Tyre firms boost margins, expect FY13 to be better

MRF, Apollo Tyres and Ceat bet on stability in input costs

Amid concerns over currency fluctuations, tyre makers are hopeful of sustaining better margins during the present quarter and possibly for the year as they expect the input costs to remain stable as in the January-March 2012 quarter.

Companies such as MRF, Apollo Tyres and Ceat reported better operating margins during the Q4 of FY11-12 on the back of stable raw material costs, particularly the rubber price. They expect the natural rubber prices to be stable in the coming quarters of current financal year, while raising concerns over adverse forex movements.

“There were challenges on the raw material side in FY 11-12. It went up very high from H1 of 2011-12, particularly with rubber peaking at Rs 240 per kg early last year, but eventually plateaued and began to come down in Q3 and Q4,” said Anant Goenka, managing director, Ceat.

“Softening of rubber prices aided the tyre makers post better margins in Q4. Rubber prices now are pretty much similar to what we saw in Q4. So there is not much of a difference. But if rupee continues to behave like the way it is doing now, then there could be some pressure on margins due to some imports of raw materials. Other raw materials like synthetic rubber and carbon black may also see some price pressures due to currency fluctuations,” Arun Agarwal of Kotak Securities told Financial Chronicle.

Admitting that there will be some impact because of rupee depreciation, Goenka pointed out that about 30 per cent of raw material is imported.

On the outlook, he stated that rubber price is likely to stay at Rs 190 plus or there could be slight increase in Q1 to about Rs 205 per kg and that can happen. Because it is a time where production is entering the lean period and demand will be the highest, so it could happen. However, there has been a large amount of imports by the entire industry at this point of time and that has kept rubber prices at current levels, he said.

“If at all it goes up, it will rise in Q1 but after that I do not see any reason for increase beyond that because in Q2 again demand goes down due to rainy season. In Q3 and Q4 generally rubber prices tends to come down, “ he added.

Agarwal said there could be some marginal impact on margins during the current quarter if forex volatility continued, but it will not be very significant. “For the full year, according to various projections, the rubber demand is expected to be at the same level and going by that logic we won’t expect rubber prices behaving differently as in early months of last financial year. It is stable and the near term outlook is also stable,” he added.

Apollo Tyes also expects raw-material prices to remain stable in FY2013. However, adverse forex movement remains a major concern for the company as two-thirds of total raw material is imported. This may result in slight margin pressure.

MRF’s executive VP, Koshy Verghese had said he would expect the prices to be stable at about Rs 200 per kg, though there would be some spike in prices of petroleum-based input materials and it might impact the bottomline marginally.