ICRA

COVID-19

Commodity prices to shield margins, despite demand contraction

INDIAN TYRE INDUSTRY
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COVID-19: IMPACT ANALYSIS

Impact on domestic tyre demand

- Over the last one year, the Indian tyre industry has been affected by the downturn in automotive demand amidst slowing economic growth, subdued rural output, weak consumer sentiments, rise in total cost of vehicle ownership, adverse lending environment, etc. Vehicle production levels are currently at multi-year lows declining by over 13% during 11m FY2020 and this has sharply affected the original equipment (OE) tyre demand. In this background, the rapid and widespread outbreak of coronavirus and the subsequent 21-day lockdown is an incremental headwind for the industry and shall impact tyre demand over the next two quarters.
- Tyre majors have announced suspension of operations at plants across the country during this period and with the pandemic, there are uncertainties over timely resumption of production, availability of labour, preparedness of dealer network and supply chain etc. While these uncertainties are common for all manufacturing-oriented industries, the impact of COVID-19 linked contraction in OEM auto demand is expected to be buffered by the high replacement exposure of the industry (~67% in tonnage and 57% in volumes during FY2020e). Specifically, in product segments like truck and bus (T&B) and light commercial vehicles (LCV), the replacement share is much higher at ~80% and 66% respectively.

Exhibit 1: Indian tyre industry – Revenue mix (FY 2020e)

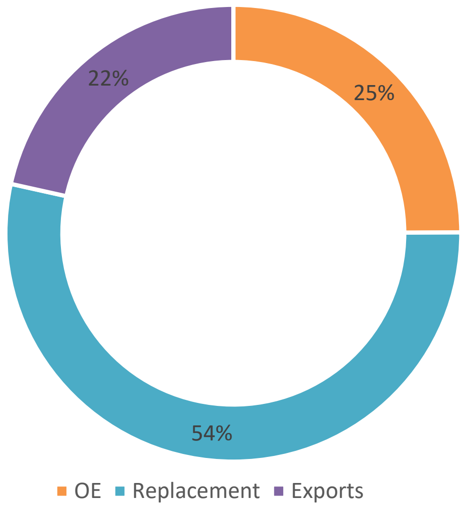
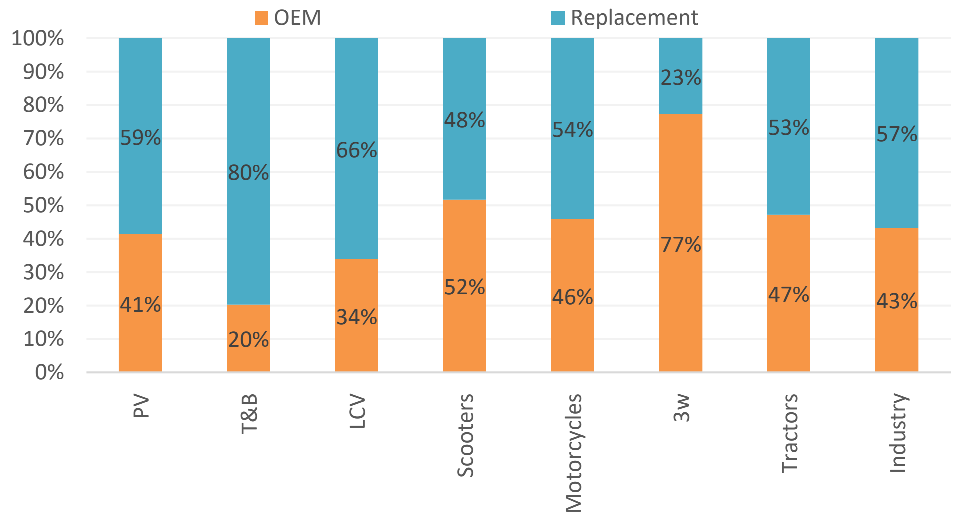


Exhibit 2: Indian tyre industry – Product wise OE-Replacement mix (FY 2020e)



Source: ATMA, ICRA research

Impact on tyre exports and imports

- **Exports** represent nearly one-fifth of industry revenues and has been growing at a healthy rate of 14% in the last three years (CAGR ending FY2019) aided by favourable overseas demand.
- Over 55% of exports (value) is derived from agri-construction tyre segment. With slowing economic growth in key overseas markets, total tyre exports from India flatlined (up 1.7%) during 10m FY2020.
- Indian tyres are exported to over 175 countries and the risk of geographical concentration is moderate with exports to top ten countries at less than 50% of total exports. USA, Germany, France, Bangladesh and Indonesia are the top five destinations in this period accounting for one-third of total tyre exports (in values) from India.
- Due to the COVID-19 impact, tyre exports shall be affected amidst recessionary trends in many geographies on the back of rapid spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices etc.

- On **tyre imports**, the imports' share of tyre demand is currently low at 5-6% although imports have affected individual product segments like truck and bus radial (TBR) in the past. But, post the imposition of ADD and customs duty on TBR tyre imports from China, there has been a decline in tyre import in the last two and half years. In the current fiscal, tyre imports declined by ~16% in volume and ~12% in value terms (10M FY2020) due to falling demand in the domestic market.
- India imports tyres from >65 countries of which Thailand accounts from ~26%. China's share of tyre imports have declined from 51% in FY2017 to 21% in FY2019 due to declining TBR tyre imports.
- COVID-19 impact on imports is minimal as the overall import share of domestic demand is only 6% in volume terms and 5% in value terms. Segment-wise, tyre imports in the PV segment alone is higher at ~15% while in all other segments, the import share of demand is in single digits. Amidst softening tyre demand and adequate domestic capacities available, this event is unlikely to cause any threat to the domestic demand.

Exhibit 3: Country wise tyre exports (value based) for 10M FY2020

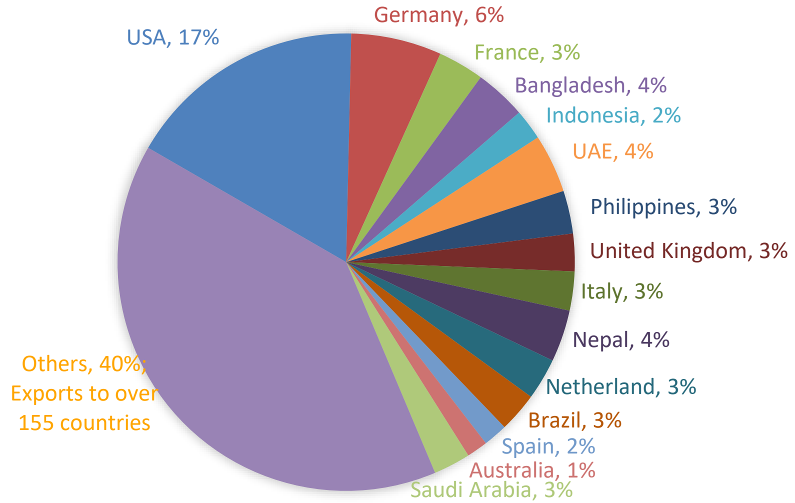
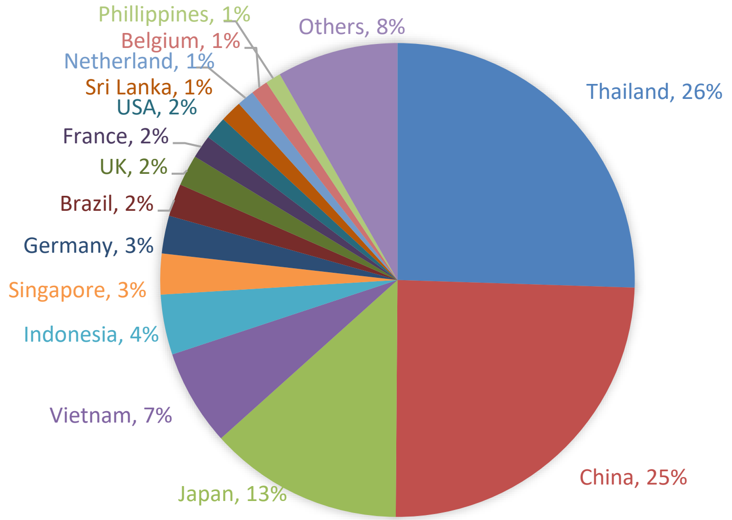


Exhibit 4: Country wise tyre imports (value based) for 10M FY2020

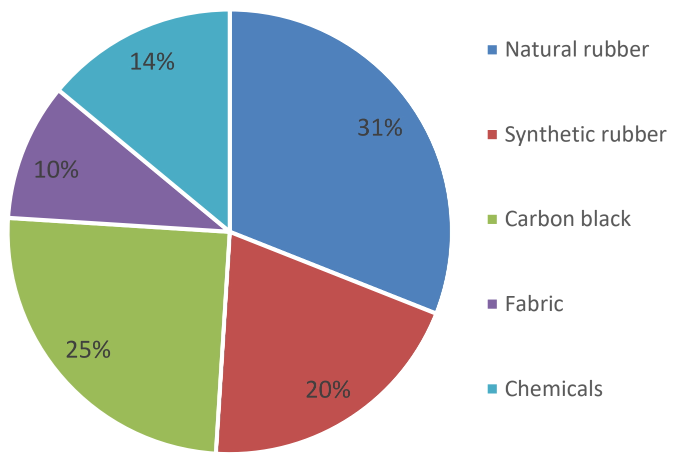


Source: Department of Commerce, ICRA research

Softer input prices a positive amidst weak demand scenario

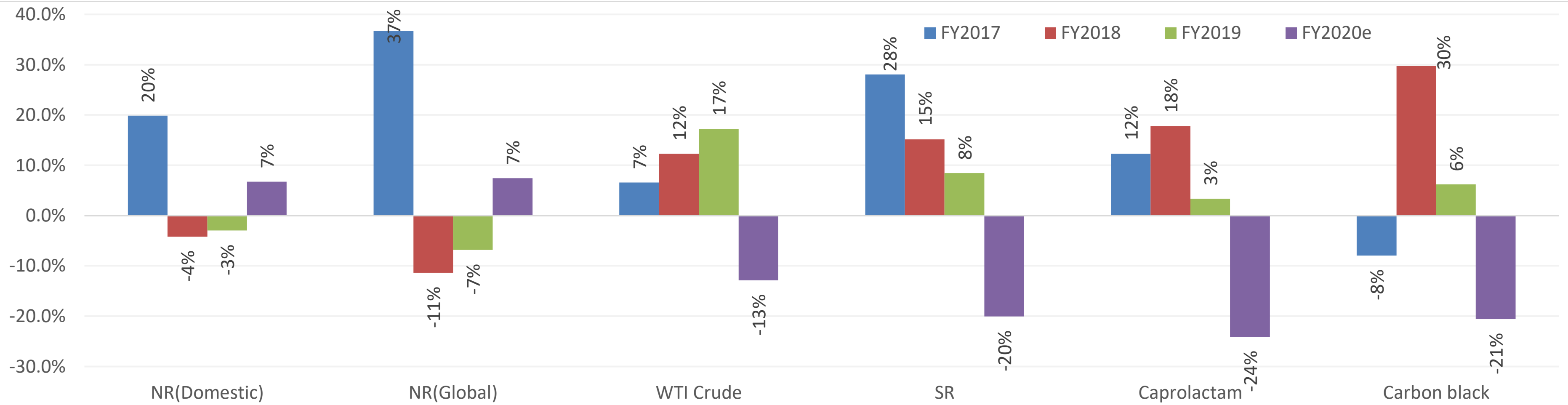
- Natural rubber (NR) and crude derivatives like synthetic rubber (SR), carbon black (CB), nylon tyre chord fabric (NTCF) and other rubber chemicals are key raw materials (RM) for tyre manufacturing.
- NR constitutes the largest share of input mix at over 30% (in volumes). During 9M FY2020, over 63% of demand was met through domestic production while the balance imports are from Thailand, Indonesia etc. Due to COVID-19, tapping would be temporarily affected across key rubber producing nations. While the impact is not likely to be significant as the industry holds over three months of stock on an average, tapping disruption over a longer period can be a concern.
- SR is a crude-linked input and constitutes ~20% of RM composition in the manufacture of tyres. Over 65% of total SR consumption in met through imports from Korea, Singapore, Japan etc. and the stock holding is less than two months.
- CB demand is largely catered by domestic production with addition of new capacities in recent years. Import dependence is relatively high in chord fabric and rubber chemicals.
- Barring NR, the prices of other RMs have declined by over 20% in FY2020e with sharp fall in oil prices in. Amidst sever demand headwinds, lower input prices is a key positive.

Exhibit 5: Raw material mix (volume-based estimates)



Source: ICRA research

Exhibit 6: Price movement trends of key inputs



Source: Rubber Board, Bloomberg, ICRA research

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