

June 15, 2020

India puts tyre imports in restricted category...

The Director General of Foreign Trade (DGFT) vide its June 12 circular has notified that tyre imports into India will now fall into the restricted category vs. free category assigned earlier, **implying imports would now require DGFT permission/licence vs. no such restrictions earlier**. The notification does not put any additional duties on tyre imports. It covers tyre imports across vehicle categories, viz. passenger vehicles (PV), commercial vehicles (CV), 2-W (motorcycle & scooters) & bicycles and across both tyre types i.e. radial & bias, thus practically covering all tyre imports.

Exhibit 1: DGFT Notification: Amendment in import policy of tyres

HS code	Description	Existing	Revised
40111010	Radial tyres used in motor cars (incl. station wagons & racing cars)	Free	Restricted
40111090	Other tyres used in motor cars (incl. station wagons & racing cars)	Free	Restricted
40112010	Radial tyres used in buses or lorries	Free	Restricted
40112090	Other tyres used in buses or lorries	Free	Restricted
40114010	Tyres used in motorcycles	Free	Restricted
40114020	Tyres used in motor scooters	Free	Restricted
40114090	Other tyres used in motorcycles	Free	Restricted
40115010	MCP tubeless tyres used in bicycles	Free	Restricted
40115090	Other tyres used in bicycles	Free	Restricted

Source: dgft.gov.in, ICICI Direct Research

Our View

We believe this curricular shows the government's intent to safeguard domestic tyre manufacturing companies while at the same time ensuring tyre imports from registered/licensed owners only. It discourages imports from unorganised segment, which forms a small portion of the overall tyre demand domestically. Our interaction with leading tyre companies suggests they were not experiencing dumping of cheap imports. Hence, **this notification is not a game changer and has a limited positive impact**. Truck and bus radial (TBR) category imports had already declined substantially post imposition of **Anti-Dumping Duty (since September 2017) as well as countervailing duty (since June 2019)** by authorities in the past. The present notification will, however, help push incremental volumes for domestic tyre players in a limited manner, particularly in the replacement market, which had some unorganised imports.

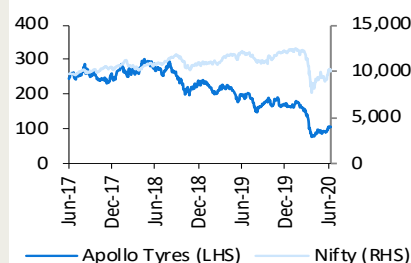
Specific view on our coverage companies

- Apollo Tyres (ATL):** Could be a small beneficiary of this notification in the replacement market. However, we do not recommend any fresh buying in the stock given single digit return ratios as well as long payback period of underlying capex for the PCR category
- JK Tyres (JKT):** Could be a small beneficiary of this notification in the replacement market. However, we do not recommend any fresh buying given 1) the company's large presence in the CV space that will likely witness a delayed demand recovery and 2) highly levered balance sheet (debt: equity > 2x) with single digit return ratios
- Balkrishna Industries (BKT):** Largely unaffected by the notification given export nature of business
- Goodyear India (GIL):** For it, manufactured to traded sales ratio in FY19 was at 67:33. The company procures tyres from sister companies in the PV segment. Here also we see limited impact. GIL will, however, benefit from robust prevailing demand in tractor space

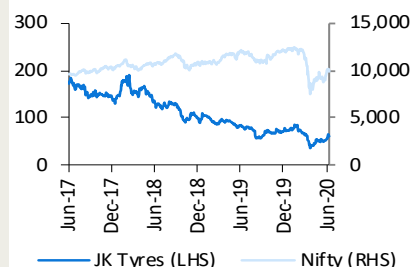
Rating matrix

Company	Rating	CMP (₹)	Target Price (₹)	Potential upside
Apollo Tyres	Hold	110	105	-4%
JK Tyre	Hold	65	63	-3%
Balkrishna Industries	Hold	1,150	1,100	-4%
Goodyear India	Buy	710	910	28%

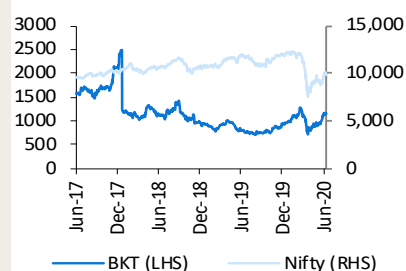
Price chart – Apollo Tyres



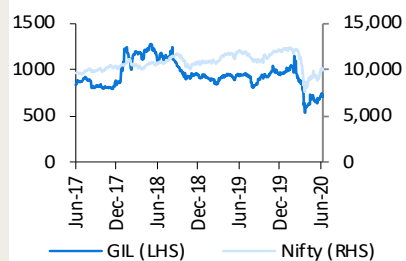
Price Chart – JK Tyres



Price chart – Balkrishna Industries



Price Chart – Goodyear India



Research Analysts

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

Exhibit 2: Tyre Industry dynamics in volume terms over past few years

Parameter	Units	FY16	FY17	FY18	FY19	FY20F
Total tyre Consumption	thousand tonne	1,787	1,831	1,932	2,126	1,782
Tyre Imports	thousand tonne	122	127	102	85	71
Tyre Exports	thousand tonne	161	189	194	194	213
Total Tyre Production	thousand tonne	1,826	1,893	2,024	2,235	1,924
Imports share	%	6.8%	6.9%	5.3%	4.0%	4.0%
OEM vs. Replacement						
OEM Demand	thousand tonne	590.0	630.0	715.0	807.0	589.0
Replacement Demand	thousand tonne	1,198.0	1,201.0	1,221.0	1,318.0	1,193.0
Total tyre Consumption	thousand tonne	1,787	1,831	1,932	2,126	1,782
OEM Share	%	33%	34%	37%	38%	33%
Replacement Share	%	67%	66%	63%	62%	67%

Source: Crisil Research, ICICI Direct Research

As per industry sources, imports serve just ~4-5% of total domestic consumption at present (FY18-20) vs. ~7% as of FY16-17. Total tyre consumption as of FY20 is estimated at 1782 thousand tonne (17.82 lakh tonne) of which imports constituted ~71 thousand tonne constituting ~4% of domestic demand

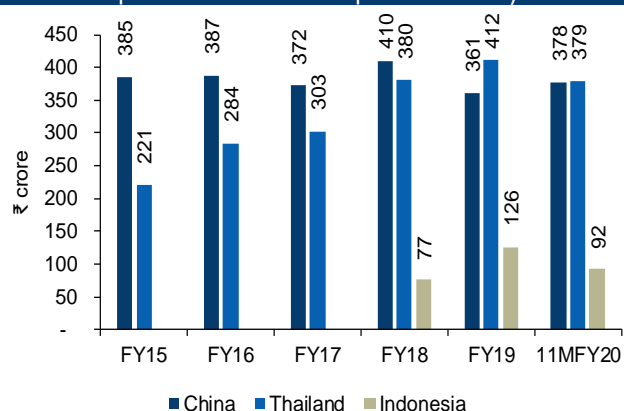
Exhibit 3: Code wise import of tyres over past few years (₹ crore)

HS Code	FY15	FY16	FY17	FY18	FY19	11MFY20
40111010 (PCR)	913.0	1,032.6	1,095.4	1,305.4	1,327.6	1,223.5
40111090	284.5	227.5	180.0	107.9	86.1	38.6
40112010 (TBR)	764.6	1,276.8	1,391.1	859.0	619.9	400.3
40112090	32.3	26.4	24.7	44.1	44.9	18.5
40114010	130.0	147.3	114.5	154.0	212.7	137.3
40114020	0.0	1.6	0.9	1.9	0.6	0.7
40114090	4.6	18.6	33.8	22.6	15.0	5.1
40115010	0.1	0.3	0.2	3.0	1.1	0.5
40115090	8.8	5.0	7.6	6.1	10.4	14.2
Total	2,138.0	2,736.1	2,848.2	2,504.1	2,318.2	1,838.6
YoY %		28.0%	4.1%	-12.1%	-7.4%	-20.7%

Source: Department of Commerce, ICICI Direct Research

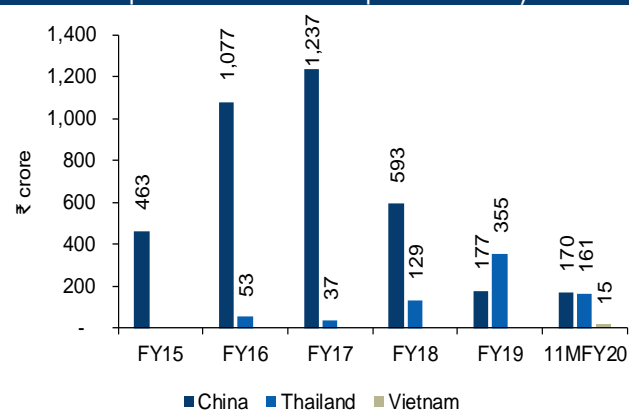
Overall tyre imports have been declining after FY17. Passenger car radial (PCR) and truck bus radial (TBR) tyres combined to form >85% of total imports into India in value terms. Current reading as of 11MFY20 was at PCR constituting ~66% of total tyre imports and TBR constituting ~22% of total tyre imports

Exhibit 4: Top three countries - imports of PCR tyres



Source: Department of Commerce, ICICI Direct Research

Exhibit 5: Top three countries - imports of TBR tyres



Source: Department of Commerce, ICICI Direct Research

China and Thailand have consistently been the top two contributors to total PCR imports into India, accounting for a combined ~60-65% over the years.

China's contribution to total TBR imports has reduced from 84-89% in FY16 & FY17 to 43% in FY20 post imposition of anti-dumping duty and countervailing duty in 2017 and 2019, respectively.

Apollo Tyres

- Apollo tyres (APT) is a leading tyre manufacturer deriving ~67% of its revenues from manufacturing operations in India (APMEA region) and the rest ~33% from European subsidiaries
- EBIT margins in the Indian operations are decent at ~7% with associated RoCE at ~15% as of FY20P. European operations, however, given the high overhead costs, are a drag with APT reporting loss at the EBIT level in European operations in FY20P and subdued return matrix
- Given the muted consolidated return ratios matrix (RoCE~5%), we continue to maintain **HOLD** rating on Apollo Tyres. We now value the company at ₹ 105/share i.e. 4.6x EV/EBITDA on FY22E numbers

Balkrishna Industries

- Balkrishna Industries (BKT) is a leading tyre manufacturer domestically in the off-highway tyre (OHT) segment, which is primarily meant for exports. BKT tyres find application in agriculture, mining and other commercial activities with Europe region constituting the bulk of sales at ~50% followed by US at ~20% among others. Bulk of the sales at BKT is in the replacement channel (~75%) providing strong pricing power
- BKT stands out in the domestic tyre space, with its balance sheet strength (net cash positive), robust EBITDA margins (25%+) and healthy return ratios matrix (20%+ RoCE)
- With bulk of capex slated to be complete in FY20E, BKT is well poised to generate healthy free cash flows, going forward, in FY21-22E. Given the strength in its business model, we increase our target P/E multiple to now value BKT at ₹ 1150/share i.e. 18x P/E on FY22E EPS and maintain **HOLD** rating on the stock

JK Tyres

- JK Tyre is a prominent player in the commercial vehicle (CV) space both at the OEM level as well as the replacement level. Hence, it is likely to witness a delayed demand recovery given the present subdued economic scenario amid Covid-19 disruption
- It has a highly levered balance sheet with debt: equity at 2.2x as of FY20E. However, the company belongs to a strong promoter pedigree of JK group. We roll over our valuation at JK Tyre from FY21E to FY22E. We now value JK Tyre at ₹ 63/share i.e. 4x EV/EBITDA on FY22E. We maintain **HOLD** rating on the stock

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Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruvi Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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