

Transcript

Q4 FY12 Conference Call of CEAT Limited

Event Date / Time : 8th May 2012, 4:30 PM IST

Event Duration : 56 min 00 sec

Presentation Session

Moderator: Good evening ladies and gentlemen, I am Moderator the moderator for this conference. Welcome to the Q4FY12 Conference call of CEAT Limited. We have with us Mr. Anant Goenka, Managing Director of CEAT Limited and his senior management team and also Mr. Abhimanyu Sofat from Angel Broking. As a reminder for the duration of this conference all the participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal the operator by pressing * followed by 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhimanyu Sofat. Thank you and over to you sir.

Abhimanyu Sofat: Good evening ladies and gentlemen, on behalf of Angel Broking, I would like to welcome you to the 4QFY12 conference call of CEAT Limited. I would specially like to welcome Mr. Anant Goenka, Managing Director CEAT Limited as well as his senior team including the CFO Mr. Sapre. Anant, congratulations on good set of numbers and I would now like to hand it over to you to start with the opening remarks and after the opening remarks we can begin with the question and answer session. Over to you Anant.

Anant Goenka: Thank you. Good afternoon and a very warm welcome to CEAT's quarterly investor call. I am Anant Goenka, Managing Director and I have with me Sunil Sapre and Amit Gala and Sunil is the CFO and Amit is the Head of Investor Relations. Thank you very much for your interest in CEAT.

I will briefly take you through the results; give you a little bit of background on what happened in the year gone by and a little bit on the outlook going forward. With respect to results, on a consolidated basis net sales for the year stood at Rs.4617 Crores up 28% year-on-year and PBT was at Rs.24.27 Crores at about 0.5% of net sales. Overall FY12 was a pretty challenging year for the industry for the automobile industry had its own challenges there was a strike in Maruti growth despite a lot of models rolling out seemed to be slow. On the replacement side, demand also remained sluggish particularly in the first half of the year. On the raw materials side also there were challenges where the raw material prices went up very high from the first half of the year particularly with the rubber peaking at Rs.240 per kg early last year, which eventually plateaued down and began to come down in Q3 and Q4. Indian rupee depreciation also had some impact on the raw material prices and interest rates and the crude prices also did not help the industry, so lots of negative factors in FY 12 with respect to the overall economic climate.

With respect to the automobile sector, automobile production overall went up by about 13.8% and domestic sales was up by 12% from April to March this year and with respect to domestic sales, passenger car grew up about 4.6% or passenger vehicles overall with passenger car particularly just at 2% and two wheelers well at about 14% growth. On the commercial vehicle segment, commercial vehicle grew by about 7% and light commercial vehicle grew at about 27%.

With respect to specific CEAT India results the company ended the year at the PBT of 9.79 Crores, fortunately wiping up the entire loss, which we incurred in the first three quarters of a loss of Rs.50.2 Crores at a PBT level from April to December; this was on the net sale of about Rs.4440 Crores up 28% year-on-year. As I shared with you key reasons primarily for the change was that we had a stronger replacement sale in Q4, there was some amount of softening in rubber prices particularly, particularly with respect to imported rubber and exports has grown up particularly well at 43% from Q4 of last year. Our new plant in Halol also ramped up so in Q1 we have to incur the entire cost of interest and depreciation while production was very low in Q1, which went up to about 90 tonnes per day in Q4. Halol has a capacity of 150 tonnes per day. We started of just 15 tonnes in the beginning of the year we are about 90 tonne per day.

Sri Lankan operations, I will talk briefly about that. So Sri Lankan operations reported a PBT of Sri Lankan Rs.81 Crores on net sales of Rs.870 Crores up 15% year-on-year and a PBT of Rs.75.21 Crores on net sales of Sri Lankan Rs.757 Crores last year. This happened despite a reduction in import duty by about 50% in November of last year. With respect to overall outlook tyre demand is expected to grow by 10% going forward. Our raw material prices have gone up and are expected to go up a little bit about 3%-5% from Q4 of FY12 to Q1 of FY13, but after that we expect the raw material prices to be stable. Halol ramp up is going to be continuing to be an area of that we are going to be focusing on so we will be looking to be reaching our full capacity of 135 tonne per day by the end of the year. We have also increased our outsourcing capacities for two-three wheelers so we will be looking to increasing our share of business in two to three wheelers which is a more profitable segment and we will be initially starting of our project in Bangladesh so it will still take about two years or year and a half for the plant to come up and we are now in the process of scouting out some land and doing the initial groundwork so the project we hope to kick off in three months time or four months time and it will take another year and a half after that for the plant to be up. Overall we expect FY13 to be certainly better year than FY12 because raw material stability, overall growth and Halol plant eventually ramping up, so that is a little a bit about FY13. So with this I would be happy to take any questions from you and we are happy to answer anything that you have. Thank you.

Moderator: Thank you very much. We have the first question from the line of Sachin Kasera from Lucky Securities. Please go ahead.

Sachin Kasera: Congrats sir for the good turnaround that we have witnessed on Q4. My question is basically pertaining to the capital expenditure front for FY13 and FY14 if you could handle both India as well as Bangladesh?

Anant Goenka: FY 13 we are primarily incurring normal capital expenditure in that plants that would be about to the extent of about Rs.50 Crores, mainly for moulds and normal capacity machinery changes that happened in our existing plants and that would be for the extent of about Rs.50 Crores and Bangladesh our total CapEx is

expected to be at Rs.250 Crores, out of which we expect to incur about Rs.70-80 Crores in this financial year. That is all that we have planned as of now.

Sachin Kasera: Secondly sir, you have mentioned regarding incurring expenses to two and three wheeler market, could you some colour in terms of how is that market positioned, what is the type of growth there and what is the type of markets and key players who are there?

Anant Goenka: Networks, we have segment clearly is higher margin category with respect in comparison to other categories; we would like to increase our exposure out there. There are four players that are primarily playing in this segment, so you have the leaders, which are MRF Tyres, followed by TVS followed by CEAT and Dunlop tyres, Dunlop is also known as Falcon Tyres. So these are the four players out there. Here we have the strong brand equity, so we believe that we can reach number two position with not too much difficulty, reaching number 1 would be a challenge because MRF itself is a very strong brand equity, but we are looking at substantially increasing our market share in two wheelers. We have increased our market share in FY12 from about 11% to 14%. This year we would be looking about to take it to 17%-18% in FY13.

Sachin Kasera: You mentioned that you would like to attain into number 2, so what are the market shares approximately of number 1 and number 2 Sir?

Anant Goenka: MRF would be somewhere 30+ kind of market share. In my view TVS would be somewhere around 20%-23% roughly around that range.

Sachin Kasera: So maybe within two or three years we can look to somewhat attain number 2 position?

Anant Goenka: We hope so. We have already added our capacities there and our outsourcing capacities have been expanded so we were at about 2.5 lakhs tyres, we can now go up to about 6 lakhs tyres. So from capacity side there is no challenge, it is now about increasing our distribution network and being able to sell the tyres.

Sachin Kasera: Sir what is the type of growth that we are witnessing in the two and three wheeler segment?

Anant Goenka: On two and three wheelers as I said our capacity was 2.5 lakhs tyres.

Sachin Kasera: I am talking about the industry, in the industry what are the type of growth we are witnessing on the replacement side?

Anant Goenka: Industry growth in the three wheelers we should be 10+% in FY13.

Sachin Kasera: Sir I believe that all the numbers in the market, which you talked about, are in the replacement side?

Anant Goenka: Yes, all replacements. That is right.

- Sachin Kasera:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Surjit Arora from Prabhudas Lilladher. Please go ahead.
- Surjit Arora:** Thanks for the opportunity sir and congrats on the good set of numbers. Sir two questions from my side, what is the tonnage sold in this quarter in standalone business?
- Anant Goenka:** Tonnage is about 54000 tonne.
- Surjit Arora:** Sir for the full year?
- Anant Goenka:** Full year would be about 2 lakhs tonne.
- Surjit Arora:** Sir just one book keeping question, if I look at the other expenditure on a sequential basis that has gone down by Rs.7 Crores, so Rs.172 Crores in Q3 to Rs.165 Crores, this is standalone, so any particular reason for the same?
- Anant Goenka:** Sorry, what has gone down?
- Surjit Arora:** Other expenditures in absolute terms from Rs.172 Crores in Q3 it has gone down to Rs.165 Crores, this is from Q3 to Q4 on standalone basis, so any particular reason for other expenditure being slide quarter-on-quarter?
- Anant Goenka:** From Q3 to Q4?
- Surjit Arora:** Yes from quarter-on-quarter it has slide but the top line has improved from quarter-on-quarter at 15% sir.
- Anant Goenka:** Yes it has gone up right from Rs.163 to Rs.164.
- Surjit Arora:** Yes it is flat quarter-on-quarter but I am saying in terms of your topline, your topline has improved almost by 14%, so any reason or anything, which we are missing here?
- Anant Goenka:** The topline would have gone up because of increase in volume in general but other expenditure is not necessarily directly in proportion to overall sales growth.
- Surjit Arora:** So there is no exceptional item sitting there at this point of time?
- Anant Goenka:** No.
- Surjit Arora:** Thanks that is great for calculation. Thank you so much sir. That is all.
- 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. I just joined a little late maybe I missed this, what was your volume growth maybe in tonnage terms or in tyre terms for the Q4 and the whole of fiscal year?

Anant Goenka: The total growth for the 28% year-on-year, tonnage growth would be nearly Rs.20 Crores to 20% out of the growth so a large amount was price increase and about 8% to 10% would be the volume growth.

Amin Pirani: So 20% was volume growth?

Anant Goenka: 10% was volume growth.

Amin Pirani: This was for the fourth quarter or the full year?

Anant Goenka: For the full year. Full year it was 20% and *10% roughly is volume growth plus product mix and price increase.

Amin Pirani: Could you give a break up between OEM and replacement?

Anant Goenka: OEM and replacement grew at much higher level, OEM growth was about 57% and export growth was at 13% on a quarter-on-quarter basis, Q4 to Q4.

Amin Pirani: Are you seeing any pickup on the replacement growth side especially on the truck side or on the car side?

Anant Goenka: A little bit of pickup. This is primarily seasonal that we are seeing. In the summer months there is generally a higher sales, April, May, June are generally strong selling months and early on for December and January are weak selling months because of winter months but besides that we are not seeing any additional beyond the normal kind of demand pull.

Amin Pirani: So when you gave a full year guidance of around 10% for the FY'13, right now are we seeing broadly in line with that or right now the YOY growth is slightly slower than your full year guidance?

Anant Goenka: 10% I said for the industry, the overall industry tyre demand will go up, not for CEAT.

Amin Pirani: Sir you have also mentioned that two and three wheeler tyre generally higher margin category, I just want to understand is it higher margin because of lower competition or what could be the reason for it being higher margin category?

Anant Goenka: There is one category which is a brand conscious category, so lower competition is there because it is difficult the way of selling and branding set of brand equity matter large amount in the two-three wheeler category it is as good as the FMCG, closer to the FMCG product than a commodity product and people are very conscious about which particular brand they buy for two wheeler tyres whereas in a commercial vehicle segment more commoditized the kind of expenditure in a commercial vehicle tyre is much higher than their fleet much fleet is buy and spend a lot

more on those so even a 1% price differential makes a big difference. Whereas two three wheeler manufacturers are quite passionate about the nature of vehicle, the nature of tyre he has, safety matters a lot more so as a result of brand I would say it commands the premium.

Amin Pirani: So the same would be too for in the case of cars and passenger cars vehicles, right?

Anant Goenka: That is right and as you move more and more towards to these kind of categories, brand as well as the commoditization reduces, the brand commoditization reduces the brand value increases, brand equity or the brand plays a more important role.

Amin Pirani: Thank you, Sir.

Moderator: Thank you. We have the next question from the line of Alok Devra from Sushil Finance. Please go ahead.

Alok Devra: Hello good evening and congratulations on good set of numbers. Just had a few questions, one you mentioned about CapEx, one would be you mentioned Rs.50 Crores would be towards normal CapEx and Bangladesh plant you mentioned about Rs.70-80 Crores to come in FY13?

Anant Goenka: That is right.

Alok Devra: So for the full year we would expect around Rs.30 Crores?

Anant Goenka: That is right.

Alok Devra: This Bangladesh plant the revenues would be coming in by FY 14 if I am not wrong?

Anant Goenka: That is FY15, towards the end of FY 14 is when we expect the plant to be up. So revenues will really start to come in by FY15.

Alok Devra: Okay out of the Rs.250 Crores the balance would be spent in FY14?

Anant Goenka: Large quantum would be in FY14.

Alok Devra: Right in Q4, we have really managed to push up margins, so going forward what would be the trend like for the coming for this current year FY13, would you be able to maintain the margin momentum because you have mentioned about 3%-4% rise in rubber prices during the first quarter?

Anant Goenka: Yes, overall raw material, I do not think will remain at the same level and already it is not at the same level rubber prices has gone down as I said to about Rs.175 per kg in November, December last year which is already at Rs.195 per kg today, so there has already been a change in raw material prices we have taken a small price increase earlier on this month, but overall we will not be able to sustain that kind of performance we had in Q4, so raw material prices have dipped a fair amount

which has now adjusted to a certain amount we certainly expect it to be better than FY12 but not perhaps as strong as Q4 of FY12.

Alok Devra: So we might see a slight dip in margin for a full year margin, when we see for a whole year and compare it to the fourth quarter?

Anant Goenka: Yes.

Alok Devra: The Halol capacity currently you mentioned it how many tonne per day?

Anant Goenka: Today we are about 90 tonnes per day, full capacity of 150 tonne per day, so we are currently at 90+ tonne per day, quarter average was about 88 tonne per day.

Alok Devra: So going forward this year we are expected to reach around 135 is it?

Anant Goenka: Yes, that is right.

Alok Devra: Okay, just one last question; in FY12, we have a debt in the share from replacement side and we had slightly higher exports and OEM contribution do we see any margins because of this because typically replacement commands slightly higher margins?

Anant Goenka: Yes what happened that time actually the rupee has depreciated a fair amount at that time also it reached about Rs.54 to the Dollar as a result strategically also we took a decision that yes, had our export margins have gone up to 5-10% assuming that rupee depreciated by 5-10% it is more of an opportunistic call that we took that let us take advantage of exports forward, so I do not see it as having an overall long time impact on margins because that shift we can do it on replacement market at any point that we want.

Alok Devra: Even though OEM I think the contribution that has picked up from 20% in FY11 to 24% in FY 12?

Anant Goenka: Yes that is right and that will continue to be at this rate that is mainly because again because as you move more and more towards the passenger category the ratio of OE to replacement sale increases, you will be selling more to the OE. If you sell the commercial vehicle your ratio might be you can do it with 15:85 kind of ratio but as you go towards more and more passenger car radials, two wheeler tyres, you have to sell more to the OEM segment, so that can become in the 30:70 in those categories or 35:65 kind of a ratio. We increased our sales to two-wheelers we are beginning to sell it to passenger car suppliers where we were never selling in the past, so OE share of business will go up.

Alok Devra: Okay so going forward we can expect even higher than 24% or we can expect close to 30% in next two years?

Anant Goenka: It can be higher than 24%, I do not know it will be around 34%, I can get back to you on the exact ratio it will be higher than our ratio today.

Alok Devra: All right that would be all and I would come back if I have any more questions. Thank you so much.

Moderator: Thank you. The next question is from the line of Shreya Gaunekar from Morgan Stanley. Please go ahead.

Shreya Gaunekar: Thank you sir for this opportunity. I am not sure if you had guided for but on your industry growth of 10% would you be able to split that by segments something you know do we expect to two-wheeler should grow, four-wheeler should grow?

Anant Goenka: I would expect that larger share will be coming in the heavy commercial vehicle and the slower in the passenger vehicle which is unlike the trend that was happening say two years ago so the passenger car segment was growing very quickly at clear double digit kind of growth levels, but passenger car growth has clearly slowed down in the past one year in part of high base effect, various other reasons with respect to interest rates, crude, etc., but commercial vehicle segment is going at a slightly better rate than passenger car and two wheeler we expect to grow at about 10+%.

Shreya Gaunekar: So you expect the two wheelers to grow more than you probably expect the cars to grow?

Anant Goenka: That is right, passenger car would grow in something like 3%to 5%, commercial vehicles 7% to 8% and two wheelers would be 10+%.

Shreya Gaunekar: Thank you.

Moderator: Thank you. The next question is from the line of Naga Deepika from Capital Market. Please go ahead.

Naga Deepika: Quickly first on some data points, can you just give the export points for this quarter and for the full year?

Anant Goenka: For the full year it was around Rs.1000 Crores and for the quarter just a minute and for the quarter it was Rs.280 Crores.

Naga Deepika: Rs.280 Crores and for the previous quarter?

Anant Goenka: Rs.200 Crores.

Naga Deepika: This will be totally fully for Sri Lanka or do we do for other market as well?

Anant Goenka: The export is nothing to Sri Lanka, Sri Lanka we have a manufacturing facility, which caters to the domestic market, which has nothing to do with Sri Lanka. We export to all over the world Far East, Middle East, East Africa, Latin America and Europe; we export to all of the world and has nothing to do with Sri Lanka.

Naga Deepika: What would be the product mix kind?

Anant Goenka: Large share of truck and light truck tyre with some amount of specialty tyre which are of road tyre and other non-truck tyre, more amount of passenger car if at all and less motorcycle but more inclined towards truck and light truck tyres and specialty tyres.

Naga Deepika: Can you just give me the breakup of shares in all the tyres like you know passenger cars, two wheelers and light commercial vehicle tyres?

Anant Goenka: Is this with respect to export market or overall?

Naga Deepika: Your overall production.

Anant Goenka: In percentage term roughly truck is about 55%, light truck is about 12-13%, two wheelers is at about 10% and other three categories which would be specialty, farm and car would each be about 7%, this is percentage to our total sales.

Naga Deepika: This is in tonnage terms right. Sir can you please show some more light on Bangladesh facility, what is the capacity coming in and how much would be the capacity and what tyres you are trying to you put in that capacity?

Anant Goenka: Bangladesh is going to be a 65 tonne per day plant initially which we would like to ramp up to perhaps larger tonnage which we do not know yet on that, but initially it will be 65 tonne per day plant requiring an investment of 250 Crores, we will be making mainly truck, light truck, two wheeler and last mile tyres all bias across flat tyres so that is the nature of the project. We hope to kick of the project in about three to four months time formally, kick of the work on the project and it should be ready by March by Q1 of FY'15.

Naga Deepika: Why was bias tyres is the market in Bangladesh not moving towards the replacement side like in India or what will you do with your bias tyre capacity when the replacement starts kicking in what is the main strategy behind starting a plant there with a bias tyres when your own capacity in India will have a lower capacity utilization going forward in next three or five years?

Anant Goenka: Bangladesh is about ten years behind India in most ways, so they are still about 95% bias. There is hardly any demand out there in the truck category so even if radialisation were to happen there in the next five to six years time there might be perhaps 20% radialisation at that point of time by then we hope to have paid back most of our investment out there. So radial yes we it makes sense to enter in Bangladesh but perhaps after four to five years time not immediately. Right now we would prefer to cater to that 90% of the market.

Naga Deepika: How is the 250 Crores CapEx tied up with I mean how much you are borrowing from outside?

Anant Goenka: Large amount would be about 65-70% borrowing and about 30-35% internal accrual investment.

Naga Deepika: Sir coming back to the raw material prices particularly rubber there seems to be an easing but last year we see a ramp up in rubber prices can you give some outlook on rubber prices at least for this quarter?

Anant Goenka: The rubber has gone down to about Rs.175 per kg in November-December last year, international prices; however, from middle of January or end of January onwards it has been pretty consistent at Rs. 190 per kg plus so it has been consistent at this rate going forward I would expect rubber to continue to be at these prices they can be a slight increase in rubber Q1 to about Rs. 205 per kg and that can happen because it is a time where production is entering the lean period and demand at this time is the highest so that could potentially happen; however, there has been a large amount of imports that has been done by the entire industry at this point of time which is what has kept rubber prices at current levels so a large amount of imports are coming in, so very difficult to say but in my view rubber prices for Q1 should be between Rs. 190 to Rs. 205 per kg level.

Naga Deepika: Sir my last question, can you give us average raw material prices in terms of carbon black, NTCF and rubber mix per Q4 of CEAT?

Anant Goenka: Would you like it in the form of percentage?

Naga Deepika: Absolute terms per kg what would be maximum rubber price per kg NTCF?

Anant Goenka: We will not able to give you the exact rupees per kg kind of value that we have purchased it in but I can give you a rough breakup perhaps of natural rubber or a synthetic rubber that we use but roughly rupees per kg would be difficult or I can give you a rough increase that has happened from last year to this year.

Naga Deepika: That would be better.

Anant Goenka: For FY'11-12 the rubber would have gone up by about 15%. Natural rubber, synthetic rubber would have gone up by about 30% in value terms, fabric would have gone by about 15%, and carbon black would have gone up by about 20%. Total raw material would have gone by about 20% from FY'11-12.

Naga Deepika: Thanks a lot.

Moderator: Thank you. The next question is from the line of Paras Nagda from Enam Holdings. Please go ahead.

Paras Nagda: Congratulations on a very good set of numbers. Sir, I wanted to know particularly for the Bangladesh expansion why do you need to go to Bangladesh to set up a plant because in few years from now since radialisation have kept a place in India, most of your crossply capacities in India will be ideal. What is the strategy going to Bangladesh to set up a plant, Sir?

Anant Goenka: Bangladesh the thinking is firstly we had a good success in Sri Lanka so we are the only manufacture of the tyres in Sri Lanka. We have had a good model there where our margins have been consistent and strong. Our EBITDA has been consistently been at about 12% plus kind of levels. We have a very strong market share there of about 40% plus. We have strong brand equity there. There is a strong sustainable module, which we have seen successes. We believe that by entering Bangladesh we will also be are looking at a similar market share of 40% plus once we

establish our capacity and we ramp up out there. There is some amount of custom duty as well and there is no manufacturing capacity out there. So we will be competing with imports coming in at a higher price we will have a cost advantage out there and there is no import duty of tyres from Bangladesh into India. So having our plants located in the west coast of India right now in Nasik, Bhandup, and Halol this can cater to the eastern region as well so clearly we believe that there will be logistic advantage, cost advantage, long term market share and there is some amount of duty protection.

Paras Nagda: Thanks for answering my question. Second is on your export margins as we know the rupee has appreciated by 10% so in the descending order of margins would export be the highest with the respect to the margins?

Anant Goenka: Generally it is not the case generally replacement is higher than exports. Now rupee has been fluctuating so much I feel right now whatever Rs.53 or Rs.54 per kg export will be at par with replacement. I would not have the latest data immediately but I know at one time last year when rupee was at Rs.55 export margins in lot of categories had exceeded replacement.

Paras Nagda: Sir my last question is what is the debt repayment schedule for us? Are we comfortable on the debt replacement schedule next year? What kind of debt comes up for replacement?

Anant Goenka: About 190 Crores I think comes up.

Sunil Sapre: Yes out of the term loan about 130 Crore will be there, and fixed deposit scheme there is something repayable that is shown according to the requirement that are falling due for repayment but our experience on fixed deposit is they get most of the time so whatever used to be repaid I think we have factored that in our budgeted cash flow and we feel that we will have those internal accruals of repayment of that.

Paras Nagda: Sir, one last question is on the other expenditure side we are seen though the topline has gone up by close to 15% the other expenditure have come down by 7-odd Crores so is it because of lower discounting or what is the reason for other expenditure not keeping pace with the change in sales?

Anant Goenka: Other expenditure is flat; I do not think it has come down.

Paras Nagda: But on quarter-on-quarter basis your other expenditure in Q4 was close to 172 Crore and it is come down to 165 Crore it is around 7.5 Crores lower?

Anant Goenka: What happens is broadly I think the tonne expenditure have gone up but basically the expenditure control so I do not think because when you see the value growth it is not necessarily all of that in the volume growth that is point no.1. Point no.2 is all the expenses are not really variable with sales which there so a lot of that is fixed component and where are you getting in 170 gone up from 163 to 164 from Q3-Q4 so I am not sure where you are getting this number from?

Paras Nagda: I think Sir you must have restated some number because as per the Q3 other expenditure was close to 172 Crores. This is what I have?

Anant Goenka: It must have been the regrouping?

Paras Nagda: That is not a problem Sir. I will take that offline. Thanks Sir.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bung. Please go ahead.

Sunil Jain: Good evening, Sir. Sir, my question is mainly related to raw material side. Apart from rubber how you see the trend in the other raw materials in the current quarter?

Anant Goenka: Overall raw material should be quite flat. Rubber has gone up certainly and the other raw material, which would have gone up, would be carbon black. So carbon black also being a large crude based product that is the other raw material which has gone up really carbon black and rubber the net-net would have gone up which will have an impact of about 3-4% or 3-5% on total raw material.

Sunil Jain: What about synthetic rubber Sir?

Anant Goenka: The synthetic rubber has primarily remains flat from Q4 to Q1. I will get back to you particularly synthetic rubber but I think it could have remained flat.

Sunil Jain: Is there this rupee depreciation has any impact on this raw material cost of carbon black and synthetic rubber as they price that we determined based on import parity?

Anant Goenka: Yes, there will be some impact because of rupee depreciation about 30% of raw material is imported so that certainly there will be an impact so rubber there might not be as much because domestic rubber itself gets influence or adjust itself or it make shift to bind domestic rubber is that happens but certain other raw materials there is an impact. So carbon black again there is a large availability domestically but carbon black prices internationally have gone down a fair amount. The raw material for carbon black itself has gone down there are two raw materials one is coal tar and carbon black feedstock. Feedstock prices, which are substantially much higher than coal tar so our imports have substantially have gone up in carbon black.

Sunil Jain: Net-net event that even considering this there is a marginal increase in carbon black prices for the current quarter?

Anant Goenka: That is right. So the domestic carbon black prices have gone up imported carbon black prices are more or less the same there will be some impact but it depends on really the ratio that we are band so we might look at increasing our ratio of carbon black imports to domestic.

Sunil Jain: Sir how you see the rubber prices in the coming FY'13, are they likely to inch here only or do you expect any decline in the rubber prices from here?

Anant Goenka: I think there will be raised down today around current levels so today it is about Rs.195 per kg in my view it is somewhere between Rs.190 and

Rs.205. If at all it will go up and my view will go up in Q1 but after that I do not have any reason for increase beyond that because in Q2 again demand go down because of the rainy season Q3-Q4 generally rubber prices tends to come down Q1 if I told there is increase it will all happen right now.

Sunil Jain: Last question just Bangladesh plant is (indiscernible) 39.19. Thank you very much Sir.

Moderator: Thank you. We have the next question is from the line of Guarav Agarwal from Irevna. Please go ahead.

Guarav Agarwal: Thanks for taking out my question, Sir. Just wanted to know one thing the 10% industry growth which you have talked about can you please tell me what would be the growth which excepting from the placement market and what would be the growth which would be affecting from OEM?

Anant Goenka: This is the industry growth so OEM growth is as I shared so for CEAT it is going to be different for the industry and this is what our expected market growth is at about 10% and this by market I am talking mainly about replacement market. I am not talking about OEM growth.

Guarav Agarwal: The 10% industrial growth is mainly replacement growth and any idea about the OEM growth Sir for the industry as such what we are looking at?

Anant Goenka: The OEM growth really depends on how the automobile segment as I said I think in my view the passenger car segment is certainly growing slower at this point of time than the commercial vehicle segment. So depending now interest rates are cooling off a little bit with will that have some effect, also a lot of new models are continuously coming out so that could have a little bit of a positive impact but in my view passenger car will be at about 5%, commercial vehicle will be at about 7-8% and two wheelers will be at a slightly high at about 10% of little bit higher than that.

Guarav Agarwal: Okay that is for OEMs as well. Thanks a lot sir this also and one more thing sorry if I may, then within the CV, the 7-8% growth is it MSCV you are talking about or is it the CV as a whole including LCV?

Sunil Sapre: The LCV growth will be higher than MSCV growth.

Guarav Agarwal: That 72% growth was MSCV growth?

Sunil Sapre: I am saying that on average it will be at that. It will be may be at 12% plus. But MSCV might be at about 7% or so.

Guarav Agarwal: MSCV at about 7 % or so. Thanks a lot Sir.

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

Sachin Kasera: Sir follow up question when you mentioned that in case of cars and three wheelers the OEM 2 after market ratio is more like 30-70 compared to

15-85 for CV. So even after accounting for a higher OEM sales are the blended margins for the segments better than for the CV?

Anant Goenka: Yes, so we do find that margins despite as this adverse ratio or a lower margin ratio or higher sale in OEM the net margins are higher in this segment.

Sachin Kasera: Sir could you just give some ideas in what is the type of the margin difference say on a blended basis between which is higher on the car side versus the CVN and two and three wheeler?

Anant Goenka: Yes, in my view be the difference in margin would be about 5% between the commercial vehicle, to these couple of non-truck categories so BCR and two wheelers would be about 5% higher than commercial vehicle margin.

Sachin Kasera: So just to understand better to assuming if it is 10% for CV than the car and to below 15%. Okay secondly Sir you mentioned that even with this two and three is most profitable so what is the reason why other than MRF and now we are starting to increase presence none of the other large (indiscernible)43.05 is the most profitable I would assume that most of the large OEMs will also want to enter the segment so what is the key entry barer in this segment?

Anant Goenka: I think you should ask them. I do not know but I think it is really in my view one is the nature of selling itself is quite different that is what I think so one is that the way of selling is quite different itself and the brand plays a big role, so once you can identified as a strong two wheeler brand it is difficult for a new player to come in and establish himself as a two wheeler brand.

Sachin Kasera: So in terms of you could highlight more in the first one that you mentioned that the way of selling is different, if you could elaborate a bit on that, and secondly what is CEAT actually trying to do to as you mentioned the brand equity is very important so what are we trying to do there?

Anant Goenka: The way of selling which is different is that in two wheeler first of all the value of each product is much lower so each tyre it only may be a three kg tyre versus a 50 kg tyre in a commercial vehicle segment. As a result distribution becomes a big head challenge now the way we sell commercial vehicle tyres are generally through dealers. In the case of two wheeler tyres you generally have to sell in the FMCG kind of model, which is a distributor model. When we go to a distributor the distributor has his sales force who will go into the rural market and in turn sell. It will not be as easy for us to have that kind of penetration which into rural areas or go to dealers in the rural areas who will be taking four or five or ten two wheeler tyres whereas people in up country regions for commercial vehicle makes a lot more economic sense for us to directly reach, so that is one the major area of distance in the nature of selling.

Sachin Kasera: Sir any special initiatives that CEAT has done in terms to increase market share more in terms of increasing improving our distribution network as you said it is a separate distribution network for this or we are focusing more on brand building or both.

Anant Goenka: Brand building, I do not know if you have seen the media ad that we have been investing a fair amount on about the line advertising so fair amount of

advertising that we are doing on television. It is one aspect that we are doing. We have increased our supplies to OEMs, which will help in getting further replacement demand that is the second thing really we are doing and we are launching new products in the two wheeler category. So we have launched over the past six to eight months we have launched new products to choose the consumers in this category as well.

Sachin Kasera: Large part of the goods is coming from outsourcing so quality is not an issue as far as outsourcing is concerned. We are able to manage?

Anant Goenka: Quality is not maintained by us so we have our own quality assurance team based in these plants and we have been working with them for 10 years so we have got the experience and quality of the CEAT.

Sachin Kasera: One question regarding on the finance side Sir. If you see in the current year also around 250 Crores of EBITDA that we have reported almost 180 to 190 Crores that we have paid as interest cost. So any specific initiatives that the company is trying to look in terms of reducing the overall burden of interest on the P&L side?

Anant Goenka: I think the key will be really large amount of this interest has come out of our loan plant investment. The key is that as Halol ramped up our EBITDA has to continuously go up because the return on investment has to be net of interest. So really the key is to ramp up Halol as soon as we can, which will help overall increasing our EBITDA, which will help reduce or pay up our interest.

Sachin Kasera: Any other specific debt equity, which show that we could look to or work to what sale may be or not immediately may be other three to four year which is if you would like to achieve?

Sunil Sapre: I think debt equity ratio also depends on what are the growth objectives but one thing I would just like to supplement what Anant said is also preferential share warrants that has been issued to the promoter group. So there will be some cash infusion as and when those warrants.

Sachin Kasera: But that I believe is fairly small amount.

Anant Goenka: Small amount today as of now.

Sachin Kasera: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Sriram R from HT Media. Please go ahead.

Sriram R: Just want to check, can you throw some light on the Halol plant in the sense that what kind of average utilization or utilization level the plant has Q3 and as you said if 88 metric tonnes in Q4 and what percentage of topline has it been contributing and what you are targeting for the next year?

Anant Goenka: To give you some background on Halol plant it is 150 tonnes plant. It does 80 tonnes of truck bus radials, 70 tonnes of passenger car radials. Average tonnage for the year was around 60 tonnes per day. Q4 at 88 tonnes per day so

approximately Q3 would be at about 70 tonnes per day or so roughly, it might not be an accurate figure. So we have ramped up from 70 to 88. Our objective is of course utilization right now is low not because of from a demand side but from a ramp up side so a new tyre plant with new technology, new system, processes that take a little bit over a year to ramp up so we hope that in an other four to six months time we are able to reach about 85% to 90% utilization that is about 130 plus tonnes kind of capacity utilization.

Sriram R: By the year-end?

Anant Goenka: By about say four to six months' time but year-end we hope to be at 100% capacity utilization.

Sriram R: Lastly if I am right the Halol plant churns out more high margin products and radial tyres?

Anant Goenka: It churns out truck and bus radial and passenger car radials, truck and bus radial I would say it is currently close to our average margins but passenger car radials is certainly higher than average.

Sriram R: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Ajay Bodke from Prabhudas Lilladher Securities. Please go ahead.

Ajay Bodke: Good evening Sir and thank you for taking my question. In the medium term does the company have any plants on the location of Bhandup plant and monetize the assets? Thank you.

Anant Goenka: We have not taken a decision on that yet. So it will I think in the long-term certainly it is something that could happen. The dime technology the Bhandup plant mainly makes truck buy its tyres where demand is going down. I do not see a planting with that for the longer term. I cannot give you a timeline as to when we would be looking at closing it down but certainly I do not see it continuing for the long term.

Ajay Bodke: What is the capacity actually it is operating currently?

Anant Goenka: It is operating at about 220 to 230 tonnes per day. It has a full capacity of 250 tonnes per day.

Ajay Bodke: Thank you.

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

Basudeb Banerjee: Thank you Sir for taking my question and great congrats for great set of numbers. Couple of questions; you said 54,000 was the overall volume this quarter. How much was it in Q3?

Anant Goenka: It would be around 46,000 tonne.

Basudeb Banerjee: Sir within this how much has been the growth in the CV segment quarter-on-quarter?

Anant Goenka: Large amount would be out of the CV segment itself. I do not think I have the quarter-on-quarter growth number here with me. I can get back to you on that.

Basudeb Banerjee: But broadly one can take the majority of this growth is represented by the CV?

Anant Goenka: Large amount would be in CV because our Nasik plant itself was which make of light tyres was in strike in October, so as a result that additional tonnage it would have come in Q4. That is why there is a large gap. My view there will be pretty large may be about at 10%-15% kind of growth from Q3 to Q4 in commercial vehicle.

Basudeb Banerjee: My second question is as per media reports that there is some chances of Competition Council Of India are implying some fine on the tyre manufacturers because of some cartilization and that they are saying 10% of last three year India revenue will be the magnitude of fine. So what is your comment on that aspect?

Anant Goenka: There is an investigation going on by the Competition Commission. The order is expected any time soon so in the next 20 days or so we expect any date the order could come in. So we are hopeful that we will be exonerated from this. There was recent report the tariff commission, which stated that there was no that the price increases that were taken during this period, was done along with the raw material price increase that has happened. So clearly there was no abnormal profits that has been earn by any tyre company at that point of time and that is the report which I believe would be in favor of the tyre industry, very difficulty to say really Competition Commission to decide what will happen, but we expect to get the order some time in the next 50-20 days time.

Basudeb Banerjee: Looking at the numbers broadly majority of the tyre manufactures making ROCs of lesser than even risk free rate so under certain circumstance these kinds of price hikes should not lead to that kind of scenario?

Anant Goenka: That is right.

Basudeb Banerjee: Thanks sir. That is all from my side.

Moderator: Thank you.

Abhimanyu Sofat: Have we reloaded in on any plant after Halol in term of expansion after two years or so? Have we provided any location as such?

Anant Goenka: After Halol, we would be looking at further expansion of Halol at a future date. So no decision has been taken on that, but I do not think we will be setting up another radial facility anywhere. Halol there is enough land for further

expansion. So once we reach full capacity and we are finding the demand continues to be strong, we could look at further expansion within Halol itself.

Abhimanyu Sofat: So once we shift out of Bhandup over a period a period of time so would that stiffing can happen to also Halol?

Anant Goenka: That location is not decided because we still have to take a decision on what has to be done with Bhandup. We close it, do we run it for some time and then close it after five years six years time. So we would not taken a decision on that yet. We had acquired some land in Ambernath, which is still lying vacant and unutilized, that would one alternative location that we had in mind, but we have not taken a decision whether it would be Ambernath or whether it would be again another totally new location at all. So still too premature yet.

Abhimanyu Sofat: Thanks a lot. Moderator are there any further questions?

Moderator: No sir. There are no further questions from the participants.

Abhimanyu Sofat: Anant if it is fine I will wrap it up?

Anant Goenka: Sure.

Abhimanyu Sofat: Ladies and gentlemen thanks a lot for joining this call and specially and thanks to Anant for being on the call. That concludes this concall on behalf of the Angel Broking. I would like to thank everyone.

Moderator: Thanking all on behalf of the Angel Broking that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.