ICRA

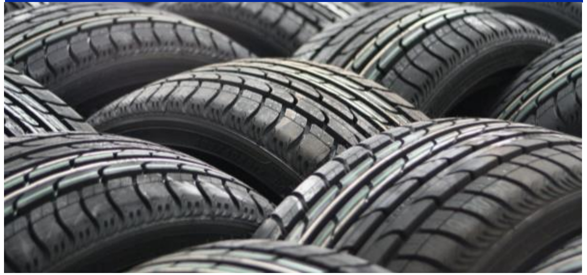
INDIAN TYRE INDUSTRY

Pace of supply addition to moderate amidst weak export demand and muted replacement volumes

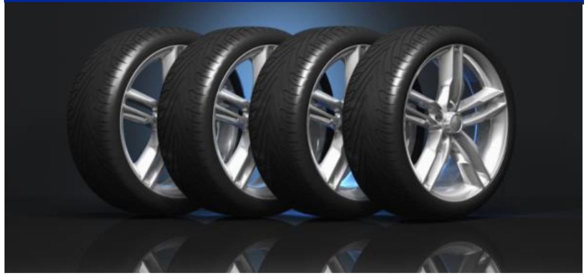
June 2023

Agenda

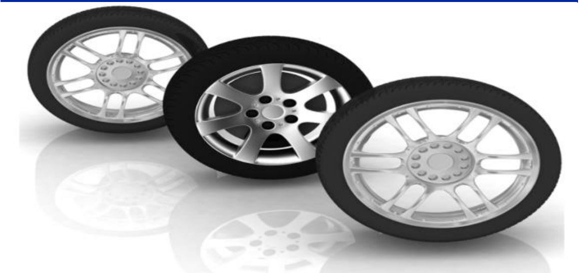
1 Tyre demand



2 Trend in exports and imports



3 Tyre supply



4 Raw material price trends

5 Quarterly financial performance

6 Financial forecasts

Agenda

7 **Peer comparison**

Highlights

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Domestic tyre demand is expected to grow at 6-8% in FY2024 driven by healthy OE demand while growth in replacement volumes is expected to be muted.

Tyre exports, after recording a strong growth in FY2022 and Q1 FY2023, contracted since Q2 FY2023 on account of muted demand in key export destinations. Export demand is expected to be affected in the next two quarters.

Given the subdued environment, ICRA expects the pace of capacity additions to moderate in the current fiscal.

- Domestic tyre demand is estimated to grow at 6-8% in FY2024 driven by healthy OE demand. Easing concerns on semiconductor shortage issues, recovery in two-wheeler (2W) volumes, and steady passenger vehicle (PV) and commercial vehicle (CV) demand is expected to support OE demand growth in FY2024, while growth in replacement volumes is expected to be muted on account of elevated prices.
- Industry revenues witnessed a muted growth of 2% on QoQ basis in Q4 FY2023, although Q4 has historically been a strong quarter for industry, on account of contraction in export volumes and muted growth in replacement volumes. Moreover, realisations were flattish as input costs eased in the past two quarters. In FY2023, revenues grew by 19.5% on the back higher realisations and strong growth in OE volumes.
- ICRA expects revenue growth for its sample set of seven major tyre manufacturers to moderate to 5-7% in FY2024 (against 19.5% in FY2023). Revenue growth would be driven by volumes while realisations are expected to remain flat. Weak exports would be a drag on revenue growth.
- Tyre exports, which were strong till Q1 FY2023, contracted sequentially since June-2022 on account of macro-economic headwinds impacting demand in the key export destinations. Export volumes declined by ~7% in FY2023 and are expected to remain muted in the near term.
- Tyre imports declined by ~31% in FY2023 in volume impacted by the Government restrictions. While ADD on Chinese TBR Tyres has been withdrawn in December 2022, tyre imports are expected to remain low till March; however, the same will be a key monitorable in the current fiscal.
- Margins started to recover in H2 FY2023 given the moderation in natural rubber and crude oil prices since July 2022. Margins are expected to expand by 100-300 bps in FY2024 with expectation of range-bound input prices. However, unfavourable revenue mix could limit the improvement to an extent.
- New capacity expansion plans are expected to take a pause on account of weak global demand and muted growth in replacements along with headroom in available capacities.

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Thank You!