GOODYEAR INDIA LIMITED

Legacy of Innovation in the Tyre Industry

Goodyear India Limited ("the Company" or "GIL"), with Goodyear Tire and Rubber, U.S.A. as the holding company with a stake of 74.0%, is involved in developing, manufacturing, marketing and distributing automotive tyres, tubes, and flaps. GIL was the first company to launch a 13-inch tubeless tyre in the Indian tyre market in 1999. The Company has two manufacturing plant, one in Ballabgarh, Uttar Pradesh and another one in Aurangabad, Maharashtra. The Company is a market leader in the tractor tyres segment, with a ~33% market share. The parent company owns several brands worldwide which are shown below:

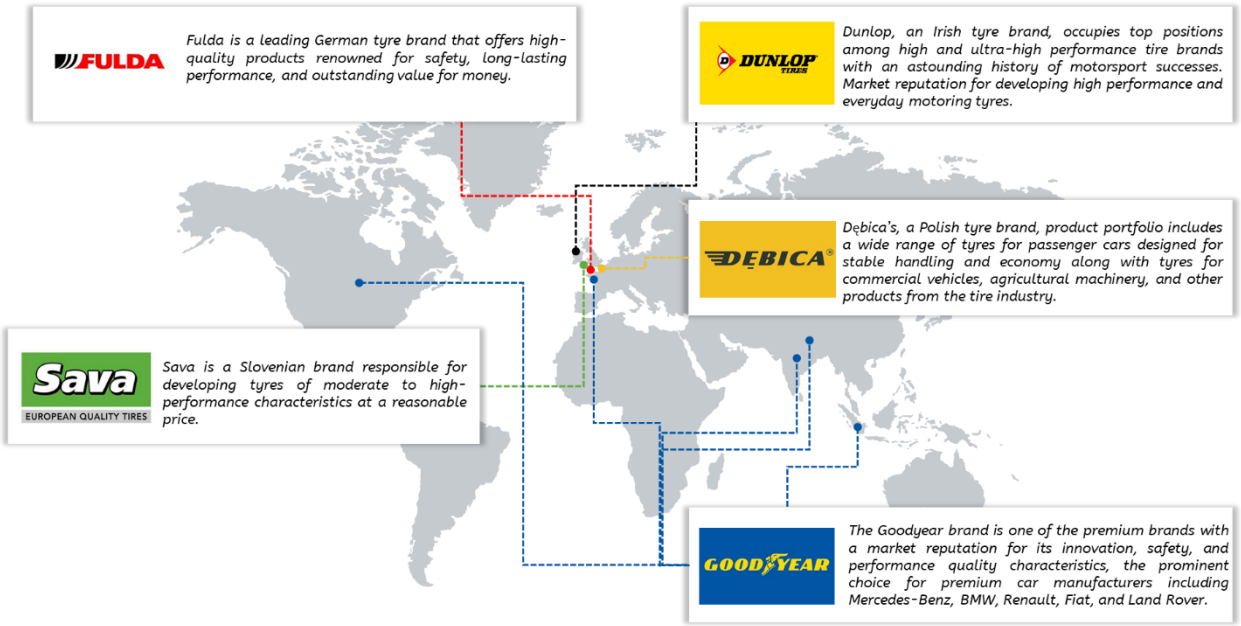


Image: International footprint of Goodyear Tyre and Rubber

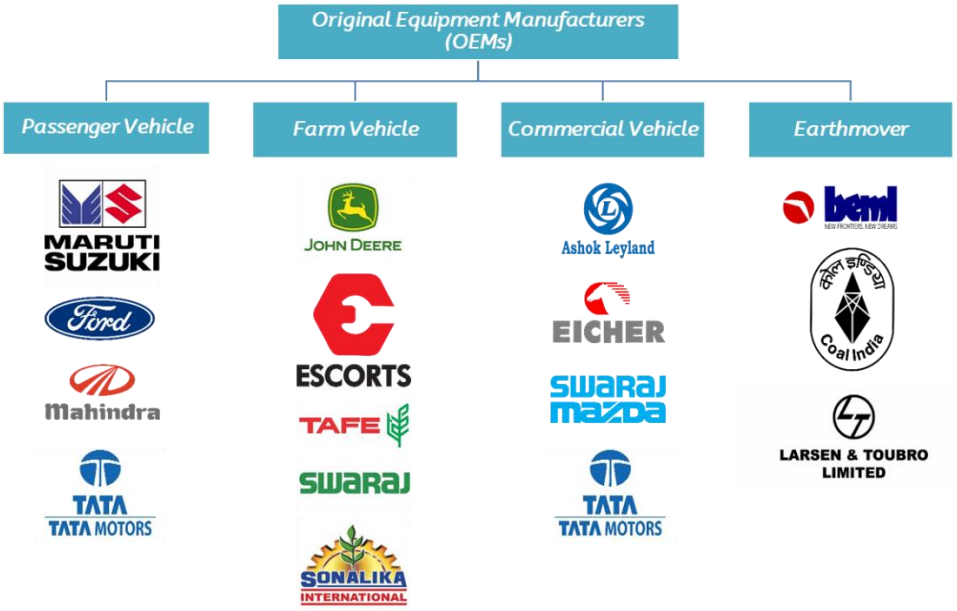
The only brand that has a presence in the Indian tyre market is the Goodyear brand. Other brands are confined to their geographical locations. The Goodyear brand is successful in India because of its customer-oriented products that are well suited to the Indian consumer demands for long-lasting tyre performance at a reasonable price. According to Tyremarket, Goodyear GT3 tyre has been chosen as the best passenger vehicle tyre for the year 2020. It was also the most suited tyre for the Indian rugged terrain.

The Company's business model caters to the following consumer segments:

- Passenger vehicle (PV)
- Farm vehicle (FV)
- Commercial vehicle (CV)

- Earthmover segment

The Company has strong connections with major Original Equipment Manufacturers (OEMs) which include companies involved in the business of automobile production and they directly interact with the tyre companies for their customized tyre requirements which best fit the performance expectations of their products. GIL is connected with many OEMs as shown in the flow chart below:



History of GIL

1. The Goodyear Tire & Rubber Company was incorporated in 1898 by Frank Seiberling. He bought the company's first manufacturing plant using the money that he had borrowed from his brother-in-law. The Company got its name from Mr. Charles Goodyear, the pioneer of the rubber vulcanization process. Vulcanization is a process in which the rubber is heated with chemicals like sulphur, accelerator and activator at a temperature ranging between 140–160°C to achieve enhanced elasticity, tensile strength, hardness and durability.

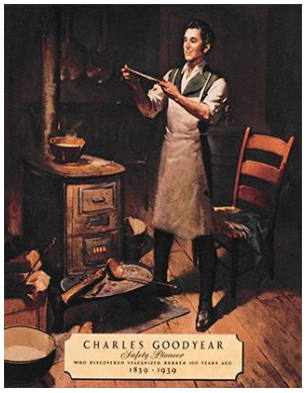


Image: Charles Goodyear

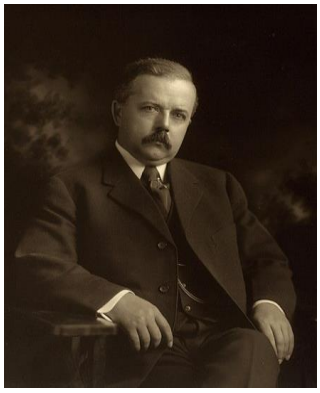


Image: Frank Seiberling

2. The winged-foot logo that the Company uses dates back to a sculpture that was situated in the stately home of Frank Seiberling. The sculpture represented the Greek god Hermes (also known as "Mercury" for Romans), who was regarded as a carrier of good news and god of trade and commerce. He was the inspiration behind the winged-foot for the Goodyear logo.

Image: The statue of the Greek god Hermes ("Mercury")

3. Goodyear began the production of bicycle and carriage tyres, horseshoe pads and poker chips with just 13 workers. By 1926, it had become the world's largest rubber company.
4. After entering into the Indian market in 1922 the Goodyear Tyre and Rubber established its first manufacturing facility in Ballabgarh, Uttar Pradesh in 1961.
5. In 1982, the Company agreed with Andrew Yule and Company, for sharing technical insights regarding the production of fan-belts and vee-belts (conveyor belts) with a 50% buy-back arrangement.
6. In 1961, when the Ballabgarh plant was established, it was producing bicycle tyres along with other tyres. In 1982, it converted the bicycle tyre plant into scooter/motorcycle tyre plant. The Company discontinued the production of scooter and motorcycle tyres in April 1986.
7. In 1993, GIL collaborated with Rama Prasad Goenka Group (RPG group) (CEAT's parent company) to form the South Asia Tyres Limited (SATL) to manufacture steel radial passenger tyres, truck tyres and bias earthmover tyres which were earlier imported. In 1998, this joint venture was discontinued and SATL became a fully owned subsidiary of GIL and was named as Goodyear South Asia Tyres Pvt. Ltd. (GSATPL).
8. In 1999, Goodyear became the first tyre manufacturing firm to launch tubeless tyres in the Indian market.

Indian Tyre Industry

1. The Indian tyre industry is valued at around ₹63,000 crores. It comprises of 41 tyre companies and 62 tyre manufacturing plants, employing around two million people besides providing livelihood to another one million that includes retreaders, dealers, repairers, etc.
2. The total rubber production in India has been less than the total consumption by the tyre industry hence, this gap is met by importing rubber from countries like Indonesia, Vietnam, Thailand, Malaysia, Sri Lanka, etc. However, tyres companies pick up a majority portion of domestically produced natural rubber and try to limit their natural rubber imports because the import duty charged on natural rubber

is more than the import duty charged on tyres. This is one of the oldest examples of inverted duty structures in India.

Total Rubber Stock (in lakh tonnes) in India, FY20

Particulars	Natural Rubber	Synthetic Rubber
Total Domestic Rubber Production	7.1	3.99
Consumption by Tyre Companies	7.6	4.3
Total Imports	4.6	3.1

Source: Rubber4u

3. The forecast of a normal monsoon and its timely inception has augmented the projections of an abundant crop output, which along with an increase in MSP (Minimum Support Price) as shown in the image below, augur well for the rural economy. These factors collectively strengthen the income of the agricultural sector and thus may boost the demand for agriculture mechanization which in turn positively affects the agriculture tyre manufacturers.

4. The Government had introduced a special scheme in 2014, the Sub-Mission on Agricultural Mechanization (SMAM), dedicated to boosting farm mechanization in the Country. The scheme provides a subsidy for purchase of various types of agricultural machinery used for sowing, planting, harvesting, reaping, etc. An amount equal to ₹1,033 crores has been allocated for the scheme in the current fiscal of 2020-21 out of which ₹553 crores have already been released to the respective state governments. This scheme has benefited the tyre manufacturers by encouraging farmers to buy agricultural equipment and machinery like tractors which in turn has boosted the farm tyre replacement as well as OEM businesses.

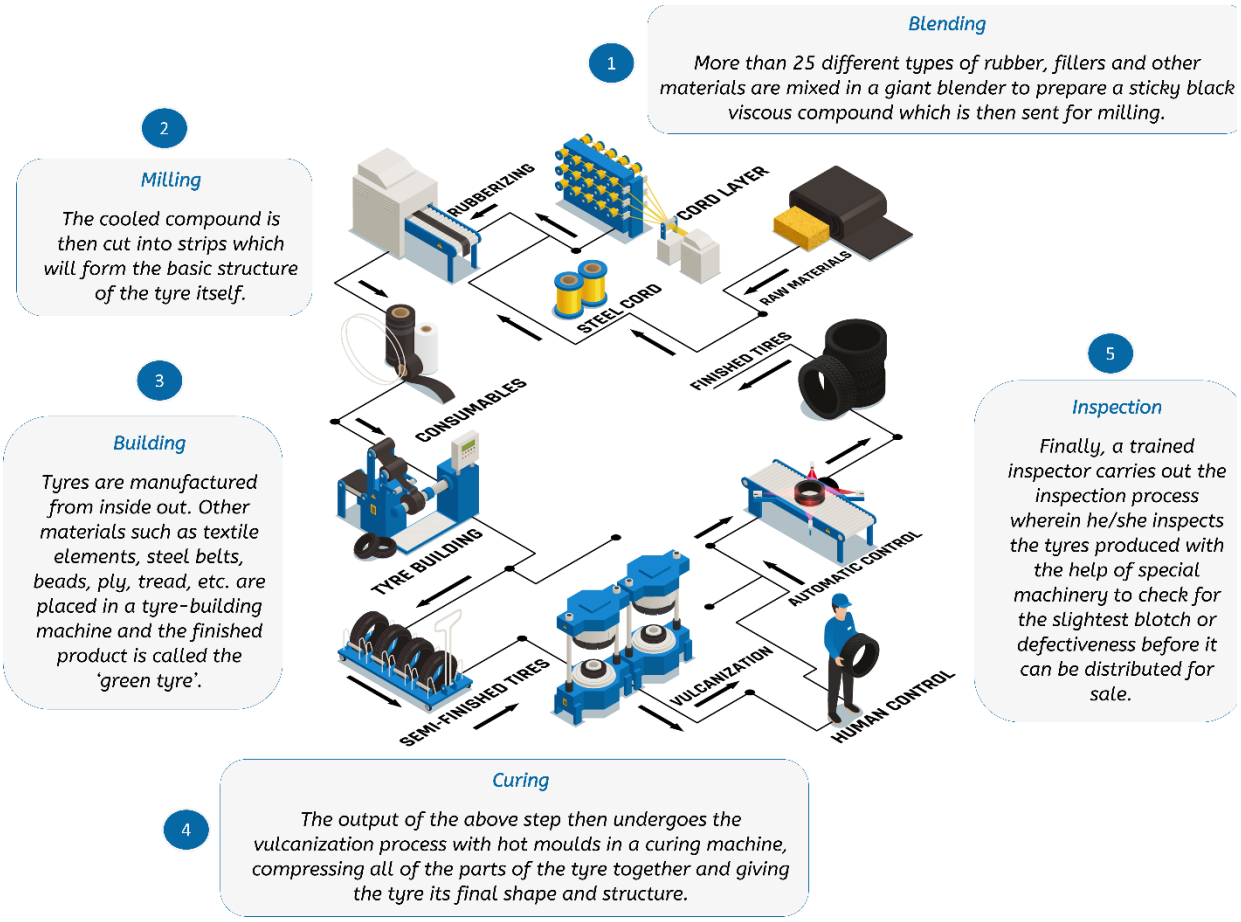
5. According to the Society of Indian Automobiles Manufacturers (SIAM), the auto industry witnessed a substantial de-growth of 88% in May with zero sales in April. This may be attributed to halted international trade (the auto component industry imports items worth $17.6 billion out of which $4.75 billion comes from China), plant shutdowns, the growing importance of work from home and diminished income levels in the economy due to nationwide lockdown. However, a shift towards personal mobility due to increased social distancing is expected to increase the demand for two-wheelers and entry-level PVs in the market. Therefore, one can expect moderate growth from PV tyre segment.

6. Further, the Ministry of Commerce and Industry imposed trade restrictions on import of new pneumatic tyres used in cars, buses, lorries and motorcycles. According to the Directorate General of Foreign Trade (DGFT), tyres for cars, SUVs, racing cars, including tubeless and radials have been put on the restricted list. The restrictions on the import of automobile tyres aim at increasing domestic production and export besides unlocking job creation potential. Over 40% of Truck and Bus Radial (TBR) tyres and passenger car radial (PCR) tyres were earlier imported from China.

The above image shows the position of major tyre manufacturers in India concerning different tyre segments ranging from small motorcycle tyres to large size earthmover tyres. GIL has a leading position in the farm tyre segment and among the top players in the PV and earthmover segments.

Business Model

1. GIL is present across PV, CV (trucks and buses), farm equipment, industrial vehicle and earthmover tyre categories with a leading position in the tractor tyre segment. The proportion of manufacturing to the trading mix of the Company stands at 67:33 as of FY19. The Company mainly supplies its products to major OEMs in the PV, farm equipment and earthmover segment.
2. The three crucial pillars of the Company's strategic roadmap are Innovation Excellence, Sales and Marketing Excellence and Operational Excellence.
3. The tyre manufacturing process of the Company involves the following steps:



4. The Company exports some of its finished products to countries like Sri Lanka, Philippines, Thailand, Dubai and Australia. The export of finished goods (₹21.82 crores) constitutes only 1.22% of the total revenue of the Company as of FY20. The Company also imports capital goods, stores and spares and raw-materials from countries like the Philippines, Germany, China and South Africa. Raw material imports occupy 31% (₹50.65 crores) of the total imports of the Company.

COVID-19 Impact on the Company

1. The COVID-19 pandemic has drastically affected every industry across the globe. The tyre industry in India is anticipating a loss of ₹5,000 crores in Q2FY21. The series of lockdowns initiated by the government wreaked havoc for the tyre companies since 40% of annual sales take place during the March-June period. This high demand is due to the excessive tyre damage led by high wear and tear under the hot climatic condition.

2. According to the Federation of Automobile Dealers Associations (FADA), the automobile sales in May 2020 comprised of 30,749 PVs (-86.97% YoY), 8,317 tractors (-75.58% YoY) and 711 CVs (-96.63% YoY). This shows a strong impact of COVID-19 on the PV sector thus affecting the PV tyre segment sales of the Company.

3. The timely advent of the South-West monsoon, government support for agricultural initiatives combined with an exceptional Rabi crop and successful sowing of the Kharif crop has led to a boost in tractor demand during June. Mahindra & Mahindra's Farm Equipment Sector (FES) witnessed a 12.34% increase in its tractor sales in June 2020. Another leading tractor manufacturer in India, Sonalika

Tractors, registered a 55% YoY growth in June 2020. It is expected that this demand will continue to remain buoyant in the coming months and help GIL revive its tractor/farm tyre segment sales.

4. According to the All India Motor Transport Congress (AIMTC), which represents around 95 lakh truckers and other entities, 65% of the total trucks in the Country is out of business due to skyrocketing fuel prices and no noticeable relief to transporters that have been impacted by COVID-19. Truckers have been hit hard by rampant extortion at border check-posts too. This will harm the truck & bus tyre replacement segment of the Company where it is trying hard to produce a strong footprint.

Differentiating Strategies

1. Innovation Excellence Strategy

Backed by a strong parent, GIL enjoys the perks of receiving groundbreaking innovation insights from the R&D center in Ohio, USA. The Company has a profound reputation when it comes to technology and innovation. A few of the technological innovations worth mentioning are:

a) Goodyear pioneered in the development of tyres that were specifically designed to be used on Moon's landmass in cold temperatures and lower gravitational pull as compared to Earth. The Apollo 14's lunar rover was fitted with Goodyear's XLT tyres.

b) The Company launched the Aquatred tyres that could channel out water from the tyre tread resulting in reduced hydroplaning and improved traction in wet conditions.

c) Launching Run-On-Flat technology tyres that can run up to 80kph for 80km with punctures.

d) Invented a tyre which can transform tyre deformations into electrical energy that can be supplied to charge the batteries of hybrid cars.

Image: Goodyear Lunar Tyre

e) The innovation of an automatic puncture sealing technology called Seal-Tech which is capable of sealing punctures in the tyre tread area of up to 5mm in diameter.

2. Diversified Product Portfolio Strategy

GIL is one of the leading tyre manufacturers in India. With products ranging from Goodyear Wrangler AT SilentTrac, Goodyear Assurance DuraPlus, Goodyear Wrangler TripleMax, Goodyear EfficientGrip Performance SUV tyre, Goodyear Eagle F1 Directional 5 tyre, and several other high-performance tyres, GIL carries a versatile product portfolio to satisfy the needs of every customer. GIL manufactures a variety of tyres for truck and light CVs, farm and industrial applications, PV and Sports Utility Vehicles (SUV), etc. GIL also caters to the flap and tube markets. Flaps are used by almost all modern PVs and tubes by many motorcycles and scooters (although GIL has discontinued the production of tyres for the two-wheeler segment).

3. Positioning as Premium Tyre Manufacturer

The Company positions itself as a premium tyre brand with high performance and quality standards as compared to its peers and therefore its products command higher prices in the market as compared to its competitors. The Company has thrived to sell its products at higher prices than its competitors but

at the same time, it has also maintained prices in such a way that customers don't find it highly expensive to buy its product.

4. Focus on High-value Segment Strategy

GIL has a formidable presence in the tractor tyre segment with a market share of >30% and services all the major tractor OEMs like Mahindra & Mahindra (M&M) & John Deere. The Company has been able to extract the benefits of growing farm mechanization rate in India over the years, with domestic tractor production rising from 6.0 lakh units to 7.9 lakh units during FY17-19, thus resulting in revenue growth of 12.5% CAGR during this period. GIL is also a renowned tyre supplier for large and ultra-large earthmover tyre segment to Bharat Earth Movers Limited (BEML) as well as tyres for mining machinery for Coal India Limited. Thus, the Company focuses much of its resources on the high-value segment of the business and has fewer footprints in the tyre replacement business.

5. Strategic Exclusive Stores

To strengthen its presence in the large tyre replacement market in India, GIL has taken the initiative to open up around 150 luxurious retail tyre outlets across the Country. This organized tyre retailing format has shown promising results in markets like China and the ASEAN countries and is a smart initiative to differentiate Goodyear brand from its competitors.

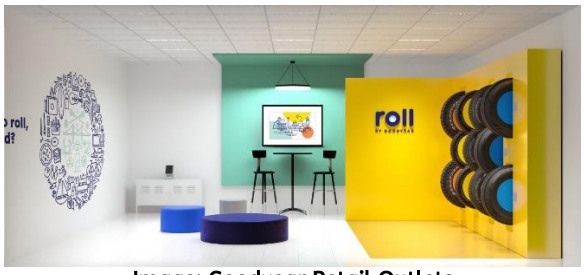


Image: Goodyear Retail Outlets

SWOT Analysis

Strengths

1. Debt-free: GIL is a zero-debt company with no short term or long-term borrowings.
2. R&D benefits: GIL shares and receives all the R&D insights from innovation centers in Akron, USA, and Luxembourg, Europe Union. It means GIL does not spend a nickel on R&D but gets full benefits from it.
3. A strong relationship with their OEM clients: In the farm segment GIL has received many recognitions from top tier OEMs like the 'Best Supplier' award from Mahindra & Mahindra (M&M) and Tractors and Farm Equipment Limited (TAFE), 'Best Delivery' award from Escorts Agro Machinery and an 'Excellence' award from John Deere.
4. The Company has developed a countrywide network of retail outlets to strengthen its presence in the tyre replacement market and to differentiate the Goodyear brand from its competitors. The Company has a vast chain of 9400 tyre dealers, excluding thousands of backyard shops, and more than 300 branded retail outlets in major cities of India.
5. Immune to electric vehicle disruption: The Central Government of India had launched the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) scheme in 2015, to encourage

technology development, demand creation, pilot projects and vehicle-charging infrastructure. Such an impending disturbance from electric vehicles will not affect the tyre manufacturers because tyres are crucial for the movement of any type of vehicle.

Weaknesses

Low Commercial tyre penetration: The Company has a limited presence in the commercial tyre segment (Truck & Bus) which contributes almost half of the tyre industries' contribution. This confines its ability to mitigate the risk of the farm tyre segment.

Opportunities

1. Truck and bus tyre replacement segment: In terms of the replacement segment the demand for truck and bus bias tyres was around ~61% and PVs were ~14%. The harsh road conditions of the Indian landmass and high temperatures cause excess wear and tear of tyres of truck and buses which are utilized for long-distance logistics and transportation services. The Company has a pale footprint in the truck and bus tyre replacement segment and therefore, the Company needs to penetrate this segment by marketing their relevant products directly to the major trucking and bus companies and provide them with tyre management services for their entire fleet.

2. Shift towards SUVs and luxury segment: The consumer vehicle industry has witnessed a shift in demand for premium cars, thus boosting growth in the luxury and SUV segments. This is expected to create opportunities for the Company to grow sales in the SUV tyre segment.

Threats

1. Cheap Chinese Products: One of the major threats to GIL is the amount of cheap Chinese tyre products dumped into the Indian market which drastically affects the replacement business of the Company. Though the quality is nowhere near to GIL, it has been observed that it grabs 5% business from the entire industry.

2. Increasing Prices of Raw Materials: The main raw materials used for manufacturing tyres are rubber (natural or synthetic), carbon black, nylon tyre cord and rubber chemicals. Natural rubber is directly extracted from trees but synthetic rubber and carbon black both are crude oil-derived products. As a result, the raw material costs are associated with fluctuating crude oil prices and any adverse change in it will impact the Company's margins.

Michael Porter's 5-Forces Analysis

Barriers to Entry

1. Economies of scale: It is fairly difficult for new entrants to achieve economies of scale in the tyre industry making it easier for the large players to have a cost advantage over the new entrant. E.g., MRF has a production capacity of nearly 57.4 million tyres per year across its eight plants. Similarly, Apollo Tyres has a production capacity of more than 1,700 tonnes per day and GIL has a capacity of more than 1200 tonnes per day. For a new entrant, it is extremely difficult to achieve such humongous economies of scale.

2. Capital intensive industry: The industry is highly capital intensive, as it requires around ₹4 billion to set up a radial tyre plant with a capacity of 1.5 million tyres a year and around ₹1.5-2 billion for a cross-ply tyre plant with a capacity to manufacture 1.5 million tyres, making it difficult for new entrants to set up businesses.

3. Legal compliance requirements: The government policies within the industry require strict licensing and legal requirements to be fulfilled before a company can start selling, making it difficult for a new entrant to enter the industry.

Bargaining Power of Suppliers

Raw materials account for about 60% of the production cost in the tyre industry.

1. **Natural Rubber (NR) suppliers**: There exists a gap in the total rubber production and consumption in India as stated above. Moreover, tyre companies pick up a majority portion of domestically produced natural rubber and try to limit their natural rubber imports because natural rubber attracts an enormous import duty of 25% which is one of the highest in the world compared to 10-15% import duty charged on tyres. Therefore, Indian natural rubber suppliers have strong bargaining power over tyre companies.
2. **Carbon Black (CB) suppliers**: Carbon Black is a crude oil derived product and therefore any fluctuation in the crude oil prices directly affects the cost of carbon black to the tyre companies. This results in the high bargaining power of CB suppliers as GIL or other tyre manufacturers do not enjoy any control over CB prices and have to purchase CB at ongoing market price which keeps on fluctuating.

Bargaining Power of Buyers

The buyers of the tyre industry can be segregated into two categories:

- **Original Equipment Manufacturers (OEMs**); and
- **Replacement Market (RC)**

1. **OEMs**: The OEMs provide a source of bulk orders as well as brand association for tyre companies. GIL has served numerous OEMs such as Mahindra and Mahinda, Tata Motors, Honda, Fiat, MSL, etc. Due to large bulk orders, the OEMs enjoy high bargaining power over tyre manufacturers.
2. **Replacement**: The replacement segment includes aftermarket tyre demands from trucks and buses, PVs, etc. These customers are small private businesses and individual customers with small demands ranging from a single tyre to a few 100 tyres a year (for large trucking firms). The advantage of the replacement segment is that the demand keeps arising at regular periods throughout the life of the vehicle and profit margins are higher as compared to the OEM segment. But at the same time, since the consumers in the replacement segment are small with fragmented demands and numerous choices are available to them, ranging from cheap imported Chinese tyres to domestically produced good quality tyres by other competitors, the bargaining power of these buyers becomes strong.

The Threat of Substitutes

Nowadays a very large number of cheap tyre substitutes are available due to the over-dumping of tyre products from Chinese tyre manufacturers in India. These substitute products are cheap, defective and of low quality. This might not affect GIL's OEM business due to higher quality and brand concerns for OEMs but it might affect the Company's replacement business since its products are recognized as a premium category in the market.

Rivalry among Existing Firms

At present, there are a lot of listed companies in the Indian tyre sector. Major players are MRF, JK Tyres, Apollo, TVS Srichakra, Balakrishna Tyres, Goodyear India and CEAT, which account for 80% of the organized tyre market. Since the individual market share of these companies is very close to each other they are unable to pass on the fluctuations in raw material prices to OEMs, due to the fear of losing market share.

This results in high competition among industry players on the grounds of price, product differentiation and customer service.

Branding and Other initiatives

1. Embracing the EV Revolution

The Company's R&D center has invented a tyre, named BH03, which generates electricity when the tyre is in motion as well as in static position. This electricity can be used as an auxiliary source of power for recharging the batteries of Electric Vehicles (EVs) and extend their operational range. The EV market has just begun and this technology has the potential to significantly contribute to the future of the EV automotive sector.

Image: Goodyear BH03 Concept EV Tyre

2. FAST-AID

GIL launched an on-road car breakdown and medical assistance program for its customers called FAST-AID. GIL provides its customers with a year subscription of Fast Aid service wherein the customer can avail for three emergency on-road car breakdown assistance or medical assistance or both across the Country for free of cost.

3. Collaboration with Skechers

Goodyear and Skechers, a global footwear powerhouse, have come together to develop footwear for men, women, and kids which will utilize Goodyear rubber technology in custom Skechers outsoles that will deliver increased grip, stability, and durability. It will also increase Goodyear's brand recognition in the market.

4. Goodyear's Road Safety Program

GIL in collaboration with Institute of Road Traffic Education (IRTE) launched the "Safer Roads, Safer You" initiative wherein 2663 school bus drivers and attendants across 64 schools in Delhi NCR and Mumbai and 583 traffic and transport officials were trained to improve the safety of school children under the project.

5. Goodyear's Women's Network (GWN)

The Company launched the GWN India chapter during the FY20 with the aim of building the brand with a diverse and inclusive workforce, encouraging energetic workplace culture, increasing confidence and supporting tactical business objectives.

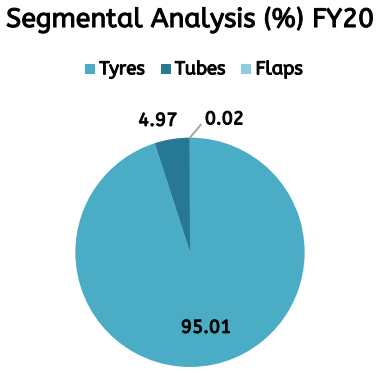
6. Infrastructure Development for Boxers

GIL supports the Mary Kom Regional Boxing Foundation (MKRBF) for training boxers from the economically weak background and has helped them by constructing a boxing ring the previous year and a kitchen and a dining hall this year for athletes training at the academy.

Financial Analysis

1. Segmental Analysis

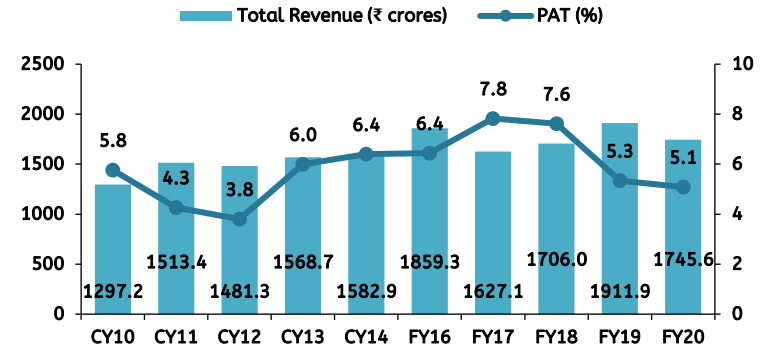
GIL manufactures tyres, tubes, and flaps for the automotive market but the majority of its revenue comes from its tyre business, a whopping 94.4% share of the total sales.



Source: Company, Leveraged Growth

2. Peaks and valleys in Profit

The decline in PAT during FY19 was a result of plunged automobile sales due to increased fuel prices, high-interest rates and a hike in vehicle insurance cost, along with liquidity crunch caused by IL&FS (Infrastructure Leasing and Financial Services). The IL&FS issue affected tyre industry because almost 50% of the vehicles sold in the rural market have been financed by non-banking financial companies (NBFCs). The fall of IL&FS dried all the sources of credit for tyre dealers as well as customers. The Company reported an operational revenue of ₹1,780.74 crores during FY20 as compared to ₹1,949.60 crores during FY19. The net profit percentage declined from 5.34% in FY19 to 5.02% in FY20. This moderate decline in the profit percentage resulted from a week-long closure of Ballabgarh plant from 12th December 2019 to 30th December 2019 to align production in-line with the market demand. The Company witnessed a complete shut-down of both of its plants, one at Ballabgarh as well as the other at Aurangabad, due to nationwide lockdown imposed by the Central Government to fight COVID-19 pandemic from 22nd March 2020 till 31st March 2020. In the long term, the revenue figures are anticipated to grow to at the usual levels owing to the increase in rural tyre demands in the replacement market as well as farm OEM tyre requirement due to positive prediction of normal monsoons, government boost to agricultural machinery penetration and excellent Rabi and Kharif crop produce.



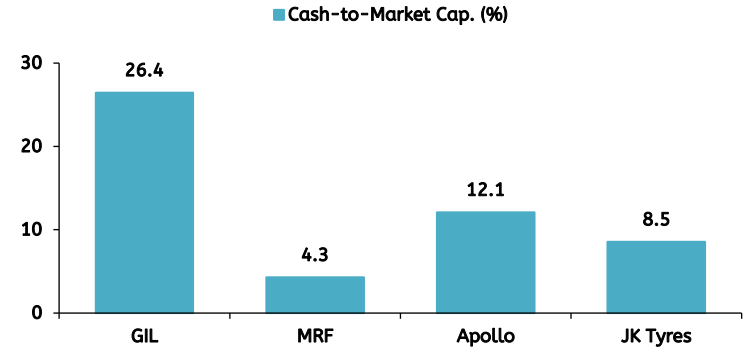
Source: Company, Leveraged Growth

Note: Financial data for CY15 is not shown in the charts because in CY15 the Company shifted from Calendar Year (CY) to Financial Year (FY) and provided 15 months adjusted financial data in FY2016.

3. Money Works Here

GIL is a cash-rich company with ₹546 crores (FY20) in the form of Cash and Cash Equivalents. The reason for such a high cash reserve is the drastic reduction in capital work in progress (-70.43%), inventories (-10.42%) and trade receivables (-9.67%) leading to an increase in the Bank balance (+24.36%) of the Company. Considering the Company's market capitalization of ₹2064.80 crores (as of 1st August 2020), the cash reserve stands at 26.44% of its market capitalization. The cash-to-market capitalization percentage of the Company is the highest among its peers and provides comfort to the investors in these tough times of COVID-19 when most of the companies have their cash blocked up in the inventory of either raw materials unused or finished goods unsold due to nationwide lockdown from 24th March 2020 till 30th May 2020.

Cash-to-Market Capitalization of Tyre Companies as on 1st August 2020



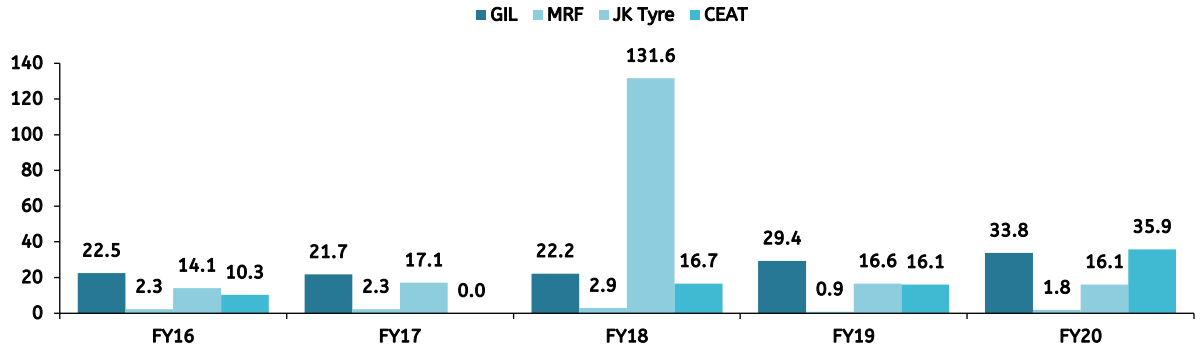
Source: Company, Leveraged Growth

4. Healthy Dividend Payout Ratio

GIL has a history of regular dividend payments to its shareholders with an average Dividend Payout Ratio (DPR) equal to 24%. The Company has been successful at paying regular dividends to its shareholders along with maintaining high cash reserves as well as reinvesting the same in the business to earn greater profits. Dividend per share for FY20 was declared at ₹13 and the historical dividends per share have always been

growing. GIL has also declared dividend per share for FY21 at ₹13 which at the current market price of ₹895.15 gives a dividend yield of 1.45%.

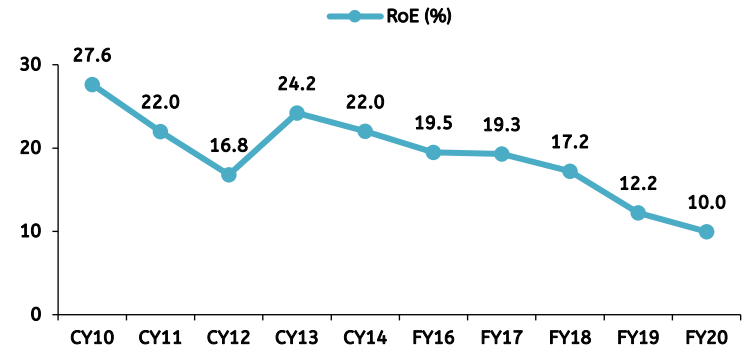
Dividend Payout Ratio (%) of GIL vs. Peers



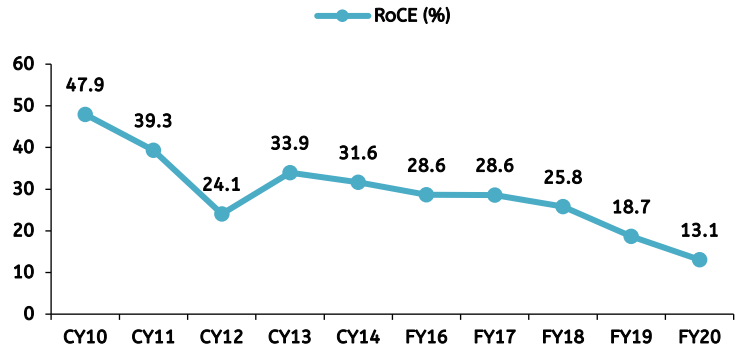
Source: Company, Leveraged Growth

5. RoCE and RoE

The RoE and RoCE fell from 27.6% and 32.1% in CY10 to 16.8% and 16.0% in CY12 respectively as a result of increased raw material procurement cost (a rise of 25.9%) due to global crude oil price hikes making synthetic rubber (derived from crude oil) more expensive. Even the Company witnessed a 23.59% increase in excise duty during CY12 which reduced the operating revenue by 2.12%. After that, the Company rallied to an impressive peak of 24.2% RoE and 22.8% RoCE in CY13 as a result of reduced raw material prices. After CY14 the Company faced many severe headwinds due to significant decisions taken by the Central Government like demonetization in 2016, implementation of GST in 2017, etc. The RoE and RoCE, both dwindled to 12.2% and 11.8% in FY19. This downward movement was a result of the implementation of the Goods and Services Tax (GST), abrupt hike in automobile insurance prices and floods in Kerala which drastically affected the Indian automobile industry directly and the tyre industry indirectly. The number further came down to 10% and 9.6% in FY20 owing to the widespread COVID-19 pandemic.



Source: Company, Leveraged Growth



Source: Company, Leveraged Growth

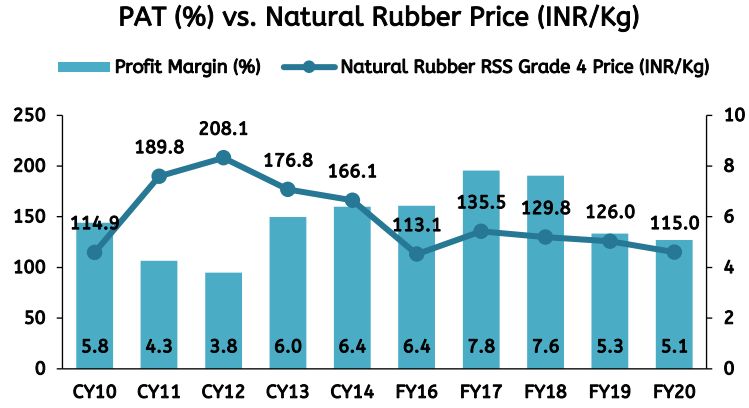
Risk Analysis

1. Vulnerability to Cyclicality in Automotive demand

The industry in which GIL operates has a high positive correlation with automotive demand, which demonstrates cyclicality in most of the segments. With over half of the revenues derived from the farm and commercial segment, any slowdown in economic growth or performance of agriculture and automobile sectors can impact the tyre demand.

2. Profitability influenced by Raw Material prices

In CY11, the Company's cost of procuring rubber increased by 33.6% due to an increase in the global crude oil prices which made synthetic rubber (derived from crude oil) expensive. Along with this, the cost of procuring carbon black (derived from crude oil), another key raw material used by tyre manufacturers, increased by 17.7% in the same year which affected the raw material cost of the Company. This trend continued in CY12, after which the raw material prices reduced giving a push to the profit percentage of the Company till FY17. Since FY18, the Company has been using the Raw Material Index (RMI) based pricing model wherein the Company has been updating its product prices regularly based on the changes in the market price of its constituent raw materials, thus, allowing the Company to pass on raw material price changes to the customer. Profit for FY20 was impacted by the nationwide lockdown imposed in the 4th quarter of FY20.



Source: Company, Leveraged Growth, CEIC Data

Note: Natural rubber of type RSS (Ribbed Smoked Sheets) Grade 4 is used for tyre manufacturing.

3. Industry characterized by Intense Competition

The Indian tyre industry is intensely competitive with the entry of several multinationals like Hankook Tyres (South Korean), Bridgestone (Japanese), Michelin (French) and Yokohama (Japanese), and scaling-up of operations by the domestic players. GIL has continued to maintain the leadership position in the Indian farm tyre industry for the last several years despite the increasing competition. Along with this the cheap imported tyres from China, Thailand, Vietnam, etc. also pose a severe threat to the existence of companies like GIL.

4. Currency Risk

The worldwide distribution of the Company's Research and Development (R&D), production, logistics, marketing, and sales services require corporate transactions in several currencies. The Company engages in foreign currency forward contracts to hedge short-term exposure to exchange rate fluctuations between different currencies. However, hedging cannot shield the Company's manoeuvers completely from foreign exchange market trends since these operations include widespread import and export activities worldwide. Exchange rate fluctuations can thus hurt the financial position of the Company.

5. Regulations

Government regulatory and policy changes regarding import and export of either raw materials or manufacturing components or tyre product itself which are out of the Company's control affect its business operations.

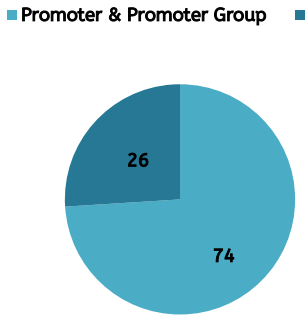
Corporate Governance

1. The Company's Board consists of 6 Directors (4 men and 2 women) out of which 3 are Independent Directors that includes a woman Director. This composition is in agreement with the SEBI (LODR) Regulations.
2. Independent directors of GIL, Mr. Rajiv Lochan Jain is an Independent Director in Gujarat Alkalies and Chemicals Limited, and MS Sudha Ravi is an Independent Director in Alkem Laboratories Limited. However, none of the directors of the Company holds Directorships in more than 20 companies or more than 10 public companies whether listed or not.
3. GIL organized five familiarization programs for the three Independent Directors of the Company on various matters, such as business plan and strategy, organization structure, corporate governance, strategy roadmap, succession planning, risk management framework, etc.
4. None of the shares held by the promoters is pledged or encumbered thus making the total non-pledged promoter shareholding equal to 74%.
5. Mr. Sandeep Mahajan was appointed as the new Managing Director (MD) of the Company with effect from June 1, 2020. Mr. Rajeev Anand, former MD, will continue as the chairman of the Board from June 1, till December 31, 2020.

Image: Mr. Sandeep Mahajan (Left) and Mr. Rajiv Anand (Right)

6. The shareholding pattern of the Company has remained constant since the incorporation of the company with a majority stake of 74% commanded by the promoter of GIL, the Goodyear Orient Company (Private) Limited, and 26% held by the public.

Shareholding Pattern (%) as of 30th June 2020



Source: BSE India (www.bseindia.com)

The EndNote

1. The effects of past policy issues besides those of the COVID-19 pandemic will be felt more by the tyre and the automotive component industry. The industry experts anticipate an impact of over ₹15,000 crores, assuming a few quarters for revival.
2. According to CRISIL, a decline of 26% to 28% is estimated during FY21 in the sales of CVs and only 7% to 8% decline is expected in tractor sales according to CRISIL. This decline will end up impacting the CV and FV tyre segment of the Company.
3. The Government of India's push on "Atmanirbhar Bharat" has prompted Indian automobile manufacturers to localize their raw material and component sourcing, thus giving a boost to domestic tyre manufacturers. The prevailing sentiments regarding China have also prompted various global OEMs to consider sourcing their tyre demands from India, predominantly for the replacement market.
4. The Agriculture Infrastructure Package worth ₹1 lakh crores announced by the central government, under the 'Atmanirbhar Bharat' initiative, combined with a healthy monsoon, is likely to raise rural income giving a boost to the FV sector and thus, benefiting the FV tyre segment.

5. The restriction put upon the import of tyres from China, which accounts for 40% of total tyre imports, will pave the way for increased domestic tyre production while accelerating exports besides unlocking job creation potential.

Performance of GIL for the past 10 years

Source: Bombay Stock Exchange

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