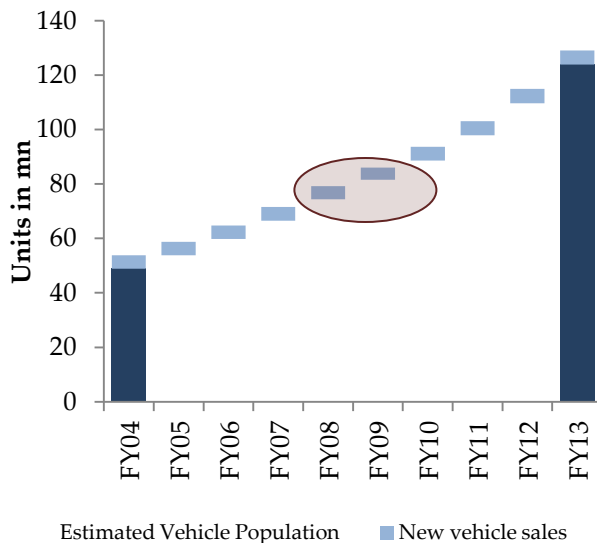


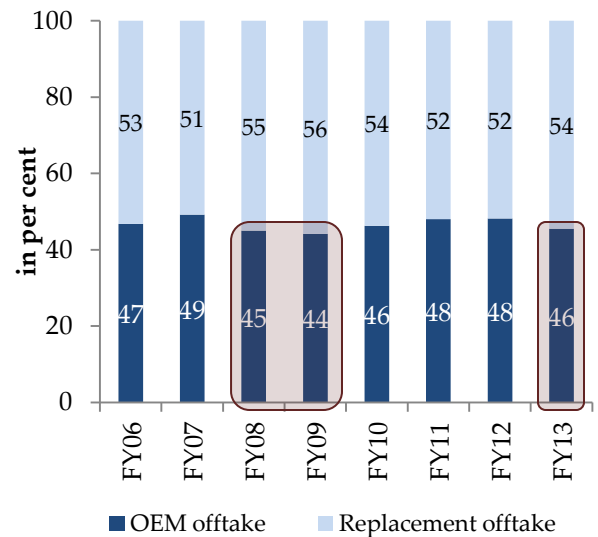
"Replacement demand to keep tyre rolling in near term"

Over the last one decade the automobile industry has gone through various structural changes that has driven automobile sales and in turn OEM demand for tyre industry. The emergence of small commercial vehicles (SCV's), growing demand of mid size cars and premium hatchback cars, recent emergence of small utility vehicles, growing popularity of gearless scooters are some of the key structural changes that triggered growth in their respective segments. On the other hand, growth in the replacement demand has been propelled by healthy rise in automobile sales during last 8-10 years barring FY08 and FY09 that has led to considerable increase in population of vehicles on road.

Trend in new vehicle sales and vehicle population



Trend in OEM & replacement offtake



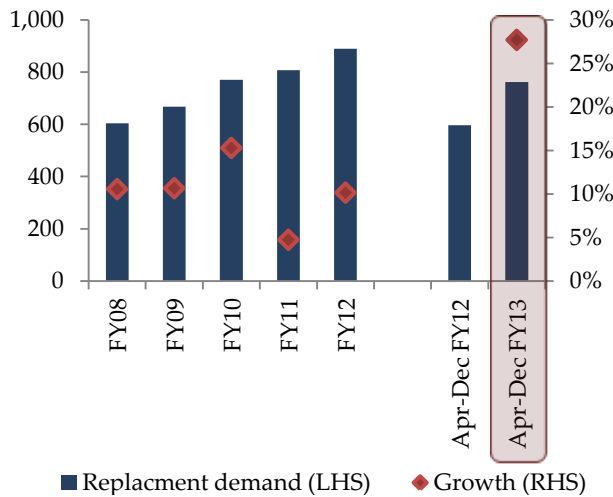
Source: CARE Research , SIAM & TMA
TMA: Tractors Manufacturers Association

Source: CARE Research and ATMA

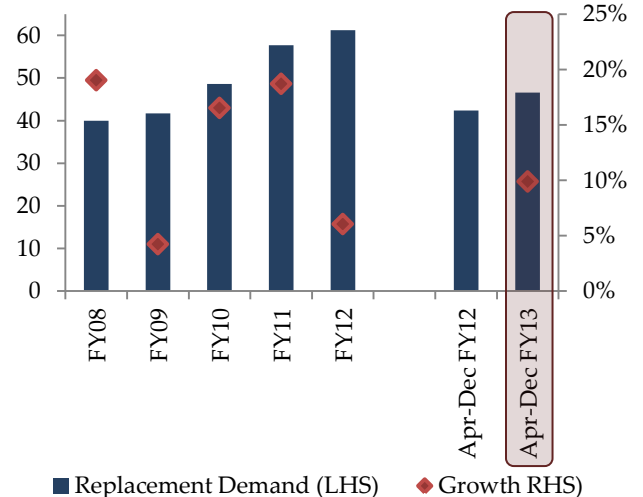
Healthy replacement demand kept industry afloat in FY13

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.

Trend in replacement demand (in 000's tonnes)



Trend in replacement offtake (Units in mn)



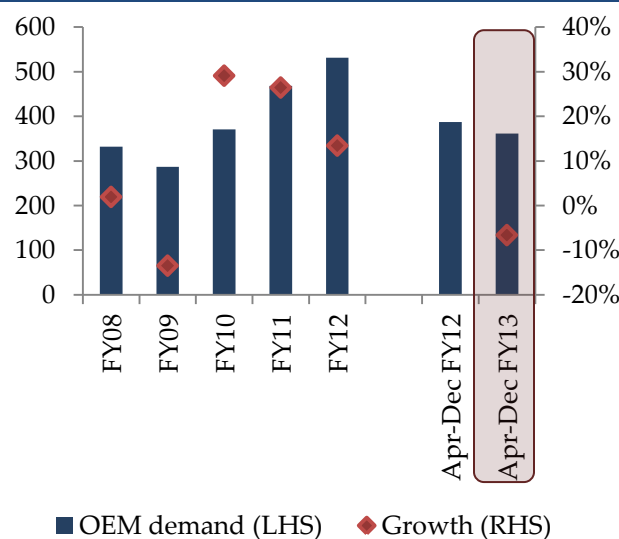
Source: CARE Research and ATMA

Source: CARE Research and ATMA

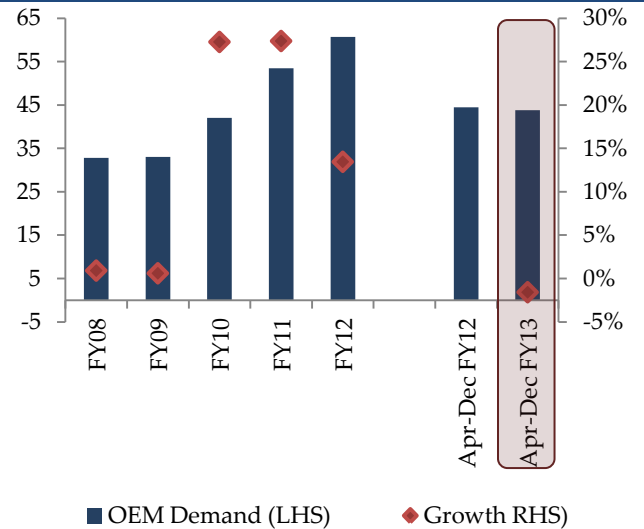
OEM demand shrunk considerably on sluggish automobile sales...

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.

Trend in OEM demand (in tonnes)



Trend in OEM offtake (Units in mn)



Source: CARE Research and ATMA

Source: CARE Research and ATMA

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

CARE Research foresees the OEM demand to increase at a moderate rate of around 6 per cent in unit terms. However, as the demand for higher tonnage T&B segment is expected to grow at lower pace, the growth in terms of tonnage is expected to be lower at around 4-5 per cent.

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 on vehicles on road during last one decade will continue to fuel replacement demand for tyres. CARE Research foresees replacement demand in FY14 to grow in a range of around 12 per cent in unit terms, whereas in tonnage the growth is expected to be around 14-15 per cent, suggesting higher rise in replacement demand.

India is among the least penetrated market for Truck & Bus radial (TBR) tyres in the world that enhances its growth potential

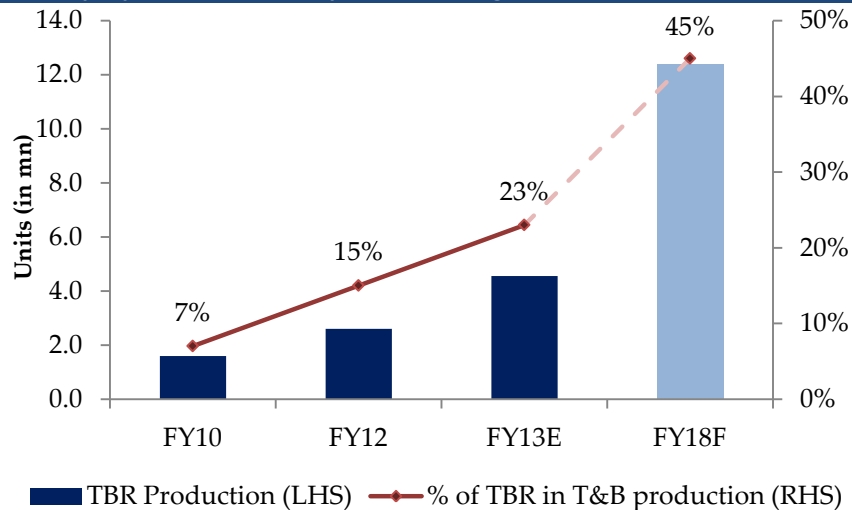
Even though the penetration of radial tyres has increased significantly in the domestic market, India continues to remain one of the least penetrated markets for these tyres in the world. For example even in some of the emerging economies from South America, Africa and Eastern Europe, the proportion of radial tyres is more than half in T&B segment, which indicates ample growth opportunities for the TBR tyre manufacturers in India. CARE Research believes TBR tyres have been able to garner significant share in the OEM demand, however, its share in replacement demand is considerably low.

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 estimates that the proportion of radial tyres in T&B tyre production to increase to around 45-48 per cent by FY18.

Trend in estimated proportion of radial tyres in T&B segment

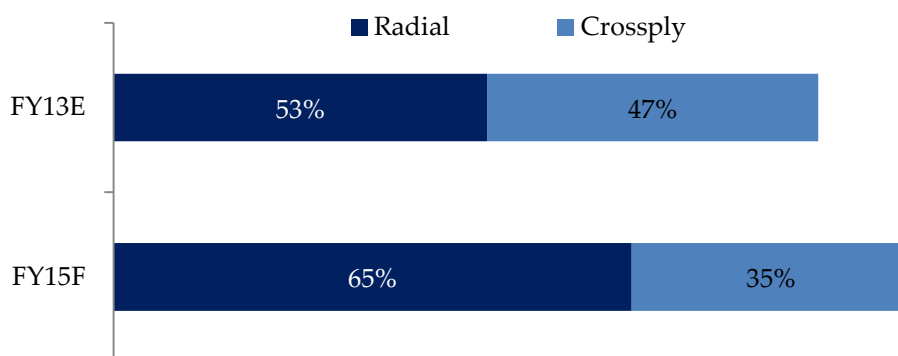


Source: Industry and CARE Research

...Strong demand from OEM segment has fuelled the growth in TBR tyres off-late

CARE Research has observed the rise in TBR market was led by strong growth in the OEM demand as M&HCV manufacturers have started preferring radial tyres over cross-ply ones owing to its inherent advantages. CARE Research foresees the OEM demand would continue to drive the TBR market in near term. The penetration of TBR in T&B OEM demand that was estimated to be around 53-55 per cent in FY13 is expected to increase to around 65 per cent by FY15. However, the replacement market which formed close to 3/4th of domestic demand in FY13 for T&B segment is critical for the growth of TBR tyres.

Estimated share in radial tyres in T&B OEM demand in unit terms

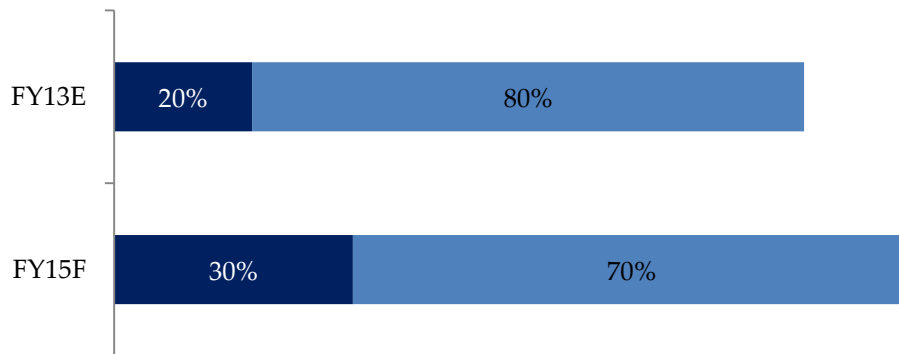


Source: ATMA & CARE Research

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

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 market which was estimated to be around 20 per cent in FY13, is expected to increase to 30 per cent in FY15.

Estimated share in radial tyres in T&B replacement demand in unit terms



Source: ATMA & CARE Research



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