



## “CEAT Limited Q1 Financial Year 2015 Earnings Conference Call”

July 23, 2014



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**Moderator:** Ladies and gentlemen, good day and welcome to CEAT Limited, 1Q FY 2015 Earnings Conference Call, hosted by Antique Stock Broking. As a reminder all participant lines will be in the listen-only mode. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Basudeb Banerjee from Antique Stock Broking. Thank you and over to you Mr. Banerjee!

**Basudeb Banerjee:** Good afternoon to all. First of all, thanks to CEAT Management for giving us the opportunity to host the call. Representing the management today will be Mr. Anant Goenka – MD and CEO and Mr. Subba Rao, CFO along with the IR team. So wasting no time I would like to handover the call to Mr. Goenka for his initial comments after which we can start the Q&A. Thanks.

**Anant Goenka:** Thanks Basudeb. Good afternoon and a very warm welcome to CEAT Quarterly Investor Call. I am Anant Goenka, Managing Director and with me I have Mr. Subba Rao, our CFO. Thank you very much for your interest in CEAT. I will give you a brief update on the results and a few current key parameters relating to our results and then we will be happy to take questions.

Some data points with respect to our year-on-year data. We registered a 10% revenue growth on a year-on-year basis. We have had a good volume growth of 11%, and price and mix contributed to a negative 1%, bringing it down to 10%. The 11% volume growth was mainly on account of good growth in the domestic market segment led by the passenger category such as two-wheeler, UV and Passenger Car Radials segments, which we have been stressing on for sometime. In all of these categories we have seen a good growth of 30% plus levels on a year-on-year basis.

In terms of the key markets that we operate in, the replacement and OE segments have grown well with OE particularly growing more than 20% levels. On a quarter-on-quarter basis some more data points, we registered a flat revenue growth with a volume growth of about 1%. In terms of segments, exports share grew by double-digits while OE actually degrew. Replacement registered a healthy growth driven again by the passenger categories, which are really our strategic areas. Overall raw material prices were lower by 1%; however, largely of the RM cost benefit some amount was passed on in the export segment and in part in the OE segment as well.

Export realizations were effected because of softer currencies and therefore gross margins were flat despite soft material prices. If rubber prices stay at current level, we expect the full benefit of the reduction to reflect going forward in a few quarters because we used some high inventory that we had kept because of the risks of strike in our Nasik Plant.

In terms of product categories again passenger segment continued to do very well. Ad campaign has been a key catalyst to our growth and our investments in brand building will continue going forward. So the first quarter has been good for CEAT from a growth perspective but our margins have seen a drop.



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With respect to the environment we are beginning to see a positive change in the passenger segment very shortly or now we have already began to see some change. On the commercial segment, we expect things to start improving in about six to seven months time. But perhaps it is too early to see the gains immediately in the commercial segment. So growth is looking to be good both in the OEM as well as replacement markets.

On the raw material front, international rubber prices have been quite soft and we expect largely natural rubber prices and other raw material prices to remain quite stable at today's level.

I will now handover a call to Mr. Subba Rao who will talk about the key financial parameters particularly talking to you about profit numbers.

**Subba Rao:**

Ladies and gentlemen, good afternoon. The quarter prima facie looks little bit disappointing but underlined factors continued to be of silver lining in nature. I will begin the briefing on financials.

Our EBITDA for the quarter declined by about 260 basis points year-on-year and 190-bases points on sequential basis. Absolute EBITDA dropped to 137 Crores from 164 Crores on the sequential quarters and 159 Crores year-on-year basis. The key reasons for the drop in the EBITDA margin, I would just elaborate now.

Although raw material prices were soft during the quarter, the raw material cost was low only by 1% because the full benefit of raw material cost at the current lower prices was not accrued in this quarter, higher cost opening stocks were sold and consumed in this quarter and that is a reason why the raw material cost has come down just by 1%. The current transfer of the low raw material prices are likely to be realized in the next quarter and in the coming quarter.

Second factor due to increased competitive factors in export segment and due to downward price revision for OE customers considering the lower raw material prices currently, the realizations also dropped by 1% on sequential basis.

On year-on-year basis the opex increases particularly in the employee cost to the tune of Rs.16 Crores, outsourcing cost to the tune of about Rs.20 Crores and freight cost about Rs.12 Crores and advertisement cost, which is in the investment nature about Rs.6 Crores could not be completely recovered through the increase in the volumes and margins and adversely impacted the EBITDA by about 22 Crores in the current quarter.

On the balance sheet side, our debt equity currently stands at 1 time compared to 1.1 times in the March quarter and 1.2 times year-on-year basis. Debt to EBITDA stands at 2 times and EBITDA to interest stands at 3.5 times. All these are pretty healthy ratios in terms of the leverage management.



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Coming to Sri Lanka, there are overall adverse market conditions in Sri Lanka pulling down the overall sale. Our Sri Lanka JV hence had though on quarter-on-quarter basis it has gone by about, 2% and on year-on-year basis it declined by about 7%.

EBITDA margins continued to remain healthy at 21%. I could conclude here my briefing and we would invite the forum for the Q&A.

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

**Ashutosh Tiwari:** Sir my question is regarding the raw material cost. I mean last quarter the raw material prices started falling and last time we indicated that there are some inventory that you had essentially, which would lead to a basically no improvement in gross margins that fell in Q4 but again in Q1 we are seeing that still gross margins are flattish only?

**Anant Goenka:** Ashutosh, there are two reasons behind this, one is as we had mentioned in the last couple of quarters we had kept quite a lot of high inventory because of the risk of our Nasik Plant strike where we were undergoing the long-term settlement discussion. The long-term settlement was signed only six days ago, which we had thought maybe would get that signed around middle of May so there was a delay of about a month or month and a half, so that is really why we have kept some inventory priced at around Q4 kind of pricing level. So that is one key reason. Second is wherever we have grown, we have grown largely and the market mix has been a little bit adverse, if you look at our growth we have grown well in the OE segment where margins are little bit lower whereas our growth in exports has been a little bit on the lower side. So the mix growth has not been good as a result realization has not gone up as we had hoped. So we have been focusing on export but there are two challenges that we are seeing on exports. One is we are seeing radialisation happening all around the world. We sell truck bus bias and light commercial vehicle bias tyres in export but since radialisation is happening that is one challenge we are facing. Also competition from China is having a some impact on our total export sales so these are two impacts that are coming in and so we have to take some price cuts in exports, which has also affected not only export sales but also export realization. So these are couple of things that are causing our gross margins largely to remain at not going up in a positive environment and on the other hand we have a little bit of cost inflation as well.

**Ashutosh Tiwari:** But if I heard correctly you mentioned that on a QoQ basis you saw a double-digit growth in exports and replacements and OEM was little declined right?

**Anant Goenka:** Yes so that was on a Quarter-on-quarter basis but overall that was on a low base also. So as we shared in the last concall export also had been going through a slightly tough patch overall in the last six months, so the base was low if you were to compare it on a year-on-year basis overall export sales barely grown between 0% and 5%, whereas 20% growth we have seen in OE segment. So we do want OE to grow but we want export to grow and replacement to grow at a faster basis.



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- Ashutosh Tiwari:** So what kind of price could you have taken in exports market?
- Anant Goenka:** We have not taken a price cut. It is more country specific, product mix specific on average it could be about 5% kind of realization reduction I would say rather than price cut.
- Ashutosh Tiwari:** Just one more question on this gross margin, MRF also just reported their numbers and they have seen almost like 2% QoQ improvement in the gross margin. Can we expect gross margin expansion in the second quarter from Q1 levels of similar kind or may be one percent more?
- Anant Goenka:** Yes, we start seeing I think some amount of raw material benefit. Further benefit should come in Q2 in my view and with respect to sales I think the good thing is we are seeing some positivity in the replacement segment, which is also quite positive now. I mean we are seeing good offtake out there so hopefully we should see slightly better gross margin.
- Ashutosh Tiwari:** What is your sense on replacement market growth you said truck and bus segment currently and this year also for the market as such?
- Anant Goenka:** For the market in my view, I will give you a very broad estimate. This is my estimate that truck and bus segment should be growing at about may be 5% to 10%, Passenger Car segment also should be growing at around similar levels at this point of time in the replacement category. I would say at industry growth level, at a tyre growth level it should be may be at about 7% to 10% that kind of level.
- Ashutosh Tiwari:** Sorry sir, 7% to 10% for what?
- Anant Goenka:** Tyre sales growth for the industry would be somewhere between 7% and 10% level.
- Ashutosh Tiwari:** That means then truck and bus should be growing at a higher rate or do you think?
- Anant Goenka:** Both categories. This is for tyre not for vehicles.
- Ashutosh Tiwari:** One more thing if I see in the fourth quarter revenue that you had shared the volume number for Q4 FY 2014 was around 63600 while actually in the recent presentation you have shared around 62600 only so what is the correct number essentially over there?
- Anant Goenka:** This 62600 is the correct number.
- Ashutosh Tiwari:** Thank you. I will join the queue.
- Moderator:** Thank you very much. The next question is from the line of Jay Kale from CIMB Securities. Please go ahead.
- Jay Kale:** Thanks for taking my question. Sir I wanted to just a colour on your other expenditure basically your marketing expenses. Are there any lumpy marketing expenditure in this quarter or would



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this be a recurring runrate for you going forward considering your increased ad spends in the PV and two-wheeler category?

**Subba Rao:** Ad spends we have increased in the budget from the earlier years level so these are likely to continue because this is in the long-term interest of the business. We need to intensify with the brand building for the company and though these are temporary setbacks are going to be there on this account, I think the-long term we are going to see the benefit with the company. Other cost increases is salary increases. We try to rationalize the manpower as we go along so that will continue to happen. Another factor is also fuel costs have gone up significantly if you compare with a quarter one of the last year. So partly on account of the rate revision and partly on account of the volume increase So this is pretty significant and almost 20 Crores is the difference between the last quarter and this as the last year and the current year. So this also continues so discretionary expenditure here is only in the tyre space and rest of the expenditure would continue though we will try to bring it down as we go along.

**Jay Kale:** Sir also regarding a product mix if I see your truck and bus segment has reduced substantially in this quarter to around 43% of your sales. Now ideally when such a reduction is a truck and bus segment which is a low margin product your mix should improve to that extent although your exports mix has also declined. So was the export disadvantage more than the truck and bus mix going down because a truck and bus significantly a low margin product right?

**Subba Rao:** When the realization goes down by about 1% on topline so that the raw material cost is offset to some extent there would be overall, so there are two impacts at the same point. On the topline yes there is a drop in the price realization. Again the expenses have substantially increased and how do you report expenses when they go up, you have to do more volume and margins have to go up. So unfortunately in this quarter it has not happened. The first two months were very disappointing. Of course the third one which is June was very encouraging and normal and we hope to maintain the June trend going forward and maybe close to 45% of the total quarter's profit has come in a month of June itself. So that is how the first two months were bad, but what is more important is that the truck and bus mix is dropping and other passenger category is going up. Look at these figures passenger radials has gone up by 51% and UV radials have grown by 29%, motorcycle's business has gone up by 54% and last which is also a focused area has gone up by 38%. So these are the fundamental positive changes, so though the quarter is a little bit of disappointment because of various factors on both the cost side as well as the revenue side, so this will give a lasting advantage as we go along , along with the brand building.

**Jay Kale:** Sir any plans to raise any funds going forward for any specific purpose?

**Subba Rao:** I cannot comment anything at this stage.

**Jay Kale:** Thanks.



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**Moderator:** Thank you. The next question is from the line of Amin Pirani from Deutsche Bank. Please go ahead.

**Amin Pirani:** Thanks for taking my question. Sir my first question is on the pressure on pricing that you mentioned in the export market, so just to clarify so you are mainly facing competition from Chinese exporters so is there are obviously we already have Chinese import within the country but is there a risk that the Chinese exporters are being coming more aggressive all of a sudden and the risk of Chinese imports to India as well could go up?

**Anant Goenka:** No we do not see a challenge of Chinese tyres coming into India. That has been largely growing or flat the way it has always been so we do not see that as a risk at all at this point of time. The way where we are seeing this as a challenge in other countries and what has happening is you are seeing Chinese radials coming in at a price which is about 20% lower than Indian Bias tyre which is where the challenge is coming in. It is a higher technology product or more future led product at much lower prices.

**Amin Pirani:** You mentioned that there has been no passing on of these raw materials decline in India market which I guess has been the feature of this cycle compared to the past so just on that is want to mention, you mentioned that there is an increase in your ad spends then I think some other companies are also spending significant amount on brand building so would it be a fair thing to say that the competition in the domestic market has moved from pricing to brand building and expenditure on advertising is that the correct way to look at the how the industry has changed?

**Anant Goenka:** Not really, I mean we have not looked at it at all like that. This is the first time I am hearing which is an interesting view but largely our Ad spends are very focused on a few categories whereas competition might be looking at other categories while I cannot comment specifically on competition our focus on advertising has been largely on the motorcycle and utility vehicle space so its not that we are fighting or in a way competing in the same space necessarily. So some spend purely on the mother brand itself some spend on particular category, but I would say it is not this is in our strategy has been more independent of what competition is doing.

**Amin Pirani:** But the India market pricing continues to be stable?

**Anant Goenka:** Yes, on the OE side yes there is a certain percentage of our customers where our pricing is connected to commodity pricing so yes if there is a commodity reduction we would have to pass that on.

**Amin Pirani:** But that is a formula base thing I believe?

**Anant Goenka:** Formula based yes.

**Amin Pirani:** Just lastly, truck would be still what percentage of your overall revenue, truck tyres?



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- Anant Goenka:** Truck tyre is close to about 45%.
- Amin Pirani:** In the Truck you did give the growth rate for a passenger radial, motorcycle and all that for truck what was the kind of growth or degrowth that you saw in this quarter?
- Anant Goenka:** It depends on the category that you look at but on average truck has been flat, on an average basis across all categories.
- Amin Pirani:** Truck has been flat on YoY basis.
- Anant Goenka:** Yes.
- Amin Pirani:** Thanks. I will come back for more questions later.
- Moderator:** Thank you very much. The next question from the line of Raghu Nandan from Quant Capital, please go ahead. As there is no response we will move to the next question which is from the line of Mr. Nikhil Deshpande from Sharekhan. Please go ahead.
- Nikhil Deshpande:** Just wanted to know is there any kind of arrears in the employee expenses or should we take this as the runrate for the future quarters?
- Anant Goenka:** In this particular case, there were some arrears which we had to pay which has been provided for in our previous costs. So we had to pay some arrears during the negotiation period which has been about a year's time but we provided based on what our expected closure is there will be a very minor difference of under even a Crore Rupees if at all any impact.
- Subba Rao:** But this is a continuing runrate.
- Nikhil Deshpande:** Sir how do you see brand promotion and expenses for this quarter it was at a peak or do you expect this to continue over the coming quarters?
- Anant Goenka:** No we expect it to be at similar levels going forward, if we see some kind of abnormal I mean reduction in sales and certain categories etc., we might look at bringing it down or something but as of now the plans are to keep it going.
- Nikhil Deshpande:** Now related to your next phase of expansion at Halol, have we started the work?
- Anant Goenka:** Yes the work has begun. Civil work is begun so we are in fact may be a little bit ahead of time in our Halol plant.
- Nikhil Deshpande:** Sir how do you see your debt levels going up for that expand?
- Anant Goenka:** The debt levels there are two things we need to consider, the debt levels marginally may go up in the next two years because on consolidated basis, Bangladesh will be drawing the debt close to





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about 200 Crores and for Halol project we will be drawing close to about 450 Crores kind of debt. So 450 plus 200 will be about 650 Crores debt will be going up in the meanwhile about 250 Crores debt also would have been paid off.

**Nikhil Deshpande:** So net-net you see about 400 Crores?

**Anant Goenka:** 400 Crores, but in terms of, in relative terms in terms of debt equity there may not be a significant change it was absolute amount might go up slightly.

**Nikhil Deshpande:** That is all from me. Thank you.

**Moderator:** Thank you. The next question is from the line of Monica Joshi from Bajaj Allianz Life Insurance. Please go ahead.

**Monica Joshi:** Good afternoon and thank you for this opportunity. Forgive me I was little late on the call. I was just trying to understand I think in your opening comment you mentioned that OE sales this quarter were marginally down, if I am correct?

**Anant Goenka:** On a quarter-on-quarter basis, not on a year-on-year basis we have grown by about 20%.

**Monica Joshi:** And on quarter-on-quarter basis the decline is?

**Anant Goenka:** About 15%.

**Monica Joshi:** Within this how has the truck segment and the passenger vehicle segment moved?

**Anant Goenka:** The truck segment has degrown quite a bit largely because of the demand from shutdown of capacities of our customer so that has been a over 30% but passenger segment has shown a much slower kind of a relatively lower degrowth.

**Monica Joshi:** Can you put some number on that?

**Anant Goenka:** Just between about 10% and 15% kind of levels, negative.

**Monica Joshi:** Negative 10 and 15 and negative 30 for the truck segment?

**Anant Goenka:** Yes slightly over that.

**Monica Joshi:** Just to kind of clarification here, you said that you are not seen any sort of a pricing pressure from your Indian OE clients is that correct?

**Anant Goenka:** What we are saying is that on the OE side we had to pass this largely on formula based pricing, we had to pass on some of the drops in raw material prices.



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- Monica Joshi:** This is all what you are passing on so you are not taking any sort of a price decline over and above the material softening?
- Anant Goenka:** Nothing has been decided yet, so there is nothing that had happened yet beyond formula basis.
- Monica Joshi:** Had any of the clients approached you for any sort of a renegotiation?
- Anant Goenka:** We are in discussions with some of them, but I will not be able to elaborate further on that.
- Monica Joshi:** Thank you so much.
- Moderator:** Thank you very much. The next question is from the line of Jatin Chawla from Credit Suisse. Please go ahead.
- Jatin Chawla:** Good afternoon. My first question is you said you had higher inventory at your Nasik Plant is this finished tyre inventory that you are mentioning?
- Anant Goenka:** That is a mix of raw material as well as finished tyre inventory both largely finished.
- Jatin Chawla:** Because I had this confusion that why would you have higher raw material inventory if you are pursuing a threat of some labour unrest?
- Anant Goenka:** Yes.
- Jatin Chawla:** On the wage inflation side is this a factor of the negotiations that you concluded or is this the normal wage inflation that we expect going forward so basically what I am saying is agreement that you have concluded builds this kind of annual increment every year or is this like more of a onetime adjustment and thereafter the wage inflation should slowdown?
- Anant Goenka:** There are two parts of the wage inflation. One is with respect to the normal wage inflation that happens with our management staff etc., with respect to increments etc., the other inflation is linked to the long-term settlement, which is happens once in three years time where that is the second impact that comes in. Largely the long-term settlement which was signed only in the latter half of this quarter I would say it was largely the normal wage inflation that has come in. and some amount of bonus payment etc.
- Jatin Chawla:** But with if there are bonus payments and everything those should be one off for this quarter that should not be then in coming quarters?
- Anant Goenka:** A part quantity, usually we provide for the bonus but last year having been a good year the bonus eventual payout was slightly higher than what we had budgeted in the last year, but usually we provide for it on a quarter-on-quarter so there are usually not so many one off, we tried avoiding one half at that point of time, so one half also that there was small quantum under Rs.5 Crores at least.



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**Jatin Chawla:** The other bit is that what was seen is almost all domestic players are now going in for another round of capacity expansion and if I look at the current utilization levels they are by and large I would say across the industry sub 70% so do you see a scenario where in two years time if things do not recover in a very big manner we could be in a situation where the industry has excess capacity and that puts kind of pressure on pricing?

**Anant Goenka:** Yes I think you have to look at it really from a perspective of first of all which category, so category wise things are very different. We are looking at expansion first of all in Bangladesh which is independent of what other people do. Second is we are expanding in the two-wheeler space, which is again limited with competition. The third is we are looking at passenger car radials where we are investing a fair amount. We have increased our channels presence. We are growing by about 30% to 40% per annum at this point of time and we have a relatively smaller market share in that category at this point of time, so even as a percentage of sales it is a small percentage so our base is quite low so we have enough headroom to grow some in my view on the areas we are looking at growing. Lot of capacities from competition are coming in the truck bus radials segment etc., and with respect to current capacity utilization, current capacity utilization is at over 80% at this point of time and whatever under utilization of capacity is there is largely in the Truck Bus Bias segment. In the Bias category of tyres where radialisation is happening so that area yes you can expect capacity utilization to go down but the new capacities will be were utilized in my view.

**Jatin Chawla:** On the Bias extra capacity everybody is kind of looking to convert it into for highway tyre and that kind of segment, do you see there is enough demand for that kind of highway tyres segment for this kind of Bias capacity that we have to be absorbed and like you said you know even on exports there is people are finding it difficult to export Bias tyres out of India now?

**Anant Goenka:** I am sure anywhere the people are looking at converting. I heard of only one case perhaps where they are looking at converting so I do not know it is a general industry norm where people are looking at converting their Bias to of highway, and if at all it would be like in our case we are not looking at doing that. We might have done in for just barely 5% - 7% of our capacity so its very tactical in a way.

**Jatin Chawla:** So I think people are look at two options largely either exporting or converting?

**Anant Goenka:** Yes.

**Jatin Chawla:** Thanks a lot and very useful.

**Moderator:** Thank you very much. The next question is from the line of David Shaw from Tire Industries Research. Please go ahead.

**David Shaw:** Good afternoon to you. It is really throwing on some questions before about the potential for tyre tariff from the US against Chinese tyres well either present opportunities for you in the US or



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will it make life more difficult outside of the US as the Chinese companies look for other markets?

**Anant Goenka:** Yes, in my view it makes it a little more challenging for us. You are talking about tyre tariff coming down or going up?

**David Shaw:** Well we think for the US willing to use tyre tariffs against Chinese tyres, which will make the Chinese manufacturers move away from the US?

**Anant Goenka:** I think there are two changes that could happen in my view out of that. One is yes the export market could become challenging if tariffs are introduced because you are going to find an inflow of tyres into other region, on the other side the China industry is going to face some more pain with respect to overall growth of the auto segment or the tyre segment which could in turn have an impact on rubber pricing at an overall basis. So you can see some reduction in commodity prices as a result of that but on the other hand, yes there will be more challenge at the export level. I do not see any specific impact happening within India.

**David Shaw:** Thank you.

**Moderator:** Thank you very much. The next question is from the line of Mr. Akash Vora from Raj Financial. Please go ahead.

**Akash Vora:** Sir the OE growth is 20% is that the volume growth or mix? What would be the volume growth in OE?

**Anant Goenka:** Volume growth is a little over 20%.

**Akash Vora:** Same in replacement and exports what would be the volume growth?

**Anant Goenka:** Replacement would have grown by about 10% on a year-on-year basis and export also at about 7% or so.

**Akash Vora:** Sir for the full year you said that the prices of the rubber would be stable at these levels around at 144 levels right?

**Anant Goenka:** Yes.

**Akash Vora:** So the margins would be, we would be seeing an increment in margin next few quarters?

**Anant Goenka:** We would not like to give any guidance specifically on what our margins are or would be difficult to say but we will certainly strive towards double-digit margin.

**Akash Vora:** What would be the kind of demand we are seeing we saw a good demand from domestic so what would be the kind of volume growth we would be like into see in FY 2015?



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- Anant Goenka:** I think we will again look at double-digit growth in FY 2015.
- Akash Vora:** Thanks a lot.
- Moderator:** Thank you very much. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Thanks for the opportunity. Sir I have a question on rubber prices can you share your views on rubber prices I logged slightly late incase you have already share I apologize for that?
- Anant Goenka:** Very difficult to say really where rubber prices will go, but in my view, I think from a demand side China has the big impact on rubber prices and it really largely depends on whether China will grow or not. In my view I am little bearish on Chinese growth so I think that could have some impact on demand for rubber whereas on the supply side things are looking pretty consistent and fine. Internationally rubber is available quite comfortably at this point and I do not see any major change happening on a supply side, unless there is some major weather disruption or something like that.
- Chirag Shah:** Also a few years back we used to read that there lot of new rubber plantations will start production from 2013-2014 onwards and hence the acreage under production for rubber globally is going to go up and that would help in maintaining the prices. Can you share some information over there how are you seeing the actual production levels and how they are likely to behave in terms of some data point if you have?
- Anant Goenka:** I would not have specific data but yes as I said supply side things are quite comfortable particularly outside of India within India I would say supply is still a little constraint but Indian pricing is very dependent on international pricing in a way. So to that extent internationally rubber, I agree with you that there is a good supply of rubber that is coming in. I would not have data point specifically.
- Chirag Shah:** So you were not basically see because we have seen in the past that rubber prices suddenly started moving up and at the current levels rubber prices the breakeven levels for some of the international growers would also be their profitable also be under stress in that sense at some point of time. So what I was trying to understand is that is the best behind for us in terms of rubber prices as an industry or there could be some more reduction and hence the benefit could be there for longer period of time?
- Anant Goenka:** Very difficult to say because I mean I would never like to say that that there is further reduction possible because no one can predict I mean I do not have an idea.
- Chirag Shah:** Fair point, but your guesstimate would be definitely better than ours?



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**Anant Goenka:** My guesstimate is that rubber prices will remain stable. They can be in my view anywhere between 135 and 150 or 145 types of levels and at least for the next six to eight months time.

**Chirag Shah:** Fair point that it is very difficult I agree with you that. Last thing on this capacity side so if you can just help us understand that where are you exactly which segments you are talking in terms of incremental capacity additions and where are your utilization levels if you can just summarise that it would be helpful?

**Anant Goenka:** Yes so our current utilization is just around 80% largely because our plant in Nasik was under a very low production which was just about 65% utilized, which will go up now going forward. In terms of capacity addition, I just shared we are looking at an expansion in Bangladesh of about 65 tonnes per day, we will be looking at an expansion of our Halol Plant of about 100 tonnes per day in the passenger radial and utility vehicle radial category and we are looking at, so these are the two main expansions actually we are looking at right now.

**Chirag Shah:** Bangladesh would be Bias capacity?

**Anant Goenka:** Yes. It would be largely Bias. There would be some amount of two-wheelers, some farm tyres as well as a small truck bias capacity as well.

**Chirag Shah:** Thank you. This was helpful. Thank you very much.

**Moderator:** Thank you very much. The next question is a follow up question from Amin Pirani from Deutsche Bank. Please go ahead.

**Amin Pirani:** Thank you for taking my questions again. Actually I just missed out on some numbers that you had given for the segmental growth rate if you could just repeat that? You had mentioned the growth rate for passenger radial and for motorcycle it is possible for you just repeat those?

**Subba Rao:** The passenger radials have gone up by 51%, utility vehicle radials have gone up by 29%. This is all on year-on-year basis and motorcycles by 54%, last one the smaller commercial vehicles which are meant for the lanes and bylanes that has gone by 38% along with this tractors also has gone up by 11% and specialty business which is off the road tyres predominantly mining tyres is about 12%.

**Amin Pirani:** This is a combination of OEM and replacement?

**Anant Goenka:** Yes.

**Amin Pirani:** Thank you Sir.

**Moderator:** Thank you very much. The next question is from the line of Vishal Saraf from SBI Mutual Fund. Please go ahead.



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**Vishal Saraf:** Sir you are just talking about utilization level, as you have mentioned overall can you give some more specific what you would say utilization levels in PCR segment or PCR & UV segment put together?

**Anant Goenka:** Utilization levels in PCR UV would be however 90%.

**Vishal Saraf:** So do we have scope for further volume growth over next one to two years still the time say Halol expansion comes?

**Anant Goenka:** See on a quarter-on-quarter basis on the PCR side we can see some small expansion. We have still another 10% additional capacity left out there. So to that extent on a quarter, but if you look at it on a year-on-year basis that year's base was much lower, so we can continue to expect the 20% plus level kind of growth in these categories.

**Vishal Saraf:** But on a QoQ basis say from year on quarterly basis when do we see Halol expansion actually being there for us and when do we see next leg of QoQ volume growth in PCR?

**Anant Goenka:** We might see may be one quarter, maybe about three months' time in my view where yes we will be starved of capacity, but in a very short period of time, I think Halol plant will be, short period means in about a year and a quarter from now, I think about 14 to 15 months we will be ready with Halol plant. It will be rolling out tyre, so it is a matter of in my view will be fully utilized by say March of next year.

**Vishal Saraf:** Other segments where you would be at high utilization levels now?

**Anant Goenka:** We will be highly utilized in the motorcycle segment, but there also we are adding capacity through outsourcing unit. We are currently doing about 8 lakhs tyres per month. This will go up to about 10 lakh tyres by September and we are hoping to take it about 11, 11.5, 12 lakh tyres by March, April of next year. So to that extent yes we are adding capacity and that is the other area where utilization will be 100% because as we take up capacity it will always get fully utilized. Basically we are 100% utilized on the motorcycle segment whatever additional we produce we will sell it very easily, so as we take up our motorcycle capacity the utilization will be 100%, but the capacity is going up from about 8 lakh tyres now to about 11, 11.5 lakh tyres by March of next year.

**Vishal Saraf:** Through outsourcing and total two-wheeler capacity would be how much now for us?

**Anant Goenka:** 11 to 11.5 lakh tyres.

**Vishal Saraf:** So the entire production for two-wheeler is coming from outsourced capacity?

**Anant Goenka:** Yes.

**Vishal Saraf:** How about the pricing that works with this outsourced capacity?



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**Anant Goenka:** It was largely on conversion basis, so we provide the raw materials, they do the conversion and we give them a margin on their conversion.

**Vishal Saraf:** How are those costs moving, similar to ours is it?

**Anant Goenka:** Yes.

**Vishal Saraf:** Sir I just wanted to understand on this Bangladesh expansion like you said this primarily on the Bias side, is not it possible to say supply tyres from here given we have surplus Bias capacities or is it possible to shift some of the machinery there, what is the plan like?

**Anant Goenka:** Yes you can always supply Bias tyres, which is what we are doing today, but there is a large duty component into Bangladesh. As a result if it is producing domestically the costs can go down substantially, cost of the production or your cost of supply. So very much like what we have done in Sri Lanka where we have a very strong market share of about over 45%, we will be looking, again a very large market share in Sri Lanka and in Bangladesh as well going forward. So clearly we are trying to replicate the model in Sri Lanka and Bangladesh.

**Vishal Saraf:** Given that we are setting a Bias capacity, is it possible to shift some of the plant and machinery from say current plants into those plants or is it all freshly purchase for us?

**Anant Goenka:** Largely we are buying fresh or second hand equipment from somewhere else. You can shift but in our case our plants are quite old, so the cost of refurbishment is actually quite high, so net-net the benefit is not working out to be very high. You have to refurbish the machinery. You cannot just send it the way it is today. For example our plant in Bhandup is about 50 years old etc. The second challenge around that will be some labour challenges that can come up in these plants, so always when you move machinery away from the plant, there will also be some labor challenges or some resistance from labour.

**Vishal Saraf:** But anyway that has not been utilized, if you are operating at 50% in CV Bias so that machinery might anyway being lying ideal?

**Anant Goenka:** We are not operating at about 50% in CV Bias. We would be operating at about 75% to 80%.

**Vishal Saraf:** That is all from my side. Thanks a lot.

**Moderator:** Thank you very much. The next question is from the line of Amitabh Sonthalia from SKS Capital & Research. Please go ahead.

**Shubhankar Ojha:** This is Shubhankar. Sir I had a couple of questions. One what is the timeframe for the capacity in plant in Bangladesh that is one? Second, I have missed out the number, what is our overall capacity utilization for the current quarter and that is the capex guidance for the next two years and are you planning to raise any capital in your term?





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**Anant Goenka:** The expected time for the completion of both Halol as well as Bangladesh is a year's time from now on which is July-August next year I think we should have the first tyre coming out of both the projects and on the capacity utilization is likely lower during the year because of some labour issue during the quarter it was around 65%, but both Halol as well as Bhandup both have clocked more than 80%. Third question regarding the capital raising I earlier said that we cannot comment at this juncture anything.

**Shubhankar Ojha:** There is no plan to raise equity at this point in time?

**Anant Goenka:** No comments please.

**Shubhankar Ojha:** Thank you.

**Moderator:** Thank you very much. The next question is from the line of Dinesh Kumar from I-Wealth Management. Please go ahead.

**Dinesh Kumar:** Good evening Sir. I have couple of questions, first is since we are concentrating on couple of segment and creating niche for us. Just I want to understand how much percentage of SOB as we already covered and how much room is left which the ease of the OEMs? Second question is can you provide this CEAT Sri Lankan number in Indian rupees because it is published in Sri Lankan rupees in our presentation? I just want to understand since we are just creating a niche for us in a couple of segments so much room is it left for us to take it from OEM segment?

**Anant Goenka:** There is a fair amount of room. So you can always enter new OEMs. We are still not present with a number of OEMs, so there is a tremendous amount of room that is there for OEM, share of business it varies, customer-to-customer and we are not present with many customers. We are in discussion with some to get into business with some of them so I just want to assure that there is enough room there.

**Dinesh Kumar:** So basically whomever we are present, so still there is a room within that client itself. Can you share some approximate number about 20% we cover like that, is it possible?

**Anant Goenka:** It varies like for example in motorcycle business we are under 10% share of business perhaps with Bajaj. We are maybe at over 20% to 25% with Hero MotoCorp. Honda we are not there at all. It varies. So as we get in there is enough opportunity in the motorcycle, which is our cost, where we aware a market share perhaps is the highest.

**Dinesh Kumar:** So what about the PV segment can you give numbers?

**Anant Goenka:** I think PV also we are largely in a small way in a way with Maruti, we are there with Mahindra.

**Dinesh Kumar:** Can you quantify Sir?



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- Anant Goenka:** Quantify, I would not be able to share with you numbers exactly, but there is enough opportunity. We would be there under 10% perhaps with Maruti. With Mahindra we will be may be a little bit over 15%, but then you have everyone has left, who we are not there with, whether it is Ford, General Motors or anyone else.
- Dinesh Kumar:** Coming back with this Sri Lankan numbers. Can you just share the numbers in Indian rupees and request to publish in the Indian rupees from next presentation also?
- Subba Rao:** We will take a note of it. Sales are almost flattish. For the current quarter, it was about 108 Crores in rupee term, sequential quarter is 110 Crores, a year ago it was 111 Crores and coming to EBITDA current quarter is 22 Crores and sequential quarter is 16 Crores.
- Dinesh Kumar:** You are saying about only our contribution in terms of EBITDA?
- Subba Rao:** This is 100%.
- Dinesh Kumar:** But last quarter it was 32 if I am right?
- Subba Rao:** It was not 32, but there was a currency effect.
- Dinesh Kumar:** This is what I just want to understand from the Indian rupee stance?
- Subba Rao:** Which is why we have given the Lankan rupee and just to that there is no currency effect in the profitability, because otherwise it is kind of distraught. That is why we have given the Lankan rupee.
- Dinesh Kumar:** You can continue the EBITDA is 22 Crores and what about PAT?
- Subba Rao:** PAT for the current quarter is 13 Crores.
- Dinesh Kumar:** That is great Sir and I request you to publish in both Indian rupees as well as Sri Lankan rupee from next presentation that will be great. Thanks a lot Sir.
- Moderator:** Thank you very much. As there are no further questions I would now like to hand the floor over to Mr. Banerjee for closing comments. Over to you Sir!
- Basudeb Banerjee:** Thanks Mr. Goenka and Mr. Subba Rao for attending the call clarifying all investor queries on the results and thanks again for giving us the opportunity to host the quarterly conference call.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes this conference call. Thank you for joining us. You may now disconnect your lines.