Hiking import duty on rubber will hit industry: Ceat

Government has been considering hiking import duty on rubber and the notification regarding the hike would be issued soon. Reacting to the news Manish Dugar, CFO, Ceat said, “We believe that if the hike is imposed then it will make us uncompetitive in terms manufacturing in the country and hence you will start seeing more of tyre imports”The government has been considering hiking import duty on rubber and a notification regarding the same is likely to be issued soon. Manish Dugar, CFO, Ceat believes this is not a step in the interest of tyre industry as it would lead to hardening of domestic rubber prices.“If the hike is imposed then it will make us uncompetitive in terms manufacturing in the country and hence you will start seeing more of tyre imports,” he said in an interview to CNBC-TV18.Further tyre manufacturing outside India would become much cheaper than manufacturing it domestically if the duty was hiked.Below is the verbatim transcript of his interview on CNBC-TV18Q: We understand that the government is going to notify hike in import duty on imported rubber. What does this mean to rubber consumers such as yours? Will the cost go up?A: There will be a certain impact in terms of rubber prices that will be there in the domestic market. However, we need to see how much that impact will be because it is clearly demand-supply equation. From an industry perspective, our belief is it is not a step in the right direction given that it will translate into imported tyres coming in because the cost of manufacturing tyres outside the country will become more competitive.Immediately, the impact that will be on the companies will depend significantly on the mix of revenues that they get from exports because depending on the quantity of export one gets licence to import duty-free rubber.So for company-by-company, it will vary, but at an industry level we should see strengthening or hardening of domestic rubber prices because of this.Q: Is it right that the import duty cap will be Rs 34 per kg from the current Rs 20. So, basically a kilogram of rubber could get about Rs 14 more expensive for you. What does this mean in terms of percentage increase in raw material cost for a tyre?A: The numbers have to be looked a little differently. Current policy is 20 percent or Rs 20, whichever is lower. So effectively you end up paying Rs 20 for the amount of rubber you import per kg. From there the policy is moving to 20 percent of Rs 34, whichever is lower. So, the 20 percent will translate close to Rs 28-29 given the current rubber prices.So effectively, the increase will be Rs 20-28 per kg. It is only on the amount of rubber that you import. So, close to about 75-80 percent of the rubber is still domestic. If you translate that at the overall level then it will mean Rs 2-3 per kg impact, which is close to about 1 percent or 1.5 percent increase in the raw material prices because rubber happens to be 50 percent of the total revenue from a tyre perspective.Q: Can you give us an indication on what this would do to domestic rubber prices itself. Currently rubber prices have fallen about 20 percent in the last five months and trading at somewhere around Rs 160 a kilo. What would this hike in import duty do to jack up prices?A: First, we need to understand that the fall of 20 percent is from a very high unsustainable level of rubber prices which was close to Rs 190-200 per kg, which had never been seen before. The drop is primarily because this was the highest production season when the tapping of rubber is maximum.We expect that price to go up. One because now it is the lean season for production of rubber and secondly, we also expect auto sales and the tyre sales in the market to go up, which was very low in the last few months given the whole state of economy.With the prices going up and on top of that the imports becoming costlier we believe that it will again push the rubber prices to unsustainable level. Hence as an industry we think it is not the right direction that we are moving in because tyre manufacturing outside the country will become much cheaper than doing it in the country.Q: What would all of this eventually do to your margins itself because currently you are sitting close to about 8.5-9 odd percent? In the upcoming quarters what kind of a margin level do you hope to maintain?A: 8.5-9 percent is again what you see currently but if you look at an overall industry the profit after tax (PAT) levels for large tyre players are within the range of 2.5-4 percent.We believe that if the hike is imposed then it will make us uncompetitive in terms manufacturing in the country and hence you will start seeing more of tyre imports or you will start seeing focus on exports or companies, which can focus on selling in the sectors where they can pass on the cost escalation in terms of price increase they will probably be able to maintain their margins. Those who are neither able to export and nor able to focus on non-price elastic markets will see an erosion in their margins.Q: Where is the import competition coming from? Which geographies?A: There is an anti-dumping duty so far as China imports are concerned in specific categories. Otherwise, China is a big market from where lot of imports happen. If it becomes incompetitive, we might start seeing imports from other countries like Indonesia, Sri Lanka and Bangladesh.moneycontrol.com