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
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.

**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 retreaters in India. Significance of such retreaters can be gauged by the fact that around 85% of the tyre demand is for replacement.
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.

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
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.

![Tyre Production in India](image)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Automobile tyres</td>
</tr>
<tr>
<td>1960-61</td>
<td>1.5</td>
</tr>
<tr>
<td>1970-71</td>
<td>3.8</td>
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<td>1980-81</td>
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</tr>
<tr>
<td>2003-04</td>
<td>NA</td>
</tr>
<tr>
<td>2004-05</td>
<td>NA</td>
</tr>
</tbody>
</table>

*Source: Economic Survey 2005-06, p.S-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$strategies.[8]
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 unparalleled 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.

ix. Linkages between raw-material and Original Equipment
(Vehicle) Manufacturers.

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.
ii. Export culture inculcated enabling participation in world tyre markets.

iii. 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.

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

v. 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

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

ii. 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).