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INDIAN TYRE INDUSTRY

Earnings expected to remain under pressure given the input cost inflation

June 2022

Agenda

1 Trend in quarterly performance

2 Tyre demand

3 Trend in exports and imports

4 Tyre supply

5 Raw material price trends

6 Financial forecasts

Highlights

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Domestic tyre demand growth was subdued in H2 FY2022 as high base and weak rural sentiments impacted tyre volumes. Exports, however, continue to witness robust growth. Despite weak demand, the tyre industry's revenues grew by ~12.7% YoY in Q4 FY2022, largely supported by growth in exports and realisations. For FY2022, the industry revenue growth was strong at ~26%.

Profit margins during the quarter were affected by commodity inflation and shall remain under pressure over the next two quarters.

- Tyre demand recovered in FY2022 with estimated growth of 11-13%. However, OE and replacement volumes remained subdued in H2 FY2022 on account of weak rural sentiments, impact of semiconductor shortage on PV production and subdued demand for 2Ws. The growth was also stunted by a higher base of H2 FY2021, which witnessed pent-up demand.
- Industry revenues continued to breach all-time high levels in Q4 FY2022, driven by the growth in export volumes and higher realisations. Nevertheless, operating margins contracted by over 600 bps in FY2022 due to unprecedented commodity price inflation.
- Domestic tyre demand is likely to grow at a CAGR of 6-8% (units) YoY in FY2023-25 driven by healthy recovery in OE demand and stable replacement volumes.
- Tyre exports have been strong in the last four quarters with FY2022 recording the highest exports (in value), led by growth in PV tyres. Export prospects remain healthy with increased acceptance for Indian tyres globally.
- Tyre imports increased by ~26% in FY2022 in volume, albeit on a low base. Tyre imports have been impacted by the restriction placed in June 2020 by the Director General of Foreign Trade (DGFT) on all categories of tyres imported under the restricted category.
- With the price increase in natural rubber and other crude derivatives, margins corrected sharply (over 600 bps) in FY2022. Given the impact of the Russia-Ukraine conflict on prices of crude oil and its derivatives, industry margins will remain under pressure in the next couple of quarters.
- With improving domestic and export demand, capex executions have resumed in the last few quarters after a hiatus. However, ICRA expects tyre players to adopt a wait-and-watch strategy towards new capex announcements, given the pressure on earnings.

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Thank You!