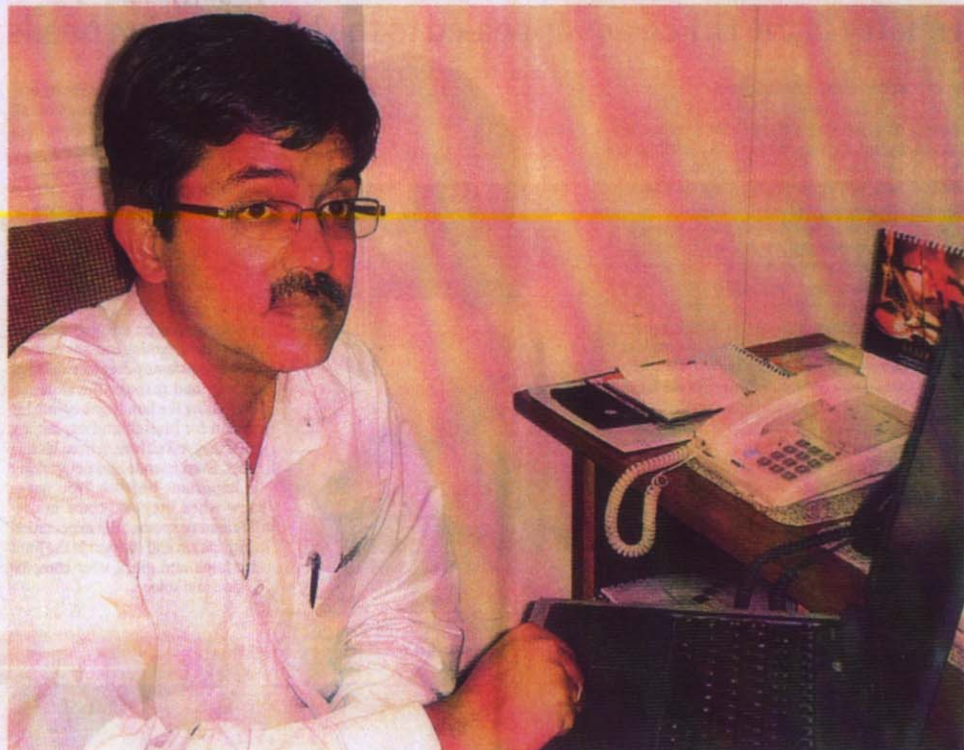
FACE-OFF | ARNAB BANERJEE

"We are focused on the replacement market"

When the RPG Group took over CEAT India in 1982, it was a strong name in a market dominated by a handful of domestic players. In the 2007 CARE report on the Indian tyre industry, however, CEAT has slid to fourth position in the Rs 19,000-crore domestic tyre industry, with its share falling to 13%. The market is currently led by MRF (22%) followed by Apollo (21%) and JK (18%). Why is it that despite a strong distribution network and brand name, CEAT has been unable to hold on to its customers? **Arnab Banerjee**, *vice-president, marketing, CEAT takes a volley of questions from FE's* **Radhika Sachdev**.



What's the gameplan behind CEAT's recent logo change? What did the exercise cost the company?

CEAT is investing in fresh capacities for aggressive growth in the domestic as well as the global markets. This logo change was necessary to improve the brand connect with today's youth, which is a mandatory first step to enhance market shares. This will be an ongoing initiative and the cost will be spread over a large number of activities.

Why has CEAT been steadily losing share in all categories, even when capacity utilisation has improved in the past three years, and all the other players (MRF, Apollo, JK etc) have been gaining at the expense of smaller companies?

On the contrary, CEAT's business mix has been steadily improving over the last two years in favour of the most profitable replacement segment. Our market share in the replacement market has either grown or have been maintained more or less. That includes truck tyres, light trucks, 2W (two-wheeler), OTRs (off-the-road) etc. In the truck segment, we have 14% market share in the replacement market and this share is also on an up trend.

We are evaluating many business models; if we do enter this market, it would be more as a service add-on

Meanwhile, in exports, among ATMA companies we are the top exporter from India. We clocked a turnover in excess of Rs 500 crore in exports and found this business extremely profitable.

The Indian tyre market has undergone a significant shift since FY02 in favour of passenger cars, LCVs and motorcycles. What is your share in these categories?

CEAT's current presence in passenger radials has been limited owing to limited capacities. We have less than 5% share. This is bound to grow with the commissioning of our new plant. In light truck and motorcycle tyres, we have about 12% share and it is growing. In scooter tyres we have 26%. In all these segments, wherever we had added to our existing capacities, you will see enhanced market shares in the coming years.

You pioneered the concept of branded showrooms with CEAT Shoppe but in the past five years you've had to shut many of these stores. Any plans to revitalise that distribution route?

Contrary to perception, CEAT Shoppe turnover has crossed Rs 100 crore, riding on a 60%-plus growth rate last year. And, yes, we were indeed the pioneers in building a branded retail presence in the industry. We currently have about 75 stores in the country and this number has been constant for the past five years or so. With this logo change and other business strategies, we expect to embark on an expansion mode and double the turnover in the next two years.

Apollo and JK have begun foraying into the retreading market? What are your plans?

We are evaluating various business models. If we do enter this market, it would be more as a service add-on.

How serious is the threat from cheap imports from countries like China?

Chinese imports have been around for many years now—both in bias and radial technologies. Customers have more choice now. Like we export heavily, in a globalised world we cannot wish away imports into the country. So we cannot consider any competition as threat. It helps us as an organisation to push ourselves forward and, as a result, the customer gains.

After four years, Modirubber has come out of the BIFR fold. Will that add to your woes?

Modi's production will add to the supply side. I feel that quality Indian tyres will push out inferior Chinese tyres from the market to a certain extent. Second, the replacement market is expanding at a healthy clip. OEM (original equipment manufacturer) demand is expected to recover. CEAT is nicely hedged with an export network in 110 countries. We export at a healthy profit. More competition will push everyone to be more innovative and customers will benefit.

Why is radialisation proceeding so slow in the commercial market? What are the major barriers in its way?

Capacities are not coming up fast enough. Technology is the preserve of a handful of manufacturers. This itself is a bottleneck. Apart from the Golden Quadrangle and north-south and east-west corridors, our road network is still poor. Law enforcement on banning overloading in mostly on the intra state routes. The transportation sector too is fragmented and unable to fully adopt new technology tyres. These are some of the factors that are delaying radialisation.

Brand consciousness among users is rising. How is CEAT tapping into this trend? What's your marketing expenditure?

CEAT is one of the most salient brands in the sector today. We regularly feature in top-of-mind recall surveys among customers. We hope to build stronger brand salience and relevance, keeping in mind changing demographics. The marketing expense has been 1%-2% of sales and will be stepped up.

What happened to your plans with Pirelli (Italy) in the truck and bus tyre category? At what stage are those talks?

We import tyres from Pirelli and sell in the domestic market in our brand name, that is, CEAT. Currently, our relationship is limited to buying and selling and it's likely to remain that way.

Off the road is a high margin business keenly eyed by Apollo and JK. What are your plans for this segment?

OTR is good business and we have a clear head start in this segment both in the domestic and in global markets. We have built a good channel for this and we are ahead of competition on the learning curve in this segment. We have a huge basket of products that we have developed and marketed outside the country. Unlike selling through distributors and dealers, CEAT is completely customer centric in this business, which will ensure that we keep growing along with our loyal customers. The way India is poised to grow, additional capacity will serve the market well.

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Though the export market has gone rather sluggish in the past few years, your earnings have improved. Will you continue to seek new markets as the cross-ply market approaches saturation?

Milking the cross-ply market will remain an ongoing strategy. Our export basket is also quite diversified. We are strong on OTRs as well. We are now focusing on non-truck categories. We are looking at diversifying our product mix.

The OEM market for car tyres is strong at the moment. You were planning a greenfield plant for passenger cars. When is that happening?

Our greenfield car production will be in the market within two to three years from now. We have started talking to some of the OEMs in the car segment on future association possibilities. We shall also look to profitably export our production as we have a good channel in place. Domestic replacement market will be another focus area through strong brand connect.

What are your projections for the Indian tyre market?

We expect the OEMs to bounce back from sluggish growth in the recent past. The replacement segment will to grow robustly. Indian tyres have a good country perception vis-a-vis other low-cost source countries. I feel radialisation will accelerate within two-three years, as well. So the future of the industry based out of India is quite dynamic and interesting, in my opinion. BW