THE GREAT WALL OF CHINA

The recent Apollo-Cooper deal is not the only hard knock an Indian company from the auto sector has taken because of China. Every single of India Inc's drives into China is grappling with challenges of operating in that country, reports Lijee Philip

It was a big reason why Apollo Tyres made the bold move this July to acquire American company Cooper Tire—an operation twice its size—and now it's a reason why it is looking to renegotiate or break that agreement: China. It's the world's largest market. It's also a market with rules and a mind of its own. Apollo is finding that out: workers of Cooper's Chinese subsidiary have slammed the deal, saying it does not comply with the country's laws, and its Chinese partner has offered a buyout.

Three others from the broad Indian auto sector who ventured into China in the past decade—Sundram Fasteners, Mahindra & Mahindra and Bharat Forge—have found out the hard way. Each is struggling to scale up and become relevant. "The China tractor acquisition was part of our growth plan to get a foothold into the world's second-largest tractor market," says Pawan Goenka, ED and president, Mahindra & Mahindra. "We could not have ignored our presence there."

But China, where the state is never far away, is not falling over itself to have Indian companies. Li Jia of IHS, a research firm in China, says Indian companies don't offer anything unique. "New entrants need to show their clients reasons to buy their product, which can be based on lower price, superior technology, better quality, etc," she says. Indian companies, she adds, have neither the brand pull of American and European companies, nor the immaculate cost management of Chinese companies.

Global auto majors started entering China in 1984, when it opened its auto sector. According to Synergistics, a China-based auto consultancy, only four JVs have disbanded, while 23 survive. Bill Russo, president of Synergistics, says China caps a foreign company's share in new auto JVs at 50%, but places no such restrictions on component ventures. Indian companies have tried operating in this framework, but have faced a perception bias, cultural and integration issues, and lack of skilled labour. "Indian companies have been unable to build scale, and being over-calculative has left them with lower profits," says VG Ramakrishnan, MD of Frost & Sullivan, a consultancy. "They would rather invest in Latin America and Southeast Asia." China remains a long haul.

Bharat Forge

Bharat Forge's entry into China was part of a new strategy it unravelled for itself between 2004 and 2005. This saw the world's second-largest manufacturer of forging products spend $140 million to buy auto-component companies in Germany, Sweden, Scotland and the US, and form a joint venture in China with one of the nine state-owned groups there. The essence of that strategy, termed 'dual shoring' by Bharat Forge chairman Baba Kalyani, was to establish manufacturing beachheads close to customer facilities to minimise risk of supply disruption and win larger contracts.

In this new scheme of things, China, a large auto market and fast becoming a magnet for global auto majors, was crucial. The Bharat Forge management saw China, along with India, as a low-cost production base. However, its Chinese joint venture, with the FAW Corporation, has been struggling to deal with the pull back in demand, first that happened in the wake of the 2008-09 global financial crisis and, more recently, in China itself.

While Kalyani did not reply to an email questionnaire for this story, a senior company official who spoke on the condition of anonymity, says FAW Bharat Forging, in calendar 2012, has been affected by the fall in the commercial vehicle and construction markets in China. Mahantesh Sabarad, senior analyst at Fortune Financials, a brokerage, says officials of the Indian company have told him that, because of the language barrier, they are unable to convey ideas to Chinese executives in the joint venture and implement strategies for growth.

By itself, FAW Corporation has good pedigree in China, partly because of its state lineage. It makes cars, trucks, buses and auto parts. It has JVs with Toyota, Vokswagen, General Motors and Mazda, among others. While that state connection can be an asset, it can also be a liability, says Sabarad.

Companies doing business with Chinese state-owned enterprises, he adds, must come to terms with their interests and priorities, which are heavily shaped by policy directives and are intuitively resistant to organisational changes. Many among the senior management are more 'state cadres' than professional executives. "While there was a clear improvement opportunity for the JV, there was also a significant resistance to implementation," says Sabarad. "The excess manpower issue also could not be resolved."

Baba Kalyani, Chairman

CHINESE DRIVE

2006

Vehicle: Bought 51.85% in a JV with FAW Group for $28 million

Revenues: ₹483 cr

Loss: ₹25.1 cr

Challenges: weak commercial vehicle and construction market, lack of skilled labour and interference from local partner

FInancials for 9 months to September 2013