



“CEAT Limited Q1-FY13 Earnings Conference Call”

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MR. MANISH DUGAR – CFO, CEAT LIMITED



Moderator

Ladies and gentleman good day and welcome to the CEAT Limited Q1 FY13 earnings conference call. As a reminder all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anant Goenka, Managing Director of CEAT Limited. Thank you and over to you sir.

Anant Goenka

Good afternoon and a very warm welcome to everyone for coming to CEAT's quarterly investor call. This is Anant Goenka managing director and I have with me Manish Dugar, our CFO. Thank you very much for your interest and I will give you a very brief update on the quarter gone by. As you all know this quarter has been pretty challenging quarter for the Indian automobile industry with leading OEM taking production cuts to respond to the sluggish demand scenario as well as the overall weak macro economic outlook. This of course had its impact on the tyre industry with reduced OEM demand. Replacement demand is also seeing some sluggishness and on the export front also with the overall world wide situation things are looking a little bit difficult. With the dollar appreciating against all major currencies export realizations have gone up but demand from export markets such as Middle East, Latin America and Europe has been affected. On the raw material front natural rubber prices have remained stable at an average price of about Rs.193 per kg in Q1 against Rs.190 per kg in Q4 last year. However rupee depreciation has had an impact on the overall raw material cost. On the positive side, despite overall challenging environment we have grown well in the 2/3 wheeler segments where we have increased our market share well. Also utility vehicle radial segment, this is a segment which is again fast growing. We have been able to have a good growth in our market share.

Our Sri Lankan operations have also continued to grow profitably with EBITDA margins close to 15%. With respect to our Bangladesh plan, we are progressing well there. We have finalized a piece a property which we are undergoing due diligence and hope to close in a short period of time and identify an organizational team. So we will hope to be on stream in Bangladesh in about a year and half to 2 years' time from now. This is a brief update with respect to the overall environment. I will now hand over to Manish Dugar, our CFO who can take you through the key financial parameters.

Manish Dugar

Thanks Anant. Good afternoon ladies and gentlemen. This is Manish Dugar. I am the Chief Financial Officer for CEAT. I will take you briefly through the financials for the quarter at a consolidated level and for the India entity.

Coming to the consolidated results, first on a consolidated basis net sales for the quarter stood at 1225 crores up by 10% on a YoY basis. This comprise mainly of price movements realized through heading in a better mix and our strategic focus on selling in categories where we felt we have a market leadership and partially by looking at increased realizations through selling in export markets and in the replacement market. PBT which is profit before tax stood at

Rs.43.4 crores and the total debt figures stood at Rs. 1390 crores taking our debt to equity ratio to 2 times. This is a slight increase from last quarter of Rs. 94 crores primarily because of increased inventory levels in finished goods and in the inventory levels of raw material led by sluggishness in demand from the OEMs. We believe that this is temporary phenomena and we should be able to get back to our earlier levels within the next 2 – 3 months. CEAT India in Q1 on a standalone basis, posted a revenue growth of 10% on a YOY basis at Rs.1181 crores and registered a profit before tax of Rs.38 crores. EBITDA margins were up from minus 0.4% of Q1 of last year to 9.1% in this quarter. Coming to the Sri Lankan JV in Q1, the JV operations reported a profit before tax of Rs. 11.1 crores on a net sales of Rs. 93 crores which is 17% increase on a YOY basis. EBITDA margins stood at 14.9% compared to 8% of Q1 of last year. With this I would now invite questions from you. I would be very happy to answer them.

Moderator

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press * and then 1 on your touch tone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press * and then 1. The first question is from Jay Kale from Violet Arch Securities, please go ahead.

Jay Kale

Sir I just wanted to get a sense on the replacement demand on the tyre market. Truck and bus radials, how has it been and what would be the YoY growth for this quarter in terms of volumes?

Anant Goenka

Replacement for truck radial has grown pretty well with respect to last year but the large part of it would be because of the low base effect. So if you look, Halol plant was just ramping up at that point of time, so overall radial growth has been over 50% kind of growth numbers. But that I would highlight mainly because of a low base effect. But Radialization is picking up very well in India. Radialization is now at about 18% of the total truck market, and overtime we expect this only to accelerate over the next couple of years.

Jay Kale

What would be industry growth in the radial market in the after market for the truck and bus?

Anant Goenka

Overall truck growth I would say is flat whereas the truck bias segment has de grown and truck radial segment has grown. So a large part of the shift had happened from bias to radial. In terms of total percentage growth of the truck radial market I would say if we would have grown from about something like 2 lakh to about 3 lakh truck radial is a very rough estimate that I would say per month for the industry.

Jay Kale

Sir just wanted to get a sense of what is the difference in life of a radial tyre or a cross ply tyre I mean the replacement cycle in terms of kilometers and also in terms of time period.

Anant Goenka

Yeah, Life of a radial tire is 1.6 times that of a truck bias tyre. Could you repeat the rest of the question?



- Jay Kale** Okay in terms of approximate time period it runs on the running of course, right?
- Anant Goenka** That's right. It depends on many factors such as load. Also some people dispose of the tyre after half usage. Some people dispose it off after re-treading several times. So I would say that 1.6 is a good comparative figure to say irrespective of the load and miles travelled.
- Jay Kale** Any rough estimate of the number of kilometers that it would take for replacing?
- Anant Goenka** In my view bias tyre should go about 60,000 kilometers I would say.
- Jay Kale** And what would be the difference in margins, I mean for a truck and bus radial vis-à-vis a cross ply broadly?
- Anant Goenka** We are at a situation where radialization right now is taking place. So it is really a situation where we are trying to make the consumer aware about the benefits of radial tyres. In fact at this point of time margins of radial tyres are lower than bias tyres margin.
- Jay Kale** In spite of the realization being higher?
- Anant Goenka** In spite of the product being far better. Ideally there should be clearly about 7 – 10% difference where radials should be of higher margin but at this point of time the margins are slightly lower.
- Jay Kale** That's purely because of other expenses being incurred on awareness, is that the right way?
- Anant Goenka** Not so much because of that. It is because the pricing itself is lower. Not pricing of the tyre but the pricing in rupees per kg is lower at this point of time and that is because we are trying to create a situation of awareness in the market. We are trying to fit our tyres first. Once consumer realize the benefit of radials, we believe that there will be an automatic pull for radials and people will then realize the benefits and pay a higher price.
- Jay Kale** And what would be our capacity in metric tonnes per day for the truck and bus radials?
- Anant Goenka** 70 tonnes is a terminal capacity. We are currently at about 50 tonnes per day. 80 tonnes per day is the terminal capacity for the Halol plants.
- Jay Kale** And your outlook on natural rubber?
- Anant Goenka** Very difficult to say. It is corrected a fair amount right now. It is about Rs.180 per kg. International prices if you were to do a comparison at similar levels at ex cochin levels international prices are at about Rs.155 per kg. Duty paid also international rubber prices are coming in at about Rs.175 per kg assuming Rs.20 duty per kg at this point of time. So international rubber duty paid is lower than domestic rubber. So domestic rubber could correct a little bit going forward downwards. But very difficult to say. It's corrected a fair amount so I

would say Rs 175 – Rs 180 is a fair value for some time. And globally things aren't looking good. China is looking down also, which is big influencer of rubber pricing.

Jay Kale

And sir what would be your target debt equity for FY13, any target?

Anant Goenka

I think by the end of the year we would bring it down going forward for the next couple of months but difficult to say what would happen by the end of the year because we are investing in Bangladesh also. Might be at similar levels.

Moderator

Thank you. The next question is from Basudeb Banerjee from Quant Capital, please go ahead.

Basudeb Banerjee

Sir what is the tonnage of the stand alone entity this quarter?

Anant Goenka

Tonnage is about 50,000 ton roughly.

Basudeb Banerjee

And the same numbers last year June quarter?

Anant Goenka

Tonnage we have been actually nearly flat. So could have been about 51,000 tonnes.

Basudeb Banerjee

One more thing as you said, that overall due to rupee weakness your rubber price was a bit higher quarter-on-quarter. But RM / sales showing 40 bps lower. So was it because carbon black or other TCF all those prices dropped a bit quarter-on-quarter.

Anant Goenka

Quarter on quarter our raw material prices have gone up by about 3%.

Basudeb Banerjee

But RM / sales reflecting bit down quarter-on-quarter.

Anant Goenka

That's because our net realizations has overall gone up because of an improvement in product mix.

Basudeb Banerjee

So the carbon black and tyre cord fabric have more or less remain similar level.

Anant Goenka

No that has also gone up. On a quarter-on-quarter basis most of our raw materials have actually gone up.

Basudeb Banerjee

Okay. So what is the revenue mix when CV, passenger cars and two-wheelers tyres this quarter?

Anant Goenka

CV would be about 55%. Two-wheeler would be something like, just a second, I will give you an exact number, 14% would be two-wheeler and this is will be last, LCV is about 10% and farm is about 7. Other specialty is about 7, off road tyres.

Basudeb Banerjee

And cars?

Anant Goenka

Cars would be also 7% or so.

- Basudeb Banerjee** And sir the other expenditure moved up sharply quarter-on-quarter by almost 18 crores?
- Anant Goenka** I must have given Manish, the primary reason for other expenses going up is we are investing in brand building and investing in strategy for future and that is what is reflected in our gains in market share. So most of these investments is in sales and marketing and it is strategy formulation.
- Basudeb Banerjee** What is the gross debt currency for the stand alone business?
- Anant Goenka** The gross debt, average gross debt for the quarter was 1747 crores while the closing debt is higher by 94 crores over last quarter and borrowing as per the balance sheet is 1353 crores as of June end.
- Basudeb Banerjee** And what's your plan CAPEX including Bangladesh and India?
- Anant Goenka** CAPEX is about 50 crores is the normal CAPEX that we have which is for our current plans , moulds and such expenditure. Bangladesh we expect to invest about 40 crores or so this year. This is most of the CAPEX.
- Moderator** Thank you. The next question is from Naga Deepika form Capital market, please go ahead.
- Naga Deepika** You said the volumes are around 51000 metric tonnes. There seems to a decline on a quarter-on-quarter basis. Wanted to check, whether in your opening remarks you already told auto industry is in a very struggling state and also have taken some production cuts, did the tyre industry also take any production cuts.
- Anant Goenka** See our volume tonnage has been flat. So its not de growth.
- Naga Deepika** Q4 was 54000 metric tonnes. So this quarter?
- Anant Goenka** For a year-on-year basis or quarter-on-quarter?
- Naga Deepika** On quarter-on-quarter basis I am talking because the new capacity Halol is coming in. So it's better to compare on a QoQ basis that YoY basis. Just wanted to check if there is any production cut from our end or we are slowing down production levels. Is it the same for other tyre plays also?
- Anant Goenka** Yes we are cutting down our production a little bit on the truck bus bias category. That's where we have to take some production cuts because the radialization happens there is movement from bias to radials. That is where we have to take a production cut and there is some impact of cyclicity also that plays a role. Being a year end of last year there has been some amount of impact because of that.
- Naga Deepika** Have we taken any price increases during the quarter?



- Anant Goenka** During the quarter we would have taken a very small may be a 1% price increase around end April on an average.
- Naga Deepika** And this is only replacement markets right?
- Anant Goenka** Yes.
- Naga Deepika** And sir can you give the revenue break up on OEM export and replacement market?
- Anant Goenka** Yes about 60% is replacement, about 23% or so are exports. About 19% is OEM.
- Naga Deepika** And you are talking about improvement in product mix. Can you please correct me if I am wrong, the improvement in product mix you were talking about was on the back of Halol plant if it is coming with radial tyre capacity, is it right?
- Anant Goenka** My improvement in the product mix, there are 2 ways to look at it. One is towards increased sale of radials versus bias. So we are moving more and more towards selling radial tyres which is a future technology of tyre. And the second is improvement in product mix what we mean is by selling in segments which are more profitable and less volatile to rubber price changes. So that is more towards the non-truck segment such as passenger car radial, UV radial, motor cycle tyre etc. So we have moved and shifted more towards the non-truck segments as well. So increased radial and increased non-truck.
- Naga Deepika** Last quarter you said you want to increase your market share in two-wheeler segments. And you also wanted to increase the outsourcing capacity there. What is the update on that?
- Anant Goenka** So we have increased our market share in two-wheeler from about 14% to about 17% level over the last 1 year. So that's where I said, we have seen some good progress. With respect to increase in capacities, our outsourcing capacities are mostly ready to take up production. However last year the two-wheeler tyre segment did not grow as well as we would have liked. So despite a flat kind of a market we have grown some amount. So that is really where we have increased our market share. But capacities are ready to go up by comfortably around 30% in the two-wheeler tyre segment as and when we need.
- Naga Deepika** And sir coming back to the bias tyre capacities which you already told that we are trying to reduce our production levels in bias tyres. So what would happen to the capacities at the end of 2 – 4 years when your shift becomes more towards radial done by us. The capacity would become redundant. How are you trying to tackle this situation and some update on that?
- Anant Goenka** So certainly there are few alternatives that exist. One is that, while the replacement market is shifting we will look at avenues to continue to utilize those capacities in OEM as well as export. The second alternative is you shift production a little bit from truck tyres to either light truck tyres or speciality tyres you can do some shifting of capacities to other segments and yes some amount will de-grow which will be compensated by the growth in the radial segment

from our Halol capacities. So yes some de-growth is inevitable but we are working towards finding ways to make sure this gets cushioned in whatever way possible.

Naga Deepika

What will happen to the bias capacity then?

Anant Goenka

So that's what I shared. One is to utilize the capacities by selling in export market, to Africa and other developing countries. Second is to sell some more to OEM. Third is to look at shifting some machinery towards farm tyres or other specialty tyres of certain nature, these are the various options that we are looking at to make sure that we don't de grow as fast as the market.

Naga Deepika

Didn't we see the alternative of the bias capacity in India to shift from India to Bangladesh?

Anant Goenka

We are setting up new capacities.

Naga Deepika

why don't you use our Indian capacities, shift the Indian capacity to Bangladesh, the demand for Indian bias capacity for truck is reducing.

Anant Goenka

That certainly is an option. We have not gone in depth of whether really that is very much possible. In the end if at all you can move, you can move more of the downstream equipment, the up stream equipment there are only 2 – 3 large mixing machines. If you move the large mixing machine or a calendaring machine, you will be really reducing the capacity of this plant substantially. So that's a major reduction. You can move a certain presses there but it won't make a big difference in terms of reducing your capital expenditure. So if the cost of setting up a new plant is going to be Rs. 250 crores, by shifting you might save about 10 – 15 crores, Its very little. So it is not very critical.

Naga Deepika

Sir my last question if you permit. What is the price of carbon black or synthetic rubber for the quarter and going forward what is your outlook on those prices, keeping very volatile oil prices and rupee depreciation in consideration?

Anant Goenka

Okay with respect to carbon black if you were to look at it as rupees per kg it is somewhere around 68 – 72 per kg, it is varying around that kind of range. Nylon tyre fabric is around Rs.280 – 290 per kg. And carbon black I gave you the wrong number, it's about 72 – 77 per kg. So that's the range, what are the other things you wanted to know?

Naga Deepika

What is your outlook on these oil derivatives, how are the price going to move in the next few months, what is your guidance for these numbers.

Anant Goenka

Generally they follow oil prices. There is a little bit of lag, sometimes that is there. So crude prices are kind of flattened out a little bit and coming down a little bit. So I think there can be some minor correction here and there. But certain items like synthetic rubber etc, sometimes the manufacturers take decisions to shift capacities or cut capacities, so that is very difficult to predict what would happen out there. So there you can see an increase in pricing also, despite oil prices coming down. So very difficult to say how these manufacturers will act. But purely

based on oil, oil has been cooling down over the last month and a half and that can help going forward.

- Naga Deepika** What is the proportion of raw materials that they import out of total raw material cost sir?
- Anant Goenka** About 30%.
- Moderator** Thank you. The next question is from Vinit Hetamsaria from Bharti AXA Life, please go ahead.
- Vinit Hetamsaria** Sir can you tell me the extent of radialisation of our truck and bus segment. The industry wide levels the radialisation is 18%. And what about the percentage for our company?
- Anant Goenka** For our company it is about 13 – 14% right now. That's what is our radialisation.
- Vinit Hetamsaria** And for OEM and replacement growth in T&B segment?
- Anant Goenka** In the T&B replacement, in tonnage terms it has remained flat. And in the OEM segment, grown by about 25%.
- Moderator** Thank you. The next question is from Srinath Krishnan from Sundaram Mutual funds, please go ahead.
- Srinath Krishnan** Basically wanted to understand your markets or operations in Sri Lanka. So if you could help me understand how is the gross margin for Sri Lankan operation compared to our Indian operation and on capacity in Sri Lanka. Also in terms of tonnage wise you have grown by 6% in Sri Lanka. But we see for players like Bajaj and Maruti to imposition of duty. Their volumes have come down. So basically wanted to understand your product mix there and your market share in OEM and replacement category in Sri Lanka.
- Anant Goenka** Sri Lanka doesn't have an OEM segment. It is purely whatever goes to the replacement and export segment. The good growth in Sri Lanka, 6% kind of growth levels, is because of increase in export primarily and export realization generally at this point are high up because of the depreciation of Sri Lankan rupee as well. So that has helped margins being at a higher levels. So Sri Lanka EBITDA is at about 15% as against India EBITDA closer to 9% kind of levels.
- Srinath Krishnan** But in terms of gross margins how is it? Is it similar to your Indian operation that is RM to sales cost?
- Anant Goenka** Okay I can get back to you. I think there should not be much of a difference because there can be some difference because Sri Lanka itself has a natural rubber growing capability within Sri Lanka. They could be utilizing domestic rubber and getting the benefits of export by selling the tyres because of the rupee situation out there. So perhaps there can be some advantages at the gross margin levels. That's not the exact difference.



- Srinath Krishnan** Which export market we target there?
- Anant Goenka** There it really depends on the relationship of CEAT India and CEAT Sri Lanka. So we try and avoid having any conflict by selling the same brand to the 2 countries. They actually sell in other brand. But they do sell in countries where there is sometimes anti-dumping or some kind of duty on Indian operations. So countries like Egypt for example where they can be import duty from India. So there we can sell from Sri Lanka.
- Srinath Krishnan** So this import duty is on all the vehicle too is it?
- Anant Goenka** I don't know about vehicles but on certain tyres atleast certain countries have import duties from India.
- Srinath Krishnan** And the market share you have in replacement.
- Anant Goenka** On average it would b something like closer to 50%.
- Srinath Krishnan** And the percentage of revenue from replacement?
- Anant Goenka** 80% would be coming in from replacement.
- Srinath Krishnan** And the capacity?
- Anant Goenka** Capacity is about 60 tonnes per day or 10th of India size. India would be about 600 tonnes per day total capacity. There it would be 60 tonnes per day.
- Srinath Krishnan** So it about 21,000 tonnes and what would be your utilization level for Sir Lanka?
- Anant Goenka** We are operating at 100%.
- Srinath Krishnan** So what are your plans here because you have export opportunity, utility margins are higher and the replacement segment you have 80% market share?
- Anant Goenka** We are exploring increasing our capacities in Sri Lanka particularly on the radial side. So we are exploring category like light truck radials which has a good demand there and 1 opportunity for expansion.
- Srinath Krishnan** So nothing finalized here, for next year there is no addition of capacity.
- Anant Goenka** So this year likely to be. I can get back to you on the exact details.
- Moderator** Thank you. The next question is from Ajay Sethia form Centrum, please go ahead.
- Ajay Sethia** Two questions one is on the radialization you said it is currently under absorption in the radial tyres which you sell. And currently the industry is at 18%. When do you see the guys making

a decent profit, where do we see the market moving from 18% to x% and there is decent profitability. Also when can we see that 7 – 8% increment coming from radicalization?

Anant Goenka

Very difficult to say when this will happen. I would say that it would take at least a year and a half time for improvement in margins in radial. Because fair amount of capacities have come in at the same time from competition as well as Ceat. Every one has come in with large capacity. So competitive pressures are high at this point of time. Radialization I believe has accelerated well over the last year and it will continue to accelerate. So I would not be surprised that next year we see radicalization at 24 – 25%. In another year it would be 30%. So with this kind of radialization and improvement people will over time realize the benefit. How long it would take, in my view I would say we can start seeing better realizations from a year's time from now. But that's a guess.

Srinath Krishnan

And second thing is since you talked about the additional capacities coming through, in terms of tonnage, can you throw some light in the industry basis what would be capacity and what would be the demand sort of thing?

Anant Goenka

On the industry side, total truck production per month or production or sales in the replacement market is something like 12 lakh truck tyres of which my view 2 – 2.5 lakh truck tyres is radialized. So what exactly is the question that you have?

Srinath Krishnan

My question is lets say you have got 80 MTPA per day at Halol plant for radialization, on the industry basis cumulatively for all the players what would be capacity in metric tonnes per day and what would be the demand sort of thing?

Anant Goenka

In our case 80 tonnes translates to about 40,000 tyres per month. So again say 2.5 lakh tyres currently in demand, we will be at about 40% that's about 18% when we reach full capacity assuming we sell everything in replacement which is not going to be the case. In about 5000 – 6000 tyres in OEM may be about 10,000 tyres in exports and about 15,000 tyres in the replacement segment. So our market share in that sense can be calculated 15,000 over 2.5 lakh tyres or so. So that's how we are seeing. I can't say exactly what the others have set up. Because they all have different phases, when they will come into production and when they will ramp up is very difficult to say. But I know everyone invested a fair amount or at least few tyre companies have invested a fair amount in truck, bus radials.

Moderator

Thank you. The next question is from Jasdeep Walia from Kotak, please go ahead.

Jasdeep Walia

What are the large capacity additions coming online this year?

Anant Goenka

I don't know too much of new capacities coming up. I would say most capacities came up about a year, year and a half ago and most capacities are likely to be ramping up over the course of last year and this year. So again I wouldn't want to comment on competition what and when they are doing because I don't know details of what and when they are ramping up but they are all under ramp up is what I hear at this point of time.

- Jasdeep Walia** Can you comment on the kind of pricing you are seeing in the market right now? Is there a pricing discipline being maintained?
- Anant Goenka** Again don't know, one is you can look at margins and see how margins have moved. I would say our net realizations have clearly come up which is a mix of products and mix improvement as well as some amount of pricing changes that took place last year when rubber prices had really shot up very high. So from that extent we have been maintaining prices since last year. So that's how it has been.
- Manish Dugar** Just to add to what Anant said, Jaspreet this is Manish here. At an industry level price is typically driven by cost of manufacture and given the margin levels are so thin, I would be surprised if anybody is trying to play significantly by undercutting prices. That play I don't think exists in the industry.
- Moderator** Thank you. The next question is from Silky Jain from Nirmal Bang Securities, please go ahead.
- Silky Jain** Just wanted to know what was our capacity ramp up at the Halol plant in this quarter, last quarter we were at 90 tpd.
- Anant Goenka** Last quarter we were at 88 tonnes per day. Actually we have been nearly at flat levels from last quarter to this quarter. We had a couple of issues from the demand side. We found that we were selling a fair number of radial tyres to Brazil and because of the Real depreciation suddenly tyres became very expensive there as well as the growth there really slowed down. As a result from the demand side we found a slight slow down. And the second was we found that our OEMs in passenger car radial cut capacities around May June time period. Capacity utilization from quarter 4 to quarter 1 has been flat, at about 85 tonnes per day.
- Silky Jain** So it is still at 85 tonnes per day. Like 150 tonnes per day we are planning by FY13 end and that still seems achievable?
- Anant Goenka** In my view we should be about 135 – 140 tonnes per day by FY13 end.
- Silky Jain** At quarter exit we will be at 135 or?
- Anant Goenka** By quarter 4, between January and March of next year.
- Silky Jain** And just wanted to get a sense of how are you seeing the raw material prices as in the rubber prices in current year in FY13?
- Anant Goenka** Rubber prices have come down a little bit. So while rupee has depreciated having an impact on imports but rubber prices have certainly come down. So in Q1 they were at about Rs.193 per kg, today it is at Rs.180 per kg is the RSF for ex-Cochin price. So rubber prices have down. International prices have also come down. So as I shared earlier international rubber prices duty paid is about Rs.175 per kg. So rubber prices coming down that has happened in

the last month and a half and, for whatever we have procured the impact will really come in from mid-September onwards.

Silky Jain Are the current EBITDA margins sustainable? Do we see the same trend to continue going forward?

Anant Goenka I would guess so. There has been no real major change between now and even next quarter. So the next couple of quarters I don't see nay major change coming in it would be my guess. I believe it should be sustainable. There can be some impact in July, August month. These are the leanest month of the year with respect to sales. So sales can be little bit weak at this point of time. And a little bit of increase in raw material prices because of rupee depreciation. However, I think from September onwards these things will adjust.

Silky Jain Sir the last thing is on the CCI decision for which we are all waiting. It was there in the last quarter as well. But we have not seen anything coming up, so would like to get an idea from you, what would be the impact if some decision comes up, what sort of impact can we see on CEAT?

Anant Goenka Even we are waiting, so we don't know anything yet about that. So very difficult to say what would happen. Let's see when the order comes. If it is positive, it is negative, and if it is negative, what kind of impact would come, very difficult to say yet. So it's only when the order comes we get an idea.

Moderator Thank you. The next question is from Sudarshan Narasimham from Systematic shares and stocks, please go ahead.

Sudarshan Narasimham One question on the raw material price outlook. You very well outlined your outlook for raw material prices going forward. But on the carbon black and fabric prices if you could just throw some light on that please, that will be helpful.

Anant Goenka Carbon black prices has gone up a little bit form Q4 to Q1. Quarter 2 we expect a small reduction in carbon black prices. Generally they follow the flat index or they follow again crude oil based pricing. So I can expect some improvement in carbon black from quarter 2 to quarter 1. So that's what I would expect. But fabric prices have also gone up from quarter 4 to quarter 1. Again these tend to follow crude as well so again I would say similar outlook for fabric prices.

Sudarshan Narasimham But just particularly in case of fabric prices if you look at the raw material that Caprolactam those prices are generally depicted a downward trajectory over the last 1 – 2 quarters. So just trying to figure out what is the reason while in one hand raw material is going down but fabric prices are going up.

Anant Goenka Did it go up? Because there is some amount of lag, oil prices have gone up if I can recollect right from January to March kind of time period of this year. It is only after March-April I



think they have started coming down. So I think that effect will come in from quarter 2 onwards.

Sudarsahn Narasimham So you see a correction in fabric prices going forward?

Anant Goenka There could be.

Moderator Thank you. The next question is from Subrat Dwibedi from ICRA Limited, please go ahead.

Subrat Dwibedi You had mentioned that the life of a bias tyre would typically be 60000 kilometers, did it include after re-treading or just the fresh tyre?

Anant Goenka This is for the fresh tyre.

Subrat Dwibedi Just to understand in terms of cost of the tyre, how the cost of manufacturing defers for a bias and radial tyre and why would there be a difference?

Anant Goenka Cost of manufacturing is actually not very different. Weight of our radial tyre is slightly higher. Cost of tyre would defer. The main difference is dependant on steel tyre cord other is Nylon tyre cord but the component of rubber synthetic is not very different substantially. So the cost per kg is not really very different. But the cost per tyre in a radial tyre is slightly higher. So the weight of the bias tyre is something like 55 – 60 kg. This would be may be 60 – 65 kg. So it is about a 7 – 8 – 10% weight differences there. As a result there is a price difference also of about 7 – 8 – 10%. In my view the price difference should be higher because the value you are offering to a customer is much more.

Subrat Dwibedi But at present since the customer is not in a position to take that. That's why the margins would be lower?

Anant Goenka So we are still introducing it in a way to the market. Customers are trying it out. They don't perhaps have the confidence yet, and competitive pressures are also very high. All of these reasons are causing bias truck radial tyres to be lower priced.

Subrat Dwibedi And so likewise the return of capital for a bias tyre plant would be significantly more than a radial tyre at present?

Anant Goenka Assuming the pricing is at today's level, yes of course.

Subrat Dwibedi Can you throw some light on the costing of a plant per tonnage basis?

Anant Goenka Bias tyre would be about Rs. 3 – 4 crores per tonnes. Radial would be about Rs. 5 – 6 crores per tonnes. And then you have to really see the margins. Right now margins are less attractive in the case of radial. So of course return in capital employed is much worse.

Subrat Dwibedi And what could be payback period for a fresh radial tyre capacity in today's scenario?



- Anant Goenka** Again it really depends on margins. If margins stay at today's levels then no one will invest in truck radials. Passenger car radial makes sense but truck radials I would say no one would invest at this point of time because ROCE is very low.
- Subrat Dwivedi** So everybody is banking on the rapid radialization which is expected to go ahead?
- Anant Goenka** That's right.
- Subrat Dwivedi** Sir you had mentioned that at present your CV exposure is around 55% of your overall mix. What would be the long term exposure?
- Anant Goenka** Long term we want to bring this down. So we want to bring this down to about 45 – 50% CV.
- Subrat Dwivedi** With migration towards more profitable segments?
- Anant Goenka** Towards non-truck segments, towards passenger car radials, UV radial, and two-wheeler.
- Subrat Dwivedi** Then OEM, T&B segment you had mentioned there was a 25% growth this quarter, is that correct?
- Anant Goenka** It is actually 56% growth in tonnage.
- Subrat Dwivedi** But how is that possible overall market has seen a sluggishness?
- Anant Goenka** This is because we have been selling some more truck radials. So that is one major reason. Sluggishness has been there more in the passenger car segment and in the truck bias segment.
- Subrat Dwivedi** And you had also mentioned that at present international landed cost of rubber is around 175 after duty and domestic is around 180 at present. Is that right? Why would there be a difference?
- Anant Goenka** There is always parity, some difference because of global demand-supply situation. So if you look at one-time, international prices was Rs.20 higher than domestic prices. So there is always this kind of parity or differential keeps happening when international is Rs.20 higher or sometimes is Rs.20 cheaper and it would vary for various reason. So there is no particular reason I would say.
- Subrat Dwivedi** Domestic prices tend to follow the international trend, so we can expect some more decline in prices?
- Anant Goenka** That is what I would say. There may be some small decline. So the landed price right now is at 175. I hope domestic should be at about 175 levels.
- Subrat Dwivedi** Was there any increase in prices overall in Q1?



- Anant Goenka** About 1% price increase was taken by end of April.
- Subrat Dwivedi** Lastly one question, from a fleet owner perspective, how he decides as to when to replace his tyres in terms of number of months? May be if the demand is sluggish, he would increase that period. So, on an average what would be the replacement cycle at present from a fleet owner's perspective?
- Anant Goenka** I would say there are many aspects actually. If you look even within India there are many different patterns which people follow. In the south re-treading is very high. You have people who re-tred as many as 6 times per tyre in a way. Whereas in the North, a lot of people use heavy loading as a result they utilize the tyre only up to 50% wear and tear. So they will wait for 50% utilization and then they will sell the tyre. So it very much varies based on use whether it's going to be for highway applications, whether it is going to be for construction application, whether it is going to be for overload or under load so too many factors affect. One way to simply look at it is prices are going up or they are finding general cost pressure going up very high on their side so they would look more and more re-treading. So that is a very basic answer to give you. But too many factors I would say affect this decision.
- Manish Dugar** The one thing that makes them decide is, what is going to be their decision criteria so far as safe reaching of the vehicle is concerned and second is what is the cost going to be a per kilometer basis. And all of these factors as Anant mentioned would impact either of the two.
- Subrat Dwivedi** So it could be very wide. It could be 8 months or 18 months anywhere between that how is it, just to get a sense of the range.
- Anant Goenka** It can be even 3- 4 months' time. 18 months is a little longer. I would say it is between 6 – 8 months.
- Moderator** Thank you. The next question is from Basudeb Banerjee from Quant Capital, please go ahead.
- Basudeb Banerjee** As you said that out of full ramped up TBR capacity, of 90 tpd you are producing somewhere around 60.
- Anant Goenka** About 80 tpd is the terminal capacity for TBR, we are at about 50.
- Basudeb Banerjee** So at 50 what is your market share in the TBR market in India presently?
- Anant Goenka** 50 tpd will be about 18000 truck tyres per month and total demand is 2.5 lakhs, it would be 5% in my view. Because we export as well as sell to OEM, both.
- Basudeb Banerjee** And within the TBR benefit by the domestic manufacturer what is the breakup in OEMs and replacement presently, I hope replacement must be very low.
- Anant Goenka** Breakup between OEM and replacement for what?



- Basudeb Banerjee** TBR, Truck-Bus radials?
- Anant Goenka** I don't think I have that data with me right now. I can get back to you on that.
- Basudeb Banerjee** You said that 14% of revenue coming from two-wheelers for India business, broadly, so what is your market share in the two-wheeler overall tyre market.
- Anant Goenka** It is 17%.
- Basudeb Banerjee** And the CV?
- Anant Goenka** It is about 12% - 13% may be.
- Moderator** Thank you. The next question is from Silky Jain from Nirmal Bang Securities, please go ahead.
- Silky Jain** You said your market share in the two-wheeler is currently 17%. And if I am not wrong it was 14% in the last quarter?
- Anant Goenka** Last year same quarter.
- Silky Jain** Because I have written it as 14% in FY12, so I am just wondering what led to a 3% increase in the market share?
- Anant Goenka** Over the course of the year right, so we have been investing a fair amount in our brand. We have increased our capacity from outsourcing units and we have been focusing on increasing our distribution coverage. So it's been one of our core areas that really we have focused on and that's why we have had 3% increase in market share.
- Silky Jain** So are we targeting a further increase in market share in this for a particular year?
- Anant Goenka** We would like to take it up by at least further 2% this year. 19 – 20% is what we would be targeting, by exit not average.
- Moderator** Thank you. The next question is from Abhijeet Vora from IFCI, please go ahead.
- Abhijeet Vora** I have one question regarding that, what is the raw material cost per kg for TBR tyres at current raw material prices?
- Anant Goenka** Raw material for TBR, I would say would be I wouldn't have the exact raw material for TBR particularly but roughly raw material prices are somewhere between Rs.160 – 165 per kg is the rough raw material price.
- Abhijeet Vora** I just want to understand from the perspective of the differential of raw material prices of TBR and TBB tyres?



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- Anant Goenka** It will be pretty much similar. As I said raw material price will not be very different. But the weight of the tyre is different. Raw material per kg is not very different but the weight is little bit higher than TBR.
- Abhijeet Vora** So currently given the low margins in TBR. So are we profitable or loss making currently in TBR given the low realization there.
- Anant Goenka** It depends which sector. If you are selling the exports we are profitable if you are selling in OEMs we are loss making. The replacement is somewhere in the middle.
- Abhijeet Vora** From the pricing perspective, what is the discount as compared to the replacement market in TBR which you give to OEM, the discount versus pricing in the replacement market.
- Anant Goenka** I won't have the exact details here with me but yes, we would be giving a discount to the OEMs because of large volumes that they buy from us. So they would clearly be some amount of discount that we would be putting it.
- Abhijeet Vora** Approximate figure 10 – 15% just to understand that part.
- Anant Goenka** I don't know exactly what percentage it would be. I think I will get back to you on that.
- Moderator** As there are no further questions from the participants I now hand over the conference back to Mr. Anant Goenka for closing comments.
- Anant Goenka** Thank you very much for your interest in CEAT. We look forward to keeping in touch and your continued interest in the company. Thank you so much.
- Moderator** Thank you. On behalf of CEAT Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.