COMMODITY CORNER

Falling rubber output, rising consumption increase imports

RITWIK MUKHERJEE

The production-consumption gap widens in the first quarter of FY19 to 58% against 46% in Q1FY18

WITH the date of the fourth edition of India Rubber Meet (IRM-2018) to be held in Kochi drawing closer, the issue that is haunting the rubber sector and all stakeholders is the widening gap between output and consumption. Suresh Prabhu, minister for commerce and industry, will inaugurate IRM-2018, organised by the Rubber Board and stakeholder associations in rubber and allied sectors, on August 30.

The theme of the two-day IRM is "Towards a sustainable rubber value chain" and the discussions would focus on scenario, trends, challenges and strategic planning for sustainability and advancement of the sector.

In the first quarter of 2018-19, production of natural rubber has hit a six-year low of 126,000 tonnes and consumption reached a peak of 302,000 tonnes. The production-consumption gap has widened to 58 per cent from 46 per cent in the year-ago period.

Production of natural rubber in India dropped to 694,000 tonnes in 2017-18 from 774,000 tonnes in 2013-14, according to minister of state for commerce and industry CR Chaudhary. He was replying to a question in the Lok Sabha last week. The decline in output has to be seen in the light of the fact that consumption of natural rubber has gone up from 981,000 tonnes in 2013-14 to 1.11 million tonnes in 2017-18.

This explains the fact that India's natural rubber imports increased from 360,000 tonnes in 2013-14 to 469,000 tonnes in 2017-18. The production forecast for the current year has been adjusted and brought down accordingly. The natural rubber production forecast for 2017-18 was 800,000 tonnes. The production forecast for 2018-19 is 730,000 tonnes, which is 70,000 tonnes lower than 2017-18.

These projections are made on the basis of matured rubber area under tapping, productivity and production trend during the recent past, which are determined mainly by prices of rubber.

The latest statistics from the Rubber Board of India suggests that natural rubber production contracted by 12 per cent, while consumption moved up by 14 per cent. The deficit stood at 176,000 tonnes in the first three months of ongoing financial year against 121,000 tonnes a year ago.

For second consecutive month in June, natural rubber consumption breached the 100,000-tonnes mark. The production on the other hand has remained below 45,000 tonnes in each of the first three months, the Rubber Board data points out.

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The India Rubber Expo (IRE), being organised by the All India Rubber Industries Association (AIRIA), will take place soon after the IRM-2018. It is Asia's largest rubber exhibition and one of the most eagerly awaited events in the region. Other than being a valuable platform for growth, idea exchange and collaboration, the event provides a unique opportunity for Indian companies to meet under one roof, showcase new technologies, share information, plan growth strategies and network with overseas companies. The highlight of the show will be exclusive country pavilions being set up by China, South Korea, Japan and Europe.

While import of natural rubber is imperative to meet the huge demand-supply gap, custom duty stands at 25 per cent, which is higher than other rubber importing countries. Besides, the export obligation period for tyre export, set as a pre-condition for import of natural rubber, has been reduced to 6 months from 18 months, making it further tough for the tyre industry. The tyre industry, on its part, is lobbying for import of natural rubber on the tariff rate quota basis at zero rate of duty to the extent of gap between domestic production and consumption.

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DAILY NEWS ANALYSIS N.D 06/08/2018

'Trade war making several Indian goods competitive'

New Delhi: With the US imposing additional 25% duty on imports worth $34 billion from China, certain Indian products may become more competitive, CII said today.

An analysis by the industry chamber revealed that India should focus on the US market for items in the categories of machinery, electrical equipment, vehicles and transport parts, chemicals, plastics and rubber products.

India can focus on numerous goods for expanding its exports to the US and China markets following the hike in duties by both countries on imports from each other, CII said.

Top exports from India to the US which are covered in the list of items for which tariffs have been hiked include pumps, parts of military aircraft, parts for electrodiagnostic apparatus, passenger vehicles of 1500-3000 cc, valve bodies and parts of taps, said the chamber.

Exports of these items stood at over $50 million in 2017, according to CII, and can be increased with concerted efforts.

Countries such as Vietnam, Indonesia, Thailand and Malaysia have increased their exports of these products to the US in recent years, the chamber noted.

Based on India's current exports to the US in these categories, products such as intermediate parts for the defence and aerospace sector, vehicles and auto parts, engineering goods, etc. have a higher potential for export, it said.

STRATEGY MIX

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- **Between 2012 and 2017, China's exports to the US have moved up the value chain**

"Sectors like apparel and textiles, footwear, toys and games and cell phone manufacturing are becoming competitive industries in India and need to be encouraged," CII said.

The chamber suggested that the trade dialogue with the US should be strategised taking into account India's competitive advantage in these products.

Moreover, foreign direct investments from the US should be encouraged by boosting confidence of US firms in India's business climate, said CII, adding that this might necessitate addressing their concerns regarding non-tariff barriers in India for better long term outcomes.

In the domestic industry, it stated that it is important for India to enhance productivity while adding technology to its domestic production in the identified products. CII examined 818 product lines where the US has raised tariffs for imports from China.

Between 2012 and 2017, China's exports to the US have moved up the value chain with accelerated growth in high-technology items. —PTI

PIONEER N.D 06/08/2018

Sino-US trade war can make Indian products competitive

PTI ■ NEW DELHI

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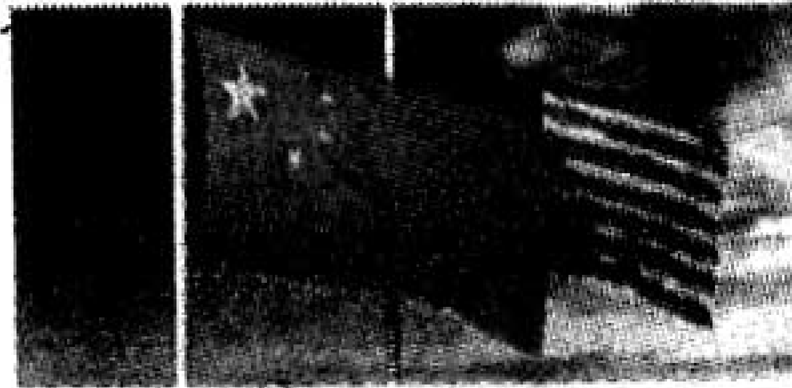

PERSPECTIVE

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RASHTRIYA SAHARA N.D 06/08/2018

निवेश करेगी सिएट

नई दिल्ली। टायर क्षेत्र की प्रमुख कंपनी सिएट की योजना चेन्नई में नए कारखाने की स्थापना पर अगले तीन से पांच साल में 2,000 करोड़ रुपए का निवेश करने की है। इस संयंत्र से पहले चरण का उत्पादन 2019 में शुरू होने की उम्मीद है। आरपीजी एंटरप्राइज की प्रमुख कंपनी ने इस परियोजना के लिए पहले ही 163 एकड़ भूमि का अधिग्रहण किया है। सिएट की वार्षिक रिपोर्ट 2017-18 में कहा गया है कि कंपनी की योजना नया संयंत्र लगाने की है। इस संयंत्र पर अगले तीन से पांच साल में करीब 2,000 करोड़ रुपए का निवेश होगा।

FINANCIAL EXPRESS N.D 6/8/18

Ceat to roll out ₹2K cr Chennai unit next year

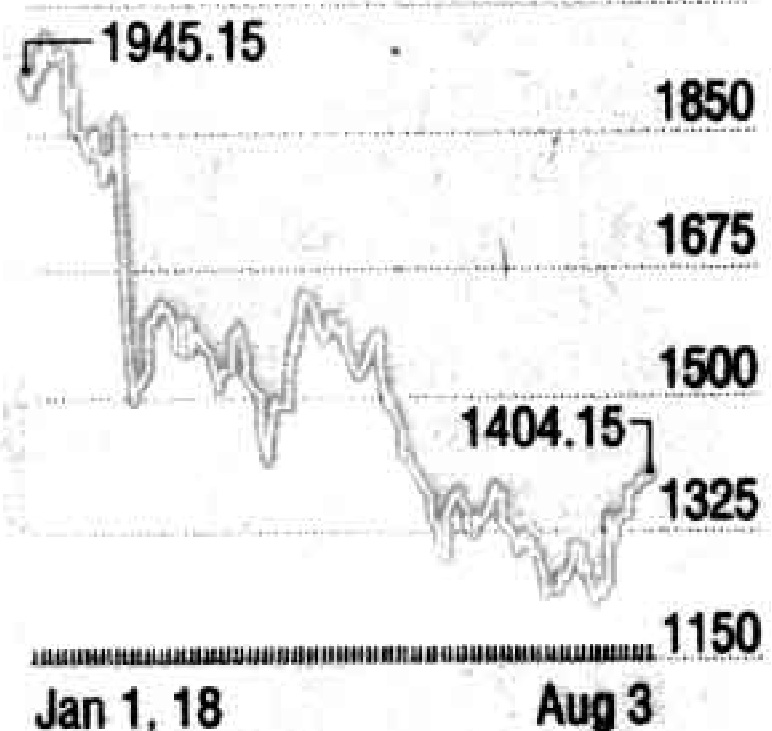
New Delhi: Tyre major Ceat plans to invest around Rs 2,000 crore over the next three to five years in setting up a new manufacturing facility in Chennai.

The first phase of the plant is expected to start production in 2019. The RPG Enterprise flagship firm has already acquired a 163-acre land parcel for the project.

"The company is setting up a greenfield plant with an estimated investment of approximately Rs 2,000 crore to be spent over three to five years," Ceat said in its annual report for 2017-18.

Civil work for the first phase of the project has begun and the plant is expected to begin production in the next 12 months, it added.

Ceat will start with passenger car radial tyres at the plant with an initial capacity of around 250 tonne per day. It also plans to utilise the facility for exports.



The company currently ships tyres to more than 100 countries.

Ceat has manufacturing facilities at Bhandup (Mumbai), Nashik and Nagpur in Maharashtra and Halol in Gujarat. Besides, it also has an off-highway tyre manufacturing plant at Ambernath, Maharashtra, which commenced commercial production in last fiscal. —PTI

HINDU N.D 6/8/18

Ceat plans to invest ₹2,000 cr. in new plant

NEW DELHI

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HINDU N.D 6/8/18

U.S.-China trade war can make Indian products competitive, says CII report

'India must focus on U.S. market for machinery, plastics, rubber products'

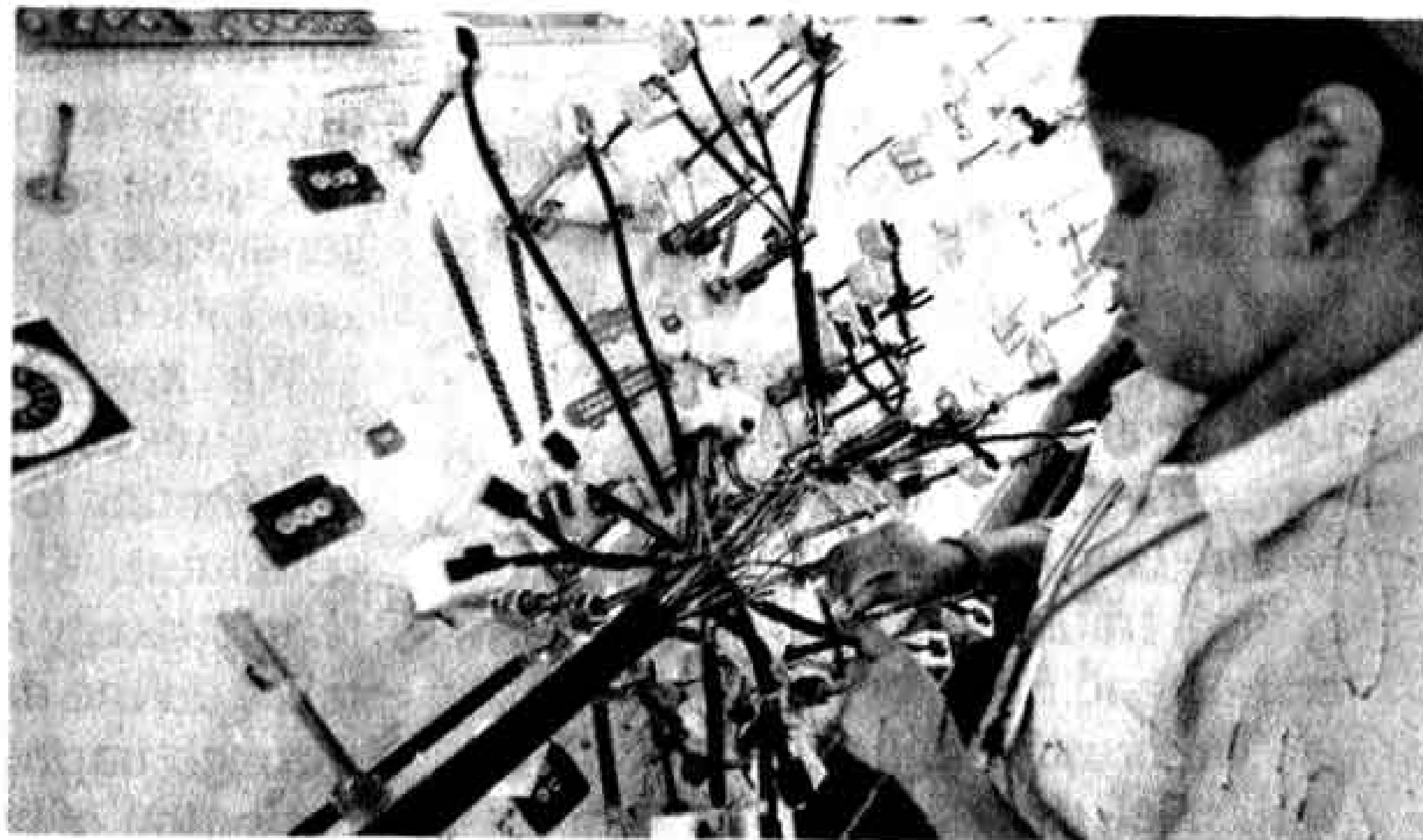
PRESS TRUST OF INDIA
NEW DELHI

With the U.S. imposing an additional 25% duty on imports worth $34 billion from China, certain Indian products may become more competitive, the CII said.

An analysis by the industry chamber revealed that India should focus on the U.S. market for items in the categories of machinery, electrical equipment, vehicles and transport parts, chemicals, plastics and rubber products.

Tariffs increased

India can focus on several goods for expanding its exports to the U.S. and China after the increase in duties by both countries on imports from each other. Top exports from India to the U.S. which are covered in the list of items for which the tariffs have been raised include pumps, parts of military aircraft, parts for electro-diagnostic apparatus, passenger vehicles of 1500-3000 cc, valve bodies and parts of taps.



Seizing the opportunity: Products such as vehicles and auto parts have a higher potential for export to the U.S. • REUTERS

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HT MINT N.D 6/8/18

On a roll, tyre companies bet big on increasing domestic demand

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RAMESH PATHANIA/MINT

Smooth road ahead

- Strong demand for vehicles and a promising outlook has made tyre firms bet big on the sector
- Leading tyre manufacturers are expanding capacity over the next couple of years
- Capex plans are large, especially for passenger car and commercial vehicle tyres
- Increase in debt is a risk to earnings

Tyre firms are on a roll. The growing demand for vehicles in India is pushing them to expand.

Last week, Apollo Tyres Ltd surprised investors as it announced a ₹6,500 crore capex spread over the next three years. A large chunk of this investment will be in India, with ₹3,800 crore being allocated towards a green field plant in Andhra Pradesh to make truck and bus radials (TBRs), and passenger car (PC) tyres.

Apollo Tyres is not the only one betting big on Indian consumption. A month ago, the RP Goenka-group's Ceat Ltd announced a large capex plan (about ₹4,000 crore) for a manufacturing facility in Tamil Nadu. In a filing with the BSE, it said that the capex would be for "incremental manufacturing capacity of car, lorry, bus radial tyres and two-wheeler tyres."

Others such as Goodyear have been reported in the media to be considering foraying into segments that they are not yet catering to.

The closely held MRF Ltd has earmarked investments every year for some time, apart from its state-of-the art facility planned in Gujarat.

The expansion plans are a result of the conviction that demand for tyres is strong. The June quarter results saw impressive revenue and profit growth—Ceat net revenue rose by about 17% year-on-year (y-o-y), while that of Apollo Tyres jumped 31%. JK Tyres Ltd revenue zoomed by 35%.

Importantly, here's why the good news will continue. Indications are that demand from original equipment (OEMs) manufacturers, especially TBRs and PCs will continue to grow at the current pace over the next few years.

And, most tyre makers are already working at near-full capacity. Operating leverage has helped firms tide over uncertainties of raw material prices, in spite of high rubber and crude prices prevailing for a while. Strong demand allowed manufacturers to increase tyre prices in the replacement market especially.

June quarter Ebitda (Earnings before interest, tax, depreciation and amortization) margins of Apollo Tyres and Ceat jumped by 390 and 650 basis points (bps), respectively, from a year ago. JK Tyres reported a profit at the operating level from a loss last year.

Strong operating performance has kept cash flows high and stable enough for manufacturers to dream big

So, strong operating performance has kept cash flows high and stable enough for manufacturers to dream big.

Also, given strong sales of vehicles across the board in the last two years, growth in the more lucrative replacement market is likely to kick in after a few quarters.

A host of positive factors are therefore playing out in favour of tyre firms.

Further, they do not have to battle technological challenges that some ancillary segments are faced with due to new, stringent regulatory norms.

The only hitch is that most firms would need to raise debt to fund hefty capex. Bharat Gianani, an analyst at brokerage Sharekhan, reckons that rising interest rates along with higher depreciation may slow earnings growth in spite of high demand for tyres.

But this is normal during the capex phase, although perhaps this explains why tyre stocks have been wobbly within a range in the recent past.

However, the point is that in an economic environment where capacity utilization for most industries is still struggling, tyre firms are bullish enough to commit to large capacity expansions.

HINDUSTAN TIMES N.D 6/8/18

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