Chinese threat to Indian tyre makers

Indian tyre makers have more reason to worry than ever before. China's tyre industry, which is the largest in the world, is estimated to witness a rapid 10% compounded annual growth rate until 2020. Analyst reports suggest that leading Chinese tyre companies are sprucing up on technology and scale to meet global norms.The reasons for these developments are manifold. One, the US "safeguard measures" against dumping expired in September 2012. This will boost Chinese tyre exports to the US, which had stalled earlier. Further, since November, all tyre exports to the European Union (EU) region are expected to have EU set labels, which has prompted most Chinese firms to upgrade their products. And Chinese automobile exports are also increasing, which would improve the awareness of Chinese tyre brands too.These factors are bound to affect domestic tyre makers. Indian tyre exports would have to counter stiff competition. A report by Macquarie Research says that Chinese tyres are nearly 30-50% cheaper than global peers and pre-tax margins are nearly two percentage points lower.Meanwhile, Indian tyre companies are already faced with a slowdown in the automotive industry. After clocking sales growth of more than 20% across segments in the last two years, medium and heavy commercial vehicles, tractors, passenger cars and motorcycles have seen sales drop in the April-February period of fiscal 2013.More importantly, data from the Automotive Tyre Manufacturers' Association (ATMA) shows a marked increase in the share of tyre supplies to the original equipment (OE) segment. For instance, between fiscal 2001 and 2012, the percentage share of tyre supplies to OE makers jumped from 17% to 43% in light trucks, from 39% to 52% in the motorcycle segment and from 37% to 46% in passenger cars. Hence, the impact of a slowdown in auto sales is likely to be more severe than in earlier years.According to Rajiv Budhiraja, director general of ATMA, "Given the shrunken market size, domestic tyre firms will need to be more wary of competition from cheaper Chinese and Korean tyres. Although rubber prices are down, most tyre firms added capacity aggressively in the last three years and hence, will incur higher depreciation and interest costs, too."Data shows that about half the tyres imported by the passenger car segment are from China and South Korea. Further, some Asian tyre firms such as Hankook Tire Co. Ltd and Kumho Tire Co. Inc. have penetrated even the Indian OE segment through supplies to parent firms such as Hyundai Motor Co.from their region. In contrast, domestic tyre firms are still battling with relatively higher import duty on rubber than on tyres.Amid these challenges, the only consolation is falling rubber price—the RSS Grade 4, which is used to make tyres, is down by 17% from a year ago. Besides, higher realizations enjoyed by domestic tyre firms in the replacement market will help maintain their profit margin in the near term.But Indian tyre firms will have to deal with competition from China and South Korea, the impact of which is likely to be more severe, given the backdrop of the global auto slowdown.livemint.com