"CEAT Limited Q4 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to CEAT Limited Q4 FY2018 Earnings Conference call hosted by IIFL Capital 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 "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Joseph George from IIFL Capital Limited. Thank you and over to you, Sir!

Joseph George: Thank you Janis. On behalf of IIFL I welcome you all to the post results conference call of CEAT Limited. I also take this opportunity to welcome Mr. Anant Goenka – Managing Director; Mr. Kumar Subbiah – Chief Financial Officer; as well as other members of CEAT Management Team. I request Anant to make his opening remarks and that will be followed by Q&A.

Anant Goenka: Thank you, Joseph. Good evening and a very warm welcome to CEAT's Q4 FY2018 Earnings Call. I am Anant Goenka and I have with us our CFO, Mr. Kumar Subbiah here with me. I will now share with you our performance for the quarter and year ended March 31, 2018 followed by some financial commentary by Kumar post which we will open up for question-and-answer.

With respect to our Q4 performance for the quarter CEAT India's revenues from operations grew by 6.4% quarter-on-quarter and 13.6% on a year-on-year basis and stood at Rs. 1649 Crores. All segments have a good revenue growth on a year-on-year basis. Growth in the replacement segment was driven by commercial vehicles as well as the other category and all segments particularly I say the OEM segment saw a strong growth.

On the volume front on an overall level our growth was at 11.5% year-on-year level and at 6.1% on a quarter-on-quarter level. On the raw material front prices went up marginally on a quarter-on-quarter basis, but flattish on a year-on-year basis. As of FY2018 performance for the year CEAT India's revenue growth from operations grew by 8.1% compared to last year and stood at 6161 Crores. Our OEM business saw strong revenue growth this year on the back of impressive growth in the two-wheeler segment, growth in the replacement segment was as I shared driven by commercial vehicles for the year as well.

On the volume front on an overall level our growth was at 3.1% for the year, on the raw material front our prices for the year went up by about 11.4%.

I will now share a few highlights for the quarter gone by. After establishing a strong association with Harmanpreet Kaur, the female cricketer last year, I am happy to share that we have associated with yet another upcoming cricketer Shubman Gill, the player of the tournament of the victorious under 19 Cricket World Cup Team. This bat endorsement deals make Shubman a valuable addition to team CEAT, which already has the likes of Rohit Sharma, Ajinkya Rahane and Ishan Kishan. CEAT's association with BCCIs IPL Strategic Timeout partner was extended by another five years in Q4 and we were appointed the official timeout partner in IPL earlier in 2015.

On the product front, our premium motorcycle radial tyres called Zoom Rad X1, which we launched in Q3 generated good traction in the market and on the OEM front we extended our sales further to four bike models across Honda and Bajaj, Honda Livo, Honda Yuga, Honda Shine and Bajaj Pulsar 150cc. These are just some of the updates for the quarter but I will hand over the call to our CFO, Kumar to take this forward.

Kumar Subbiah: Thank you, Anant. Good evening, ladies and gentlemen. Warm greetings to all of you. I will now present our key financials for the quarter and also for the full year. Our Q4 consolidated revenue from operations grew by 6.3% quarter-on-quarter and by 13.7% year-on-year and stood at 1674 Crores. The growth was largely driven by increase in volumes. For the year, our consolidated net revenue from operations grew by 8.1% and stood at 6231 Crores.

Let me now give you some insights on gross margins. Our consolidated gross margin stood at 39.7% for Q4. It has contracted approximately by about 200 basis points sequentially mainly because of increase in the raw material cost and also due to change in customer mix. However the gross margin expanded by approximately 250 basis points compared to Q4 of financial year 2017. For the full year our gross margin was stood at 38.9% a reduction of about 220 basis points year-on-year.

I will give you some insights on EBITDA our consolidated EBITDA stood at 12.1% for Q4 despite the gross margin contraction we successfully maintained our EBITDA margins at similar level as to be by better gross governance. Compared to same quarter of last year EBTIDA expanded by about 280 basis points. For the full year the EBITDA stood at 10.2% a contraction of about 165 basis points compared to last year. The full year EBITDA was lower due to Q1 that was impacted by GST implementation and steep increase in raw material prices. Our average EBITDA for the last three quarters is around 12.1% in line with our Q3.

Profit after tax our consolidated net profit for the quarter stood at 77 Crores degrowth of about 6.5% over the previous quarter. The PAT decline was maybe on account of higher exceptional costs in this quarter that is we offered VRS to our workforce at Bhandup and the impact was about 24.6 Crores. For the full year our net profit stood at 233 Crores, company's consolidated networth as of March 31, 2018 was 2629 Crores and consolidated borrowing is close to about 650 Crores. Our debt equity remained very healthy at 0.3% on consolidated basis and about 0.25% on standalone basis.

With this we will now open the Q&A. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We take the first question from the line of Nitesh Sharma from Phillip Capital. Please go ahead.

Nitesh Sharma: Good evening everyone. Sir to begin with, can you help us with segmental volume growth in the replacement segment?

Anant Goenka: No we do not share segmental data.

Nitesh Sharma: And can you split it between OEM and replacement by any chance?

Anant Goenka: As I said we saw a strong growth on the OEM side right now overall as you see the OEMs are growing quite well particularly commercial segment has been very positive so our growth on the OEMs had been extremely robust on a year-on-year basis for the last quarter OEM. Our exports have also been strong. So I say in terms of OEM and exports has outfaced replacement growth and all.

Nitesh Sharma: Sir we have been seeing increased competitive intensity in the two-wheeler replacement segment mainly between you and the leader so could you highlight what is going on over there because all the new entrants who tried gaining market share in two-wheelers they were not exactly able to make a mark; however, in the last few months us and the leaders there they have been a bit aggressive on the replacement two-wheeler segment. So what is going on over there and how do you see things shaping up in this segment?

Anant Goenka: The overall to be the segment continues to be our area of focus we are continuing to strengthen our distribution; we are looking at launching some exciting new products going forward as well so growth continues to remain positive on the area. As earlier if you look at the last few years we have been growing at 20%, 25% that of course has slowed down but at an overall level across all categories we are seeing more than double-digit growth in two-wheeler segment and scooter has of course been very strong because past OEM growth has been outpacing at over 25% growth in the scooter segment, on the category as a whole motorcycle has seen generally a kind of 10%, 12% growth on the OEM side so that is the kind of ratio also that is we are seeing maintained with respect to our growth levels on scooter and motorcycle.

Nitesh Sharma: And any price action over the last one quarter?

Anant Goenka: Price action, not on the two-wheeler side but overall yes in the last one month or so we have seen about 0.5% point or so improvement and an increase in prices across categories on average and some it is maybe about 1% some maybe little lower.

Nitesh Sharma: Got it and on the capex like we understand we have a capex planned till 2022 so can you help us understand, which plant will come on stream at what year or what month approximately?

Anant Goenka: Yes so our first plant that will come on stream will be our truck radial plant, which is our Brownfield expansion in Baroda. That we expect to come on stream in Q3 of this financial year FY2019 then we are looking at passenger car, Greenfield facility which will come on stream somewhere in the middle of next year and we are also doing an expansion of our off highway tyre facility that will be taking at least little bit over a year for that to be ready because that expansion project has not begun yet.

Nitesh Sharma: Sir last question would be what would be the customer mix change between Q3 and Q4 because I understand that is one of the key reasons why gross margins fell apart from the raw material increases?

Anant Goenka: That is right so as I said the OEM segment is showing very strong robustness in terms of demand as I said particularly on the truck segment etc., so I think that is an area which has grown faster so the mix has moved a little bit more towards higher sales to the OEM segment.

Nitesh Sharma: So how many percentage points change would it be, between Q3 and Q4?

Anant Goenka: I would say about 3% approximately towards from Q3 to Q4 increase in OEM.

Nitesh Sharma: Thank you. I will come back in the queue.

Moderator: Thank you. We take the next question from the line of Yash Mehta from Steinberg India. Please go ahead.

Yash Mehta: Thanks for the opportunity. I have two questions. My first question is relating to employee cost. What kind of run rate should we pencil in going forward and does the VRS relate only to Bhandup?

Anant Goenka: Yes the VRS is linked only to Bhandup plant but employee cost increases I would say it is similar to what we have been seeing in the past so no substantial change, so usually the average increments that are there in the industry can vary from 7% to 12%, 13% on average across say similar kind of industries and usually we at least we are at par with what the industry gives in the form of increments that is the one impact. The second is we will see slight increases in employee cost as our new plants come up and you may see a slightly higher jump initially, which will kind of taper off as sales from these plants come in and the third is some of the older plants have long-term settlement which come in every three years time. So this year coming year we will have we are expecting long-term settlement coming in from both our own plant Bhandup and Nashik, which may see a marginal increase that will happen over the course of the year, which is beyond a little bit of normal. So these are the three metrics or three areas where generally there is an increase. Nothing abnormal really that would be coming in any other sense. So I would do pencil in whatever has been happening in the past similar going forward as well.

Yash Mehta: Thanks for that. My second question is regarding the ramp up at Ambernath. What is the expected utilization for FY2019 and at full utilization levels of the currently subscale capacity of 40 MT what kind of margin is achievable.

Anant Goenka: Yes, so I think our goal is to reach near full capacity by the end of the year. Today we are at about 30% of 40 tonnes per days so we are barely doing about 10, 15 tonnes per day kind of capacity, which is just kind of we are shipping test tyres and early on supplies to our customers they still need to try on the products etc., and then orders shall pick up but so we expect to be somewhere between say to take average maybe about 20 tonnes to 25 tonnes per day, average for the year for this plant. Margins overtime should normalize at approximately close to 20%-ish kind of levels because this is a high margin category so it could be a few percentage points here and there but it is still a category which we are still learning about it is a new category for us from a radial perspective but if you look at our key competitors they are at high 20% levels. I would say that we would be somewhere around similar or maybe around 20% kind of level margin.

Yash Mehta: Just one clarification overtime you mean with the 40 MT.

Anant Goenka: That is right. At an EBITDA level right your interest and depreciation will be slightly higher in this case because you have a large plants. So EBITDA plants I am saying once initially you sell tyres at a test basis your second consignment or third consignment will go in at your normal pricing so I am saying overtime and things stabilized is what I am saying.

Yash Mehta: That is great. Thank you. Thank you very much.

Moderator: Thank you. We take the next question from the line of Vasudev Banerjee from Ambit Capital. Please go ahead.

Vasudev Banerjee: Thanks Sir for taking my question. Couple of questions, one if you can highlight the nitty-gritty's of the gross margin decline other than the customer mix change which you said, any adversity in your commodity cost sequentially in terms of carbon black or synthetic rubber because crude has moved up so how much of the 200 BPS is because of adverse customer mix and how much is because of commodity inflation?

Anant Goenka: Approximately commodity prices have gone up by about just about a percentage from Q3 to Q4 and a mix impact has been there of about approximately about a percentage or so these are the two main things. On the other hand below GC if you look EBITDA was slightly was not as much impacted that because largely as we expanded our capacity, grown a little bit fixed cost has remain flat so that is not had as much of an impact on EBTIDA but purely about a percentage on RM and a percentage on adverse market mix.

Vasudev Banerjee: So the adversities in terms of gross margin are going to stay for next quarter also or you see any signs of improvement in that regard?

Anant Goenka: Yes. I think that is something depending on what price action is taken. Now we know that we expect some further raw material price increase from Q4 to Q1 and also some pricing action so net-net I think it is difficult to say. I think the OEM demand continues to be strong so that will be there. It depends on how the replacement market shapes up and what pricing action is taken. I think it is a little tough to say whether really we will be able to see a similar gross margin or any impact. I think it is still has to play out.

Vasudev Banerjee: Basically I was coming from the typically in June quarter your other expense tend to increase because of accounting of IPL related expenses so if your gross margin remains benign and seasonally June quarter's scale is also not in favor of the industry that can have a impact on margin for the next quarter as such. Second thing Sir like you said volume growth was roughly in 11% and you do not see as segmental but one thing on our structural perspective if one needs to understand if I see overall your last four years volume CAGR has been roughly around 6%, 7% and if I assume your two-wheeler volume to be somewhere around 25%, 30% of your business, which you said has been growing at 20%. 25% so that implies the whole 6% CAGR has been through two wheelers and ex of that portfolio barely has seen any growth. So now with on this you can say diversities and diversification of portfolio coming in TBRs and increasing car portfolio significantly do you see your ex of two-wheeler portfolio growth to start picking up which has not been the case in last few years?

Anant Goenka: Yes I think now we see most equivalent kind of growth across categories is broadly what I would say so what will happen is in the second half of the year, we expect to see very strong truck growth once our TBR capacity comes in. Two-wheeler side, I think we may not see the kind of 25% growth but we still I think good demand on two-wheeler side, OEM side is also growing well so that augers well overall from the market side and passenger car we have some capacity, passenger car generally has been growing also at double-digit levels and that is what we expect to continue. Overall I will say across categories I will see more equivalent growth rather than saying substantially higher growth in some categories and substantially lower in others.

Vasudev Banerjee: Sir two last questions; one is after this TBR Brownfield what will be expanded TBR capacity?

Anant Goenka: We are adding about 100000 tyres.

Vasudev Banerjee: And in the TPD terms Sir.

Anant Goenka: 200 tonnes per day.

Vasudev Banerjee: You are adding 200 TPD.

Anant Goenka: Yes.

Vasudev Banerjee: So 80 will become almost 280.

Anant Goenka: Yes.

Moderator: Thank you. Next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.

Nishit Jalan: Sir in page #10 of your presentation, which you upload for the quarter you have given some segmental mix in terms of replacement OE and all and if we do some calculations so basically the replacement revenue growth comes out at around 5% and that is broadly the ASP increase we have seen in this year, so does that mean that replacement volumes have been largely flattish this year and we have said that we have seen replacement volume growth in M&HCV does that mean that two wheeler and other segments would have declined this year?

Anant Goenka: I do not have that page #10 right now. I think you can just do the calculation and work out but overall no, I would say that we have seen growth across most categories on the replacement side maybe except for one or two categories like less relevant ones like tractor etc., but most other categories have shown positive growth on the replacement side.

Nishit Jalan: When you say positive growth is it volume growth or your topline that we are talking about?

Anant Goenka: There is not much difference between value and volume maybe overall on average about 2%, 3% or so because the price increase taken in May of last year was around between somewhere around 3% and 4%.

Nishit Jalan: Overall volume growth for this year has been 3% right that is what you highlighted in your initial commentary?

Anant Goenka: That is right.

Nishit Jalan: And then the revenue growth was 8% so ASP increase was about 5% right and that is the total increase in the replacement of overall revenues. So that is where I was coming from the total replacement revenue grew by 5%, ASP increase was 5% then it implies that overall volumes were kind of flat this year?

Anant Goenka: Right but I am saying that they were all overall positive and on our focus categories they have been overall better for us.

Nishit Jalan: Sir my second and last question is you mentioned that RM cost, you expect some further increase in 1Q Sir will it be around 1%, 2% only or you expect a bigger increase in terms of RM cost market?

Anant Goenka: I just have Kumar to take that question.

Kumar Subbiah: The RM cost quarter one we expect around 32% over quarter four and it could spend at the current level because quarter one we had kind of largely covered and it could remain at $75 which has happened recently. We could have another 2%, 2.5% in that in quarter two. On the crude base material prices have moved up not in the same proportion but moved up but natural rubber has shown some downward trend therefore to some extent it got neutralized but there could still be about couple of percentage increase in quarter one.

Nishit Jalan: Thank you.

Moderator: Thank you. We take the next question from the line of Amyn Pirani from Deutsche Bank.

Amyn Pirani: Good afternoon. Thanks for the opportunity. My question was that you mentioned that you could see a 2%, 2.5% increase in 1Q over 4Q on the raw material side but based on what you are seeing in the industry would you say that the industry is in a position or is willing to pass on that increase or how would you see the scenario on the market place?

Anant Goenka: Just to talk on behalf of the industry. I do not know what is being planned. I know that approximately as I shared we would have taken about a 0.5% price increase in the last one month on an average. Overall demand is strong and in this kind of an environment I think it is a little bit easier to take price increase. I think there is a possibility but I can it is very difficult to say whether it will happen or not. In my view there is more robustness on the truck side than in the passenger car side with respect to the industry capacity utilization.

Amyn Pirani: Obviously we see that in this quarter a large part of the reason for the gross margin is also the mix on like your OEM mix is increasing and this is something I think which is something that you are going to focus on so that could increase in the near-term also. If I look at segmental margin we know that two-wheeler replacement is possibly more profitable than truck replacement. Is there a similar difference in the OEM side as well like two-wheeler OEM and passenger vehicle OEM being more or less profitable than truck OEM?

Anant Goenka: No that does not hold in the OEM side. Margins in the two wheelers is not very different across categories.

Amyn Pirani: So on the OEM side more or less it is same range?

Anant Goenka: That is right.

Amyn Pirani: Just lastly I think you had mentioned some time back Sir on the passenger vehicle side you are having some short-term capacity constraints where are you on that now?

Anant Goenka: I think we are in a better position now and we are working on unlocking and debottlenecking some capacity so we are getting some more confidence so there is scope of growth on the passenger car side as well.

Amyn Pirani: Thanks for the opportunity.

Moderator: Thank you. We take the next question from the line of Kushal Shah from Dolat Capital. Please go ahead.

Kushal Shah: My question has been answered. Thank you.

Moderator: Thank you. We take the next question from the line of Jinesh Gandhi from Motilal Oswal Securities.

Jinesh Gandhi: My question pertains to this PCR capacity debottlenecking by when do you expect this to go through?

Anant Goenka: Yes, it is something we had some challenges with some machinery in our plant, which is not giving the exact output for one specific machinery that the planned output was. So there is some debottlenecking was happening some specific problem solving work. So I think maybe difficult to say but I would say in the next one, two months we are seeing positive results every month, small increases happening so we feel that in about a month, two months time it should be resolved.

Jinesh Gandhi: Secondly with respect to our capex so how much was our capex in FY2018 and what do we expect for 2019 and 2020.

Anant Goenka: Kumar would you like to take that.

Kumar Subbiah: Approximately about 380 Crores was our total capex for FY2018 and out of that about little lower 200 Crores was spent on capacity expansion projects and balance was relating to Nagpur and routine maintenance capex that was for FY2018.

Jinesh Gandhi: And for FY2019?

Kumar Subbiah: FY2019 I think we would like to maintain at the same level that we had indicated last time. In the last call we indicated slightly higher level of capex in FY2018 itself and which we have contained. FY2018-2019 we expect it to be in the order of 1500 to 1700 Crores while our internal plans to reduce it will continue but that is the kind of expectation that we have.

Jinesh Gandhi: And the balance of FY2020 will be again be similar considering that?

Kumar Subbiah: Immediately lower, I think in the following year it should be around 800 Crores (Standalone) but it all depends on the how implementations happens, our additional capacity requirement etc., but we expect it to be around 800 Crores (Standalone) in the following financial year.

Jinesh Gandhi: From that perspective our peak debt will be what it will be close to about 2000 Crores by FY2020?

Kumar Subbiah: Yes you are closer to that number and if we go by last year's performance, last year we manage to incur the capex about close to 400 Crores. We actually brought down our debt level by close to about 150 Crores or so. So therefore that has led to improvement in debt equity as of March 31. Theoretically, it will be around that level but we are constantly working to manage our cash flow from operations so that we fund our project requirement as much as possible from internal accruals.

Jinesh Gandhi: Lastly with respect to the competitive intensity given the RM cost inflation, which we are seeing on the crude base derivatives and considering rubber prices in the near quarter, do you see a material risk to your IRRs, which you are expecting in this investments in medium-term?

Anant Goenka: I think that is something which we have to work towards if there is any increase in raw material prices we will work towards passing that on to customers if possible. I do not see any reason for there is being any impact on medium-term in terms of margins because the categories we are investing in are areas where we are turning around in terms of profitability or they are already high profit areas. For example, in the truck segment our margins were historically low and we are already taking substantial action towards improving our margins on the truck side, passenger car segment is anyways high margin it is more of the branded category. So we think if there is a raw material price increase which we will do pass that on.

Moderator: Mr. Gandhi, I am sorry to interrupt but requesting you to please return to the question queue for your follow up. Thank you. Next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Thank you for the opportunity. Sir two questions Anant. One is on this ramp up of your capacities, if you can just help us how do we see the ramp up of various capacities because there is too much of data points and generally for a plant which is getting ramped up what is the kind of breakeven levels, which security operation levels where you are post that you start really making cash flow positive from plants perspective or how should we look at that number?

Anant Goenka: I think the ramp up we try and match it with what we expect demand to be. So ramp up is not something, which is faster the ramp up the better or anything like that for us, it is more that it is a planned ramp up that we want to plan our capex in a way that it is minimized in the beginning and matching with sales growth. So on average we have planned our ramp up to be in about once the plant is commissioned about at least a year and a half to two years from then to reach full capacity is how the plan is. Across I shared at least the two main plants that we have which is the truck radial plant and the PCR plant.

Chirag Shah: Basically if the truck radial, which is coming in Q3 of this financial year for the 200 TPD to achieve full utilization it may take around 18 months that is how one should understand right?

Anant Goenka: I would say approximately 18 months from say around quarter three say September, October of this year 18 months from that and if we see buying demand to be very robust we try and expedite it as much or we try and push it as much as possible to a later time where demand is weak. So that is how we try and plan it so some of the upstream equipment or your civil work etc., is all done in advance but some equipment can be procured, timed based on what we expect demand to be.

Chirag Shah: How does it affect your profitability of the plant so what is the kind of levels if we can take a 200 TPD plant is it that you need to achieve 50% utilization levels to be a normal profitable plant or where the general breakeven level that you internally look at or how should we understand that?

Anant Goenka: Yes it varies category-to-category to a certain extent because say passenger car is a little bit more profitable for us or two-wheeler is more profitable, trucks is a little less but the capital intensity is also lower so it approximately it varies a little bit but at a very gut level may be somewhere around 50%, 70% kind of range if I were to say for breakeven.

Chirag Shah: This was really helpful. Second question was on the mix front. Would it be a right statement that at least for next 12 to 18 months or 12 to 24 months, the OEM share is likely to go up for us in our mix the share of OEM will inch up even it seems even the replacement demand seems to be now started kicking in so how do you look at the mix from next 12 to 24 months?

Anant Goenka: At an overall level that can be a marginal shift 1%, 2%, 3% that kind of levels, not more than that because as I said right now most of our new capacities at least for the coming year FY2019 is going to be coming in on the truck side, truck side there is enough replacement demand even now and good OEM, I say both sides are good. So I think we have the liberty at least initially for the first year to choose and supply to the mix that suits us. On the passenger car side we have a fair number of OEM RFQs that we have got so we expect that in FY2020 once our new PCR plant is ready, we expect strong OEM demand to come in there so the initial say the first six, eight months of demand on the passenger car side will be a little bit more OEM focused; two-wheeler will continue the way the markets are doing similar to kind of where it has been that is the approximate breakup I would say category wise.

Chirag Shah: Just a clarification on the profitability side even the truck replacement profitability would be better than OEM profitability right because I presume for us truck replacement would be the least profitable business in the replacement space, if you look at farm business, two wheeler, PCR and truck as a category it is broad category probably truck would be the least profitable on relative basis among the four categories?

Anant Goenka: Generally replacement segment is more profitable than OEM because you have OEMs who are buying large customers, large volumes so they get a volume discount that is broadly between any replacement and OEM replacement is generally more profitable.

Chirag Shah: That was really helpful. All the best. Thank you very much.

Moderator: Thank you. Next question is from the line of Arpit Kapoor from IDFC Mutual Fund. Please go ahead.

Arpit Kapoor: Thanks for taking my question. Just wanted to get a sense we saw a big jump up in CV sales in the current quarter CV related tyres so would that understanding be current and if yes then would it be more replacement driven or OE driven?

Anant Goenka: We saw a jump relatively to the past in the CV side but overall across categories, we have seen good growth if you look and say if take total market means replacement OE and export total, overall we have seen quite balance growth but on the OE truck side we are seeing good increase in sales.

Arpit Kapoor: CV growth was driven more by OE done by replacement just wanted to get a bifurcation within CV how has the growth what was the driver for the growth?

Anant Goenka: That is right more on the OEM side.

Arpit Kapoor: If I just look at the replacement numbers, our sales have been broadly flat for the last four five quarters in the tune of 900 to 950 Crores so if we go back we have had demonetisation and then there was GST related and there was some kind of a channel disruption and the expectation was that we would rebound as and when the channel rebounds but the numbers at least on the replacement side have not inched up and has largely remained stagnant so is there a higher competitive intensity in some of the segments, which is leading us to have relatively flat replacement sales for the last four, five quarters?

Anant Goenka: Yes, I think it has overall been certainly more challenging on the replacement than on the OEM side but overall I think we are seeing on the passenger car side things are quite positive even on the replacement side, truck which was showing negative growth have move to positive category and on the two-wheeler side as I said that 25% kind of growth has certainly come down so on the two-wheeler side competitive intensity or increased supply generally by the industry is affecting our two-wheeler replacement demand. But inherently for example particularly on the scooter side, the market has been very strong generally the OEM sale has been very strong at 20%, 25% for the last four years, five years and that is also reflecting positively on two-wheeler demand so certainly replacement has been the slowest growing category for us at least for the last quarter or couple of quarters time, two three quarters at least yes.

Arpit Kapoor: But in terms of channel so there were a couple of distributors, as in there was no GST they have not come in with the GST so and Sir the channel in terms of the channel is back. So it will be let us say 90%, 95% back and compared to what it was previously?

Anant Goenka: Yes I do not think we saw the impact of restocking as we would call it saying that there was a say a fair loss of 10 that 10 has not come back we have not regained that 10 say for example but we expect growth levels to go back to normal levels.

Arpit Kapoor: Because of the higher intensity in two-wheelers so to that extent pricing will continue to remain slightly taking up prices will remain slightly difficult as compared to what we are seeing in the CV or the PV segment?

Anant Goenka: Yes tough to say but I think so I think right now the competitive intensity or supply side there is more supply on the two-wheeler side then in the CV side.

Moderator: Thank you. We take the next question from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: Good evening Sir. Thanks for the opportunity. We got the capex numbers for FY2019 and also 2020 but in terms of TPD capacity what would we currently be at and what plan is of be takeover in the next one or two years in TPD capacity overall?

Anant Goenka: The approximate capacity is 1000 tonnes per day. We will be taking this up by about from the day of TBR. Our truck radial capacity we will add another 200 tonnes per day and then our passenger car capacity from 100 will be about another 250 tonnes per day but this was ramp up over the next say three years' time so we are adding about 450 tonnes per day of capacity from these two of highway tyres added about 40 tonnes per day and another 60 tonnes per day.

Bharat Gianani: Basically currently overall capacity as of FY2018 end is 1000 TPD and we will be reaching about 1600 TPD in next three years is that right?

Anant Goenka: Yes it is about 1500 odd or so.

Bharat Gianani: Okay 1500 by next three years okay fair enough Sir. That is all from my side thank you very much.

Moderator: Thank you. We take the next question from the line of Disha Sheth from Anvil Shares. Please go ahead.

Disha Sheth: Sir my all questions have been answered. Just one question how would be the depreciation for FY2019 and 2020 and the interest?

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

Kumar Subbiah: Yes I will take that. If you see depreciation for the year 2018 on standalone basis was about 160 Crores and we expect that to increase by about 20 Crores in the current year and interest cost on standalone basis for the year was about 86 Crores so we expect interest cost to be around that level only in 2018-2019.

Disha Sheth: And 2020 Sir?

Kumar Subbiah: 2020 it is difficult to get. It depends on the capitalization. It can go up by about 30 to 40 Crores depending on the level of debt, but as we would have capitalized our TBR plant by third quarter of this year and then PCR plant in the following year just relating to that the interest on that would start hitting the P&L.

Disha Sheth: Sir can you share individual prices of rubber, carbon black for the per tonne nylon?

Anant Goenka: No. We cannot share that. I think broadly on the rubber side it has been largely flattish and I can share with you the prevailing prices but not our prices.

Disha Sheth: Okay yes.

Anant Goenka: So ex today somewhere between what Rs.123 kind of per kg levels today and it has been kind of flattish over the last say four months three months time ranging between 120 and 126 kind of range approximately.

Disha Sheth: The carbon black?

Anant Goenka: Carbon black has generally been on an upswing. There is a fair amount of shortage of carbon black and carbon black prices have gone up. This is a crude base product crude has also gone up so we expect carbon black to stay high.

Disha Sheth: So what was the average for Q4 the carbon black price?

Anant Goenka: That we do not share.

Disha Sheth: That is it from my side.

Moderator: Thank you. We take the next question from the line of Ankit Verma from Pragya Securities.

Ankit Verma: Thanks for this opportunity. Sir my question is in FY2018 there has been an investment in tyres and more an online tyre retailer could you share some details as to how much investment is done and at what valuation? Also what is the strategy behind getting an online tyre retailer as a strategic investment?

Anant Goenka: This business is something we wanted to understand with there is a shift towards online purchase so we wanted to understand a little bit about the market, we have done a small investment in this segment. We would not be able to share the valuation or any details of our investment of the company.

Ankit Verma: Okay.

Moderator: Thank you. We take the next question from the line of Chirag Shah from Edelweiss Securities. Please go ahead.

Chirag Shah: Thanks for the opportunity again. Just one question on the raw material side as a basket how do you see your raw material basket moving on per tonne basis or as a percentage because rubber seems to be flat but other aspects have gone up so how do we understand the impact on the average RM because there will not be one-to-one relationship for all the commodities, the relationship would be very different. So when I say relationship if crude goes up by ex percent the synthetic rubber the cost will not go with similar that it would be very difficult it would be far lower probably and the carbon black the ratio would be very different so how do we understand the basket impact for movement in crude and natural rubber?

Kumar Subbiah: You are right but crude would decide the direction in which the raw material prices would go but you are right its impact on these raw materials that have direct influence by crude could vary. For example, synthetic rubber it is produced from crude derivative called as Butadiene. It is possible that the crude prices have moved up by x percentage and Butadiene prices would have gone up by a smaller portion so it does vary depending on what happens to the particular petrochemical. But generally it will move in the same direction, not necessarily in the same proportion. With respect to your question on what the impact on quarter one we have already answered. We expect we are more or less covered for quarter one because as we have the second month of the quarter so the impact would be little less. The impact of $75 crude will not hit us in quarter one it will only hit us in quarter two so we expect the range of around 2% in quarter one and if the crude sustains at current level, the impact could be around 2.5%, 3% in the following quarter assuming that natural rubber prices remains at the current level.

Chirag Shah: Your product mix basket is geared up to take care of this big jump 2% is a significant, 2% when you say is as a percentage of sales or absolute change?

Kumar Subbiah: No. I am talking about percentage of raw material cost.

Chirag Shah: So there will be 2% so the 100 is your raw material cost it become 102 not as a percentage of sales?

Kumar Subbiah: No.

Chirag Shah: Our product mix basket for FY2019 is geared so that the impact is minimized because price hike seems to be difficult as of now in the system except for truck tyres?

Anant Goenka: Yes, I think I have already answered that question on price hike.

Chirag Shah: Yes fair point this was helpful.

Moderator: Thank you. Well that seems to be the last question. I now hand the floor over to the management for their closing comments.

Anant Goenka: Thank you very much for your interest in CEAT and look forward to catching up once again next quarter same time. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, with that w conclude today's conference. Thank you all for joining us. You may disconnect your lines now. Thank you very much.