

Tyre makers in a rut

Despite drop in sales, CEAT, JK Tyres, MRF hike prices as rubber prices peak; piling inventory forces six-day shutdown at CEAT's Mumbai plant

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TYRE manufacturers across the country are facing drop in sales, especially in cross-ply tyres, in line with the decline in automobile sales growth. Industry officials cite unfavourable market conditions and higher tyre prices as reasons for the drop in tyre sales.

Even with plummeting sales, most tyre manufacturers including CEAT, JK Tyres and MRF are now forced to go for price hike as rubber price peaks. Industry officials said radial tyres have continued to attract better sales while cross-ply and some other niche tyre varieties faced drop in sales.

Piling inventory has forced a six-day shutdown at CEAT's Bhandup plant in Mumbai starting Thursday (May 26). The flagship company of RPG Enterprises also cited poor market conditions for the shutdown. "Inventory levels have gone up to 20 days and we would like it to be down to 15 days," Arnab Banerjee, executive vice-president - marketing and sales, CEAT. He, however, denied the closure of plant as shutdown. "It is annual maintenance shutdown by the end of this month, since our plant operates round the clock," he said.

A senior company official told *Financial Chronicle* that the plant had a similar shutdown almost three years ago, on account of high inventory. The two other plants at Nashik and Halol are operating normal, without any production cuts.

However, the production cut in the Bhandup plant has not affected CEAT's plan to hike tyre prices by 3-4 per cent. "The natural rubber prices have peaked to Rs 217.5 per kilogram, which is affecting our margins. To offset the rise in input cost, we are increasing prices from May 27," Banerjee said. CEAT has had two tyre price hikes of around 10 per cent cumulatively this financial year.

JK Tyre and Industries is also planning a price hike for its com-



With more supply of natural rubber expected in Q2, tyre firms expect rubber prices to fall to Rs 180 a kg soon

plete range of tyres including passenger car and commercial vehicles. "We will be increasing tyre prices by 4-6 per cent from May 31," said AS Mehta, marketing director, JKTyres and Industries.

Domestic tyre manufacturers have also increased the price of tyres supplied to original equipment manufacturers by 6-8 per cent as the prices of natural rubber went up to around Rs 230 per kilogram in the beginning of this financial year. "The price revision with passenger car manufacturers is much faster and better, since the maturity has evolved and there is understanding at both the ends," said Mehta.

Apollo Tyres, one of the leading passenger car manufacturers, is also planning to hike tyre prices from next month, said senior company officials. "From May 1, we have increased prices of tyres by 3.5 per cent and going forward in June also there will be an increase of 3.5 per cent," Apollo Tyres vice-chairman and managing director Neeraj Kanwar had said recently.

Chennai-based MRF Limited claimed it is operating beyond capacity to meet higher demand. "We are not facing any inventory issues.

We are unable to meet the customer demand and we are operating beyond our capacity to supply more tyres for the growth in demand," a senior company official of MRF told *Financial Chronicle*.

However, with more supply of natural rubber expected in the second quarter of this financial year, tyre manufacturers expect rubber prices to come down to Rs 180 per kilogram, which would to some extent help them to sustain margin levels.

Even as rubber and crude oil prices are going up, the domestic automobile industry grew by 22.8 per cent in April 2011, as compared to same period last year. Industry officials said the process of radialisation in tyres has gained momentum and demand for radial tyres has increased over last couple of years.

Highs & lows

- 20 days inventory levels have forced a six-day shutdown at CEAT's Bhandup unit from May 26
- To offset the rise in input cost, CEAT has also decided to increasing prices from May 27
- JK Tyre and Industries planning a 4-6 per cent price hike for its complete range of tyres from May 31
- Apollo Tyres has hiked prices by 3.5 per cent from May 1, and plans another 3.5 per cent hike in June

(With inputs from
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