

Tyre firms may face cost shock

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Indian tyre companies are staring at a potential dual cost pinch scenario that can dent their growth prospects. The cost of natural rubber has been rising over the last two months amid a global supply crunch. Extreme weather conditions in major Southeast Asian nations have disrupted production.

From ₹18,500 per 100 kg in January, natural rubber price has risen to ₹21,600 in March so far.

Soaring crude oil prices would add to this pain. Since the Iran-US-Israel conflict broke out, Brent crude has increased by 17% to around \$87 a barrel on fears of a supply shock.

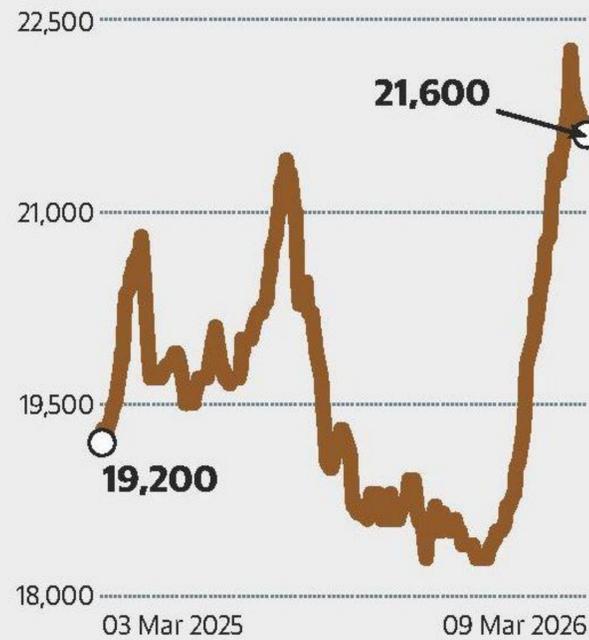
Natural rubber accounts for 30% of the raw material mix for tyre makers, 70% is dominated by crude-linked derivatives synthetic rubber (20%), carbon black (25%), and fabric (10%), according to Icara Ltd.

The rupee's depreciation to 91.88 to the dollar would inflate import cost of raw materials. "Tyre sector is the largest consumer of natural rubber in India, accounting for 65-70%

Double trouble

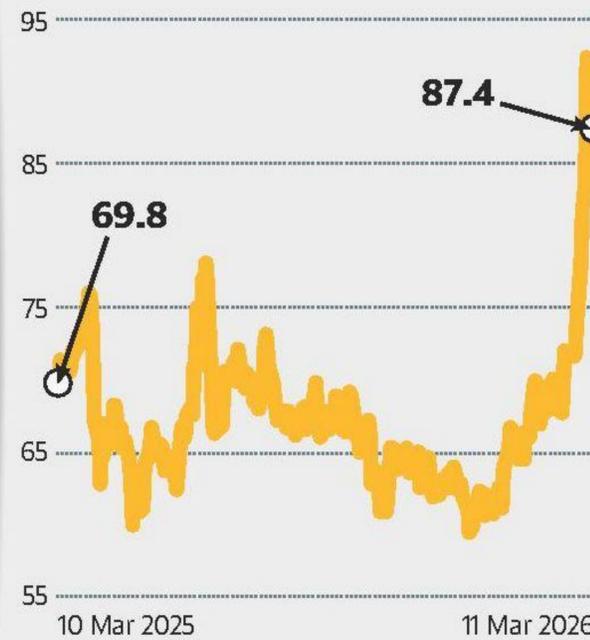
Tyre companies' profit margins face risk due to rising prices of crucial inputs natural rubber and crude oil.

Natural rubber price (in ₹/100 kg)



Source: Bloomberg, ICICI Securities

Brent crude oil (in \$/barrel)



Source: Bloomberg

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of overall consumption; about 55-60% of natural rubber demand is met from local production, and the balance through imports," said Sri-kumar Krishnamurthy, senior vice president and co-group head, corporate ratings, Icara.

The downside risks to the sector's profitability have increased and may

rise further if the ongoing conflict prolongs. The impact of rising costs on margins comes with a lag, depending on inventory levels. Sure, price hikes can be taken to protect margins, but prevailing competitive intensity would limit that ability.

Hikes may come at the expense of market share. If Brent stays around

\$80 a barrel and domestic natural rubber stays around ₹220 per kg for three-six months, CLSA estimates a 400 basis points gross-margin hit for Indian tyre makers, even after assuming a staggered 4% price hike in the replacement market and full pass-through by original equipment makers (OEMs).

Tyre makers' volume recovered sequentially in the December quarter (Q3FY26) led by robust OEM and replacement demand, supported by rationalization of goods and services tax rate, festive season and improving rural traction. Better product mix, relatively benign raw material costs and operating leverage aided margin expansion.

But the ride seems turbulent in Q4. During the Q3 earnings call, Ceat cautioned of a sequential margin impact of 100-150 basis points in Q4 due to currency movements and higher international rubber prices.

JK Tyre & Industries was confident of absorbing a 1-2% uptick in

raw material cost via premiumization and operating leverage.

Despite increased input costs, JK targets Ebitda margin sustaining at 13-15% in Q4 and FY27. But now this optimism could be put to the test.

The tyre industry has limited raw material reliance on West Asia, with imports largely sourced from Southeast Asia.

"The more immediate impact of the current West Asia disruption is likely to be logistics-related, with higher freight and insurance costs affecting both imports and exports," said Poonam Upadhyay, director, Crisil Ratings.

"This could start reflecting in March export shipments, partic-

BUMPY ROAD

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ularly as exports account for about 25% of the tyre industry's total volumes."

So far in 2026, shares of MRF, JK Tyre and Apollo Tyres have declined over 10% each as worries of de-rating linger despite valuations looking reasonable.