THE MONDAY PAGE

India's Rs 19,500-crore tyre industry has witnessed several recent price hikes owing to high input costs, especially that of crude oil and natural rubber. More price hikes are in the offing unless rubber prices cool off, the same way oil prices have in the last few days. But whether prices are hiked or not, the segment is bound to see growth given the economy's expansion, says **Paras Chowdhary**, *managing director of the Rs 2,600-crore RPG Group flagship company Ceat Ltd, in an interview with* **FE's MG Arun** *and* **Shweta Bhanot**. *Excerpts:*

▶ THE MONDAY INTERVIEW • PARAS CHOWDHARY, Managing Director, Ceat Ltd

'The cost-push of raw materials is huge'

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Rising input costs has been an area of concern for tyre manufacturers. Is there any possibility of a let-up in the situation?

Most of the raw materials used in the tyre industry are oil based. So, we are impacted not only by inflation and interest rates, but also by what happens to crude oil prices or to derivatives of crude oil. Some derivatives have seen an increase that is higher than that of crude itself. The cost-push of raw materials alone in Q4 last fiscal and Q1 this fiscal was 15%. Between the first quarter and the second, it will go up by another 10%. The first three quarters of last fiscal were pretty steady.

The rise is huge because the raw material cost is substantial. All the large tyre companies together buy raw materials valued at Rs 10,000-12,000 crore. The industry has a turnover of Rs 19,500 crore, of which the big four have a turnover of close to Rs 14,000 crore. Some companies are impacted more, some less.

There is a correlation between natural rubber and crude prices, too. Crude is actually a driving force. Butadiene, used in a big way in synthetic rubber, is a derivative of crude oil and is in short supply—and that is driving up the price of synthetic rubber. If prices go up, then people tend to use more natural rubber.

What is the level of natural rubber use in tyre production? Is there greater scope for production using synthetic rubber?

By weight, Ceat uses around 45% natural rubber. By value, it will be more than that. Earlier, the weighted average cost of rubber was lower than the weighted average cost of other raw materials. So, if the weight of rubber was 45%, by value, it was less than 45%. Now, it is the other way round. About 46-47% of natural rubber goes into commercial vehicles.

In our product mix, trucks and light commercial vehicles (LCVs) account for close to 70%. India being a developing country, cars and two-wheelers are around 17-18%. But in Europe, for instance, you will see just the reverse. There are issues in shifting more to synthetic rubber in commercial vehicles. These vehicles carry a high load, and natural rubber has a cooling effect. So, adding more synthetic to it may not be a good idea owing to wear and tear.

So, is a price hike in the offing, given the high input costs?

Price hikes depend on where rubber goes. It reached a peak of Rs 143/kg about a week ago. Rubber prices had gone up to abnormally high levels around World War II since some rubber growing countries were involved in the war. Also, with so many vehicles being used during the war, consumption went up, while production suffered.

In the early 1990s, rubber prices again spiked from a Rs 20-30 threshold to Rs 70, and then came down. Two years ago, rubber spiked to Rs 115, then cooled off to Rs 90 levels. It has moved in accordance with inflation. This is the price in Kochi, but once it lands in Mumbai, after payment of freight, VAT, as well as octroi, the price becomes almost Rs 155.

But now, crude has come off a peak. The international price of rubber is softening. Rubber is a seasonal commodity and most production takes place in November-January. So, prices cannot remain very high. The decision to increase tyre prices will largely depend on how much the cost of rubber falls. Even if the cost stays at the current level, a tyre price hike will be necessary.

Different manufacturers have different plans for price hikes. Ceat just had a bad quarter owing to several reasons. At the beginning of the quarter, we did not carry adequate inventory of rubber and carbon black. Prices of these two commodities, after April 1, went up hugely. Also, rubber prices internationally are lower than in India. Most countries have very developed commodity exchanges, like those in Tokyo or Kuala Lumpur. In India, these are only at a nascent stage.

You have projected a 20% growth this fiscal, despite all these issues. How will that be possible?

Growth is separate from the cost issue. Despite all the problems, India is still going to grow at a projected 7.5%; you'll need more of everything. We do not have a scientific calculation of how much tyre demand will go up according to the growth in GDP. But the growth in the economy has resulted in a higher growth in road transportation compared with rail. We have three markets: export, original equipment manufacturers (OEM), and replacement. OEM used to be 20%, exports another 20% and replacement, the rest.

Not everything is slowing down. The tractor business is growing. Farmers buy tractors on cash, and they seem to have the cash. Growth has been around 2% or so for a long time. If this grows at even 3%, it will make a huge difference. As much as 10% of our business comes from tractors. LCVs are also doing well. OEM is not the driver, but replacement is.

What progress has the industry made on radialisation?

In India, so far, radialisation is complete only in the car segment. It is only at an elementary stage in trucks and buses. For LCVs, it is close to 10%. Radialisation will not take place in tractors or two-wheelers, but mostly in trucks and buses. Typically, radial tyres have the advantages of more mileage and fuel efficiency. Globally, 80% of tyres are radials and the rest, cross-ply. In advanced countries, it is 99% radial.

India as a whole has only 20% radial. China has started selling radials in India at a lower price and has captured some marketshare. Almost 90% of the car business is radial. Ceat has decided to set up an all-radial plant in Gujarat at an investment of over Rs 600 crore. We are acquiring 130 acre of land near Baroda and production will start in two years' time.