Tyre dealers demand price cuts as rubber prices drop

OEMs facing pressure on margins as costs continue to go up As the tyre OEMs observe wait-and-watch mode due to continuing pressures, tyre dealers' federation has demanded cut in prices of tyres on the back of fall in prices of natural rubber. While the federation seeks 18-20 per cent reduction in prices, rupee depreciation and high prices of imported crude derivates are reported to be limiting the scope of looking at price reduction for tyre OEMs. "Now the natural rubber price is hovering at about Rs 174 per kg as against Rs 240 per kg in November 2010. Similarly, the prices of other petro-based raw materials are prevailing at the average rates of year 2008. Hence, there is a case for all the manufacturers to roll back the tyre prices in a pro-rata manner. During 2010-11, tyre prices across the board increased by 18-20 per cent and now the raw material prices pro-rata have come down steeply. However, domestic tyre majors are in no mood to pass on the benefit of lower cost of raw material to consumers. Reduction of tyre prices will result in lower road transport cost and in turn help tame inflation," said S P Singh, convenor, All India Tyre Dealers' Federation (AITDF) said. "Tyre prices have not witnessed any reduction in the last quarter despite steady decline in crude and rubber prices. However, with rupee depreciating against dollar, prices of imported crude derivatives continue to be high. This coupled with the demand slowdown in the automotive industry has led tyre manufacturers to remain on a wait-and-watch mode," Subrata Ray, senior vice-president corporate ratings, Icra told Financial Chronicle. Meanwhile, OEMs have indicated that their costs continue to go up and are facing pressures on margins. "Average cost of raw materials in Q4FY12 was Rs 154 per kg, while in Q1FY13, it went up to Rs 159 per kg, registering a four per cent rise. Natural rubber, which started with Rs 100 per kg in FY10, went up to the level of Rs 245 per kg in FY12 and in Q1 of this financial year it was about Rs 193 per kg. Sequentially, synthetic rubber has gone up seven per cent and carbon black has also gone up 11 per cent in Q1. In July this year, raw material costs went up further," pointed out tyre firms. "Moreover, the increase in production of radial tyres in India resulted in manufacturers importing some better varieties of rubber. With the inverted duty structure and the fact that we are net importers, the depreciating rupee has also impacted us negatively," they added. However AITDF has stated that a five per cent reduction in natural rubber price would result in a strong double-digit rise in domestic Ebitda and there is a strong case for reduction in prices of tyres. Icra's Ray pointed out that during Q1FY13, the operating margins of some tyre companies witnessed improvement (YoY), largely supported by favourable rubber prices. Although natural rubber prices have been on a falling trend over the past eight to nine weeks, crude prices has started trending upwards again in the current quarter. This limits the tyre manufacturers' ability to reduce tyre prices in proportion to the falling rubber prices. Also, in spite of some improvement in operating margin, the industry-wide profitability (RoCE) remains constrained by large investments underway, further limiting ability to lower prices. Meanwhile, AITDF has sought government intervention for reduction of prices by 18-20 per cent. "This will save the hapless tyre dealers and road transporters. The domestic tyre industry is taking undue advantage by posting arbitrary and indiscriminate tyre prices due to delay in passing of final orders of cartelisation from Competition Commission of India," it alleged.