

Indian Tyre Industry- Trend Analysis of Sales, Net Profit, EPS and Radialisation Level in India

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Abstract:

The tyre industry in India is passing through a challenging phase much like the overall economy. Such a drastic fall in the sales of commercial vehicles during 2013-2014 under review has not been witnessed in a long time. In the short term, therefore, the outlook for tyre industry is not a very optimistic one. The tyre industry's growth is expected to be in sync with the GDP growth. However, replacement demand from vehicle sales over the past two years can provide an opportunity. A weakening Rupee and high interest rates are currently the areas of concern for the tyre industry, but are expected to improve during the course of the year ahead. With the stable forecast of raw material prices, the Company expects a positive year ahead. Radialisation has now slowly started picking up in India. The Indian passenger car segment was almost completely radialised (98 per cent) by 2008-09. However, radial penetration in the Truck

& Bus segment has been low at around 22 per cent. Contrary to the global scenario, where the Truck & Bus segment is highly radialised with most developed nations reaching over 90 per cent levels, Indian Truck & Bus segment witnessed single digit growth in radialisation. However, this trend is expected to pick up rapidly over the next 5 (five) years. In view of that, healthy capacity additions in the Truck & Bus radial segment were witnessed in 2012-13, which will drive the future radial tyre demand.

Key words: Trend Analysis; Sales; Net Profit; EPS; Radial Tyres

1. Introduction:

The Indian economy registered a modest growth of 5 per cent in FY 2013 in terms of Gross Domestic Product (GDP). This was attributable mainly to weakening industrial growth in the context of tight monetary policy through most of the year and continued uncertainty in the global

economy. The global automobile industry witnessed a slump in demand which impacted the tyre industry as well. Volumes across almost all segments either declined or remained flat. The demand from Original Equipment Manufacturers (OEM) as well as the Replacement Market was sluggish given the reduction in demand of automobiles and unsold inventory. On the other hand, decline in input costs helped improve margins during the year under review. Almost all major raw materials witnessed a steady decline over the year. The United States, the European Union and Japan have already achieved close to 100% radialisation level, while India is way behind in adopting radial tyres for commercial vehicles. China at 70% is fast catching up with the developed world. Even though Indian Tyre industry has achieved over 95% radialisation in the passenger car segment, the country remains largely a cross-ply market because radial penetrations in the medium and heavy commercial vehicle (MHCV) segment. There is no dispute over the economic benefits from radial tyre use among fleet operators. They are aware of their advantages in terms of fuel-saving and retreadability. Radials offer significant operational and cost benefits as compared to

cross-ply. But truckers fight shy because of the poor quality of India's road infrastructure.

2. Statement of Problem:

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm. It also helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis. The dictionary meaning of 'analysis' is to resolve or separate a thing in to its element or components parts for tracing their relation to the things as whole and to each other. This analysis can be undertaken by management of the firm or by parties outside the namely, owners, creditors, investors. There were important infrastructural shortcomings in India that made the country lag behind the global trends towards radial convergence. The poor road conditions were a major factor behind the slow development and uptake of tyres with radial technology in the T&B sector. Hence the researcher has to study the current financial position and level of radialisation in Indian tyre industry.

3. Objectives of the study:

1. To estimate the future earnings and sales of the tyre industry based on trend percentage method.
2. To identify financial strength and weakness of Tyre industry in India.
3. To examine the current level of radialisation of tyres in India.

4. Research Methodology:

The information which is needed for the study was collected through secondary data sources from the selected tyre company and the tools like trend analysis are used to analyze the information. The sample selection(selected tyre company) is based information available in the related research filed. The trend analysis tool is analyzed and interpreted in a perfect way as per my knowledge. The study employs secondary data that are mainly available in published annual reports, and various journals on related fields, etc. With the improvement of information technology, it was to collect required data through the online. Also there is a number of web sites were referred into for the study.

5. ANALYSIS AND INTERPRETATION:

5.1. Trend analysis:

Trend signifies a tendency and as such the review and appraisal of tendency in accounting variables are nothing but trend analysis. Trend analysis is carried out by calculating trend ratios(percentage) and / or by plotting the accounting data on graph paper or chart. In the present study trend analysis is carried on selected 14 Tyre company in india. The selected tyre company sales, Net profit and EPS is taken by the researcher to know the trend percentage from the period 2011-2012 as base year and compare the base year data to 2012-2013 and 2013-2014 data.

5.1.1. Trend percentage of EPS:

Generally, investors are accustomed to judge companies in the context of the share market, with the help of "Earning Per Share". The EPS is calculated by dividing the net profit after tax and preference dividend by number of shares.

Trend percentage of EPS						
COMPANY NAME	2013-2014 EPS	2012-2013 EPS	2011-2012 EPS	2013 - 2014	2012 - 2013	2011 - 2012 (base)
Apollo Tyres	8.78	6.2	3.6	243.89%	172.22	100.00%
Balkrishna Ind	50.53	36.81	27.43	184.21%	134.20	100.00%
Ceat	71.65	31.06	2.2	3256.82%	1,411.82	100.00%
Dunlop India	-0.3	-0.73	-1.59	41.10%	0.46	-100.00%
Falcon Tyres	0.61	0.5	-7.61	8.02%	6.57	-100.00%
Goodyear	40.78	40.78	24.41	167.06%	167.06	100.00%
Govind Rubber	0.13	0.71	5.04	2.58%	14.09	100.00%
JK Tyre & Ind	32.8	25.7	2.68	1223.88%	958.96	100.00%
Krypton	0.61	0.03	-1.55	39.35%	1.94	100.00%
Modi Rubber	0.5	10.89	17.06	2.93%	63.83	100.00%
MRF	2,117.09	1,891.49	1,349.52	156.88%	140.16	100.00%
PTL Enterprises	2.66	2.55	2.64	100.76%	96.59	100.00%
Surya Industria	-0.04	3.9	0.16	-25.00%	2,437.50	100.00%
TVS Srichakra	61.96	46.59	51.92	119.34%	89.73	100.00%

Source: Money Control.com

The EPS Trend Percentage indicates the EPS of Govind Rubber, Krypton, Modi Rubber company is below base trend level. The negative EPS is shown in Suriya Industries during 2013-2014. The MRF, Ceat, Appollo tyres, JK Tyres and Balakrishna industries are shown in the strong growth trend percentage of EPS.

5.1.2. Trend Percentage of sales:

Sales is the total amount of products or services sold by the company. The sales of 2011-2012 is taken as base year and compare the base year data to 2012-2013 and 2013-2014 data.

Trend Percentage of sales						
COMPANY NAME	2013- 2014 Sales (Rs Cr)	2012-2013 Sales (Rs Cr)	2011- 2012 Sales (Rs Cr)	2013 - 2014	2012 - 2013	2011 - 2012 (base)
Apollo Tyres	8,711.73	8,507.49	8,157.88	106.79%	104.29	100.00%
Balkrishna Ind	3,576.72	3,190.57	2,819.96	126.84%	113.14	100.00%
Ceat	5,354.81	4,881.45	4,472.01	119.74%	109.16	100.00%
Dunlop India	-	-	20.01	0.00%	0.00	100.00%
Falcon Tyres	1,198.66	1,072.29	905.96	132.31%	118.36	100.00%
Goodyear	1,571.60	1,571.60	1,485.80	105.77%	105.77	100.00%
Govind Rubber	407.34	407.7	335.88	121.28%	121.38	100.00%
JK Tyre & Ind	5,951.08	5,430.83	5,643.71	105.45%	96.23	100.00%
Krypton	42.57	42.49	32.14	132.45%	132.20	100.00%
Modi Rubber	4.47	9.9	8.95	49.94%	110.61	100.00%
MRF	13,197.58	12,131.16	11,870.18	111.18%	102.20	100.00%
PTL Enterprises	40	40	40	100.00%	100.00	100.00%
Surya Industria	0	0.04	0.12	0.00%	33.33	100.00%
TVS Srichakra	1,670.99	1,476.10	1,409.30	118.57%	104.74	100.00%
Source: Money Control.com						

The sales trend analysis is shown as sales of Apollo tyres, Balkrishan ind, Ceat, Falcon TYres, Krypton, MRF and TVS Srichakra companies are increasing trend in Year to Year whereas Goodyear and PTL Enterprises having same sales in the YoY trend percentage. Dunlop India and Surya Industries are negative trend in sales.

5.1.3. Trend Percentage of Net profit:

Net Profit gives an indication of the current profitability of the business and allows a comparison of profitability between different companies after removing out expenses that can obscure how the company is really performing. Net profit is a measure

of management's efficiency in operating the business successfully from the owner's point

of view. It indicates the return on shareholders' investment.

Trend Percentage of Net profit						
COMPANY NAME	2013-2014 Net Profit (Rs Cr)	2012-2013 Net profits (Rs Cr)	2011-2012 Net Profit (Rs Cr)	2013 - 2014	2012 - 2013	2011 - 2012 (base)
Apollo Tyres	442.62	312.53	181.33	244.10%	172.35	100.00%
Balkrishna Ind	488.38	355.84	268.52	181.88%	132.52	100.00%
Ceat	253.78	106.35	7.53	3370.25%	1,412.35	100.00%
Dunlop India	-3.64	-8.86	-11.46	0.00%	0.00	100.00%
Falcon Tyres	4.75	3.91	-58.98	-8.05%	-6.63	100.00%
Goodyear	94.07	94.07	56.32	167.03%	167.03	100.00%
Govind Rubber	0.28	1.56	11.01	2.54%	14.17	100.00%
JK Tyre & Ind	134.68	105.54	11	1224.36%	959.45	100.00%
Krypton	0.9	0.4	-1.72	-52.33%	-23.26	100.00%
Modi Rubber	1.24	27.28	42.73	2.90%	63.84	100.00%
MRF	897.89	802.21	572.35	156.88%	140.16	100.00%
PTL Enterprises	17.62	16.88	17.49	100.74%	96.51	100.00%
Surya Industria	-0.02	1.74	0.07	-28.57%	2,485.71	100.00%
TVS Srichakra	47.45	35.68	39.75	119.37%	89.76	100.00%

Source: Money Control.com

The trend percentage of net profit highlights that the Net profit of Ceat and Jk Tyre company is more increasing trend percentage comparing the other company. The Appollo Tyres, Balkrishna Industries,

MRF companies having YoY growth of net profit.

5.2. Radial Tyres in India:

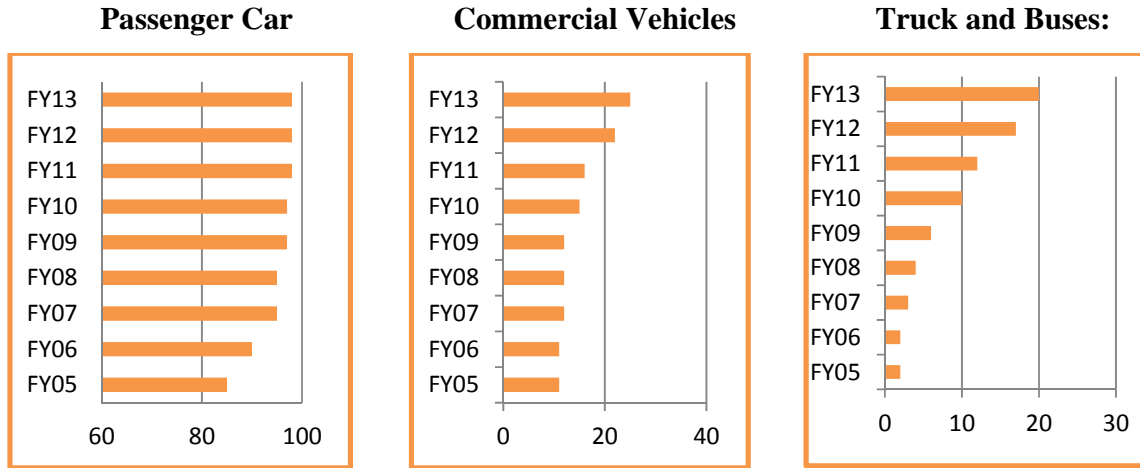
The world's tyre industry is now converging towards radial trends that constitute one of the biggest technological breakthroughs in

tyre manufacturing. India has also become a party to this world-wide radial revolution. Radialisation is not a new phenomenon in this country. Way back in 1977, radial technology made its debut in India through native manufacturer JK Tyre and since then, there has been a steady penetration of radialisation. The trend, however, has largely been restricted to the passenger car segment. A booming economy coupled with an enhanced level of motorization and Original Equipment Manufacturers' (OEM) increased radial preferences have taken the PCR level to almost 100%. This same transition has not been witnessed in the arena of commercial vehicles but thanks to a number of structural changes, the laxity has now seen a reversal. In his sector too, especially, in the truck and bus category, radial in roads have gathered significant momentum.

5.2.1. Current trend in Radialization level in India:

According to a report by ICRA Limited, the Indian T&B sector is at a 'structural inflexion point' as far as radial trends are concerned. This sector currently has a radialisation of 19-20%. This is still a meager figure compared to the world's average of 68%. This figure will yield hope, nevertheless, if one looks at the previous trends. In 2005 the radial rate in the truck category was a mere 1% - this increased to around 5% in 2008. A steady positive growth over the years is clearly discernable but still the country lags behind even in Asia. In countries like China and Thailand, the shift towards this technology has been quite pervasive. China has registered almost 75% radialisation at an industry-wide level. Compared to that, India is still in an embryonic stage.

Trend in Radialisation level in India



Source: ATMA, Centrum Research

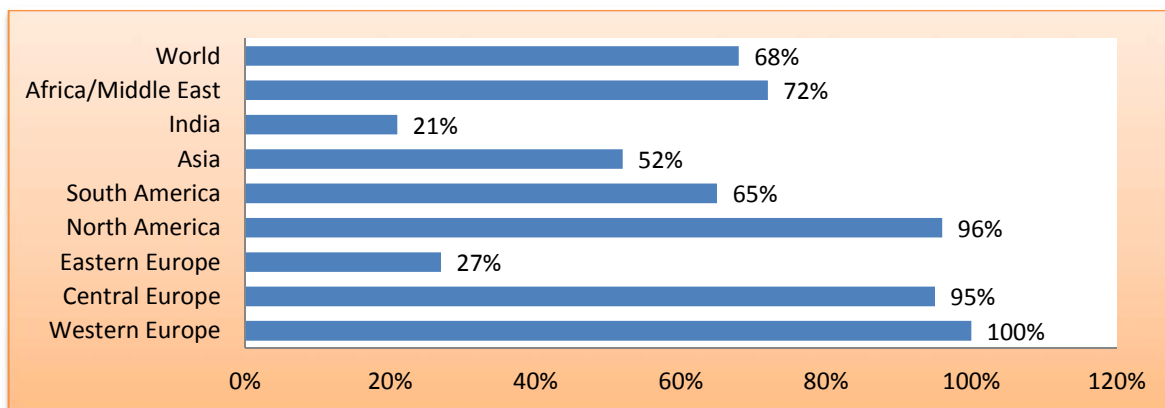
5.2.2. Current Trend in Radialisation

level in the world:

Radialization in the truck segment in India currently stands low at 21% against world average of 68% and is expected to reach 35%+ over the next three years owing to OE thrust. Radial tyres are priced 20-25% higher than cross-ply tyres. Most tyre companies are expanding radial tyre

capacities. Capital expenditure incurred on this expansion is expected to reduce profitability in the short term as manufacturing of radial tyres is more capital intensive than cross-ply tyres and also due to significant capacity addition. However, in the long run, we expect radicalization to improve overall profitability for the industry.

Trend in world level Radialisation:



Source: ATMA, Centrum Research

5.2.3. The driving factors in the recent upward trends in radialisation:

There were important infrastructural shortcomings in India that made the country lag behind the global trends towards radial convergence. The poor road conditions were a major factor behind the slow development and uptake of tyres with radial technology in the T&B sector. The varied road networks of India, often in an appalling state, were detrimental to the tyre's condition and reduced its shell life. However due to systematic overhauls and recent improvements in the road network, the situation has improved. The government has pumped in large capital investment to improve the condition of roads. India is expected to build 35,000 km of roads over the next two years, according to U.S. research and consulting firm Frost & Sullivan. These projects like the Golden Quadrilateral and highways providing connectivity in the North-South and East-West corridors have made the use of radial tyres feasible. Truck overloading was also another issue. It was not uncommon to see trucks that have a maximum capacity of 9 tons carrying around 13 tons of weight, causing irreparable damages to the tyres. The excessive pressure on the vehicle due to

this mishandling caused frequent accidents as well. The 2005 Supreme Court judgment brought about a refreshing change in this overloading scenario. The verdict stated that trucks should be loaded only as per the dictates of the Central Motor Vehicle Rules and accordingly the state governments were directed to act. This change has definitely turned the table for radialisation in this segment. The rise of multi-axle vehicles or MAVs further played a catalytic role. These vehicles have increased efficiency of the trucking industry. These new trucks are capable of carrying more loads around 50% more than what was possible by normal trucks and have redefined freight movement in a large way. With this new vehicle type, 'hub and spoke' transportation has become popular and with the advent of modernization trends in the heavy vehicle segment the drive towards radialisation has become easier.

5.2.4. Benefits of radial tyres:

The lack of knowledge about the advantages of radial tyres also was an inhibiting factor especially in the case of the end users. The initial investment for such tyres is far higher than the other standard types i.e. the cross-ply type. The low rolling resistance force due to the

non-crisscross of the plies is one of the reasons for that. Naturally, this tyre can guarantee more mileage as well as better longevity than the bias type that involves low investment. In the context of the global oil reserve crunch, fuel prices and also high tyre prices, the transition towards radialisation seems to be the best option.

The environmental friendliness of these tyres owing to less emission of greenhouse gases is another plus point that can hardly be ignored in the era of global warming. Thus to fulfill the goal towards sustainable mobility, India needs to incorporate fast radialisation trends across all segments of transportations.

Comparison of Average Indian Radial vs. Cross Ply T&B tyres:

Metric	Bias	Radial
Price (Rs)	13 ,000	17, 500
Life of new tyre (Km)	55, 000	100 ,000
Cost per retreading (Rs)	3, 800	4, 200
Total cost of retreading (Rs)	7, 600	12, 600
Increase in life after retreading (Km)	82, 500	225, 000
Total life of tyres	137, 500	325 ,000
Retreading Possible (Times)	2	3
Mileage (Km/l)	4.5	4.7
Diesel Cost (Rs/l)	37.8	37.8
Fuel Cost/Km (Rs/Km)	8.4	8
Effective Cost/Km (Rs/Km)	8.5	8.1

Source: ICRA Rating Feature, April 2011

There is no denying the fact that radial tyres are of cardinal importance in the transport sector especially for T&B. In fact, the long term benefits that these tyres generate have gone a long way in displacing the earlier conservative notions attached to them. Compared to the much in demand crossply

bias variant, tyres with radial technology offer better mileage and most importantly are much more fuel efficient (saving at least 5% and 3% more fuel for old and new vehicles respectively). The robust build of the tyres ensure almost 80% longer life but due to high performance capacities the

initial investment for these tyres is higher than the bias types, although in the long term they are much more cost-effective. The above table clearly testifies that.

6. Conclusion

The favourable outlook on OEM demand, growing replacement base and the overall recovery in the economy underpins ICRA's favourable secular demand outlook for tyres. The benefits of the ongoing OEM demand growth is also expected to trickle down to robust replacement demand with a lag. As with all auto ancillaries, raw material cost volatility and price pressure from OEMs remain inherent risks for this industry. Further, pressure from OEMs and cheaper Chinese imports will curb pricing power in the domestic industry to some extent. In addition, the envisaged capital expenditure plans for the next two fiscals is expected to limit the financial flexibility of tyre manufacturers. With their large scale economies and favourable cost structures, Chinese manufacturers are likely to continue to be an import threat for domestic participants. However with the anticipated increase in domestic capacities by 2013, issues of domestic capacity constraints will be remedied. Further, with the commissioning of the new tyre capacities by

2013, the changing dynamics of demand-supply and technology transition towards radials are set to bring about a marked change in the industry over the medium term.

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