PRESS RELEASE

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Domestic tyre volume to grow by 4-6% for FY2025: ICRA

- ***Industry revenues to rise by 5-7% in current fiscal, despite which operating margins are likely to contract by 200-300 bps due to rise in input costs***
- ***Consumer segments and replacement demand to support domestic demand growth while tyre exports to remain subdued***
- ***Tyre industry to invest more towards debottlenecking, process improvements, and R&D activities***

Domestic tyre volume growth is expected to moderate to 4-6% in FY2025 from an estimated 6-8% in FY2024 on the back of elevated base and subdued growth in the commercial vehicle (CV) segment, according to ICRA. However, ICRA anticipates domestic demand from original equipment manufacturers (OEMs) in certain consumer segments like passenger vehicles (PV) and two-wheeler (2W) as well as replacement to remain healthy, supporting overall tyre volume expansion in FY2025. While revenues would expand by 5-7% in FY2025, high natural rubber (NR) prices and increasing crude prices are likely to moderate the tyre industry's margins by 200-300 bps in FY2025.

Ms. Nithya Debbadi, Assistant Vice President and Sector Head, ICRA said: "*Tyre exports are expected to remain moderate in the near term because of muted demand growth in key export destinations, namely the US and Europe. Further, supply chain issues arising from the Red Sea crisis have raised freight costs (resulting in increased cost of tyre) and elongated transit times. In terms of domestic factors, despite an elevated base, consumer segments are expected to record a mid-single digit growth (PV at 4-6%, 2Ws at 5-7%), on the back of healthy underlying demand. However, growth in the CV segment is expected to be impacted by the brief pause in infrastructure activities because of the Parliamentary Elections, with the Model Code of Conduct, which is in force because of the Parliamentary elections, and the impact of high base. Tractor demand growth is expected to be supported by the forecast of above normal monsoons, aiding rural cash flows.*"

ICRA expects the replacement market, which contributes to over two-thirds of the industry volumes, to remain stable, aided by healthy demand across the segments. Tyre export volumes, which contribute approximately 25% of industry's sales (by value), are estimated to have recorded a low single digit growth in FY2024 after contracting by ~7% in FY2023, owing to demand shrinkage in key markets amid inflationary pressure and higher interest rates.

"*After a strong growth in two consecutive years, the tyre industry's revenue growth (consolidated for ICRA's sample set of seven leading tyre manufacturers) is estimated to have moderated to mid-single digits in FY2024 with estimated domestic volume growth of 6-8%, flattish realisations and subdued exports. For FY2025, the industry revenues are expected to grow by 5-7%, primarily driven by domestic OEM and replacement segments,*" added **Ms Debbadi**

ICRA estimates the tyre industry's operating margins to have expanded to 15-17% in FY2024, primarily on the back of softening in prices of key raw materials such as NR, and crude derivates, including synthetic rubber, carbon black, and caprolactam for a large part of the year. However, input costs have been on an upward trend since January 2024. International NR prices have increased by 25-30% in the past four months, trading currently at ~Rs. 185-186 per kg (RSS3 grade) owing to global supply shortage amid adverse weather conditions in key NR-producing nations in South-east Asia. Given India's reliance on imported NR, domestic NR prices have also increased significantly in the past few months, trading at ~Rs. 180 per kg. High NR prices and increasing crude prices are likely to moderate the tyre industry's margins by 200-300 bps in FY2025.

Investments in supply addition are expected to be moderate as adequate headroom is available in the existing capacities (i.e., industry's capacity utilisation levels is estimated at 75–85%[i] in FY2024) and demand growth is forecast to remain modest for the near term. However, the industry is expected to continue to focus on debottlenecking, process improvement initiatives, digitalisation, and research and development (R&D) towards the production of sustainable tyres of superior quality (in terms of lower rolling resistance/noise) and smart tyres to improve safety.

With rising awareness on environmental impact and to meet the regulatory needs, the industry players are also entering into the retreading segment. ICRA expects organised tyre retreading to grow at a CAGR of 7-9% during FY2023-FY2026 with increasing focus on sustainable products, improving the tyre and retreading technology, better road infrastructure, rising radialisation in the CV segment, and the Government's thrust towards sustainable ways of waste tyre disposal.

On the capex front, the tyre industry is expected to continue to invest 6-9% of its revenues in FY2025. The industry's credit metrics are expected to be comfortable on the back of healthy earnings, despite the expected moderation, and moderate capital expenditure plans.

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[i] *For four of the seven listed entities which account for 50-55% of industry's revenues*

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