

NR bounces back on crude oil price rise

M SARITA VARMA

Thiruvananthapuram, May 21

THE SAGGING SPOT rubber market has bounced back dramatically this week, from ₹120 per kg to ₹127 per kg. Interestingly, as if in anticipation of the natural rubber (NR) price rally, in early May, most tyre firms had hinted at input-pushed price hike ahead.

One of the reasons for the jump in the price is the surge in crude oil prices. Experts say that it is no more viable to substitute NR component in tyre with imported synthetic rubber whose price goes up in proportion with the rally in crude prices. Secondly, the gap between the international price of NR and domestic price of NR has diminished to make the domestic rubber sourcing more viable. Thirdly, due to the unexpected showers in the rubber plantations across Kerala, the production is haphazard.

However, it is too early for rubber growers to call for the champagne, according to Anu V Pai, analyst, research division, Geojit Comtrade. "One can hardly see a sustained price rally, unless the RSS-4 price crosses ₹140 per kilo, although there are several positive factors in the market like the price difference with international price and increase in the price of synthetic rubber. Low NR prices for too long had robbed the rubber grower's confidence in investing in rain-guarding," she told *FE*.

It was in July 2017 that the NR price had crossed the psychological barrier of ₹140 per kilo for the last time. This surge in domestic price was subsequent to the flooding in Thailand in the first quarter of 2017 that trimmed the availability of imports.

"Anyhow, if the reports of high inventory in Shanghai warehouses are credible, the Indian rubber farmer needs to be wary over imports unexpectedly pushing down the domestic price," says Anu Pai.

Meanwhile, the signals from the tyre



industry, which accounts for nearly 70% of NR demand, are that the price rise in domestic NR is here to stay. Several tyre firms, including Apollo, Yokohoma and Continental are reported to have announced price hikes of about 2%, factoring in increase in raw material costs. Some of them have even hinted that the tyre prices are likely to be hiked further in the future.

Least impressed by the NR price perk-up are the rubber growers. Last week, the farm outfit Infam had charged that while high production costs had caused increased untapped areas in rubber, utility industries had been manipulating the market too.

"Planters do suffer trust deficit on rubber price. Unless the domestic price increase is sustained for long, cultivation would be tight-belted and gradually the commodity would be wiped out," says Siby Monipally, secretary, Indian Rubber Growers Association.

Last week, Rubber Board was forced to downpeg the forecast of NR production for 2018-2019, about 70,000 tonne lower than what was originally estimated for 2017-2018. In 2017-2018, country produced only 6,94,000 tonne of NR.

Stop rubber dumping; set import price, says industry

Growers should be allowed to tap market potential

V.SAJEEV KUMAR

Kochi, May 21

Minimum import price on rubber is needed to avoid dumping, say stakeholders citing a serious drop in production triggered by imports and low prices.

Quoting data at a meeting of a Task Force in Kochi, growers and processors pointed out that imports were increasing even during high cropping months of September-February. This underlines the need for a clear policy on how much, when and what to import. "It is not only the quantum of imports, but also timing that created the prob-

lem", they said. Rubber Board figures also revealed that imports had grown 10 per cent to an all time high of 469,433 tonnes 2017-18 due to favourable price, rising consumption and less than expected production.

Santhosh Kumar, Senior VP, Harrisons Malayalam Ltd, who participated in the meeting told *Business Line* that they have strongly argued for a minimum import price for rubber along the lines for pepper. The price of domestic rubber should not be less than the cost of production, which is now hovering at ₹170/kg. There was also demand to utilise the import duty collected for supporting rubber cultivation by extending price support and replanting subsidies. Currently 40 per cent of the Indian consumption is being imported

Rubber production and import since 2010-11 in India

Year	Production (tonnes)	Import quantity (million tonnes)	% of import to total production
2010-11	861,950	190,692	22.12
2011-12	903,700	213,785	23.66
2012-13	913,700	262,753	28.76
2013-14	774,000	360,263	46.55
2014-15	645,000	442,130	68.55
2015-16	562,000	458,374	81.56
2016-17	691,000	426,188	61.66
2017-18 (P)	649,000	450,000	69.33

*upto Feb 2018

and further imports would adversely affect the growers' interests.

Admitting that rubber imports had been consistently increasing from 2008-09 to 2017-18, Rubber Board Chairman and Executive Director, MK Shanmuga Sundaram said at a differ-

ent function that imports are projected at 450,000 tonnes in 2018-19. The production during January-March 2018 was 10 per cent lower mainly on account of intermittent rains and relatively low rubber prices. The projected NR production is considerably lower as compared to the pro-



State-wise natural rubber production (tonnes)

State	2011-12	2012-13	2013-14 (P)	2014-15 (P)	2015-16 (P)	2016-17 (P)
Kerala	798,890	800,050	681,100	565,000	492,000	606,000
Tamil Nadu	25,220	25,350	21,700	18,075	15,750	19,500
Karnataka	27,890	31,250	24,800	21,950	18,500	22,750
South India	852,000	856,650	727,600	605,025	526,250	648,250
Others	51,700	57,050	46,400	39,975	35,750	42,750
All India	903,700	913,700	774,000	645,000	562,000	691,000

P: Provisional

duction potential, he said addressing the 176th meeting of the Rubber Board. However, the production in 2018-19 is projected at 730,000 tonnes with a growth of 5.2 per cent while consumption is projected at 1.2 million tonnes, with an increase of 8 per cent, he added.

According to Ajith B.K., Secretary, of Association of Planters of Kerala, imports should be al-

lowed to fill the gap between the domestic consumption and production. But the government should impose safe guard duty to protect the interest of growers.

There should be a separate Ministry for plantation crops like other South East Asian nations and the Task Force should initiate a "Grow in India" campaign.

Tyre stocks skid on rising oil prices

Margins to get hit if the trend continues

PRIYA KANSARA

Mumbai, May 21

Tyre stocks have been slipping due to rise in crude oil prices as crude-based raw materials such as carbon black and synthetic rubber form a significant portion of the total raw material cost for tyre companies.

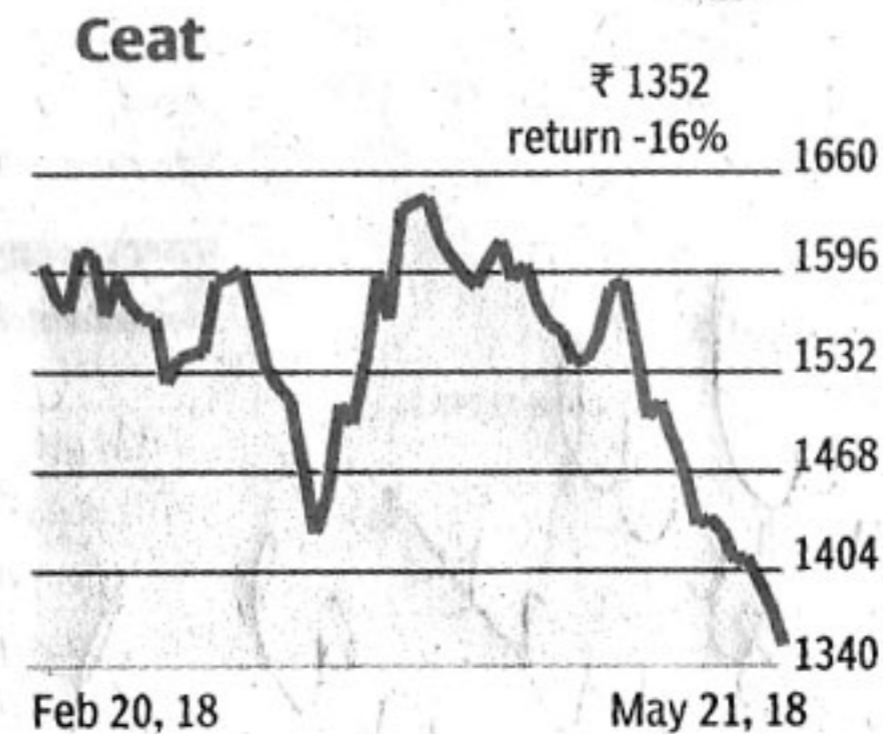
Stocks of Balkrishna Industries, Apollo Tyres, Ceat, JK Tyre & Industries and MRF closed down 1.2-3.9 per cent on Monday. These companies already disappointed analysts with lower-than-expected operating profits and/or pressure on operating profit margin in the March 2018 quarter even as topline growth was encouraging, thanks to robust volume growth.

Raw material costs form 50-60 per cent of tyre companies' revenues and non-natural rubber

(mainly crude-linked) forms 50 per cent of total raw material cost. Hence, movement in crude oil prices, which recently hit \$80 a barrel, is a key event for tyre companies. Prices of carbon black and synthetic rubber are on the rise even as natural rubber prices remain benign, analysts said.

Balkrishna Industries, which reported its March 2018 quarter performance on May 17, matched its peer performance in terms of good volume and topline growth but lower-than-expected operating profit. ICICI Securities attributed the reason to cost pressure in non-natural rubber commodities, such as synthetic rubber and carbon black.

Many tyre companies have disappointed analysts with lower-than-expected operating profits



"We expect raw material costs to increase by 3-4 per cent over the next two quarters due to recent increase in crude prices, which will, in turn, require price increase of 2-2.5 per cent," said Kotak Institutional Equities while downgrading the MRF stock to 'Reduce'.

Higher expenses drag

While revenue growth was strong at 16 per cent for MRF (on the back of a 13 per cent volume growth), gross profit margin declined sequentially and operat-

ing profit margin was below estimates due to higher expenses.

Prabhudas Lilladher said Ceat management has cautioned about sequential increase in overall raw material prices over the next two quarters. The brokerage firm continues to have a cautious view on Ceat, which again disappointed on the margin front in Q4.

Edelweiss added on Ceat: "Management expects Q1FY19 to feel the impact of 1-2 per cent increase in cost due to higher crude prices. Q2 could see a larger impact at 2-2.5 per cent if crude oil price rise sustains."

Apollo Tyres too, disappointed slightly on operating margin. Even though companies hike prices, it is never in the same proportion as the rise in raw material costs. In any case, companies will only be able to maintain the current margin, and not expand the same.