Rubber limps, but tyre makers smarting

Respite eludes the demand- and margin-deprived Indian tyre industry. As high import costs offset fall in raw material prices, tyre-makers are struggling to maintain their margins. Negative industry outlook is not exactly helping matters. About 50% of industry's inputs are currently imported. With the rupee weakening against the US dollar, the soaring import cost has emerged as the biggest concern, in contrast to this time last year, when rise in raw material prices unsettled the industry. It appears the only silver lining in the past quarter has been the stable prices of raw materials, particularly of natural rubber. Prices of rubber (which accounts for some 43% of total raw material costs) rose sharply in 2010-11, peaking in April at Rs240 per kg. They have, however, started to soften around Rs200 per kg now. On the other hand, rupee has depreciated almost 20% since September. This is pressuring tyre-makers. And they are unable to pass on the pressure to others due to sluggish demand in the automobile industry. "The depreciation of rupee has heavily impacted us. Whatever marginal gains we got due to the falling natural rubber prices has been nullified as our import cost shot up. Out of the total raw material used for making tyres, 50% is being imported currently," said Ajay Sevekari, director, Bridgestone Tyres. Uncertainty continues to dog the industry. The auto industry slowdown, particularly in the passenger car segment, has directly affected the tyre industry. Although the commercial vehicle (CV) segment is growing robustly, its after-market has slowed. All this has affected the pricing power of the major players in the industry. "Despite steep increase in import cost, we are not in a position to absorb price hikes," said Sevekari of Bridgestone. "The demand in the (CV) after-market has dropped by 15% this year as compared to last year. Ban on mining in certain states has affected the after-market demand directly. All these factors do not allow us to take pricing action," said Satish Sharma, chief, India operations, Apollo Tyres. Till October in the current financial year, the tyre industry grew just about 6.5%. ATMA (All India Tyre Manufacturers' Association) data suggest segments like passenger car tyres and CV tyres saw a dip in growth in September and October. Many companies had focused on exports in order to offset weak domestic demand. Exports, however, seem to have taken a back seat now as domestic currencies of different countries are weakening. "Export orders are currently kept on hold and payments are also coming. This has added to the concerns of tyre-makers. There is a lot of uncertainty and pressure in the market," saidRajiv Buddharaja, president, ATMA. For tyre major Ceat, the year so far has been good on account of robust exports. "Our imports and exports are hedged. Till December(-end), we are comfortable as far as exports are concerned. Q4, however, looks tight as the (US) dollar is appreciating against many currencies. Exports can be a challenge going ahead," said Arnab Banerjee, executive director – operations, Ceat.