



“CEAT Limited Q4 FY-20 Earnings Conference Call”

May 29, 2020



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MODERATOR: MR. HITESH GOEL – KOTAK SECURITIES LIMITED



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Moderator: Ladies and gentlemen good day and welcome to the CEAT Limited Q4 FY20 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hitesh from Kotak Securities Limited. Thank you and over to you sir.

Hitesh Goel: Thank you Steven. I welcome you all for the fourth quarter FY20 results conference call of CEAT Limited. From CEAT Limited we have the management with us represented by Mr. Anant Goenka, who is the Managing Director of the company, Mr. Kumar Subbiah, who is the Chief Financial Officer and IR Team led by Pulkit Singhal, Pulkit Bhandari and Shubham. I will hand over the call to Anant for his opening remarks and then we will open it up for Q&A. Over to you Anant.

Anant Goenka: Thank you. Good afternoon everyone, a very warm welcome to CEAT’s Quarter 4 earnings call. I am Anant Goenka and I have with me on the call CFO of CEAT Kumar Subbiah. First of all I hope you and your families are safe and healthy in the challenging times. This is really an unprecedented situation where no industry let alone company could have prepared for such a scenario and I think everyone is really trying to manage people, business as the best as they can. At CEAT our first and foremost priority has been the safety of all our people, whether its our employees, our customers, our suppliers, channel partners etc. Post the government announcement of the lockdown we too went ahead and shut all our production facilities and our employees have largely moved to a work from home model. During these times we have been also continuously engaging with our customers, suppliers and the community and this has really helped us strengthen our relationships further. We have been contributing very actively on the CSR front under the RPG Foundation umbrella by providing personal protection equipment, distribution meals to the needy, truck sanitization etc. amongst many other initiatives.

To share with you a little bit about Quarter 4 the year gone by, a little bit of outlook as well; I would say that for the last quarter actually march is a very critical month for most businesses and it’s not only a quarter end but also the year end. The lockdown had an impact more than 200 crores on our revenues because of closure in the last week of March. On a standalone basis our revenue for the quarter stood at 1524 crores, on a sequential as well as a year-on-year decline of 11%. The entire revenue decline was an account of volumes. Our gross margin for the quarter expanded by 180 basis points sequentially, this was on account of decline in raw material cost which on a per KG basis came up by about 2.4% sequentially and higher inventory levels at the end of the quarter. Our standalone EBITDA was at about 190 crores at a 12.5% margin and expansion of 280 basis points on account of higher gross margin and lower other expenses. Our PAT for the quarter was at 56 crores.



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Going on for the entire year's financial performance; on a standalone basis our full-year revenue was at 6581 crores, a decline of 3.7%. Our full year of volume was down by about 4.8% however it is partially set off by improved product mix. We will be putting a fair amount of efforts into expanding our foot print in the PC/UV category and this is largely led by high quality product offerings and improved presence with OEM and because of this our passenger car segment grew by 6.6% in volume terms. Post our TBR plant commissioning in Halol in February of last year, the category has seen over 20% growth in volume terms. But this year has been specially challenging for the two-wheeler industry, we saw growth on the replacement side led by scooters. Our gross margin expanded by over 200 basis points on account of favorable raw materials cycle and product mix. This coupled with lower expenses led to 138 basis points expansion in our full year EBITDA margins which stood at 10.7% for the year and our PAT for the year was at 271 crores.

Our Chennai Greenfield facility was inaugurated in this quarter in February by the honorable chief minister of Tamil Nadu. So due to current conditions ramp-up will take longer than earlier projected. At full scale this facility will add 28,500 passenger car radials per day and 2500 motorcycle radials per day to CEAT's capacity.

On the distribution front our commercial vehicle category has also been an area where we have begun focusing on. We have been setting up truck service hubs, they are located on highways and transit hubs and act as a one-stop shop for all CV related services for our fleet partners and truckers. During the current quarter we also entered into new models on the OEM front such as Hero Glamour Refresh, Mahindra Jeeto X Series, Tata Intra, Daimler The Basics Version, Compliant Truck The Piaggio Scooter etc. We have continued to focus a lot on our people and as a result we were ranked amongst the top 30 manufacturing companies in India to work for by Great Place to Work. I'm also proud to see that our people across the organization have shown great resilience and agility during these trying times. We are making concerted effort towards everyone's safety and to be in a state of readiness as demand picks up. We have resumed operations at most of our factories by following all safety standards and protocols with the ease and restrictions in lockdown we are gradually seeing a pickup in demand as well. However I believe it will take some time for demand to return to pre-COVID level.

We will continue to focus and monitor on our costs, our cash flows and balance sheet the tide over this challenging period. With this I will hand over the call to Kumar.

Kumar Subbiah:

Thank you Anant. Good evening ladies and gentlemen. Thank you for joining our Quarter 4, 2020 earnings call. I will share some further financial data points post which we can take Q&A. First I will cover revenue; our consolidated revenue for the quarter stood at 1573 crores, decline of about 11%, both sequentially as well as the year-on-year basis. The revenue decline was largely on account of lower volumes. For the full-year our consolidated revenue was 6779 crores, a decline of about 3%. Our gross margins for the quarter was 45.6% at a consolidated level and about 44.6% on a standalone basis. The gross margin expanded by about 180 basis points during

the quarter versus previous quarter, largely on account of lower raw material prices and increase in finished goods also have minor impact on the expansion of gross margins during the quarter. The net price realization remains more or less constant during the quarter. Now for the full year on a consolidated basis our gross margin stood at 42.2%, an expansion of about 210 basis points over the previous year.

During the quarter we exercised tight control over our operating expenses. For the post COVID19 lockdown our production and supply chain came to a halt, as a result our outsourcing costs, our distribution costs dropped proportionately and we also kept tight control on advertising cost leading to our other expenses declining by about 20% over the previous quarter.

I will now give you an update on EBITDA; improved gross margins I just now touched upon and lower operational expenses led to a sequential EBITDA margin expansion of about 220 basis points for the quarter. Our consolidated EBITDA for the quarter stood at 12.9%, highest in the recent period and our consolidated EBITDA in absolute value was about 203 crores for the quarter. As far as full year is concerned our EBITDA was about 741 crores and fully EBITDA margin in terms of percentage was 10.9%. As Anant mentioned we commissioned our Chennai Greenfield facility during the quarter and we also ramped up our Halol factory truck and bus radial further during the quarter, as a result our depreciation for the quarter went up by about 5.6%. For the full year our depreciation on a consolidated basis stood at about 277 crores, an increase of 43% over last year. The increase also includes some changes in the accounting standards Ind-AS leading to reporting after precision relating to our lathing activities.

During the quarter we also had exceptional cost of about 28 crores, largely relating to VRS for employees in one of our factories and about and about 16 crores of expenses we had provided relating to COVID. The COVID expenses is largely relating to sudden shutdown of our plants leading to some rejection of our stocks in the manufacturing process.

Now taxes; post evaluation of the recent changes and amendments in the income tax our view is that we will continue with the older tax regime and our tax rate for the year reflects the same. Our ETR that is Effective Tax Rate for the quarter was 14.4% as we had considered benefit of some of the R&D cost and also the impact of relating to filing of income tax return for the previous year.

Now let me give you some update on working capital; we continued our focus on improving our efficiencies in working capital during the year and also during the quarter, just to increase the internal accrual to fund our capacity expansion program. Our multiple initiatives helped us to bring our working capital at a consolidated level by about 294 crores, the amount would have been higher if without the impact of COVID as we ended up with little higher raw material and finished goods inventory and also receivable during the end of their financial year. Our consolidated capital expenditure for the quarter was about 205 crores.

During the year we also declared an interim dividend of 120% in the month of March and that led to a cash outflow of about 58 crores. During the quarter our debt moved up by about 39 crores. This 39 crores takes into consideration our capital expenditure and also the dividend. We ended the year with a consolidated debt of Rs. 1929 crores and with a healthy debt equity ratio of 0.66 and our stand-alone debt equity stood at 0.55. Our consolidated project capital expenditure for the year has been at 1105 crores level, out of our total planned CAPEX of about 3500 crores for CEAT standalone and another 500 crores stand for our speciality business, against the 3500 crores till date we have spent approximately about 2100 crores.

Now owing to the current environment we are working on reducing our CAPEX plans for the year 2020-21. Our current estimate of project capital expenditure for the year 2020-21 is in the range of 550 crores.

I just want to give you an update on in terms of what we are doing post COVID; for the business cash is become primary commodity to ensure business sustenance. We are monitoring our cash position every day very closely and regularly. Our top priority is to ensure timely clearance of payments to MSMEs, our employee cost, all contractual obligations and various vendors. We have been managing our cash needs efficiently and this has provided us elbow room in terms of the unutilized bank lines to draw in case of any exigencies. This is expected to stretch our working capital position in the near term. We are working on ensuring that there is enough liquidity through working capital and long-term arrangements with banks. Our focus is on rationalizing costs and deferring capital expenditure in order to preserve cash while also securing additional funding lines to ensure adequately could it be in the system considering the uncertainties.

We are also happy to share with you, during the quarter we were confirmed AA rating for long-term and A1+ for short-term with a stable outlook by the credit rating agencies. During the period in the month of March as well as in subsequent months, we didn't avail the benefits of moratorium and we discharge all our debt related obligations as well as stock credit relation obligations. With this I end my initial briefing. I now leave it for Q&A. thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus.

Ashutosh Tiwari: My first question is on the A&P expenses, if you look at over the last few years our A&P expenses have been quite higher than the other players and now probably over last two months period whatever we have looked into we have cut this cost. So is there any thought process that actually without that kind of higher A&P also we can manage going ahead as well and then probably structurally our A&P cost can go lower even after full things normalize over time?

Anant Goenka: No, I think our A&P expenses; we will continue to invest in the brand. There is no plan to curtail it, yes, if you were to take a period of the next few quarters where sales maybe on the lower side,

we may bring it down to the same level as a percentage of sales. But in general we will continue to invest in the brand and we don't plan to cut A&P as a percentage of sales in the longer term as well.

Ashutosh Tiwari: Over last one month and things are opening up slowly, how are you seeing the demand panning out and probably which segments are doing better and what level of earlier sales we are reaching after market?

Anant Goenka: So we are finding a good uptake on the farm side particularly, this is one segment because of good crops we are finding that farm is seeing a very strong year in concern. The other segments that are generally doing better is that out of the market we cater to replacement is the strongest, OE has barely begun to even pick up by this point of time. It is at dismally low levels, largely I think because of the supply chain challenges that they have faced. I would say amongst the other category of tyres, passenger has been relatively weak with commercial vehicle been somewhere a little bit better. Passenger largely weak as the lockdowns have opened up I think very often the dealer counters physically have not all opened and they have then opening over a period of some time, so as the kind of open up people will start coming in for passenger tyres. But in terms of order I'd say farm, followed by commercial vehicle and then the last has been passenger vehicle segment.

Ashutosh Tiwari: But two-wheelers better than PV?

Anant Goenka: Yes two-wheeler also has been quite positive; in fact I would say after farm I missed sharing that but after farm maybe the two-wheeler would be the next highest segment. A two-wheeler has been also quite positive also, I think with personal mobility now growing because of social distancing coming in two-wheeler has relatively better potential versus other categories.

Ashutosh Tiwari: If I look at subsidiary EBITDA like consolidated minus standalone EBITDA, it is almost like 10 crores and over last 7-8 quarters that number was not there that it was quite low and sales also have not increased much quarter-on-quarter, inside declined quarter-on-quarter. So is there any one-off there, why it is so high?

Anant Goenka: No, we are not seeing any one-off there. I think there the CSTL or our speciality tyre business has seen some uptick in my view. Here we have seeing highest ever sales on the specialty side and the losses that specialty tyre business was incurring has come down that is one big change that we are seeing in our subsidiary. Kumar would you like to add anything to this?

Kumar Subbiah: Predominantly that because the consolidated EBITDA also has few other subsidiaries. One more element that plays role is that the amount of finished goods that you carry with subsidiaries and the profit element is normally removed while doing a consolidation. So lower raw material prices, relatively better performance in CSTL and some movement in finished goods inventory, all three contributed to this and even at PAT level also you would see the gap between

consolidated and standalone has come down in the current quarter versus the previous quarter. So that EBITDA is also flowing into PAT.

Ashutosh Tiwari: It is quite on the higher side, I will take up maybe with the IR team later on.

Moderator: The next question is from the line of Joseph George from IIFL.

Joseph George: Anant you mentioned that CV is actually doing pretty well and maybe in the top 2 or 3 in terms of doing well. But how do you think about it from a full year basis, the reason I'm asking is because the headlines that we are seeing is that 70% of the trucks are idling and even after the gradual lifting of the lockdown I suspect that the total freight generation is in the economy and hence the capacity utilization of the fleet may not ramp-up immediately. So from that perspective how do you think of CV replacement demand through the course of the year?

Anant Goenka: My view is that in the long-term CV will be most hit. While right now it is there a cause during the opening up period very often if a dealer wants, a customer wants fleet tyre, the dealer will go, open his shutter or organize directly from the company delivery of truck tyres. Whereas in the case of passenger vehicles you will generally have a situation where somebody would go and drive to the retail outlet and if it is closed they will drive away or they will make a call and if somebody doesn't pick up they will not go ahead and buy. But CV has been hit quite badly, it moved directly or more proportionate to GDP, the beta levels in a way are higher with respect to CV and therefore I do believe that the passenger segments should outperform and in my view it will be farm, two-wheeler, passenger and then CV overall for the year. But clearly this month maybe even the next month we are seeing there is a fair gap between passenger vehicle and CV for now, shorter term.

Joseph George: The second question that I had was in relation to how you see input cost going ahead? You saw good benefit as far as the RM line is concerned this quarter and given that crude price etc. is falling substantially how do you see it going maybe into June quarter and the September quarter? June quarter I can understand you might have old inventory but maybe going into the September quarter how much more can RM fall?

Anant Goenka: Yes I think there will be a drop in RM going forward. As you said I think this quarter is whatever have to be purchased has been purchased, off-take anyways is very low and therefore to that extent the old raw material will be utilized for the longer period of time, maybe going onto July as well. But going forward there will be a drop. We have seen approximate basket I would say is about 35% or so in natural rubber, about (+) 50% will be crude derivative products and the balance will be steel and other products. So rubber has come down from about Rs. 130-135 per KG pre-COVID to about Rs. 115-117 per KG. Now crude we all know has come down from \$60 down to 30 and then it went substantially further down. But generally it's been hovering about \$25 or so. So to that extent we expect to see some drop while on the other hand we have

also seen some amount of rupee depreciation. But net of all of that we think our raw material prices will come down.

Moderator: The next question is from the line of Hitesh Goel from Kotak Securities Limited.

Hitesh Goel: Can you please quantify what is the impact of this inventory on your margins in this quarter? That's my first question and second question would be basically on the dealers and retailers. Anant can you please give us some sense, are they facing any challenges on the working capital front from funding perspective because the MSMEs are quite challenged right now, so just wanted to get a perspective from your side on the distribution side what is happening?

Anant Goenka: Kumar would you like to start?

Kumar Subbiah: I think earlier also we had explained in our investor calls, gross margin is nothing but selling price minus raw material cost and when we arrive at raw material cost any movement in finished goods value between closing stock and opening stock is adjusted in the raw material total cost of consumed and accordingly gross margin is arrived at. But when you arrive at the difference between closing and opening finished goods value, it has not non-raw material element also, so therefore in general whenever the finished goods inventory goes up assuming the cost remained same opening and closing, it will have appositive impact on gross margin and the reverse is also true when the finished goods inventory is down. So approximately about 40-45 basis points would be the impact of the finished goods inventory on the margins versus previous quarter.

Anant Goenka: With respect to my question on dealer margins and viability, we haven't seen any dealers going under in any way. There may be some financial stress that they are undergoing but in the tyre sector we don't see the kind of stress what you hear in the auto sector that a lot of them are closing down, they are in need of special help in any way. I think we will not get affected as a result of this and they will also be quite okay in our view. We have not had this challenge or we have not heard of this yet. Most of their sales or for at least the non-CV side is on cash, on CV is to a certain extent on credit but we have not had any challenges that we are hearing from them.

Moderator: The next question is from the line of Aryn Pirani from CLSA.

Aryn Pirani: I think you mentioned that there was some 200 crores of revenue loss during the lockdown, is that correct?

Anant Goenka: That's right, only for the last week of March.

Aryn Pirani: So if I were to adjust for that then on a YOY basis your revenues would have been largely flat is a very good outcome, so is that a correct way to look at it or am I missing something here?

Anant Goenka: I think until middle of March we were at a growth level between 5% to 10% kind of growth, so on a year-on-year growth for the Quarter 4 we would have been at a relatively good positive

trajectory. In fact I would say our Quarter 4 performance was quite a bit better than the previous quarter which was under some stress because of the entire auto slowdown etc. So it was a pretty dramatic turnaround of events that happened in the last quarter three quarters as a result.

Amyr Pirani:

So excluding COVID given that the OEMs were continuing to do to be weak anyways in the fourth quarter, where was the growth coming from entirely from replacement or you were gaining some market share on the OEM side?

Anant Goenka:

On the passenger vehicle side with OEMs we have grown very well, it's despite COVID because we have entered into new segments and they have grown as well, so I think that is one area. Farm segment saw some positive traction, scooter has been doing well. Even the last mile category which is the Tata Ace types vehicles have generally been doing better. Commercial vehicle also has been good. This is all in the replacement side, relatively quite a bit better. If you take out the COVID impact, they would have all been and that maybe 10% kind of growth rate ex COVID kind of impact on the replacement side and even the export segment showed relatively stronger numbers were it not for the COVID impacted it.

Amyr Pirani:

And my second question is on the working capital, over the last 2 years we have actually shown significant improvement and I think a large part of it has come from the improvement in the trade payable. I think you manage to increase your payment schedule, so given the COVID scenario and everything just wanted to get a sense is there any of the change, can you still continue to have the better terms with suppliers or some of these changing? Are they in a weaker position than you, are they bigger than you, if you can give some color it will be quite helpful?

Kumar Subbiah:

If you look at it, our raw material inventory we looked that all elements of working capital while bringing in some efficiency, so you will see reduction anywhere in engineering stores, many other items, our deposits. So post 31st of March what normally happens if payables are higher than receivables and when subdued level of operations payables will come down faster than receivables. So which means it will be adverse in terms of working capital since such time the normalcy returns, so we expect our working capital to move up in Quarter 1 during the period whenever operations are at a lower level and then once the normalcy comes you work towards recouping it back. So we don't expect any significant changes on our credit terms but however during the period like all of the April we did you buy any material. But however you will continue making payments for materials that you have bought earlier, so in that situation it will have an adverse impact.

Moderator:

The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services.

Jinesh Gandhi:

I have two questions; first is with respect to our CSTL merger what's the timeline and what's the kind of accumulated losses it has? And second question pertains to if you can share the volume growth for FY20 for various segments for you?

Kumar Subbiah: CSTL merger, NCLT has passed an order and the final hearing happened in the month of March. We were hoping to get that physical copy of the order for us to give effect of the merger in the reported financial statements. However only two days back on 25th evening was the time that we got visibility to the order but the signed copy is acquired and the next formalities that we have to go and file the ROC to complete the merger process. So therefore that is the timeline, normally it takes about 30 days. We still avoid the physical certified copy of the order. So the second part once the merger comes into effect we will have it consolidated in financial books, the effective rate would be still same, 1st of April 2019 and whereas we may give effect in the subsequent quarter unreported. That is what we are planning to do. I don't have exact numbers in terms of accumulated losses. Maybe I will take you later. Over to you Anant.

Anant Goenka: As far as our volume was for the year, year-on-year basis on a standalone was at about (-) 4.8% and at a value basis at we are at about 3.7% standalone.

Jinesh Gandhi: Would you be having segmental breakup, how bias there, how TVR there so on and so forth?

Anant Goenka: No, we don't share the category wise overall breakup. But just to give you approximate number, this is across all markets, our farm has been a very challenging year. So that is one area which is same slower growth whereas the passenger car, the two-wheeler segment has seen relatively better growth and within the truck segment as I shared truck radial saw (+) 20% growth kind of numbers however overall truck was in negative territory because of lower bias growth.

Moderator: The next question is from the line of Jay Kale from Elara Capital.

Jay Kale: My first question was regarding the CAPEX part, so you have cut down on the CAPEX in FY21. If you could just give us a broad break-up of where you have cut it and how would your capacities for different segments shape up over the next 1 or 2 years?

Anant Goenka: So we have largely cut our CAPEX by about 250 crores or so for this current year. We have planned about 750 crores. We brought that down to around 500 crores kind of level. It will not have any impact on our performance for the year because demand itself we expect to be relatively muted. So if we are expecting approximately some kind of negative growth then anyways we are talking about enough capacity and then we have some plants that came on stream, which were the truck radial, two-wheeler and passenger car. So we have enough capacity for the coming year as well as for the next 15-18 months is what we see, so no impact as such on business that will come in. The only business which there can be investments that will happen will be in the CSTL business. There we are seeing good traction relative to other businesses even now COVID time period. Our products have been very good; we are largely talking about the lower base. So there we will be doing investment on a kind of milestone basis. So as we reach certain capacity utilization level we will look at further investment. And there we have earmarked about 400-500 crores over a period of time.

- Jay Kale:** Your capacity ramp up phases that you had alluded earlier that will continue you are saying or maybe it will just get...
- Anant Goenka:** No, we have enough capacity in place. The question is ramp up will happen based on demand. We will be ready to ramp up if demand picks up but that is the big question.
- Jay Kale:** Any scope of further reduction over here, this is like the bare minimum that you will have to do in the current year.
- Anant Goenka:** No, this is what we will need to do about 500 crores in the year and if something comes up on the CSTL side. But approximately 500 is what I would look.
- Jay Kale:** How do you see the truck tyre replacement market going forward, specifically split between radial and bias given the current situation, do you see any change in growth rates between bias and radial, say bias outperforming radial just purely because of the economic situation or how are you seeing the customer behavior at least in the initial months?
- Anant Goenka:** No, it's too early to say. It's been barely 20 days since lockdown has opened up. I don't see a major change yet, at least I'm not seeing any data on a shift in mix between bias and radials yet. I mean one hypothesis without data is that will people down trade towards the lower cost bias tyre but I'd say it's too early to say yet on that, so tough to say but I do believe commercial vehicle market will be under fair amount of stress for the year.
- Moderator:** The next question is from the line of Siddhant Behera from Nomura.
- Siddhant Behera:** For just a clarification, so the CAPEX which you talked about of close to 550 crores, this is for the standalone or the consol entity?
- Kumar Subbiah:** It is on a consolidated basis but what Anant just now mentioned that we may have to spend additional CAPEX. That additional part has not been factored based on the current plant this includes that but very small portion of outsourcing has been considered here.
- Siddhant Behera:** So basically out of 4000 we have done 2500, this is another 550 so broadly 3000 crores of CAPEX is done, rest 1000 crores will happen over the next 2 years depending upon the demand, am I correct in understanding?
- Kumar Subbiah:** Let me just break this up for you; against 4000 tons we have done 3500 crores is for CEAT standalone and 500 crores is for CEAT Specialty business, against 3500 crores approximately about 2800 crores we've already spent for CEAT standalone and another 100 crores odd we have spent for CEAT Specialty. If you recall in the last quarter Anant had shared saying about out of the 3500 crores about 500 crores we would be spending beyond FY22. That's what we have shared. Now so against that balance of 3000 crores maybe about 500 crores, 400 crores odd this year and balance subsequently. In that 500 crores odd about 50-60 crores is what we have as of

now included speciality business, something more will be spent if the business achieves a certain milestone which is what we articulated.

Siddhant Behera: What will be our general maintenance CAPEX, is that included in this or that is separate?

Kumar Subbiah: No that is separate; approximately we spent about 150 crores. In the current conditions we may spend much lesser.

Siddhant Behera: But after this capacity general 150 crores is the maintenance CAPEX which we will do?

Kumar Subbiah: Yeah in that range is what we normally expect.

Siddhant Behera: On the RM side if we see it resemble our peers results some of the companies did not see that much of benefit, if you see the commodity costs also, natural rubber and crude prices where on a QOQ basis have not corrected that much. So what has led to this sharp correction in commodities, which commodity if you can highlight?

Kumar Subbiah: Are you referring to Quarter 4?

Siddhant Behera: Yes Quarter 4.

Kumar Subbiah: No, Quarter 4 the reduction if you look at gross margin, expansion is approximately about 200 basis points and that's what we have said and large part of that expansion has come from lower raw material cost and some impact of on account of finished goods inventory movements is what I said, so that is the impact on raw material cost. Approximately 40 basis points is the impact on account of finished goods movement, balance has come to a lower raw material cost.

Moderator: The next question is from the line of Nishant Vaas from ICICI Securities.

Nishant Vaas: So wanted to check on the industry competitive structure, so you alluded to the fact that CV would be probably lagging in the rebound cycle and looking at the industry structure in terms of incremental capacity addition plus looking at some of your peers which are not as comfortable on the balance sheet side as you are probably, what do you think will be competitive intensity look like, do you think there will be a situation on pricing being more better or do you think probability will change capacity utilizations and you could see an increase of that size? And probably also think about imports and kind of your thoughts around how that would play out?

Anant Goenka: I think very difficult to give an answer to that. The competitive intensity is likely to remain similar in that sense. In my view import is unlikely to go up; countries are getting a little bit more and more protective. We are seeing duties being imposed across categories including tyres over the last 2-3 years. So I don't see an increased competition from imports coming in. With respect to domestic I don't see any new players coming in our in that sense, with respect to

pricing behavior there is no way to predict what will happen. Clearly we do believe raw material pricing will come down in Quarter 3 or Quarter 2 but can't say what will happen to pricing.

Nishant Vaas: But are you seeing any from trends on replacement markets, initial trends of those pass throughs happening?

Anant Goenka: No, not at this point of time in the replacement side. On the OEM side it is anyways lot of the contracts are formula driven, so to that extent the OEM prices will adjust automatically with a lag.

Moderator: The next question is from the line of Sonal Gupta from UBS Securities.

Sonal Gupta: Could you give us a sense of one, broadly what is the TBR portion in your revenues and secondly in terms of again CV capacity now, I mean TBR and TBB capacity now and what is the current level of utilization? I mean current level as in FY20.

Anant Goenka: The truck radial capacity utilization would be at about 65% to 70% level because we just set up a new capacity and that takes some time to kind of ramp up. As percentage of our sales truck radial would be at about 15% or so of our sale today.

Sonal Gupta: And what is the total TBR capacity?

Anant Goenka: Total truck radial capacity we did an investment initially off about 80 tons a day, we did a 120,000 tyres at full capacity.

Sonal Gupta: Monthly?

Anant Goenka: Per month that's right.

Moderator: The next question is from the line of Basudeb Banerjee from Ambit Capital.

Basudeb Banerjee: Just wanted to understand as Kumar sir said 3500 crores CAPEX was standalone plus 500 so out of 4000 crores, roughly 2200 crores has been done, right?

Anant Goenka: Yes.

Basudeb Banerjee: So residual 1800 crore, so you are planning to do 500 crores in FY21, so beyond that again hundred crores will be left and Anant sir said that that will be taken as per the demand outlook because you have enough capacity, so it might be wrong to assume full residual 1300 crores CAPEX in FY22, will that be right?

Anant Goenka: Yes.

- Basudeb Banerjee:** To understand where a significant part of various types of rubbers and other input commodities are also imported typically, so under current circumstances are you facing any challenges and any cost escalation because of imports of raw-mat?
- Kumar Subbiah:** We are not facing any challenges. Only challenge that we faced was when the lockdown was announced we were not sure in terms of what to do with the scheduling of materials. But otherwise and we also faced some challenges in terms of clearing materials from the ports because ports after a point in time became very congested. But no other challenges that we are facing with respect to any additional cost.
- Basudeb Banerjee:** I just missed, you perhaps mentioned, overall approx what was the volume growth in this quarter and fiscal '20 as a whole?
- Anant Goenka:** Our volume growth was at about (-) 10% approximately for the quarter. Let me just come back to you on the number, so they will be (-) 11 or so.
- Basudeb Banerjee:** For the year approximately 3%?
- Anant Goenka:** For the year volume was down by about 4.8%.
- Moderator:** The next question is from the line of Ronak Sarda from Systematix.
- Ronak Sarda:** My first question is on the supply chain side I mean in terms of production capability where would we have been right now and when do we feel we will return to let's say pre-lockdown levels if there is demand, are we facing any issues from the vendor-end or from the labor-side?
- Anant Goenka:** What is your first question, sorry?
- Ronak Sarda:** So on the supply chain side, in terms of our production capability when can we reach the pre-lockdown level if there is demand in that sense, are we facing any challenges on the vendor- side or on the labor-side?
- Anant Goenka:** So, on the supply chain side we are not facing any challenges. Supply chain means from the raw material network we are not facing any constraint. With respect to our own plants yes there are some initial challenges that we are facing, for example in some cases your family is not comfortable to let their children go out and go in a large people environment, sometimes landlords are not allowing it, sometimes they are living in containment zones our people in the factory and so they cannot travel. There are also sometimes challenges with respect to e-passes, sometimes when you are crossing districts particularly in Maharashtra, we need to have an e-pass to show that you are medically fit for work and if you are in those are challenges, so there are challenges. We are not having a migrant labor issue where people have gone back home but these are natural issues that we are facing at this point of time to get our own permanent workers into the factory. We have also been paying our contract workers, so these things will take some

initial time for the fear to settle down and we feel confident that it will go up, this will improve over time. I think people will begin to get comfortable; right now there is a fair amount of hype. But that's a constraint that we are facing in our factory side. For us to go to pre-lockdown levels I think this is a big guess, I think this year, whole year is going to be extremely uncertain. We never know how the virus will react and therefore if cases go up will there be further lockdown, how frequent, will it be restricted to containment zones only or red zones as they say. So I think it's so unpredictable that it's really difficult to predict but if I were to hazard a guess I think for things to go back to normal will fall in a year's-time.

Moderator: The next question is from the line of Chirag Shah from Edelweiss Securities.

Chirag Shah: Just one clarification on the CAPEX, so is it right to make a statement that the bulky nature of CAPEX is behind and incrementally your CAPEX and cash flow would largely been safe because last 2 years, our CAPEX was far higher than our annual cash flow, operating cash flow, is that statement correct because the nature of CAPEX is also changing while?

Kumar Subbiah: If you look at our operating cash flow and if you divide that into two; cash profit and then cash that you generate from working capital movement, broadly if you were to divide into two, there has been equal amount of contribution from both. So therefore last 2-3 years that has been happening so almost two-thirds of the CAPEX we have spent on the standalone basis almost, not two-third may be little less than the two-thirds of the amount. So if your question is that, I have not understood your question so...

Chirag Shah: What I'm saying is when you look at our cash flow, cash flow from operation and when you look at the CAPEX amount it used to purchase fixed assets. That amount has always been reasonably higher than your operating cash flow. Going ahead can we make an assumption that the incremental CAPEX what you do will not be that bulky in nature or there is still amount of CAPEX which is less as a result of which your free cash flows can be negative, the way it has been seen in F20 or F19?

Anant Goenka: We are not setting up any new plants at this point of time. Whatever had to set up has been set up, now it is about further expansion. The kind of capacities that we had projected was quite high and therefore even the lesser half of the plant which means say the downstream machinery etc. that had to come was still relatively expensive and high value. So that is still in a way we need to spend to reach that capacity that we had planned. The advantage is that some of it can be deferred if demand is relatively low but yes I agree with you that we will not go into very large but broadly our plan is still to look at spending the kind of numbers we have projected, it may take a little bit more time.

Chirag Shah: Just one last thing on the margin outlook or EBITDA per ton or gross profit per ton outlook, would it be right to assume that given the ramp up on the radial front and as well as some of the

new capacities, the demand would be more towards replacement side and hence per ton based profitability would be reasonably good versus last 2 years?

Anant Goenka:

I think that could be there but on the other hand my view is that I agree that the market mix should improve because replacement would be higher but capacity utilization will be a challenge so let's see how demand picks up. So overall if you are talking about your negative kind of demand situation your cost base also is going to be a little bit on the higher side while your value addition may grow, you are still incurring the cost which you were at a higher sale level.

Moderator:

The next question is from the line of Pritesh Chedda from Lucky Investment.

Pritesh Chedda:

I have two questions, one any changes that you see probably in a replacement life-cycle behavior if any and also if you could drill down on CVs within that? And there are few reports which also tend to mention that non-usage of cars and two-wheelers for a longer time actually hardened the tyre, so there are two contradictory informations which we are getting, so any color which you can throw on the replacement behavior change, better or not better whichever way you think it will pan out?

Anant Goenka:

I think the replacement behavior change as I see there will be segmental changes to a certain extent where people will say for example for autos they would down trade their brands; so if they are buying a higher level car they may go in for maybe the next level because of wealth erosion. Two-wheelers as I said will do better because of social distancing. With respect to buying behavior there will certainly be certain behaviors in terms of the retail experience may be where you are talking about say no touch billing, how will hygiene, cleanliness, maybe home delivery, some of these things can pick up over time for at least the passenger vehicle segment, so these are some changes that we see. On hardness on tyres, see one is that the lockdown, it's been 60 days; to that extent I don't see any change or impact on tyres as such happening. There can be a delay in purchase of tyres at this point of time again as people try and protect their wealth to a certain extent and delay any discretionary purchases that they would have liked to do. On the commercial vehicles side, I think demand itself is low, there are a lot of challenges that truckers are facing. One of them when I have spoken to a lot of fleets with the availability of drivers, lot of drivers have rushed home and in the longer term will they come back to the profession itself is a big question mark. That is fundamentally the biggest problem, the other challenge that truckers face was during the sudden lockdown a lot of trucks were left stranded in locations outside of a base location for them. So either the drivers had just left the truck where they were and kind of gone away and retrieval of trucks etc. was another challenge that they faced at this point of time. Utilization levels of fleets are—as of about 15 days ago when I was speaking to customers would be—anywhere between 15% to 30% levels at this point of time. So to that extent movement of goods etc. also has been very low but people were relatively optimistic that things will get better and since everyone was in the same boat people were trying to tide-over this. That's a little bit of what I can share I'm not sure if I have answered all your questions.

- Pritesh Chedda:** It's well articulated I was looking for that answer.
- Moderator:** The next question is from the line of Nitin Agarwal from JM Financial.
- Nitin Agarwal:** Can you elaborate a little more on what are we doing to rationalize the fixed cost including the staff cost and how sensitive are we towards the operating de-leverage due to the lower utilization?
- Kumar Subbiah:** We have taken up multiple initiatives and (we have not) while fixed cost is fixed in absolute value, variable cost is fixed per KG of production. So therefore but we are not taking any of them at face value so we have initiated multiple initiatives in bringing down all key costs. We have taken up initiatives to renegotiate some of our fixed cost. We are questioning every element of cost and taking a zero-based approach to bring down cost, so we are questioning whether we really need so many CFAs, DCs, we are questioning whether we need to undertake travel, discretionary cost we have kept at to a barest minimum. We are questioning every cost relating to consulting and OPEX related expenses. As an organization team we have put together some cross functional teams, we identified some areas to bring in efficiencies, to reduce the poor quality and also leveraging current opportunities to reduce various cost. So internally we are working on plant to reduce fixed cost at certain numbers so that our breakeven point comes down. We have launched a new scheme to identify new opportunities through cost functional teams. Many of them we have got some update from the functional teams and we are working on it; not that we started only in the month of April, if you really observe even Quarter 4 you would have seen some drop in our operating expenses. So that exercise is going on, it's getting some momentum now and we hope to keep our cost under check during the balance part of the year.
- Moderator:** The next question is from the line of Bhaskar Bukrediwala from ASK Investment.
- Bhaskar Bukrediwala:** You mentioned that the PV demand has been fairly good and you have seen good traction, just wanted to understand on the replacement side of PV how are you seeing things happening both at the industry level and what sort of traction are you seeing for yourself?
- Anant Goenka:** So PV demand has been strong for us for last year. As I said in the month of May it has been relatively worse because post-lockdown it is largely the farm segment and commercial vehicles that has done a little bit better; so just to clarify that last year for PV was a little bit better led by higher growth on the OEM side. Replacement also was relatively good for us because of new products that we have launched and we have been continuing to focus on our brand, on our distribution. So to that extent passenger car radial has also been positive, if you take out the COVID effect, post-COVID everything kind of moves into challenging situations.
- Bhaskar Bukrediwala:** So in terms of outlook, given that the lockdown is more, still prevailing in metros and larger cities where the PVs are most prevalent, do you think that PV replacement will take far longer to recover?



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Anant Goenka: Very difficult to give a prediction on this I mean to say that whether it will take more time. I think it will take, May was particularly weak because of the just lockdown opening up at this point of time, I will say that but the uptrend that we will see will be better in PV over time. So I do agree with that comment but yeah difficult to give numbers but I would say yes, we are seeing say CV at a higher level, I think in a couple of months-time passenger vehicle should catch up and maybe exceed the growth rate of CV.

Bhaskar Bukrediwal: And just one last question on the similar front, in terms of your market share in the PV replacement would you have gained market share last year as per your understanding, assessment?

Anant Goenka: Yes we believe so, we would have gained to a certain extent, we were little bit short on capacity until end of December. It was in February that actually unfortunately that our plant just came up before the lockdown which would have unlocked some amount of capacity for us but yes, we are certainly on a positive market share growth trajectory in the passenger vehicle side.

Bhaskar Bukrediwal: What sort of market share you believe you are currently at end, what is your aspiration let's say 2-3 years down the line?

Anant Goenka: So we would be at about close to between 10% -11% kind of market share. We would certainly be looking at; this is going to be go for us because we believe distribution and brand are our strength. So at least a 5%-7% kind of growth over a period of time is what we are looking at focusing on.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Mr. Anant Goenka for closing comments.

Anant Goenka: Great, thank you all very much for your interest in CEAT and your time as well. I hope you all continue to stay safe and well and healthy and your family does well and look forward to catching up with you once again next quarter. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Kotak Securities Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.