By Sharad Matade

GROWING DEMAND FOR PASSENGER AND TWO-WHEELER TYRES

Speaking to Tyre Trends, ICRA Assistant Vice-President and Sector Head – Corporate Ratings Nithya Debbadi informed, "Passenger and two-wheeler tyre segments are expected to register mid to high single digit growth in FY2025, while commercial and farm segments are likely to witness low to mid-single digit growth."

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Which tyre segments will see major growth in FY2025?

The consumer-related segments are likely to outgrow the commercial segments in FY2025. High base effect and a brief pause in infrastructure activities amidst the model code of conduct (for Union elections) is expected to impact CV demand. While PV and two-wheeler tyre segments are expected to grow by mid to high single digits, commercial and farm segments are likely to witness low to mid-single digit growth.

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How will the Indian tyre industry perform in FY2024?

FY2024 continued to be favourable for the Indian tyre industry. The growth in domestic demand is estimated between six and eight percent supported by stable growth in OE and replacement segments. Although exports continued to witness some headwinds, the industry revenues are likely to grow by 5-7 percent YoY in FY2024, following two strong years of growth.

ICRA expects domestic OE tyre demand growth between four and seven percent, while replacement market, which represents nearly two-third of the industry, shall grow by 4-8 percent in FY2024 following a muted growth in FY2023.

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What factors led to the growth in FY2024?

Factors like increasing infrastructure activities and softening inflation continue to support the demand, although there were some headwinds from rural segment due to monsoon-related factors and uneven distribution of rainfall.

The industry players continued to invest towards capacity additions and modernisation of plants during the year. Following two strong years of growth and amidst an elevated base, the domestic automotive industry continued to grow in FY2024.

Improved economic activities owing to increasing capex and mining and construction activities supported commercial vehicle demand, launch of new models and better consumer aided passenger vehicle demand and favourable urban sentiments resulted in recovery of two-wheeler demand.

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Despite high raw material prices and deteriorating profitability, how did the industry's revival come about?

After a sharp contraction in FY2022 and H1 FY2023 owing to high raw material costs, the operating margins for the industry started recovering from H2 FY2023 with softening input costs.

Nithya Debbadi, ICRA Assistant Vice-President

In 9M FY2024, operating margins for the industry expanded by over 700 basis points year-over-year aided by contraction in natural rubber and crude oil prices. Besides, product mix has been improving with shift in demand towards bigger tyres also supported improvement in margins.

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How will the Ukraine war and Red Sea crisis impact the Indian tyre sector in FY2024?

Europe, one of the key export markets for India, faced energy crisis because of Russia-Ukraine war, which along with inflationary pressures, impacted the economic growth of the region and export demand for Indian tyres.

While export demand from Europe has started recovering on a sequential basis, export volumes are expected to remain low in the next few quarters. Indian tyre industry derives close to one-fourth of its revenues from exports and is also reliant on imports for key raw materials.

The Red-sea crisis resulted in sharp increase in freight costs, elongated transit times in certain routes, especially to Europe and certain parts of US, concerns on container availability and supply chain bottlenecks. Given the subdued export demand, the industry has limited flexibility to fully pass on the increased costs to customers.

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How will raw material prices impact margins and increase profitability in FY2025?

Natural rubber (NR) accounts for over 30 percent of the raw material mix, followed by carbon black (25 percent), synthetic rubber (20 percent), nylon tyre chord fabric (10 percent) and other rubber chemicals. Most of these inputs are derivatives of crude and hence their prices move in line with oil prices, albeit with a time lag, apart from their individual demand-supply dynamics.

Around 40 percent of NR requirements are imported. Accordingly, domestic NR prices are also affected by the movement in global prices, which are in turn influenced by oil prices owing to increased use of synthetic rubber in global markets.

Indian tyre industry's margins have been volatile in the past five years and are highly susceptible to raw material price fluctuations given the time lag in price hikes and high competition. ICRA expects crude oil prices to be range bound at USD 75-95 per barrel in the near-term following OPEC+ announcement to extend its production cuts amid tepid Chinese demand and elevated production in the US.

ICRA expects the operating margins between 12 and 15 percent in FY2025, although it will remain dependent on any large movement in raw material prices.

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How has the ban on Chinese tyres impacted India's tyre industry?

In the past few years, tyre imports were affected by regulatory developments including reimposition of anti-dumping duty (ADD) in September 2017, increase in customs duty and imposition of countervailing duty on Chinese truck and bus radial (TBR) tyres.

In June 2020, the Director General of Foreign Trade (DGFT) placed all categories of tyres imported under the restricted category, thus necessitating DGFT permission for all tyre imports.

Tyre imports declined to 1.8 million units in FY2023 from 10.5 million units in FY2019. In value terms, tyre imports stood at INR 21 billion in FY2023 vs INR 30 billion in FY2019. The ADD on Chinese TBR tyres was withdrawn in December 2022, which supported recovery in import volumes in 9M FY2024 to 1.6 million units (15 percent YoY growth). However, import volumes continue to remain low and cater to only a small share of the industry (<5 percent in volumes and value).