"CEAT Limited
Q1 FY2022 Earnings Conference Call"

July 22, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the CEAT Limited Q1 FY2022 earnings conference call, hosted by Motilal Oswal Financial Services 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. Jinesh Gandhi from Motilal Oswal Financial Services Limited. Thank you and over to you Sir!

Jinesh Gandhi: Thank you Malika. Good afternoon everyone. On behalf of Motilal Oswal Financial Services, I would like to welcome you to Q1 FY2022 post results call of CEAT Limited CEAT is represented by Mr. Anant Goenka, Managing Director, Mr. Kumar Subbiah, Chief Financial Officer. We would like to thank the managing for taking timeout for this call. I would now hand over the call to Mr. Goenka for his opening remarks. Over to you Anant!

Anant Goenka: Thank you Jinesh and good afternoon everyone. A very warm welcome to CEAT's Q1 earnings call and thank you all for your time and interest in CEAT. I am Anant Goenka and as Jinesh said, we have a CFO of Mr. Kumar Subbiah on the call with us. I hope first of all, all of you are safe. It has been a very challenging time over the last quarter for many of us and our families and friends. So hope you are all well.

As usual we start off with brief remarks from me and Kumar post which we can take up questions.

With respect to financial performance as we exited Q4, we witnessed fall in domestic demand towards the end of April because of the COVID second wave and several localized lockdowns which happened as a result all across the country. As a result May was significantly impacted, but by mid June, we started seeing some green shoots in replacement demand. While OEM and exports were washout during Q1 of the last year, sales were relatively better this year.

On a standalone basis, our revenue for the full quarter stood at Rs.1898 Crores, a year-on-year growth of 70%. Sequentially, our standalone revenue declined by 16.7% in Q1 which was partly aided by about 4% improvement in overall realization offsetting the decline of 21% in overall volumes.

We saw close to mid single-digit sequential volume growth in exports. OEM volumes declined by around 30% while replacement volumes declined by around 20%, sequentially. Trends were more or less similar across product categories. Our standalone gross margins continue to be adversely impacted by rising raw material prices and an adverse channel mix. Our material cost on a per kg basis went up by about 12% sequentially. As company margins were under pressure due to rising raw material costs coupled with intermittent lockdowns, we took the conscious decision of reducing our marketing and other discretionary expenses in Q1. This along with other cost saving initiatives helped us manage our overall costs despite ongoing ramp up in capacities.

Our, standalone EBITDA margin for the quarter was at about 8.7%, a sequential contraction of 250 BPS. We ended quarter with a standalone PAT of Rs.20 Crores. Raw material prices remained at elevated levels. We continue to take staggered price increases to offset this impact.

As a result of our consistent efforts to provide a better work environment for our people we have been recognized as the top 35 best places to work by Great Place to Work Institute yet again. We have also continued to add some digital features for our customers and dealers and some of these include image analytics and warranty registration, WhatsApp engagement for various customers as people are using WhatsApp as a preferred channel and pick up at the store and home fitment of tyres as we work towards developing an omnichannel offering for our customers.

We also continue to work with our OEMs in building long-term relationships. During the quarter, we partnered with Olectra's EV business and Okaya's EV scooter. Some recognitions that we got were Best Performer for Extended Support by Hyundai. Also, our Fleet Solutions Business received an award on Mint Business Transformation Award from Mint.

Recently, we also tied up with Tata Power to setup a 10-megawatt solar plant in Maharashtra for our Bhandup plant's power requirement. This is a step towards our goal around sustainable energy. We have committed to solar power for all our plants with either open access or rooftop and we are targeting to meet 50% of our energy needs through renewable resources by 2023.

Our Nagpur, Halol and Chennai plant buildings also received the Indian Green Building Council Recognition Platinum certificate. CEAT also continues to be conscious of the safety of everyone around. We extended our support in all ways possible including initiatives like donating oxygen concentrators, holding vaccination drives for our people as well as the communities and also setting up fever clinics in rural and semi-urban Maharashtra. It is good to see the second wave finally declining and we hope things get better going forward.

With this I would like to hand over the call to Kumar Subbiah, our CFO.

Kumar Subbiah: Thank you. Good afternoon ladies and gentlemen. Thanks for joining our Q1 earnings call. I will share some further financial data points with you all post which we can enter into Q&A session.

First revenue, our consolidated revenue for the quarter stood at Rs.1906 Crores, a sequential decline of 17% but year-on-year growth of about 70%. Sequential decline in revenue was largely due to impact of COVID second wave.

Now gross margin and also some update on price hikes with a rise in raw material cost, gross margin adversely moved during the quarter and contracted sequentially by about 306 basis points and our gross margin stood at 39% in Q1.

The raw material costs have been increasing consistently and significantly in the last three quarters. The increase in the raw material prices during the Q1 was 12% and consequent to increase in our raw material cost with took price increase of our tyres to the tune of 3% to 4% across categories during the course of Q1.

Going forward in Q2, we expect raw material cost to further go up to the tune of about 3% to 4%; however, the price increases that we have taken till date are not sufficient all the increases in raw material cost and therefore we still need to take some more price increase in the current quarter to recover the impact of raw material cost increases.

Third, some update on debt, capital expenditure and working capital, our consolidated debts increased by Rs.368 Crores during the quarter as a result of higher level of capex in Q1 and also increase in working capital. Working capital during Q1 increase by about Rs.236 Crores primarily on account of hiring inventory as at end of the quarter and also decline in payables.

As far as capex is concerned, we incurred project capex of about Rs.182 Crores during Q1 and in addition we also spent on another Rs.39 Crores on some of the long-term cost saving and energy saving related capital proposals. Our project capex for the current year remains in terms of forecast as we had indicated in the earlier quarter to the tune of about Rs.1000 Crores and in addition to that we would also spend about Rs.150 Crores to Rs.175 Crores of routine and maintenance capex.

Next, I move onto operational expenses and EBITDA we have been able to control our operating expenses despite ongoing ramp up of capacities at different locations. As a result of several cost saving initiatives, we undertook cost control measures during the quarter, on account of that we have managed to bring down our other expenses to the extent of 23.2% and also employee cost to the tune of about 4%.

Our consolidated EBITDA was Rs.173 Crores in absolute sum and in terms of margin as a percentage 9.1% for the quarter, and EBITDA margin contracted by about 265 basis points sequentially, lower than contraction and gross margin and largely on account of larger control on our costs.

Depreciation and interest cost, depreciation cost went up from Rs.90 Crores in the previous quarter to Rs.96.5 Crores in the current quarter on account of capitalization of assets in our new projects and interest costs moved up from Rs.40 Crores to Rs.46 Crores on account of increase in debt during the quarter.

Profit after the tax as Anant indicated stood at about Rs.20 Crores on a standalone basis and Rs.22 Crores on a consolidated basis and our effective tax rate for the quarter works out to 28% and tax rate is likely to be in the range of 26% to 28% during the year.

Now let us open the floor for Q&A. Thank you.

Moderator: Thank you very much. The first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: So firstly can you just tell us what kind of price increase you have taken across different segments like two-wheeler, passenger car, truck and all from December till June and has there been an increase in July so far?

Anant Goenka: I think I will share with data from April approximately onwards. Broadly it has been quite consistent across categories between April 1 to current levels, it has been around 5% price increase that we have taken, about 4% in Q1 and about 1% to 2% in July as well. I would say truck bias has been slightly higher may be a percentage more, but largely across the board it has been between 4% and 6%.

Ashutosh Tiwari: The price increases that we have taken in July that is from July 1, 2021?

Anant Goenka: Around middle of July.

Ashutosh Tiwari: That is which segment Sir?

Anant Goenka: I think this was also largely across all segments that was taken. Kumar would you have that data for July which segments?

Kumar Subbiah: I have. Effective July we took on a last mile radial tyres, PCUV from middle of July we took and from early July some other categories.

Anant Goenka: We also expect to take some price increase end of July as well.

Ashutosh Tiwari: That could be in the range to 2% to 3% or lower?

Anant Goenka: That is right 2% to 3% end of July is what we have announced.

Ashutosh Tiwari: We were told that on Q-on-Q basis the RM prices is likely to go up by 3% to 4% and some of the price increase that we have taken till June of say 4% probably had come through in June month itself so till date, whatever price increases we have taken in say last quarter and July so far, what will be the incremental impact in Q2 leave aside give or take?

Anant Goenka: We still do need to take some more price increase. As we saw there was about 12% plus say another 4% raw material price hike so we need to take about another 4% to 5% price hike from now onwards to come back to normal margin may be say about if you say 10% to 12% is normal we need to take that much more.

Ashutosh Tiwari: Secondly, on this interest cost element, it was around Rs.45 Crores in this quarter. Going ahead do we expect further increase in debt from here because I think operationally things will normalize from 2Q so, the debt can further go down from here?

Kumar Subbiah: The debt level this year compared to last year, last year our capex was kept under control, total project capex was around Rs.460 Crores only last year and this year around we intend to take it up close to Rs.1000 Crores so that could be one and therefore that needs to be funded in the form of debt and second could also be working capital will also have to go up keeping in pace with the level of operations so we expect the debt level to go up in the course of the year and therefore will have some impact on the interest costs.

Ashutosh Tiwari: Even from Q1 levels you expect working capital and debt further to go up?

Kumar Subbiah: No. Working capital let us assume we should be able to maintain at the level at which ended the quarter as of Q1 so but we still have against Rs.1000 Crores of capex we spent a little less than Rs.200 Crores only in Q1 so balance will have to be spent and this year we will also have a dividend outflow. Last financial year we did not have because the previous year we had dividend payouts, two payouts in the previous financial so therefore there will be dividend payout which we expected to be around Rs.74 Crores approximately so those things will have to be taken into consideration and plus the cash profit part of it so debt will go up during the course of the year.

Ashutosh Tiwari: Thanks. All the best.

Moderator: Thank you. The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Thanks for the opportunity Sir. On the demand side first if you can highlight from Q2 have we started seeing growth on the volume side around 9% to 10% type of, I mean at least some growth because we have said that June we have seen a good recovery so do we see panning out going ahead, some thoughts there?

Anant Goenka: We are seeing good uptick from the market in terms of approximately I would say they will be similar levels to last year post wave 1 impact so if you look at H2 kind of numbers, we are going back to that kind of normal levels of sales in that sense. We are seeing a higher uptick in the passenger car and two-wheeler segment; truck may take a little bit longer right now uptick is higher in these two categories.

Siddhartha Bera: Just to summarize on the pricing part so we took 1% to 2% hike in July and we think another 2% to 3% hike should happen by the month end so as to neutralize most of the cost increases so is it broadly correct?

Anant Goenka: I do not think it will neutralize entire cost increase. I think what will happen largely will be, we will still need from now onwards I think we have couple of percentage points planned in end of July, we will still need at least another 3% price increase between say August-September kind of period to neutralize the price increases.

Siddhartha Bera: I mean in terms of segments in the past we have seen in some segments like two-wheelers we have not been able to raise prices to the extent required I mean going ahead, do you see anything of that sort of in any segment where competition may not take price increases or there is high competition should not lead to such price increases any risk to that you see?

Anant Goenka: Right now we are seeing quite a fair even increase across categories. The only category where we are seeing a little slower increase is on the scooter segment which may be planned at the end of July, otherwise all categories are may be percentage point here up and down so some may be 4, some may be 5, some may be 6 but as I said it is not a big difference between the various increases that we see. Scooter there was a last price increase sometime in Q4, this last quarter there has been no price increase in scooter.

Siddhartha Bera: Lastly Sir on the OEM replacement mix if you can share for the quarter that will be my last question. Thanks.

Anant Goenka: Replacement was around 55%, OE was around 25% and export was around 20%.

Siddhartha Bera: Thanks a lot.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.

Basudeb Banerjee: Thanks Sir. Just few questions on the last aspect only, as you said that some price hike in the beginning of July, some more price hike in July and some more in coming months to neutralize, am I right Sir?

Anant Goenka: Yes.

Basudeb Banerjee: Just wanted to understand that post neutralizing, what is the target level in terms of gross margin which you are benchmarking?

Anant Goenka: Kumar, would you like to share it?

Subbiah Kumar: If you really look at our gross margin trend past many quarters, it has always been in the range of 40% to 42%, the quantum of revenue played a role in terms of EBITDA margin as a percentage, during the last quarter I think our gross margin was 38% if you adjust for inventory difference it could be little lower also, I think our target is to go back to that level of 40% to 42%.

Basudeb Banerjee: Basically 58% are into sales or roughly 400-basis points of **improvement**?

Subbiah Kumar: Only clarification, these increases are happening at different points in time may be we will exit at some level for the full benefit to come, you have to wait for the following quarter, these increases will benefit, at the end of the quarter if these price increases happen we would exit at that level assuming raw material stays at the level at which we had forecasted and the price increase happens, but in next quarter is when you would be able to see that.

Basudeb Banerjee: Kumar Sir like in entire industry in this kind of scenario how to look at that from a percentage perspective or from per kg benchmark gross profit per kg kind of perspective one should be targeting as such?

Subbiah Kumar: From our point of view, we look at both and since your question was on percentage and therefore we responded, but for us both are important, but the percentage understanding helps because EBITDA is always of percentage and therefore from there onwards when we arrive at EBITDA it helps but when we take pricing decision when we understand the cost particularly raw material cost or realization, we look at the realization and RM cost in terms of per kg basis.

Basudeb Banerjee: Surely because as you said 12% Raw MAT basket inflation then further 4 -5%, so the denominator inflation is so much that even if you try to maintain gross profit per kg, the percentage margin might look deflated?

Subbiah Kumar: That is true, particularly if you only were to recover the increase in cost while we would have got the same gross margin per kg, but gross margin as a percentage would decline, so it is important for us to balance both.

Basudeb Banerjee: Two more questions. Second, the kind of price hike which Anant Sir mentioned since Q1 and Q2 combined especially the truck replacement price hike which hardly happens such a quantum of price hike in such a short time span, so how are you seeing market accepting that or that can result in subsequent discounting etc., overall as such?

Anant Goenka: At this point of time, as I said we are seeing fairly decent growth. The challenge is, there is a slower increase in demand in truck segment. Now that could be partially there is monsoon season in part, there is fair amount of price hike that has happened and there is also some changes in overloading norms in the east, now mix of all these reasons could be causing a slower uptick in truck, but other segments we are seeing largely demand to be okay. As I shared, I shared only the truck bias, truck radial has been lower at about 4-4.5% price hike.

Basudeb Banerjee: Last question for Kumar Sir like in this challenging times in terms of margin and adverse raw working capital and overall cash flows and capex requirement is also high, so it is now almost what five years you have done secondary market raising, so any consideration of taking that path?

Subbiah Kumar: Anant will only respond to this question.

Anant Goenka: No plan at this point of time. If there is a need at that point we will share, but there is no discussion consideration of going to the secondary market.

Basudeb Banerjee: Thanks.

Moderator: Thank you. The next question is from the line of Rishabh Duggad from CD Equisearch. Please go ahead.

Rishabh Duggad: Sir, my first question is in the replacement market segment, what would be the catalyst of business growth in this specific area moving ahead?

Anant Goenka: I did not understand the question clearly.

Rishabh Duggad: Okay, let me repeat it again. Sir, my first question is in the replacement market segment, what would be your catalyst for business growth in this specific area moving ahead, I mean in the replacement market segment?

Anant Goenka: Catalyst for growth I would say bounce back of largely macroeconomic indicators, going back with mining activities reviving, industry reviving, generally industry is doing well with a fair amount of cash in the market, commodity companies are doing extremely well, so with some of these things happening and the COVID wave coming to an end, I think that is what will result in increased demand for at least the commercial vehicle segment. With respect to personal mobility, there has been some hit in the rural segment and so again with the wave going over, hopefully people going back to buying cars, two-wheelers and demand for personal mobility also going up during this period, so we have these catalysts that I see for demand going forward.

Rishabh Duggad: My followup question is that that in this replacement market segment, what is the one thing that you are most focused on this specific year?

Anant Goenka: In the replacement market, most important priority category will be the passenger car segment. We are looking at winning in the passenger space where we have already established a very strong equity in two-wheelers, we are leaders in the segment whereas passenger car, there are lot of synergies between the two, whether it is distribution, brand equity and so on, so this is the big area that we are looking at focusing and gaining market share and driving growth. We are seeing great traction post wave two in the passenger car space. Last year also we gained market share and that will be through OEM presence, through increased distribution and new range of tyres that we are launching.

Rishabh Duggad: That is it from my side.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Thanks for the opportunity. First, a housekeeping question. One, can you indicate what is your total volume growth Y-o-Y or decline sequentially and average effective price hike, because we have taken a staggered price hike during the quarter, so what is the effective price hike for the quarter that has been done?

Anant Goenka: Sequentially, we showed negative 20% growth; year-on-year we grew by about 70%.

Chirag Shah: At aggregate level right?

Anant Goenka: Quarter one, yes.

Chirag Shah: Effective price hike that has been taken in the quarter given the staggered nature of price hike that we have done?

Anant Goenka: We take it on overall price hike of about 4%; effective price hike maybe I do not have the number may be about 2.5%. Kumar, would you like to answer in case my data is not correct?

Subbiah Kumar: 4% is the net realization improvement in Q1 versus Q4, to be precise 3.8%.

Chirag Shah: So effective price hike is 4%.

Subbiah Kumar: Yes.

Chirag Shah: There would also be an element of mix in that right?

Subbiah Kumar: True, there is an element of mix. I think all put together 3.8% price growth. We do not have the breakup of impact of price versus mix and balance is volume.

Chirag Shah: This is helpful. My second question is on demand in general, so versus OEM's indication how are you looking at generally you prefer yourself over OEM guys or you have your own intelligence and either overstock and understock yourself for the demand burst, on the OEM demand I am referring to and where are you today in that assessment versus what OEMs are indicating to you?

Anant Goenka: OEM does give us an indication for their demand. For replacement of course we know what is happening in the market. We work on a full system in replacement market. So if there is pull for the product, we will produce accordingly. There is no pull we do not produce whereas OEM they give us an indent, they give us an indication of how things are looking, are they going to close their plants for a few days in the month and so on, so forth and so we plan accordingly. In terms of preparedness, there is no issue, all our plants are running, so it is a matter of just producing more for their demand and we have sufficient upside on capacity, so we are fully ready in terms of demand.

Chirag Shah: My question was that when today OEM is indicating that for next month say August month, do they want to offtake x unit, are you prepared for x unit, are you preparing for x plus something based on your reading of general demand?

Anant Goenka: No, what they give us we are prepared for that, but we have enough capacity as I said, so it is not difficult, unless we are short on capacity because of demand across all categories or all markets being high, it is a different situation, but otherwise it is very easy to take up capacity. Today, if we are saying we want thousand tyres next month and they say no we want 1100, it is very easy to take up that 100 more tyres.

Chirag Shah: Last question is the pricing environment that we are seeing and its impact on demand. In the past, we have seen at least in the replacement that a continuous pricing environment for an elongated period starts denting the demand in some of the other form either downtrading or general weakness in demand. How do you look at that particular mix because we have seen a reasonable amount of inflation in pricing from the end customer perspective and while demand is yet to kick off because of previous disruptions that we have seen? Next two quarters we may be okay, but beyond that how do you assess this demand curve given the way the pricing cycle is that we are in probably this is one of the cheapest price cycle that we have seen at the industry level?

Anant Goenka: That is for quite some time. I would say the last, this kind of price hike happened may be about more than 10 years ago, rubber had gone up to Rs.240 per kg and so on at that point of time, but I would say certainly in the last 10 years this has been the time where we have seen the highest inflationary pressure, but I would say it is difficult to predict how demand will go, in a way tyres, is a product which you need to replace, we do not have a choice, so you can delay it by a little bit here and there, but eventually it either has to be replaced or fitted in the new vehicle, so I do not see any major impact. In fact, I would say that there can be impact of the shorter term because of price hikes where people will look at delaying**,** but medium-term things should normalize.

Chirag Shah: I am just clarifying, Subbiah mentioned that your project capex is around Rs.1000 Crores, so is there a scale down, because I think the last quarter you indicated some Rs.1100 Crores, so you have found some efficiencies or it is in that ballpark Rs.1100 Crores range or there is a scale down by Rs.100 Crores in capex number?

Subbiah Kumar: The last time we gave a range of Rs.1000 Crores to Rs.1100 Crores I think we are maintaining the same thing. We are not scaling it down. Unless we see some drop in demand and change in plan as of now we are going with that plan.

Chirag Shah: Maintenance capex around Rs.150 Crores odd, Rs.150 Crores to Rs.200 Crores?

Subbiah Kumar: Yes, Rs.150 Crores to Rs.175 Crores level of routine capex including moulds.

Chirag Shah: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Pratik Poddar from Nippon India Mutual Fund. Please go ahead.

Pratik Poddar: I had just one question and it is very heartening to hear last time I remember March was the month the industry which will be highest and yet there are no price hike and this time we have seen to be more confident by, you said at the end of July we will take between 2% - 3% price hike and between August and September also we will take a price hike, so what is the driving this, I am just trying to understand that, that is it, just one question Sir?

Anant Goenka: I just said, in August, September we need to take a price hike to neutralize, it may not happen either so I am not giving you an indication of a price hike in August, September. I hope we are able to take it, but in the month of July, we have announced a price hike so that is likely to happen that is where we stand, but I do not think I still do not feel very encouraged because we are still lagging as I said by about 3% to 4% that is what we need to take.

Pratik Poddar: Got it and lastly when you say neutralize I just wanted you ask on the EBITDA front, the range is 10% to 12% right, our long-term range that is what is meant when you talk about the price increase right?

Anant Goenka: I said largely if you were to look at the past, our average EBITDA has been in that kind of level so I am just saying that okay to go back to what we were in the past that is what we need.

Pratik Poddar: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Disha Sheth from Anvil Research. Please go ahead.

Disha Sheth: I wanted to check that since the international rubber is at 135 and Indian rubber is at 165, can we assume the trend is going down and if we import more rubber would be beneficial and why is the difference so much?

Anant Goenka: Kumar, would you like to take that?

Subbiah Kumar: There is no difference between international and local rubber today. What you have indicated is without duty. Rubber is subject to 27.5% duty on a price of 120, so if you add up, it is hardly any difference between the international block rubber and local rubber.

Disha Sheth: Sorry, I missed that. Secondly, when we say that we will take price hike and over next Q3 is the margins might go back to normal, so can we assume Q1 was the base margin and now we can cover up with the price hike in Q2 and Q3?

Anant Goenka: I hope that by H2 we will be better. I think we expect some challenges to continue into Q2 because raw material prices are going up, so possibly similar kind of a range in Q2 and then second half hopefully will be better.

Disha Sheth: Just asking the question again in terms of demand, can we see any new, you were saying that the demand is back to the H2 level, I mean, the strong demand is back, is it the pent-up demand, which is back?

Anant Goenka: It is a little tough to estimate. There is so much volatility in the market and I would say it a little bit difficult to say what exactly is the driver behind the demand. As I said on the truck side it is a little bit lower, passenger car we are seeing strong levels I am sure some of it will be pent up demand and therefore difficult to predict right now what exactly is the driver.

Disha Sheth: Sir two-wheeler both OEM and replacement both is strong or only replacement?

Anant Goenka: Replacement is strong, OEM is weak.

Disha Sheth: Same for passenger right?

Anant Goenka: Yes. Passenger is a little bit better than two-wheeler OEM demand, two-wheeler OEM I think is the lowest relatively, passenger OEM is a little bit better, but I am talking largely about replacement being back.

Disha Sheth: Okay and you are talking about coming quarter right I mean the coming month?

Anant Goenka: That is right, what we are seeing in latter half of June, July.

Disha Sheth: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, just one question. How is the intensity of imports now, so we were discussing a year back regarding imports and then there was this action by the government, what is the scenario currently?

Anant Goenka: There is no change. Imports continue to be very minimal, so no real change in terms of increased imports at all we are seeing.

Dhaval Shah: They were thoughts that they could route it through Thailand or some other country, is that happening?

Anant Goenka: No not really. There has been an increase in high imports, but it is marginal shift, it was always relative to China, Thailand yes, of course increase because China has come down, but we are not seeing anything happening through Thailand yet, it could be marginal, but nothing to speak about. As a percentage of course Thailand has gone up.

Dhaval Shah: Is it a point to worry or would you propose to the government to include Thailand as well in the import ban list or that is not to worry about right now?

Anant Goenka: I see as a change of matter, it is not increased as such right now, I think that is the call which we will have to see at an industry level whether we want to propose to the government or not.

Dhaval Shah: Thank you so much.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: Thanks for taking my question Sir. How is the revenue mix for the PCR, two-wheeler, and T&B in first quarter?

Anant Goenka: Revenue mix of sorry, PCR?

Abhishek Jain: Two-wheeler and T&B in first quarter?

Anant Goenka: Can I get back to you on that? You are talking about overall across all categories?

Abhishek Jain: Yes, across all categories in first quarter?

Anant Goenka: I can get back. I think truck and bus would be around 35%, two-wheeler will be around 25%, passenger car will be around 15%-ish approximately level and then the balance will be all other categories approximately.

Abhishek Jain: Sir how much is the current system inventory at the end of June 2021, it is normal level or higher level?

Anant Goenka: Kumar?

Subbiah Kumar: Inventory is higher as of June 30, our inventory was higher by about Rs.180 Crores over March 31, 2021, with the mix of both raw material and finished goods, two-thirds of it is finished goods and one-third of it is raw material over March 31, 2021, level.

Abhishek Jain: How many days inventory is lying with dealers right now?

Subbiah Kumar: I do not think there is any change in that inventory. I think this inventory buildup happened at CEAT locations on account of drop in demand and in fact June was lower than May. We are taking corrective action to bring it back. No change in the inventory level at the dealers' level. It is only our own inventory, because the demand drop happened suddenly, it took time to react and bring the inventory levels down. In Q2, we would bring the inventory level back to a normal number of days at CEAT.

Abhishek Jain: In all three categories?

Subbiah Kumar: Yes mostly, what we did is that in order to bring the inventory, we cut down the production in the month of May, now the sales is coming up to normal levels and any excess inventory that we have at this point will get consumed and it should be fine. If Q2 is normal quarter I think inventory by the end of the quarter would be normal.

Abhishek Jain: Sir my last question is related with the imports ban itself, domestic players is getting benefit of this especially the PCR premium segment, so how long this benefit will avail by the domestic producer, I mean as MNC they start to ramp up the domestic production in ensuing quarters, so how much benefit these domestic players will be able to address?

Anant Goenka: It is not easy to set up capacities and ramp it up so fast. For example, if you are talking about Chinese tyres etc., I do not think they are going to come into India. The MNCs who are already there, some have capacities and they have been selling, some are only producing one kind of tyre, for example truck tyres, now for them to set up passenger car tyre plant they have to first of all announce that then they will look at further investing and setting up a plant takes at least two years time, so I do not see any substantial shift in terms of production in-house from MNC. I think you will get to know it in the papers when they announced whenever they do if they do.

Abhishek Jain: Okay.

Moderator: Thank you. The next question is from the line of Swechha Jain from ANS Wealth. Please go ahead.

Swechha Jain: Thanks for giving this opportunity. I have two questions. One was just a clarification. I think in one of the query to one of the participants, you said that if we take another 4% to 5% price hike we will come back to normal EBITDA margins of 10% to 12%, so can we safely assume that we are looking to aim at closing FY2022 at these margins, 10% to 12% kind of EBITDA margins by taking the time…?

Anant Goenka: I am not talking about an average margin for a year. I am talking about margin for that specific quarter. Say for example, I am not even talking about Q2 because if we are taking something in August or September, I am talking say for example going onto Q3 if you are able to take this kind of a price hike in Q2, we will see a normal Q3 in terms of margins say 10% to 12% margins and for the year I think difficult to predict, because it depends on how things pan out, but if you are assuming 10% to 12% in H2, you will have to take the lower margin in H1 to average it out.

Swechha Jain: What is the key deterrent for us for not taking the price hike I just want to understand that?

Anant Goenka: It is a competitive world largely and there is a certain lag that happens when raw material prices go up, you are not able to pass it on immediately to customer and it happens in a phased manner and I say that is the only, it is just competitiveness.

Swechha Jain: Thanks. My second question is I think you also mentioned in one of the answers that we are seeing a lower increase in demand in the truck segment, but in the last call if I am correct that what we were guided was we are planning to increase our truck tyre capacity by 40% and we are seeing a slower increase in demand, so if you can just throw some light that one hand we are seeing at lower increase in demand, but we are increasing our capacity by 40% in this segment, so how does this correlate?

Anant Goenka: I think here there is a difference in timeline that we are talking about, so when we are talking about increase in capacities, we are talking about we announced a further capacity increase which will take 20 months to come up, therefore we are seeing in the longer term, we expect the truck to of course revive. When I am saying truck demand revival is weak, I am talking about very short term month or post COVID wave two impact as of June and July, so it could easily revive going forward into August, September which will not have any longer term impact to what we are talking 15 months, 20 months hence, so when we take capacity decisions, they are based on long term macroeconomic trends and what is happening now is purely by here and now effect of the virus and near term economic impact.

Swechha Jain: Thank you so much.

Moderator: Thank you. The next question is from the line of Mayur Milaap from Bank of Baroda Capital Market. Please go ahead.

Mayur Milaap: We did saw your other expenses really come off, I was also trying to understand that this quarter would have had the payment for the IPL as well, right or because of that cancellation we could save some money on that, so what is the status on that thing?

Anant Goenka: IPL, we pay to the extent of the matches or percentage of matches that were held and again when they come up in September IPL we will incur the expenses. This is largely of the Strategic Time Out that is there. We are not doing any advertising at least in the month of April, now for the month of September it is a call that we still have to take, but right now it gets apportioned based on the number of matches or percentage of the IPL even that would help.

Mayur Milaap: Is there a chance that your Q2 may see an added cost of what we reported on the other expenses over Q1?

Anant Goenka: Yes, I think advertising will certainly increase. Q1 we cut down our advertisement to much lower levels and we may look at advertising particularly with cricket season coming in, we will see an increase in advertising expenses.

Mayur Milaap: Do you maintain 2% of sales kind of number for your advertising spend, or you believe the demand is good enough that you can may be?

Anant Goenka: It is irrespective of demand. We will continue to maintain our marketing spends at these kind of levels. As I said here and there are few quarters where demand really gets affected we will cut it a little bit, but in general we want to maintain it.

Mayur Milaap: Alright and on the second thing, recently we heard that Continental is now planning to give a five-year warranty on its TBR. Do you treat this as a serious event that may be all domestic tyre manufacturers would want to look at and how important is this warranty in the replacement market?

Anant Goenka: I think we will have to further study this to understand what kind of warranty this is, is it a mileage life warranty, is it against wear and tear, because if there is any damage to the tyre, there is a certain replacement or adjustment or giving back we do to the customer ourselves and so that is I believe the industry as well largely, so I think we need to further understand it and get back to you.

Mayur Milaap: Alright and thirdly on the demand side, when you say this is a 20% fall in demand sequentially, have you witnessed this demand as a bigger fall in the replacement or you think replacement is still on a positive growth? I am assuming that last year we have already seen the advantage of lower imports and that should be in the base, so the base should already be high in the replacement market. On that base, have we seen a growth or we have seen a decline?

Anant Goenka: As I said sequentially from Q4, we saw a decline in the months of April, May and April, May was because of the second wave, so suddenly there was a clear slowdown in OEM demand, we saw as I said negative 30% in OEM, negative 20% in replacement, markets closed down, but this has started recovering in the month of June, July onwards.

Mayur Milaap: Thank you.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Firstly on the export side, we have been able to take price increases as required in export markets or there also there is pressure on margins?

Anant Goenka: No. Exports we have been able to take price increases, better than the replacement segment, so we are more optimistic about exports in terms of price increases.

Ashutosh Tiwari: Secondly, you talked about may be this kind of price increases versus 10 years back in 2011-2012 when there was a big increase in RM prices, so if you can talk about the industry then versus now because that time, I think among domestic players also, the number of players were larger and brand was also quite bigger with 10% market share that time now almost they are almost not there in the market, so do you see the change in the pricing structure or the competitive pressure versus then, because I think that the MNCs are more, I mean, they are probably a better off in taking price increases, so what is your sense on that?

Anant Goenka: I think competitiveness continues to be high, not major change in terms of the industry structure, I agree that it is just one player that has exited or not really well in the market at this point of time, but beyond that there is no major change, so intensity I would say that no change, I think one thing is that there has been a lot of capital investment done by all players at this point of time, so is that causing price increases also to happen to a certain extent, but there is also a lag, so I expect there to be some margin erosion for everyone at this point of time.

Ashutosh Tiwari: Thank you.

Moderator: Thank you. The next question is from the line of Kriti Sahu from Narnolia. Please go ahead.

Kriti Sahu: My question is on the expansion outlook the company has like what we are looking for Rs.1000 Crores, which category plant we will be catering to that and what is the further outlook for next two to three years of capex?

Anant Goenka: For this year, most of our capex will go into the balance for Chennai factory. We will also be investing in off highway tyres, there is some debottlenecking that we are doing at our Halol factory and possibly a small amount in Nagpur, so small, small quantum, but the largest one being for passenger car tyres, so that is how largely I would breakup this Rs.1000 Crores. Kumar, would you like to share anything on capex outlook for the next couple of years?

Subbiah Kumar: Going by the current capacity creation plan and what we have already announced in truck and bus radial capacity at Chennai involving Rs.1200 Crores. I think our capex estimate for the next two years assuming that there is nothing new added approximately about Rs.700 Crores to Rs.800 Crores kind of a capex we foresee for the next two years and we expect some capacity expansion at Ambernath, truck and bus radial as announced we will spend and large part of whatever we have announced would get spent by next year and that Rs.3500 Crores we only have got another Rs.800 Crores balance, so that will get spent, so range is about Rs.700 Crores to Rs.800 Crores based on current planning.

Kriti Sahu: Rs.700 Crores to Rs.800 Crores per year or next two to three years?

Subbiah Kumar: Yes.

Kriti Sahu: Thank you.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Thanks for this. Just one question Anant; if you look at the balance nine months, can we expect single digit growth happening between OEMs and replacement combined and where it could be more filtered according to you for the balance nine months given that second half last year there was an element of pent up and it was very strong, so on that high base do we hope for high single digit kind of a growth?

Anant Goenka: I hope yes, we are able to get a single digit. Now, high or low is tough. I see at least over H2 may be high single digit would be difficult in volume terms, value there can be because anyway it is quite inflationary, price hikes may be over that period, we have spoken about 3%, 4% price increase every quarter so that itself amounts to 8% or so because of inflation, so if you take that out may be low single digit growth is possible in volume terms.

Chirag Shah: Where it will be more tilted between OEM and replacement, where you would be tilted towards, as a driver?

Anant Goenka: I would say both could be at a similar kind of level in terms of growth. OEM, of course last year same time had a lower base. They started picking up around October whereas replacement picked up from June itself, so may be higher growth in OEM until October and then after that both should be at similar level.

Chirag Shah: This is helpful. Thank you very much and all the best.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Anant Goenka: Thank you everyone for your interest in CEAT and hope you all stay safe and well and look forward to catching up with all of you once again similar time next quarter.

Moderator: Thank you. On behalf of Motilal Oswal Financial Services Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.