Tyre industry to see some strength on expected growth in OEM, replacement segments

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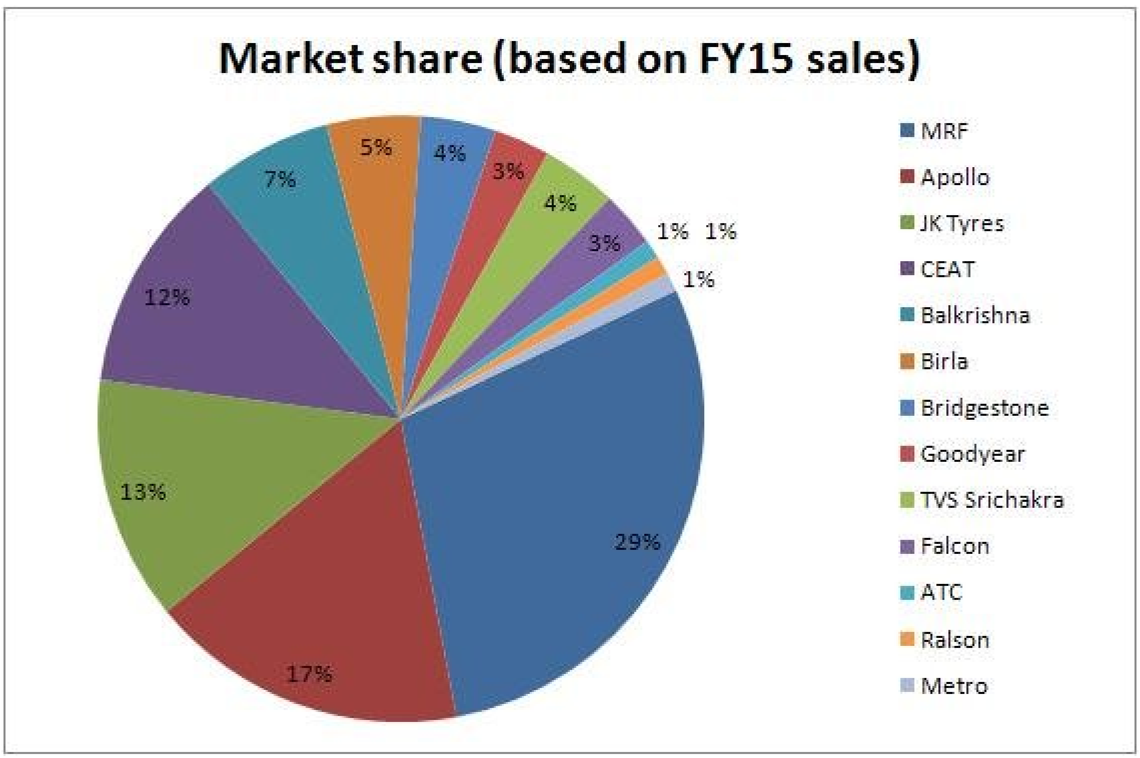
The Indian tyre industry has been witnessing tremendous growth for the past few years on account of growth in automobiles demand, especially in passenger vehicles and two-wheeler segments. Traditionally, tyres are classified as cross-ply (bias) and radial based on the technology deployed in their manufacture. In India, the commercial tyre segment continues to be dominated by cross-ply tyres due to road conditions, loading patterns and the high initial cost of radials. There is a steady growth in radialisation across segments with the highest in passenger cars (98%) followed by heavy commercial vehicles (25%) and light commercial vehicles (22%).

The tyre industry consists of three distinct markets namely replacement, institutional/OEM and exports. By value, replacement accounts for around 60% of the industry with Institutional/OEM and exports making up 22% and 18% respectively. While in the commercial and farm segments replacement sales forms a major chunk, both Institutional/OEM and replacement sales play an almost equal role in the passenger segment. Of the total tyres produced in India, the top ten tyre companies account for nearly 90% of the volume. The tyre industry provides direct and indirect employment to more than a million people, comprising of dealers, re-treaders and truck operators. The trucking business is controlled by nearly 2.6 million small operators.



Import

Tyre imports witnessed a sharp jump of 19% in volume terms in FY15 led primarily by surge in two wheeler tyres. The US anti-dumping duty on Chinese tyres has led to the Chinese tyre makers dumping some stocks in India, causing a 15 per cent surge in tyre imports in the first half of FY15. The trend of rising imports are expected to continue over the near term on account of capacity constraints in the two wheeler tyre segment and rerouting of US bound Chinese exports to India. 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.

Export

The Indian tyre industry exports to some 65 countries, but global economic slowdown stymied the growth in this past few years. Exports of tyre declined by 3-6 percent in FY15 in volume terms across segments on account 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. However, exports are projected to grow little faster than 4-6 percent as US' decision to slap anti-dumping duty on cheaper Chinese tyres has created opportunities for Indian tyre makers.

Capacity addition

The tyre industry is likely to commence several large scale capex programmes during 2015-16. Moreover, a marked step up on capital expenditure is expected between 2015-17, with investments towards enhancement of existing capacities-both Greenfield and Brownfield in India and new capacities in other countries like Hungary and Bangladesh. This will be funded through anticipated increase in profits going forward and the flexibility built up in the balance sheet on the back of the past three good years, leading to improvement in the capital structure and coverage metrics for the industry. Moreover, the cash build up is likely to lead to more announcements on the capacity front from the industry going forward.

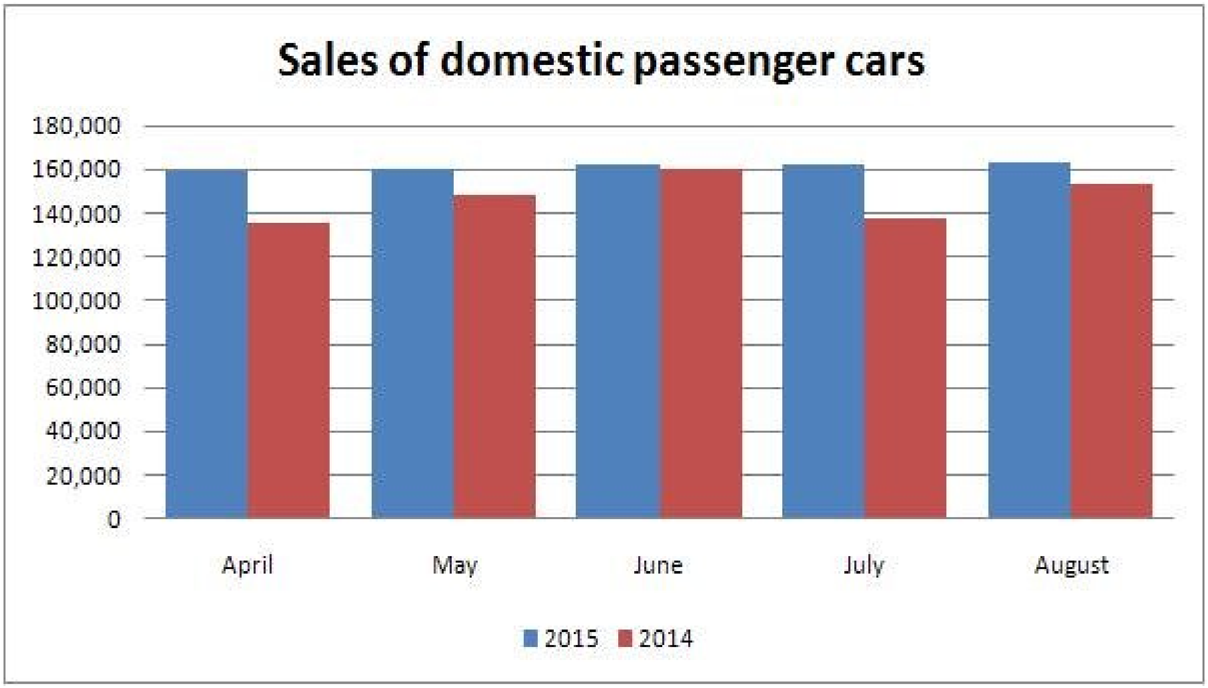
Positives for the industry

Growth in Auto sector to increase tyre demand

The sales of Passenger Vehicles grew by 6.74 percent in April-August 2015 over the same period last year. Within the Passenger Vehicles, Passenger Cars and Vans grew by 9.72 percent and 0.38 percent respectively while Utility Vehicles declined by 1.12 percent during April-August 2015 over the same period last year. The overall Commercial Vehicles segment registered a growth of 6.03 percent in April-August 2015 as compared to same period last year. Medium & Heavy Commercial Vehicles (M&HCVs) registered a growth at 26.96 percent while Light Commercial Vehicles declined by (-) 5.69 percent during April-August 2015 over the same period last year.

However, three Wheelers sales declined by 9.30 percent in April-August 2015 over the same period last year. Passenger Carrier & Goods Carrier sales declined by 9.78 percent & 6.96 percent respectively in April-August 2015 over April- August 2014. Two Wheelers sales registered a marginal decline of 0.20 percent in April-August 2015 over April-August 2014. Within the Two Wheelers segment, Scooters grew by 10.76 percent while Motorcycles and Mopeds dropped by 4.33 percent and 1.56 percent respectively in April-August 2015 over April-August 2014. In April-August 2015, overall automobile exports grew by 8.60 percent. Passenger Vehicles, Commercial Vehicles, Three Wheelers and Two Wheelers registered a growth at 4.92

percent 25.86 percent 23.53 percent and 6.60 percent respectively in April-August 2015 over April- August 2014.



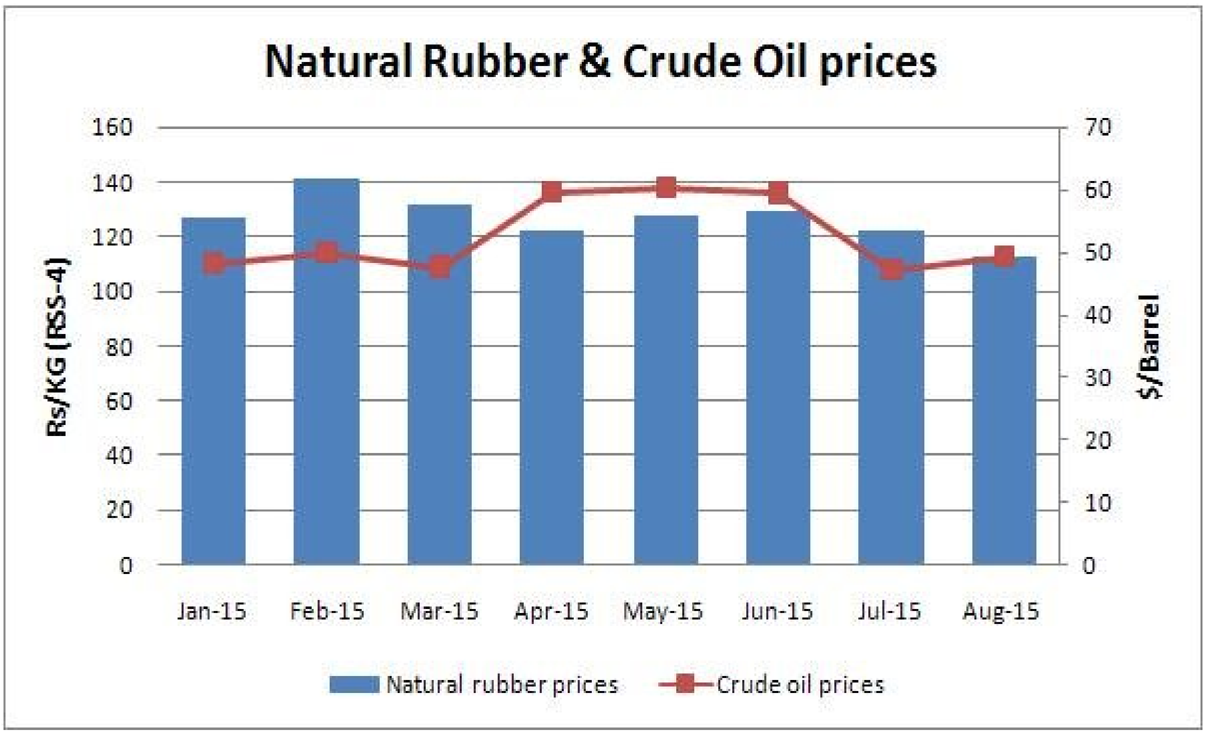
Increasing radialisation

Sensing enormous scope and changing trends in the tyre industry, most of the tyre companies, both domestic and international, are heavily investing in radialisation in tyres, mainly truck and bus tyres India. Radialisation has emerged as a key factor contributing to the Indian tyre industry growth. Given the global phenomenon of radialisation in the commercial vehicle (CV) segment, bias exports are losing momentum, leading to a trigger effect on bias capacity utilisations. The Indian tyre industry is also reflecting the global trend. Backed by growing awareness of cost benefits, continuously improving road infrastructure and stringent implementation of overloading norms, radialisation levels in the commercial vehicle space are likely to double to 50% over the next four years. Increased investments in radial capacities, in the backdrop of the growing radialisation, are expected to yield significant benefits, moving ahead.

Declining raw material prices

Natural Rubber (NR) and crude derivatives form the most significant constituent of cost of tyre manufacturing. Price fluctuations and availability of raw material with regard to above commodities have a major impact on the industry. The rubber prices were at a multi-year low during FY 2014-15, on account of increased production of natural rubber globally, coupled with subdued demand from China. Moreover, crude oil prices trade southward as demand for oil in places like Europe, Asia, and the US began tapering off, thanks to weakening economies and new efficiency measures.

During January to August 2015 period, natural rubber prices declined over 11 percent to Rs 112.5 per kg from Rs 126.55 per kg in January 2015. The relative price weakness reflects a slowdown in demand in emerging economies, particularly China, as the majority of natural rubber is used for tire production. Meanwhile, Crude oil prices declined over 5 percent to $45.81 per barrel on September 1, 2015 as compared to $49.2 per barrel on January 1, 2015. In the coming months, domestic NR prices are expected to remain range-bound, driven by global NR price movement. Recent months have also seen marked decline in the prices of crude price derivatives, such as carbon black, rubber chemicals and synthetic rubber. Their prices have moved in tandem with the crude oil prices, as well as currency rates and are expected to remain closely linked to crude prices.



Concerns for the industry

Tyre manufacturers fear a surge in imports on falling yuan

For India's tyre manufacturers, the Chinese currency's devaluation has come as a double whammy of sorts. Already hurt by increasing imports of Chinese tyres in a sluggish market, they fear a cheaper yuan would further boost supplies from the neighbouring country. The industry expects imports to go up significantly from this month onwards. The share of China in imported tyres has gone up to 90 per cent from 48 per cent in the past three years. In the relevant truck-bus radial segment, the low-cost Chinese tyres have grabbed over 10 per cent of the replacement market, and this is likely to increase in the future due to further yuan devaluation. India, along with the US and Europe, are the top three markets that China is targeting for tyre exports. China has built huge capacities, which were facing a shutdown due to a recession in the automobile market. To keep the plants running, the country is trying to export more tyres. The currency devaluation is expected to help as it has made Chinese products cheaper in international markets.

Duties

The imposition of ADD/countervailing duties against Chinese tyre imports by many countries necessitates correction on the prevalent duty structure in India. Currently, the peak import duty on Natural Rubber stands at 20%, whereas the duty on imported tyres is just 8%, providing an advantage to the Chinese manufacturers. As a result of this, the landed price is approximately 25% lower than that of corresponding Indian truck/LCV tyres. This poses a threat and highlights the need to invert the duty structure to make the domestic manufacturers more competitive. As a result, there is increase in import of Chinese tyres especially in the radial segment, with Chinese radials estimated to have share of nearly 20% in Indian truck & bus tyre segment.

Corporate developments in Tyre sector:

- JK Tyre & Industries is planning to enter the two-wheeler segment through the trading route as it steers clear of investing afresh in manufacturing facilities in a slowing auto market.
- As part of its growth plans to expand its network all over India, tyre major, CEAT has launched a new store in Sultanpur, Uttar Pradesh.
- Apollo Tyres will double capacity at its Chennai plant with an investment of Rs 2,700 crore over the next three to four years.
- MRF is planning to invest Rs 4,500 crore at its Perambalur and Arakonam plants in Tamil Nadu in next seven years. The company has bagged Ultra Mega Project Status for the proposed expansion.
- TVS Srichakra is planning to invest Rs 150 crore in capacity expansion this year as it bets on replacement demand for two-wheeler tyres.

Outlook

Indian Tyre industry is looking to show some strength in coming time on the back of improvement in domestic automobile industry and increasing radialisation. Moreover, continuous decline in Natural Rubber (NR) prices and crude oil prices proved to be boon for the industry as Tyre is highly raw material intensive sector with raw materials cost accounting for over seventy percent of total production cost. On the concern side, Chinese imports remain the major worry for the industry. Chinese imports mainly flooded the Indian market after US has imposed an anti-dumping duty on Chinese tyres, whereas India relaxed its anti-dumping duty in September 2014. Nevertheless, the industry is likely to see robust growth on the back of expected growth in demand in both original equipment manufacturer (OEM) and replacement segments.

Companies Financial Data In Industry

Company Name	CMP	MCAP (Rs Crore)	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
MRF Ltd.	41808.00	17731.37	0.00	0.12	3347.80	12.49
TVS Srichakra Ltd.	2549.50	1952.16	424.78	1.33	176.96	14.41
Ceat Ltd.	1262.15	5105.41	424.30	0.79	91.46	13.80
Balkrishna Industries Ltd.	675.05	6524.94	252.79	0.36	54.43	12.40
Goodyear India Ltd.	553.75	1277.31	234.88	1.81	41.67	13.29
Apollo Tyres Ltd.	182.35	9282.07	68.65	1.10	14.40	12.66
JK Tyre & Industries Ltd.	101.10	2293.08	52.75	1.48	14.07	7.18
PTL Enterprises Ltd.	62.75	415.33	14.02	1.59	2.24	27.99
Modi Rubber Ltd.	55.15	138.10	54.40	0.00	0.90	61.16
Krypton Industries Ltd.	12.73	18.71	20.27	0.00	0.16	77.31
Tirupati Tyres Ltd.	35.25	12.14	6.32	0.00	0.11	325.22
Govind Rubber Ltd.	16.90	36.91	12.82	0.00	-1.00	0.00
Falcon Tyres Ltd.	9.89	76.62	22.80	0.00	-3.89	0.00

Sorted with TTM EPS (High to Low)

Source – Ace Equity