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Indian TSR: Challenges and opportunities

The Indian Technically Specified Rubber (TSR) processing industry has been exposed to the rigidities of both input and output markets with limited individual options for survival and sustenance in the longrun. A consortium consisting of TSR processors is perceived to be a feasible option under the prevailing circumstances to overcome the challenges

The global production and consumption of NR during the past four decades have been reoriented towards TSR. It is evidenced by the fact that TSR constitutes nearly 60% of total NR produced in the world. Despite India's efforts to promote the TSR processing vis-a-vis the industry since the 1970s, no progress could be achieved as anticipated. The contributory factors for the tardy progress are supply and demand side rigidities reinforcing the prevailing system of arrangements.

Bumpy ride

The cumulative effect of these factors played an important role in undermining the growth and capacity utilisation of the industry. However, since 1991-92 the domestic demand for

TSR has been increasing considerably. It is more evident that, till 1990-91, RSS grades constituted nearly 80 % of the total imports of NR into the country. But since then, the

share of TSR has been growing gradually and during the terminal year of the study (2005-06) it accounted for nearly 83 % of the total imports of NR. The availability of TSR at competitive price in the international market compared to RSS grades also appeared to have influenced its growing share in imports as well as in consumption.

Considering this, the Government had implemented modernisation programmes and export promotion schemes in 2001 to reduce the cost of processing and thereby enhance the production of TSR in the country. In spite of such efforts, the production exhibited a lower rate of growth and the capacity utilisation remained at

less than 55% of the potential.

Systemic changes

The TSR processing in the country had undergone important systemic changes during the past one decade. Processing has been based more on contractual (75-80%) arrangements than on the installed capacity. The observed trend is one of the outcomes of the trade liberalisation policies and the resultant uncertainty in the domestic market of NR. As the volume of TSR processed on the basis of contract sales is very often found to be lesser in volume than the installed capacity and the supply of raw material, the processing units do not face the critical issue of raw material shortage.

Market uncertainty has also resulted in the easy availability of raw material as is evidenced by the immediate sales by dealers and lesser quantity of stocks held for a shorter period by processors. However, the pattern of procurement is very much influenced by working capital requirements and frequent fluctuations in the input and output prices which move in tune with prices of RSS 4 grade.

Capacity utilisation and cost

Private sector contributes 69.63% in the total production of TSR followed by the co-operative (13.93%), estate (8.04%), PLC (5.56%) and public (2.84%) sectors. ISNR 20 constitutes nearly 92% of the total production reflecting the lower share of premium grades. This pattern is indicative of the composition of domestic demand and the type of raw material processed. The capacity utilisation of the industry was less than 55% with important policy implications for the industry.

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by public (53.15%) and co-operative (52.30%) sectors. The extent of capacity utilisation was lower under PLCs (46.73%) and estate (46.06%) sectors. Power and fuel (42.87%) and wages for labourers (18.96%) were the major cost components as they together constituted nearly 62% of the unit cost of the industry during the five-year period. Marketing, interest, depreciation, repair and maintenance, miscellaneous etc. accounted for the second highest cost component under 'others' with share of nearly 18% followed by establishment (14.40%) and administration (6.05%). The average unit cost in the industry was Rs. 5.52 per kg whereas the margin was Rs. 5.17 per kg. Thus, the industry had an average loss of 35 paise per kg during the period under review.

The cost of power and fuel accounted for the highest share in the private, estate, co-operative and PLC sectors while cost under 'others' constituted the highest share in the public sector. The lower unit cost but higher capacity utilisation in the private sector was found to have achieved by minimising the administrative, establishment and other costs. In all other sectors, these costs accounted for a higher share in the total costs.

Specifically, private sector was the only sector

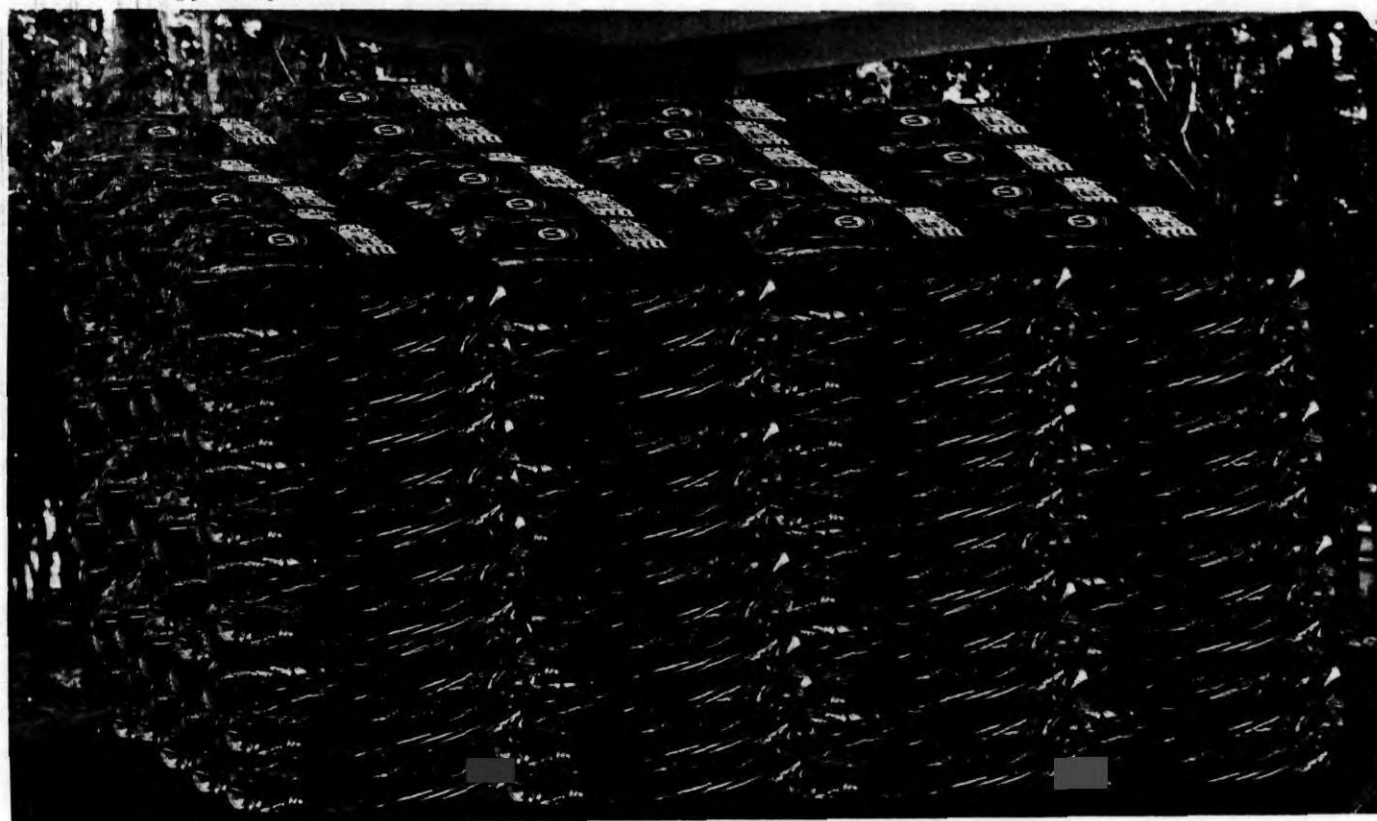
which recorded the lowest cost of processing throughout the period under review with an average cost of Rs. 4.24 per kg. followed by PLC and co-operative sectors. Employment of labour on contract, piece rate and production-linked incentive basis and the use of Bio-mass Gasifier along with modernisation of processing plants had been the factors which contributed to such achievement in the private sector. Cost did not decline in the public, co-operative and PLC sectors due to their inherent administrative as well as institutional rigidities.

Though the estate sector realised higher prices from the sale of premium grades, the cost was higher due to the lower margin. The unit cost of the industry did not fall in comparison to the increase in production and expansion of scale of operation. Therefore, a theoretically perceived significant inverse relationship between unit cost and production could not be observed. Limiting the processing to the confirmed contract and advance sales orders could be one of the important reasons for this observed pattern.

Influence of tyre sector

The purchase policy evolved by the tyre sector ensured the availability of TSR with the desired

TSR bales ready for dispatch



quality parameters. The terms and conditions dictated by the tyre manufacturers with regard to buying ISNR and the strict adherence to these terms and conditions by the processors on account of the concern of ensuring guaranteed buyers for their produce lent support to this observation. Moreover, as the tyre sector purchases more than 70 % of the total TSR produced in the country it assumes a dominant position in influencing both the input and output prices.

The sustenance of the industry by penetrating into the international market appears to be very limited as 67% of TSR exports are to the other major NR producing countries apparently for re-exports which has questionable credentials as a long-term strategy. Processors' unawareness of international market, its structure, rules, regulations, the inability to export in bulk quantity and non-compliance with de-

delivery schedules are always the constraining factors in exploiting the potential in the international market.

In sum, the core issue being confronted by the TSR industry in India has been the domestic demand driven processing based on contract sales and the resultant outcomes in

the input and output markets leading to lower capacity utilisation. The transformation of informal contract processing arrangements at the individual unit's level is gradually transformed in to a system of processing with longer duration and acceptance across the sectors. This trend has important implications for the industry.

Processing system needs change

At this juncture, the critical issue at the micro level is whether the processing industry can sustain with the present system of processing and if so for how long. Continuing at the present level of capacity utilisation is possible only in a context when the unit cost is sufficiently lower than the margin. As long as price of FC and hence the margin are beyond the control of processors, the industry has serious limitations to confront the inherent challenges of the present situation.

To ensure transparency in the entire system of raw material procurement, publication of the FC price on a daily basis is important. Though

it can sustain with lower unit cost, in the prevailing scenario it is rather difficult by increasing the capacity utilisation as the processing is based on contract sales. The situation is further aggravated by the weaker bargaining power of processors in both the input and output markets.

From a long-term policy angle, four interrelated issues emerging from the analysis are: prominence attained by the contractual processing, unique raw material base in terms of quality parameters and quantitative limits, lower scale of operation and the lower capacity utilisation. The sustenance of the industry depends on the strategies adopted to confront these critical issues. The firm level approaches are essentially focussed on survival strategies rather than addressing the critical issues. Therefore, the perceptions on raw material base and market orientation require through revamping.

The improvement in the capacity utilisation of the industry is explicitly limited by the lack of availability of raw material (FC). As increasing the availability of raw material has serious limitations, the probable choice is shifting the raw material base from FC to latex lump. But, from growers' perspective, this shift may not guarantee a higher share in the value chain as in the case of RSS grades as long as they cannot sell a processed form of rubber and stock the same expecting a profitable price. The benefits of RSS grades in the domestic market act as a strong deterrent for a large scale shift to latex based TSR processing in the near future.

Consortium approach

In effect, the TSR processing industry has been exposed to the rigidities of both input and output markets with limited individual options for survival and sustenance in the long-run. Therefore, a consortium consisting of TSR processors is perceived to be a feasible option under the prevailing circumstances to overcome the observed constraints. The consortium will ensure effective interventions in the input and output markets and derive the advantages of economies of scale. The policy action in this direction underlines the preparation of a blue print for the consortium approach in consultation with the processing industry. ●

The article constitutes the writers' conclusions in his book titled "An Economic analysis of the Technically Specified Block Rubber Industry in India", published by the Rubber Research Institute of India (RRII)

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