The tyre industry is the largest single rubber manufacturing industry in the world. The high performance demanded of tyres has led to extensive research and development in this field and constant innovation. This report takes an overview of the latest technology combined with the market situation worldwide.

Three large companies, Bridgestone, Goodyear and Michelin, now dominate the world tyre market with a share of about 56%. There then follow four mid-sized companies, which have about 18% of the world market, Continental, Sumitomo, Pirelli and Yokohama, with a combined share of 17.6%. In total, eleven companies account for 81.6% of the world market.
Even though the largest companies have a turnover well in excess of $10bn, they remain largely specialist tyre manufacturers. Many of the smaller companies also concentrate almost exclusively on tyres. However, the medium-sized companies are diversifying away from tyre manufacturing.

Unusually, if not uniquely in the automotive components industry, the tyre manufacturers only sell a minority of their output to OEMs. The key factor that distinguishes the tyre market from any other automotive component is the size of the replacement market or aftermarket - three-quarters of road tyres are sold as replacement tyres and only one-quarter as original equipment.

The big three tyre manufacturers dominate the OE market, but other large regional players also have a share, particularly in Europe. Worldwide, the replacement tyre market for light vehicles represents about 714m tyres. The replacement tyre market is certainly more profitable for the tyre manufacturers but it has distinct problems. The general problems of slow growth and market maturity are exacerbated by cyclical growth in supply to OEMs. Despite the poor profitability of
sales to OE customers and even though the replacement market represents over 70% of the passenger car tyre industry's sales, tyre makers' profitability is also cyclical. The replacement market is a relatively profitable sector of the overall tyre market, but it cannot compensate for the vagaries of the OE market.

A traditional indication of market maturity is continual pricing pressure in the market. Although the world tyre market appears to be an oligopoly, there are enough small competitors to keep continual pressure on prices. In broad terms a tyre which cost $69.90 in 1979 sold for $41.02 in 2003.

The major companies within the tyre industry are all constrained by the laws of economics and subject to similar commercial pressures. In very broad terms the cost of tyre manufacture breaks into three parts: raw materials; labour; and fixed costs. The tyre industry has high fixed costs, making it extremely difficult to improve returns unless costs are cut or market share gained. Raw materials typically represent 25% of the selling price of a car tyre. Labour costs represent about 30% of sales and this has led to a move for manufacture in lower labour cost
Increased level of Radialization in the commercial vehicle segment (due to reduced incidence of overloading of commercial vehicles);

- Growth in and increased share of multi-axle trucks (with the catching up of the concept of 'hub & spoke' transportation, long distance movement of road freight will be by multi-axle trucks whereas distances within and around the cities will be catered by smaller commercial vehicles);

- National Highway Projects, especially Golden Quadrilateral Project and Highways connecting North-South and East-West corridors (coupled with reduction in overloading and improved condition of road network, higher level retreading will offer added financial benefits).

In recent years, the Rs 12,000 crore Indian tyre industry has seen major changes. The number of tyre makers has shrunk from 12 to six—and the top four companies account for about Rs 9,200 crore. The industry is being squeezed between rising production costs and cheap imports. High cost of raw material (naturalised rubber) and oil prices
are serious threats: if they keep escalating, margins will come under pressure, which will severely impact smaller players. There is a likelihood of some companies turning sick, which could lead to a second round of consolidation—in line with the worldwide trend.

For over a year now, the industry has been facing a steep and continuing escalation in natural rubber prices. This is the biggest issue we are grappling with, and a cause for extreme worry. It has pushed up the cost of production and the price that consumers pay.

On the other hand, there’s the problem of cheap tyre imports. However it isn’t a big threat, primarily because the Indian customer has largely rejected substandard imported tyres—even if they’re cheaper. The livelihood of a commercial transport provider depends on the longevity of his tyres. And in the long run, cheap tyres are not profitable.

Given the severe shortage of natural rubber in the domestic market, tyre manufacturers have decided to step up imports. As against
the planned imports of 26,500 tonnes of rubber during April-August, companies now propose to import 35,000 tonnes.

But more than this, the government needs to take immediate action to remove the export subsidy on rubber and rationalise duty structures. Since international prices of natural rubber are higher than the Indian price, the subsidy on export should be scrapped. Ironically, this subsidy enables tyre makers in other countries, who source natural rubber from India, to access cheaper raw materials from India for their production and compete with Indian manufacturers on prices! Whereas we are forced to source natural rubber at higher prices—even from within India—than them.

The government should also remove port restrictions on natural rubber imports: for now, natural rubber can be imported only through the ports of Kolkata and Visakhapatnam; this adds to the cost of import. Additionally, the cess of Rs 1.50 per kg on natural rubber should be brought down.
Industry was on a smooth ride till FY08. The industry tonnage production registered a 5-year Compound Annual Growth Rate (CAGR) of 8.02% between FY03-08. The largest category of Truck & Bus (T&B) tyres recorded a 5-year CAGR of 5.90% while Light Commercial Vehicle (LCV), motorcycle and car tyre categories grew at 13.34%, 12.27% and 13.98%, respectively in this period.

However, as the economy in general; and automobile industry in specific slowed down in FY09, the tyre demand too came under pressure. In the first nine months of FY09, the industry managed a tonnage growth of only 2.19% against a growth of 7.38% in the same period last year. The tyre offtake to the Original Equipment Manufacturers (OEMs) declined by 6.17% during this period. The T&B tyre category was the worst affected with the total offtake of these tyres declining by 0.01% in the first nine months. Also in the face of global slowdown and stiff Chinese competition, the export market offtake declined by 9.82% during this period.

On the face of these demand-side pressures, the tyre industry saw production adjustments from all the major players in the last
couple of months. The government too tried to provide external stimulus by effecting 6% excise duty cut across industries (the excise duty for tyres was brought down from 14% to 10% w.e.f. December 7, 2008, and then further reduced to 8% w.e.f. February 25, 2009). In all the gloom; one silver lining for the industry has been the easing of the raw material prices from September 2008 onwards. However, the impact of the fall in commodity prices was not visible in the nine months results of the companies, as the companies were laden with high-price inventories. The benefits of the sublune raw material prices will become visible only in the last quarter of FY09 provided; the demand too supports the topline.

The tyre industry faces competition from China in the domestic market. Imports as a percentage of total T&B tyre production stood at 10% in FY08, with more than 90% of these imports coming from China. While the anti-dumping duty is levied on the import of Chinese T&B bias tyres, the industry now wants it to be extended to Chinese T&B radial tyres to alleviate the import threat. In addition, the industry is also keen on customs duty relief on raw materials not
produced/manufactured in the country so as to compete with the Chinese tyres.

Radialisation though in its infancy in T&B tyre category; is making inroads. Most manufacturers have capex plans for radial T&B tyres with no new capacity being added for bias tyres. This indicates that the industry foresees radialisation to take further hold in the T&B tyre category. In the passenger car segment, radialisation has reached 97%; up from 95% a year ago. The industry is also banking on the customised Off the Road (OTR) tyres and adding capacity in this category.

The Indian manufacturers are looking at increasing their global footprints. Apollo is undertaking an expansion plan at its Dunlop plant in South Africa. Similarly, JK Tyres & Industries has acquired a Mexican company Tornel. It has also entered into a manufacturing agreement with Chinese manufacturers to sell JK-branded tyres in the export markets.

Though in FY09, the industry is expected to register a tonnage growth of only 4.27%, the growth is expected to be higher in the
medium and long run. In FY10, the industry is expected to post a
growth of 6.81% and the industry growth is expected to touch 8.21% on
a CAGR basis between FY08-13. The T&B and LCV tyre categories are
expected to register a 5-year CAGR of 6.83% and 8.97%, respectively
during this period.

The tyre being a derived demand item i.e. for fitment in the
vehicle, tyre demand and hence production growth is closely related to
production growth of automobiles and the extent of usage of vehicles.
Since five to eight per cent annual growth is envisaged both for vehicles
and tyres over the next ten years, massive infusion of funds for
expanding capacities is a necessity likewise, recurring investments to
bring in technological improvements will be imperative. While part of
the demand for tyres would be met by imports and the volume of the
same would go on increasing, continuous capacity addition in tyre
industry during the next ten years could be envisaged. Reduction in
import duty on tyres in stages envisaged would result in consequent
ability of foreign supplies to export tyres to India at lower cost which
would be a continuous challenge for Indian tyre industry. Therefore, the
comprehensive auto policy must create a conducive environment that provides growth impetus to manufacturing, encourage export capabilities, create synergy between vehicle, component and tyre industry, enable high value addition within the country and promote ‘Made in India’ label as synonymous with world class products. With its strong backward linkage with tyre and component industry, the changes in the auto sector will impact tyres and component sectors also.

Indian tyre industry estimates a growth in tyre demand to be around 5% per annum over the next decade or so. This estimated growth in demand has to be seen in the context of ‘nil’ or marginal growth in tyre demand in the developed countries. It has been well recognized that future tyre demand will be driven primarily by India and China. In India, the key drivers for growth in tyre and vehicle demand are:

1. Rise in disposable income levels;

2. Reduction in domestic taxes and duties which in turn will spur the demand for vehicles;
3. Greater access to cheaper finance schemes;

4. Improved road infrastructure;

5. Frequent launches of new models of passenger and commercial transportation;


From amongst all the factors stated above, a special mention is required to be made of improved road infrastructure. Projects like the Golden Quadrilateral and North-South, East-West National Highway Scheme will open up tremendous opportunities and avenues for road transportation in India. With related and resultant benefits of savings in fuel, time, increase in comfort level and enhanced connectivity to smaller towns, rural areas, ports etc., the spin off benefits of mega road projects will be far reaching and geographically spread throughout the country.

At the same time, with reduction in customs duties, import volumes are also likely to increase. Growth in demand within the country may also prompt foreign tyre companies/MNCs to set up
greenfield tyre projects or enter into alliance with Indian tyre companies. These developments will offer ample opportunities for tyre companies to grow and expand in the domestic market as well as continue to explore export opportunities globally.

Growth in demand for tyres will push the demand for raw-materials used by tyre industry. A few years back, imbalances in demand-supply of raw-materials could have an adverse impact on the production of end product, say tyres. However, in the liberalized economic environment, each industry is looking at the global market for sourcing raw-materials at the most competitive prices, of the highest possible quality and on most favourable commercial terms. Hence, bottlenecks in availability of raw-materials is least likely to jeopardize the growth prospects of tyre industry in India. The same can perhaps be stated for all other key sectors as well.

Growth in tyre demand will also impact other key sectors of the economy. Besides providing a stimulus to demand in raw-materials and intermediate sectors having backward linkage with tyres, there will be demand for technical personnel at all levels. Since Indian tyre and
rubber consuming industry has historically been self sufficient in having access to the right manpower at all levels, it can only be expected that the position will further improve in the future. More colleges, Universities and technical institutes will be in a position to provide persons of various skill levels which can be gainfully employed in the tyre industry domestically.

On its part, Indian tyre industry is fully equipped to keep pace with the consistently changing commercial and technical environment. Existing products will constantly be improved upon and upgraded, new products will be launched as required by the auto industry and greater thrust will be accorded to exports. At the same time, imports will be a constant threat to domestic industry and will spur the tyre industry to improve quality, productivity and competitiveness in the domestic an export markets.

On the part of the Government, tyre industry looks forward to being an integral part of the Auto Policy. One of the primary objectives of the Auto Policy should be to ensure integrated development of the
automobile/vehicles, components and tyres within the country so that India could rightly emerge as a global base in the near future.

Following are some recommendations for the Indian tyre industry:

1. Specific measures will be taken for expansion of domestic market.

2. Incremental Investment in the Automotive Tyre Industry during the next ten years to be encouraged.

3. Exports to be encouraged.

4. Policy initiatives for competitiveness and development of technology would be taken.

5. National Road Safety Board to act as the coordinating body for promoting safety.

6. Inspection and Certification system to be strengthened by encouraging public-private partnership.

7. Centers for automotive tyre manufacturing excellence to be created.
8. Adoption of ITIs and ATIs by OEMs, Tier I component manufacturers to be encouraged.

9. Integration of IT in manufacturing and in Automotive tyres to be promoted.

10. Infrastructure development around identified automotive clusters to be undertaken.

11. Closer partnership between Industry, research institution and academia for innovation and IPR to be encouraged.

12. R & D for product, processes and technology to be incentivized.

13. Continuous investment in road, port, railways and power to be encouraged.


15. The auto policy must give recognition to the tyre industry and the vision document must spell out the course of action to remove the problems being faced by the tyre industry. Since tyre is the indispensable part of the automobiles, therefore, without the sustained and vibrant tyre industry, automotive industry is unthinkable. Hence, the Government should come out with short-term and the long-term policy initiatives to combat the
problems faced by the tyre industry as explained in the narrative part of this report.

16. Reduction in Excise duty on radial trucks tyres from 24% to 16%.

17. Waiver of Customs duty on steel tyre cord and polyester tyre cord.


19. Complete ban on the import of used tyre which is WTO compatible.

20. Since export of Indian tyres to select countries is subjected to non-tariff barriers (NTBs) by way of standards, tests, etc. The Indian Government, through the Bureau of Indian Standards (BIS), can take up the issue with standardization organizations in other countries that tyres having BIS certification should not be subjected to additional requirements of testing, standards, technical parameters etc.

21. The auto policy should encourage Indian tyre industry to invest adequate amount of money on research and development in order to make the tyre industry of global standard. Indian tyre companies should devote considerable time and resources to
'applied research' i.e. adoption of international developments in tyre technology to suit Indian conditions. This policy initiative would have quite successful and resulted orientated benefits (advanced technology, superior product, lower prices). Moreover Indian Tyre Company should be encouraged to have technical collaboration with the top ranking global tyre company in order to have technology access.

Growth in tyre demand is closely linked to growth in vehicle production (Original Equipment-OE Demand) and replacement demand for tyres is dependent upon economic growth in the country. The latter, in turn, is a factor of several macro-economic variables like growth in agricultural production, growth in industrial production (particularly in key sectors like cement, steel, fertilizer, etc.), performance of railways, exports etc.