Tyre makers under margin pressure

While rubber prices have fallen significantly, those of other inputs have risen, as have the cost of imports. Despite a 15 per cent decline in natural rubber (NR) prices, tyre manufacturers are fearing a squeeze in operating margins due to the high cost of allied inputs such as power. “Look at the cost of other items, which are soaring,” said Satish Sharma, chief of India operations at Apollo Tyres. ‘The power cost, which is about 60 per cent of the conversion cost, has gone up by 50-60 per cent. We are net importers and the devaluation of rupee has been significant. And, demand is not anything great; the plants are running nowhere close to full capacity, so there is additional cost involved. Margins have reduced from 16 per cent to seven per cent. Demand is very weak.” Adding: “In the international markets, tyre companies raise prices by eight to 10 per cent in one go but doing this in India is not possible. There is no pricing power in our hands.” After hitting a high of Rs 240 a kg in April, rubber, the key raw material, was Rs 200 a kg in on Tuesday’s spot market. The NR price for delivery in January fell 0.5 per cent on the benchmark National Multi-Commodity Exchange (NMCE), to trade at Rs 203.25 a kg. The most traded RSS-4 rubber (ribbed, smoked sheet) in the key Kottayam market in Kerala rose a marginal 50p to Rs 200.50 a kg on Tuesday. Analysts believe the price may decline further, due to the usual weak demand in winter. “Tyre companies must pass on the low raw material price to consumers,” said S P Singh, convenor, All India Tyre Dealers Federation. Data compiled by the public sector Rubber Board showed India’s NR imports rose 4.6 per cent in November to 15,069 tonnes. The steep price fall abroad is likely to continue to make imports attractive for tyre makers. The production of NR, meanwhile, rose 4.3 per cent to 94,400 tonnes during the month. Overall consumption was 82,000 tonnes, as compared to 78,010 tonnes a year before. Paras Chowdhary, managing director, Ceat, said: “From the peaks of Rs 240 a kg, prices have declined by 15 per cent and it would have gone down further, if it was not for the devaluation of the rupee. Rubber prices are still very robust. One should also see that the current prices are still 2.5 times higher than the low of the last three years, which was Rs 78/kg. Margins will see some improvement from the January-March quarter because of the rubber price dip. Prices of other material such as synthetic rubber have also declined, which should help.”

Tyre manufacturers have readied investment worth Rs 17,500 crore for raising production capacity in the next two years. With this, total installed domestic tyre manufacturing capacity would increase 47 per cent, from 122 million tyres in 2009-10 to around 180 mn tyres by 2012-13. The tyre industry is also facing investigations, earlier by the Competition Commission of India (CCI) and then by the Tariff Commission (TC), said Sharma. CCI investigated if there was cartelisation and filed a chargesheet. The TC has called tyre dealers and manufacturers for several clarifications on various issues.