



“CEAT Limited Q2-FY13 Earnings Conference Call”

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MR. MANISH DUGAR – CFO, CEAT LIMITED**



Moderator

Ladies and gentlemen, good day and welcome to the CEAT Limited Q2 FY13 Earnings Conference Call. As a reminder, all participant lines 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 this conference call please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anant Goenka Managing Director of CEAT Limited. Thank you and over to you Sir.

Anant Goenka

Good Afternoon and a very warm welcome to CEAT quarterly investor call. I am Anant Goenka – MD of CEAT and with me I have Manish Dugar, our CFO. Thank you very much for your interest in CEAT and I will give you a brief over view of our results and key parameters. And after that we will be very happy to take questions.

Firstly as you know Q2, generally is slightly sluggish quarter for the tyre industry due to the seasonal impact of the monsoon. This resulted in a flattish replacement demand. Exports overall did take a hit due to a slowdown in the Latin-American and European markets. However the OEM market has grown pretty well for CEAT. We have added a few important OEMs to our portfolio, such as Bajaj and Royal Enfield. Overall sales growth in tonnage terms has been flat. But our value revenue has grown by 6% on an year-on-year basis. With respect to the raw material front – domestic natural rubber softened at about Rs. 182/kg in Q2 against Rs. 193/kg in Q1. However the depreciating rupee increased the overall cost of natural rubber. And since imported natural rubber was a pretty significant portion of our total natural rubber consumption, the overall raw material cost for CEAT continued to be a little bit higher than the prevailing domestic prices.

On the positive side the Competition Commission of India (CCI) has given a clean chit to the tyre manufactures over allegations of cartelization which really puts to rest a long standing over hang on the industry. I am also glad to share that despite a challenging demand environment we grew our market share in the 2-3 wheeler, UVR and the small commercial vehicle segments to a good extent. Our Sri Lankan operations also continued to grow profitably resulting in 15% volume growth on a QOQ basis and improved our EBITDA margins to close to 18%. A brief update on our Bangladesh operations. We are in the process of finally deciding on a joint venture partner, we are on the final stages of discussion as well as hope to close on purchase of land in the next 1 months time. So with these 2 big ticket items done, we will be able to start off with the project by Q4 - start off with really ground breaking and it could take about 15 months for production to really start. I would now like to hand over the call to Mr. Manish Dugar, who can take you through the key financial parameters.

Manish Dugar

On a consolidated basis we posted a revenue growth of 6% on a YoY basis at Rs. 1213 crores and had a PBT of Rs. 6.3 crores compared to Rs. 5.7 crores last year. I would like to talk about the profitability a little more detailed at a later point. I think the highlight is that margin improved to 7.2% compared to 5.9% of the last year same quarter. Given the seasonality, you know it is important for us to look at the quarter of this year Vs Quarter of last year. I think the more important point to note is there was a focus from a management prospective in reducing the leverage and you know we managed to kind of look at our working capital very closely and it's good to see that the total debt has now come down to Rs. 1350 crores which has brought the debt equity ratio below 2 at this point in

time, which is probably the first time we have got there and it is now at a 1.9x of equity. CEAT India in Q2 on a stand-alone basis posted a revenue growth of 6% at Rs. 1164 crores and operating PBT of Rs.9.2 crores compared to an operating loss of Rs.3.3 crores last year and the EBITDA margin stood at 6.7% compared to 5.6% in Q2 of last year. On a sequential basis, from Q1 to Q2 perspective, there was a drop as Anant mentioned, primarily in our exports sales because of macro reasons and in replacement because of sluggishness in market and that led to a decline in volume by 0.9% and a bit of realization drop primarily because the tonnage drop in sales in exports and replacement got replaced by sales in OEM, where typically we have realizations which are lower. However we did not have any price cuts or we did not give any price discounts. Coming to the profit discussion again from a Q1 to Q2, most of you would be kind of thinking what led to the drop in margins from Rs. 38 crores to the Rs. 4 crore number on a QOQ basis and as I mentioned part of that is contributed by change in the sales mix, higher contribution of OEM sales and lesser of replacement and exports. You would have all seen in the financials that there is an exception item of Rs. 14 crores that's primarily because of the management call that we took of providing for warranties on the basis of expected claims rather than on the basis of actual claims that we were doing earlier. And that had an impact of Rs. 14 crores and other than this there was an ex-gratia payment for some employees we let go, some bonuses that we declared and there is a significant investment that we have continued to make in our advertisement expense which is significantly higher than what we did last year. And over and above all of this we have started the journey of significant exercise with a large consulting organization that has a significant impact on the P&L on QoQ basis and it's a 12 months project and is expected to go on for at least 7 more months. If you were to take all of these which are mostly one-time non-recurring expenses, you know the normalized profits for this quarter would have been closer to the profits we had last quarter and we expect our normalized profits to remain in line with that going forward, if not have an up side to it because our expected sales in the coming quarters is going to be led by increase in exports and replacements and we are hoping that while natural rubber prices should remain stable in the next quarter, with a bit of hardening in Q1 i.e. quarter of January, February, March. But the other raw material prices should see a bit of softening so a combination of all of that should lead to an improvement in profitability from the normalized profits of this quarter or in a worst case scenario probably stay at that level. Coming to Sri Lanka JV, as Anant mentioned, you know we are quite happy with the performance both in terms of revenue growth and in terms of percentage margin. Sri Lankan JV operations reported a growth of 15% YoY at Rs. 106 crores and PBT of Rs. 15.3 crores compared to Rs. 7.6 crores last year. EBITDA margin improved to close to 18% from 11% in Q2 last year. You know going forward as disclosed in the notes to accounts, while we are hopeful of profitability to kind of improve or stay at the normalized levels, we have announced a VRS scheme for one our factories which is Bhandup and that might again come as a one-time expense in the next quarter. But otherwise there are no other major surprises that we are expecting or major one-time expenses that we are expecting to impact our profitability. With this I now invite questions from you all, and we will be happy to answer that. Thanks.

Moderator

We will now begin the Q&A session. We have the first question from the line of Yaresh Kothari from Angel Broking. Please go ahead.

- Yaresh Kothari** Just had a question on the VRS scheme and also on the quarter. We had announced similar kind of VRS scheme in 2010 as well. So what is the employee strength right now and what is the charge that we are expecting to do the hit on?
- Anant Goenka** See, We had about 1800 employees. We expect about 180 – 200 employees to subscribe to this current VRS. Which is still going on. So that will bring down the strength to approximately 1600 people. And this in our plant in Bhandup.
- Yaresh Kothari** And Sir what will be the cost that we would expect, we had incurred a cost of around 3 crores for VRS in 2012 for the full year. So what is the cost that we are expecting in 2013?
- Anant Goenka** Ok, I can't recollect what was the cost last time. But approximately the cost this time would be somewhere around the range of Rs. 15 crores.
- Yaresh Kothari** And the entire would be taken in the Q3?
- Anant Goenka** Yes
- Yaresh Kothari** Entirely in the Q3. Ok fine. Thank you Sir.
- Moderator** Thank you. We have the next question from the line of Ashutosh Diwar from Equirus, Please go ahead.
- Ashutosh Diwar** Sir my question is regarding, what was the replacement OEM mix basically in the quarter vs Q1.
- Anant Goenka** Yeah, The replacement was about 55% of our sales approximately. OEM was about 24% and export was at about 22%
- Ashutosh Diwar** And this is for Q2. What was it for Q1?
- Anant Goenka** Q1 replacement was higher at about 60-61%. OEM was at about 19-20% and export was at about 20%
- Ashutosh Diwar** And Sir, I mean the margin wise this replacement and the export market is almost similar kind of margin or they are different?
- Anant Goenka** Export margin over the past 8 months have gone up because of the rupee depreciation. So historically export margin generally fall between OEM and replacement with replacement being the highest exports number 2, OEM number 3. But over the past 8 months exports has kind of over taken replacement in the form of margin. The rupee straight away going from 50 to 55 or from 48 to 53 is a straight away 10-15% impact on margin.
- Ashutosh Diwar** And Sir how is it, the raw material cost moved say Vs Q1?
- Anant Goenka** Raw material cost has been flat actually from Q1 to Q2.

- Ashutosh Diwar** Sir, I was not able to get, I mean when the rubber price index prices of rubbers have fallen about 193 in Q1 to around 180. How that doesn't impact numbers?
- Anant Goenka** I think there will have an impact from Q3 onwards and that is because, there was a fair amount of imports that we had done in around April-May. So the imports by the time the material came in and this was done when the international prices were at about Rs 190/- Kg. And when rupee was at around 50. The time when the material came in rupee depreciated to 53-55 range and through the imported material came in at actually a higher price. So while domestic purchase was being done in the lower price, our international prices went up substantially because of the rupee situation. As a result we could not realize the entire benefit of the falling raw material price. However we will realize the benefit now onwards.
- Ashutosh Diwar** Sir what is the average nature rubber cost for Q1 and Q2. If you can provide that.
- Anant Goenka** It would be approximately nearly the same at about around Rs. 193-194 per Kg.
- Ashutosh Diwar** And what is the Landed cost for you?
- Anant Goenka** Landed cost would be around, 205-210/Kg
- Ashutosh Diwar** What about other raw materials? I mean NTCF and carbon black and all?
- Anant Goenka** Most of the raw material prices have actually remained flat from Q1 to Q2. Synthetic rubber and fabric have gone down by about 3-4%. But Carbon black has gone up by 3%. So net-net, it kind of remained flat from Q1 to Q2.
- Ashutosh Diwar** But will Q3 see some impact of basically rupee appreciation in this quarter?
- Anant Goenka** Q3 I do believe, the bigger effect will come with respect to natural rubber prices coming down a little bit. Natural rubber has actually been very volatile. It went down to about Rs.170/Kg level. But went back up to about Rs.195/Kg and has again come down to Rs. 175 in the last 40 days. Huge volatility we are seeing in natural rubber, fortunately over the past 2 weeks this has been coming down. But certainly the overall benefit we will see and considering that we have utilized all the higher cost imported rubber there should be an improvement in the natural rubber price in raw material prices in Q3.
- Ashutosh Diwar** Normally how much inventory you hold of natural rubber and other raw materials?
- Anant Goenka** Approximately 12-13 days of inventory.
- Ashutosh Diwar** Sir if you are holding it and ok, so including say the material transit how much that would be?
- Anant Goenka** There is some amount of booking that you do. So sometimes you do some import booking and you will want the delivery to come in say right now we are sitting in November, we can do some imports which will come in December and January or February, so that is not part of inventory. That could be

part of safe strategic buying etc. But inventory is what really booked and is in transit or is in our warehouse.

Ashutosh Diwar

So normally how much forward booking you do? Basically just wanted to understand.

Anant Goenka

Very Limited. Because really duty free we get duty free rubber for only the amount that we export and our exports is about 22% of our total sales. As a result you can say about 20-22% of our natural rubber is imported approximately. So to that extent we can choose to do some forward booking of rubber. That would be say about 20%

Ashutosh Diwar

So that probably hit the margin you are saying basically.

Anant Goenka

Yes. And you can also do some advance buying. So, there is an advance license scheme which the Government has. So you can go forward against exports, so that can be taken up but in the longer term, it balances out.

Ashutosh Diwar

Sir in terms of re-placment market growth, what kind of growth basically you expect this year.

Anant Goenka

See until now replacement market has been flat in tonnage terms. In value terms it had gone up because there has been some inflation in terms of pricing. But value terms it has been flat. Going forward I do expect our volumes to go up. That is because of plant in Halol is ramping up. We are currently at about 65% capacity utilization. We hope that by Q4, this will go up to about 80-85% capacity utilization. So with that utilization going up, we can expect increased sales in passenger car radials, UV radials and Truck radials in the replacement market. So we should move towards clearly volume positive and therefore even higher value positive category in the replacement market.

Ashutosh Diwar

And there was no pricing action at all in the last quarter or there was some cut.

Anant Goenka

No, there was no price cut although price change.

Ashutosh Diwar

But we heard that there are some schemes also being offered by some tyre makers. Is that correct? Not the price cut but discount to dealers basically.

Anant Goenka

Schemes keep running continuously. There has been some schemes in the passenger car radial segment, what we hear from our intelligence. But in our case we are not doing anything beyond the norms. So whatever normal discounting that exist is what we are offering nothing different from a QoQ basis.

Ashutosh Diwar

Ok Sir. Thank you. That's all from my side.

Moderator

Thank you. We have the next question from the line of Vijay Nara from Fortune Equity brokers. Please go ahead.

Vijay Nara

Can you share the tonnage details. Tonnage sales for this quarter.

- Anant Goenka** Tonnage sales is about 51000 tons in Q2.
- Vijay Nara** And Sir, How much of the debt is sitting under current liabilities. That is maturing in this year.
- Anant Goenka** Can I ask Manish to take this?
- Manish Dugar** A total of 450 crores is what is lying in the current liabilities.
- Vijay Nara** Which is short term and which are the long terms? There is a portion is debt which is maturing in the current year which lies in other current liabilities. So I wanted to know that portion.
- Manish Dugar** That is 253 crores.
- Vijay Nara** And there is short term borrowings of Rs. 600 crores. So I all we have around Rs. 800 crores of debt getting matured in next 1 year. So how do you intend to fund this?
- Manish Dugar** So if you have seen significant portion of this is kind of contributed by you know matching with the working capital that we have in terms of current assets and from a long term asset prospective if you see our portfolio we have tried to move to longer term loans and we are hopeful to one rotate most of the short term loans, the discussion with the banks have already happened and you know at this point in time trying to work towards reducing the working capital and retire some of these loans in the first place like you would have seen, despite have been funded, the equity in Bangladesh we have been able to bring down the total debt close to Rs. 43 crores. So the idea is to on one side try and retire as much as possible of the short term loans and on the other hand try and move towards longer term arrangements as our rating improves, as the rate equity ratio improves, and as we start getting better funding rates for even the long term borrowings.
- Vijay Nara** Any equity dilution which we can expect?
- Manish Dugar** Actually if you look at it, the promoter holdings have consistently been going up. Ae have also done convertible options which should increase the promoter holdings. So we are not looking at the dilution at this point in time.
- Vijay Nara** That's it from my side.
- Moderator** The next question is from the line of Sabudri Singh from Sushil Finance. Please go ahead.
- Sabudri Singh** As you told that you have gone up like market share of 2 and 3 wheelers have gone up in this quarter. So can you give me the percentage like from where , earlier it was 12% if I am not wrong.
- Anant Goenka** It has approximately gone up from around 14% levels about 18-19% levels.
- Sabudri Singh** 18-19% this quarter only? How do you see the outlook for the 2-3 wheelers in the export market?

- Anant Goenka** Export market we hardly export any 2-3 wheelers. Most of our 2-3 wheelers are for the replacement and OEM segments. And by market share I am talking about market share only in the replacement segment.
- Sabudri Singh** As you said that because of some onetime expenses, that margins has got hit this quarter, sir can we take base case of 104.8 crore at the EBITDA level from here onward if we suppose that everything will be fine there won't be any one time expenses of that VRS scheme and that exceptional item.
- Manish Dugar** Where are you getting this Rs. 104 crores figure from?
- Sabudri Singh** Sir, EBITDA level if in your stand-alone figure, it is given 8.8 crore, after depreciation. If we add the depreciation back of 19.2 crore, it comes around 104.8 crore. So this would be EBITDA. So can we expect for the Q3 quarter and Q4, we can expect more than 104 crore EBITDA for Q3 and Q4?
- Manish Dugar** Well we don't give a guidance of that sort but given the expected softness in other material cost and the stability in expected stability in natural rubber prices, and the expected sale of mix in terms of more in exports and replacement, our expectation will be that yes the EBITDA should be north of that number.
- Sabudri Singh** Ok, It should be like more than that or it should be in line with that one.
- Manish Dugar** That's what I said. It should be north of that number.
- Sabudri Singh** What is this like? How that employee cost has gone up to Rs. 62.69 crore. So is it for the recruitment for that Halol plant or something else?
- Manish Dugar** As I was mentioning, some of this is the increments that were given which is part of regular cycle. And the large part of it was in the form of owners and ex-gratia payments that happened, which was one time in nature. So some of this will be recurring and a large part of this will be non- recurring.
- Sabudri Singh** So, how much will be onetime in that?
- Manish Dugar** I will refrain from giving an exact number but as I said, it will be major portion of the increase.
- Sabudri Singh** So it would be recurring.
- Manish Dugar** So whatever increase that has happened in employee cost this quarter over last quarter, a major portion of that is non-recurring in nature.
- Sabudri Singh** Sir, why this other expenditure has gone up from Rs 182 – 193.7 crore? What is that exactly?
- Manish Dugar** So, a part of that is as I talked about the investment we are making in the strategic program that we are running with a large consultancy organization and we have invested heavily in the last 2-3 quarters on brand building which is leading to a lot of sales and marketing expense. So those would be 2 primary contributors to this increase.

- Sabudri Singh** Because, YOY even it has gone up very high substantial increase from Rs. 158 – 193.
- Manish Dugar** So this consultancy that we are doing is again non-recurring, it's another 7 months. Advertisement is something that is helping us gain the market share which Anant has talked about, both is 2 wheelers, 3 wheelers and UV radials and that's an area where we want to continue to be invested. Rather than cutting corners.
- Sabudri Singh** So can we have the volume growth for the next 2 quarters.
- Manish Dugar** Well if I knew what that number is I would have be a very happy person. We have projections. We have internal plans but I would avoid giving a forward looking statement on that.
- Sabudri Singh** Sir do we have any plan to do the backward integration because as we know that raw material prices are very fluctuating, so better we will have begun own plants and something like that to owning rubber plants somewhere.
- Manish Dugar** At a group level as that Harrisons Malayalam is one of the large rubber and tea plantation owners in the country, but our experience has been that owning a rubber plantation does not necessarily give you any significant advantage when it comes to rubber prices because they are determined significantly by the taping season, the demand in the external market, how much China is manufacturing and stuff like that. So while we do have the plantations already, I don't think it gives any significant advantage from a cost prospective by having rubber plantations.
- Moderator** Thank you. We have the next question from the line of Rohan Korde, from Anand Rathi. Please go ahead.
- Rohan Korde** My question is to Manish. I want to know that you have provided for claims at the beginning of the year, so are we following some international standards or is it something that the management is decided proactively.
- Manish Dugar** Well, we looked at our total warranty claims that we were getting and as you know that various schemes run. There are schemes which are 1 year tenure and there are schemes which are 2 years tenure, there are schemes which are 3 years tenure and we realized that earlier the schemes used to be mostly 1 year in nature and most of the claims would come and get settled in the first 3-6 months' time itself because the day you sell the tyre, if the tyre is not working the buyer would immediately come and ask for a replacement. Over the last 6 months we realized that our tenure of such schemes are becoming longer so we have more schemes which run 2-3 years than what we used to have earlier and we have also realized that some of these claims come after 6-9 months period because these are specially that TBR kind of sales where the tyres gets tested in the over load market or offload market and if they don't meet the performance criteria, we have committed that we will do a free replacement. So given this change in the nature of business and given that we have now got a potential claim which can come much later period after the sale has happened. We took a call that instead of waiting for the claim to come and settle it immediately, we would rather do an estimate based on our past trend and provide on a proactive basis. So one could have taken a call that we will

continue on the way we were doing it earlier and that would have been a fair comparison in terms of quarter-to-quarter and year-on-year performance. But we felt that this was a more conservative way of doing it and hence we proactively made the change.

Rohan Korde That's helpful and the other thing that I wanted to know is the 14 crore exceptional expense that you have mentioned, this is pertaining to this financial year or is it pertaining to the schemes that are in running.

Manish Dugar So this is our estimate of what we would pay out for the schemes, for the sales that happened prior to 1st April, 2012, if we were to apply the new policy.

Rohan Korde What is the provision for the first half and for the second quarter?

Manish Dugar So that has hit the P&L as a non-exceptional item and that figure is about Rs 1.4 crores

Rohan Korde 1.4 crores for the first half.

Manish Dugar That's right.

Rohan Korde The third question is on the activity that the global consultancy is doing with us. Are we providing for this expense on a quarterly basis or has this been provided in the second quarter and hence won't come in the subsequent quarters.

Manish Dugar As I said this is a 12 months project. It started 5 months back and we are providing it every month as the project is going on. And we expect this to continue for 6 more months.

Rohan Korde So when you say, non-recurring, it is basically from a FY14 perspective that this cost won't come into the picture.

Manish Dugar That is right.

Rohan Korde And my last question is to Anant. May be you could share some more light on how the replacement demand in the T&B radial side is spanning out.

Anant Goenka Yeah. Radialization is picking up at a pretty fast pace at this point of time. So as a result what is happening is that the truck bus bias segment which is about 60% or about 50% of our total turnover is getting affected. So while on one side we are losing out on the truck bus bias growth, truck bus radial growth is coming along pretty well. In our case we are getting a little restrictive with respect to our capacities because our Halol capacity is still ramping up. So we are able to see whatever we are producing at this point of time but radialization i expect to pick up pretty quickly. We were at about 13-14%. This is at an all India level. India was about 13-14% radialized last year. its gone up to about 18% and I would expect comfortably at least a 5-6% radialization in commercial segment on an annual basis.

Rohan Korde And has the pricing power increased in the segment?

- Anant Goenka** No, the pricing power there has been actually weak. So contrary to expectation, where we expected truck bus radial margins to be very strong that area has been a little bit weaker than what we expect. We do expect and we are confident that in this margin should go up over time because this was the time where a lot of capacities came in at the same point of time, however the cost are all there and we need to recover the cost of truck bus radial and I do believe that margins will get attractive over time once consumer starts realizing the benefit of radials.
- Moderator** Thank you. We have the next question from the line of Paras Nagda from Enam Holdings. Please go ahead.
- Paras Nagda** What is the kind of capacity utilization at the Halol plant right now?
- Anant Goenka** The capacity right now is 150 ton plant. We are right now about 90 tons per day. We still have about 60 tons to go. Our targets are to reach about 130 tons by Q4.
- Paras Nagda** Because I have been hearing it about 1-1.5 years, the plant is not ramping up as per your expectation. So what is the problem, is there a product problem or a technical problem?
- Anant Goenka** Yes, the ramp up has been slightly slower than what we expected and that primarily because of a decision that we took to outsource the maintenance in the plant. So what happened is that we had slightly more breakdowns than we would have liked. However, we have now in-sourced the maintenance back into our fold and we expect to see these break downs come down from now onwards. So we expect a higher utilization from Q3 and Q4.
- Paras Nagda** No big problem with the product acceptability.
- Anant Goenka** No problem with product acceptability. And right now the demand is higher than the supply. It's a supply constraint.
- Paras Nagda** And one more thing that I wanted to know is what kind of headwinds and in which countries are you facing the headwinds with respect to exports right now.
- Anant Goenka** We have seen a slowdown in Europe and Latin America. Two particular continents where we are seeing a slowdown. Latin America we are seeing particularly because of the impact of the European banks. The Spanish banks are very large lenders to or provide credit to the Latin American Market, where there is a huge cash crunch. So while there is a demand for tyres, they are not being able to pay up on time. And therefore we had to restrict our supplies to the Latin American Markets and Europe of course you know what's going on, so over all there we are seeing a large slow down with respect to particularly off road tyres.
- Paras Nagda** And how much this will be Latin plus Europe? How much export it will be for us?
- Anant Goenka** It will be about 35% of our total export sales.
- Paras Nagda** In rest of geographies like Middle East and all still...



- Anant Goenka** We are seeing good growth from Africa, Middle East also there is some slow down but as bad as Latin America and Europe. But Middle East market also is not looking very good.
- Paras Nagda** Just last one for me. Could you comment on the competitive intensity going ahead in the market with respect to MNC tyre makers also coming in. The tyre makers have also expanded capacity. What is the kind of competitive behavior right now going on the market?
- Anant Goenka** Yeah, Competitive intensity, the MNC effect has not yet been felt at least in the truck radial segment or the truck segment yet as I see the capacities are yet to come up. It would be another six months in my view by the time tyres of The Michelins and Bridgestones is what we hear should come into the market and perhaps there they will be some amount of higher competitive intensity once they come-in in the replacement segment. In the OEM segment there is still a long way to go with respect to radialization. There is a huge demand for Truck radial tyres from the OEMs and the exports are always our pretty good area to look at in case the competitive intensity goes up a fair amount. Especially right now with margins being attractive, purely from an opportunistic or margin perspective export margins are more attractive than replacement. However, in the passenger segment, they have always been there. Bridgestone, etc., are all there in the passenger segment.
- Paras Nagda** And with the current pace of radialization, what will be your sense, where the radialization is right now upwards of 25%, has it reached?
- Anant Goenka** No, it might be somewhere which is around 18-20% in the commercial segment.
- Moderator** Thank you. We have the next question from the line of Ashutosh Diwar from Equirus. Please go ahead.
- Ashutosh Diwar** On this truck bus radials, I mean is the current day margins of bias and radial host similar or radial is lower than bias.
- Anant Goenka** I would say that they are both on the lower end with respect to the overall product portfolio. So the truck margins generally out of the entire product portfolio of whether it is a passenger segment, etc., truck margins are generally lower. We had expected truck radial margin to be higher considering they are of more high tech kind of a product. However, the margins of truck-bias and truck radials are not very different at this point of time.
- Ashutosh Diwar** And so out of this truck and truck and bus radials, how much goes to replacement and how much to OEM. Is the major portion going to OEM only or?
- Anant Goenka** It's kind of I would say some amount is divided or between all 3. So some amount is going to the OEM replacement as well as to the export market.
- Ashutosh Diwar** And sir, what would be that mix.
- Anant Goenka** The mix is still we are still ramping up with respect to the truck radials but it would be about 30-40% gets exported about 30-40% goes to the OEM and about 25% goes to the replacement market.



- Ashutosh Diwar** And what would it be for the bias tyres?
- Anant Goenka** Bias tyres majority would be going to the replacement market. Say about nearly 70+% or 75% would be to the replacement segment. These are just very rough numbers.
- Ashutosh Diwar** Yeah, Surely. Just wanted to get a sense on this. And how the pricing would be different in say radial and bias tyres right now?
- Anant Goenka** Radial tyres are about 15-20% higher. However, their rates as well as their raw material cost is slightly higher and the cost of production. So the overall the margins are equal but the pricing is about 15% to 20% higher.
- Ashutosh Diwar** And Sir, how the pricing would be different in say replacement and OEM for truck-bus radials?
- Anant Goenka** OEM prices are clearly lower because they give us much larger volumes. I don't want to give because it gives you exact difference in the discount that we give to an OEM. But it varies product to product, category to category. But clearly OEM is we offer them a lower price and a replacement segment.
- Moderator** The next question is from the line of Paras Nagda from Enam Holdings. Please go ahead.
- Paras Nagda** Sir, just a follow-up. I assume that the market leader in 2-wheeler tyre segment has reduced prices by 5-9%. So what is happening in that segment per se right now?
- Anant Goenka** We have not taken any price cuts at this point of time. And our sales are going on pretty well. So as I said, our market shares have gone up and we are finding sales to be pretty strong for the motor cycle segment.
- Paras Nagda** So what kind of premium or discount you will be now to the market leader?
- Anant Goenka** Our pricing would be among the highest at this point of time at least 2-3% higher than our competitor.
- Paras Nagda** And is there any, what kind of new dealer level incentive or what are the things that you are planning to do with respect to increasing the share? Is it more of dealer level incentive or what kind of strategy going ahead in this segment?
- Anant Goenka** Going forward if you look at our media presence, most of our advertising is on the 2 wheeler segments. We have been happy with the results of our ads as in we plan to continue to focus aggressively on the above-the-line marketing for 2 wheelers. We have also continued to launch new products in the motor cycle as well as in the scooter segment. So new product launches are again going to be very important for us. However, schemes, etc., are very temporary things that keep happening. That's not going to be anything where we are going to add our focus towards. It mainly making sure that the consumer realizes the benefit of our tyres and creating a pull demand for our tyres.

- Paras Nagda** And just a last question on pricing in the truck and bus and the truck radials and truck bias. Has there been any pricing decision by any of the competitor or the pricing is stable right now?
- Anant Goenka** No, Pricing is over all been pretty stable. There has not been a major variation in raw material prices over the past 7-8 months. So overall pricing what we see has been pretty stable for the past 6-7 months at least.
- Moderator** Thank you. We have the next question from the line of Surjeet Arora from Prabhudas Lilladher. Please go ahead.
- Surjeet Arora** I have couple of questions. One is what is the CAPEX guidance for this year and next year?
- Anant Goenka** CAPEX is approximately Rs. 50 crore or so for this year. This is primarily our normal CAPEX that we do in our plants for molds. So that's pretty much the normal CAPEX we will be investing the big CAPEX that would be coming in would be for our Bangladesh plant, where we expect to be investing in the land this year. So that would be over and above by about Rs. 30 crore or so. And then next year beside it's a normal CAPEX or routine CAPEX is that we have for the maintenance of our plants. We would be investing ours in Bangladesh project.
- Surjeet Arora** Sir any guidance on that? I mean Rs. 30 crores will be for this year in Bangladesh, what other investment we can see next year?
- Anant Goenka** It's about Rs. 30 crores for the land about say Rs. 7-8 crore additional this year for Bangladesh for getting the land work started, etc. Some advance for machinery. Total cost of Bangladesh would be 260-270 crores and our expense next year would be something like Rs. 70-80 crores. This is a rough figure.
- Moderator** Thank you. Next question is the line of Yaresh Kothari from Angel Broking. Please go ahead.
- Yaresh Kothari** Sir what will be your 2 wheeler capacity at the Bhandup and Nasik plant?
- Anant Goenka** We don't do 2 wheelers. All our two wheelers are outsourced.
- Yaresh Kothari** So the current capacity is 150 TPD right?
- Anant Goenka** That's right. In 2 wheelers it would be about 120 or so. Very approximate number.
- Yaresh Kothari** And Sir what was the export revenue during the quarter?
- Anant Goenka** Export revenue would be close to Rs. 250 crores approximately.
- Yaresh Kothari** And so what was it same quarter last year?
- Anant Goenka** Our exports have de grown a little bit. So actually this year might have been about Rs. 270 crores last year. This year was about Rs. 260 crores.



- Moderator** Thank you. We have the next question from the line of Ashutosh Diwar from Equirus. Please go ahead.
- Ashutosh Diwar** Sir. Just one more question on this TBR. One dealer was telling us that actually is some of places they guarantee kind of per ton per Km cost if they use the radial tyres. So is it something like that going on? Actually you guarantee some per ton per km cost and that's how the tyre makers are trying to increase the radialization level in the industry?
- Anant Goenka** It's a very common way of selling. So you have something what you call cost/km which is a very common parameter which all tyre companies including us, we use to sell our tyres. So that is something which is a very common parameter which is calculated based on the miles that you are able to travel , the fuel efficiency that you get and the cost of the tyres. So takes into account in a way the net cost – the owner or the customer would have. It's a very common parameter which is used by sales team.
- Ashutosh Diwar** So is it true only for radial tyres or even bias is the same kind of thing?
- Anant Goenka** No, cost per km can be calculated for any tyre.
- Ashutosh Diwar** Yeah that's true but.
- Anant Goenka** Radial cost/km generally is of course going to be more economical. So very often people use that as a selling strategy to convert people to radial tyres.
- Moderator** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Anant Goenka for closing comments.
- Anant Goenka** Thank you very much for your interest in CEAT and we look forward to having you once again next quarter.
- Moderator** Thank you very much sir. On behalf of CEAT Limited, that can close this conference. Thank you for joining us and you may now disconnect your lines.