INDIAN TYRE INDUSTRY

2015-16: Favourable outlook on tyre demand; margins to correct to sustainable long term levels

ICRA RESEARCH SERVICES

Contacts:

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

K Srikumar
+91 44 4596 4318
ksrikumar@icraindia.com

A M Pradeep
+91 44 4596 4312
arockia.pradeep@icraindia.com

2015-16: Favourable outlook on tyre demand; margins to correct to sustainable long term levels

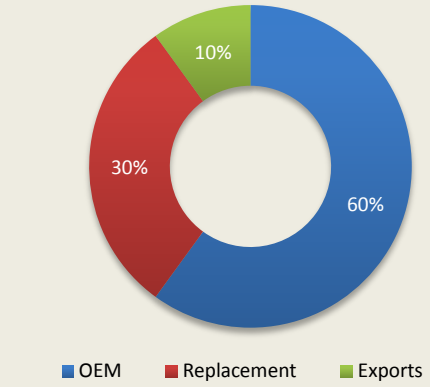
- **Domestic tyre industry expected to grow by 4%-8% over the next three years:** The domestic tyre industry is estimated to have grown by 10%-12% during 2014-15, supported by 7.0%-7.5% growth in OEM segment and 12%-15% growth in the replacement segment. ICRA expects the tyre industry to report a growth of 4%-8% over the next three years, supported by pick up in auto OE demand across segment. Headwinds from the motorcycle and tractor segments, weaker exports and Chinese imports would however persist over the next 12 months.
- **Tyre imports surge in 2014-15 led by sharp inflow of two wheeler (2W) tyres:** Tyre imports, after recording a sequential annual decline of 5.5% during the period 2011-2014, grew by a sharp 19% (volumes) in 2014-15 led primarily by surge in 2W tyres. ICRA expects the trend of rising imports to continue over the near term with issues of capacity constraints in the 2W tyre segment and rerouting of US bound Chinese exports to India, with the recent imposition of anti dumping duty on Chinese tyres in the US. Further, the anticipated spike in Truck and Bus (T&B) imports in 2015-16 - with the February-15 sunset of the erstwhile Anti Dumping Duty (ADD) on T&B imports – is also expected to drive imports.
- **Tyre exports (value) de-grew by 0.7% for 2014-15; monthly volume trends suggest weakening demand in key export destinations:** Exports on the other hand, de-grew by 3%-6% (in volume) across segments owing to weak off-take on the back of subdued global auto demand, especially in Africa and parts of Asia. The global shift towards radials is also leading to a drop in exports as India primarily exports cross plys. ICRA expects 4%-5% de-growth in tyre exports (value and volumes) from India during 2015-16, assuming stable currency levels. That said, the levy of preliminary ADD by US on Chinese tyres may provide some opportunities for Indian tyre exporters too.
- **Large scale capital expenditure in full swing across several product categories:** In line with our expectations, the tyre industry witnessed commencement of several large scale capex programmes during 2015-16. ICRA estimates that the industry is currently witnessing investments in projects worth over Rs. 56 billion – wherein these capacities are likely to come on-stream over the next 12 – 24 months (full ramp up in the next 12-18 months following commercial production). Over the medium term, ICRA anticipates that, while TBR capacities are expected to be absorbed in whole (gradually), utilising of redundant bias capacities could be a concern.
- **Favourable input costs drive industry margins to all time high:** The industry is currently experiencing one of the best periods recording sharp expansion in profits driven by low input costs. While Natural Rubber (NR) prices trended up in Q4 2014-15 following policy measures, they are currently trading lower at Rs. 120-130 (per kg) levels. Crude linked derivatives such as synthetic rubber, carbon black and rubber chemicals too, despite rising in line with in crude oil prices during Q1 2015-16, remain favourable. However, we expect the depleting NR stock and demand driven inflation to lead to higher input costs over the next 12-18 months which would lead to correction in profit margins to more sustainable levels.

Industry Factsheet

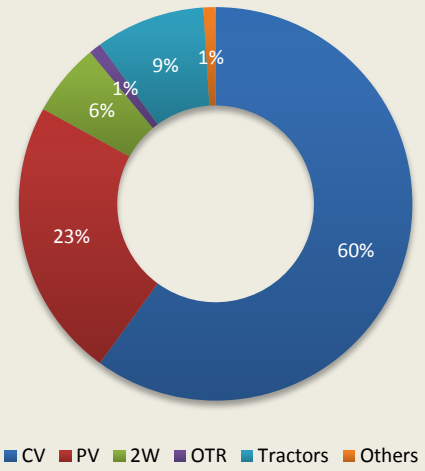
Size: Rs. 520 Billion (FY15)

Revenue CAGR (FY11 to FY15): 12.6%

Segment mix (in tonnage): FY15



Product mix (in tonnage): FY15



2015-16: Favourable outlook on demand; margins to correct to sustainable long term levels

- **Market is dominated by few large players, with MRF remaining the leader:** Over the years, MRF has been the dominant player in the country (estimated based on turnover) by virtue of its strong product capabilities apart from focused branding efforts backed by a deep distribution network panning across India and steady exports. However, several players (Apollo, JK and CEAT in particular) have challenged its market share in recent years through prudent brand management backed by sizeable investments in product development / capacities. Global majors like Goodyear and Bridgestone have also increased their share in India in recent years. Over the medium term, ICRA expects the competitive intensity in the industry to rise with expected on-streaming of several Greenfield and Brownfield capacities by domestic as well as international players.

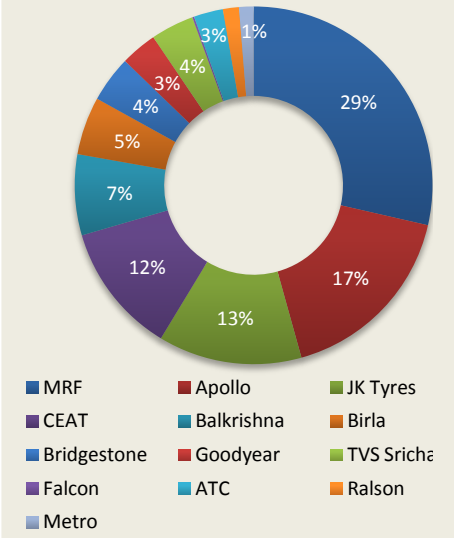
- **Despite fall in realisations industry recorded expansion in profits in Q4 2014-15:** During Q4 2014-15, the industry posted a 2.6% and 0.6% YoY and sequential drop in revenues respectively as volume growth was nullified by drop in realizations with tyre makers passing on benefits of softer input prices. With the correction in input prices (both NR and other crude derivatives), the industry recorded a healthy operating and net margins of 17.2% (up 340 bps) and 8.8% (up 550 bps) respectively.

- **Credit profile improves in 2014-15**: For the fiscal 2014-15, the industry recorded a 6.9% YoY revenue growth following 5.8% growth in the preceding fiscal. With the decline in NR prices, the industry wide operating and net margins expanded by 50bs each to 14.3% and 6.4% respectively. Industry capital structure improved to 0.6x in March 2015 (from 0.9x in March 2014) while on the coverage front, interest coverage improved from 5.9x to 6.9x and total debt to OPBDITA improved from 1.9x to 1.7x for the same period under comparison.

- **Outlook: Revenues expected to grow by 7%-8% in 2015-16; however profit margins are likely to correct:** ICRA expects the domestic tyre industry (revenues) to grow by 7%-8% during 2015-16, up from 5.7% during 2014-15. These competitive pressures are likely to impact the margins going forward, particularly exports, as manufacturers are forced to stay price competitive. ICRA expects operating margins to correct from 14.4% in 2014-15 to 13.9% in 2015-16 and further to 12.4% and 12.0% during 2016-17 as input prices start inching upwards.

- **Global tyre industry to grow by 1%-2% during CY2015:** Growth in the global automotive demand is expected to moderate to 2.8% in CY2015, from 3.5% in CY2014, according to Moody's Investor Services. While growth prospects in India and USA are improving, European, China and other emerging markets are likely to see a slowdown or de-growth in demand. As a consequence, ICRA expects the global tyre industry to grow by 1%-2% in the current calendar year (CY2015).

Market share (based on FY15 sales)



Industry growth Drivers

- Automobile demand
- Increasing radialisation with strong thrust from OEMs
- Steady aftermarket demand
- Focus on geographical diversification

Subscribe to the full report for the following and more…

Brief overview of the Indian Automotive Industry
- Trends in the key segments - M&HCV, Passenger Cars, Two wheelers and Tractors
- Demand drivers and ICRA's demand estimates for these segments

Update on the recent trends in the tyre industry
- Replacement and OEM demand scenario
- Growth trends and ICRA's expectations for domestic tyre demand in Truck & Bus, Passenger car, LCV and Two Wheelers

Trends in tyre import and exports
- Recent trends in import of various product categories, coverage of anti-dumping duties, etc.
- Trends in tyre exports across geographies

Update on capacity additions in the industry
- Addition of capacities during 2014-15
- Key projects scheduled for completion over the medium term

Trends in Raw material prices
- Price movement of natural rubber and ICRA's analysis of the rubber production, supply gap and imports
- Price movement of Synthetic rubber and rubber chemicals; and a comparison with crude oil prices

Market share across segments

Update on industry financials
- Impact of falling rubber prices on the profit margins
- Quarterly trends in operating and net margins of the tyre industry

ICRA's outlook on industry revenue growth and margins

Brief coverage on the following tyre majors -
a) Apollo Tyres Limited
b) Balkrishna Industries Limited
c) Ceat Limited
d) Elgi Rubber Company Limited
e) Goodyear India Limited
f) JK Tyre and Industries Limited
g) MRF Limited
h) TVS Srichakra Limited

List of Tables and Charts

Automotive industry demand

Exhibit 1: Trend in M&HCV production volumes
Exhibit 2: Trend in LCV production volumes
Exhibit 3: Trend in Passenger vehicle production volumes
Exhibit 4: Trend in Two-wheeler production volumes
Exhibit 5: Trend in tractor sales volumes
Exhibit 6: Actual and projected growth in the automotive industry

Domestic Tyre demand

Exhibit 7: Segment wise domestic tyre demand (volume) growth projection
Exhibit 8: Segment wise domestic tyre demand projections (tonnage)

Tyre Imports

Exhibit 10: Tyre Imports surge in 2014-15
Exhibit 11: T&B tyre imports continues to decline
Exhibit 12: Share of 2w tyres imports (value) witnessed a sudden spike in 2014-15
Exhibit 13: Country wise imports (in value terms)
Exhibit 14: Imports to continue surging ahead in FY2016 and then stabilize

Tyre Exports

Exhibit 15: Historical trends – Export sales (by value)
Exhibit 16: Monthly trends in Export sales (by value)
Exhibit 17: Country wise Tyre exports
Exhibit 18: Segment wise Tyre volume exports (FY15E)
Exhibit 19: Exports as % of segmental production levels
Exhibit 20: Export share of key players (value)
Exhibit 21: Historical trends - Segment wise Y-o-Y growth in Tyre exports

Capacities and Supply

Exhibit 22: Trends in Industry wide capex and capacity utilisation
Exhibit 23: Share of proposed capex (volumes) across tyre segments during FY15-18
Exhibit 24: Radialisation trends in T&B tyres
Exhibit 25: Planned capacity additions over the next four years

Input Costs

Exhibit 26: Monthly NR prices (domestic and global prices)
Exhibit 27: Trends in NR supply gap and price movements
Exhibit 28: WTI Crude oil prices (USD per barrel) and SR prices (Rs./Kg)
Exhibit 29: Price index - Crude oil, Synthetic rubber and Butadiene
Exhibit 30: Carbon black prices (China) in USD / MT
Exhibit 31: Caprolactam prices (China) in USD / MT

Market Share

Exhibit 32: Market Share – FY15E (in value terms)
Exhibit 33: Market Share-FY15E total industry (in tonnage terms)
Exhibit 34: Market Share in T&B + LCV (in tonnage terms) for FY15E
Exhibit 34: Market Share in T&B + LCV (in tonnage terms) for FY15E
Exhibit 36: Market Share in PV segment (in tonnage terms) in FY15E
Exhibit 37: Market Share in tractor segment (in tonnage terms) in FY15E

Industry Financials

Exhibit 38: Quarterly performance trend of tyre industry
Exhibit 39: Quarter-wise interest coverage ratio
Exhibit 40: Quarter wise trends in operating profit margins

Industry Forecasts

Exhibit 41: Quarterly NR price movement and operating margins
Exhibit 42: Projected Revenue trend
Exhibit 43: Operating and net margins estimates
Exhibit 44: Tyre industry wide capex estimates
Exhibit 45: Estimated net worth and debt levels
Exhibit 46: Estimated Leverage ratios
Exhibit 47: Estimated Coverage ratios

Global Tyre Demand

Exhibit 48: Global Light vehicles sales growth (CY10-CY14)
Exhibit 49: Global Light vehicles sales across geographies (CY12-CY14)
Exhibit 50: CY15 and CY16 outlook for the global markets
Exhibit 51: Tyre industry growth across globe in Q1, CY2015

Please contact ICRA to get a copy of the full report

CORPORATE OFFICE
Building No. 8, 2nd Floor,
Tower A, DLF Cyber City, Phase II,
Gurgaon 122002
Ph: +91-124-4545300, 4545800
Fax; +91-124-4545350

REGISTERED OFFICE
1105, Kailash Building, 11th Floor,
26, Kasturba Gandhi Marg,
New Delhi – 110 001
Tel: +91-11-23357940-50
Fax: +91-11-23357014

CHENNAI
Mr. Jayanta Chatterjee
Mobile: 9845022459
Mr. P Kalaivanan
Mobile: 9894204551
5th Floor, Karumuttu Centre,
498 Anna Salai, Nandanam,
Chennai-600035.
Tel: +91-44-45964300,
24340043/9659/8080
Fax:91-44-24343663
E-mail: jayantac@icraindia.com
p.kalaivanan@icraindia.com

HYDERABAD
Mr. M.S.K. Aditya
Mobile: 9963253777
301, CONCOURSE, 3rd Floor,
No. 7-1-58, Ameerpet,
Hyderabad 500 016.
Tel: +91-40-23735061, 23737251
Fax: +91-40- 2373 5152
E-mail: adityamsk@icraindia.com

MUMBAI
Mr. L. Shivakumar
Mobile: 9821086490
3rd Floor, Electric Mansion,
Appasaheb Marathe Marg, Prabhadevi,
Mumbai - 400 025
Ph : +91-22-30470000,
24331046/53/62/74/86/87
Fax : +91-22-2433 1390
E-mail: shivakumar@icraindia.com

KOLKATA
Ms. Vinita Baid
Mobile: 9007884229
A-10 & 11, 3rd Floor, FMC Fortuna,
234/ 3A, A.J.C. Bose Road,
Kolkata-700020.
Tel: +91-33-22876617/ 8839,
22800008, 22831411
Fax: +91-33-2287 0728
E-mail: vinita.baid@icraindia.com

PUNE
Mr. L. Shivakumar
Mobile: 9821086490
5A, 5th Floor, Symphony,
S. No. 210, CTS 3202,
Range Hills Road, Shivajinagar,
Pune-411 020
Tel : +91- 20- 25561194,
25560195/196,
Fax : +91- 20- 2553 9231
E-mail: shivakumar@icraindia.com

GURGAON
Mr. Vivek Mathur
Mobile: 9871221122
Building No. 8, 2nd Floor,
Tower A, DLF Cyber City, Phase II,
Gurgaon 122002
Ph: +91-124-4545300, 4545800
Fax; +91-124-4545350
E-mail: vivek@icraindia.com

AHMEDABAD
Mr. Animesh Bhabhalia
Mobile: 9824029432
907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049/2008/5494,
Fax:+91-79- 2648 4924
E-mail: animesh@icraindia.com

BANGALORE
Mr. Jayanta Chatterjee
Mobile: 9845022459
'The Millenia', Tower B,
Unit No. 1004, 10th Floor,
Level 2, 12-14, 1 & 2, Murphy Road,
Bangalore - 560 008
Tel: +91-80-43326400,
Fax: +91-80-43326409
E-mail: jayantac@icraindia.com

ICRA Limited

CORPORATE OFFICE
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300; Fax: +91 124 4545350
Email: info@icraindia.com, Website: www.icra.in

REGISTERED OFFICE
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50; Fax: +91 11 23357014

Branches: **Mumbai**: Tel.: + (91 22) 24331046/53/62/74/86/87, Fax: + (91 22) 2433 1390 **Chennai**: Tel + (91 44) 45964300, Fax + (91 44) 2434 3663 **Kolkata**: Tel + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008, Fax + (91 33) 2287 0728 **Bangalore**: Tel + (91 80) 2559 7401/4049 Fax + (91 80) 559 4065 **Ahmedabad**: Tel + (91 79) 2658 4924/5049/2008, Fax + (91 79) 2658 4924 **Hyderabad**: Tel +(91 40) 2373 5061/7251, Fax + (91 40) 2373 5152 **Pune**: Tel + (91 20) 2552 0194/95/96, Fax + (91 20) 553 9231

© Copyright, 2015 ICRA Limited. All Rights Reserved.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions presented in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.