

INDIAN TYRE INDUSTRY

Industry revenues and earnings contract in Q1 FY2022 (QoQ); nevertheless demand outlook remains favourable

SEPTEMBER 2021

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2 Update on Q1 FY22 performance



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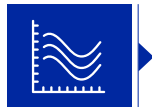
6 Company profile



Second wave of Covid-19 had moderate impact on the domestic tyre industry. For Q1 FY2022, the industry revenues contracted by 11.4% (QoQ) due to the Covid-led temporary sluggishness in demand, while the YoY growth is optically high.

In line with expectations, profit margins during the quarter was affected by commodity inflation and shall continue to contract in Q2 FY2022 as well.

Industry re-enters capex phase with favourable demand outlook supported by healthy accrual position of industry players



- For Q1 FY2022, tyre demand contracted by ~17% QoQ with OE and replacement segments declining by 33% and 6% respectively due to the second wave of Covid. The YoY demand growth however is optically higher (by 174%) due to low base. With fall in demand, industry revenues fell by 11.4% QoQ which coupled with 370 bps contraction in margins impacted the overall earnings.
- Nevertheless, pandemic impact remains relatively less in comparison to other auto components as the demand skew towards the replacement segment is higher in tyres (~55-60% in units and over 65% in tonnage) against sub-30% in most other auto components.
- In line with our earlier estimates, domestic tyre demand is likely to grow by 13-15% (units) YoY in FY2022 supported by strong growth recovery in OE and replacement segments.
- Tyre exports have been strong in recent quarters (up 9% in Q1 FY2022 QoQ) led by growth in agri and construction sectors. Export prospects remain healthy with increased acceptance for Indian tyres globally.
- Tyre imports fell by ~76% and 50% respectively in volume and value terms in FY2021 following the restriction placed in June 2020 by the Director General of Foreign Trade (DGFT) on all categories of tyres imported under the restricted category. Imports remain low in Q1FY2022 as well.
- With increase in natural rubber and other crude derivatives, margins corrected sharply (370 bps QoQ) in Q1 FY2022. As rubber prices continue to remain at elevated levels, industry margins will remain impacted in the next 1-2 quarters.
- With improving domestic and export demand, capex executions have resumed in the last few months after a hiatus. Based on projected demand growth, we estimate capital investment of over ~Rs. 20,000 crore during FY2022-25.



ICRA Analytical Contact Details



Shamsher Dewan

Vice-President

K Srikumar

Vice-President

Nithya Debbadi

Assistant Vice-President



shamsherd@icraindia.com

ksrikumar@icraindia.com

Nithya.debbadi@icraindia.com



0124- 4545 328

044 – 4596 4318

040 – 4067 6515





ICRA

Business Development/Media Contact Details



L. Shivakumar

Executive Vice-President

Jayanta Chatterjee

Executive Vice-President

Naznin Prodhani

Head Media & Communications



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022- 6114 3406

080 – 4332 6401

0124 – 4545 860





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