CHAPTER – 2
TRENDS IN PRODUCTION, CONSUMPTION, PRICE
AND CAPACITY UTILISATION

a. Overall Outlook of Indian Automotive Tyre Industry

The achievements of the Indian tyre and rubber industry have been an unheralded success story. It is perhaps the only industry in India to have achieved an average annual 6.5 percent growth rate for almost 44 years, since 1960.

The country's rubber industry got off to a very modest start in Calcutta in 1936 but India is today the world's 4th largest rubber consuming country, with rubber consumption of over 1 million tonnes (1,065,020 tonnes) including 50 percent of reclaim rubber as pure polymer. China is currently the world's largest consumer followed by the US and Japan. Despite the high volume of consumption, India's per
capita rubber consumption is still less than 1kg, compared to an average of 12 kilos in Europe and the US and nearly 3kg in China. This underscores the tremendous potential of the rubber industry with the country’s increasing prosperity and industrialization.

Another unique factor of the Indian rubber industry is that for the past few years it has been the world’s 4th largest producer of natural rubber after Thailand, Indonesia and Malaysia. However, in terms of production efficiency, India is far ahead of the other three major rubber producing countries in terms of yield per acre. This can be attributed to the country’s highly skilled research scientists and the outstanding work done by the Rubber Board of India, under the Ministry of Commerce.

Till just three years ago, India was consuming all of the natural rubber it produced and in fact, had to import a quantity of the commodity as well. With an eye on globalization, while expecting increased output from the Indian rubber plantation industry, the Rubber Board decided to establish India’s position as a regular exporter of natural rubber. It has succeeded beyond expectations, with the export of nearly 76,000 tonnes in the financial year ending March 2004.
Strong natural rubber exports have also helped to stabilize the domestic prices of natural rubber.

Similar to the case in all industrialized nations, India's automotive tyre sector is the major user, at 53 percent, of natural rubber. The country's automotive tyre sector has also been a remarkable success. Practically every conceivable type of tyre is manufactured in India today, by almost 40 companies ranging from giants to small-scale enterprises. Today, seven Indian tyre companies feature in the list of the world's top 75 tyre manufacturers. According to the latest rankings based on 2003 sales, MRF (with sales of US $537.3 million) is ranked at No. 15 followed by Apollo at No. 17 (sales of $496 million), J. K at No. 18 ($455 million), Ceat at No. 24 ($318 million). They are followed by Birla Tyres at No. 52, Metro Tyres at No. 68 and TVS Srichakra at No. 75. In the fiscal year ending March 2004, the turnover of India's automotive tyre industry was Rs. 13,500 crore (almost $3 billion), with exports of Rs. 1400 crore ($318 million) to over 70 countries, including the US and Europe. The industry's total output of 54.27 million tyres signifies capacity utilization of 85 percent of the installed capacity of 60 million.
Since the mid-1980s, Indian tyre companies have made major efforts to establish a presence in overseas markets through their exports. They have thus been able to import duty free raw materials and remain competitive in the international market, while reducing their dependence on the domestic local natural rubber market. While some Indian tyre majors export nearly 30 percent of their total tyre productions, about 20 percent of all locally manufactured tyres are exported in total.

Dunlop Tyres of the UK, through its Indian subsidiary, was the country's first major tyre manufacturer, with a plant in Calcutta. It led the way for Firestone of the US, which established itself in Bombay and later for Goodyear and Ceat of Italy, which were also Bombay-based. It was only in the early 1960's that Indian tyre companies (MRF, In check and Premier Tyres) broke the monopoly of the foreign tyre makers. Modi Rubber followed in 1975, after which Apollo Tyres became a serious player. Meanwhile, the Karnataka state government set up Vikrant Tyres in Mysore in technical collaboration with the UK-based
Avon Tyres. Since then, Premier Tyres has been taken over by Apollo Tyres and Vikrant Tyres by J. K. Tyres.

With the liberalization of the early 1990's came a short-lived joint venture (South Asia Tyres) between Ceat and Goodyear, after which the Japanese tyre giant Bridgestone Corporation made its foray into the Indian market with the Tata Group. Within five years, Goodyear and Bridgestone took over full control of their joint venture companies, by buying out their local partners Ceat and the Tata Group respectively.

With enormous strides being made internationally by global tyre majors due to their vast R&D expenditure, it is naturally difficult for Indian tyre companies to manage without technology input. While J. K. Tyres has a technical collaboration with Continental AG of Germany (the world's number 4) and Birla Tyres with world No. 5 Pirelli, Apollo decided in November 2003 to enter into an agreement with French tyre giant Group Michelin, the world's number 1, to set up a joint venture project near Pune. Michelin has also invested in 26 percent equity in Apollo Tyres. Other Indian tyre companies manage with in-house R & D
and by using the expertise of tyre experts from Europe and the US, who have taken early retirement from their earlier jobs.

India is one of the few countries which have attained self-sufficiency in tyre production. All categories of tyres are manufactured in India, from Off the Road (Earthmover) tyres weighing over 1.5 tonnes a tyre to Moped tyre weighing 1.5 kg, from rugged truck tyres to high performance passenger car radial tyres. Some limited category of tyres which are not manufactured in India, e.g. aircraft tyre, snow tyres etc., is more because of commercial reasons (aircraft tyre demand is limited and size spectrum varied) or climatic conditions (requirement of snow tyres does not exist as in European countries). In brief, India is amongst a select band of countries which not only meets its complete requirement of automotive tyres but also has been consistently exporting tyres to over 65 countries worldwide for over three decades.

On the domestic front also, whether it is meeting the requirement of OEs (vehicle manufacturers), aftermarket (replacement demand for tyres), requirement of State Transport Undertakings (STUs) for bus tyres, Government supplies, etc. Indian tyre industry caters to
the requirement of all segments of tyre demand. For all new models of commercial vehicles, passenger cars, jeeps, two-wheelers or farm vehicles introduced by OEs in the Indian market, Indian tyres are generally available at the time of launch of the vehicle or are one of the first components to be indigenized.

Tyre production has also kept pace with vehicle production (irrespective of the automobile growth trends, from low growth to high growth in segments like motorcycles and passenger cars). Since tyres are under OGL (freely importable) and Customs duty is currently 12.5% (with preferential customs duty rate varying from ‘nil’ to 10.75% under various regional/ bilateral trade agreements), import volume of tyres is progressively on the increase. This is due to essentially commercial reasons. With further reduction of Customs duties imminent and greater proportion of regional/ multilateral trade at lower Customs Duty rates, increased level of import / export of same product are expected. Indian tyre industry has the capacity and capability to meet the challenge of imports, provided such imports are not in
contravention of established norms (i.e. are not under-invoiced, dumped etc.) and are in accordance with the domestic regulations.

Indian tyre industry has introduced new products and processes in line with the market requirements... from high performance passenger radial tyres, all steel truck radials, tubeless radials, farm radials Indian tyre industry has progressed on tyre technological ladder.

Technological advancement is primarily by way of ‘adaptation’ of technology introduced in developed countries, i.e., tailoring the product to meet domestic requirements. Basic R&D in tyre technology is not only expensive but also proprietary with the top 3 global tyre companies spending an estimated US$ 1.3 billion (Rs. 6000 crores +) on R&D every year.

Growth in tyre demand in developed countries is either declining or growth level is low and ranges between 1%-3% in most developed countries. However, due to factors like:

- low automobile penetration levels in India so far which is changing now,
> low running (km. per day for commercial and passenger vehicles in India as compared to developed countries),
> improving infrastructure (especially road conditions),
> tyre demand in India is expected to be from moderate to high level, in the medium and long term.

Indian tyre industry is fully geared to meet the challenge of growth in tyre demand, meet export targets and face growing volume of imports.

This note sets out how fiscal amendments and dispensations can place the tyre industry on an accelerated growth path.

**Tyre Production and Export & Import Trend**

A) Category wise Tyre Production

Tyre weight varies significantly, from tyre weighing 1.5 kg. for Moped to an Earthmover tyre weighing 1.5 tonnes (i.e. 1000 times). Hence, tyre production in numbers is not indicative of the performance of tyre industry. Natural Rubber consumption in weight (being the
principal raw-material) is more representative of the performance of tyre industry.

During the year 2005-06 over the year 2004-05, Natural Rubber consumption registered 9% increase and accordingly the growth estimate of tyre industry during the same period can be taken as 7%.

The following table gives tyre production of major tyre categories during 2005-06 with corresponding figures during the previous financial year.

**Tyre Production**

*(Fig in Lakh Nos)*

<table>
<thead>
<tr>
<th>Tyre Category</th>
<th>2004-05</th>
<th>% Change YoY</th>
<th>2005-06</th>
<th>% Change YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truck &amp; Bus</td>
<td>110.91</td>
<td>2</td>
<td>119.41</td>
<td>8</td>
</tr>
<tr>
<td>Passenger Car</td>
<td>118.62</td>
<td>19</td>
<td>136.05</td>
<td>15</td>
</tr>
<tr>
<td>Jeep</td>
<td>14.63</td>
<td>2</td>
<td>12.72</td>
<td>-13</td>
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<tr>
<td>Light Commercial Vehicle</td>
<td>39.45</td>
<td>21</td>
<td>45.29</td>
<td>15</td>
</tr>
<tr>
<td>Tractor (Front)</td>
<td>13.11</td>
<td>14</td>
<td>13.83</td>
<td>5</td>
</tr>
<tr>
<td>Tractor (Rear)</td>
<td>10.96</td>
<td>30</td>
<td>11.34</td>
<td>3</td>
</tr>
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<td>Category</td>
<td>2004-05</td>
<td>% Change YoY</td>
<td>2005-06</td>
<td>% Change YoY</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>---------</td>
<td>--------------</td>
<td>---------</td>
<td>--------------</td>
</tr>
<tr>
<td>Truck &amp; Bus</td>
<td>25.04</td>
<td>12.22</td>
<td>24.09</td>
<td>-3.80</td>
</tr>
<tr>
<td>Passenger car</td>
<td>10.25</td>
<td>73.22</td>
<td>10.53</td>
<td>2.76</td>
</tr>
<tr>
<td>Light Commercial Vehicle</td>
<td>11.31</td>
<td>17.51</td>
<td>13.91</td>
<td>22.98</td>
</tr>
<tr>
<td>Tractor (Front)</td>
<td>0.18</td>
<td>-4.15</td>
<td>0.13</td>
<td>-26.34</td>
</tr>
<tr>
<td>Tractor (Rear)</td>
<td>0.85</td>
<td>-5.65</td>
<td>0.99</td>
<td>16.68</td>
</tr>
<tr>
<td>Motor cycle</td>
<td>0.63</td>
<td>32.49</td>
<td>0.85</td>
<td>35.40</td>
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<tr>
<td>Scooter</td>
<td>2.03</td>
<td>67.87</td>
<td>2.90</td>
<td>43.09</td>
</tr>
<tr>
<td>Off the Road</td>
<td>0.23</td>
<td>10.50</td>
<td>0.33</td>
<td>43.23</td>
</tr>
</tbody>
</table>
C) Tyre Imports

(Figs in '000 Nos)

<table>
<thead>
<tr>
<th>Tyre Category</th>
<th>2004-05</th>
<th>% Change YoY</th>
<th>2005-06</th>
<th>% Change YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truck &amp; Bus</td>
<td>221</td>
<td>151%</td>
<td>506</td>
<td>129%</td>
</tr>
<tr>
<td>Passenger Car</td>
<td>780</td>
<td>75%</td>
<td>695</td>
<td>-11%</td>
</tr>
<tr>
<td>Motorcycle</td>
<td>93</td>
<td>-11%</td>
<td>115</td>
<td>23%</td>
</tr>
</tbody>
</table>

Tyre Industry – With special reference to Tyre Imports from China

Asia Pacific Trade Agreement (formerly Bangkok Agreement) – China and South Korea are members of the Bangkok Agreement. 88% of the total Truck and Bus tyre imports into India and 66% of the passenger car tyre imports into India from these two countries at an effective customs duty of 10.75%.

Indo-Sri Lanka Free Trade Agreement – 11% of the total passenger car tyre imports into India and 3% of the truck and bus tyre imports are from Sri Lanka at ‘nil’ rate of customs duty under Indo-Sri Lanka FTA.
South Asian Free Trade Agreement (SAFTA) – Tyres are eligible for concession in applicable rate of Customs duty, 10% vs. normal customs duty of 12.5%.

In other words, over 91% of the imported truck and bus tyres and 71% of the imported passenger car tyres are eligible for effective rate of Customs duty which is lower than the applied rate of customs duty (i.e. 12.5%).

This factor assumes significance in the context of the tyre industry submission for correction in the existing inverted duty structure on Natural Rubber and fixing Customs Duty at 7.5% or 10% and submission for reduction in customs duty on key raw-materials of tyre industry from existing 12.5% to suggested 10%.

Cheaper imports of tyres, particularly through the route of concessional Customs Duty under Regional Trading Agreements (RTAs), already entered into and future Agreements, may eat into the total pie of domestic demand and hence constrain the envisaged domestic production growth of tyres.
Related Issues Of ‘Tyre Industry’

1. Reduction in Excise Duty on all categories of Tyres and Tubes from **16% to 8%**: Current Excise Duty rate on tyres is 16%. In addition, there are a number of taxes on inputs and services used for production, which are not Cenvatable, and hence the tax incidence on tyres works out to be quite high i.e. much more than 16%.

   A Statement giving Tax Content on select categories of Tyres is enclosed as Annexure "A". Considering the fact that tyres are essentially fitted in vehicles for transportation of common man and his goods [including tyres for Animal Drawn Vehicles (ADV)], there is need to bring down the Excise Duty on tyres to 8%. Such a step would make road transport more economically viable, essentially giving relief to the common man.

   Tyre is essential for the growth of economy and used in movement of goods and common man. By reducing Excise Duty on Tyres, road transportation becomes more cheaper thereby reducing the
cost of commodities. Tyre Industry requests for reduction of the rate of Excise Duty from 16% to 8%.

2) Correction in anomaly in Inverted Duty Structure (Customs) – In the Union Budget 2006-07, peak rate of customs duty was reduced from 15% to 12.5% for tyres and raw-materials of tyre industry, except Natural Rubber on which customs duty was retained at the 2004-05 level of 20%. This has resulted in a serious anomaly of Customs duty on raw-material (Natural Rubber @ 20%) being higher than the duty on finished product (tyres @ 12.5%).

Natural Rubber – Production : Consumption Scenario

Growth in consumption of Natural Rubber over the next few years is expected to be around 5.5% per annum whereas production growth of Natural Rubber is expected to be in the range of 3%, thereby resulting in widening gap between production and consumption.

The following figures give Natural Rubber Production and Consumption Scenario, estimated by Rubber Board for 2006-07:
Production - 8,31,000 MT
Consumption - 8,41,000 MT
Shortfall - 10,000 MT

The shortfall between production and consumption of Natural Rubber has to be met by import at higher Customs duty of 20%, involving additional financial burden on tyre industry. Hence unless the inverted duty is corrected, in the coming years the financial burden on tyre industry would go on increasing.

**Natural Rubber – Key Raw-Material for Tyre Industry**

Tyre industry is raw-material intensive and the principal raw-material used by tyre industry, viz. Natural Rubber, accounts for 42% of raw material cost of tyre industry. A higher Customs duty on key raw-material of tyre industry distorts the cost structure and is not in line with the accepted principle in respect of Customs Duties, i.e., the lowest rate on raw-material, higher rate on intermediates and the highest rate on finished product (in this case, tyres).
Effective Rate of Customs Duty on Tyres under RTAs

As stated earlier, concessional / preferential Duty on automotive tyres under Regional Trade Agreements is much lower than the applied rate of 12.5%.

With the ‘effective rate’ of Customs duty on tyres being even lower than 12.5%, the inverted duty structure with Customs duty on Natural Rubber @ 20% becomes even more pronounced.

3) Reduction in Customs Duty on key raw-materials of Tyre Industry:
As stated above, Tyre Industry is raw-material intensive. Raw material cost accounts for approx. 55% of tyre industry turnover and 70% of the production cost. 54% of the total natural rubber consumption is by tyre sector.

The Finance Ministers, while presenting the Union Budget in the last 3-4 years have defined the roadmap of import tariff regime. The generally accepted principle being having the lowest rate of customs duty for ‘raw-materials, intermediates and components’ and the highest rate of duty for ‘final products’. This principle has been
endorsed and recommended in Reports of expert Committees, viz. Interim Report of Kelkar Committee, Recommendations of Arvind Virmani Committee etc.

Butyl Rubber is used for the manufacture of inner tubes of tyres. Butyl Rubber has better air retention capacity compared to Natural Rubber. Hence Butyl Rubber is the preferred choice for the manufacture of inner tubes. Waiver of Customs Duty on Butyl Rubber would enable the tyre industry to be more competitive vis-à-vis imports of tyres/tubes, especially in view of steep increase in price of Butyl Rubber in the international markets due to hike in petroleum/derivative prices.

Polyester tyre cord is used for the manufacture of radial tyres. Radial tyres, in comparison to bias/cross-ply tyres, offer multiple benefits especially greater mileage and reduced fuel consumption. This has been experienced in the passenger car tyre segment. However, since the price of radial tyre is 25% higher and commercial vehicle tyre segment is extremely price sensitive, radialization has not gained momentum in the truck/bus tyre segment. ATMA estimates that
increase in radialization level in the truck/bus tyre segment from current 2%-3% to 25%, as has been achieved in our neighbouring/several developing countries, can result in annual and recurring fuel saving of over Rs. 2,000 crores.

Synthetic & Chemicals Limited was the only manufacturer of SBR 1502 & SBR 1712 in India. This company is closed and stopped production since July 1999. SBR is one of the major elastomers used for manufacturers of tyres. Incorporation of SBR in the product mix for tyre increase abrasion and fatigue resistance.

**Indian Tyre Industry**

With the Indian automobile industry growing at a healthy rate, the Indian tyre industry, according to experts, is expected to achieve a growth rate of seven per cent in the coming days.

The booming automobile sector, the spurt in construction activities and a growing demand for consumer durables would boost rubber production. He noted that the booming construction industry had necessitated the movement of cement, steel, and other
construction material across the country. The thrust given to
development of roads would also increase the movement of trucks. On
the other hand, the country, which was the highest producer of
motorcycles and second highest producer of tractors, would witness an
increased demand for tyres, he added.

On the export front, Mr. Ravindran said the Indian tyre exports
had been growing at a rate of 18 per cent during the past decade, and
the current exports totaled Rs. 1,300 crore. While the Indian tyre
industry was exporting its products to 65 countries, the U.S. accounted
to 19 per cent of its exports. Radial tyres were being exported despite
stiff competition from China, he added.

Technology

Stating that the Indian tyre industry was adopting new
technology in tyre manufacturing, he said that except aircraft tyres and
snow tyres, the Indian tyre industry was involved in manufacturing all
types of tyres. This, he said, had been possible due to the continuous
upgrading of technology. "Run flat tyres" and "intelligent tyres" were
being experimented for commercial production by the world tyre majors, he said. Elaborating, Mr. Ravindran said run flat tyres were those which could run even though there was a loss in air pressure due to either puncture or other reason, at a speed of about 80 km. an hour for a distance of about 100 km. In intelligent tyres, a computer chip would be embedded which would maintain a record of tyres and also transmit readouts of the tyre pressure and tyre temperature to the driver of the vehicle.

He said that for reasons not clear, the vital area of retreading had not received due attention. With proper retreading, a new lease of life could be given to an old tyre at 20 per cent cost of a new tyre, he added.

The Indian Tyre Industry produced 736 lakh units of tyres (11 lakh tonnes) garnering Rs. 19000 crores in FY07. MRF Ltd. was the market leader (22% market share) followed closely by Apollo Tyres Ltd. (21%). The other major players were JK Tyre & Industries (18%) and Ceat Ltd. (13%).
The Indian tyre industry is characterized by its raw material intensity (raw material costs account for approximately 70% of operating income), capital intensity, and cyclicality, fierce competition among the top players, low bargaining power and resulting low margins. The top players are now focusing on branding their products and strengthening their distribution network so as to increase their market share.

The industry derives its demand from the automobile Industry. While OEM market off take is dependent on the new vehicle sales, replacement market demand depends on the total population of vehicles on road, road conditions, vehicle scrapping rules, overloading norms for trucks, average life of tyres and prevalence of tyre retreading.

The main category of tyres produced in the country is that of Truck & Bus tyres. These tyres accounted for 57% of the total tyre tonnage production in FY07 followed by LCV tyres which accounted for 9% of the total tyre tonnage production. Approximately 53% of the total tyre tonnage off take was by the replacement market, 31% by OEM and 15% by the export market in FY07.
The industry tonnage production registered a 5 year CAGR of 9.69% between FY 02-07. The largest category of Truck & Bus tyres recorded a 5 year CAGR of 7.85% (slower than the industry) while Light Commercial Vehicle (LCV), motorcycle and car tyre categories grew at 15%, 16% and 14% respectively (faster than the industry). Off the road (OTR) tyre category (customized tyres) which fetch a higher margin compared to other tyre categories, is the fastest growing category. The OTR tyre category has registered a 5 year CAGR of over 20% in the last five years. Most of the top players are increasing their capacity for the production of OTR tyres so as to improve their product mix, this being a high margin product.

The exports from the country clocked a CAGR of 13% in unit terms and 18% in value terms in the period FY 02-07. Most of these tyres that are exported are of cross ply design. With radialisation catching up in some of these markets, the Indian manufacturers will need to graduate to production and export of radial tyres so as to protect their share in the export market.
Radialisation of tyres is still minimal in India. Only the car tyre market has moved to radial tyres (95%) but in all other categories, cross ply tyres are still preferred. Poor road conditions, overloading in trucks, higher cost of radial tyres and poor awareness of the tyre users are the main reasons for the non transition of the domestic market to radial tyres. However, going ahead radicalisation in truck & bus tyres may increase due to government’s focus on infrastructure development.

The Indian Tyre industry is in troubled waters. The impact of global credit crunch is re-sounding in India as well. The Indian economy has perceptibly slowed down and the automobile companies are struggling to push sales. A fall out of this has been a distinct slowdown in the Indian tyre industry as well. With FY09 almost drawing to an end; will FY10 be any better for the tyre industry? Is the worst over or is there more to see? When will the tyre players see a revival? What are the growth drivers which may bring the industry out of the current slowdown? These are some questions addressed in this report. Besides, the report deals with the challenges faced by the tyre manufacturers.
b. Replacement Market

Selling something black, rubbery and round is a tough job. But tyre manufacturers in the country are not really worried. Compared to stagnant markets in most developed countries, the Rs 22,500-cr Indian tyre market has been steadily growing. And if these are cues, there are better times ahead.

The tyre market here has been growing by nearly 10-12% Y-o-Y, thanks to the replacement segment, which accounts for roughly 75% of revenues of the industry. And contrary to popular belief, despite the brief slowdown, it is the commercial vehicle (CV) category that has provided a much-needed fillip to the tyre industry. Says Arnab Banerjee, executive director, (sales, marketing & outsourcing) at CEAT: “CV tyre sales have a strong correlation with the GDP of the country.

But sales of CV tyres in the replacement category were not really affected by the slowdown because of demand from the mining and infrastructure sectors.” And if tyre makers are to be believed, the numbers are slated to grow despite problems in the export market.
There are mainly two reasons: Firstly, the increase in the number of multi-axle vehicles in the country. And secondly, according Mr. Banerjee, a drought-like situation this year can cause massive food grain movement across the country.

This has perhaps prompted tyre makers to speed up new initiatives in the CV space. It’s a crucial segment for them because sales of CV tyres account for nearly 70-75% of revenues in the replacement segment. For instance, Gurgaon-based tyre maker, Apollo Tyres, has already invested Rs 1,500 cr for its greenfield project in Chennai to manufacture truck radials. “The first truck tyre will roll out by November this year,” says Neeraj Kanwar, MD, Apollo Tyres.

But then the replacement CV tyre category is just a part of the optimism. The aftermarket passenger car and the OEM segment in the tyre industry are also estimated to grow fast. Dragged down by disappointing automobile sales during the slowdown, the OEM segment, which forms around 25% of the total industry revenues, is back on track with resurgent automobile sales. The negative growth in the OEM CV segment has stabilised.
“Also the passenger car segment in the replacement sector is growing faster than the CV segment at around 10-12%,” says AS Mehta, head of marketing at JK Tyres. “I expect it to grow more in the coming months.” The only segments that will perhaps be affected in the near future are sales in the two-wheeler and farm tyre market. Drought is the most likely reason, say tyre makers.

**Tyre supplied to replacement market — Panel urges Govt to peg duty at 16%**

The Rs 12,300-crore tyre industry may have a reason for cheer. A department-related Parliamentary Standing Committee on Industry has urged the Government to consider an immediate reduction in the excise duty on tyres supplied to the replacement market from 24 per cent to 16 per cent.

The Government had in the Budget reduced the excise duty for tyres supplied to the replacement market from 32 per cent to 24 per cent. The tax contribution of the tyre industry in a year is about Rs 3,500 crore.
If this recommendation of the Parliamentary Standing Committee, Chaired by Dr P.C. Alexander, were to be accepted by the Government, a single truck owner could be a key beneficiary of such a reduction. On an average, a truck operator changes one set of tyres (i.e. six tyres) every six months (i.e. 12 tyres a year). At 24 per cent, the excise duty forked out for each truck tyre in the replacement segment works out to about Rs 1,500 per tyre. This implies that a single truck operator pays Rs 18,000 as excise duty in a year.

"The ultimate burden of heavy taxes and duties on tyres has to be borne by the consumer. Truck operations are akin to small scale/tiny industrial unit operation on which no (or very marginal) tax is levied. Viewed from this angle, road transport industry should also get similar treatment from the Government," according to a report submitted to the Parliament by the Standing Committee.

The Standing Committee report, which is on the provisions and prospects of auto policy announced by the Government, has highlighted the high tax content on the tyres. "The high tax content on tyres can be gauged from the fact that the percentage of total tax to
the tax excluded price for various categories of tyres is — 44 per cent for truck tyres, 41 per cent for passenger car radial tyre, 35 per cent for tractor rear tyre and 76 per cent for tractor tyre tube," the report said.

The committee has also recommended waiver or reduction of customs duty on steel tyre cord/polyester tyre cord to accelerate the process of radialisation in India. It has also suggested the removal of port restriction on natural rubber imports.

On the issue of non-tariff barriers (NTBs) faced by exports of Indian tyres in the form of standards and tests, the committee has suggested that the Government, through the Bureau of Indian Standards (BIS), can take up the issue with standardisation organisations in other countries. It should be ensured that tyres with BIS certification should not be subjected to additional requirements of testing, standards and technical parameters etc, the report suggested.

**Focus on the Replacement Market**

CEAT is investing in fresh capacities for aggressive growth in the domestic as well as the global markets. This logo change was necessary
to improve the brand connect with today’s youth, which is a mandatory first step to enhance market shares. This will be an ongoing initiative and the cost will be spread over a large number of activities.

On the contrary, CEAT’s business mix has been steadily improving over the last two years in favour of the most profitable replacement segment. Our market share in the replacement market has either grown or has been maintained more or less. That includes truck tyres, light trucks, 2W (two-wheeler), OTRs (off-the-road) etc. In the truck segment, we have 14% market share in the replacement market and this share is also on an up trend.

Meanwhile, in exports, among ATMA companies we are the top exporter from India. We clocked a turnover in excess of Rs 500 crore in exports and found this business extremely profitable.

CEAT’s current presence in passenger radials has been limited owing to limited capacities. We have less than 5% share. This is bound to grow with the commissioning of our new plant. In light truck and motorcycle tyres, we have about 12% share and it is growing. In scooter
tyres we have 26%. In all these segments, wherever we had added to our existing capacities, you will see enhanced market shares in the coming years.

Contrary to perception, CEAT Shoppe turnover has crossed Rs 100 crore, riding on a 60%-plus growth rate last year. And, yes, we were indeed the pioneers in building a branded retail presence in the industry. We currently have about 75 stores in the country and this number has been constant for the past five years or so. With this logo change and other business strategies, we expect to embark on an expansion mode and double the turnover in the next two years.

We are evaluating various business models. If we do enter this market, it would be more as a service add-on.

Chinese imports have been around for many years now—both in bias and radial technologies. Customers have more choice now. Like we export heavily, in a globalised world we cannot wish away imports into the country. So we cannot consider any competition as threat. It helps
us as an organisation to push ourselves forward and, as a result, the customer gains.

Modi’s production will add to the supply side. I feel that quality Indian tyres will push out inferior Chinese tyres from the market to a certain extent. Second, the replacement market is expanding at a healthy clip. OEM (original equipment manufacturer) demand is expected to recover. CEAT is nicely hedged with an export network in 110 countries. We export at a healthy profit. More competition will push everyone to be more innovative and customers will benefit.

CEAT is one of the most salient brands in the sector today. We regularly feature in top-of-mind recall surveys among customers. We hope to build stronger brand salience and relevance, keeping in mind changing demographics. The marketing expense has been 1%-2% of sales and will be stepped up. We import tyres from Pirelli and sell in the domestic market in our brand name, that is, CEAT. Currently, our relationship is limited to buying and selling and it’s likely to remain that way.
OTR is good business and we have a clear head start in this segment both in the domestic and in global markets. We have built a good channel for this and we are ahead of competition on the learning curve in this segment. We have a huge basket of products that we have developed and marketed outside the country. Unlike selling through distributors and dealers, CEAT is completely customer centric in this business, which will ensure that we keep growing along with our loyal customers. The way India is poised to grow, additional capacity will serve the market well.

Milking the cross-ply market will remain an ongoing strategy. Our export basket is also quite diversified. We are strong on OTRs as well. We are now focusing on non-truck categories. We are looking at diversifying our product mix.

Our greenfield car production will be in the market within two to three years from now. We have started talking to some of the OEMs in the car segment on future association possibilities. We shall also look to profitably export our production as we have a good channel in place.
Domestic replacement market will be another focus area through strong brand connects.

We expect the OEMs to bounce back from sluggish growth in the recent past. The replacement segment will to grow robustly. Indian tyres have a good country perception vis-a-vis other low-cost source countries. Radialisation will accelerate within two-three years, as well. So the future of the industry based out of India is quite dynamic and interesting, in my opinion.

A marginal player in the tyre industry a decade ago, Apollo Tyres leads the replacement market in the heavy vehicle and car radials segments. It has achieved this through acquisitions and contract manufacturing.

One of the reasons for Apollo Tyres going in for a greenfield project is its confidence to expand its market share. "The focus is to increase our market share to 25 per cent from 15-18 per cent in all the market segments," Mr. Onkar Kanwar says.
Bus and truck tyres account for a lion's share of the industry's revenues. Since the OE market is margin-sensitive, all the action is focused on the lucrative replacement market, especially in the heavy vehicles segment. According to Satish Sharma, product manager at Apollo Tyres, "The size of the truck tyre replacement market is 4 lakh tyres per month, and our share in that is 25 per cent." Though the volume will be small, talks have been initiated with Volvo India.

Apollo Tyres is also giving MRF Ltd, the leader in the car tyres market, a run for its money. Its Apollo Excel tyres, rolled out from its Baroda plant, have received an excellent response in the marketplace, according to the company. In the OE segment MRF has been losing its hold to Bridgestone. And in the replacement market, Apollo Tyres has become a major threat. Apollo Tyres is now negotiating with Hyundai Motors and Hindustan Motors for OE sales.

The Kanwars want to reach top spot in the light commercial vehicles segment by March 2001. In the two wheeler market, Apollo is focusing on the motorcycle tyres market.
To boost sales, Apollo Tyres has tied up with Castrol India and Kotak Mahindra Finance. Apollo Tyres dealers will stock Castrol lubes and improve their earnings. The tie-up with Kotak Mahindra will facilitate sales by providing finance for tyre purchases, for the first time in India. Apollo Tyres has increased its ad budget to Rs 35 crore from Rs 25 crore earlier, in order to push sales.

With all car makers planning to expand capacities, the car radial market is expected to expand rapidly. According to the Apollo management, the company sells 1.1 lakh of the 5 lakh car radials sold per month in India today.

At present, the company's tyres are fitted as OE in Hindustan Motors' Ambassador and Contessa models, in tractors from Tafe, Punjab Tractors and Mahindra & Mahindra, and trucks made by Ashok Leyland and Telco.

Conclusion

With the Indian economy set for a growth rate of around 8 percent commencing 2005/2006, and with the massive increase in
infrastructure developments and the $18 billion boost for highway and road construction, the Indian tyre industry is set for an average annual growth rate of at least 8 percent. It is mature enough to withstand the threat of cheap imports arising from possible Free Trade Agreements with countries like Thailand. The other challenge facing the Indian tyre industry is the high import duties of raw materials, compared to its competitors in the rest of Asia. But backed by the rising demand of the country's booming automobile sector, which crossed the 1 million sale mark in 2004, the Indian automotive tyre sector, and indeed the rubber industry, is set for an even brighter future.

While the import of tyres had not been very high so far, he said that with the import duties expected to be scaled down, tyre imports by the country would also go up. Further, the huge demand for tyres in India and the accelerated pace of import duty reduction through regional trading agreements would increase the import of tyres, he added.

Capacities are not coming up fast enough. Technology is the preserve of a handful of manufacturers. This itself is a bottleneck. Apart
from the Golden Quadrangle and north-south and east-west corridors, our road network is still poor. Law enforcement on banning overloading in mostly on the intra state routes. The transportation sector too is fragmented and unable to fully adopt new technology tyres. These are some of the factors that are delaying radialisation.