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Rubber thread industry in distress

It is high time that Indian rubber thread manufacturers took appropriate measures like improving plant efficiency, advancement in latest technology, reduction in loss of production and introducing innovative items to face the competition

The rubber thread industry in the country is in the doldrums as it is unprepared to live and thrive under the present trade conditions. Many units are struggling for survival and many are on the verge of closure. How the industry can be revived, protected and be made competitive?

Rubber thread, generally made by extrusion of compounded NR latex, is one of the important and widely consumed latex products. The main consumption of rubber thread is in the textile industry for making knitted and woven fabrics. This product is now marketed in two different forms, viz, non-heat resistant, generally called as "ordinary grade thread" and "heat-resistant rubber thread (HRRT)"

HRRT produced by the organised sector in India is comparable with those from Malaysia, which is the largest producer and exporter of rubber thread in the world. But Malaysian rubber thread plants are more efficient and cost-wise also they are more economic producers of latex thread in the world.

Tough competition

Their role is very prominent in Indian market too, which affects the hapless Indian thread manufacturers, who are now queueing up before customers to create a crucial 'point of purchase'. Of course, sales are going up in India with the entry of new customers in this line. Growth of the end-use segment is also going up. But new manufacturing capacities are also coming up which make the situation more tough and competitive.

75 units

Now there are about 75 units in the organised and unorganised sector producing more than 90% of India's total requirement. They

Rubber thread is used for making knitted fabrics

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manufacture 5,800 tonnes of HRRT and 1,320 tonnes of ordinary threads. But the total installed capacity is almost double (11,760 tonnes) of the existing demand and some units have very low capacity utilisation.

Before the commencement of organised units, almost the entire requirement of HRRT in the country was being imported resulting in the drainage of valuable foreign exchange. But today, the industry has succeeded in replacing almost 95% of the HRRT being imported into India thereby saving precious foreign exchange for the country. Besides, the industry is also capable to earn foreign exchange by way of exports and this is poised to go up to Rs. 115 million soon.

Yet, this organised but desperate segment of the rubber thread industry is heading for the sick bay and unless remedial measures are taken it might end up in natural death.

Low import duty and comparatively lower cost of production in the world market are the main problems being faced by this sector. Product innovation and maintenance of quality at international standards are the other factors. Thread manufacturing units in India are singularly unprepared to live and thrive under the present trade conditions.

No choice

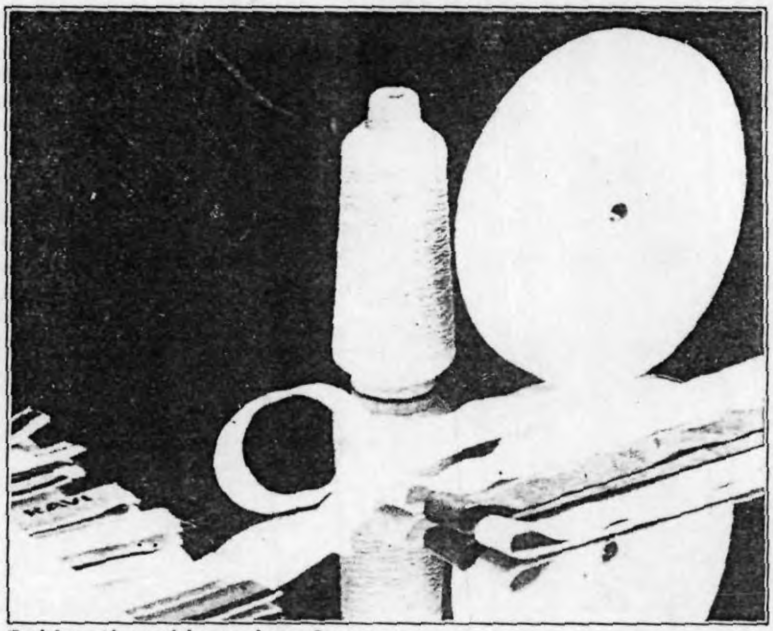
It is noted that many importers in India have been importing not so good quality rubber thread at ridiculously low prices between US $1.25 and $1.40 per kg. Even with all duties and taxes, this will work out cheaper than the locally produced thread: Therefore, in many instances, the local thread manufacturers are supplying rubber thread at import parity prices to consumers. They have no choice, but to match the import price with much difficulty; otherwise, the consumers will import thread.

Allowing imports at reduced import duty will adversely affect both organised and unorganised thread manufacturers alike, thereby jeopardising employment of thousands of workers in direct and indirect employment. Many organised and unorganised units will have to cut down production if the customs duty on rubber thread and elastic tape is brought down to a minimum level of 20 to 25%.

Tough competition

With the emergence of organised units, capacity exceeds demand and competition becomes cut throat. Since the prices are ruling under rock bottom, the concentration is in other terms like more credit and discounts. It is noted that a lot of money is stuck in the market, and many units are having very tough time for surviving the competition.

Considering above facts, it is appropriate to introduce some drastic measures which can help to put brake on import of rubber thread. Increase of import duty and imposing anti-dumping duties on rubber thread are the effective methods to check imports. It is a known fact that manufacturers in Malaysia, Thailand and Indonesia are selling threads even below the cost price due to global competition. The USA has already imposed anti-dumping duties as high as 40% on all manufacturers from the Far East.



Rubber thread in various forms

Thread companies in these countries are in the large scale sector, and so they score over small and medium players from other countries. Their plant efficiency is in the range of 90 to 95%, and loss is accounted below 2%. Since they get superior quality latices in tankers at low prices they can make better results. They also avail of the supportive measures from their governments which bring down their costs even further. Stability in latex price helps the Malaysian plants to enter into "contract" for supply of threads at a fixed price for a long period. But the Indian manufacturers are quite often found to revise the price which is a bad symptom in any business. Moreover, they can not take advantage of any such situation as they get latex and chemicals at high prices.

Therefore, it is high time, the Indian manufacturers took appropriate measures to face the existing competition. Improving plant efficiency, advancement in latest technology, reduction in loss of production, introducing innovative items, like silicon coated rubber thread, protein-free rubber thread, and food grade rubber thread are some of the few suitable promotional policies a unit has to look into.

It is felt that these promotional policies supported with short term Government protective measures like increasing of import duty will definitely help make the Indian rubber thread industry to become more efficient and competitive in the global market. ■

Another advantage of big units is that the new economic policy and reforms are skewed more in favour of the large and medium units. Foreign direct investment (FDI) is also becoming more appreciably in the large-scale sector. Capital also comes cheap for larger firms. They offset their higher wages and salaries by employing more capital-intensive technology for their process activities.

Small industries often fall sick due to lack of financial support. Many banks are said to be reluctant to lend to small units notwithstanding the guidelines of the Reserve Bank of India. Even the services of good professionals hardly ever are available to the small scale units. Most professionals with good track record now like to work only on big projects. Small investors also lack the capacity to hold their output for long and may sometimes act illogically and suffer loss as a result.

Table 2 **Turnout and dropout in rubber industry**

Year	Newly registered	Registered in SSI sector	Not renewed
1995-96	521	481	475
1996-97	462	425	473
1997-98	480	402	446
1998-99	374	342	357

It has been noted that registration of new units in the small sector has been decreasing during the last few years. Of the 521 new units registered during 1995-96, as many as 481 were in the small sector. The new registrations came down to 374 units in 1998-99 of which 342 units were in the small sector. The number of units that did not renew their registration or turned sick during the above period was 475 and 357 respectively.

A recent study by two eminent economists based at Mumbai reveals that medium-sized firms top league in performance than small and tiny firms which grow very slowly.

The Abid Hussain Committee's recommendation of 'cluster approach' (as clusters can enjoy the benefits of economies of scale) seems to be the appropriate strategy for the growth of small industries.

One can only hope that in spite of the many disturbing signals, the small and tiny units in the rubber industry will adopt tactical measures for survival in the years to come

Strategy

There are several things that investors have to take into account while setting up small in the rubber sector.

- They should preferably plan to run their units as ancillary or contract supplier to larger firms.
- They should understand the element of risk in the endeavour and keep off if the risk is too high.
- They may employ minimum permanent workers and work actively with out-sourced and part-time workers.
- The new entrepreneurs' accent should be on creating core competencies and development of human resources.
- As quality is important to an entry in niche markets, ey should aim at quality upgradation and minimisation of waste. Small units should come forward to establish jointly minimum testing facilities.
- Concerted efforts may be made by industry associations or institutions to set up laboratories and regional testing facilities, preferably in the areas where more small scale rubber goods units are clustered.

The paramount need in every industrial segment is to increase productivity, efficiency and competitiveness. One can only hope that in spite of the many disturbing signals, the small and tiny units in the rubber industry will adopt tactical measures for survival in the years to come.