

## Going global – an imperative for growth

### Tube Investments of India Ltd. – An overview

Tube Investments of India Limited is one of the key companies of the Murugappa group. Murugappa Group is an Indian Conglomerate founded in 1900 with its group headquarters at Chennai. In 2016-17, the group recorded sales of Rs. 30,023 Crores and EBITD of Rs.4065 Crores. The market capitalization of the group was \$ 8 Billion in March 2017 The group employs over 32,000 employees. The group consists of 28 companies, of which eleven are listed and actively traded. The group is present in several segments like abrasives, auto components, bicycles, sugar, farm inputs, fertilizers, sanitary-ware, plantations, bio products, nutraceuticals etc. Some of the well-known companies that are part of the group and their sales for the year 2016-17 are as below:

Name of the company	Gross Sales (2016-17) Rs. Crores
E.I.D.-Parry (India) Limited	4,465
Cholamandalam MS General Insurance Company Limited	3,133
Cholamandalam Investment and Finance Company Limited	4,693
Coromandel International Limited	10,304
Tube Investments of India Limited	4,620
Carborundum Universal Limited	2,200
Other Businesses	608
<b>Total</b>	<b>30,023</b>

Tube Investments of India Ltd. specializes in manufacturing engineering products, bicycles, metal formed products and chains etc. through its five major divisions –



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**TI cycles of India** - TI Cycles based in Chennai is the largest cycle manufacturer in India and in special segments like mountain bikes, sports like roadsters, racing bikes they stand as the number one manufacturer. The total capacity of TI cycles is around 3 million cycles annually. The manufacturing locations of TI Cycles are at

- Ambattur, Chennai
- Nasik, Maharashtra
- Noida, Uttar Pradesh
- Rajpura, Punjab

The business has had a very good performance in the year 2015-16. From its distinctive brands and also riding on the market leadership position the company sold over 45 Lakh bicycles which the highest in any year. Various state governments added almost about 11.5 lakh bicycles helping the company reach such high numbers. The business also saw an increase in the sales of premium cycles too. In fact this is the only company which has four brands and all catering to different segments of the market- BSA which is aimed at the comfort end of the market, Hercules which targets at the rough and tough segment, Montra which is for the top end and a new entrant Mach City which is for the urban youth market. As a part of its business strategy for growth, the company established a green-field bicycle manufacturing facility at Rajpura, Punjab. This facility will also help the company increase its market share of both northern and eastern Indian markets.

**BSA motors** - BSA motors has its manufacturing plant in Ambattur, Tiruvallur district where it manufactures non-pollutant electric vehicles.

**TI diamond chains** - TI Diamond Chains was originally established as a joint venture between TI India and Diamond Chain Company Inc, USA and is now an SBU under Tube Investments of India. They are market leaders in Industrial and Automotive chains. The industry segment covers Power Transmission chains, Engineering class chains, Agriculture chains, Conveyor chains and Material Handling chains. The Automotive segment covers Timing and Drive chains for Motorcycles, Sprockets to serve the 2 wheeler OEMs and also to the spare parts market. This division has manufacturing locations at

- Ambattur, Tiruvallur district, Tamilnadu
- Gangnoli, Laksar, Haridwar, Uttrakhand
- Kazipally Village, Telangana

**TI metal forming** - TI Metal forming manufactures products like from Car door frame (skin parts), Glass separator channels, Door guide rails (stainless steel), Window channels, Side impact beams, Casing for starter motor (Deep drawn part), HCV chassis and CRF sections for Railway wagons and coaches. The manufacturing locations are at

- Thiruninravur, Tiruvallur district
- Bawal, Rewari district, Haryana
- Halol, Panchmahal district
- Kakkalur, Tiruvallur district

**Tube products of India** - Tube Products of India (TPI) manufactures steel tubes - Electric resistance welded (ERW) and cold drawn welded (CDW) tubes and is one of the most preferred supplier to automobile majors. In CDW steel tubes for automobile applications, they are India's undisputed market leader.

The manufacturing locations of TPI are located at:

- Avadi, Chennai, Tamil Nadu
- Shirwal, Maharashtra
- Mohali, Punjab
- Tiruttani, Tamil Nadu (Large Diameter Plant)

The company also supplies steel tubes to power plant, boiler, textile machinery and general engineering industries as well. The company is also a market leader in the telescopic front fork inner tubes and cylinder bore tubes used in shock absorbers and gas springs applications. The company also manufactures other products for automobile industry like rear axle tubes, side impact beams, tie rods, drag links, steering shafts and tubes for hydraulic cylinders. They also manufacture propeller shaft & dummy axles for high payload trucks. Typically the usage/ application of precision tubes in cars are as below:

- Anti-roll bar: As per design
- Axle shaft: 1 to 2

- Belt tensioner: 4
- Instrument panel frame: Depends on design
- Steering column: 1 to 2
- Power steering system: 1 to 2
- Traverse control arm: 1
- Engine mount: 6 to 8
- Vibration damper:
- Shock absorber: 4
- Balancing shaft: Depending on Engine specification
- Cam shaft: Depending on Engine specification
- Side impact protection: 4 to 8
- Drive shaft: 2
- Cross member: 2 to 4
- Gas-filled strut: 2

### **Tube products of India (TPI) - international business**

TPI has a dedicated International Business Division (IBD) which focuses on expanding to global markets. Currently, select products are exported to Asia-Pacific region, North America and Eastern Europe. However, exports contributed to just Rs.7.37 Crores (total revenue of Rs.4620 crores of Tube Investments of India). The company is now planning a major thrust to its international operations. While evaluating the present situation of international business, the following factors emerge:



The TPI division is contemplating serious export thrust into Eastern Europe considering that this is one of the fastest growing automobile markets in the world. The overall production of cars in countries that fall under the East European region are as below. The usage of tubes shown in the table below indicates the average value. However this may vary based on the number of components used per vehicle and the specific design requirements.

Country	Cars Produced* (2015)	CDW^ (Tons)	ERW^ (Tons)	Total^ (Tons)
Czech Republic	1244440	10345.99	13616.29	23962.28
Hungary	522955	4347.85	5722.17	10070.02
Poland	472041	3924.55	5165.07	9089.62
Romania	381080	3168.30	4169.78	7338.08
Slovakia	909551	7562.01	9952.31	17514.31
<b>Total</b>	<b>3633520</b>	<b>30209.09</b>	<b>39757.98</b>	<b>69967.06</b>

\*Source- European Automobile Manufacturers Association

^Calculated based on per car usage of CDW (cold-drawn welded) and ERW (electric-resistance welded) tubes - refer Annexure 1.

### Country analysis

The company commissioned a detailed analysis of the six Eastern European countries listed in the table above and the results are as below:

#### Czech republic

It has a population of 10.2 million. Also the car density stands at 505 cars per 1000 which almost equals the Western Europe levels. But the cars are 14 years old on an average and the replacement speed is slow which could be due to the strong competition after import barriers were dropped. The country has experienced significant growth since its entry into the EU. Looking from the industry stand point, the automotive sector is about 20% of Czech Republic's overall revenue and exports. 5:1 was the ratio of domestic car production to sales underlining the fact of Czech Republic being an export nation.

#### Risks

Shortage of skill and high wages- Though country's overall unemployment rate stood at a moderate 5.4% in 2008 and is down to 3.3% in 2017, there is a severe shortage of skilled labour.

Reduced dependency on manufacturing-People have started questioning the dependency of the country on the manufacturing sector especially the automotive sector which could become a risk. The sector contributed 7.4% to the GDP and 24% to the exports in 2016. The market conditions are expected to be positive, however the industry has to factor the risks

like overall slowdown of EU countries, the fallout of Brexit on exports to Britain and the currency volatility.

### **Opportunities**

Good infrastructure and large supplier base- Czech Republic has a long tradition in the production of automobile and its components. Skoda celebrated its 100<sup>th</sup> anniversary in 2005, Tatra and Avia also have a long history. Of the countries in the region Czech Republic has one of the strongest automobile capabilities. It also benefits from its geographically central position in Europe.

Skoda has unfolded into a global player with its eyes on the emerging markets. The manufacturer continues to dominate in the home market. Even in the used car market the rank first. Even in economic terms Czech Republic has been able to garner huge FDI about 70 billion Euro since 1998. After Skoda, the Toyota-PSA JV entered after Czech Republic joined the EU in 2004. Thereafter Hyundai established its production in 2008 and made it a strategic base for all its European Operations. International OEM suppliers followed global clients.

### **Hungary**

It is a country with a very low population of 9.9 million and hence it is difficult for the country to provide opportunities which several other Eastern European countries can provide. The average age of Hungarian cars are at around 11 years and the car density is around 360 vehicle per 1000. The country saw a continuous rise in the new car sales from 1996 to 2006 but after the political crisis in 2006, the demand was severely affected. Manufacturers are attracted towards the infrastructure and traditional industry like machine tools rather than the small automobile market.

Since affordability is one of the main requirement in this market, Suzuki held the dominant market share for almost 11 years. It also had many ventures with other companies in order to increase the capacity. The company also decided to join Fiat in order to build an SUV in 2003. It also began assembling Opel Agila and producing Suzuki Splash in 2008. In Gyor, Audi owns one of the biggest engine production facilities in the world. It almost produces 2 million engines to supply all Audi models and also a few other models of VW. Audi's TT Coupe and Roadster, its premium models have also been assembled in Gyor since 1998. GM has its powertrain facility located in Szentgotthard. Mercedes manufactures generation A-class and B-class from Hungary.

### **Risks**

Currency risks and volatility- During the financial crisis, the forint depreciated only to gain back in the recent months. Also the devaluation of the forint against the Euro has made Hungary relatively cheap which is a competitive advantage over Slovakia where the auto industry is very strong.

Financial Vulnerability-With the high level of external debt present and also the export-oriented economy of a small market, the financial system is quite fragile especially when facing global downturn and during fluctuation of exchange rates. However they have received a huge sum of financial support from international organizations which should give some amount of trust among investors.

### **Opportunities**

Mature Economy- It is one of the most developed among the Eastern European countries. There is also a lot of efforts to attract FDI along with privatization. The legal system was also reformed in order to get an EU membership.

Geographically well placed- They country is going to benefit since it is going to become a central part of the EU area. The proximity to other markets makes it an ideal location.

Labour cost and qualified workforce- Compared to Poland and Czech Republic the country offers relatively lower wages level. Though there are countries with lower wage level in the Eastern Europe region, their productivity is much lower than Hungary.

### **Poland**

The country is seen as one of the most successful of the Eastern European countries with an annual GDP growth of more than 4.8%. It has a population of 38.5 million. The country also accounts for a major part of car sales in the Eastern European region. There is an increasing demand for new car but the demand for used cars is three times higher mainly due to the low import barriers after joining the EU. The average vehicle population is around 12-14 years old.

Fiat is the largest producer with its base in Tychy. Ford and Fiat also entered into an agreement to develop small cars with the intention to reduce cost of production. The assembly plant became the largest plant in Eastern Europe region with a capacity of 600,000 units annually. Poland also has production facilities of MAN, Volvo, Scania and Solaris in the CV segment.



## Risk

Infrastructure challenge- The overall quality of public infrastructure, i.e. highways, roads and even railways is not yet at the desired level. The government has programs in place to improve services but the implementation is very slow. There are regions in Poland which have good connectivity but there are some other important regions like Warsaw which still lack facilities.

Legal regulations and talent market- The laws of the land are frequently amended to meet the EU standards. There is a high unemployment rate but skilled labour is still hard to find and retain. The skilled labour migrate to other countries in EU where wages are high.

## Opportunities

Local market- With a large population they are the 6<sup>th</sup> largest among the EU nations. The demand for used cars is likely to come down with the changes in the environmental laws and new environmentally friendly cars getting a thrust.

EU subsidies- The government of Poland are huge beneficiaries of integration with the EU. They get more than 67 billion Euro for various types of improvement programs.

SEZ- The government has marked 17 SEZ outside the areas of boom in Poland to boost trade. This was done after they lost few investments to neighbors Czech Republic and Slovakia. To overcome it and bring back trust the government is considering introducing flat tax rate of around 15%.

## Romania

The population of Romania is around 22.2 million people, one of the largest in terms of population. But the rate of car ownership is one of the lowest at 247 cars per 1000 people. The peak sales in new cars were seen in 2007 which reached around 315,621 units which continuously kept falling and reached a low of 57,710 in 2013 and since then the industry has been growing and in 2016 recorded sales of 94,924 cars. However, the production was much higher at 410,997 (2013) which shows that most of the cars produced in Romania were being exported. Overall, 50% of the vehicles in Romania do not conform to the emission standards of the EU.

Here Romanian brand Dacia has a joint venture with Renault dating back to 1960s. The plant at Pitesti started off as a supplier factory for Roman truck maker which was converted

into a production center for Dacia. Since 1999 there has been a lot of modernization and up gradation of the plant taking place. Romania has become a strategic location for Renault's international expansion plans with its largest R&D center in Titu. Ford acquired a former Daewoo production plant in order to increase its capacity for the European region. Auto component manufacturer Continental has its tire plant located in Timisoara with a daily capacity of 24,000 tires.

### **Risks**

Bureaucracy- There seems to be a lot of procedural formalities and certifications required for setting up plants at various levels. Corruption is also a major problem in this country.

Lack of infrastructure- the infrastructure condition especially roads are very poor. 65% of them require improvement. Due to lack of infrastructure there is a roadblock to development.

### **Opportunities**

Investment conditions- There has been improvement of fiscal legislation in order to fit into the EU rules and hence the country has become more attractive to investors. Low labour cost is another main reason for most investors to get attracted to Romania.

Large economy- GDP growth rate was at 7.8% in 2006 one of the highest rate in Europe, in 2008 it was around 7.1%. But after that there was a downward trend from 2009 but is now slowly recovering.

### **Slovakia**

Its population is only 5.4 million and is one of the smallest Eastern European nations. But is one of the best performers due to the reforms of the economy. The country has a car ownership which is comparatively lower than rest of Europe. Used car imports is a significant factor which accounts to almost every 2<sup>nd</sup> vehicle is an import. Import of vehicles above 10 years is not permitted. Skoda is a long famous brand of Slovaks and is a leader in new car sales.

In 2016 a total of 1.04 million vehicles were produced in the Slovakia plants. VW has a production plant near Bratislava, which focuses on building small and efficient cars. Both Kia and PSA entered Slovakia in 2006. The production capacity of cars in Slovakia can be increased to 900,000 units if required.

**Risks**

Concentration- Mainly all industries are clustered and concentrated around the capital, which does not facilitate overall growth of the country.

**Opportunities**

Favorable environment- The government is very positive and proactive in dealing such large investments.

Economic Stability- The country adopted the Euro in Jan 2009, which brought stability to high-grade export activities. Even the debt ratio is below the EU average which makes the financial system robust.

**Decision to be made**

Post analysis of the different countries of Eastern Europe, now Tube Products of India has to decide which among the countries of Eastern Europe – viz., Czech Republic, Hungary, Poland, Romania and Slovakia should they enter and how should they plan their international foray.

**Questions**

1. Identify the factors that forced Tube Products of India to go international.
2. Do you agree with the decision of foraying into Eastern Europe? Justify your answer.
3. What mode of entry to the designated markets would you suggest? Why?
4. Evaluate the different countries identified by Tube Products of India with “Market-Penetration Grid” and identify the most potential country for entry.

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## Annexure

### Weight of tubular components

Components	CDW/ERW	Weight
Side Impact Beam	CDW	2.219
Struts & Shockers	CDW	3.626
Seat Frames	ERW	10
Window Balancer	CDW	0.36
Steering System	CDW	0.710
Mounting Bushes	CDW	0.398
Trailing Arm	CDW	0.255
Yoke Tube	CDW	0.746
Fuel Pipes	ERW	0.942
<b>Total</b>		<b>19.256</b>

