

Apollo Tyres looking at ways to boost realisation, cash flows

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Stung by the pressure on margins because of a record upsurge in natural rubber prices, Apollo Tyres is exploring means to improve realisation and cash flow from original-equipment customers.

While realisation depends on demand and supply and negotiations with customers, the primary target is to reduce the 'time lag' between the increase in cost of production and realisation from the auto-makers.

Apollo globally sells 15 per cent of production to original equipment-customers. In India, the company sells 21 per cent of the production to auto-makers, where price negotiations are done on quarterly basis. According to the industry norm, prices realised from such customers are substantially lower than that from the replacement market.



Mr Neeraj R.S. Kanwar, Vice-Chairman and Managing Director, Apollo Tyres (file photo). – Kamal Narang

“The depletion of margins in the tyre sector will go from bad to worse. Eventually cash flow will be impacted. We (Apollo) are trying to see how we can stay above the water,” the company’s Vice-Chairman and Managing Director, Mr Neeraj R.S. Kanwar, told *Business Line*.

According to the company, tyre makers currently enter in-

to price negotiations with automobile manufacturers on a quarterly basis, based on the cost push in the preceding quarter. For example, Apollo is currently negotiating its price for April-June, 2011 quarter based on the cost push in January-March 2011.

Generally, it takes up to two months to conclude such negotiations. Till the negotiations

are over, the company will keep supplying tyres at the rate applicable in January-March. Once the new prices are decided, it will be implemented with a retrospective effect (i.e., from April 1, 2011).

According to Mr Kanwar, the pace of realisation is “not keeping up with the sudden increase in raw material prices for the tyre sector” and needs to be improved. “We are negotiating with the auto-makers on the issue, I am hopeful that we can work out a solution,” he added.

Natural rubber prices have moved up from Rs 115 a kg to well over Rs 200 in the last one year. “I expect the rubber prices to hover at Rs 200-250 a kg in the immediate future,” Mr. Kanwar said.

To add to the woes, prices of rubber chemicals are also on a high keeping in tune with the rise in crude oil prices.