



“CEAT Limited Q2 Financial Year 2015 Earnings
Conference Call”

October 31, 2014



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Moderator: Ladies and gentlemen, good day and welcome to the CEAT Limited, Q2 FY 2015 Earnings Conference Call, hosted by JM Financial. 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. Ambrish Mishra from JM Financial. Thank you and over to you Mr. Mishra!

Ambrish Mishra: Thanks Zaid. Good afternoon everyone. On behalf of JM Financial I welcome you all to the post results conference call of CEAT Limited. I take this opportunity to welcome Mr. Anant Goenka, Managing Director, CEAT Limited and Mr. Subba Rao, the Chief Financial Officer and Mr. Amit Gala the Head Investor Relations. I would now invite Mr. Goenka for the opening remarks before opening it for the Q&A. Over to you Sir!

Anant Goenka: Thanks Ambrish. Good afternoon and a very warm welcome to CEAT Quarterly Investor Call. I am Anant Goenka, Managing Director of CEAT and I have with me Mr. Subba Rao, our CFO. Thanks a lot for your interest in CEAT. I will briefly take you through our results and a few key update points.

Some data points on our year-on-year results. CEAT registered an 8% revenue growth from a year-on-year basis. We have seen a good volume growth of about 9% and product and price mix contributed to a negative 1% impact. The volume growth was largely on account of good growth in the domestic segment, which was largely led by the passenger segment, which includes utility vehicles, motorcycles, as well as passenger car segment. All have grown very well at about 15% to 20% plus levels.

In terms of the segments, as I said domestic has grown well and exports has grown at about 6% in volume terms. On a quarter-on-quarter basis, CEAT registered a marginal negative revenue growth of about 2%. OE grew well, while replacement and export registered degrowth, largely this is because of seasonality factors where monsoon months, we see a slightly negative growth from in comparison to Q1 which is the high summer months.

Raw material prices have been softening. They have gone down by about 5% on a quarter-on-quarter basis largely because of natural rubber prices coming down. Crude has also softened, which comprises of over 30% to 35% of our raw material basket.

I am also happy to share that the board has approved setting up a two-wheeler facility with a capacity of 12.5 lakhs tyres per month, which includes motorcycles, scooters and three-wheeler tyres. This would require a total investment of about 420 Crores, which would be funded through debt and equity and we expect the plant to start at about a year and a half time.



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Going forward a little bit of an environment update. Things are looking positive, so on the raw material side, prices are low. As I said crude prices, we expect to continue to remain at low levels. Rubber is also largely been at quite low levels right now, and we think with respect to demand side things should pickup. We are already seeing a positive movement on the passenger side.

Commercial vehicle side will take some time, but we believe that with the overall environment looking positive good initiative coming in from the government between the commercial segments will also begin to pickup.

I will now handover a call to our CFO, Mr. Subba Rao who will take you through the key financial parameters.

Subba Rao: Good afternoon ladies and gentlemen. The financials we had a little disappointing first quarter but we have rebounded the first quarter, now the margins have moved up from 9.4% in the first quarter to 12.3% though on year-on-year basis we are yet to catch up by 100 basis points.

EBITDA as an amount, it has risen from 175 Crores from 137 Crores on sequential basis though it is flat on year-on-year basis; however, though EBITDA is still to catch up by 100 basis points year-on-year the PAT percentage to sales remain the same at 5.8% year-on-year basis and on sequential basis it jumped up by 220 basis points due to reduced interest expenditure.

Return on capital employed for the quarter stands at 29.2% up from 28.7% year-on-year basis and from 21.2% in the first quarter. We continue to keep our overall borrowing cost low at around 10%.

EBITDA to interest significantly moved up by five times for the quarter up from four times year-on-year basis. Our long-term debt to equity continues to remain at 0.3 times while total debt to equity has paid down to 0.7 times from 1.1 times on year-on-year basis.

Coming to the operations of Sri Lanka, our Sri Lanka JV revenue has gone up by 11% on sequential basis though it declined marginally by 1% on year-on-year basis. EBITDA margins grew by 110 BPS from 23.1% to 24.2% year-on-year basis. I conclude my presentation here and invite your questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Basudeb Banerjee from Antique. Please go ahead.

Basudeb Banerjee: Congrats for a decent set of numbers. One question if I see in the second half last year your volume base has moved up quite drastically. So with this kind of absolute volume you reported close to 9% to 10% growth. So with the volume base picking up in the second half of last year are you confident of maintaining similar 9% volume growth in the second half of this year?



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Anant Goenka: We expect the growth to remain at the current levels for the next at least three to six months. There is no real change that is happening it was largely led by passenger segment. So, I think for the next six months things should continue to be where they have been for the past year and a year and a half whether it is somewhere between, it is tough to say but between 8% and 11% kind of levels.

Basudeb Banerjee: Second thing, if I see your balance sheet numbers compared to March levels there has been a drastic improvement in working capital at least in terms of inventory or receivables, so one can infer the part of debt repayment, which you have done, which led to drop in interest outgo is also attributable to the improvement in working capital. Will it be right to say?

Subba Rao: Two factors have contributed to this, one factor is the drop in raw material purchase price itself, which have lowered the inventory carrying cost. Second the profitability, which were used to repay the working capital. Also third we have brought down the inventory levels a little bit as compared to the earlier periods. These are the three factors that have contributed to the drop in the interest cost. One of the things, which we had shared with you was that we had kept high inventory levels of finished goods because of the risk of strike in our Nasik plant. Now with that not being there, we have concluded our long-term settlement. We are bringing down the inventory levels.

Basudeb Banerjee: Now with this 400 Crores plan which you have mentioned yesterday, the two-wheeler tyre expansion, so what is your consolidated capex plans for this year and next year including the OTR, two-wheeler and existing Brownfield at Halol?

Subba Rao: Ongoing capex is only the Halol plant and Bangladesh plant, which is together is about 900 Crores and 50% of this approximately would be spent during the current financial year and 50% would be spent in the next financial year, but the two-wheeler plant there is nothing much would be spent during the current year maybe towards the land we will have to spend about 20 Crores to 25 Crores and initial order placements another 20 Crores to 25 Crores nothing beyond this. Overall, it should not exceed about more than 500 Crores for the current financial year including the capex that has already been spent.

Basudeb Banerjee: As you said the two-wheeler plant can get operational around in FY 2017?

Anant Goenka: Yes at about a year and a half from now.

Basudeb Banerjee: Last question is we saw a very good improvement in your gross margins QOQ courtesy the lag effect of rubber prices fall getting reflected. Now with the crude price dropping and as you said the crude derivatives contribute 30% of your raw material basket, so should we see the impact of that in the forthcoming quarters on and above this improvement in gross margin?

Anant Goenka: We could see some improvements in raw material prices further in Q3. How much impact it would have on our margins it is difficult to say because we are actually also going to and we



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have completed our long-term settlement as I had shared so some of that impact would also come in from a cost side. But overall environment is looking positive as I said so it is difficult to give an exact how it will reflect our profits, but things are overall positive certainly.

Basudev Banerjee: That is all from my side.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Good afternoon Sir. Congrats for a very good set of numbers. Two, three questions; one was regarding the settlement. Can you give us some ideas to what is the outcome of the negotiation that you are having with the labor and what is that is already been provided and incrementally we may have to look in terms of providing?

Anant Goenka: Roughly we would have given an increase of around 15% to 20% on the current salary levels and in exchange we got some productivity increase as well as some kind of gain sharing benefit that we are looking at. So if there is any further productivity increase we would share the gain. So those are the key kind of benefits that we have got. These are largely for our old plants. So really the idea is that we are not going to get too much more production output because the old plant cater to Bias tyre which is the segment which is degrowing. The key here would be to reduce manpower and bring costs down. So that is what we will be driving, going forward on that. So you are not going to see substantial volume output from these plants or any volume output increase while there is potential the plants are anyways operating at may be 80% to 85% capacity utilization.

Sachin Kasera: But if you could give us some idea in terms of the absolute amount. What could be the increase in the wage bill that have we provided and are we as a prudent measure already accounting for some of that in the current accounts or everything will come once we sign the agreement?

Anant Goenka: No it will hit us on a quarter-on-quarter basis. So whatever has happened there is no extra provision that is needed but as and when it hits us we provide for it or we account for it at that point of time. The exact amount I can get back to you I do not have the number.

Sachin Kasera: Can you give us the ballpark idea rough number is that possible?

Anant Goenka: I do not have that. I will get back, I will mail to you.

Sachin Kasera: The second question was regarding the export side if you could tell us because you had mentioned that last two, three quarters we are facing some issues in terms of competition from China. How has this quarter panned out? Have things deteriorated from the last quarter and what are the measures the company is looking in terms of improving the performance in the export market?



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- Anant Goenka:** I think this is you have to stay as my view. So we see the Chinese GDP is slowing down a little bit overcapacity in China. So this is the recurring problem, which is there and it is not going to go away for sometime. I do not see it having a further impact on our sales but certainly we have seen slowdown and we think things will remain flat or could grow with some initiative that we are looking at taking but I do not see the Chinese problem going away.
- Sachin Kasera:** But has the impact on margins. There has been further deterioration in margin in the current quarter vis-à-vis say by June quarter in the sense has the competition increased intensified further?
- Anant Goenka:** No margins are largely been okay but with raw material prices going down you have to pass on some of the price drops in raw materials to that extent we had to pass on the margins in export. The export margins continue to remain attractive but we passed on some of the gain or some of the raw material prices drop.
- Sachin Kasera:** Can you highlight any two or three initiatives that we are taking to maybe improve or improve the performance in the export market any specific key initiative that we are looking at?
- Anant Goenka:** We are targeting specific geographies where we believe potential is high where the geography itself is growing, clusters like Southeast Asia or Middle East or Brazil these are areas which we believe will continue to grow fast and areas where our penetration is a little bit lower. So we are looking at these areas and really seeing how we work closer with the customer, put up our own field force out there and therefore do marketing activity, sales activity and grow through that.
- Sachin Kasera:** My next question was regarding the two-wheeler business. If I understand it correctly we were in the process of increasing our capacity at the vendor from our partner from 8 lakh to 10 lakh tyres a month and that has been achieved now Sir?
- Anant Goenka:** Yes.
- Sachin Kasera:** So incrementally from herein till the next 18 to 20 months when the new two-wheeler that we are putting comes up because two-wheeler from whatever that indications we are getting from various reports and the statement by some of the lead key players are indicating that they are expecting a further improvement in the overall two-wheeler volumes as we move ahead. So in the next 18 to 20 months how do we plan to capitalize on these because from what I understand we are already working at full capacity in the existing two-wheeler business so if you can give some idea on that.
- Anant Goenka:** We are looking taking this up to another what 11.5 lakh tyres to 12 lakh tyres over the course of next four to five months as well. So we expect to see a good thing so there were certainly be feeling in terms of how much we can grow but we do believe that on any base of this financial year we will be able to grow by at least 20% going towards next year. While we believe our



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potential for growth could be even 35%, 40% or 50% we will fall short of capacity to that extend but we have phase of about 20% further.

Sachin Kasera: Currently we were at full 10 lakhs a month Sir?

Anant Goenka: Yes, very close to above 10 lakhs per month not for average for the quarter but by around September-October we would have reached around that much.

Sachin Kasera: How confident are you in terms of being able to commission this plant in say by Q4 FY'16 or Q1 FY'17?

Anant Goenka: Very confident.

Sachin Kasera: How long will it take for you to ramp up that capacity Sir?

Anant Goenka: About a year's time, less than a year maybe. We will not ramp up the full capacity. It will depend on market situation etc., but easily we can ramp up, up to say half the capacity within a year's time or in a one year's time.

Sachin Kasera: In terms of number of tyres per month what is the capacity we are putting up there?

Anant Goenka: 12.5 lakhs tyres.

Sachin Kasera: So we are almost like going to double the capacity.

Anant Goenka: Yes.

Sachin Kasera: Are we also going to look in terms of more aggressively working with the OEMs and maybe also at the export market on the two-wheeler side once this new plant comes up?

Anant Goenka: Once the new plant comes up of course we do not export any tyres so it can start exporting as a new avenue for growth. OEMs anyways we have been working on so it will certainly help us deepen our relationship, increase our supply to OEMs. But majority of it will cater to OEM and replacement market.

Sachin Kasera: Sir what would be the current mix between OEM and replacement in terms of volumes in the two wheeler business?

Anant Goenka: About 65:35.

Sachin Kasera: 65 being replacement.

Anant Goenka: Yes.



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- Sachin Kasera:** Thank you so much Sir. I will join back in the queue.
- Moderator:** Thank you very much. The next question is from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.
- Arjun Khanna:** Thank you for taking my question. My first question is in terms of the competitive intensity in the local Indian market. If you could help us with do we see any pricing actions in terms of reducing prices as in the raw materials have fallen? The second part of the questions is in terms of competitive intensity we are seeing people give other discounting in terms of vouchers and otherwise if you could comment on that?
- Anant Goenka:** We do not see any serious competitive threat here and there. There is no pricing decision. There could be schemes going on here and there but those are only consumer related schemes which run temporarily which are done by everybody and it is nothing new. So that has been going on for sometime. There is no pricing action across any categories of tyres.
- Arjun Khanna:** That is helpful. My second question is in terms of the recipe mix. If you could help us with current for the last quarter what was the average price the natural and other components?
- Anant Goenka:** Can you repeat the question?
- Arjun Khanna:** The recipe mix up for the previous quarter the price of natural rubber?
- Anant Goenka:** Price on a quarter-on-quarter basis.
- Arjun Khanna:** For the previous quarter for the second quarter, average price of natural rubber utilized by us?
- Anant Goenka:** We would not be able to share the data of what is our cost but I can broadly tell you that the natural rubber price has been today at about Rs.125 per kilo but as I said as it has been coming down it will down from about Rs.135 to Rs.125 kind of level. So the average price during the quarter would have been about Rs.130.
- Arjun Khanna:** In terms of the recipe mix, we have seen a gross margin improvement year-on-year and sharply quarter-on-quarter also. How much further gross margin improvement do you think it is left assuming the current prices become price of next quarter?
- Anant Goenka:** I would not have the exact number here, but yes we can expect raw material prices. The impact of what has come down in Q2 will be felt in Q3. So there is clearly a lag of about one and a half to two months that happened from the time we purchase and material comes in and we utilize it. So some impact is there but in terms of numbers very broad guess, it could be may be couple of percentage points on raw material.



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Arjun Khanna: That is helpful and my last question Sir you covered the OTR and two-wheeler businesses. I mean if you could cover the OTR business a little bit in terms of where do we see it going from here and what are our plans?

Anant Goenka: OTR we currently have a capacity in our Bhandup plant. So we are currently utilizing that. I had mention couple of times that we are interested in that. So we have not taken a final decision on whether we want to do any expansion or change. The goal right now it is really utilize today's capacity to fullest and those are largely mining and port kind of tyres for Europe and US. We have been doing this for a long time. We still have to work internally whether we want to really go ahead on that or not.

Arjun Khanna: Thank you Sir. It has been most helpful.

Moderator: The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: Congrats on a good operational number Sir. Sir, basically just wanted to get some sense on the EBITDA margin going into second half. We seem to have benefitted out of the RMs in this quarter. You think the benefit has kind of completely percolated or yet to kind of come through in second half and also you did mention that some of that we will be passing in the form of wage settlement and also whether we will be investing further into advertisement or strengthening our brand or just sort of flavor on this?

Subba Rao: The raw material prices have been falling including the crude oil also has been falling but the crude fall has not come into the raw material prices yet, usually there is lag of about three to four months. If the crude prices have fallen by about 30% it does not mean that the derivatives also will fall about by 30% because the demand supply situation of derivatives is different from the crude demand itself. Also there would be some other chemicals that will flow into the manufacture of the derivative hence this is the difference. The rough estimate is if the crude has fallen by about 30% the derivatives could fall by about 18% to 20%. That could be the ballpark number. That effect has not fully flown into the raw material concept. On the other hand, even the natural rubber which has been sliding down quite about Rs.125 so for the last quarter the consumption price is higher than this. So this effect also will have to come into effect but it becomes very difficult for us to quantify how much would flow into this and how much would be the positive impact on the margins. So this is the best case estimate that we can give on the raw material prices. On the wage settlement that we have had, the rough impact per month it is about 80 lakhs so we have absorbed two months cost in the last quarter. The current month quarter onwards three months impact would come which means about 2.4 Crores to 2.5 Crores would be the impact on account of this but for the last quarter the impact has been absorbed already is about 1.7 Crores.

Rahul Bhangadia: Thank you so much Sir.



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- Moderator:** Thank you. The next question is from the line of Aryn Pirani from Deutsche Bank. Please go ahead.
- Aryn Pirani:** Thank you for taking my question. If I can just go back to your two-wheeler capacity and demand you mentioned that this year you should be able to have a growth of around 20% but the demand potential itself could be higher at 35% to 40%. So is that the rate has been the market is growing or you are expecting to gain market share?
- Anant Goenka:** Aryn, both sides. So one is that if you look at the past if you look at our base so from last year base last year we might have producing very broad number may be about 6.5 lakh tyres or so per month. It has now gone up to about 9 lakhs. So for the rest of the year also it has enough potential for growth coming in clearly for the next six to eight months. Once our base keeps going up the growth potential will go down because we will be capped at about 11.5 to 12 lakhs tyres based on a current capacity. There will be a gap of about four to six months in the middle where our growth will taper down because of capacity constraint, so our scope of growth could be much larger as you said largely for two reasons. One is the market is looking good and second is we are being able to capture market share as well. So yes we do expect to grow ahead by about 20% may be our potential would have been to grow at about 30%. So we will see some shortage of our tyres in the market.
- Aryn Pirani:** Because what is your assessment of the market demand growth because if I you look at the OEM demand that is growing at something like 15% I am assuming replacement growth would be slightly lower. So what is the market growing in your assessment?
- Anant Goenka:** Market is growing at around 10%.
- Aryn Pirani:** So you are gaining significant market share because you are growing significantly higher than that?
- Anant Goenka:** Yes.
- Aryn Pirani:** Also on the truck side what is the kind of industry growth are you seeing on the replacement side?
- Anant Goenka:** Around 0% to 5% and at replacement level OE is negative growth.
- Aryn Pirani:** Just on your cost side if I look at your other expenditure line and if I compare over the last 8 to 10 quarters there has been a continuous increase as far as other expenses and sales is concerned, so anything particular which is happening there?
- Subba Rao:** Other expenditure includes conversion charges which we pay to outsourcing agencies for manufacturing. Volume has been growing significantly. So that has contributed to other expenditure. Some professional charges, which we pay on temporary basis or on contractual base



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sometimes on consignment basis that another factor that has contributed so the conversion charges is the permanent feature. It is relates to operations. So that would keep going up based on the quantum of increase in the operations.

Amyr Pirani: But this is only for your two-wheeler tyre right or do you get some other tyres also made from outsourcing?

Anant Goenka: Two-wheelers.

Amyr Pirani: Only two wheelers. Once there own capacity comes in we should see this expense line stabilize?

Anant Goenka: No own capacity is an addition to the outsourcing capacity. Outsourcing capacity will continue to be there but that will be flat enough.

Amyr Pirani: Thanks for taking my question.

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

Ashutosh Tiwari: Regarding pricing the way the rubber prices have fallen a lot for last one year so is there no passing in the CV segment. I mean there is no pass on happening in that segment also?

Anant Goenka: No, not at this point.

Ashutosh Tiwari: You mentioned that some scheme always go on so how that is reported that is part of taken in the net sales only that is regarded as part of other expenses?

Anant Goenka: It is part of net sales.

Ashutosh Tiwari: Thank you Sir.

Moderator: Thank you. The next question is from the line of Arun Agarwal from Gomukhi Indus Capital. Please go ahead.

Arun Agarwal: Good afternoon. This is just to know that the raw material prices are continuous on fall, including this rubber chemical and crude oil, crude waste derivatives. What about nylon crude waste?

Anant Goenka: Nylon fabric has also gone down marginally. Mostly flat but may be 1% or 2% kind of negative reduction incurred.

Arun Agarwal: What is outlook to the nylon?

Anant Goenka: Chemicals, biochemicals etc., have gone down actually rubber chemical there is a huge shortage because those prices have actually gone up but quite a bit in the last year.



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- Arun Agarwal:** Lastly you will confirm that you are not passing on any benefit so far would you be able to hold the continuous prices for next six months including OEM?
- Anant Goenka:** Very difficult to say what will happen so with certain OEMs we have a formula based pricing. So that is purely on formula as your raw material prices go down that gets passed on but what will happen is really dependent on competitive pressures and how competition behaves etc.
- Arun Agarwal:** So OEM you are passing on the benefit correct?
- Anant Goenka:** Not fully may be about depends with how many people we have a formula based price but it is very ad hoc so there is no fixed very difficult to say how that is happening because each OEM we have a different type of pricing relationship.
- Arun Agarwal:** What about the replacement market?
- Anant Goenka:** The replacement market is stable. No price changes that are happening down there.
- Arun Agarwal:** Do you see any competition from the multinational company Michelin Bridgestone etc., at this point of time?
- Anant Goenka:** Yes, you have Michelin which is now importing some tyres etc., they have been importing. Bridgestone has been there largely in the passenger car segment for quite sometime, but nothing substantial from the new capacity that has come up.
- Arun Agarwal:** You do not feel any major competitors in the next six to 12 months from MNCs, correct?
- Anant Goenka:** Right now, we are working. Going forward difficult to say what will happen.
- Arun Agarwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Aditya Makharia from JP Morgan. Please go ahead.
- Aditya Makharia:** I just wanted to get a sense on your strategy for the commercial vehicle segment, your sales were 60% CV base in 2010, which I think has come down to 40%, so how are we planning on expanding there and also we are setting up any radial capacities?
- Anant Goenka:** We are not planning to expand any more in the commercial vehicle side. Our plan is to focus more and more on the passenger side and that is largely because we lead the passenger side in the long term is going to grow faster than the commercial vehicle. We also want to be more focused and do let things well rather than do everything in kind to be average at it, so we have taken a call to focus on passenger cars, utility vehicles, two-wheeler tyres where we are going to be largely investing and therefore we have our Halol expansion and two-wheeler expansion coming up. The



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only area where we are growing in commercial vehicle is a little bit we are adding capacity in Bangladesh, but that is to serve the Bangladesh market.

Aditya Makharia: The Bias capacity which we would gradually like you said be converted to you will shift it towards more like cars or you would kind of shut those facilities down?

Anant Goenka: Sorry, could you repeat?

Aditya Makharia: The Bias capacity, which we have in the CV side, so what would happen in that overtime?

Anant Goenka: The utilization levels will fall overtime. We are doing small tactical things like shifting it to others capacity which it can be converted to, but largely it will slow down and utilization level will go down overtime. Definitely one of our capacities is located in Mumbai, so even if we close the plant, there is an opportunity to monetize your land that exists.

Aditya Makharia: Last point you mentioned on Michelin they are importing some tyres. We were under the impression that they have setup a new plant, so is that not expected to come on stream or I thought it had already started?

Anant Goenka: Yes, we do not believe. So it is not yet I think fully ramped up. I do not have exact data on what they are doing, but their capacity is largely are still I think going to be coming out over the course of sometime, but yes they are setting up a plant.

Aditya Makharia: Thank you so much.

Moderator: Thank you. The next question is from the line of Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan: Thank you Sir for the opportunity. Just on competition, I wanted to understand broadly what would be the industry capacity Sir, say end of FY2014?

Anant Goenka: What would be the industry capacity?

Raghu Nandan: Yes Sir.

Anant Goenka: At the end of FY2015 is it?

Raghu Nandan: 2014.

Anant Goenka: In the last six months we do not have the industry capacity number exactly I know CEAT at about 750 tonnes per day. I presume the industry capacity would have been 7500 kind of tonnes per day assuming we have 10% to 13% market share, but this is just broad proration that are doing.



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- Raghu Nandan:** Broadly what would be your sense on the utilization levels across the industry?
- Anant Goenka:** Very difficult to give a number, maybe around 80% kind of level. This is all conjectural number.
- Raghu Nandan:** Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Bharat Gyanani from Angel Broking. Please go ahead.
- Bharat Gyanani:** As we see the FY2016 or capex would be on the higher side and also I just wanted to know we had passed an enabling resolution for the QIP issue, so I just wanted to know the status all that like any update on that issue?
- Subba Rao:** I would not be able to comment on ongoing developments, because there are several implications of making a comment on that. I am slightly from making a comment from making a comment on the QIP issue. So, yes we did take the resolution at an appropriate time I think we will have to disclose it, because I do not want to trigger any speculative activity by making disclosures on this front and secondly yes, there would be significant capital expenditure we are making ready for the situation keeping the balance sheet risks under control.
- Bharat Gyanani:** But considering the high capex requirement FY2016 probably you would be making probably not now, but like four to six months down the line is that the correct understanding?
- Subba Rao:** There are adequate internal accruals for the planned capex. So our net cash flow is the region of about Rs.180 Crores after meeting in the recurring capex, the maintenance capex. This itself is adequate equity contribution for the planned capex. All I would like to say is that would have for us to meet the equity contribution, the balance can come by way of debt about close to 65% to 70% can come by way of debt. We will be well within the same kind of range of ratio as we have currently on the balance sheet front.
- Bharat Gyanani:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is a followup question from the Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** I have a followup question on the commercial vehicle side. You mentioned that the demand on the passenger segment of the market presents to be very strong whereas on the commercial side, it is a little weak. So, one it could highlight as to whether the capacities are flexible enough that you can divert that and if not are we working at much lower capacity utilization on the commercial side which could be pick up or which will open the demand side?
- Anant Goenka:** Capacities are not flexible. You cannot move one capacity to the other, but on the commercial vehicle side, we do have capacity to take up on the radial side by about at least 10%, 15%. On the



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Bias side, we see commercial segment degrowing or showing flat growth, so that is not going to grow, so their capacity utilizations are at about say 75% to 80% kind of levels and that 80% will continue to be there going forward and we have to space up in the passenger side as I said. Does it answer your question?

Anant Goenka: I was trying to look some more on the Bias side in the sense, the market for commercial vehicle both on OEM and replacement picks up it will mean that the gross like CV capacity will continue to remain underutilized and also the market would have entirely moved or rather in largely moving towards radial tyre?

Anant Goenka: If demand picks up and demand picks up even for the Bias side, then of course we have enough capacity to take it up, but we believe that radicalization will happen and growth yes will pick up in sometime, so in my view maximum Bias will kind of remain flat, but radials could pick up certainly.

Sachin Kasera: In that scenario, some of our old plants will become very uncompetitive, because we have been mentioned that we are putting the wage hike, whereas the production is remaining stagnant and in fact going to go down about two to three years. So in that case, both in Mumbai and Nasik in terms of cost of production will become very, very high for us, is that understanding correct?

Anant Goenka: Yes, it could happen, the utilization levels go down and at time we will have to take a call to rationalize some capacities if needed if that continues to happen, but today's level we are comfortable. We have utilized as I said about 80% level which is good, but in the longer term may be about two years, three years time certainly we will have to relook at what we want to do with our older plants.

Sachin Kasera: Second question was only OTR. Yesterday on the Exchange they were mentioning that we are putting in Rs 50 crs growth into subsidiary, so can you just give some understanding or what exactly is the planning out there?

Subba Rao: There is an enabling board approval for making an investment in possible scenario we have not crystallized on this to strengthen our presence in the OTR business.

Sachin Kasera: Just one question regarding the margin benefit from the crude based raw material. For example as we understand broadly around 40% of the raw material cost is rubber, any sense you can give us what percentage of our raw materials would benefit from the correction in crude prices?

Anant Goenka: Yes about 30%.

Sachin Kasera: Okay and are there any other raw material other than the remaining 30% where we are also experiencing any price increase because we have read some reports regarding rubber chemical pricing is going up so is there also any segment of the raw material where you are also experiencing inflation in terms of cost?



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- Anant Goenka:** As I said rubber chemical is the only one which is showing an uptrend the balance is all crude based and then there are some steel which is the commodity.
- Sachin Kasera:** My last question is regarding the pricing in the market, you mentioned that the commercial side of the market continues to remain soft but as of now the industry has been fairly disciplined so what according to you could be the reason because most of the companies are reporting pretty decent margins. Do you think at some point of time you could trigger some of the players to start a passing on the benefits of raw material more aggressively and thereby impacting the margins?
- Anant Goenka:** So very difficult to say on that, so I cannot comment on what competition will do or how they will behave so I would not be able to comment. There is a possibility of it happening going forward may or may not happen but looking at past trends in my view, if it had to happen it would have happen some time ago.
- Sachin Kasera:** Yes I was basically have you got any sense has to why nobody despite demand being slow on the commercial side the industry has been fairly disciplined any sense on that what would be the key reasons behind that?
- Anant Goenka:** May be two reasons, one is that the industry has done a fair amount of capital investment in the last three four years time and interest depreciation. Overall costs have gone up fairly high fixed cost so that could one reason. Second is largely margins of the tyre industry are not particularly attractive or historically have not been attractive at about 7%, 8% to 9% EBITDA so margin itself has been not particularly exciting even now as about whatever 11% - 12% EBITDA is okay nothing much to I think not like many other industry.
- Sachin Kasera:** Just last question regarding the current status of the commissioning of both Bangladesh and Halol expansion are they on track and what is the type of ramp up we are seeing in both?
- Anant Goenka:** Halol is on track. Bangladesh as we had shared in the last quarter we had kept on hold for a short period of time but we are reactivating that so there is been a delay of about four months or five months of Bangladesh.
- Sachin Kasera:** So now you are looking at commissioning by end of FY' 15 Sir?
- Anant Goenka:** Bangladesh, yes will take about a year from now. Halol may be about 10 months from now.
- Sachin Kasera:** How do you see the ramp up for Halol versus commission?
- Anant Goenka:** About year and a quarter, year and a half time to reach full capacity.
- Sachin Kasera:** Thank you so much and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.



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- Chirag Shah:** Thanks for the opportunity. Just wanted to understand that in pecking order can you just share your thoughts on which is the most profitable business in terms of commercial vehicle passenger vehicle, two wheelers offloaders and may be export in that sense?
- Anant Goenka:** If you look at the market wise exports is the most attractive and if you look at category wise, I would say the passenger segment whether it is UVR, passenger car, two-wheeler those segments we find more attractive because they are more brand conscious segments where commercial vehicle is more commoditized and therefore we find margins to be a little lower there. Even off highways tyres are quite attractive.
- Chirag Shah:** But with more and more people focusing on passenger vehicle as a segment is there a threat that the margins over there would start narrowing versus a commercial vehicle business because at some point of time if I go five seven years back CVs were reasonably good profitable business?
- Anant Goenka:** Yes I do not know people are focusing more on passenger vehicle I do know if I agree on that if you look at the new capacities coming up by Michelin or Bridgestone they are all commercial vehicle largely but we believe that capacity expansion in commercial vehicle is higher than passenger car.
- Subba Rao:** Also there is lot of headroom for the passenger vehicles still to go up in the market. In the developed markets if you see the ratio is 30% commercial vehicles and 70% passenger vehicles whereas the ratio is reverse here so we have 70% almost 60% to 70% is commercial vehicles and 30% passenger vehicles so as a GDP growth if the economy is start doing well then next five to ten years so the ratio will strategically going up and the demand for the passenger tyres also will keep going up.
- Chirag Shah:** I joined the call late so, I apologies for repeating the question can you explain note No.5 of your results about this Rado Tyres that you have mentioned over there? You had converted loan into equity for under BIFR ?
- Anant Goenka:** This is pursuant to solutions of the company was under BIFR so the order that was passed by the court said that the existing loan has to be come into equity pursuant to which the company became the subsidiary of CEAT.
- Chirag Shah:** But what this company does and how big is that in overall scheme of things in terms of profit or losses or something if you can share over there?
- Anant Goenka:** It is very small company. It manufactures about 300 tonnes per month. It is a subsidiary so CEAT directly holds more than 60%.
- Chirag Shah:** 300 tonnes is I understood. It is a fair point. Any thought of merging that company into CEAT because it is such a small entity instead of separate?



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- Anant Goenka:** No plans. It will be progressively phased out.
- Chirag Shah:** Thank you very much.
- Moderator:** Thank you. The next question is the follow up question from the line of Aryn Pirani from Deutsche Bank. Please go ahead.
- Aryn Pirani:** Thank you for giving me the opportunity. Sir my question is slight look back, if I look at your ramp up in the two-wheeler side it has been quite impressive and your expansion plans also point out to you continuing to gain market share. So can you just highlight to us what have you done over the last two to three years to gain this kind of market share like you said this is a brand conscious segment so what did you do and how is your pricing compared to the existing leaders?
- Anant Goenka:** It was largely just focus on executing our marketing strategies well. We have had a good ad campaign which we have been executing consistently for the past three years. The campaign talking largely about the concept of 'Idiots on the Road' is the theme of the campaign and you need CEAT tyers to protect yourselves from people who don't look and cross etc., so that campaign has worked out very well for us. We have also focused substantially on channel expansion. So we have nearly doubled our channel reach all across India and perhaps we have one of the best reaches to the customer across all companies. So those are largely two areas that we have focused on. Third is launch of a bunch of new products so we came out with the whole lot of new products, new design about three years ago.
- Aryn Pirani:** Sir would your pricing be lower or in line with the existing leader in that segment?
- Anant Goenka:** We would be the perhaps highest priced.
- Aryn Pirani:** Sir just on your truck tyre so on the bias side what is the kind of capacity you have right now and do you have any radial capacity on the truck side?
- Subba Rao:** Of course, yes so we have about 80 tonnes per day of truck radial capacity. Could you repeat the question?
- Aryn Pirani:** So basically your capacity on truck radials as well as truck bias?
- Anant Goenka:** Truck bias would be about 400 tonnes.
- Aryn Pirani:** Okay and you are not planning any expansion on either of these?
- Anant Goenka:** No.
- Aryn Pirani:** Thanks for taking my question.
- Moderator:** Thank you. The next question is from the line of Disha Seth from Anvil Shares. Please go ahead.



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- Disha Seth:** Good afternoon Sir. Sir what will be the market share in two wheeler and OEM and on the replacement segment?
- Subba Rao:** We do not have industry numbers at this point of time but I can just give you a broad approximate replacement market share would be around between 20% and 23% and our OEM would be somewhere between 17% and 20%.
- Disha Seth:** Can you share the other player's market share?
- Subba Rao:** See we cannot give numbers now. I would say the leaders would be MRF followed by CEAT and then you would have TVS Sri Chakra and then may be Falcon Tyers or Birla Tyers.
- Disha Seth:** Sir how much has the OEM grown this time like in both passenger and two-wheeler per se?
- Subba Rao:** I would not have the category wise OEM growth. Overall OEM has grown at about 15%. So this segment would have surly grown over 25% plus.
- Disha Seth:** Sir just a repeat question, how much was the capex mentioned for FY' 15 and FY' 16?
- Subba Rao:** FY' 15 & 16 would be close to 1000 Crores.
- Disha Seth:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Himanshu Sharma from JM Financial. Please go ahead.
- Himanshu Sharma:** Thanks for the opportunity Sir. My question is on Sri Lanka. We have seen a significant improvement in operating performance compared to last quarter so what drove this and do you think this is sustainable any color on that Sir?
- Anant Goenka:** Sri Lanka along like anywhere else has benefited from the raw material price shift that has happened and we have a very dominant position there been able to keep prices also there largely constant. So that is largely led I mean basically raw materials prices have led to good performance.
- Himanshu Sharma:** Sir considering the difference between the margin in Sri Lanka and India what makes it so profitable compared to India operations?
- Anant Goenka:** The reason is that no other manufacturing capacity there right so you are competing only with imported tyres so imported tyres you have the logistic cost, you have taxation, on duties that are there whereas we have rubber procurement which we can do locally there so your raw material sizes are lower so inherently structurally far more stronger a business model that is there.



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- Himanshu Sharma:** Sir just last thing, so would Sri Lanka as a market also face the issue of import from China or is it different from other foreign market?
- Anant Goenka:** Sorry could you repeat?
- Himanshu Sharma:** Would Sri Lanka as a market also face lot of competition from Chinese imports?
- Anant Goenka:** Not as much. So you see more tyres coming in from Indian imports. We will see competition coming from Indonesia and some yes there are China tyres that do come in.
- Himanshu Sharma:** Thanks Sir.
- Moderator:** Thank you. The next question is from the line of Kaushal Jaitliya from Karvy Stock Broking. Please go ahead.
- Kaushal Jaitliya:** Good afternoon Sir. Congratulations for a decent set of results. Just on this revenue front as you have mentioned in this Q2 over 8% of volume growth, now given the rubber prices at international as well as domestic front this is going to be in the range and is expected to be in some range for the next half of the year and we have projected around 8% to 12% of revenue growth for FY'15 so Sir are we going to see completely from volume front or are we going to see some bit on pricing?
- Anant Goenka:** No, it has to be from volume. I do not think we can take prices up in this environment. So it could be largely from volume growth and perhaps some amount because of product mix shift which will lead to increase in realization.
- Kaushal Jaitliya:** Sir do we have like anything pricing discipline with OEMs?
- Anant Goenka:** Some OEs are we have shared have we have a pricing formula so wherever the prices go down we have to pass that on to certain OEMs. We have very different pricing relationships with each OEM some on ad hoc negotiation basis etc., so it varies from OEM to OEM.
- Kaushal Jaitliya:** Thank you Sir.
- Moderator:** Thank you. The next question is a follow up question from the line of Basudeb Banerjee from Antique. Please go ahead.
- Basudeb Banerjee:** Thanks Sir, just one clarification that initially your two-wheeler capacity was 150 TPD which is outsourced, which is equivalent to 8 lakh tyres you said so that means 8 lakh tyres from that outsourced is going to reach close to 12 lakhs as outsourced basis in the next six months as you said demand has moved up so one can assume that equivalently 150 TPD is moving up to 225 TPD of outsourced capacity?
- Anant Goenka:** 150 as we are adding 120 tonne per day, right?



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- Basudeb Banerjee:** No Sir you said that existing 8 lakh two wheeler tyre supplied from outsourced is moving up to 12 lakh by next six months, so 8 lakh was equivalent to 150 initially so by that logic 150 is moving up to 225 on an outsourced basis?
- Anant Goenka:** No not really. What I can do is I can get back to you exact tonnage because it depends on this could include some tube, flap data etc., so let me just get back to you separately on the exact what 8 lakh equates to etc., because we do have outsourcing of 150 tonnes per day but that might include other items beyond two wheeler tyres.
- Basudeb Banerjee:** Thanks Sir.
- Moderator:** Thank you. We take a last question which is from the line of Ajay Sethia from Centrum Broking. Please go ahead.
- Ajay Sethia:** Sir just had one question. What would be the current distribution strength for CEAT?
- Anant Goenka:** We have about 3500 dealers around the country.
- Ajay Sethia:** How that has moved over the last five years?
- Anant Goenka:** It would not have moved up or down too much. What we have done is we have grown substantially on the two-wheeler side as I said but that is largely through a distributor model what you call. So while we do sell certain tyres to dealers directly but here we sell to distributors who in turn sell to their own dealers so there we have grown where we were covering about half of India through distributors we are now covering about 90% of India through distributors itself.
- Ajay Sethia:** Sir within the 3500 dealership that work how much would be the exclusivity the exclusive CEAT dealers?
- Anant Goenka:** No the distributors are 90% exclusive to CEAT in the tyre industry.
- Ajay Sethia:** Okay what I meant by exclusivity is that, your company own showroom in the sense?
- Anant Goenka:** No, we do not own but they do not supply any other tyres, they sometimes buy say lubricants or batteries or other products.
- Ajay Sethia:** Okay that you are saying is closer to 90%?
- Anant Goenka:** Yes exclusivity would be about 90% plus maybe everybody is exclusive 100%.
- Ajay Sethia:** Thank you.
- Moderator:** Thank you. As there are no further questions I would now like to hand the floor over to Mr. Amrish Mishra for closing comments. Over to you!



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Ambrish Mishra: I would like to thank everyone to take time out and join for this call. A special thanks to the management for allowing us to host the call. Thanks and have a nice day everyone.

Moderator: Ladies and gentlemen on behalf of JM Financial that concludes this conference call. Thank you for joining us. You may now disconnect your lines.