

Tyre

Sector Impact - Neutral

Background

Particulars	in '000 tonnes		
	FY08	FY09	9M10
Domestic Offtake	944	964	840
of which			
- Truck and Bus tyres	669	654	557
- Passenger Car tyres	109	110	95
-Light Commercial Vehicles	105	104	83
Exports	169	143	108
Replacement Segment	613	677	583
OEM Segment	331	287	257

Source: CARE Research

- Tyre production in tonnage terms declined by 1.2% in FY09 to 1.17 mn tonnes on account of economic slowdown and decline in demand for new automobiles. Domestic offtake of tyres increased in FY09 mainly on account of growth in replacement segment even though there was a sharp fall in the OEM segment due to fall in automobile sales. On the other hand, exports declined by 16% in FY09.
- Uptick in the economy and resurgence in domestic automobile demand resulted in improvement in the performance of the industry for 9M10. The recovery was evident in Q310 mainly due to increased supply to OEM segment. Competition from low-cost Chinese manufacturers and slowdown in the global automotive market has restricted the growth in exports to 5.6% for the 9M10 period (over 9M09).
- Improvement in domestic tyre demand has had a significant positive impact on the financial performance of tyre companies in the current year. However, the sharp increase in prices of natural rubber seen in recent months remains a concern.

Budget Proposals

1. Increase in excise duty from 8% to 10%.
2. Exemption of carbon black feed stock from additional duty of customs.

3. Basic Customs duty on crude petroleum increased from Nil to 5%.
4. Increase in allocation to road sector by 13% to Rs.19,894 cr

Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY		
• Truck/Bus tyres (New and Used)	10	10
• Passenger Car tyres (New and Used)	10	10
• Motorcycle/Scooter tyres (New and Used)	10	10
EXCISE DUTY		
• Truck/Bus tyres (Radials & others)	8	10
• Passenger Car tyres (Radials & others)	8	10
• Motorcycle/Scooter tyres	8	10

Excluding:
 2% Education cess and 1% secondary & higher education cess
 1% National Calamity Contingent Duty (NCCD)

Budget Impact: Industry

1. Increase in excise duty is likely to result in marginal increase in tyre prices.
2. Exemption of additional customs duty to carbon black feedstock which is mainly imported may reduce the prices of carbon black, a key raw material for tyres.
3. Increase in customs duty on crude petroleum may result in price increase for petro-based raw materials like Poly Butadiene rubber, Nylon tyre cord fabric etc used by tyre industry.
4. Continued focus on road sector is a long-term positive for the growth of the tyre industry.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
MRF Ltd	Complete Range	85	1,2,3,4	◀▶
CEAT Ltd	Complete Range	90	1,2,3,4	◀▶
Apollo Tyres	Mainly Truck/Bus, LCV, Passenger Cars	90	1,2,3,4	◀▶
JK Tyres	Mainly Truck/Bus, LCV, Passenger Cars	91	1,2,3,4	◀▶

Legends:

▲▲	Highly Positive	▼	Negative	◀▶	Neutral
▲	Positive	▼▼	Highly Negative	∅	No Proposals