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**SPOTLIGHT ON TWO WHEELER TYRES**

Competition intensifies with entry of more players

## Spotlight on Two-wheeler tyres

### Two-wheeler (2W) tyres in focus as more OEMs throng the segment; Over-supply to result in pricing pressure with consequent impact on margins

Triggered by the healthy 2W replacement tyre demand, major players like Apollo Tyres Limited, Balkrishna Industries Limited and Bridgestone India Private Limited have announced their entry into the domestic 2W tyre segment in the last three quarters. JK Tyre and Industries Limited too entered the segment with the acquisition of Kesoram Industries Limited’s tyre unit in April 2016, while Metro Tyres Limited — an existing 2W tyre player — is foraying into the motorcycle radial segment. Also, Michelin India, which was earlier catering to the premium bike tyre segment, is now entering the mass-2W tyre market.

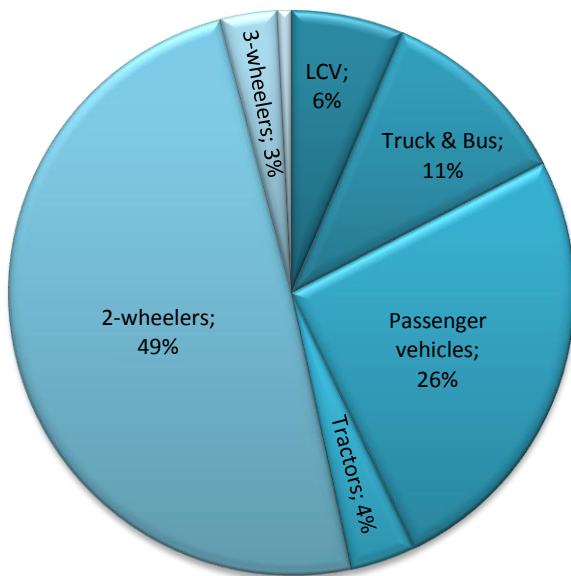
2W tyres represent nearly half the domestic tyre production in India, although given the significantly lower realization, in value terms, the segment accounts for only 13-15% of the industry. Performance of the 2W tyre segment has been strong in recent years; against the tyre industry volume CAGR of ~7.5% during the period FY2014 to FY2016, the 2W tyre segment has grown at a faster rate of ~13.1%, led by robust scooter volumes and despite the muted rural demand for motorcycles.

Exhibit: Segmental tyres sales growth [FY2014-16]

3-year CAGR	OE	Replacements	Total
Scooter tyres	12.8%	19.6%	<b>20.1%</b>
Motorcycle tyres	0.9%	22.7%	<b>11.4%</b>
<b>Total</b>	<b>3.7%</b>	<b>22.1%</b>	<b>13.1%</b>

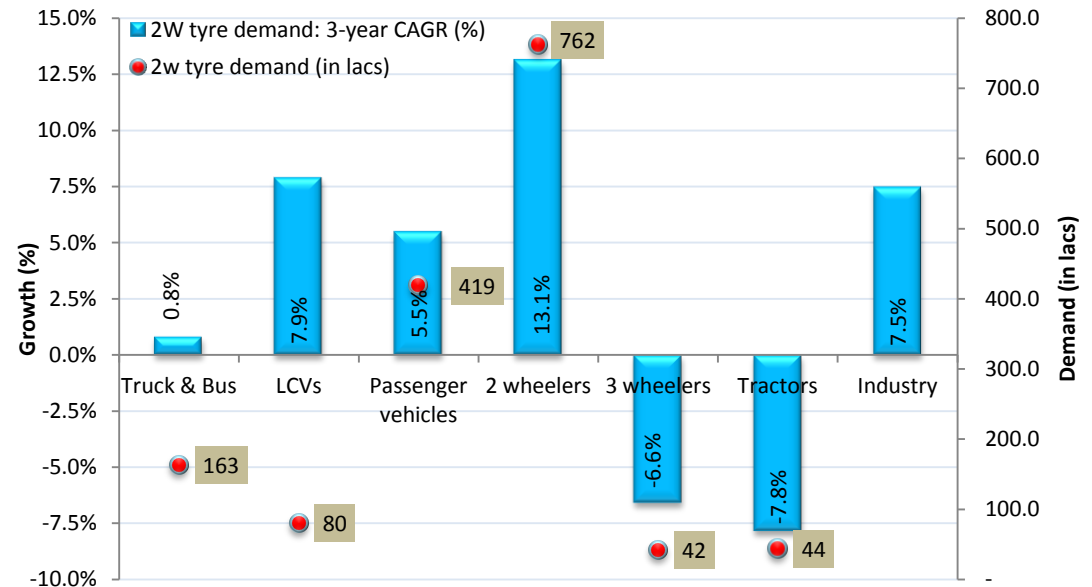
Source: ATMA, ICRA research

Exhibit: Segment-wise tyre production in India [FY2016]



Source: ATMA, ICRA research

Exhibit: 3-year CAGR in tyre demand across segments [FY2014-16]



Source: ATMA, ICRA research

Note: Domestic demand = OEM+ Replacement+ Government+ Imports-Exports

ICRA research expects the demand prospects for the 2W tyre segment to remain healthy with growing urbanization; and recovery in rural demand supported by favourable monsoons and rising farm income. That said, with more players entering the market, competition is set to intensify resulting in pricing pressure and eventual contraction of profit margins.

## Spotlight on Two-wheeler tyres

### Incumbents to lose market share

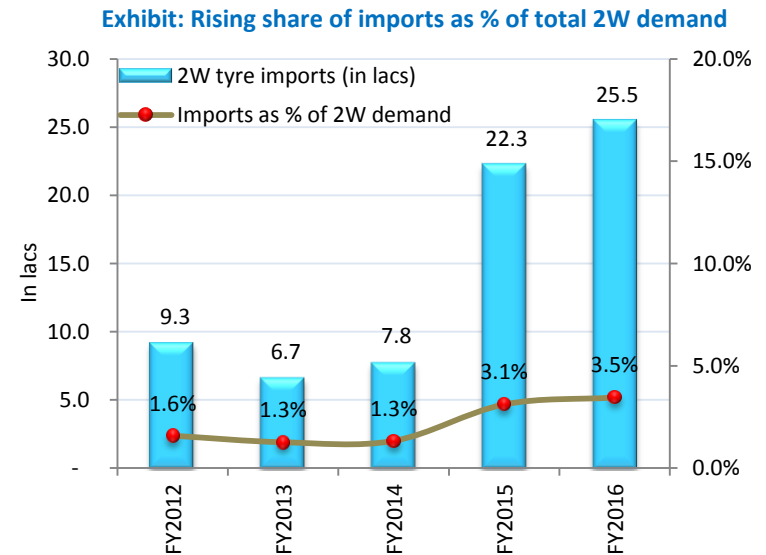
The domestic 2W tyre market is presently dominated by three players: MRF Limited, TVS Srichakra and CEAT Limited, who collectively account for ~87%-90% of the market. With entry of more players, the positioning of these players in the 2W tyre market is expected to change with incumbents losing some share.

### 2W tyre industry capacity utilization to drop with the large investments lined up by both existing and new players

ICRA research estimates an addition of ~300 lacs tyres over the next three years from incumbents, new entrants and large third part contract manufacturers. Against the 10% CAGR in supply addition over the next three years, 2W tyre demand (domestic+exports) is projected to grow by ~6%-8% by FY2019, leading to moderation in capacity utilization to ~75%-77% in FY2018 from the current 81%-83% levels for the industry—including third part contract manufacturers.

### 2W tyre imports have been rising over the last two years; but its share of domestic 2W tyre demand is still low

The domestic tyre industry has been grappling with issues of surging tyre imports into the country, especially from China. Of the total tyre imports in FY2016, 2W tyres accounted for ~28%. While the share of imports in 2W tyres is increasing, its impact on 2W tyre demand is limited relative to other segments. Imports as a % of domestic demand is low at 3.5% (FY2016) compared to 25% for Truck & Bus (T&B) radials and 13% for passenger car radials; attributed to: (i) higher share of OE demand in 2Ws at 50% as compared to other segments (T&B at 18% and PVs at 40%). OEMs have shown limited appetite for imported Chinese tyres, (ii) quality and brand focus in 2W tyres and (iii) given the non-standard size/weight of two-wheeler tyres in various countries and the small size and realizations, Chinese imports do not compete with domestic 2W tyres. Unlike T&B segment, imports have not affected the pricing in 2W tyre market; although price cuts have been undertaken in the wake of falling rubber prices in recent past. That said, ICRA research expects pricing pressure in the 2W tyre market to intensify with the entry of more players and the 10% annualized capacity addition expected till FY2019.



Source: ATMA, ICRA research

### Favourable outlook for 2 Wheelers bodes well for 2W tyres too

ICRA research expects 2W sales to grow by 10%-12% in FY2017 led by steady growth in scooter sales and revival in the motorcycle segment. Rural demand is likely to be positive driven by (a) favourable monsoons, (b) higher budgetary allocations towards rural development and welfare schemes in the Union Budget FY2017, (c) growth in National Rural Employment Guarantee Act expenditure, and (d) government's focus on improving irrigation infrastructure. Further, phased-disbursements from Seventh Pay Commission and expectations of softer interest rates are likely to aid demand growth in urban segment.

Consequently, ICRA research estimates 6%-8% demand growth for 2W tyres over the next three years (period ending FY2019). Motorcycle and scooter tyre demand is estimated to grow by 6% and 11% during this period.



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