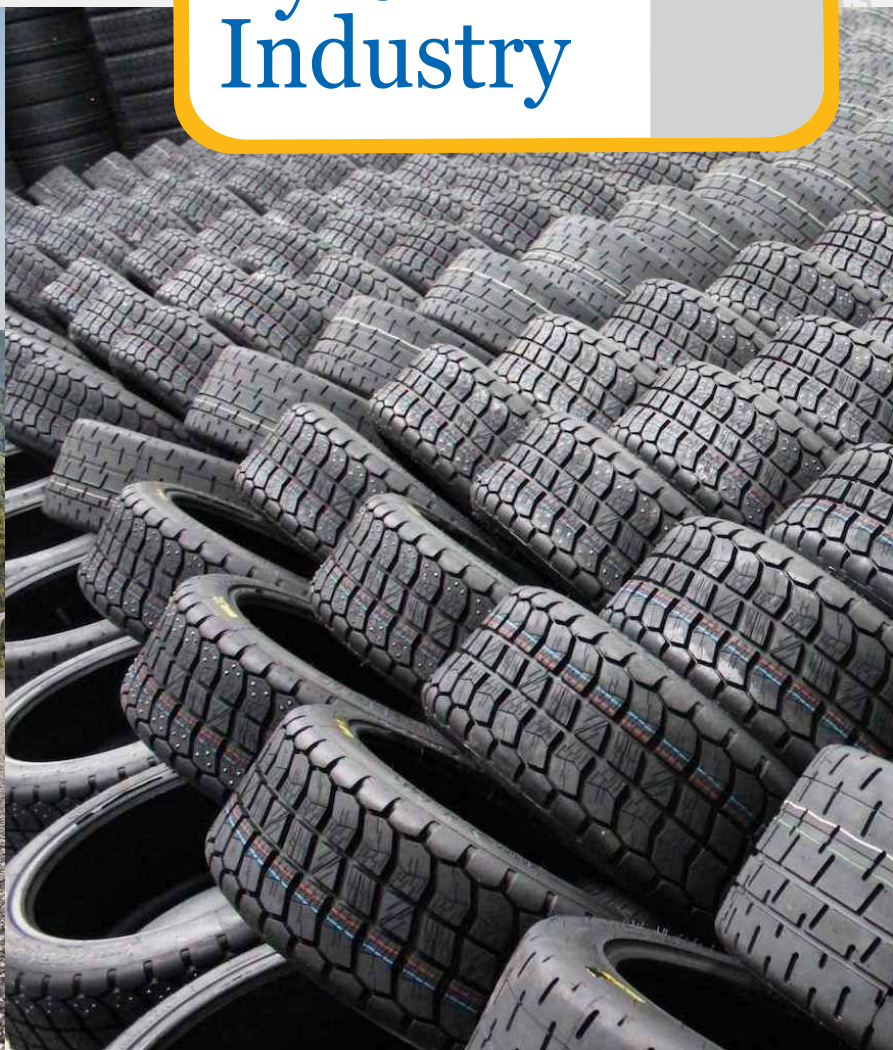


Tractor Banking Cement Commercial Vehicle Cotton & Cotton Yarn  
Aluminum Business Process Management (BPM) Construction Education  
to Component Chlor-Alkali CRAMS Industry Crude Oil Gems & Jewellery  
Jewel Industry Natural Gas Coal Pesticides Power Generation Steel  
Manganese Ore Shipping Sugar Tractor Refining & Marketing  
Transport Two Wheeler Tyre Telecom Tower Man Made Fibre  
Business Process Management (BPM) Power Crude Oil Hotel Passenger  
Auto Components Pipe Telecom-Wireless Seed Industry  
Energy Sources Paper Housing Finance Passenger Vehicle  
Made Fibre Hospital Industry Roads & Highways Zinc & Lead  
Building Education Aluminum  
Banking Express Service Steel  
Roads Freight Transport Gems & Jewellery  
Jewel Industry Passenger Vehicle

# The Indian Tyre Industry

May  
2013



The continuing pressure on automobile sales owing to challenging economic environment has substantially impacted the original equipment manufacturer (OEM) demand for tyres in FY13. However, healthy rise in replacement demand helped to keep tyre sales afloat. As per the data released by the Automobile Tyre Manufacturers Association (ATMA) for April-December FY13 period, the replacement demand in unit terms has witnessed a growth of 10 per cent. Whereas in tonnage terms the replacement demand witnessed a strong rise of around 27 per cent on y-o-y basis. Sharp drop observed in sales of higher tonnage T&B tyres has considerably pulled down the OEM demand especially in tonnage terms during April-December FY13 period.

**Healthy replacement demand kept industry afloat in FY13**

**OEM demand shrunk considerably on sluggish automobile sales...**

The OEM demand of tyre industry that has been growing at a healthy pace during FY10-FY12 period, hit a roadblock in FY13. Challenging economic scenario and steep hike in fuel prices during FY13 augmented the overall cost of ownership that led to subdued demand in the automobile industry, strained the OEM demand. In unit terms the OEM demand witnessed a drop of around 2 per cent. While in tonnage terms, the drop has been much sharper at around 7 per cent during April- December FY13 period indicating sharp drop in the demand for higher tonnage tyres.

CARE Research foresees the OEM demand to increase at a moderate rate in unit terms. Demand for higher tonnage T&B segment is expected to grow at an even lower pace, in terms of tonnage. On the other hand replacement demand that formed around two-third of the overall domestic tyre demand in FY13 is expected to remain the growth engine for the industry in short to medium term period. CARE Research believes considerable addition of vehicles on road during last one decade will continue to fuel replacement demand for tyres. CARE Research foresees replacement demand in FY14 to be healthy, suggesting higher rise in replacement demand.

**OEM demand expected to remain under pressure in short term whereas replacement demand would continue to remain the growth engine in near term**

**TBR tyre demand to almost double in next five years**

CARE Research observed that during last 3-4 years, the demand for radial tyres in T&B category has witnessed a strong rise. Although, its penetration in T&B segment has increased nearly three folds from around 7-8 per cent in FY10 to estimated 23 per cent in FY13, it still remains the lowest compared to other automobile segments. The increase in OEM demand for radial tyres has been mainly due to rising purchase by commercial vehicle manufacturers for their new sales, growing demand from transport operators, etc. While, rising awareness among truck operators about better cost economics for radial tyres and improvement in road infrastructure have fuelled the replacement demand for this tyre category.

CARE Research believes, initiatives taken by key tyre manufacturers (both domestic and global) to impart awareness about the benefits of the radial tyres would fuel growth for these tyres in replacement market in medium to long-term period. Hence, healthy rise in demand for TBR in replacement market would significantly surge the proportion of these tyres in T&B replacement segment in the medium term period. CARE Research estimates the proportion of TBR in replacement to increase substantially in FY15.

**Higher demand from replacement market, key for the rise in share of radials in T&B segment**

## Section- I Care Research's Outlook

### Outlook on Domestic market

- Healthy replacement demand kept industry afloat in FY13
- OEM demand expected to remain under pressure in short term
- Lower tonnage category tyres like two & three wheelers and light commercial vehicles (LCVs) to drive OEM demand in short to medium term
- Higher tonnage tyres to take back seat in short to medium term
- Replacement demand to be the growth engine for the industry in short to medium term
- Lower tonnage category tyres to drive the growth in replacement market in medium term
- LCV and cars & jeep segment to fuel replacement demand in short to medium term period
- Higher tonnage T&B and tractor to witness modest growth in medium term
- T&B radials (TBR) to constitute almost half of the T&B category demand by next five years
- India is among the least penetrated market for TBR tyres in the world that enhances its growth potential
- Higher demand from replacement market, key for the rise in share of radials in T&B segment
- Aggressive expansion lined up in T&B radial tyre category to keep up with surging demand
- Radial tyres can help MAV operators save Rs 1.6/Km
- Growth levels in imports to soften in medium term
- Exports to witness steady rise in near to medium term as player push to increase their global presence

### Outlook on Profitability

- Top line to witness healthy growth of around 8-9 per cent until FY15
- Natural rubber prices expected to rise in near term, though at a slower pace
- Prices for synthetic rubber expected to remain subdued in near term, influenced by softening in crude oil prices and slowdown in demand
- NTC Fabric prices to remain stable in the near term
- Softening in prices of key raw materials, a relief for tyre manufacturers in FY13...
- Operating margins to witness a marginal drop in FY14
- Investment of around Rs. 2,000 crore expected in next 2 years

## Section- II Industry Section

### Evolution

- Inception phase (1920 - 1935)
- Developmental phase (1935 - 1960)
- Restriction phase (1961 - 1991)
- Modernisation phase (1991 onwards)

### Tyre Basics

- Structure of the tyre
- Performance parameters of tyres
- Tyre manufacturing process
- Tyre technology

### Demand

- OEM demand shrunk considerably on sluggish automobile sales
- Strong demand for lighter vehicles drove domestic automobile sales during FY08-FY13
- Slowdown in the M&HCV segment pulls down the growth in T&B category in FY13
- Poor monsoons in last fiscal in key states considerably affected tractor tyre demand
- Healthy demand for SCV fuelled growth in OEM demand for LCV tyres

# Table of Contents

- Passenger cars & jeep category sales witness modest rise on account of high cost of ownership
- Two-wheeler tyre category bore the brunt of slowdown in FY13
- Strong rise in replacement demand fuelled growth in tyre sales in FY13
- Strong demand in the dominant T&B category drove the growth in replacement market
- Replacement demand for tractor tyres also witnessed healthy rise
- Huge addition in LCV population driving replacement demand
- Constant innovation in product technology fuelled growth in passenger vehicle (PV) sales in last one decade that in turn has led to huge pile up of PVs on road
- Replacement demand for two and three wheeler category tyres witnessed sharp drop in FY13
- Export market continues to provide cushion against volatile domestic market

## Supply

- Subdued automobile demand hit the tyre manufacturers in FY13
- Restriction on imports ensured better bargaining power with tyre manufacturers
- Imports witness a marginal decline in FY12
- Restriction on imports of TBR tyres curtailed the import value growth substantially in last fiscal
- Curb on TBR imports have pulled down the import realisation levels of Chinese tyres considerably

## Industry Segments

- Vehicle categories
  - Tyres for vehicles in commercial usage
  - Tyres for vehicles for personal usage
- Tyre markets
  - Original Equipment Manufacturers (OEMs)
  - Replacement Demand
  - Exports
- Tyre design
  - Cross-ply tyres
  - Radial tyres

## Cost Analysis

- Raw material prices continues to soften on account of subdued demand in FY13
  - Natural rubber
  - Styrene Butadiene Rubber (SBR)
  - Poly Butadiene Rubber (PBR)
- Employee cost likely to observe a rise in FY13
- Energy cost continues to remain stable
- Selling and Distribution (S&D) cost witness a decline
- Operating margins likely to improve in FY13

## Credit Profile

- Return on Capital observes a marginal rise in FY12
- Debt-Equity witness a marginal rise
- Working capital management

## SECTION- III Company Section

- MRF Limited
- CEAT Limited
- Apollo tyres Limited

## SECTION- IV Annexures

- Category wise Tyre Production
- Category wise Replacement Market off-takes
- Category wise Exports
- Category wise OEM off-takes
- Category wise Passenger Vehicle Production
- Category Wise MHCV and LCV Production
- Category Wise Two Wheelers and Three wheelers Production
- Category Wise Tractor Production

## List of Tables

## SECTION- I CARE Research's Outlook

### Outlook on Domestic market

- Cost economics for radial and cross-ply tyres

### Outlook on Profitability

- Key financial indicators

## SECTION- II Industry Section

### Demand

- Trend in OEM demand (T&B and LCV)
- Trend in OEM demand (Cars and Two wheelers)
- Trend in replacement demand (T&B,LCV and Tractor)
- Trend in replacement demand (Cars and Two wheelers)
- Category wise exports trend

### Supply

- Installed Capacity Trends (FY07-FY12)
- Key aggregates of the industry
- Trend in Automotive Tyres Imports
- Tyre importing countries to India

### Cost analysis

- Trend in Raw Material Cost as a % of net sales
- Trend in Natural Rubber production, consumption and exports
- Trend in domestic PBR production and consumption
- Trend in Employee cost as a % of net sales
- Trend in Energy cost as a % of net sales
- Trend Selling & distribution cost as a % of net sales
- Trend in operating margins (%)
- Tyre Industry:Aggregate financials (April-December)

### Credit Profile

- Key financial indicators

## List of Graphs SECTION- I CARE Research's Outlook

### Outlook on Domestic Two wheeler market

- Outlook of domestic tyre industry
- Expected rise in OEM demand
- Segment-wise estimated growth in lower tonnage tyre segment
- Segment-wise estimated growth in higher tonnage tyre segment
- Expected rise in replacement demand
- Segment-wise estimated growth in lower tonnage tyre segment
- Segment-wise estimated growth in higher tonnage tyre segment
- Trend in the estimated proportion of radial tyres in T&B segment
- Trend in radialisation in T&B segment across key global markets
- Estimated share of radial tyres in T&B OEM and replacement demand in unit terms
- Estimate rise in TBR capacity
- Estimates on breakeven point for the initial cost difference between radial and cross-ply
- Outlook on tyre imports
- Projected growth in tyre exports

### Outlook on Profitability

- Outlook on Sales, Volume and Realization
- Outlook on Natural Rubber Price\
- Outlook on Synthetic Rubber Prices
- Outlook on landed cost of NTC Fabric
- CARE Research estimates on movement in cost of key raw material for per unit of T&B tyre

## SECTION- II Industry Section

### Demand

- Trend in OEM demand
- Trend in heavy vehicles sales
- Trend in light vehicles sales
- Trend in replacement demand
- Trend in exports (Tonnage)
- Trend in exports (units)

### Supply

- Trend in utilization levels
- Trend in imports (in units)
- Trend in imports (in value)
- Trend in imports realization of Chinese Tyres

### Industry segments

- Segment wise share in commercial usage segment FY12
- Segment wise share in commercial usage segment FY13 -(April-December)
- Segment wise share in personal usage segment FY12
- Segment wise share in personal usage segment FY13 -(April-December)
- Share of OEM in total production for FY13
- Segment-wise share in OEMs unit production for FY13-(April-December)

# Table of Contents

- Segment-wise share in OEMs tonnage production for FY13-(April-December)
- Share replacement (in tonnage) for FY13-(April-December)
- Segment-wise share in replacement unit production for FY13-(April-December)
- Segment-wise share in replacement tonnage production for FY13-(April-December)
- Segment-wise share in exports for FY13 (in units)
- Segment-wise share in exports for FY13 (in tonnes)
- Proportion of cross-ply tyres in key segments (in tonnage) for FY13-(April-December)

## **Cost analysis**

- Consumption of raw materials in industry (MT)
- Annual trend in rubber prices
- Monthly trend in rubber prices

## **Credit Profile**

- Trend in return on capital employed
- Trend in fixed asset turnover
- Trend in debt equity and interest coverage ratio

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