Impact of pandemic stretches into the rubber market

SPOTLIGHT

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The coronavirus pandemic has had a far-reaching impact on businesses around the world and consequentially amongst the rubber industries as well.

Rubber product manufacturing is a labour-intensive industry and has nearly 6,000 MSMEs that collectively employ around 6 lakh people directly. Further 7 lakh people are employed indirectly. Consumption of natural rubber is dominated by the automotive sector which accounts for nearly 60 per cent of all sales. Besides the automotive sector, mining, medical, aerospace, agriculture, construction, machinery, engineering and electrical appliance manufacturing industries are major drivers of the domestic rubber industry. In 2019-20, India's rubber products exports stood at $3,193.97 million. With the onset of the Covid-19, these numbers will change significantly for the current fiscal year.

Covid-19 impacted the rubber industry in multiple ways. On one hand, there was a supply disruption of raw materials. On the other hand, a delay in farming operations and latex collection further compounded the issue. Due to disruption of global economic activities and restrictions on imports, crucial inputs such as carbon black and rubber chemicals were in short supply. Volatility in global markets further weakened the industry prospective.

Rising over, again

If the last six months were a great learning period, three things need to be done to boost business in the post coronavirus world. For a start, we need to sort out supply chain issues by assessing the robustness and forming plans to ensure uninterrupted operations in times of crisis. Inventory needs to be managed while production plans may need to be re-evaluated as per market conditions. Organisations can also look at alternative sources of raw materials (both domestic and imported) while evaluating newer markets for

export. Trade benefits, concessions and restrictions for different countries should be carefully evaluated. At home, companies should look at the best ways to save on taxes.

The second lesson was the need for liquidity management. A careful evaluation of the liquidity position coupled with planning and prioritisation of expenditures and loans is critical. An effective risk forecasting approach is the need of the hour. Lastly, the existing workforces need to be marshalled well. Proper planning in workforce deployment, reworking of worker compensation and benefits coupled with effective management of Covid positive cases within the organisation are to be critically examined and redeployed to counter the changed business environment.

Additionally, certain resolutions can be looked at, including removal of Customs duty on import of natural rubber, anti-dumping duties on synthetic rubber, carbon black, rubber chemicals & other key inputs. The government can set up Development Finance Institutions and incentivise wholly-owned subsidiaries of Indian units which are established abroad by funding their stocks, provide interest-free loans and tax holidays. The government can also consider extending a grant of 20 per cent in lieu of the income tax paid over the last 5 years as to MSMEs. Given the changing international trade scenario, a lot of international companies are looking at India as the new manufacturing base. Lower interest rates on capital loans towards new capex during this period will help the industry take bolder decisions and invest in future capacity building.

The writer is President, All India Rubber Industries Association (AIRIA). Views are personal.