of the other five, one or two will be gobbled up over the next five years. The strategy has to be - first you take adequate steps to ensure you are not gobbled up. Second, you must have a topline whereby you get 20 per cent of the business. So, if you have a market size of Rs 10,000 crore, the minimum critical mass is Rs 2,000 crore. If you don't reach that, the chances of your going out of business are high.

Worldwide the industry is highly consolidated. It is a $70-billion market and ours is $2 billion. All Indian players rank between 10 and 20 globally. The top three worldwide are in the range of $12-13 billion, the biggest among us is MRF, about half a billion dollars. If you go to the middle level - like Continental, Pirelli or Yokohama - they are about $2-
2.5 billion. So, we are still one-fifth the size of medium players globally.

But on the other hand, if you reach $1 billion, you will be in the top 10.