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JK टायर को कमर्शियल व्हीकल इंडस्ट्री की तेज ग्रोथ का फायदा मिलेगा

[आशुतोष आर श्याम | ईटीआईजी]

देश की सबसे बड़ी कमर्शियल व्हीकल टायर कंपनी जेके टायर एंड इंडस्ट्रीज को कमर्शियल व्हीकल इंडस्ट्री की ग्रोथ से फायदा मिल सकता है। कंपनी का ट्रक सेगमेंट में दबदबा है। इस सेगमेंट में रेडियल टायरों का भी इस्तेमाल बढ़ रहा है। इससे कंपनी के प्रॉडक्ट मिक्स में सुधार हो सकता है। जेके टायर को इस वित्त वर्ष में सेल्स वॉल्यूम 15-20 पर्सेंट बढ़ने की उम्मीद है, जो पिछले साल में 9 पर्सेंट बढ़ी थी। केवेंडिश के ब्राउनफील्ड एक्सपैंशन से कंपनी को वॉल्यूम ग्रोथ बढ़ाने में मदद मिलेगी। इस साल जुलाई से इस यूनिट से कंपनी की बिक्री में योगदान बढ़ने लगेगा। बजाज ऑटो और हीरो मोटोकॉर्प से टू-व्हीलर टायर की सप्लाई के ऑर्डर मिलने से भी कंपनी की बिक्री में सुधार होगा।

जेके टायर अब तक रिप्लेसमेंट सेगमेंट में टू-व्हीलर टायर की बिक्री कर रही थी, लेकिन दोपहिया कंपनियों से उसकी मंथली बिक्री में 2.5-3 लाख की बढ़ोतरी होगी। इससे कंपनी की दोपहिया टायर बनाने वाली यूनिट की अधिक प्रॉडक्शन कैपेसिटी का इस्तेमाल हो पाएगा। कंपनी ब्राउनफील्ड एक्सपैंशन के लिए 275 करोड़ रुपये का निवेश कर रही है। इस यूनिट में ट्रक बस रेडियल (टीबीआर) टायर बनाए जाएंगे। एक्सपैंशन के बाद केवेंडिश टीबीआर की इंस्टॉल्ड कैपेसिटी अभी के 7.4 लाख से बढ़कर वित्त वर्ष 2019 के अंत तक 13.8 लाख टायर सालाना हो जाएगी। ब्राउनफील्ड एक्सपैंशन पर कंपनी अधिक रकम भी खर्च नहीं कर रही है। नया प्लांट लगाने पर जितना पैसा खर्च होता, उसके मुकाबले इस पर लागत सिर्फ एक तिहाई आएगी। कंपनी के लिए

15-20% ग्रोथ की उम्मीद

- **जेके टायर** को इस वित्त वर्ष में सेल्स वॉल्यूम 15-20 पर्सेंट बढ़ने की उम्मीद है, जो पिछले साल में 9 पर्सेंट बढ़ी थी
- **बजाज ऑटो** और हीरो मोटोकॉर्प से टू-व्हीलर टायर की सप्लाई के ऑर्डर मिलने से भी बिक्री में सुधार होगा

इस यूनिट के टायरों की बिक्री भी आसान होगी क्योंकि उसकी मौजूदा टीबीआर फैसिलिटी की प्रॉडक्शन कैपेसिटी का पूरा इस्तेमाल हो रहा है। वहीं, ट्रक सेगमेंट में रेडियल टायरों का इस्तेमाल भी बढ़ रहा है। वित्त वर्ष 2007 में यह सिंगल डिजिट में था, जबकि 2018 में यह बढ़कर 52 पर्सेंट तक पहुंच गया था। इस वित्त वर्ष में कमर्शियल व्हीकल्स की बिक्री भी मजबूत बनी हुई है। इंफ्रास्ट्रक्चर सेक्टर की ग्रोथ तेज होने और खासतौर पर रोड कंस्ट्रक्शन में तेजी से भारी वाहनों की बिक्री बढ़ी है।

देश की बड़ी कमर्शियल व्हीकल कंपनियों ने इस वित्त वर्ष में 10-12 पर्सेंट वॉल्यूम ग्रोथ का अनुमान दिया है। वहीं, चीन से टीबीआर टायरों का आयात घटने से भी भारतीय कंपनियों को फायदा होगा। मार्केट एनालिस्टों का कहना है कि वित्त वर्ष 2019 और 2020 में टायर सेल्स की वॉल्यूम ग्रोथ 22 पर्सेंट रह सकती है। इस दौरान रिप्लेसमेंट वॉल्यूम ग्रोथ 5.4 पर्सेंट रहने की उम्मीद है। कमर्शियल व्हीकल के सेल्स वॉल्यूम में मजबूती से जेके टायर की वॉल्यूम ग्रोथ को भी सपोर्ट मिलेगा।

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SALES VOLUMES in FY19 may rise to 15-20% as against 9% in the previous fiscal because of contribution from two-wheelers

Revival of CV Demand to Lift Margins of JK Tyre

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ET Intelligence Group: India's largest maker of tyres for buses and trucks, JK Tyre & Industries, is likely to benefit from the revival in demand for commercial vehicles (CVs) and the tangible shift by the country's cargo fleet to the higher margin and longer lasting radial tyres.

JK Tyre's sales volumes could rise 15-20% in FY19, compared with 9% in the previous fiscal. Brownfield expansion of the Cavendish Tyre business of BK Birla group, acquired by JK in 2016, should aid volumes. The expanded facility will start contributing in phases from July this year.

Similarly, two-wheeler makers Bajaj Auto and Hero MotoCorp should also give JK Tyre additional volumes. It supplied two-wheelers tyres in the replacement market so far, but new orders from two-wheeler makers to supply 2.5-3 lakh tyres every month will increase capacity utilisation at the tyre maker's unit dedicated to scooters and motorcycles.

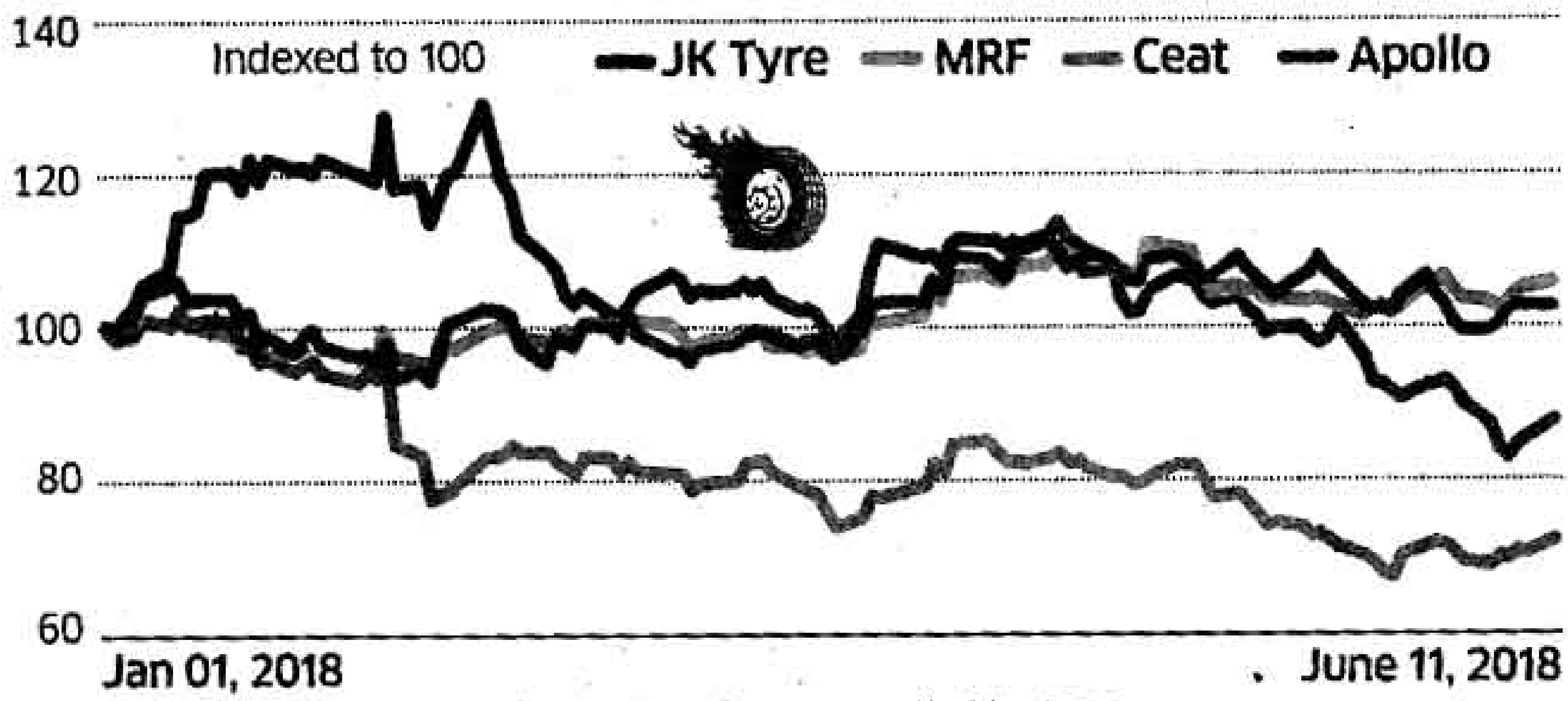
JK Tyre is investing ₹275 crore in the brownfield expansion of Cavendish for truck bus radial (TBR) tyres. After expansion, the installed TBR capacity will increase to 13.8 lakh tyres a year at the end of FY19 from 7.4 lakh presently. The expansion is quite cost-effective, cost a third of the replacement value.

Incremental volumes from the brownfield expansion will be easy to market as the company's current TBR facility is running at full utilisation. The share of radials in truck tyres has increased to 52% in FY18 from low single digits in 2007.

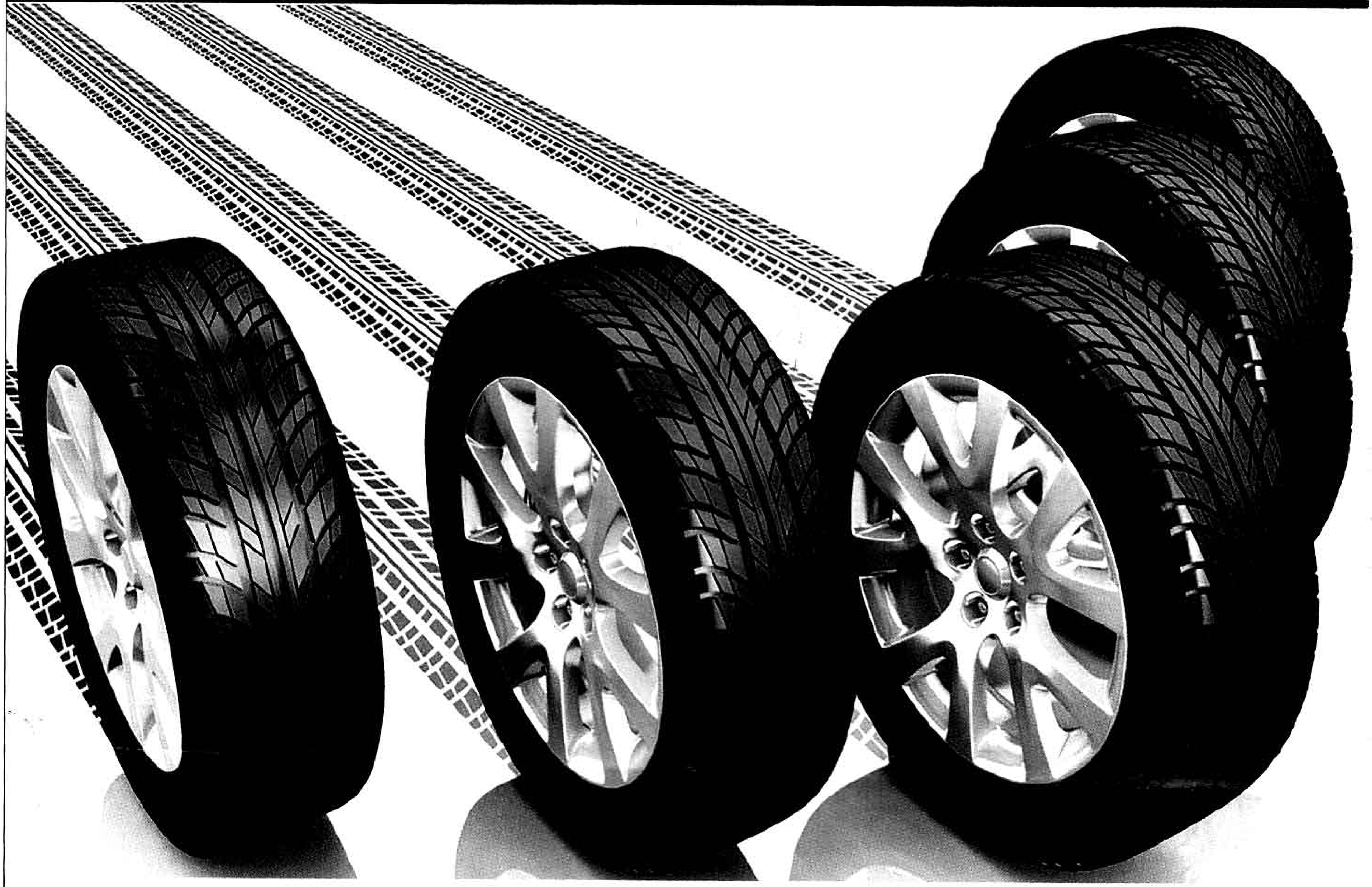
Sales volumes for CVs are likely to remain robust in the current fiscal year because of the pick-up in infrastructure, mainly from road construction. Leading CV makers have forecast volume growth of 10-12% for FY19. Furthermore, the drop in the import of Chinese TBR tyres will aid local volume growth.

Analysts expect tyre sales volume growth of 22% each year in FY19 and FY20, while the replacement volume growth is seen at 5.4% in the same period. Buoyancy in commercial vehicle sales is likely to support volume growth of JK Tyre, which has more than 30% share of the TBR market.

Performance of tyres stocks



Source: Bloomberg, compiled by ETIG



Tyre Industry: Driving In Top Gear Despite Potholes!

Rising crude oil prices is considered negative for Tyre stocks. Nikita Singh finds out why the tyre industry is on growth track inspite of challenges.

Reeling under the effect of back-to-back economic blows rendered by demonetisation, GST and the price fluctuations in natural rubber and crude oil, the tyre industry found itself in the grip of de-growth in the first half of FY2018, especially impacting the commercial segments. However, it is safe to say that despite these short term aberrations, the industry has been catching momentum in terms of domestic as well as export demand, which is largely cushioned by the pick-up in growth across industry sub-segments, including automotive production.

Raw material prices

Accounting for the most significant upsurge in raw material prices in over four years, the prices of natural rubber surged to an average of ₹135 per kg and a domestic peak price of ₹160 per kg during the financial year 2017.

After hitting its long term peak of ₹160 per kg in the domestic markets in FY2017, the natural rubber prices significantly declined in the second half of FY2018, charting a sharp fall in the last four months of FY2018. The domestic natural rubber prices have since remained range-bound between ₹125 per kg and ₹130 per kg. Meanwhile, the global natural rubber prices also declined to an average of ₹117 per kg towards the end of FY2018, recording a nosedive from its FY2017 peak of ₹190 per kg.

However, the rising crude oil prices and increasing cost pressure in non-natural rubber commodities and crude-based raw materials, including synthetic rubber, nylon thread and carbon black, is likely to push the raw materials costs up by over 3 per cent in the coming quarters. The non-natural rubber raw materials form over 50 per cent of the total cost of raw materials in tyre production. Thus, while the prices of natural rubber have stabilised, the rising crude oil prices remain a looming threat. The price of crude oil had surged by over 18 per cent in the December quarter of FY2018 and the price of carbon black had jumped by over 35 per cent during the same period. Even as the crude oil prices slightly cooled down in May 2018, the rise in Brent crude oil prices was crucial.

Major drivers- OEM growth and replacement growth

Going forward, the growth in OEMs and replacement demand are likely to be the compelling factors in the tyre industry growth story. Vouching strongly on India's consumption demand, the OEMs are likely to continue thriving, while the replacement demand is also likely to continue its growth momentum, which commenced in FY18. Further, the almost double digit growth recorded by the automobile industry at 9.2 per cent for FY18 and the steady recovery of economy through increased government spending suggests an even more lucrative year for the tyre industry.

While the bolstered performance of the Indian automobile industry included rise in sales of passenger vehicles and commercial vehicles among other segments, the two-wheeler sales recorded a growth of 14.80 per cent in FY18. Passenger vehicles, which are expected to grow in FY19 as well, recorded a growth of 7.89 per cent during the previous fiscal. With India placed as the fourth largest global automotive market, the demand for automobiles in the country is likely to reflect positively on the tyre sector as well.

As a testimony to the growth of OEMs, India's largest car maker Maruti Suzuki reported sales of over 1.5 million units in FY2018 for the first time in three decades, while two-wheeler manufacturer reported a 20 per cent increase in sales in March 2018 on a year-on-year basis.

Performance of tyre companies' stocks

In line with the market sentiments, the tyre stocks too have declined on the bourses in 2018, with most of the tyre stocks either yielding marginal or negative YTD returns, with the crude oil prices majorly leading to the downfall. On a YTD basis, CEAT has declined by over 33 per cent and Balkrishna Industries, JK Tyre & Industries and Modi Rubber have declined by over 9 per cent each. Meanwhile, Goodyear India has posted the highest YTD returns of about 8 per cent. However, despite the recent plunge in stock prices, these stocks are expected to recover as the sales volume may continue to bolster up through FY19.

Despite poor performance on a YTD basis, tyre stocks have posted an average gain of 9.96 per in their one-year returns. Stocks such as Balkrishna Industries and Goodyear India have recorded a return of about 45 per cent each on one-year basis. Among other robust performance on the bourses, Apollo Tyres surged by 23.05 per cent, MRF by 18.16 per cent and PTL

Enterprises by 14.73 per cent on one-year basis.

Further, on a three-year basis, tyre stocks such as Modi Rubber have posted 59.18 per cent return, Balkrishna Industries 43.72 per cent, Goodyear India 31.16 per cent and MRF 27.54 per cent return on the bourses. On five-year basis, the sector has recorded an average return of over 43 per cent, with companies such as Balkrishna Industries recording a surge of 51.66 per cent, Ceat 64.83 per cent and TVS Srichakra 75.83 per cent, respectively.

In retrospect, the leading tyre companies such as Balkrishna Industries, TVS Srichakra, Ceat, MRF, JK Tyre and Apollo Tyres have gained up to 7,420 per cent over a period of last nine years. Meanwhile, benchmark NSE Nifty appreciated by 219 per cent during this period, while Goodyear India alone jumped by over 1,000 per cent during the same period.

Company Name	Returns(%)			
	YTD	1 year	3 Year	5 Year
Apollo Tyres Ltd.	1.43	23.05	13.99	25.96
Balkrishna Industries Ltd.	-9.03	45.81	43.72	51.66
Ceat Ltd.	-33.17	-23.46	18.48	64.83
Goodyear India Ltd.	7.9	44.94	31.16	34.37
JK Tyre & Industries Ltd.	-9.03	-17.69	6.07	42.02
Modi Rubber Ltd.	-9.11	2.98	59.18	39.43
MRF Ltd.	2.22	18.16	27.54	37.03
PTL Enterprises Ltd.	-12.46	14.73	10.94	16.81
TVS Srichakra Ltd.	-21.12	-18.88	18.43	75.83
Average	-9.15	9.96	25.50	43.10
Data As on May 24, 2018				
*3 year and 5 year Returns are annualised				

Financial recoup for tyre companies

Restrained by the increasing crude oil prices, tyre companies have still managed to bolster their revenues in FY18. The economy's recovery found expression in the net sales figures of the tyre companies as the revenue of the industry grew by over 18.6 per cent in the third quarter of FY18 as against a growth of 12.6 per cent in the preceding quarter. Even as we attribute much of the growth to the low base set, which was due to the impact of demonetisation, the sales figure for the industry have undeniably exhibited a recovery. The leading tyre manufacturing companies, including Apollo Tyres, Balkrishna Industries, Ceat, Goodyear India, JK Tyre & Industries, MRF and TVS Srichakra recorded an aggregate increase in net sales from ₹11,466.14 crore in the fourth quarter of FY17 to ₹12,293.30 crore in the fourth quarter of FY18. The companies registered an aggregate growth of 7.21 per cent in their net sales in FY18 on a year-on-year basis and a growth of 4.78 per cent in the fourth quarter of FY18 as against the previous quarter of the fiscal.

In the last quarter of FY18, the increasing pressure of operating costs reflected in the profit margins of the companies, although most of the tyre companies posted a reassuring topline growth and bolstered volumes. On a quarterly basis, the companies recorded only a tepid growth in their PAT margin percentage in Q4FY18. Balkrishna Industries' PAT margin declined to 15.72 per cent in Q4FY18 as against 17.13 per cent in Q3FY18, whereas MRF's PAT margin remained almost unchanged at 8.93 per cent in Q4FY18 as against 8.96 per cent the preceding quarter. Most of the companies recorded a similar trend, except JK Tyre & Industries that posted a strong recovery from 1.69 per cent in Q3FY18 to 4.25 per cent in Q4FY18.

Affected by raw material price fluctuations and slowed economic growth, the tyre industry found its driving force in sales volume growth, especially in the OEM segments and the strong replacement demand. FY2018 also witnessed a strong revival in exports and a decline in imports. Moreover, the withering impact of GST and considerable natural rubber stocks with the companies aided the industry to gain the ground after hitting its four-year low operating margins in Q1FY18 following a spike in natural rubber prices.

Company Name	Net sales		PATM %		EPS	
	Mar-17	Mar-18	Mar-17	Mar-18	Mar-17	Mar-18
Apollo Tyres	2,792.41	2,591.24	7.87	6.66	3.91	3.46
Balkrishna Ind..	1,231.76	1,001.23	15.72	13.77	10.02	14.27
Ceat	1,648.53	1,450.69	5.16	4.84	21.05	17.36
Goodyear India	398.9	403.35	9.43	8.24	16.3	14.41
JK Tyre & Ind.	1,803.47	1,790.55	4.25	3.97	3.38	3.13
MRF	3,865.38	3,712.84	8.93	7.72	814.43	676.34
TVS Srichakra	552.85	516.24	5.19	6.22	37.44	41.95
	12,293.30	11,466.14	8.07	7.34	906.53	770.92

Positive export and import figures

Even as the low-cost Chinese tyres pose competition in the overseas markets, India holds strong ground in foreign markets, including the US, Germany and the UAE. The Indian tyre exports are also tracing strong recovery in South American markets. Tyre exports from India recorded a growth of over 12 per cent in the first eight months of FY2018. The exports further have a favourable outlook on the back of increasing competitiveness of Indian tyre industry with regard to quality and price. The country also witnessed a dramatic decline of over 31 per cent in its imports in FY18 as India imposed the anti-dumping duty on imports of Chinese truck and bus radial (TBR) tyres, which will continue to be levied for a period of five years. In addition, the government also increased the customs duty on TBR imports from 10 per cent to 15 per cent in the Union Budget 2018-19, providing a significant boost to the producers.

Conclusion : Despite all the uncertainties wrought by the crude-based raw material prices, the soft prices of natural rubber and robust automobile demand strengthened by the growing economy is expected to drive tyre consumption in India. Further, the anti-dumping duty imposed by India and the growth in exports will aid the industry in overcoming the downsides of increasing crude oil price.