Calculus
POWERED BY ETIG

Interpreting Numbers & Trends Robust growth outlook has lifted stocks of leading tyre firms in the past one month and the shares still hold potential for upside

TYRE MAKERS

Demand Potential Makes Tyre Stocks Attractive

SURAJ SOWKAR
ET INTELLIGENCE GROUP

Tyre manufacturers are likely to post a robust earnings growth for the January-March quarter on the back of a healthy increase in automobile sales and softening rubber prices. Leading trye manufacturers, such as Apollo Tyres, JK Tyres and CEAT, look attractive at current levels despite the recent rally in their share prices. According to industry estimates, an expected 11% growth in automobile production this year would lead to an increase in tyre demand by at least 10%.

After a period of slow growth last year, auto sales have picked up in 2012, with the industry recording a year-on-year production growth of 6.8% in March. However, the major game-changer for tyre companies in coming months will be softening rubber prices.

With natural rubber constituting nearly 45% of the total raw material content in a tyre, profit margins of companies are susceptible to volatility in rubber prices.

Global rubber prices have fallen 33% from a peak of 42,640 pound per 5 metric tonne in February last year. In January-March, the quarterly average price of RT1, the international benchmark for rubber prices, was 28,450 pound per 5 metric tonne, down 26% from a year earlier.

In coming months, rubber prices are expected to remain near current levels due to a surplus production in Indonesia and Thailand.

Extension of anti-dumping duty on imports of non-radial tyres from China and Thailand will improve competitiveness of local manufactures. Non-radial tyres account for nearly 75% of tyre sales in India and the duty on non-radial tyres is 10% of tyre prices.

In the past one month, shares of leading tyre manufacturers have rallied driven by a robust growth outlook. Stocks of Apollo Tyres, JK Tyres, CEAT have rallied 15%, 14% and 18%, respectively, during the period.

However, despite the recent rally, the shares still hold a potential for upside in the coming months as during the same period a year ago a spike in raw material prices had eroded net profits, leading to a relative underperformance of their shares.

In the nine-month period to December, Apollo Tyres posted a 2% rise in net profit to ₹253 crore. CEAT reported a loss of ₹34 crore compared with a profit of ₹34 crore in the previous year. CEAT gave a negative return of 45% in 2011 while the Apollo Tyres stock price fell nearly 13% during the period.

suraj.sowkar@timesgroup.com

Global Rubber Prices

(£ per 5 metric Tonnes)

KEY POINTS

- **Leading trye makers look** attractive at current levels despite the recent rally in their share prices
- **Anti-dumping duty** extension on non-radial tyres imports to improve local cos' competitiveness
- **Non-radial tyres account** for 75% of sales and the duty on non-radial tyres is 10% of tyre prices
- **Rubber prices may remain** near current levels due to a surplus output in Indonesia and Thailand