CHAPTER – 5

WHY TYRE MANUFACTURERES NOT DIVERSIFIED

a. Demand and Supply

Supply and demand is perhaps one of the most fundamental concepts of economics and it is the backbone of a market economy. Demand refers to how much (quantity) of a product or service is desired by buyers. The quantity demanded is the amount of a product people are willing to buy at a certain price; the relationship between price and quantity demanded is known as the demand relationship. Supply represents how much the market can offer. The quantity supplied refers to the amount of a certain good producers are willing to supply when receiving a certain price. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship. Price, therefore, is a reflection of supply and demand.
The relationship between demand and supply underlie the forces behind the allocation of resources. In market economy theories, demand and supply theory will allocate resources in the most efficient way possible. How? Let us take a closer look at the law of demand and the law of supply.

The Law of Demand

The law of demand states that, if all other factors remain equal, the higher the price of a good, the less people will demand that good. In other words, the higher the price, the lower the quantity demanded. The amount of a good that buyers purchase at a higher price is less because as the price of a good goes up, so does the opportunity cost of buying that good. As a result, people will naturally avoid buying a product that will force them to forgo the consumption of something else they value more. The chart below shows that the curve is a downward slope.
A, B and C are points on the demand curve. Each point on the curve reflects a direct correlation between quantity demanded (Q) and price (P). So, at point A, the quantity demanded will be Q1 and the price will be P1, and so on. The demand relationship curve illustrates the negative relationship between price and quantity demanded. The higher the price of a good the lower the quantity demanded (A), and the lower the price, the more the good will be in demand (C).

The Law of Supply

Like the law of demand, the law of supply demonstrates the quantities that will be sold at a certain price. But unlike the law of demand, the supply relationship shows an upward slope. This means that the higher the price, the higher the quantity supplied. Producers
supply more at a higher price because selling a higher quantity at a higher price increases revenue.

A, B and C are points on the supply curve. Each point on the curve reflects a direct correlation between quantity supplied (Q) and price (P). At point B, the quantity supplied will be Q2 and the price will be P2, and so on.

**Time and Supply**

Unlike the demand relationship, however, the supply relationship is a factor of time. Time is important to supply because suppliers must, but cannot always, react quickly to a change in demand or price. So it is
important to try and determine whether a price change that is caused by demand will be temporary or permanent.

Let’s say there’s a sudden increase in the demand and price for umbrellas in an unexpected rainy season; suppliers may simply accommodate demand by using their production equipment more intensively. If, however, there is a climate change, and the population will need umbrellas year-round, the change in demand and price will be expected to be long term; suppliers will have to change their equipment and production facilities in order to meet the long-term levels of demand.

Supply and Demand Relationship

Now that we know the laws of supply and demand, let’s turn to an example to show how supply and demand affect price.

Imagine that a special edition CD of your favorite band is released for $20. Because the record company’s previous analysis showed that consumers will not demand CDs at a price higher than $20, only ten CDs were released because the opportunity cost is too high for
suppliers to produce more. If, however, the ten CDs are demanded by 20 people, the price will subsequently rise because, according to the demand relationship, as demand increases, so does the price. Consequently, the rise in price should prompt more CDs to be supplied as the supply relationship shows that the higher the price, the higher the quantity supplied.

If, however, there are 30 CDs produced and demand is still at 20, the price will not be pushed up because the supply more than accommodates demand. In fact after the 20 consumers have been satisfied with their CD purchases, the price of the leftover CDs may drop as CD producers attempt to sell the remaining ten CDs. The lower price will then make the CD more available to people who had previously decided that the opportunity cost of buying the CD at $20 was too high.

**Equilibrium**

When supply and demand are equal (i.e. when the supply function and demand function intersect) the economy is said to be at
equilibrium. At this point, the allocation of goods is at its most efficient because the amount of goods being supplied is exactly the same as the amount of goods being demanded. Thus, everyone (individuals, firms, or countries) is satisfied with the current economic condition. At the given price, suppliers are selling all the goods that they have produced and consumers are getting all the goods that they are demanding.

As you can see on the chart, equilibrium occurs at the intersection of the demand and supply curve, which indicates no allocative inefficiency. At this point, the price of the goods will be $P^*$ and the quantity will be $Q^*$. These figures are referred to as equilibrium price and quantity.
In the real market place equilibrium can only ever be reached in theory, so the prices of goods and services are constantly changing in relation to fluctuations in demand and supply.

**Disequilibrium**

Disequilibrium occurs whenever the price or quantity is not equal to $P^*$ or $Q^*$.

**Excess Supply**

If the price is set too high, excess supply will be created within the economy and there will be allocative inefficiency.

At price $P_1$ the quantity of goods that the producers wish to supply is indicated by $Q_2$. At $P_1$, however, the quantity that the
consumers want to consume is at Q1, a quantity much less than Q2. Because Q2 is greater than Q1, too much is being produced and too little is being consumed. The suppliers are trying to produce more goods, which they hope to sell to increase profits, but those consuming the goods will find the product less attractive and purchase less because the price is too high.

**Excess Demand**

Excess demand is created when price is set below the equilibrium price. Because the price is so low, too many consumers want the good while producers are not making enough of it.
In this situation, at price P1, the quantity of goods demanded by consumers at this price is Q2. Conversely, the quantity of goods that producers are willing to produce at this price is Q1. Thus, there are too few goods being produced to satisfy the wants (demand) of the consumers. However, as consumers have to compete with one another to buy the good at this price, the demand will push the price up, making suppliers want to supply more and bringing the price closer to its equilibrium.

**Shifts vs. Movement**

For economics, the “movements” and “shifts” in relation to the supply and demand curves represent very different market phenomena:

1. **Movements**

   A movement refers to a change along a curve. On the demand curve, a movement denotes a change in both price and quantity demanded from one point to another on the curve. The movement implies that the demand relationship remains consistent. Therefore, a movement along the demand curve will occur when the price of the
good changes and the quantity demanded changes in accordance to the original demand relationship. In other words, a movement occurs when a change in the quantity demanded is caused only by a change in price, and vice versa.

Like a movement along the demand curve, a movement along the supply curve means that the supply relationship remains consistent. Therefore, a movement along the supply curve will occur when the price of the good changes and the quantity supplied changes in accordance to the original supply relationship. In other words, a movement occurs when a change in quantity supplied is caused only by a change in price, and vice versa.
2. Shifts

A shift in a demand or supply curve occurs when a good’s quantity demanded or supplied changes even though price remains the same. For instance, if the price for a bottle of beer was $2 and the quantity of beer demanded increased from Q1 to Q2, then there would be a shift in the demand for beer. Shifts in the demand curve imply that the original demand relationship has changed, meaning that quantity demand is affected by a factor other than price. A shift in the demand relationship would occur if, for instance, beer suddenly became the only type of alcohol available for consumption.
Conversely, if the price for a bottle of beer was $2 and the quantity supplied decreased from Q1 to Q2, then there would be a shift in the supply of beer. Like a shift in the demand curve, a shift in the supply curve implies that the original supply curve has changed, meaning that the quantity supplied is effected by a factor other than price. A shift in the supply curve would occur if, for instance, a natural disaster caused a mass shortage of hops; beer manufacturers would be forced to supply less beer for the same price.
Rising Imports Run Down Indian Tyre Cartel

What the government threatened to do, the import market is already doing. The government’s rhetoric against industry cartels seems to have set market forces in motion as imports have started threatening the long reign of the tyre cartel in the country.

Import of radials for commercial vehicles from China reached an all-time high in the first quarter this fiscal and it looks like it is just the tip of the iceberg. As per industry estimates, from a nominal 11,000 tyres per month in 2004, tyre imports have shot up to 68,000 per month in the first quarter this year, raising its share from 1.2 per cent to over 8 per cent. The increase is despite the provisional anti-dumping duty imposed on imported bias tyres from China and Thailand in October last year.

The imports may break the stranglehold of an industry that has been dubbed as a cartel by highly placed officials on more occasions than one. The Prime Minister’s attack against cartels last week came barely a month after finance minister mentioned tyre sector as one industry where cartels rule the roost. “There are well known cartels,
especially in tyre and cement industry... I don’t deny that there are many unseen cartels in India’s economy,” Chidambaram had said.

As reported by The Indian Express earlier, there have been numerous instances of indiscriminate price hikes by the tyre industry collectively throughout last year. While these have been attributed to increases in raw material prices, particularly the price of natural rubber, a corresponding roll back did not happen when natural rubber prices fell.

“Government continues to support the industry and carry on with the anti-dumping investigations of Chinese imports. To break a cartel, imports need to be encouraged and nothing is being done to remove countervailing duty as well,” said Indian Foundation of Transport Research and Training convener S P Singh.

Commercial vehicle market leader Tata Motors had also shot off a letter to the investigating body favouring imports and alleging the tyre industry of opportunistic pricing. “Domestic tyre manufacturers have not added adequate capacities to keep pace with the robust growth in
the commercial vehicle sector. The manufacturers are now reaping the harvest of the widening demand supply gap," the letter said, adding that some companies resort to opportunistic pricing at crucial junctures. With imports on the rise what is more disconcerting for the domestic industry is the fact that most of them are in the radials segment, a business where the Indian industry is rather weak. Currently, only JK Tyres produces radials in relatively small proportions.

"Most major tyre companies like Apollo and Cear have plans for radial production but the capacities will come only after two to three years," said Automotive Tyre Manufacturer's Association director general D Ravindran. "In the interim, imports will rise as there is a capacity constraint here. However, current radial import data is inflated because cross ply tyres are being branded as radials and imported here," said.

For now, growth is solely in the replacement market which accounts for 60 per cent of the commercial vehicle tyre market today. But with radials being the future of Indian commercial road transport,
and global majors like Pirelli, Continental and Goodyear waiting in the wings, the days of cartelisation may well be numbered.

**Cartel that rolled**

- Tyre prices were revised thrice last year. Natural rubber prices increased from Rs 78 per kg to Rs 116 per kg triggering hikes
- Rubber prices went back to Rs 80 per kg in September but generated only a partial roll back
- Anti-dumping duty imposed on October 1 even as imports accounted for only 2.59 per cent of replacement market
- Import of radials likely to drive growth. Radialisation in domestic commercial vehicle industry is a low 2 per cent

**Tyre Industry Supports Rubber Replantation for Increasing Production**

With the prices of rubber rising due to rising domestic demand from the tyre industry, rubber farmers are hoping for a fresh replantation package from the centre government. Even the tyre industry is demanding for a fresh replantation package for raising production.
"We support the Rubber Board's plea to the Centre for jacking up the replantation incentive from the current 20% of the farm costs to 30%, Rajiv Budhraja, Automotive Tyre Manufacturers' Association (ATMA) director-general, told FE.

About 57% of rubber from Indian plantations go to tyre makers. In the absence of a lucrative replantation policy, rubber farmers are unwilling to cut down their old trees and replant them with high yielding ones.

A rubber tree has an economic life of 28 years, not counting its first six to seven years of early tree hood. In later years, latex yield falls.

Instead of sweetening up the replantation mission, in some categories, the Rubber Board has even brought down the replantation subsidy. Under traditional plantation category, replantation subsidy was brought down to Rs 19,500 per hectare from Rs 20,000 per hectare. "Rather than spend about Rs 1 lakh in replanting, the farmers would prefer to continue to make the most out of their old trees", Josukutty Antony, president, Rubber Nursery-Owners Association, says.
if the commerce ministry promptly takes up the issue of motivating rubber farmers, the re-plantation subsidy could go up by about Rs 10,000 per hectre to Rs 29,500 per hectare. However, considering that annual budgets and plan outlays on rubber are firmed up in advance, any revisit to the perks package is likely only next year.

Rubber Board sources confirmed that the best of the re-plantation perks in 2007-2011 outlay has been skewed in favour of the non-traditional areas. The board's field studies also reflect apprehensions that farmers are going easy on re-plantation.

Interestingly enough, even in the meeting of the Rubber Board council early this month, it was an ATMA spokesman who first brought up the need to make the replantation subsidy sufficiently sweet to lure the reluctant farmer. The tyre industry is anticipating a huge domestic supply shock in 2011-2012. The domestic demand-supply gap was already at its worst, when consumption grew by 4.4% and production dropped by 3.2% in 2007-2008.
With Chinese tyre imports 'dumped' at almost 30% lower prices and higher import costs for both synthetic and natural rubber, the main option for the tyre industry is to play catalyst...

**Tyre Firms to Invest Rs 2,000 Crore in 2010**

Bus and truck radial tyres manufacturers are together putting up Rs 2,000 crore investment next fiscal in expanding capacities.

Companies such as Apollo Tyres, Birla Tyres, J K Tyre, Ceat and Bridgestone have together committed this investment in either setting up greenfield sites or adding new lines at existing plants.

This combined expansion should add about four lakh tyre sets per month to the existing domestic manufacturing capacity of 12 lakh sets per month.

One would have thought that this level of capacity expansion should take care of shortages which commercial vehicle makers may be facing right now and put a stop to uncompetitive imports from markets such as China and Thailand.
But that is not the case. A recent directive by the Centre, proposing imposition of a stiff anti-dumping duty on truck and bus radial tyre imports from China and Thailand appears to have opened a Pandora’s Box.

While the tyre manufacturers have welcomed the anti-dumping duty, the tyre dealers are opposing it.

The Automotive Tyre Manufacturers Association (ATMA) cited unfair trade practice by Chinese and Thai manufacturers, which are allegedly exporting tyre to India at prices even lower than those of some raw materials, while supporting duty on imports.

The Director General of ATMA, Rajiv Budhraja, told DNA, “In most cases, tyre imports are not happening because of any demand-supply gap. Imports are being done by small firms, at prices where the landed cost is much lower than domestic prices. We had requested for imposition of anti-dumping duty way back in 2007, and the government has only indicated now that it is planning to impose this levy. Any opposition to this duty is not right.”
Budhraja cited import figures to bolster his claim, 5 years ago, total radial tyre imports for trucks and buses stood at 80,000 units in a year. But this figure has reached 1.2 lakh units per month now. This, despite the government imposing a similar anti-dumping duty on ‘bias’ tyres some years back after similar instances of dumping by China and Thailand.

The All India Tyre Dealers’ Federation (AITDF) has written to the government opposing any new levy on tyre imports.

SP Singh, convener, AITDF says that not only will the new levy make tyre imports dearer by Rs 3,000-4,000 per tyre, it will also result in shortage of tyre supply to vehicle makers.

“Last year, the government had imposed quantitative restrictions on import of truck/bus radials, which resulted in shortage of tyres in 2009, besides reducing radial imports to just 25,000-30,000 a month from earlier monthly average of 1.3 lakh. Also, domestic tyre makers raised prices and strangulated the after-market”.
So where does the truth lie? The new duty is yet to be imposed, but if it is levied, imports would become dearer by between $25 and $99 per tyre set. Budhraja denies any supply shortages, pointing out that imports are still allowed.

According to ATMA, a domestic radial tyre set (tyre, tube and flap) costs Rs 15,000-17,000 whereas Chinese tyre sets can be bought for Rs 12,000. So for a normal truck, for example, the differential could work out to be upwards of Rs 22,000.

**Tyre Industry Demands Duty-Free Import**

With a serious crunch operating in the availability of natural rubber (NR), the tyre industry has reiterated its demand for duty-free import of 1 lakh tonnes of NR without any further delay.

The tyre industry, that consumes 57 per cent of the natural rubber produced in the country, is facing the worst ever raw material availability crisis. Over the last few days, the availability of sheet rubber has been woefully inadequate to meet the requirement of the industry that is already bearing the brunt of high rubber prices, Rajiv Budhraja,
Director General, and Automotive Tyre Manufacturers' Association, said. Currently, domestic NR prices are ruling at a higher level than even international prices. Natural rubber accounts for 41 per cent of the raw material cost in the tyre industry, he said.

“It has never happened that the very availability of sheet rubber becomes an issue despite the fact that the natural rubber prices have touched a historic high. The average landed price of NR was Rs 134 during July, which is 51 per cent higher than the average price in September last year,” he said.

Anticipating Price

Despite the fact that the production of natural rubber has gone up by almost 30 per cent during April-July this year, the industry is facing the crunch. On the contrary, consumption has gone up by only 21 per cent in the sand period. It is believed that rubber growers and traders are holding on to the stock in anticipation of further rise in the prices of rubber, he alleged.
"The supply crunch, if continued, is likely to seriously disrupt production schedules of tyre companies. We therefore urge the government for immediate intervention by way of allowing the duty-free import of 1 lakh tonnes of natural rubber to tide over the current crisis," Budhraja said.

A demand-supply imbalance is unfortunate for a commodity where a fine balance can be achieved if producing and consuming interests work in tandem. The production-consumption gap, which was 49 per cent during April-July 2007, has narrowed down to 22 per cent in April-July 2008.

The industry will, unfortunately, need to look for increased imports if the existing availability crisis does not subside, he added.

**Competition Edge**

Under present circumstances, if duty-free NR import is not allowed or the availability issue is not resolved, the competitiveness of Indian industry will take a severe hit. Already, the tyre manufacturers
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Tyre Shortage Hits Market

Auto makers in India are expected to hit a roadblock with tyre shortage in the market, led by the sudden surge in car sales creating a mismatch in demand and supply. The prices of car and two-wheeler tyres have risen by up to 7 percent.
There has been a continuous upward trend in car sales in India and the demand is growing each day. However, tyre makers are failing to keep up with the rising demands from car manufacturers in India. While production of tyres has increased in the past few weeks, the supply of tyres has not kept pace, resulting into shortages. The prices of car and two-wheeler tyres have risen by up to 7% this festival season due to unprecedented demand for vehicles and lower supply, and also due to surge in natural rubber prices.

Rubber accounts for about half of the total raw material cost of tyre companies. According to Rubber Board data, natural rubber prices have risen about 50 per cent to Rs 10,500/100 kg in the last six months.

The total production of tyres in September 2009 was up 12 percent at 79,82,730 in comparison with 7140342 during the same period last year. Two-wheelers and passenger cars segments reported the highest production with an increase of 18 percent and 11 percent respectively, while trucks/buses and light commercial vehicle segments grew by 6 and 4 percent respectively.
Auto Analyst Abdul Majeed said, "Also I think raw material prices which have been really volatile that has been one of the reason for this kind of an mismatch in supply-demand..."

The demand-supply gap is not an easy one to fill, as some tyre makers will need to invest heavily to increase capacity. The tyre industry also has to grapple with raw material price volatility, rupee appreciation and cheap Chinese imports.

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 countries. This has been helped by relatively low transportation costs for the inter-regional movement of tyres - about $1-2 for a passenger tyre. In the last decade all manufacturers have tried to increase productivity in existing operations in order to become low-cost producers. The continuing drive for improved productivity has resulted in excess capacity in many areas and product sectors.

The overall outlook for the tyre industry is dependent upon supply much more than demand. There is a close relationship between aggregate supply and profitability for individual tyre companies. As a result there have been gradual moves towards consolidation. Before 1985 a dozen large companies dominated the world tyre market, but after a rapid series of mergers and acquisitions, seven companies emerged with three-quarters of the market
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**Competition Edge**

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**Indian Tyre Industry**

Budget 2009-10 has failed to address the long pending anomaly of an inverted duty structure. Customs duty on natural rubber, the principal raw material for the tyre industry is at 20%, whereas the duty on tyres (finished product) is 10%, or even lower, under regional trade agreements. The current price of natural rubber in India, at Rs 97-100
per kg, is higher by Rs 15-20 per kg than the corresponding international natural rubber price. Coupled with higher domestic price is the issue of extremely tight natural rubber availability domestically. In such a scenario, the inverted duty structure only adds to the woes of the industry, depriving it of accessing a key raw-material at a competitive price. By letting this anomaly continue, the government has failed to demolish one of last bastions of tariff inconsistency.

The sharp volatility in the raw material prices, in particular natural rubber prices, has been the bane of the tyre industry in India. In the last three months, the natural rubber prices have gone up by as much as 40% forcing the industry to import the commodity as international prices have been ruling at a much lower level. Unfortunately, the tyre industry in India is faced with a situation where in the import of rubber as raw material is discouraged, while the import of tyres as finished product is encouraged. In a globalised world where tyre companies in other countries have benefitted from a worldwide dip in raw material prices, tyre companies in India had to make do with high raw material prices impacting the competitiveness of the industry.
The passenger car tyre imports have gone up by a whopping 51% in the last three years. According to figures supplied by DGCI&S (Director General of Commercial Intelligence and Statistics), the import of passenger car tyres has gone up from 1,94,000 units in 2002-03 to 22,66,000 in the first nine months of fiscal 2008-09.

Besides large-scale dumping of cheap Chinese tyres into India, it is the unfair practices undertaken by independent importers through means such as under invoicing and sale of imported tyres on cash without paying VAT etc that has given imported tyres huge cost advantage over Indian tyres. Putting the import of radial bus and truck tyres on the restricted list in November last year has certainly helped in checking the no-holds-barred entry of Chinese tyres in India. The domestic market is also showing signs of resurgence. After languishing in the negative territory in 2008-09, the truck and bus tyre production saw a jump of 6% in April this year. Similarly, sales of passenger car tyres which remained stagnant in the last fiscal has grown 7% in April. However, the export scenario continues to be grim with truck and bus
tyre exports plunging 18% and passenger car exports down 33% in April 2009 over April 2008.

**Tyre Industry May Miss Outsourcing Boom**

The outsourcing boom that’s taking the entire nation by storm is likely to have little impact on the tyre industry that has huge potential, thanks to the lopsided policies of the government.

The tyre industry needs to source rubber at global prices. Availability of rubber at par with international majors like Continental, Pirelli or Yokohama would lead to development of India as a base for manufacturing, according to Anil Sampat, an industry analyst and former rubber industry insider.

India’s large players are small compared with global midsized companies such as Continental, Pirelli or Yokohama, which are about $2-2.5 billion in terms of sales.

Indian companies are yet to achieve this size and most are less than one-fifth the size of such medium players globally.
India's largest player MRF is still one fifth in size of global companies. The only way the Indian tyre industry can grow and reach global scale is to attract investments from international tyre majors as the industry is capital intensive.

All India Rubber Industry Association (AIRIA) a year back had hinted on the US$200 billion outsourcing opportunity. It said if India could even garner one per cent of this, it would have made an impact.

But this is unlikely, reiterates Sampat, a former AIRIA president. “The market in India is worth about Rs 10,000 crore. It is in the hands of four big players, two medium players and few small players. The big four - and here I am assuming Vikrant and JK are merged - are likely to have a 2002-03 turnover of Rs 8,000 crore,” he adds.

Two medium players - Goodyear and Birla - should account for Rs 1,000-1,200 crore. The rest should notch up another Rs 1,000 crore.

With a market size of Rs 10,000 crores, the minimum critical mass is Rs 2,000 crore. Below this size, Indian players will find it hard to survive.
Globally the tyre industry is a $70-billion market. All the Indian players rank between 10 and 20 globally. The top three worldwide have sales in the range of $12-13 billion.

The small size of Indian companies is a source of worry, says Sampat. With tyre industry expected to grow only by 2 per cent, “real growth can come only when India offers world class manufacturing facilities for global players,” he points out.

The industry is currently suffering as natural rubber, the major raw material input in cost terms, has become expensive.

This has hurt export of rubber products. The price of natural rubber has been rising for a year. It is presently ruling at Rs 53 per kg ex-Kottayam.

The production of natural rubber for 2002-03 was to the extent of 6,49,435 tonne as against consumption of 6,95,425 tonne. The import of natural rubber was 26,229 tonne as against export of 55,311 tonne.
Growth of production of new rubber was 4.12 per cent as compared to the growth rate of 9.54 per cent in consumption. The government was hugely subsiding natural rubber exports where there was very little value addition.

**Tyre Makers on Rough Terrain**

These are not the best of times for the tyre sector. The reduction in raw material price is of little cheer to manufacturers as they are up against a huge drop in demand, rupee depreciation and import of Chinese tyres.

"The benefit due to the reduction in raw material price has been, to a great extent, offset by the 30 per cent slump in demand. The cost of production has, therefore, not changed much," Mr. Paras K. Chowdhary, Managing Director, Ceat, told Business Line.

"While natural rubber prices came down to Rs 65 from Rs 140 a kg, crude prices crashed to $45 a barrel from over $140. This was of little help as we are still consuming the raw material procured at a far
higher price during September-October,” said Mr. Arnab Banerjee, Vice-
President, Sales and Marketing, Ceat.

“As of now, the suppliers of synthetic rubber and petroleum
products have not given us any relief by way of fall in crude price,” said
Mr. Arun K. Bajoria, President, JK Tyre.

Stock pile up

The other challenge for the tyre industry is the pile-up of
inventories. A top industry source said that major manufacturers have
built up levels of up to two months.

Between February and July, tyre makers had hiked prices by
about 14 per cent. “Over 12-15 months, rubber prices increased to Rs
140 from Rs 70 and crude price rose to $140 from $89. But we did not
pass on the full impact of raw material escalation to the customers then
because of the competitive pressures,” said Mr. Banerjee.

The falling fortunes of the automobile industry, especially
commercial vehicles, has also been a big blow to tyre makers since 65
per cent of output is accounted for by this segment. Truck sales
dropped 50 per cent in November and nine per cent during April-November.

"On the raw material side, it is a favourable time but unfavourable from the viewpoint of demand. We expect demand to shrink even further in the next quarter," he said.

Demand from the OE (original equipment) category has almost halved. Ceat says that supplies to OEs, which used to be 20 per cent of demand earlier, have shrunk to 10 per cent. Export volumes are also decreasing, say manufacturers.

Despite the recent restriction on import of truck and bus radials, the industry is still concerned about Chinese tyre imports.

Mr. Raghupati Singhania, Chairman, ATMA, in a representation to the Union Commerce Minister, Mr. Kamal Nath, on Friday suggested that import of bias truck and bus tyres be placed in the 'restricted category', fearing large-scale import of radial tyres classified as bias tyres.
Following representation from the domestic tyre industry, the Commerce Ministry had placed import of radial truck and bus tyres in the restricted category in November and allowed import of tyres by actual users including vehicle manufacturers. The tyre industry feels that this move to place in the restricted list import of radial tyres may not be enough for it to tide over the crisis. The tyre industry is worried that Chinese tyre manufacturers, who are also facing a recession, may try to get this restriction removed, as India is one of the few markets that is expected to have a moderate growth.

B. Economics of Large Scale Production

India is the third largest producer of Natural Rubber and 4th largest manufacturer of rubber goods in the world. The Indian rubber industry provides direct employment to about 80,000 people and is a source of indirect employment for nearly 300,000 people. In the recent years, the Indian rubber industry has achieved overall expansion through increase in the range of products manufactured, number of units, technological advancement and self-sufficiency.
Today India has strength of around 6000 manufacturing units comprising of 30 large scale, 300 medium scale and around 5600 Small scale/tiny sector units, producing more than 35000 rubber products, with a turnover of Rs.200 billions.

The financial sector accounts for the largest share of software and services exports (40%), followed by manufacturing sector (12%). The quality and maturity of Indian software and BPO industry can be measured by the fact that 275 Indian software and ITES- BPO companies have acquired quality certifications. India’s key advantage is ready availability of highly trained and cost effective pool of skilled knowledge workforce. Indian information technology companies today serve more than 260 fortune 1000 companies and still growing. The Indian information technology industry has the strength of low infrastructure costs, knowledge of engineering & manufacturing, highly trained & skilled software engineers, and the availability of modern communication hardware.

The Indian rubber industry has certain distinct advantages like:
Extensive plantation sector

Local availability of the basic raw materials, like natural, synthetic rubber, reclaimed rubber, carbon black, rubber chemicals, fatty acids, rayon & nylon yarn etc.

All these help the Indian rubber industry for an all round development and a quantum jump in production and technological upgradation. The plantation sector with an estimated production of over 780,000 tons of natural rubber with a projection of more than one million tons in near future, holds a good promise for the development and growth of this industry. A boom in the automobile industry further enlarges the growth prospect besides rapid industrialization and improving standards of living in the country.

India and the world

India is the third largest producer, fourth largest consumer of natural rubber and fifth largest consumer of natural rubber and synthetic rubber in the world. Besides, India is the world's largest manufacturer of reclaimed rubber.
The per capita consumption of rubber in India is only 800 grams against 12 - 14 Kgs. in Japan, USA and Europe. This reflects tremendous growth potential for industry in the years to come as India is still far from market saturation.

Products manufactured

The Indian Rubber Industry manufacturers a wide range of products like all types of heavy duty earth moving tyres, automobile tyres & tubes, Bicycle tyres & tubes, automobile components, footwear, belting, hoses, camelback, latex products, pharmaceutical goods, besides moulded and extruded goods for mass consumption.

The products manufactured also cover hi-tech industrial items. The important areas which the industry caters to include application for the defence, civil, aviation, aeronautics, railways, engineering, agriculture, transport, textile, pharmaceuticals, mines, and steel industries. The Indian Rubber industry also serves the requirements of healthcare and sports sectors.
Main Sectors

The rubber industry in India is basically divided in two sectors - tyre and non-tyre sectors.

The tyre sector comprising mainly larger scale manufacturers produces all types of automobile tyres - conventional as well as radial tyres for consumption in India and exports to international markets.

By the share of rubber consumption, automotive tyre sector is the single largest sector accounting for about 50% consumption of all kinds of rubbers, followed by bicycles tyres and tubes (5%), footwear (12%), belts and hoses (6%), Camelback and latex products (7%). All other remaining rubber products put together account for 10% of the total production.

Exports

India's exports of rubber products including tyres exceed Rs.20 Billion. According to statistics, India saw a jump from 6,995 tonnes of
natural rubber exports in 2001 to 55,311 tonnes in 2002 and a further rise to 74,905 tonnes in 2003.

The range of products exported include automotive tyres & tubes, Bicycle tyres, Rubber and canvas footwear, pharmaceutical goods, rubber hoses, coats and aprons, belts and beltings, sheeting etc. These products are exported to over 85 countries, including USA, Germany, France, U.K., Italy, UAE, Saudi Arabia, Africa, Afghanistan, Bangladesh etc. India exports natural rubber in the form of ribbed smoked sheets (RSS), technically specified rubber (TSR) and centrifuged latex (CL) to 36 countries

**Lower input costs aid growth.**

Apollo Tyres announced on Friday a massive jump in its net profit at Rs 102.03 crore for the quarter ending December 31, 2009, from Rs 5.51 crore in the corresponding period last year.

Besides the high demand in the auto industry, the company attributed the strong show to the tightening of costs, higher realisation on a better product mix and relatively lower raw material costs.
Net sales in the three month period jumped 46.5 per cent to Rs 1,323.33 crore.

"The cost efficiencies have been good in the quarter, plus we had a higher realisation due to a better product mix. Also, raw material prices were lower in the quarter at about Rs 95 per kg, compared with Rs 120 per kg in the same period last year," Mr. Neeraj Kanwar, Vice-Chairman & Managing Director, Apollo Tyres Ltd, told Business Line.

On a consolidated basis, which includes the financials of the overseas arms of the company, the net profit jumped to Rs 187.36 crore, from Rs 8.90 crore in the same period last year.

Meanwhile, consolidated net sales more than doubled at Rs 2,296.22 crore.

**European operations**

Mr. Kanwar said that the Dutch arm Vredestein Banden B V, which was acquired in May last year, was performing very well, especially with high sales in the winter season. The South African arm also performed well in the quarter.
"The European operations are doing well. The demand in winter has been good as Vredestein is the number one winter tyre maker in Europe. The EBITDA margin for the company has gone up to 22.6 per cent from 14 per cent. Even for the South African operation, the EBITDA margin has increased to 11.5 per cent from 8 per cent," he said.

**Outlook**

Speaking on the outlook for the remaining part of fiscal, he said that it is going to be a challenging quarter for margins as the rubber prices are shooting up, though the volumes are still there.

"Rubber prices are now going up to Rs 150-155 per kg, which is very unrealistic for us. The rubber growers are taking the industry for a ride and our margins are becoming very thin. Plus, the inverted duty structure of the Government doesn't help. Import duty on rubber is around 20 per cent, while import duty for tyres is just 7 per cent," said Mr. Kanwar.

**Price review likely**
He added that the company, which increased product prices from January 1, may soon look at another hike if the raw material costs continue to be on a high. Apollo Tyres had increased car tyre prices by 7-8 per cent and truck tyre prices by five per cent.

Apollo Tyres shares on the BSE were up 3.62 per cent at Rs 52.90 on Friday.

**Apollo Tyres to raise output 60% in next fiscal**

With a view to becoming one of the top tyre makers in the world in the next five years, Apollo Tyres said it will increase its production by 60 per cent in the next fiscal.

The company plans to increase its exports to 20-30 per cent of the production, from 10-12 per cent now, besides an entry into the European passenger car radial market by April next year.

“By the first quarter of the next fiscal, we will increase our daily capacity to 1,600 tonnes. This will be aided by the new Chennai plant, which is slated to be operational by December 1, besides adding
additional capacity to the existing plants,” said Mr. Neeraj Kanwar, Vice Chairman & Managing Director, Apollo Tyres.

The current combined production capacity of Apollo’s three plants is around 1,000 tonnes. Apollo has one facility in Gujarat and two in Kerala. The Chennai plant, with a 400 tonne capacity, will have a daily production of 8,000 passenger car radials and 6,000 truck and bus radials. The company, however, plans to sell the majority of the production domestically.

By 2011, the company will invest Rs 2,200 crore in both the new plant and for the capacity expansion of the existing plants, said Mr. Kanwar. Mr. Kanwar said that it plans to start importing tyres from its recently acquired Dutch unit Vredestein Banden B V by next year. The Dutch company is a niche tyre maker which makes tyres only above 15 inches in size.

On tyre prices, he said, “We recently increased prices by 2.5-3 per cent in October, because rubber prices have been on the rise. As
and when it is required, we will correct it. A hike is only expected not before the end of the fiscal."

Higher Demand Helps JK Tyre Return to Profits

On the back of rising demand for tyres, JK Tyre and Industries has posted a net profit of Rs 59.5 crore for the quarter ended September 30.

The company had recorded a net loss of Rs 32.37 crore in the corresponding period last year.

Net sales during the quarter were up 7.7 per cent to Rs 937.7 crore, from Rs 870.76 crore last year.

Attributing the turnaround to better cost management and operating efficiencies, Mr. Raghupati Singhania, Vice-Chairman and Managing Director, JK Tyre, said, "Our operating profit has improved to 14.6 per cent compared with 0.6 per cent for the corresponding period last year."
“Our expansions are well on course. OTR tyre and car radial expansion projects shall be completed as per schedule early next year.”

Expanding Capacity

He added that the company’s plans for further increasing the TBR capacity from eight lakh tyres to 12 lakh tyres, and adding a 25-lakh tyres capacity for passenger car radials are also progressing well.

“The new site selection is expected to be completed shortly and construction of a new plant shall begin thereafter,” he said.

JK Tyres to Invest Rs 270 Cr in Mysore Unit

New Delhi, April 23 JK Tyres on Wednesday said it will invest Rs 270 crore to set up a new facility in Mysore for off-the road (OTR) tyres.

The company will invest Rs 120 crore in the first phase till March 2010 to produce 4,000 tyres, primarily for earth moving equipment maker BEML.
Of this, Rs 100 crore loan has already been provided by its joint venture partner BEML and the remaining Rs 20 crore will be raised through debt.

Post-March 2010, it is looking to augment the capacity to 9,000 units at an additional investment of Rs 150 crore. This capacity will be mainly for export to North and Latin America.

“With this expansion, our OTR production capacity will grow from 35,000 units to 39,000 units by March 2010. We are expecting the segment to grow at 10 per cent over the next two years,” said Mr. Raghupati Singhania, Vice-Chairman and Managing Director, JK Tyres.

The ultra large OTR tyres cost approximately between Rs 1 lakh and Rs 3 lakh. The domestic market size of these tyres that are used for application like mining and excavation is about 95,000 units.

The company intends to expand its presence in this segment in view of the high margins. Profits on OTR tyres are more than double compared with normal tyres.
Commenting on the overall industry outlook, Mr. Singhania said, "There is an improvement in the industry. Truck production, which had declined by 70-75 per cent in November-December last year, is now lower by 30-35 per cent. Passenger car numbers also seem to be reviving."

The company will also expand its passenger car radial tyres capacity at Gwalior by 2.5 million tyres to take it to 5 millions. "We were to invest Rs 50 crore in September last year to increase our passenger car radial tyres capacity. But with sentiment improving, we intend to go ahead with the investment," explained Mr. Singhania.

**Tyre Industry Invests Big, to Hike Capacity Soon**

The Indian tyre industry is rolling along despite high rubber prices and declining commercial vehicle sales. This, however, has not stopped the tyre industry from pumping in Rs 6,000 crores in the next two years to hike capacity.

The current auto slowdown has not put a spanner in the expansion plans of Indian tyre companies. Tyre majors like JK, Apollo,
Ceat, MRF, Birla, Bridgestone, together plan to invest about Rs 6,000 crore over the next two to three years.

While Birla Tyres is investing over Rs 1,000 crore, Ceat is pumping in Rs 800 crore and JK Tyres, Rs 1,100 crore. The tyre industry is confident that revenues will touch the Rs 32,000 crore mark up from the current Rs 19,000 crore.

Globally, over 90% of the tyres manufactured are in the radial category. In India, the current level of radialisation in the passenger car tyre category is over 95% and only 2 to 3% in the truck/bus tyre segment. This is where manufacturers see opportunity for growth.

Raghupati Singhania, VC & MD, JK Tyres said, “There was a 3% demand, now that 5% looking at this demand we are expanding our bus and truck radial facility from 3.6 lakhs per annum to 8 lakhs per annum seeing the opportunity in radialisation.”

While industry is confident of growth, they are concerned about rubber prices which are firming up again after stabilizing at Rs 85 per
kg. Cheap imports from China continue to worry and Indian OEMs aren’t helping either.

“We have been under tremendous pressure due to input costs in the last two years. We have been approaching Indian OEMs for price revision, the tyre industry is losing money on supply to OEMs,” Singhania added.

JK Tyres is looking at acquisitions in China which it has been using as a sourcing hub for the European markets. The tyre industry is also looking at the replacement market and exports for better margins.

Conclusion

The Indian Rubber Tyre industry growing at around 10% per year consumes around one million tonnes of natural rubber. India grows 780,000 tonnes of natural rubber and produces 18,000 tonnes of synthetic rubber per year and the balance 200,000 tons of rubber is imported from across the globe.
India uses a quarter of a million tonnes of carbon black, 40,000 tonnes of rubber chemicals and 50,000 tonnes of reclaimed rubber. India also uses large amount of tyre cords and fabric.

In view of the growth momentum in the Indian rubber industry there is a good potential for rubber machinery and for technical know-how as well as rubber chemicals.

Indian companies are fully competent and well poised to meet the global requirements of rubber products and are also open to join hands with foreign companies coming to India with their expertise and Doing Business with India! Apollo Tyres net zooms on cost efficiencies, high demand
a. A Compassion of Two Decades Performance

The Rs.20, 000 crore Indian Tyre Industry, is highly raw material intensive and predominantly a Cross Ply (or Bias) tyre manufacturing industry. It produces all categories of tyres, except Snow Tyres and Aero Tyre for which there is no demand domestically. Indian tyre industry is highly concentrated wherein 10 large manufacturers account for over 95% of the total tonnage production of 11.35 lakh M.T. On an average, 55% of the production is for replacement market, followed by 29.8% sold to OEMs directly and the remaining is exported.

Over the years, tyre manufacturers have developed a vast marketing network using dealers and depots and as such all types of
tyres are now easily available even in the remotest corner of the country. No doubt, international auto majors in India now roll out their vehicles using Indian manufactured tyres.

Slowdown in automotive industry and global economic in general negatively impacted the Indian tyre industry in 2009. The industry tonnage growth was only 2.19% during first nine months of FY09, compared to 7.38% growth experienced during the same period last year. Demand side was also severely affected as almost all auto manufacturers were forced to adjust their production last year. A major relief for tyre manufacturers was provided by the government by reducing the excise duty on tyres from 14% to 10% in December 2008, and further to 8% in February 2009.

Increasing Cost of Raw Materials: Raw materials primarily comprise of natural rubber, crude and steel based materials which have historically experienced volatility in prices, especially during the last few months when price of domestic natural rubber increased almost 40%. Given the fact that raw materials constitute around 70% of the cost of production, combined with the manufacturers' inability to pass on the
The industry manufactures tyres for almost every application. The companies are known for high-quality products.

The export of tyres from India has been consistently growing at 11 per cent annually and earns Rs 18.5 billion. Indian tyres are exported to 65 countries across six continents.

The Automotive Tyre Manufacturers Association (ATMA) has demanded a ban on exports to check the current bull phase in the market. It said that the supply shortage had hit hard the rubber-based industries, especially tyre industry.

However, such a move has no support as it would hit hard the small and medium rubber farmers. About 85 per cent of the rubber growers are small farmers with no more than two hectares of cultivable land. The traders argued that the Indian tyre industry is getting at Rs. 10 less than the international price per kg.

Ready for Radialisation

Radialisation of the Indian tyre industry was pioneered way back in 1977 by J.K. Tyres. Radialisation is gaining popularity particularly in
higher margin. Increasing the proportion of OTR in the product mix is seen as a measure to improve profitability.

**Increased Dumping:** Besides material price fluctuations and lack of radialization, the industry is also suffering intense competition from low priced tyres from China and other South East Asian countries. Despite being of a better quality, Indian manufactured tyres lose ground when it comes to pricing. Moreover, slowing automotive demand from developed countries has made India a lucrative market for cheap tyres, thus resulting in increased dumping of cheap tyres from China.

**Retreading:** Another area of concern for the tyre manufacturers is the increasing retreading, where the worn out tread of the old tyre is replaced with a new tread. Retreading costs approximately 20% of a new tyre and is therefore gaining popularity, especially in Southern part of the country. Elgi Tyres and Tread Ltd are the two major retreaders in India. Significance of such retreaders can be gauged by the fact that around 85% of the tyre demand is for replacement.
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CHAPTER – 6

PERFORMANCE OF DIVERSIFIED FIRMS IN

COMPARISON OF NON – DIVERSIFIED

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Increasing Cost of Raw Materials: Raw materials primarily comprise of natural rubber, crude and steel based materials which have historically experienced volatility in prices, especially during the last few months when price of domestic natural rubber increased almost 40%. Given the fact that raw materials constitute around 70% of the cost of production, combined with the manufacturers' inability to pass on the
increased cost to their customers due to intense competition, rise in prices of these materials have a huge impact on profitability.

**Increasing Radialization:** Unlike in the developed countries, radialization has not yet reached its dominance in India. Particularly the truck, bus and LCV segments continue to be largely a cross ply based. Despite offering higher mileage, lower fuel consumption and improved safety, radial tyres have not yet caught on primarily because of poor road conditions and high initial cost which is approximately 25% higher than bias tyres. Moreover, the two important raw materials required for producing radial tyres (Steel Tyre Cord and Polyester Tyre Cord) are not manufactured domestically. Moving towards radialization will be vital if tyre producers want to protect their share in international markets. As of 2008, radialization as a percent of total production in passenger car tyres, LCV and heavy vehicles was 95%, 12% and 3% respectively.

**Off the Road Tyres:** Last year saw the top manufacturers, including CEAT and JK Tyres increasing their capacity of OTR (Off the Road) tyre production. OTR tyres are customized tyres and provide relatively
higher margin. Increasing the proportion of OTR in the product mix is seen as a measure to improve profitability.

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Unresolved Tax Issue: The issue of inverted tax structure, wherein the import duty on natural rubber is 20% but import duty on finished tyres is as low as 10% still remains unaddressed. Operational inefficiency and taxation issues have been denting the competitiveness of Indian tyres.

Global Expansion: Several manufacturers are now moving global and are setting up manufacturing bases overseas. After acquiring Dunlop three years ago, Apollo Tyres recently acquired Vredetein Banden in Europe. JK Tyres acquired Tornel, a Mexican company last year to penetrate into American tyre market.

Despite these challenges, according to CARE Research, while the industry may register a tonnage growth of only 4.27% in FY09, the long term prospective seems to be bright. They expect the industry to experience a CAGR of approximately 8.21% between FY08 to FY13. Automotive companies have started experiencing increasing sales and raw material prices are stabilizing which will boost tyre sales over the coming months. However, experts suggest there will be some time lag
before profitability picks up as tyre manufacturers are still carrying high cost inventories.

The Indian tyre industry is raw-material oriented. Rubber forms nearly 70 per cent of the input costs. Any increase in the price of rubber will force tyre units to raise the prices of tyres. Manufacturers say the increase in tyre prices is lagging behind the increase in input costs. This is because of intense competition. It has resulted in very narrow profit margins for tyre companies.

In respect of cars and two-wheelers, tyres are to be replaced once in a while. But, a minimum of eight truck tyres have to be changed annually due to high wear and tear caused by bad roads. A truck tyre has a life span of 50,000 to 60,000 km compared to a life span of 40,000 to 50,000 km for a car tyre.

The Rs 145-billion Indian tyre industry constitutes about four per cent of the global tyre industry. Three leading companies account for 62 per cent of the sales, and are amongst the 20 large companies in the
world. The industry manufactures tyres for almost every application. The companies are known for high-quality products.

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Ready for Radialisation

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the passenger car segment. Radialisation in the truck and bus segment was introduced only in 1999 again by J.K. Tyres. However, the progress is slow.

Around 650,000 tyres a month are sold in the largest segment of the entire domestic tyre market, i.e., truck and bus tyres. Of this, only 2 to 3 per cent comprises radial tyres. Of course, in the passenger vehicle segment, the level of radialisation is high. The price of radial tyres is 50 to 60 per cent higher than the price of crossply tyres.

The truck and bus radial (TBR) market is an important growth segment for the future. But, the major players are unable to predict when exactly this segment will be ready for radialisation. It may take 5 to 15 years.

The J.K. Industries believes that the share of the radial tyres in the TBR market would go up from 2 to 3 per cent in 2005 to 15 per cent by 2010. However, the market leader Apollo Tyres is not that optimistic.
The Chennai-based MRF thinks that the technology for radial tyres need not come from foreign firms. It feels that we have to develop technology (for radial tyres) on our own.

Major players

Apollo Tyres is one of the fast growing tyre companies in the world and is the 15th largest in the globe. In India, its manufacturing plants are located in Perambra (Kochi) and Kalamassery (leased facility) in Kerala, Ranjangaon near Pune and Limela in Gujarat.

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Source: Economic Survey 2005-06, p.32
Apollo Tyres, India’s largest tyre maker by volumes, believes in growth with acquisitions. The company is looking at acquisitions in Europe and South East Asia. Early 2006, it acquired Dunlop Tyres International (proprietary) through an all-cash deal worth Rs 2900 million.

Apollo Tyres is all set to invest Rs 5200 million on a Greenfield facility near Chennai to manufacture radial tyres for trucks, buses and cars. The project is expected to generate employment for about 2000 people.

Apollo Tyres wants to import radial tyres for luxury cars like Mercedes Benz, BMW and Volkswagen from the company’s manufacturing facility in South Africa. It has decided to completely stop production of these tyres from its manufacturing facility in India in the next few months.

As part of the restructuring, Apollo has replaced the raw material source bases of Dunlop South Africa, with its own bases in China, Russia and Eastern Europe.
The company plans to invest in a new radial tyre plant with an initial investment of Rs 3 billion, going up to Rs 5 billion in the last phase. The new plant will make passenger car, truck, bus and farm equipment tyres.

Apollo International, a subsidiary of the Apollo Tyres Group, will invest Rs 3 billion during 2006 to 2008 for setting up Container Freight Station (CFS) and Inland Container Depot (ICD) at various ports of India. The group is showing interest in Jawaharlal Nehru Port Trust in Navi Mumbai and other locations including Kerala and North India.

The rise in rubber prices has prompted tyre major MRF to set up a small factory in Sri Lanka to procure rubber for retreading products. Rubber prices are reported to be cheaper by a couple of rupees in Sri Lanka.

The tyres qualified for speeds up to 240 kmph are specifically targeted for cars such as Mercedes S Class, Ford Mondeo and Skoda Laura. These tubeless tyres are produced at company's plant in Pondicherry. J.K. Tyres is expanding the capacity of its Banmore facility
near Gwalior in Madhya Pradesh, with an investment of Rs 2 billion in a period of three years, commencing from 2005. The capacity would go up from 2.2 million tyres to 3 million tyres. Besides expansion, the company also intends to set up another plant in the area.

The Madhya Pradesh plant started production in 1991 with a production capacity of 570,000 tyres per annum and a range of tyres and passenger radials in particular.

The state government has granted backward area package, and hence the company has continued to grow despite the increase in the raw material prices.

The J.K. Industries Ltd has undertaken some cost cutting operations operations which include reduction of overheads, improved working capital management and product re-engineering. Unlisted Ruia group has bought majority stakes in tyre companies Falcon Tyres and Dunlop India for Rs 2 billion. The automotive tyre and rubber product manufacturing firms are part of the Dubai-based Jumbo group. Jumbo held 74.5 per cent of Dunlop and 68 per cent of Talcon.
Major problems

Tyre prices are subject to frequent hikes. The prices of rubber have been spiraling in recent years. Also, petroleum, which is used extensively in the manufacture of tyres, is subject to frequent price hikes.

Natural rubber price has been going up steadily. It increased from Rs 30,360 a tonne in 2000-01 to Rs 32,280 a tonne in 2001-02, to Rs 39,170 a tonne in 2002-03. In April 2004, it was Rs 52,350 a tonne.

Tyre manufacturers elsewhere are getting access to cheaper Indian raw materials, and therefore Indian manufacturers are unable to compete on the export front.

The threat of cheap imported tyres from South Asian countries, primarily from China, Taiwan and Korea, is there. These tyres are underpriced by 20 to 30 per cent. This is cutting into the profit margins of dealers.

The industry also suffers from low productivity of labour. The current regulatory environment does not give management the right to
manage, and thus flexibility to reduce costs. A specific timeframe to undertake labour reforms should be adopted.

The import duty on the finished product, that is tyre, is also 15 per cent and under the various trade agreements such as the Bangkok agreement (where South Korea and China are also signatories), it is 12.9 per cent and under the South Asian Free Trade Agreement (SAFTA), it is 7.5 per cent. It is a classical case where the finished product, that is, automobile tyres, suffers from an inverted duty structure. This evidently needs urgent correction.

There is significant difference between sales tax imposed by various states. For instance, in Tamil Nadu, the sales tax on tyres is high at 13.6 per cent (12.6 per cent sales tax plus a resale tax of 1 per cent plus surcharge). But, in the neighbouring Pondicherry it was only 8 per cent. Consequently, there is a difference of Rs 1000 per truck tyre between these two states. In Chennai, around 10,000 truck tyres are sold per month against the potential for 20,000 tyres. Pondicherry is supplying the balance of 10,000 tyres.
Measures Needed

In view of steep rise in the price of natural rubber, tyre manufacturers want immediate withdrawal of the rubber export subsidy scheme.

The Rs 3500-5000 a tonne subsidy has led to an export of over 70,000 tonnes of natural rubber in 2003-04 against 13,300 tonnes in 2000-01.

The government proposes to make quality certification compulsory for tyres manufactured and sold in India. This means that tyres with Bureau of Indian Standards (BIS) certification only can be sold and foreign tyres cannot be sold through local outlets. This move would impact imports of cheaper tyres from China as well as companies like Kumho and Hankook.

The government seeks to ensure that manufacturers of pneumatic tyres and tubes cannot sell products that do not conform to the standards specified by the BIS.
The Pneumatic Tyres and Tubes for Automotive Vehicles (Quality Control) Order 2006 could therefore have serious consequences for imported brands. However, tyres and tubes manufactured and dispatched for export purposes will not come under purview of order.

There is need for stepping up investment in R&D to a level of Rs 15 billion if manufacturers are serious about developing technology for the TBR market.

b. The SWOT Analysis

SWOT Analysis is a strategic planning method used to evaluate Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves specifying the objective of business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. Technique is credited to Albert Humphrey, who led a convention at Stanford University in 1960s and 1970s using data from Fortune 500 companies.

A SWOT analysis must first start with defining a desired end state or objective. A SWOT analysis may be incorporated into the strategic
planning model. Strategic Planning, including SWOT and SCAN analysis, has been the subject of much research.

**Strengths:** attributes of the person or company that is helpful to achieving the objective.

**Weaknesses:** attributes of the person or company that is harmful to achieving the objective.

**Opportunities:** external conditions that is helpful to achieving the objective.

**Threats:** external conditions which could do damage to the objective.

Identification of SWOTs is essential because subsequent steps in the process of planning for achievement of the selected objective may be derived from the SWOTs. First, the decision makers have to determine whether the objective is attainable, given the SWOTs. If the objective is NOT attainable a different objective must be selected and the process repeated.
The SWOT analysis is often used in academia to highlight and identify strengths, weaknesses, opportunities and threats[citation needed]. It is particularly helpful in identifying areas for development.

Matching and converting

- Another way of utilizing SWOT is matching and converting.
- Matching is used to find competitive advantages by matching the strengths to opportunities.
- Converting is to apply conversion strategies to convert weaknesses or threats into strengths or opportunities.
- An example of conversion strategy is to find new markets.
- If the threats or weaknesses cannot be converted a company should try to minimize or avoid them.

Evidence on the Use of SWOT

SWOT analysis may limit the strategies considered in the evaluation. J. Scott Armstrong notes that "people who use SWOT might conclude that they have done an adequate job of planning and ignore..."
such sensible things as defining the firm's objectives or calculating ROI for alternate strategies."

These criticisms are addressed to an old version of SWOT analysis that precedes the SWOT analysis described above under the heading "Strategic and Creative Use of SWOT Analysis." This old version did not require that SWOTs be derived from an agreed upon objective. Examples of SWOT analyses that do not state an objective are provided below under "Human Resources" and "Marketing."

**Internal and external factors**

The aim of any SWOT analysis is to identify the key internal and external factors that are important to achieving the objective. These come from within the company's unique value chain. SWOT analysis groups key pieces of information into two main categories:

**Internal factors** – The strengths and weaknesses internal to the organization.
External factors – The opportunities and threats presented by the external environment to the organization. Use a PEST or PESTLE analysis to help identify factors.

The internal factors may be viewed as strengths or weaknesses depending upon their impact on the organization's objectives. What may represent strengths with respect to one objective may be weaknesses for another objective. The factors may include all of the 4P's; as well as personnel, finance, manufacturing capabilities, and so on. The external factors may include macroeconomic matters, technological change, legislation, and socio-cultural changes, as well as changes in the marketplace or competitive position. The results are often presented in the form of a matrix.

SWOT analysis is just one method of categorization and has its own weaknesses. For example, it may tend to persuade companies to compile lists rather than think about what is actually important in achieving objectives. It also presents the resulting lists uncritically and without clear prioritization so that, for example, weak opportunities may appear to balance strong threats.
It is prudent not to eliminate too quickly any candidate SWOT entry. The importance of individual SWOTs will be revealed by value of strategies it generates. A SWOT item that produces valuable strategies is important. A SWOT that generates no strategies is not important.

**Use of SWOT Analysis**

The usefulness of SWOT analysis is not limited to profit-seeking organizations. SWOT analysis may be used in any decision-making situation when a desired end-state (objective) has been defined. Examples include: non-profit organizations, governmental units, and individuals. SWOT analysis may also be used in pre-crisis planning and preventive crisis management. SWOT analysis may also be used in creating a recommendation during a viability study.

**SWOT - landscape analysis**

The SWOT-landscape systematically deploys the relationships between overall objective and underlying SWOT-factors and provides an interactive, query-able 3D landscape. The SWOT-landscape grabs different managerial situations by visualizing and foreseeing the
dynamic performance of comparable objects according to findings by Brendan Kitts, Leif Edvinsson and Tord Beding.

Changes in relative performance are continually identified. Projects (or other units of measurements) that could be potential risk or opportunity objects are highlighted.

SWOT-landscape also indicates which underlying strength/weakness factors that have had or likely will have highest influence in the context of value in use (for ex. capital value fluctuations).

**Corporate planning**

As part of the development of strategies and plans to enable the organization to achieve its objectives, then that organization will use a systematic/rigorous process known as corporate planning. SWOT alongside PEST/PESTLE can be used as a basis for the analysis of business and environmental factors.

- Set objectives – defining what the organization is going to do
➤ Environmental scanning: Internal appraisals of the organization's SWOT, this needs to include an assessment of the present situation as well as a portfolio of products/services and an analysis of the product/service life cycle

➤ Analysis of existing strategies, this should determine relevance from the results of an internal/external appraisal. This may include gap analysis which will look at environmental factors

➤ Strategic Issues defined – key factors in the development of a corporate plan which needs to be addressed by the organization

➤ Develop new/revised strategies – revised analysis of strategic issues may mean the objectives need to change

➤ Establish critical success factors – the achievement of objectives and strategy implementation

➤ Preparation of operational, resource, projects plans for strategy implementation

➤ Monitoring results – mapping against plans, taking corrective action which may mean amending objectives estrategies.[8]
Marketing

In many competitor analyses, marketers build detailed profiles of each competitor in the market, focusing especially on their relative competitive strengths and weaknesses using SWOT analysis. Marketing managers will examine each competitor's cost structure, sources of profits, resources and competencies, competitive positioning and product differentiation, degree of vertical integration, historical responses to industry developments, and other factors.

Marketing management often finds it necessary to invest in research to collect the data required to perform accurate marketing analysis. Accordingly, management often conducts market research (alternately marketing research) to obtain this information. Marketers employ a variety of techniques to conduct market research, but some of the more common include:

- Qualitative marketing research, such as focus groups
- Quantitative marketing research, such as statistical surveys
- Experimental techniques such as test markets
> Observational techniques such as ethnographic (on-site) observation

> Marketing managers may also design and oversee various environmental scanning and competitive intelligence processes to help identify trends and inform the company's marketing analysis.

Using SWOT to analyse the market position of a small management consultancy with specialism in HRM.[9]

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation in marketplace</td>
<td>Shortage of consultants at operating level rather than partner level</td>
<td>Well established position with a well defined market niche.</td>
<td>Large consultancies operating at a minor level</td>
</tr>
<tr>
<td>Expertise at partner level in HRM consultancy</td>
<td>Unable to deal with multi-disciplinary assignments because of size or lack of ability</td>
<td>Identified market for consultancy in areas other than HRM</td>
<td>Other small consultancies looking to invade the marketplace</td>
</tr>
</tbody>
</table>
Objectives of the SWOT analysis

This study has the objective to give an overview on the use of nanomaterials in the automotive sector and has not the goal to be exhaustive. It will give to small and medium sized enterprises (SMEs) possibility to have a concise description of development in this sector.

Four main aspects of the industrial branch will be described in the SWOT analysis. The “Strengths” and “Weaknesses” will give information on the actual State of the Art concerning the use of nanomaterials and the “Opportunities” and “Threats” will describe future Trends and Vision in the industrial sector. In order to give precision about the definition of the terms “Strengths”, “Weaknesses” “Opportunities” and “Threats” in relation to the project NanoRoadSME, specific questions were defined for each of the four aspects.

“Strengths”

Which nanomaterials are presently industrially used in the corresponding sector? What are their technological and socio-economic advantages?
"Weaknesses"

What are the actual technological and socio-economic barriers to be overcome concerning products and applications in the corresponding sector?

"Opportunities"

How can R&D opportunities in nanomaterials (new development of nanomaterials, scientific breakthroughs) solve the existing problems and improve the existing weaknesses of products?

"Threats"

What are the threats/risks linked with the new opportunities; technological, market and socio-economic risks?

SWOT Analysis of Tyre Industry

Tyre Industry is an integral part of the automobile sector. With an annual industry turnover of over Rs.12,300 crores, exports of over Rs.1250 crores, direct employment of over 1.25 lakhs and indirect employment of over 5 lakh persons and a tax contribution of over Rs.
3500 crores per annum. Indian tyre industry is a key sector of the Indian economy. India is amongst the select countries worldwide which has attained self-sufficiency in the production of all categories of tyres. Tyre industry is one of the highest payers of Excise Duty. Since tyre is an integral part of any automobile and plays a vital role in the running of the vehicle. Be it smooth rolling, cornering, coming to a standstill with minimum loss of time when brake is applied, moving over bad roads, on water logged roads, or expressways-tyre gives sustenance to efficient running of the vehicle. By providing firm grip on road while on the move, tyre prevents accidents. Notwithstanding its significance and important role, tyre industry did not get the due recognition and appropriate acknowledgement in the Auto Policy Vision Document as announced by the Government on 7th March, 2002.

Indian tyres are ideally suited for Indian road conditions. Domestic tyre companies have done extensive research and technology adoption/upgradation to understand the wide spectrum of Indian tyre market and consumers across all segments. There has been a continuous improvement in technology over the decades. Indian tyres
are fitted on the latest generation of new vehicles which are being introduced or exported from the country. Indian Tyre Industry offers a unique and unparallel warranty which extends to the entire functional life of the tyre and pro rata adjustment is given on claims due to manufacturing defects, if any. This is not done anywhere else in the world. Indian tyres reach out to customers even in the remotest parts of the country. This is made possible due to an extensive and vibrant marketing distribution network of tyre companies. Due to its comparative advantages- viz. competitive pricing, world class quality and service support-Indian tyre companies continue to face competition, on domestic turf as well as in global markets. Indian Tyre companies seek only level playing field to enable them to face competition.

**STRENGTHS**

i. Over six decades of experience in tyre manufacturing.

ii. Good availability of qualified and experienced technical and management personnel.

iii. Self sufficiency in tyre production (only some specialized tyres
are not produced in the country.

iv. Sufficient domestic demand for tyres with healthy growth in demand.

v. Sizeable exports on a continuous basis has created awareness of world market and confidence in competing in other countries.

vi. Competitive domestic market with multiple brands and sub brands offering wide choice to consumers.

vii. Following international and domestic standards prescribed for automotive tyres.

viii. Successful and fast absorption of international technology to suit Indian conditions and needs.


x. Well knit distribution network.

xi. Tyres are easily available and serviced even in remotest parts of the country.

xii. Unique warranty/claims policy extending to the entire life of a tyre.
xiii. Indian cross ply/bias truck tyres rated as the best in the world.

xiv. Several Indian tyre companies amongst the top 20 tyre companies of the world.

xv. 20% of total domestic production of truck and bus tyres is exported to over 60 countries.

xvi. Major exports to US, world’s largest tyre market.

xvii. All large companies are engaged in sustained exports as a long term commitment.

xviii. Significant progress in technology over the last 4 decades – from cotton reinforced tyres to high performance passenger car radials, all steel truck radials and farm radials being manufactured and exported from India.

WEAKNESSES

i. In comparison to global standards, smaller size of plants and hence less economic units.

ii. Lower productivity of labour, in comparison to world standards.
iii. Serious infrastructural and related bottlenecks – higher power and interest cost, poor road conditions, port connectivity, high transaction costs for exports, widespread corruption, lack of co-ordination between various Departments etc.

iv. Many units set up in far flung places and away from markets leading to cost escalation.

v. Unwanted controls still stifling manufacturing and other activities.

vi. Outdated labour laws.

vii. Proliferation of units.


ix. Higher share of and reliance on cross ply/bias truck tyres in exports – against the backdrop of shrinking share/demand of cross ply tyres in world markets.

**OPPORTUNITIES**

i. Robust economic growth, particularly vehicle production growth resulting in healthy demand growth for tyres in the future.
Export culture inculcated enabling participation in world tyre markets.

Excellent brand equity of Indian cross ply/bias truck tyres in the world market can open market opportunities for export of truck and passenger car radial tyres.

Emergence of India as a hub for production of small car is expected to give a thrust to auto component and tyre segment.

Improved road infrastructure – especially on the Golden Quadrilateral and North-South East-West national highway project – will result in significant increase in movement of goods and passenger traffic through roads with resultant growth in demand for tyres.

**THREATS**

Faster pace of opening up of the economy will increase import of tyres.

Reduction in import duties will lead to higher volume of tyre imports.
iii. Multinationals with financial muscle setting up manufacturing facilities in the country.

iv. Concessional import tariffs for countries like China and South Korea under Regional Trade Agreements will lead to additional imports.

c. Review of Performance

Truck and bus tyre production showed signs of a rebound to touch a level of 6.52 lakh tyres in the month of November 2001 as against a production performance of 6.36 lakh tyres recorded in October 2001.

The production performance in this category, which accounts for nearly 70 per cent of the turnover of the domestic tyre industry, stood at a level of 7.69 lakh tyres in November 2000.

The data released by the Automotive Tyre Manufacturers' Association (ATMA) shows that passenger car tyre production by its member companies continued its downward trend to touch a level of 5.21 lakh tyres in November 2001.

The passenger car tyre production by member companies sharply declined to 5.75 lakh tyres during October 2001 from a production level of 6.47 lakh tyres recorded during September 2001.

The truck and bus tyre exports during November 2001 declined to 1.27 lakh tyres as against an export level of 1.37 lakh tyres recorded during October 2001. Truck and bus tyre exports during September 2001 stood at 1.64 lakh tyres.

Truck and bus tyre production in the country stood at 6.96 lakh tyres during January 2002, reflecting a 3.26 per cent increase over 6.74 lakh tyres produced in the same month during the previous year.

According to the Automotive Tyre Manufacturers' Association (ATMA), truck and bus tyre exports in the first month of the current
calendar year stood at 1.40 lakh tyres (1.43 lakhs). Production of passenger car tyres stood at 6.40 lakh.

Truck and bus tyre production slipped in October 2003 to 8.89 lakh tyres against 9.07 lakh tyres recorded in September 2003. A senior tyre industry official attributed the decline in production to the trend of "lower demand" during the month under review.

The production performance in this category during October 2003 was, however, higher than the production level of 8.36 lakh tyres recorded in October 2002.

According to the data released by the Automotive Tyre Manufacturers' Association, truck and bus tyre exports declined in October to 1.52 lakh units against two lakh units in September. The official held that there was no one particular reason for the decline in exports in October. Passenger car tyre production declined in October to 7.61 lakh tyres against 8.19 lakh tyres in September.

Truck and bus tyre production touched 9.22 lakh pieces during October 2004, which is marginally lower than the production level of
9.23 lakh tyres recorded in the previous month. Production in this category, which accounts for over 60 per cent of total tyre industry turnover (in value terms), had dipped to 8.91 lakh tyres in August from a production level of 9.53 lakh units recorded in July 2004. The domestic tyre industry had manufactured 8.89 lakh units of truck and bus tyres in October 2003.

Truck and bus tyre exports, however, declined in October 2004 to 1.84 lakh units against 2.58 lakh exported in September. The domestic tyre industry had exported 1.52 lakh units in October 2003.

According to the Automotive Tyre Manufacturers’ Association (ATMA), passenger car tyre production by ATMA member companies during October 2004 stood at 9.64 lakh tyres against 9.87 lakh during September. Passenger car tyre production by these companies had touched 7.61 lakh units in October last year.

Production of light commercial vehicle tyres during October 2004 stood at 3.27 lakh tyres against 3.32 lakh in the previous month. LCV tyre production in October 2003 stood at 2.60 lakh.
Truck and bus tyre production continued to see consistent growth in September, going by the data released by the Automotive Tyre Manufacturers' Association (ATMA).

Production in this category registered a level of 10.22 lakh units as against 9.6 lakh units in September 2005, witnessing a growth of six per cent. The data also, however, showed that exports dipped by 12 per cent to 1.96 lakh units (2.2 lakh units).

Passenger car tyre production by ATMA member companies also witnessed a rise at 12.3 lakh tyres as against 11.69 lakh units. Production of light commercial vehicle tyres stood at 3.9 lakh tyres (3.77 lakh tyres).

Though none of the companies have firmed up plans for a price hike, they are unanimous that there is a strong case for it owing to a steady cost push, with early signs of rebounding demand for original equipment (OE) from commercial vehicles manufacturers leading to further growth in demand. "There is a strong case for 2-3 per cent price increase in January-March 2008 quarter. However, any such decision
will be taken depending on the affordability of the consumers,” Mr. Paras Chowdhary, Managing Director of Ceat Ltd, told Business Line.

Mr. A.S. Mehta, Director, Marketing, of JK Tyre, upholds the possibility of price increase. Both agree that the current boom in the tyre market will continue for a few more years.

Tyre prices remained relatively stable in 2007 until November, when all the major players, except MRF, increased prices by 1-2 per cent on an average. Margins, however, were not affected as manufacturers reaped the benefit of price increases made in end-2006. Decreased volatility in natural rubber prices has also allowed the companies to hedge costs or plan production more effectively.

Natural rubber prices hovered between Rs 82 and Rs 95 a kg in 2007 compared to Rs 78 and Rs 116 in 2006. While average cost of rubber was marginally lower compared to last year, the cost of other raw materials such as synthetic rubber, rubber chemicals, chords and so on increased substantially due to an upswing in crude prices.
Interestingly, despite a net reduction in OE consumption, replacement market continued to be bullish in 2007. This coupled with handsome net exchange gain has left the bottom-line unaffected in 2007.

According to both Mr. Chowdhary and Mr. Mehta, apart from strong domestic replacement demand, increasing exports of Indian automobiles have created a market for tyre sector overseas. “Ceat for example has exported tyres worth over Rs 100 crore in 2007,” Mr. Chowdhary adds.

According to Ceat, 2007 witnessed over 20 per cent volume growth in replacement sales of two-wheeler tyres, followed by eight per cent in truck/bus tyres, 6-7 per cent in light trucks, 15-16 per cent in passenger car.

The meltdown in prices of natural rubber and crude oil-based synthetic inputs notwithstanding, India’s tyre companies are not considering any revision in retail market prices. Tyre grade natural
rubber was priced at Rs 97 a kg on Wednesday down by 30 per cent from over Rs 140 a month ago.

Crude prices came down by nearly 50 per cent from its peak in July resulting in a drop in prices of petroleum and petrochemical products. According to a source close to Apollo Tyres, the fall in input prices was offset by a near 15 per cent devaluation of Indian rupee since the beginning of this fiscal. “Apollo tyre is not considering any price cut,” he confirmed.

Rupee depreciated by 8 per cent from Rs 42.92 to Rs 46.45 a dollar during the July-September quarter and 5.4 per cent during the first three weeks of October. According to the source, since Indian tyre companies are largely net importers the devaluation of rupee has hurt it the most. “The problem is compounded as the prices of synthetic raw material did not fall as sharp as the crude oil,” the source added.

The source points out that the spike in crude as well as natural rubber prices during the July-September quarter severely impacted the margins of tyre companies including Apollo.
When contacted a spokesperson of Automotive Tyre Manufacturers’ Association (ATMA) said that compared to the corresponding period in 2007-08, prices of almost all major (synthetic) raw material are ruling higher. According to ATMA, price of Polybutadine rubber is up by 108 per cent (Rs 213 a kg), Styrene Butadine Rubber (SBR) 82 per cent (Rs 170 a kg), carbon black 66 per cent (Rs 73 a kg), Nylon tyre cord fabric 21 per cent (Rs 230 a kg) and rubber chemical 25 per cent (Rs 375 a kg).

Taking a cue from the impressive sales growth clocked by passenger cars, two-wheelers and some segments of commercial vehicles in November, most tyre manufactures have decided to raise prices by end of this year or by January 2010.

The decision follows the recent run-up in prices of natural rubber, which tyre makers have absorbed into their costs. This move is a signal that tyre makers are fairly confident of a sustained improvement in demand and may help shield margins from the upward bound input costs.
MRF was the first to hike prices by 3-4 per cent for cars, two-wheelers and tractors in November. The company is likely to come out with another round of price hike, given that input costs have spiked up. Apollo tyres has decided to increase prices by 5-10 per cent, and JK Tyres will raise prices of its passenger car tyres by 4-6 per cent and truck and bus tyres by 3-5 per cent.

Prices of natural rubber at the Multi Commodity Exchange of India hit a low of Rs 5,914 a tonne in December 2008, jumped to around Rs 9,900 a tonne by July 2009 and have appreciated to Rs 13,077 a tonne. As a result of the steep appreciation, prices of natural rubber are just about 7 per cent below their peak of Rs 14,148 a tonne in September 2008.

Expecting further escalation in prices, tyre manufactures have decided to pass on the higher cost to customers. Cost of raw materials (predominantly natural rubber) accounts for about 65-70 per cent of total expenditure and about 50-55 per cent of the gross sales for the tyre makers.
As December 2008 to July 2009 saw moderation in input costs, the aggregate operating margins for the four tyre makers – Apollo Tyres, JK Tyres, CEAT and Goodyear – improved by 1.1 per cent to 15.3 per cent year-on-year. The price hikes contemplated may help hold margins, amid further increases in input costs.

The price hikes by tyre makers follow a similar decision by original equipment makers such as Maruti Suzuki, Hyundai India, GM India, Ford India and Skoda Auto India to pass on their cost pressures to customers in January 2010. As the domestic automobiles market has recovered strongly from the slump and is in a growth phase, OEMs are unlikely to oppose any price hike from tyre manufactures. A 14.2 per cent growth in the replacement demand from April-September 2009 also creates confidence that the after-market demand for tyres will continue to remain healthy enough to absorb higher prices.

If these price hikes are well-received by OEMs and after-market customers, tyre manufacturers may see their margins bettering by another 2-3 per cent for the rest of the year.
Conclusion

During a short period of six months (November 2005 to April 2006), natural rubber prices shot up by 36 per cent from Rs 62 to Rs 82 per kg. Rubber price peaked to new high in May 2006 as the benchmark grade RSS-4 pegged at Rs 97 a kg. It is said that an increase of Rs one per kg in the price of natural rubber results in an additional burden of Rs 350 million annually on the tyre industry. The rubber stocks are alarmingly low. In April 2004, they came down to less than 60 days of consumption.

Transportation industry and the tyre industry goes hand in hand as the two are interdependent on each other. Transportation industry has experienced 10% growth rate year after year with an absolute level of 870 billion ton freight. Hence, tyre industry has a bright future. Although road and rail are the key service providers, road accounts for 85% of all freight movement. India has an extensive road network of 3.2 million km. It comprises national highways (57,700 km), state highways (124,300 km), district roads, rural roads, urban roads, and special purpose roads (for military, port, etc). The geographic coverage
of India's highway network, at 0.66 km of highway per square km of land area, is almost identical to the level of the United States (0.65), and is much higher than that of China (0.16).
CHAPTER – 7

CONSOLIDATION OF THE INDIAN AUTOMOTIVE TYRE INDUSTRY

Shake-Out In Tyre Industry On Cards

"Like most other sectors witnessing changes, the Indian tyre industry is set to experience a shake-out as we have entered a consolidation phase necessitated by the need to be competitive, according Mr. R.P. Singhania, Managing Director, J.K. Industries Ltd.

Mr. Singhania said that the industry which had about 12 players a few years ago was now down to 6-7 major players. As is the case with most developed countries, India too will have about 4-5 players slugging it out, mainly to remain competitive.

"The tyre industry is seeing several changes and the consolidation phase will continue. We acquired Vikrant tyres in 1997 and managed to become a dominant player in truck and bus tyre segment."
From a traditional nylon tyre, the entire four wheel industry is gradually shifting to radials. Most of the manufacturers are offering radials as OE and this has significantly helped the growth of the industry. And radial as a concept is selling. With about 25 per cent additional cost, users are able to reap higher returns.

"Based on the company R&D, J K Tyre has introduced Green radials, which are eco-friendly. With this, we have become the second company to have such a facility." On plans for acquisitions, Mr.Singhania said "we are open to opportunities. As and when they present, we will take it." In India, the tyre industry has witnessed a drop in prices by about 8 per cent while the cost of production has gone up a few notches. As highways get better, the demand for quality tyres is set to grow. With T-rated tyres, four wheelers can cruise at 190 km per hour without hassles, he said.

**J K Tyres to Expand Mysore Plant**

The Mysore-based J K Tyre, which enjoys over 85 per cent of the market share in truck radial segment, is on an expansion mode.
It has undertaken a Rs 60 crore investment for capacity expansion by 50 per cent for the Mysore plant and will be commissioned by September 2005.

J K Tyre, the pioneer of radial technology in India, crossed another milestone on July 13 by rolling-out its one millionth truck radial tyre at its plant here. Incidentally, the Mysore plant is India’s first truck/bus radial tyre manufacturing facility.

The merger of J K Tyres and Vikrant Tyres in 2003 set the pace for fusion of technological expertise, R&D infrastructure and a well-entrenched marketing network, resulting in consolidation of the former’s leadership position both nationally as well as globally. With a turnover of over Rs 2,300 crore, J K Tyres on today competes with the best players across the globe.

It has established an independent R&D facility, the Harishankar Singhania Elastomer & Tyre Research Institute. It is engaged in the advancement of tyre technology and polymer chemistry and has been described as ‘one of its kind research centre’ in Asia.
While other tyre manufacturing units are recent entrants into the radial technology, JK Tyre has emerged as India’s leading tyre manufacturer, apart from being the first in India to use this technology.

In technological collaboration with Continental AG of Germany, the fourth largest tyre company in the world, JK Tyre continues to enjoy a market leadership in the segment.

The truck radial segment has witnessed a substantial increase in the country, registering over 69 per cent growth in the April-Jun Q-2005 over the same period last year. J K Tyre proposes to tap this emerging potential by the Rs. 60 crore expansion.

"The one millionth truck radial is a milestone achievement not just for JK Tyre, but also for the Indian tyre industry. It sets a new benchmark in the Indian tyre industry," says J.K. Tyre Vice-Chairman and MD Raghupati Singhania.

**Apollo Tyres Looking for Acquisitions in China**

APOLLO Tyres Ltd, in its bid to become a transnational company, is on the look-out for acquisitions in China, Indonesia, and Africa.
"Right now the discussions with a Chinese company are in the advanced stage" and a final decision is expected soon, Mr. O.S. Kanwar, Chairman of the company, told Business Line on Sunday. At present, the company is sourcing tyres from China for export to various markets overseas. So far, such exports stood at Rs 50 crore.

He said that there would be a consolidation in the tyre industry in the country in 2004 as "it is going to be the survival of the fittest". Apollo had already held discussions with its technical collaborators, Continental Tyres of Germany, and they are expected to come out with their decision. He said that such a consolidation would leave only two or three companies in the field and "Apollo would be one among them".

He said the company was better placed in the industry with an estimated turnover of Rs 2,000 crore in the current fiscal and it was expected to cross Rs 2,500 crore next financial. There is a 12 per cent growth now in the demand for tyres in the country while there was 20 per cent growth for Apollo tyres for the first time. "We are confident of maintaining it at this level during the year," he said.
In the truck replacement market Apollo topped with 35-40 per cent share of the market. With a strong marketing network the company had succeeded in cornering a sizeable share of the truck tyre market, he said. The demand for tyres in the country is expected to go up in coming years especially when the Golden Quadrilateral projects (super express highways) were completed, he said. One of the major constraints faced by the tyre industry in the country is the high level of taxes that constituted 56 per cent of the cost.

Mr. Kanwar, who was here to participate at the Global Investor Meet, said that his company was investing Rs 200 crore in the State for capacity expansion of its two units at Perambra in Thrissur district and Kalamassery in Ernakulam district. The company had concluded long-term agreements with the workers unions in both the factories recently and it was a clear manifestation of the change in the attitude of the workers.

"The workmen are realising now that they have to change otherwise they will not be able to survive," he said. And it is visible in the attitude in recent months, he said.
Apollo Tyres Targets Rs 2,000-Cr Turnover

APOLLO Tyres Ltd (ATL) expects to record a turnover of more than Rs 2,000 crore during the 2002-03 fiscal, according to Mr. Onkar S. Kanwar, Vice Chairman and Managing Director.

Speaking to Business Line here, Mr. Kanwar said the company had recorded a turnover of Rs 1,710 crore during the fiscal 2000-01. The tyre major is actively examining the opportunities that are emerging from the neighbouring Sri Lanka.

"We are willing to take advantage of the opportunities that are arising from Sri Lanka, which we are examining. We hope the Indo-Sri Lankan bilateral agreement will give us the desired benefits in the coming years", Mr. Kanwar said.

He, however, declined to elaborate as to whether ATL was keen to takeover some of the existing facilities in Sri Lanka or enter into some form of collaborative arrangement with any of the companies there. Indications are that Apollo Tyres may evince interest in getting
into a production arrangement with a government controlled tyre company in Sri Lanka.

"We are going to aggressively pursue capacity additions during this year. The debate within the company is how to get more production of tyres", he said, adding that further consolidation will take place in the domestic tyre industry. Mr. Kanwar pointed out that consolidation in the domestic tyre industry was happening more out of default than by design. He held that there had to be a strong domestic production base before a company could look at buyout of foreign companies or production facilities.

Mr. Kanwar also said that Apollo International, a Apollo group company, was in serious talks for buying out a truck radial facility in China.

**Withdraw CVD on Imported Tyres**

The All India Tyre Dealers Federation (AITDF) on Tuesday demanded withdrawal of 16 per cent countervailing duty (CVD) on
imported tyres. The total incidence of duty, including CVD on imports, is currently 37.5 per cent.

In a submission before the Union Commerce Ministry, the federation has stated that withdrawal of the CVD would pep up competition in the tyre sector in the country, resulting in a likely check on prices. The tyre sector has witnessed a substantial degree of consolidation in last few years, resulting in a drop in number of players.

**Further Consolidation in Tyre Market Likely**

THE RECENT slowdown in the automobile sector has affected the performance of the tyre producers.

MRF, in particular, has seen a sharp decline in its profitability in recent quarters. Mr. Philip Eapen, Executive Director, Marketing, MRF, discussed with Business Line his views on the prospects and performance of the tyre industry.

After robust growth in 1999, the offtake of commercial vehicles has seen a sharp decline this year. What impact has it had on your
company's performance? Do you foresee an improvement in demand from the replacement market in the near-term?

Naturally, the recession in the transport sector has had an impact on our business. However, we have been able to contain it to a great extent. It is difficult to forecast any changes in the present scenario.

The price of crude oil and petro products has seen a firm trend for over a year now. What steps has your company taken to absorb the impact of the rise in production cost? Do you plan to increase product prices to minimise the impact of the rise in input cost?

The increase in the cost of inputs, particularly petro-products, had to be absorbed temporarily by us considering the recessionary nature of the market. We have not increased our prices for the last three years. We are approaching our original equipment (OE) customers to accommodate some price increases in view of the fact that they themselves are increasing the prices of their vehicles.

Bridgestone's entry has been confined primarily to the OE market. Our customers are now comparing our products with this
international brand. The suitability of our tyres for the Indian roads has clearly come out in the comparison.

Apollo Radials caters to the low end of the market, where we are not aggressively competing.

Given that all along MRF has been a major player in the replacements market, do you have any major plan to make inroads into the OE segment? Who are your major OE clients?

We do have a presence in the OE segment, apart from being the lead player in the replacement market. We are the largest supplier to Maruti. Apart from being the sole supplier to General Motors' Corsa, we are also the suppliers to the Honda City, Ford Ikon and Telco Indica.

With the Government's policy of liberalising imports, have cheaper imports affected the prospects of domestic tyre producers?

On the question of cheap imports, the import of cheap truck tyres (just as cheap electronic goods and toys) has had some damaging effect on the truck tyre market. We expect this to be a temporary
But that is not the case. A recent directive by the Centre, proposing imposition of a stiff anti-dumping duty on truck and bus radial tyre imports from China and Thailand appears to have opened a Pandora’s Box.

While the tyre manufacturers have welcomed the anti-dumping duty, the tyre dealers are opposing it.

The Automotive Tyre Manufacturers Association (ATMA) cited unfair trade practice by Chinese and Thai manufacturers, which are allegedly exporting tyre to India at prices even lower than those of some raw materials, while supporting duty on imports.

The Director General of ATMA, Rajiv Budhraja, told DNA, “In most cases, tyre imports are not happening because of any demand-supply gap. Imports are being done by small firms, at prices where the landed cost is much lower than domestic prices. We had requested for imposition of anti-dumping duty way back in 2007, and the government has only indicated now that it is planning to impose this levy. Any opposition to this duty is not right.”
We do not expect any growth in the automotive tyre industry except in the two-wheeler tyres. If there is growth, it is not expected to exceed 2 per cent.

**Increasing Exports to Combat Domestic Slowdown**

The past few months have not been particularly good for the automotive tyre industry.

The performance of almost all the companies has suffered due to the demand slowdown and increase in input costs. And industry major MRF has been no exception to the broad industry trend of a decline in earnings.

Mr. Philip Eapen, Executive Director, Marketing, MRF, shared his views on the industry and MRF's performance in an interview with Business Line.

The price of critical inputs such as natural rubber and carbon black have ruled firm in recent months. Has your company effected any price revision in the recent past to offset the increase in cost?
In view of the ongoing slowdown, we have had to absorb the impact of the rise in the prices of inputs such as natural rubber in recent months. MRF has not affected any price revision in the recent past, and in view of the current slowdown, we do not have any immediate plan to increase prices in the near future.

What has been the impact of the entry of Bridgestone ACC and Apollo Tyres on the radial market? Has their entry altered your company's position in the industry?

Bridgestone is predominantly an original equipment supplier, especially to the Japanese and Korean car companies. Apollo has only come out with some cheap radial tyres that have had only a temporary and minimal impact in the market place. Both factors have not affected our company's standing in any way.

With the Government's policy of liberalising imports, has there been a significant flow of cheaper imported tyres? What impact have imports had on the prospects of domestic tyre producers?
The cheaper import of tyres has not made any significant dent in the domestic market since quality is still the paramount issue with Indian customers.

Given that the earnings in the tyre industry is dependent on sales volumes, do you think there is scope for consolidation through mergers and acquisition in the tyre industry? Is MRF open to acquisitions/alliances?

There are possibilities of consolidation through mergers and acquisitions in the tyre industry. While we are not looking for any acquisitions at present, we are not averse to any acquisitions provided the offer is attractive.

Taking into account that the global economic growth per se has been affected, what has been the scenario on the export front? Has the global slowdown affected the export earnings of your company and the industry?
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Exports has always been competitive and it is even more so now. We are hoping to increase our exports in view of the slowdown in the domestic market.

Considering that the commercial vehicles industry is yet to recover and the economic growth being pegged down by various agencies, what is the broad outlook for the tyre industry?

The growth in the tyre industry will depend essentially on the recovery of the automobile sector, particularly in the heavy commercial market. It would not be possible to take a stance on when this recovery will take place.

**No Tyre Company Here is Big Enough Not to Be Gobbled Up**

Tyre manufacturer Ceat Ltd is on the road to recovery. Yet even as it leaves its losses behind, refuses to borrow and enhances sales, there are sectoral issues it must confront. Mr. Paras K. Chowdhary, Managing Director, Ceat, spoke recently to Business Line on the domestic tyre industry and challenges before it.
All the tyre companies had good results in Q1, we too. In Q2 also, that trend continued - Apollo was the most impressive and compared to the previous similar period Ceat was also impressive. Now at end-Q3, I am noticing a mild depression in demand. I don't know the reason - December demand is always a little low, but then this year even October-November demand saw a mild fall.

It could be due to some after-effect of poor rains. But Q3 is a period of high tyre production. Therefore, there is a little extra-supply in the market at present. Companies are now trying to export more to take care of this problem.

In fact, January-December last year most tyre companies posted good results. But yes, the kind of growth that was expected did not happen. However due to the 9/11 attack in the US, crude oil prices fell and when that happens everything else falls - synthetic rubbers, caprolactum - all went down by 20, 30 or 40 per cent.

The result was that even if the demand was low, it did not matter due to bigger gains on raw material costs. If good things happen for bad
reasons, nobody talks of it! Until June this year, the situation was good because crude recovered but did not go above $23-24. Later, owing to issues like tension in the Middle East, crude flared up, touching $30-31. I have not seen a scenario, where within nine months you see crude at $17 and $31. Almost 80 per cent up! If your main raw material swings by 80 per cent, its derivatives also swing. At this point in time, raw material cost is another issue facing the industry. It is a substantial increase.

It is seasonally a little weaker than Q2. But in this particular quarter, I think there will be some pressure on margins. In Q4, at least for the first two months, the pressure will be even more due to all the increases that started coming in from July/September - their real effect comes a few months later.

Two or three situations are likely. The tyre industry may be able to pass on the price increase. Can't say whether it will happen or not because there are now four major players and there is quite a fight going on in the market place. There is the possibility that in the Budget,
the import duty on raw materials will come down again - could be a five per cent decline.

There is also a feeling that by February/March the tension in the Middle East may settle down a bit, so you could see crude prices stabilising at $22-24. If so, raw material prices will fall. Besides, the rupee has not depreciated against the dollar; it has somewhat appreciated. Thereafter the industry may be on a stronger footing.

Strategy won’t be any different for Ceat. For all, it hinges on three factors - topline, then technology - it changes every 4-5 years and most Indian players are not prepared for technology changes. They will have to look for outside help in the form of collaboration or partnership.

Modernisation and minimum critical mass is the other factor. If you try to do some of these things early - like we tried to set up a radial plant in league with Goodyear long time back but were doing it ahead of time - we lost heavily as a result and had to pull out of the joint venture.
Likewise, everyone is thinking when to get into radials; but when India will radialise is a million dollar question.

JK is attempting it, they have a radial facility in Vikrant; but they are unable to utilise that capacity. They have I think 20,000 plus capacity, but are able to sell around 3,000 in India. Apollo has announced they will put up a pilot radial facility in Vadodara and they will come up with production early next year.

All this is very nice to hear. If you go deep, you won’t find clear answers from any company because it depends a lot on Government policy, how infrastructure comes up. If roads are not good, radials won’t come.

But in the case of MRF and Ceat, there is no clear signal because we don’t have a technology partner today. I am sure over time both of us will figure out who can be our technology partner.

Most of the tyre companies abroad are not well placed for equity participation. Bridgestone lost a lot of money in the US after which they are not keen to set up plants.
Michelin does not operate in partnerships, they like 100 per cent ownership or majority ownership with the rest held by the public. They don’t like to have a big local partner anywhere. The European economy has not done well, so the earnings of European tyre companies are down and they are not keen to invest.

The weakness with Indian companies is technology. But they are wary of joint ventures or partnerships.

On the other hand, retained earnings at our tyre companies is poor, Rs 10-20 crore a year. You can’t get technology for that price! So, it is not a simple jigsaw puzzle to be fixed.

Rolling out a new challenge

The Apollo Tyres tie-up with Michelin will trigger a new fight that could alter the contours of the Indian tyre industry. It has become a ritual for Apollo Tyres chairman Onkar Kanwar. Every few months for the last five years he has travelled to Singapore to visit his daughter who lives in the city-state.
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During these trips he always made it a point to drop in at Michelin’s Asia headquarters and stay in touch with top executives in the region. The world’s largest tyre company, however, was totally focused on China where it was trying to ensure returns on huge investments. India simply wasn’t on the company’s horizon.

Six months ago Kanwar realised that the mood had changed. Michelin was now well established in China and was suddenly ready to burn up the roads in India. At last, Kanwar’s courtesy calls and relentless networking were about to pay rich dividends.

Michelin’s new-found interest in India led to months of intense negotiations. But this week the over Rs 2,000 crore Apollo Tyres finally tied the knot with the French tyre giant. The two will set up a joint venture in India to manufacture bus and truck radial tyres.

Also, Michelin will pick up a 14.9 per cent stake in Apollo Tyres for around Rs 129 crore. The JV in which Michelin will have a 51 per cent equity stake will invest over Rs 350 crore to roll out Michelin tyres. The deal catapults Apollo — the country’s third largest tyre
manufacturer after MRF and JK Tyres — into the big league of the truck radial tyre market where it is conspicuous by its absence. And it will put the hard-driving company on a collision course with JK Tyres — which currently has 98 per cent of the radial tyre market. JK sells over 120,000 radial truck tyres in India.

Apollo’s moves will also impact the tyre industry in another way. The manufacturers who now produce large quantities of bus and truck cross-ply tyres will now have to compete with a world-class international alternative. Kanwar is already blowing the bugles of war to rally the troops. “We will have 60 per cent of the market from day one of our operation in the bus and tyre radial market. That’s because we have the best quality and the world’s best brand,” says an upbeat Kanwar. He adds confidently, that he doesn’t see much competition from entrenched players like JK tyres.

That’s not all. He and Michelin aim to alter the market and seize the leadership position from JK Tyres. They hope to convince customers to switch from truck cross-ply (truck and bus constitutes over 70 per cent of the tyre market) to radial tyres within the next five years.
Kanwar is convinced that radials will grab 10 per cent of the truck tyre market within five years from the current 1.5 per cent. Says Edouard Michelin, head, Group Michelin: “We have been looking at India for over 40 years. But the time is now ripe for the growth of radialisation in India.”

Apollo has already charted out an ambitious course of action. To begin with it will start selling imported Michelin radial tyres from April 2004. And it will start producing tyres in the next 18 months with an initial capacity of 100,000 tyres a year. That will be quickly ramped up to 1 million in three to four years. But Apollo can’t expect a smooth ride to the top. JK Tyres is getting ready to hit back. The company is already in negotiations with its technical partner Continental and is open to letting the foreign giant pick up a financial stake.

Says an equally confident Raghupati Singhaniya, vice chairman, JK Tyres: “We have a four-year lead over Michelin. And our products already compete with their imported tyres successfully. That’s why we are exporting a large part of our radial tyres capacity.” JK has ambitious growth targets for its truck radials. It expects sales to climb three-fold
to 25,000 tyres a month in three years. The company's confidence is reflected in the fact that it is investing Rs 80 crore to increase radial capacity by 100,000 tyres per annum. Singhania says he is confident that JK will continue to maintain an over 60 per cent market share despite new competitors like Michelin.

So, how serious is the Apollo-Michelin challenge? Tyre manufacturers dependent on only cross-ply truck and bus tyres better watch out. Says a Mumbai based analyst: "With large volumes of radial tyres in the market there will be price pressure on cross-ply truck and bus tyre prices and margins will get squeezed."

It could be a double-whammy too. Once the shift to radial takes place domestically, exports will also suffer. That's because the domestic economies of scale which make Indian exports competitive will be hit (25 per cent of the cross-ply tyres are exported).

Adds another tyre analyst: "The Michelin brand name is very strong. JK Tyres does not have the same brand value and will not be able to command the same price." Many tyre manufacturers, however,
do not foresee any immediate cause of worry — and they aren’t planning to jump onto the radial tyre bandwagon. Says a Ceat spokesperson: “We do not see any major growth coming from this segment. It is a very nascent market and its growth will take time.”

He has a point. So how will Apollo woo fleet owners and convince them to shift to radial tyres? After all, fleet owners have avoided going radial because the tyres cost about 30 per cent to 60 per cent more than cross-ply tyres. There’s another problems unique to Indian roads and truckers. Overloading is an everyday fact of life in the trucking industry and radial tyres cannot take that pressure. Also, the tires require better-quality roads (they aren’t effective on a dusty track, for instance). And for efficient use they need trucks and buses with power steering, which again aren’t common on Indian roads.

Michelin is well aware of the challenges. Says Jean-Marc Francois, president Asia-Pacific, Michelin: “We will build products which cater to Indian roads and fleet. Also, we will train dealers to undertake concept selling of radials rather than sell it as another commodity, which is the way cross-ply tyres are sold.” Michelin hopes that the revolution which
happened in the Indian passenger car tyre industry (where 75 per cent of the tyres sold are radials) will spill over to the truck and bus market.

Michelin has already developed a radial tyre that caters to the peculiar characteristics of Indian roads and can cope with overloads of twice the actual capacity of the vehicle.

Secondly, the company will drill home the message that the tyres cost more but are a saving in the long run. Their productive life is also 150 per cent more than a cross-ply tyre. It will also offer attractive financing schemes to woo customers.

Besides, Michelin and Apollo hope to push the fuel economy angle. Radial tyres help to boost mileage considerably and the result is a net saving of around 10 per cent on fuel bills. That's not a small amount considering that fuel costs account for 40 per cent of the cost of operation for trucks and buses.

The two companies are also working on a complete overhaul of the distribution system. So for instance only a few of the 5,000 strong dealers will be offered the radial tyres — this will depend on their
service abilities and their customers. Two, the company is planning to set up around 20 special outlets where demonstrations will be held to show the advantages of radial tyres.

Company executives aren’t talking about branding strategies for now, but customers will probably be offered Michelin radial brands at the upper end of the market while the Apollo brand will be positioned in the middle segment. Analysts point out that the tie-up has other rub offs. Says one: “It will help Apollo improve cost efficiencies. Rubber prices are rising and Michelin can help in improving processes which will lead to cost savings.”

But Apollo’s moves don’t seem to impress its competitors. Says Singhania: “Offering a tyre which can take overloads is a given, not an innovation. All our tyres can take loads twice that which is stipulated.” JK Tyres will, in fact, be leveraging its strong after-sales force which Apollo cannot match yet. For instance, it has set up over 14 service centres (to be upped to 50 this year) across the country which offer customers spare tyres free of cost if their radial tyres are damaged.
within the first 100,000 km. Customers can use the spare tyres till the original tyres are repaired.

In order to ensure proper usage of the radials JK has introduced a “training for the fitters” scheme under which over 1,000 personnel have been trained on how to fit the tyre properly. Also, unlike Apollo, which is focusing on the end-user, JK is already pushing companies to make the changeover to radials. Singhania says it has already supplied tyres to Volvo and is in talks with Telco and Ashok Leyland. It hopes that three years down the line, 20 per cent of its radial truck sales will come from original equipment manufacturers.

JK is also clearly aware that global brands like Michelin have a pull which desi brands cannot match. Acknowledges Singhania: “We would be kidding if we claimed our brands were as strong as the global players.” That is one key reason why Singhania is open to talks with Continental for a financial tie up. Will the Michelin entry be the harbinger of a shake-up in the Indian tyre industry? One thing seems certain for now: radial tyres will soon be pushing the older cross-ply
tyres off the road. Another thing’s also certain: a furious battle is about to break out.

Michelin on the move

Can Michelin do in India what it has just done in China? In the last three years the demand for radial truck tyres has zoomed in China. Company executives say it’s because Chinese truck owners are discovering that they get better value with radial tyres. It’s important to remember that Chinese road conditions are similar to India — and their trucks are just as overloaded.

The fact is that Michelin has been a big hit in China. The French company has grabbed around 30 per cent of the replacement market and become the country’s largest tyre manufacturer. Since China is one of the world’s fastest growing automobile markets, there’s every likelihood that Michelin will grow with it. India and China are two of Asia’s key markets, so Michelin would be in an extraordinarily strong position in the continent if it could build up its strength here.
A strong position in Asia would help Group Michelin in a big way. The tyre industry worldwide is brutally competitive and the top three players are constantly jostling for the top spot. Till recently Michelin, was the top player with around 19 per cent of the world market and over a billion dollars in profits. Now, however, it has been overtaken by Goodyear-Sumitomo with a share of 22 per cent. The other top player in the industry is Bridgestone. Making sure that Michelin is extremely profitable has been a key goal for 39-year-old Edouard Michelin who took over the company in 1999 from his father who ran it for 44 years.

Conclusion

The market in India is worth about Rs 10,000 crore. It is in the hands of four big players, two medium players and few small players. The big four - and here I am assuming Vikrant and JK are merged - are likely to have a 2002-03 turnover of Rs 8,000 crore. The two medium players - Goodyear and Birla - should account for Rs 1,000-1,200 crore. The rest should notch up another Rs 1,000 crore. About 15 years ago, we were 12 big players. But in my opinion, we will see further consolidation and nobody should be under the illusion that he is big
enough to be not gobbled up. I would expect in the next two years, the number of players from four plus two, to be reduced by at least one. One more player should get out of business in the next two years and every two years you should see a player getting out. Ultimately, it will be a business of just four players.

They may lose money, but they will stick around, they have deep pockets. Out of the other five, one or two will be gobbled up over the next five years. The strategy has to be - first you take adequate steps to ensure you are not gobbled up. Second, you must have a topline whereby you get 20 per cent of the business. So, if you have a market size of Rs 10,000 crore, the minimum critical mass is Rs 2,000 crore. If you don't reach that, the chances of your going out of business are high.

Worldwide the industry is highly consolidated. It is a $70-billion market and ours is $2 billion. All Indian players rank between 10 and 20 globally. The top three worldwide are in the range of $12-13 billion, the biggest among us is MRF, about half a billion dollars. If you go to the middle level - like Continental, Pirelli or Yokohama - they are about $2-
2.5 billion. So, we are still one-fifth the size of medium players globally.

But on the other hand, if you reach $1 billion, you will be in the top 10.
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 Compounded 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 sublime 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 ordered 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.

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