



A Study on Profitability of Selected Tyre Companies of India

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Abstract Liquidity and profitability play a significant role in any business organization that means to meet current obligations and manage strong profitability from business operations. The objective of this study is to measure the liquidity and profitability position of the select tyre companies in India. Every Shareholder is interested to invest in the companies which have good liquidity and profitability position. The suppliers to supply the products on credit basis will verify the liquidity and profitability current position of the business before selling products. Workers should also be concerned about the company's liquidity and profitability position to know whether the company can meet its workers' related obligations like salary, pension, provident fund, etc.

Keywords profitability, tyre companies

Introduction

Tyre industry is a major and seasoned sector in India. It contributes prominently in the government developmental agenda ever since independence and mainly after economic liberalisation. The tyre manufacturing companies have witnessed significant growth in the past an account of increase in automobile demand, especially in passenger vehicles and two-wheeler segments. In reality, the non - availability of raw material witnessing demand of natural rubber and focusing on ultra-modern production facilities have led the country to appear as one of the world's most competitive tyre markets, determined by the very important and strong demand available in automobile of Original Equipment Manufacturing sector (OEMs) and replacement market. Indian tyre industry has been witnessing normal growth from the last two financial years. Tyre companies in India continue to provide service to all type of vehicles like two wheeler, three wheeler, four wheeler, passenger vehicles, commercial vehicles, and agriculture supporting vehicles and other kind of earth moving hardware vehicles.

In the fast moving generation to where vehicles are moving from one place to another place, tyre is an essential product all type of vehicles ultimately user. To specify, India positions as the biggest tyre maker of bikes, and the second biggest in the assembling of bikes on the planet. In tractor fabricating additionally, India is the second biggest maker on the planet. Indian Tyre Industry can be internationally aggressive on a dimension playing field strong development in the monetary action in different areas of the economy just as in the surface Transport part and return to drive in the infrastructural to reserve on expansion of drivers for the Tyre Industry. Tyre companies are focusing for out of the country cultivated area of rubber to assemble their raw material required, which assists the companies to get raw material at very low price. Additional, tubeless tyres have gained position in Indian markets approximately all the automobile manufacturers introduce their vehicles with tubeless tyres. It shows that the tubeless tyre market has tremendous growth opportunity in future. In addition, top tyre companies in India, namely MRF Ltd., Balkrishna Industries Ltd., Apollo Tyres Ltd., JK Tyres and Industries Ltd., and CEAT Ltd., have a strong hold on the market. Still, they are facing stiff competition from major tyre players such as Goodyear India Ltd., TVS Srichakra Ltd. to sell their products in Indian tyre markets.



The Multinational Companies are competing to set up the units in different place in India moving out of the countries for e.g. Apollo tyres is one of acquiring companies in India.

Growth and Development of Indian Tyre Industry

Tyres are one of the most significant parts of an automotive. They support the weight of the vehicle, absorb shock from the road surface, and change or maintain a direction. They are primarily used in the automotive industry, one of the rapidly flourishing industries in India. According to Invest India, India is expected to become the world's third-largest automotive market by 2026. The surging production of automobiles is increasing the demand for tyres and aiding the growth of the tyre industry. The escalating export activities of vehicles such as tractors, buses, heavy trucks, and cars are also propelling the market growth. Moreover, the focus on increasing production by the Indian government and the favourable government schemes are augmenting the market growth. Government schemes such as Atmanirbhar Bharat Abhiyan- Self Reliant India provides an economic and compressive package of INR 51,000 crores to promote manufacturing of the automotive in the country, further fuelling the tyre industry.

Additionally, the flourishing car industry is driving the market growth. The growth in gross domestic products (GDP) and growing demand for cars are accelerating the market growth. India is one of the leading markets of tyre. The increase in domestic automobile sales in the country is also propelling the market growth. The increasing infrastructure industry is aiding the market growth. The emerging middle class with improved living standards has augmented the market for cars and two-wheelers, further facilitating the market growth. Besides, the increasing demand for vehicles in rural areas is also positively impacting the market. Moreover, the production of tyres, even in the most remote part of the country, is propelling the industry. The huge market for two-wheelers in India leads to the increasing production of tyres domestically, consequently invigorating the market growth.

Gross Profit Ratio of selected tyre companies in India

The gross profit ratio takes a gander at the cost of goods sold as a level of offers. Its ratio sees how well an organization control the expenses of its stocks and the assembling of its items and accordingly pass on the expenses to its clients. The higher the gross profit ratio the better for the business organization. It is the relation of gross profit to net sales, which is calculated by the gross profit, divided net sales. This ratio shows the profits relation to sales after the direct production costs are deducted. It may be used as an indicator of the effectiveness of the production operation and the relation between production costs and selling price.

Table 1: Gross Profit Ratio of Select Tyre Companies in India (in Percentage)

Years	MRF	Apollo Tyres	JK Tyre	CEAT	BALKRIS HNA INDUSTRIES
2017-18	38.41	33.93	42.44	40.75	48.13
2018-19	44.84	93.09	49.40	46.32	56.59
2019-20	45.58	44.51	52.63	49.38	58.46
2020-21	47.00	32.88	43.30	40.77	52.46
2021-22	35.75	38.48	46.57	42.71	54.53
Mean	42.32	48.58	46.87	43.99	54.03
SD	4.93	25.30	4.24	3.77	3.99
CV	11.65	52.07	9.04	8.57	7.38

Source: Annual Reports of Select Tyre Companies, 2017 - 2018 to 2021 – 2022

From the following Table 1 shows that the gross profit ratio of MRF Ltd. was found to fluctuated during the study period. The ratio ranged between 38.41 and 35.75 per cent. The mean value of the ratio was 42.32 per cent, it seems to be high and therefore profitability performance of the company was good in term of gross profit ratio. The results of SD and CV were 4.93 and 11.65 per cent respectively, indicating a moderate level of deviation in the ratio from mean value.



The gross profit ratio of Apollo Tyres Ltd. fluctuated during the study period. The ratio ranged between 33.93 and 38.48 per cent. The gross profit ratio of the company was more than 90 per cent during 2018-19 out of ten years of the study period. The mean value of the ratio was 48.58 per cent, it is comparatively low and therefore profitability in terms of gross profit ratio of the company was satisfactory. The result of SD and CV of gross profit ratio were 25.30 and 52.07 per cent respectively, which show a high level deviation from its mean value.

Gross profit ratio of CEAT Ltd. decreased during the study period. The ratio ranged from 40.75 and 42.71 per cent, gross profit ratio mean value was 43.99 per cent. It shows that the profitability of the company was satisfactory. The results of SD and CV were 3.77 and 8.57 per cent respectively; it indicates the low-level deviation of the ratio from the mean value.

Gross profit ratio of JK Tyre and Industries Ltd. fluctuated during the study period. The ratio ranged from 42.44 and 46.57 per cent. The mean value of the ratio was 46.87 per cent; it was considered low therefore the profitability of the company in terms of net profit ratio was good. A moderate level of deviation was found in the ratio from its mean value as shown by the results of SD and CV of gross profit ratio of JK Tyre and Industries Ltd. which were 4.24 and 9.04 per cent respectively.

The gross profit ratio of Balkrishna Industries Ltd. fluctuated during the study period. The ratio ranged between 48.13 and 54.53 per cent. Mean value of the ratio was 54.03 per cent and therefore profitability performance of the company was satisfactory in term of gross profit ratio. The results of SD and CV were 3.99 and 7.38 per cent respectively; it indicates a high level of deviation from its mean value.

Operating Profit Ratio of selected tyre companies in India

The operating profit ratio is a key indicator for investors and creditors to see how businesses are supporting their operations. If companies can make enough money from their operations to support the business, the company is usually considered more stable. On the other hand, if a company requires both operating and non-operating income to cover the operation expenses, it shows that the business' operating activities are not sustainable. The Operating Profit Ratio is calculated as follows;

Table 2: Operating Profit Ratio of Select Tyre Companies in India (in Percentage)

Years	MRF	Apollo Tyres	JK Tyre	CEAT	BKT
2017-18	12.73	9.12	7.07	7.18	13.96
2018-19	12.73	10.74	9.54	9.57	18.29
2019-20	11.27	8.67	8.95	5.54	18.98
2020-21	8.57	6.88	4.71	5.44	16.65
2021-22	7.83	6.60	5.77	6.00	11.60
Mean	10.63	8.40	7.21	6.75	15.90
SD	2.31	1.70	2.05	1.72	3.08
CV	21.73	20.23	28.43	25.48	19.37

Source: Annual Reports of Select Tyre Companies, 2017 - 2018 to 2021 – 2022.

The following Table 2 shows that the operating profit ratio of MRF Ltd was found to be low during the study period. The ratio ranged between 12.73 and 7.83 per cent. The mean value of the ratio was 10.63 per cent, it seems to be high and therefore profitability performance of the company was satisfied in term of operating profit ratio. The results of SD and CV were 2.31 and 21.73 per cent respectively, indicating a low level of deviation in the ratio from mean value.

The operating profit ratio of Balkrishna Industries Ltd. fluctuated during the study period. The ratio ranged between 13.96 and 11.60 per cent. Mean value of the ratio was 15.90 per cent and therefore profitability performance of the company was satisfactory in terms of operating profit ratio. The results of SD and CV were 3.08 and 19.37 per cent respectively.

The operating profit ratio of Apollo Tyres Ltd. fluctuated during the study period. The ratio ranged between 9.12 and 6.60 per cent. The operating profit ratio of the company was more than 10 per cent during 2018-19 out of ten years of the study period. The mean value of the ratio was 8.40 per cent, it is comparatively low and



therefore profitability in terms of operating profit ratio of the company was not satisfactory. The result of SD and CV were 1.70 and 20.23 per cent respectively, which indicates the low-level deviation from its mean value.

Operating profit ratio of CEAT Ltd. was low during the study period. The ratio ranged from 7.18 and 6.00 per cent, the ratio was very low during the 2020 - 2021 it seems to be considerable. The mean value of the ratio was 6.75 per cent. It shows that the profitability of the company was satisfactory. The results of SD and CV were 1.72 and 25.48 per cent respectively; it indicates the moderate level of deviation in the ratio from its mean value.

Operating profit ratio of JK Tyre and Industries Ltd. fluctuated during the study period. The ratio ranged from 7.07 and 5.77 per cent. The mean value of the ratio was 7.21 per cent; it is considered low therefore the profitability of the company in terms of operating profit ratio was satisfactory. A low level of deviation was found in the ratio from its mean value as shown by the results of SD and CV of operating profit of JK Tyre and Industries Ltd. were 2.05 and 28.43 per cent respectively.

Conclusion

The Indian tyre industry contributes to the manufacturing sector and plays a significant role in the automotive markets. The price of gasoline, the price of natural rubber, and the import tariff on rubbers are the key variables determining the financial performance of the tyre sector. The trend and structure of production costs show that raw materials, electricity and fuel, labour, and selling and administrative overheads absorb the majority of the revenues of the tyre industry. The turnover of tyre firms is progressively rising, although a large amount of the income is spent on overhead. The cost of operating has increased for tyre firms, but they still make money, and their level of profit is rising. Expenses, net sales, and profit levels change significantly from one firm to the next, according to trend research.

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