



INDIAN TYRE INDUSTRY ANALYSIS

January - 2024



The Indian Tyre Industry is an integral part of the Auto Sector. It is manufactured from natural rubber, synthetic rubber, fabric, steel wires, carbon black, and some more compounds. There is a rise in the demand for tyres due to the growing production of automobiles. This, along with the increasing export activities of vehicles, such as tractors, buses, heavy trucks, and cars, represents one of the key factors supporting the growth of the market in India. The tyre industry in India has the potential to become a global leader in Indian manufacturing, especially with the current search for alternatives to China due to geo-political tensions. The industry exemplifies the Make in India initiative, having achieved self-reliance and emerging as a major exporter of tyres to over 170 countries, including the U.S. and Europe as evidenced by the rising demand for Indian-made tyres. India is among the leading tyre manufacturers globally. Apart from conventional radial and bias tyres, the industry offers advanced smart, noise-reduction, puncture-proof and electric vehicle versions. It is also expanding presence in the premium and luxury tyre segments, which are dominated by imports.

GLOBAL TYRE INDUSTRY

China dominates the global tyre market, making up around 50% of the sector, followed by Europe, US, India and Japan. India's tyre business has showed strong resilience and is anticipated to develop at 7-9% from 2020 to 2024 and overtake U.S. to become the third-largest market worldwide. The last seventy years have been characterized by rising population levels, urbanization and increasing disposable income. Greater consumer purchasing power has fueled demand for cars, which in turn has driven steady growth in the global tyre market. The global tyre market size reached 2,321.3 million Units in 2022. Looking forward, it is expected that market will reach 2,741.2 million Units by 2028. Key trends and drivers for the global tyre industry over the coming years include:

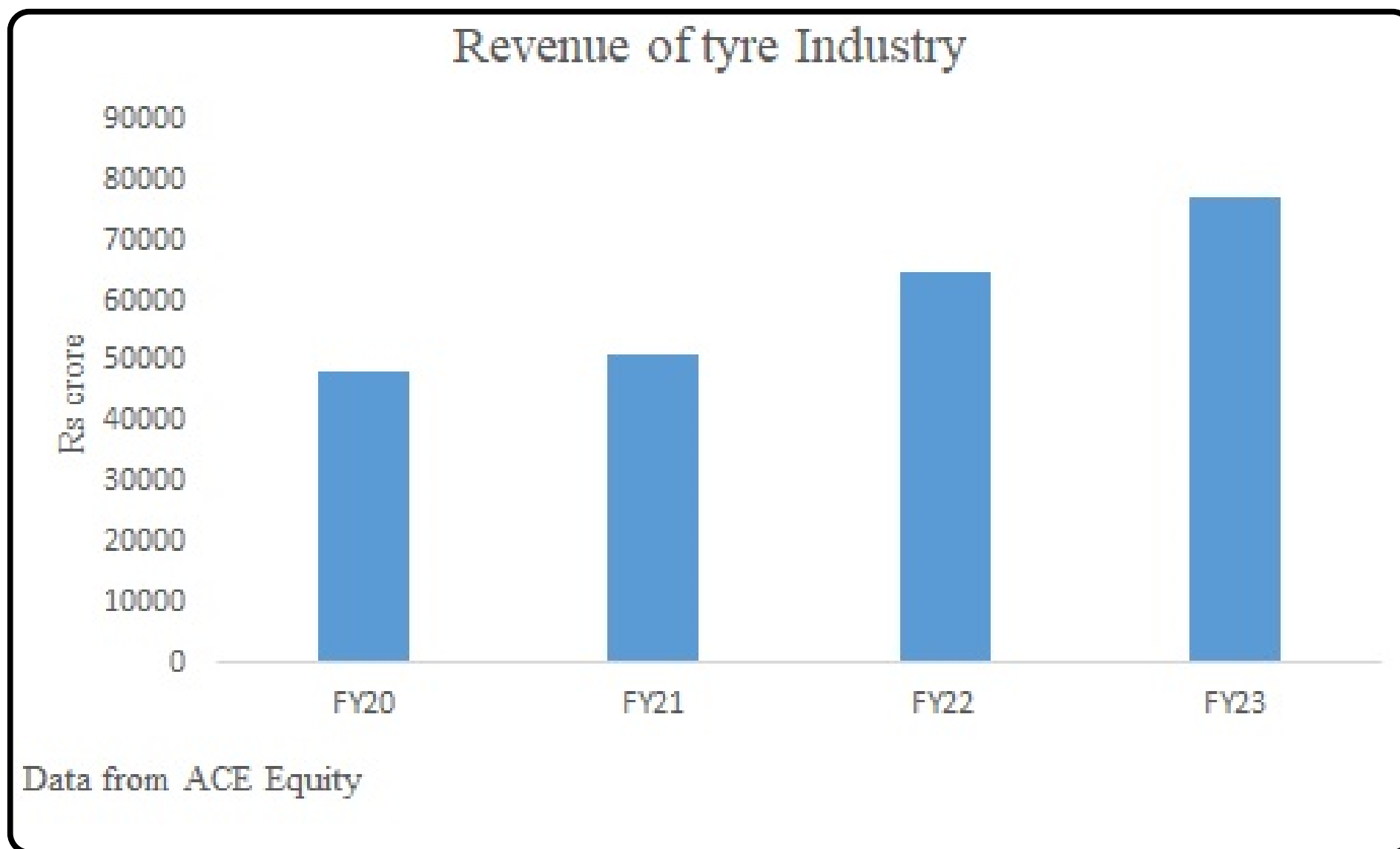
- Increasing sales of passenger, luxury, and electric vehicles (EVs) on account of rapid urbanization and expanding purchasing power of individuals represent one of the major factors positively influencing the demand for tyres around the world.
- Rising focus on driver and passenger safety and the growing number of fatal road accidents are catalyzing the demand for premium quality tyres that have a longer operational life, enhanced stability and reliability, and high puncture resistance.
- Replacement demand is supported by a wide variety of growing end uses.
- Transport and tyre regulations will continue to drive innovation and technology adoption.
- Adaption and evolution of tyres and related services to better meet end-use requirements such as fuel efficient, performance durability, and intelligence/data/predictive analytics will accelerate.
- Focus on sustainability across the lifecycle, from raw materials to recycling. Greater automation and efficiency in production, pursuit of zero waste and defects.

TYRE DEMAND IN INDIA LIKELY TO GROW IN COMING FUTURE

India's tyre demand is expected to continue grow in coming future due to replacement and the needs of original equipment manufacturers (OEM). The tyre industry derives around 60 percent of its volume from the replacement market, around 30 percent from original equipment manufacturers (OEMs), and approximately 10 percent from exports. Replacement demand of tyre is likely to increase in coming time, primarily from the commercial vehicle (CV) segment. This follows continuing investments in infrastructure and enhanced bus fleet utilisation with workplaces seeing more people returning to office after the pandemic. Replacement demand will also find traction from high on-road stock of passenger vehicles (PVs) and two-wheelers. Easing of supply-related headwinds, preference for personal mobility, and rising disposable income of consumers are likely to support passenger vehicle (PV) demand.

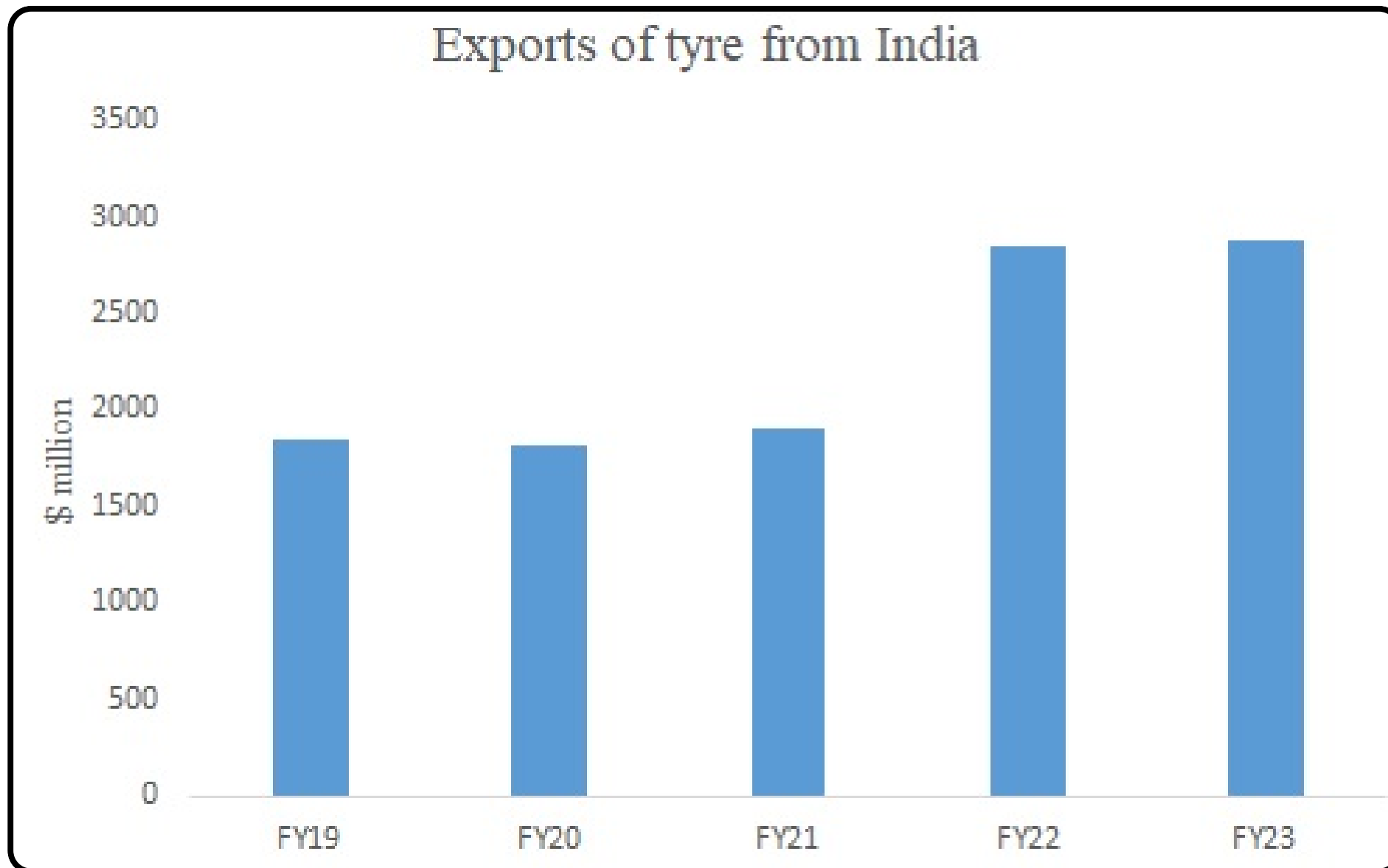
REVENUE OF INDUSTRY

Revenue of Indian tyre industry is expected to more than double in a decade from \$9 billion in 2022 to \$22 billion in 2032. The higher revenue forecast is due to increasing demand for vehicles and government's continuous focus on investing in infrastructure. India is among the leading tyre manufacturers globally. Apart from conventional radial and bias tyres, the industry offers advanced smart, noise-reduction, puncture-proof and electric vehicle versions. It is also expanding presence in the premium and luxury tyre segments, which are dominated by imports. Revenue of tyre industry (seven listed companies such as Balkrishna Industries, Ceat, Goodyear India, JK Tyre, Apollo Tyres, MRF and TVS Srichakra) rose by around 19 percent to Rs 77024.74 crore in financial year 2023 (FY23) as compared to Rs 64716.12 crore in FY22.



EXPORTS OF TYRE FROM INDIA

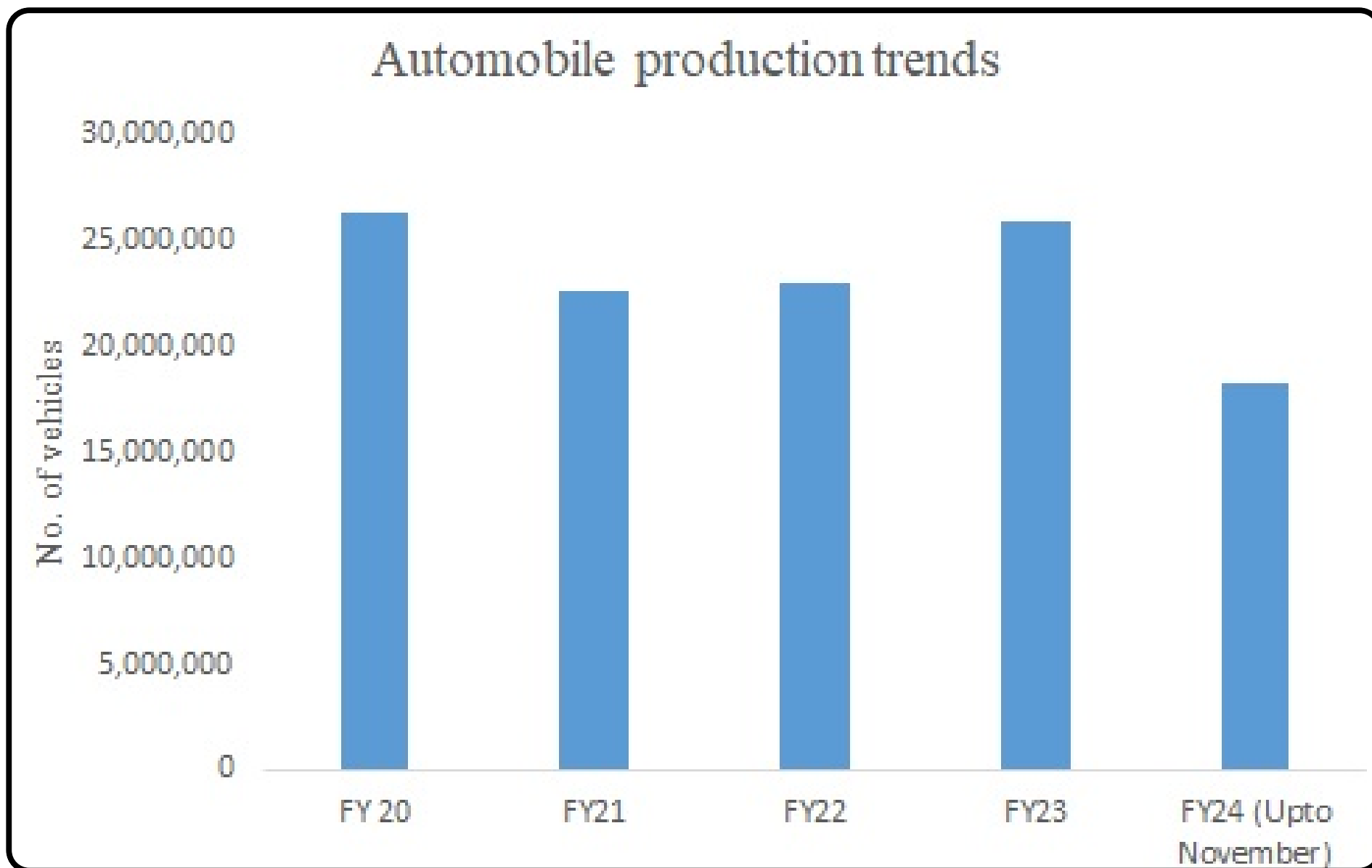
Exports of tyre from India are expected to rise in coming future. Tyre exports from India during the FY23 rose by over 1.50 percent at \$2884 million as against \$2841 million in the year-ago period. Recessionary conditions in some countries, rising interest rates, political turmoil and slowing of external demand affected growth momentum of Indian tyre exports. However, tyre exports from India went up by 49 percent in FY22 as compared to FY21. Tyres manufactured in India are being exported to over 170 countries including some of the most discerning markets in North America and Europe. The U.S. continues to be the largest market for Indian tyres.



Positive for the industry

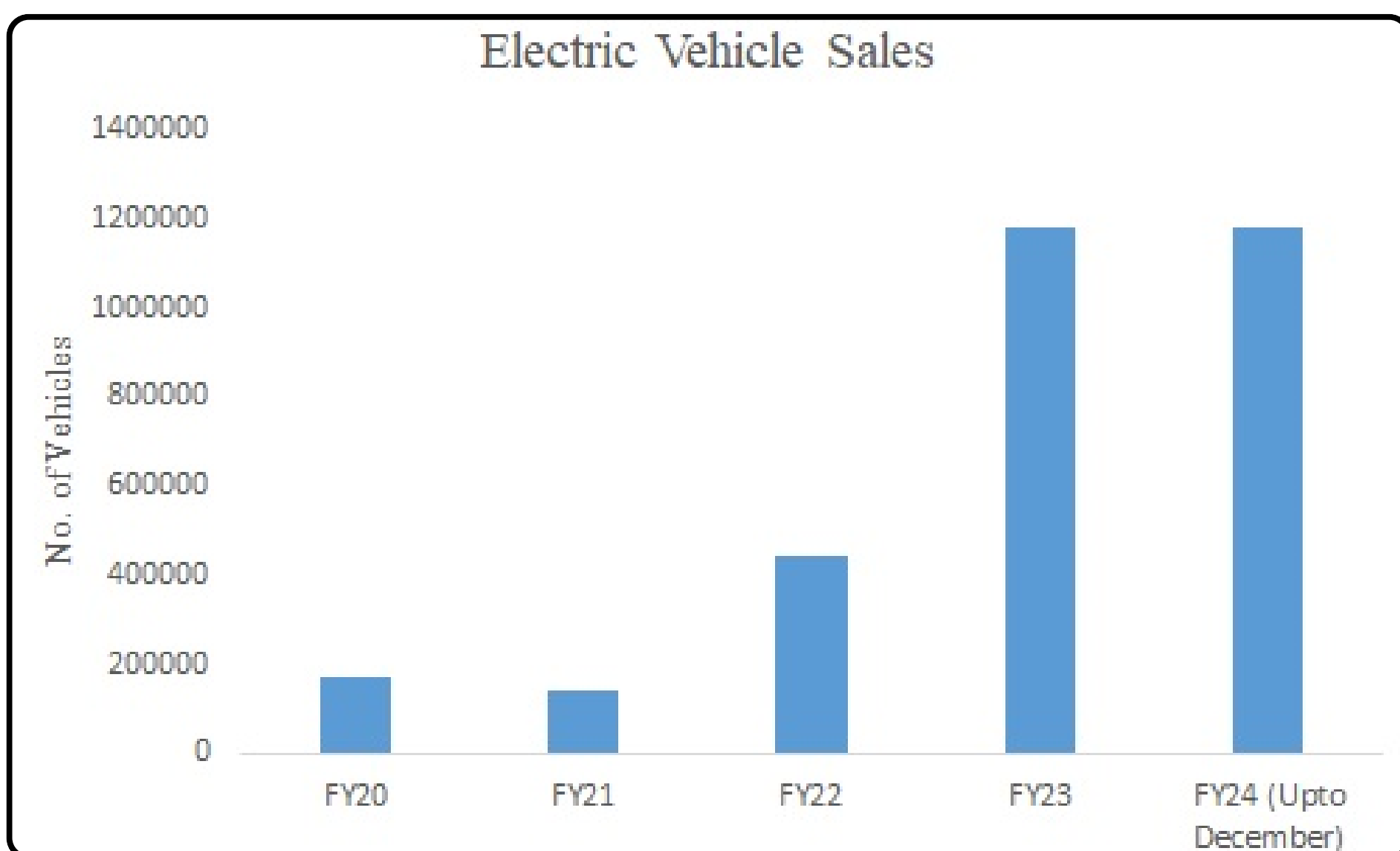
- **Rising automobile demand to drive tyre industry's growth into high-speed lane:**

Demand for tyres in the domestic market is expected to remain robust going ahead as the automobile industry continues to scale new highs amid a positive economic environment. Robust Gross Domestic Product (GDP) growth and the government's focus on infrastructure development are likely to fuel growth for the automobile sector as well as the tyre industry. Rising economic growth and more disposable income are helping in the enhanced offtake of cars. More and more people are now looking to travel by road as various high quality roads have come up in the last five years. This is going to open new venues of usage of cars in particular.



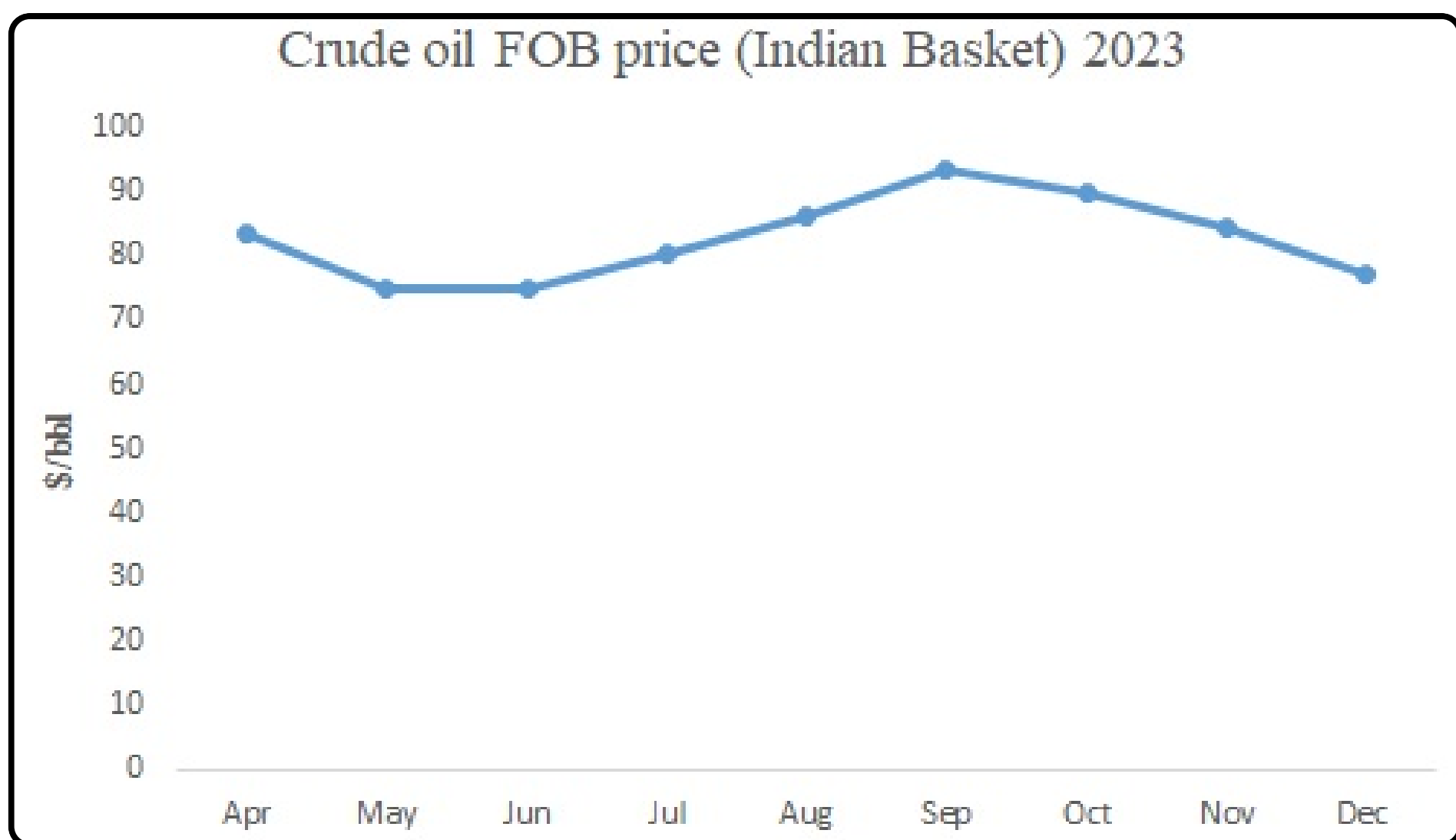
- **Rising uses of electric vehicles:**

Electric vehicles (EVs) are changing the face of the tyre industry. One of the most impactful ways that EVs are impacting the tyre industry is by increasing demand for tyres. With the demand for electric vehicles on the rise, there is an increased need for specialized tyres. Consider that electric vehicles tend to be built wider than traditional car tyres as well. However, EV tyres need to be different from regular tyres in weight, tread pattern and the materials used for production as the torque experienced during acceleration and braking is different from that of internal combustion engine (ICE) vehicles.



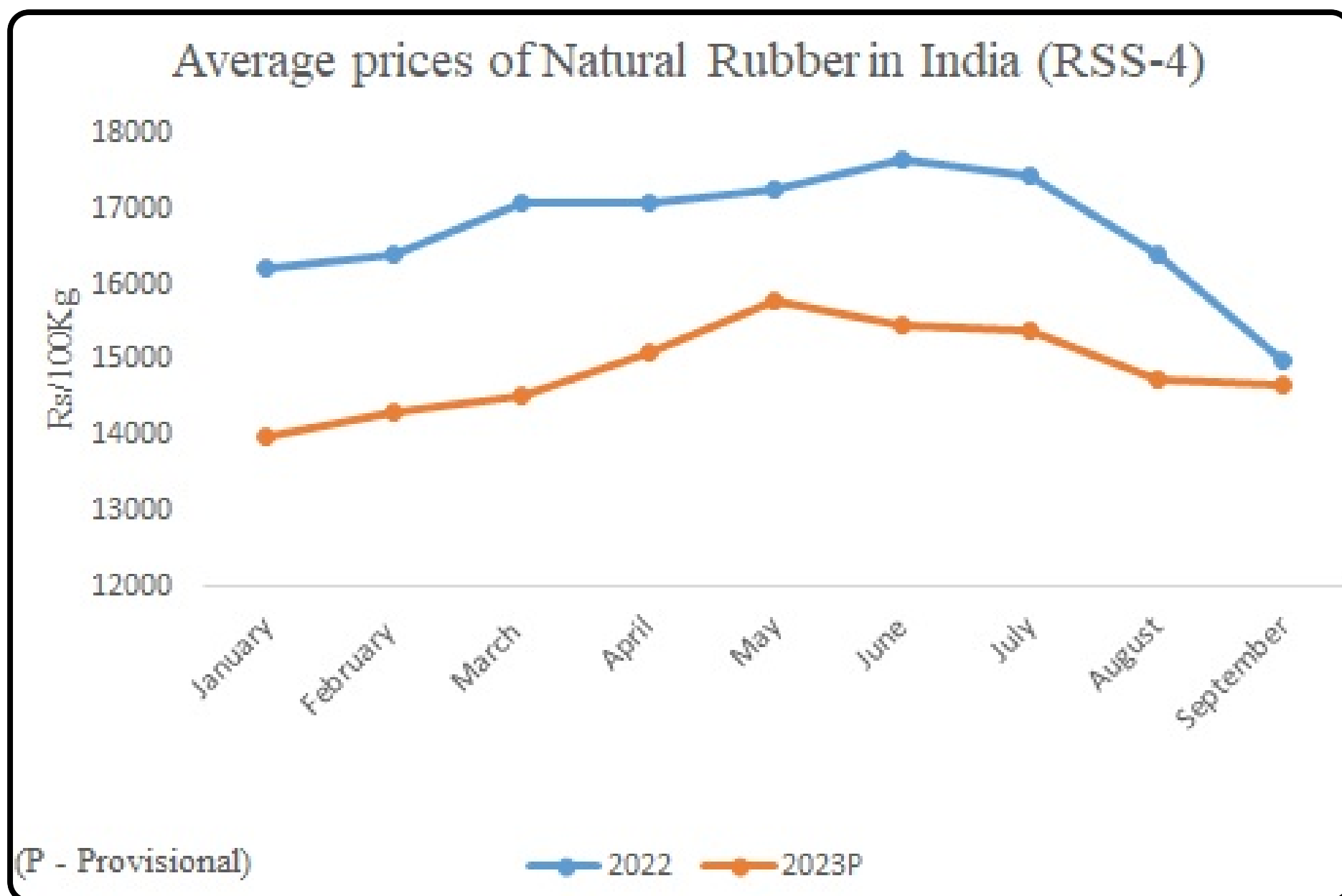
- **Stable or fall in crude oil prices**

Crude oil is one of the key components in manufacturing tyre. It is used in various tyre components like rubber, nylon, or polyester. The main raw materials for tyres are rubber, carbon black, nylon tyre cord and rubber chemicals. Both carbon black and fabric use crude oil as input material. When there is a rise in crude oil prices, the manufacturing cost of these companies increases and vice versa. The Stable or fall in crude oil prices is expected to boost the profit margins of tyre companies in coming quarters.



- **Falling Natural rubber prices to improve margins of tyre industry:**

Falling natural rubber prices have led to tyre companies posting higher operating margins in FY23. Natural rubber prices are likely to be subdued in near future because the consumption in China and the EU is yet to pick up. Natural rubber is not only the primary raw material used in manufacturing most tyres, it is also crucial in helping to meet tyre safety, performance and ecological requirements. Global natural rubber demand has remained relatively flat during the 12 months ending in September 2023, as lower tyre production in the Republic of Korea, Russia, and the United States has been offset by increases in China, Germany, and India.



Government initiatives / Recent developments

- **Fresh guidelines for tyre manufacturers by government:**

The Indian tyre industry has been witnessing a rise in the demand for production of tyres for export and domestic sales. The increasing ownership of vehicles aids the tyre industry. There is also a surge in demand for tyres for trucks and buses owing to the rising mobility and industrialization. Research and Development (R&D) and the launch of advanced and eco-friendly tyres also aids the market growth for tyres.

Presently, import authorizations for new pneumatic tyres have been placed under 'Restricted Category' in terms of Notification No. 12/2015-2000 dated 12-06-2020 issued by the Directorate General of Foreign Trade (DGFT) and hence, the importers have to apply for Import Licence for tyres covered under the aforesaid Notification. Considering the overall growth of tyre Industry in India, the Ministry of Commerce and Industry has proposed fresh guidelines for tyre manufacturers; committing to invest in India in brownfield or greenfield projects for manufacturing tyres, falling under the Restricted List.

- **Govt extends PLI scheme for automobile, auto components industry by one year:**

The Ministry of Heavy Industries has extended the tenure of the Production Linked Incentive (PLI) Scheme for Automobile and Auto Components by one year. This decision has been made after receiving the approval of the Empowered Group of Secretaries (EGoS). In pursuance of the approval of EGoS, the Ministry of Heavy Industries has made partial amendments in the PLI Scheme for the Automobile and Auto Component Industry and Guidelines of the Scheme. These amendments, effective from the date of publication in the Official Gazette, aim to provide clarity and flexibility to the scheme. Under the amended scheme, the incentive will be applicable for a total of five consecutive financial years, starting from the financial year 2023-24. The disbursement of the incentive will take place in the following financial year 2024-25. The scheme also specifies that an approved applicant will be eligible for benefits for five consecutive financial years, but not beyond the financial year ending on March 31, 2028.

OUTLOOK

The Indian tyre industry is expected to grow in coming time on account of increasing demand for vehicles and government focus on infrastructure development. With growth and expansion of the automobile sector, demand for replacement tyres is also increasing. Moreover, increasing acceptance of Indian tyres in the overseas markets is leading to a sharp growth in tyre exports from India to destinations such as the U.S. and Europe. India-manufactured tyres are being exported to more than 170 countries, with the U.S. and Europe buying the most. The creation of high-speed corridors and government's infrastructure efforts will lead to an increase in the use of radial tyres. The shift towards radialisation will provide a further growth opportunity for the industry. Stable or falling crude oil and falling natural rubber prices will help Industry to improve its margins. Additionally, a large and growing population of vehicles will continue to support tyre demand in the replacement market.

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