



“CEAT Limited Q1-FY14 Earnings Conference Call”

August 1, 2013



MANAGEMENT: MR. ANANT GOENKA – MANAGING DIRECTOR, CEAT.

**MODERATOR: MR. PRAMOD KUMAR – SR. VICE PRESIDENT, IDFC
SECURITIES**



Moderator: Ladies and gentlemen, good day and welcome to the CEAT Limited Q1 FY 14 Earnings Conference Call hosted by IDFC Securities. As a reminder, all participants' lines will be in the listen-only mode, and 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 '*' then '0' on your touchtone telephone. Please that this conference is being recorded. I now hand the conference over to Pramod from IDFC Securities. Thank you. And over to you sir.

Pramod Kumar: Thanks a lot, Melissa. Good evening, all of you and thanks a lot for taking time out and participating in this call. We have with us today Mr. Anant Geonka – Managing Director of CEAT and I would hand over the floor to him and he will begin with a quick opening remark, and then we will have the Q &A session. Anant, over to you.

Anant Goenka: Thank you very much. Good afternoon and a very warm welcome to CEAT'S quarterly investor call. I am Anant Goenka – Managing Director of CEAT. Thank you very much for your interest in CEAT.

And I will give you briefly an update of our results, and some key parameters and then we can take questions. A little bit of analysis on our year-on-year growth. CEAT India registered a growth of 8% year-on-year driven by volume growth of 11% and price and mix contributed to (-3%). 11% volume growth was mainly on account of Exports and OE where we had healthy growth across all product categories. In the Domestic Replacement market, growth was driven by the Passenger segment mainly in the Two-Wheeler and Utility Vehicle segment. The price and mix contribution of (-3%) was due to primarily because of lower realization which was because of some softening of raw materials we passed on some benefits to customers as well as increased OE sales leads to lower market mix or adverse mix which has also had some impact. However, there were lower raw materials cost more than set off the lower realization and hence margins expanded by healthy 300 basis points year-on-year. On a quarter-on-quarter basis, CEAT India has registered a marginal dip in revenue of 2.2%. This was primarily because of a volume drop of 3.3% which was mainly on account of Exports. Exports were affected by sharp currency depreciation in some countries and overall weak global demand. However, Domestic Replacement sales has done well and grown by about 10% which is quite encouraging. And price and mix change contributed to about 1.1%. This was supported by soft raw material prices which were down by about 1%. The combined effect of all factors led to an EBITDA expansion of 120 basis points on a quarter-on-quarter basis and 300 basis points year-on-year. As a result absolute EBITDA grew to 151 crores, one of the highest quarterly EBITDAs in the recent past.

In terms of product categories, we continue to grow in Two Wheelers and UV, and our monsoon-smart ad campaign, which was a bike campaign for the monsoon season was well received and saw good traction. The Commercial Vehicles segment had some challenges and primarily had slowed down because of the weak macroeconomic environment.

If you look at the overall past 3 years, our key focus areas of Exports and Passenger segments now contribute to about 43% of our volume compared to about a third a year ago, from 33% to about 43% this has grown and these are mainly the profitable segments wherein we have seen strong demand growth in the past. Hence this strategic shift of our mix is driving better margins and growth and we will continue to focus in these areas in the future.

On the raw materials front, going forward many of you would have seen that Rubber prices have gone up, in the last month. This is primarily due to very heavy monsoon that Kerala has seen. However, international prices are lower this point of time, and even at an exchange rate of Rs.60 to a dollar at this point International Rubber is about 20% lower than Domestic prices at this point of time. Therefore, I believe the increase in Rubber prices is only a temporary issue and we should see a sharp decline once monsoon begin to recede.

On a consolidated basis, PBT was at about 98 crores, up 125% year-on-year and 16% quarter-on-quarter which was mainly account of better realization and lower raw material costs. Our debt reduced further this quarter which stood at 995 crores, down by 43 crores quarter-on-quarter, and nearly 400 crores down year-on-year, taking our debt-equity to about 1.2 times from 2 times last year. So overall despite 8% growth of about 100 crores in top line, our debt has gone down by 400 crores, and as a result interest cost has also come down on a year-on-year basis.

Our Sri Lanka JV recorded a healthy performance. PBT was at 23 crores, almost double of Q1 last year. This was driven by volume growth of 16% and margin expansion of 860 basis points which now stands at 23%. Both are extremely healthy performance indicators of our JV in Sri Lanka. With this I will be happy to take any questions from you. Thank you very much.

Moderator: Ladies and gentlemen, we will now begin with a question-and-answer session. We have the first question from the line of Basudeb Banerjee from Quant Capital. Please go ahead.

Basudeb Banerjee: Wanted to know as you said that even if you are importing Rubber still it is coming cheaper than the rate at Rs.190 per kg. What was the percentage of rubber we use from the Domestic market in Q4 and what is the scenario going to be in Q1 and Q2?

Anant Goenka: So there is a big difference in Q4, say we would have used about nearly 80% would have been Domestic Rubber, about 15%-20% international. This could shift to as high as 60%, 70% international purchase and nearly about 25%-30% Domestic, it can shift to that kind of level. So if you look at the gap between the two pricing so Domestic is priced at Rs. 195 per kg, International rubber is coming in at a landed price of approximately duty free at about Rs. 135 per kg. If you pay duty Rs. 20 it is coming in at Rs.155-Rs.160 per kg, so there is a huge gap of nearly Rs. 30-Rs. 35 between duty paid imported rubber and Domestic rubber at this point. So clearly it makes sense to do duty paid imports rather than buying Domestic rubber.

Basudeb Banerjee: That means even after the Domestic prices have moved up, so shifting to imports paying duty and logistics cost your landed cost is broadly the same as it was in Q4?

- Anant Goenka:** Yes, there could be minor changes here and there, but very minor I think because the international prices have been down, and it has been a short window about 3 weeks or a month, max that Rubber has been up, I do not see this staying for more another few weeks, unless of course rains, etc. continue very strong going forward, but the moment you get 1 week of clear weather, Rubber prices will come down. If you look futures market, Rubber is about Rs. 165 type level in the Indian futures.
- Basudeb Banerjee:** And how has been the movement of other major raw materials like Carbon Black, TCF etc.?
- Anant Goenka:** The other raw materials you want to know on a quarter-on-quarter?
- Basudeb Banerjee:** Yes, quarter-on-quarter.
- Anant Goenka:** Basically, Synthetic Rubber primarily has been coming down. All others have been kind of flattish. Carbon black has gone up a little bit, but changes have been between (+/- 0 to 2%).
- Basudeb Banerjee:** Broadly so other than Natural Rubber imports, just wanted to understand that this rupee weakening is impacting what percentage of your total raw material consumption?
- Anant Goenka:** Net-net hardly any impact because even commodity prices have come down quite substantially. The coming down of commodity prices and weakening of the rupee has in a way offset each other.
- Basudeb Banerjee:** And sir any one-offs in the other expenses even on an absolute and percentage of sales, it is a pretty high from a past trend?
- Anant Goenka:** No, not at all.
- Moderator:** The next question is from the line of Mayur Milak from Dolat Capital. Please go ahead.
- Mayur Milak:** You just mentioned that the Domestic Rubber as a percentage of almost 80% of your Domestic purchases in Q4 you said. And what is it currently?
- Anant Goenka:** Currently, it would be very different, so imported would be much higher than Domestic, so it could be as high as 60% kind of imported, 40% Domestic.
- Mayur Milak:** Are you emphasizing that the company takes a call on Domestic purchases or import depending on what is the price parity between the two?
- Anant Goenka:** That is right.
- Mayur Milak:** We are under no compulsion to buy a specific quantity or a specific thing on the Domestic market or on the international market.
- Anant Goenka:** Not at all.

- Mayur Milak:** And what is your average Rubber cost at this quarter?
- Anant Goenka:** I would not be able to share with you exact number, but generally Rubber prices have been quite stagnant between Q4 and Q1.
- Mayur Milak:** On the International Rubber prices, as a view do you really think that the International Rubber price can really go up again as in the commodity price, because since we have seen typically as analysts we were expecting that rupee weakening this would gradually hit all the major auto. Now since commodity has come in as an advantage, even if rupee continues to be at 60-61 level, you should be able to comfortably maintain your margins going forward?
- Anant Goenka:** Yes, I believe so, because our Exports and imports are a kind of very close to each other, we export about 20% to 23% of our sales. Our imports are around 26-27%. So there is hardly any gap between export import net-net. In fact for CEAT I would say we become more competitive as rupee depreciates, because the ratio of Exports to total business is higher in CEAT than our competitors.
- Mayur Milak:** Coming to the Domestic volumes as such, are you seeing any major traction coming into any particular segment or the slowdown is imminent across all the segments whether it is the OEMs or the Replacement market?
- Anant Goenka:** We are seeing Replacement market picking up better in Q1, whereas the OEM segment has also grown on a year-on-year but on a quarter-on-quarter basis the OEM segment is showing a slow down, but Replacement market has picked up better from Q4 to Q1.
- Mayur Milak:** What would be your current market share in the Replacement market?
- Anant Goenka:** Roughly around 12%-13% level.
- Moderator:** Thank you. The next question is from the line of Vishal Saraf from SBI Mutual Fund. Please go ahead.
- Vishal Saraf:** Just wanted to understand for the Sri Lankan venture, is there anything abnormal in terms of his quarter and where do you see sustainable margins for the Sri Lanka venture?
- Anant Goenka:** What happened is last year Sri Lankan market itself was degrowing. As a result what happened is that the Replacement sales for the Sri Lankan market, the local sales did not grow as well. This year the market has picked up very well and we have grown very well in the Domestic Sri Lankan Replacement market and that has substantially helped our margin. Second is raw material prices have been subdued in Q1 also, so that has added good impact on Sri Lankan pricing and we have taken some price increases in the month of June in Sri Lanka.
- Vishal Saraf:** Sorry, price increase in the month of June? But you said despite Rubber softening, we have been able to take decision?

- Anant Goenka:** That is right.
- Vishal Saraf:** So do you think that these margins are sustainable near term and longer term?
- Anant Goenka:** Difficult to say whether it is sustainable because the margins are at pretty high level. So I would say may be if you look at a longer term part say Sri Lankan margins have clearly been 7%, 8% higher than Domestic margin. So that kind of about say 6%, 7% higher margins are possible. Right now the gap is even higher, I do not know whether that would be possible or not. Difficult to say, margins are in a way record high level from Sri Lanka, so long term I would not put that as an estimate.
- Vishal Saraf:** How is the cash flow for these profits like have we been paying our dividend from there or we need this cash for redeployment there and any debts which are there?
- Anant Goenka:** Primarily we have used the cash flow in reduction of debt. As I said the debt levels have gone down by 400 crores in the last one year and basically we have CAPEX plan, some amount goes into dividend and balance all goes into debt payment.
- Vishal Saraf:** No, from the Sri Lankan profits I am talking of?
- Anant Goenka:** Sri Lankan profit we do give some dividend in which comes into CEAT India on an annual basis. Rest of it is used for capital expenditure Domestically in Sri Lanka itself.
- Vishal Saraf:** Given that now the profits have increased significantly, do you think more cash flow for the Indian business or you have again a higher CAPEX requirement therein, any debt which is outstanding there?
- Anant Goenka:** Debt level there are very low, there is some debt which is there but I can get back to you on the exact levels but it is at a much lower level relatively. In fact it is at about 0.2 times I think is the debt-equity at Sri Lanka. We do have fairly high CAPEX plan for this year in Sri Lanka, we are doing some expansion in the Passenger Car segment, in the Motor Cycle segment as well as doing some routine CAPEX in the plant. But yes, certainly with the increased margins we can expect better dividend coming in from Sri Lanka next year. So this improved performance dividend will only come in the next financial year that is FY15.
- Vishal Saraf:** Not in '14 anything?
- Anant Goenka:** No, '14 you will get last year's dividend, right, whatever was last year performance to that extent the dividend will come in.
- Vishal Saraf:** Last one from my side, you were mentioning that Q1 raw material price has been flat but given that price has moved up significantly and currency has depreciated last one month, how do you see Rubber prices for Q2, you would have already hedged or entered into agreements for large part of Q2 requirements, right?

- Anant Goenka:** Yeah, as I said that we have done very high amount of imports and therefore I do not see too much of a change in our raw material pricing, there would be a marginal increase but it would be only marginal. So it is not to the extent if you are seeing Rubber has gone up by nearly 15% or 20%, the impact on us would be far-far lower because we have done hardly any buying at these prices. Mostly whatever we have contracted is imports.
- Vishal Saraf:** And any price changes in the domestic market you have been taking in the last 2, 3 months?
- Anant Goenka:** No, nothing at this point of time.
- Moderator:** The next question is from the line of Niyati Ruparel from CRISIL. Please go ahead.
- Niyati Ruparel:** I just had a couple of questions. One is on the volume front you mentioned that Domestic saw a growth of 11%. So how would this be distributed between OEM and Replacement if you could provide some guidance on that?
- Anant Goenka:** So on a year-on-year basis OEM has grown at (+20%) level, Replacement could have grown by about 5% - 6% level.
- Niyati Ruparel:** In the OEM side you told me that total 20%, any guidance on which particular vehicle segment led to this increase?
- Anant Goenka:** Largely, Motor Cycles, Utility Vehicles and Farm.
- Niyati Ruparel:** And my 2nd question was on the pricing side. I heard you mentioned that realizations were lower as certain amount of raw material benefit was passed on. So again that I wanted to understand whether it was in the Replacement market or only in the OEM market?
- Anant Goenka:** It was a little bit in both segments, but it was done earlier in March.
- Niyati Ruparel:** So any clue on the extent of the price cuts?
- Anant Goenka:** I think it was something like 1% or so, around that kind of rates.
- Niyati Ruparel:** So CEAT has shown good growth despite market not being great but has the industry also been able to grow in a similar fashion?
- Anant Goenka:** Difficult to say, I think we will have to see once the result of everyone else comes out, but I think last year our growth was slightly higher than competition. We were among the faster growing companies at about 9%, whereas I think industry grew at about 4% to 5%, so let us see if that trend continues in the next 1 or 2 quarters or so.
- Niyati Ruparel:** On the capital expenditure side, what is the target for the domestic capital expenditure for this year?

- Anant Goenka:** About 60 crores.
- Moderator:** The next question is from the line of Amitabh Sonthalia from SKS Capital & Research. Please go ahead.
- Amitabh Sonthalia:** Just a few quick questions. #1 is what is the CAPEX for this year and going forward?
- Anant Goenka:** CAPEX is 60 crores and that is the routine CAPEX that we do every year.
- Amitabh Sonthalia:** That is maintenance CAPEX?
- Anant Goenka:** That is right.
- Amitabh Sonthalia:** You are not planning any major capital expenditure?
- Anant Goenka:** We are doing an expansion in Bangladesh, which will require I think about 60 crores further equity of which most of it has already been done, I think nearly about 30 - 35 crores of that has been done. Some amount will go in this year and some amount will go even in the next year. So the balance is 60 crores plus may be about 15 crores or so for further this year for Bangladesh.
- Amitabh Sonthalia:** Do you have a December year ending or is it March end?
- Anant Goenka:** March.
- Amitabh Sonthalia:** Going back for the last 2 quarters where we apparently got the benefit of lower Rubber prices mostly and have reported pretty healthy of the profits, just wanted some thoughts on what is kind of cash generation we are expecting for the full year? This year you have reduced by 400 crores in the last one year you mentioned but what kind of debt reduction are you seeing say by March '14 balance sheet. Do you hope to reduce it further by similar amount because you have got a quarterly EBITDA of say 150 crores, annual EBITDA of 500 to 600 crores, out of which 60 crores got into CAPEX and other I guess 200 odd crores in interest may be less. So I mean is it fair to assume that the balance is a free cash flow positive last year as well as this year?
- Anant Goenka:** Let us see, you know our CAPEX amount, if we continue to perform similar or the way we have been doing over the last 2 or 3 quarters, certainly our debt levels will come down just the way they have come down last year. We can see an improvement in debt. Basically the main expenditure would be CAPEX, besides that everything will go in debt repayment.
- Amitabh Sonthalia:** Could you give some flavor on your working capital cycle and general receivable days, etc.?
- Anant Goenka:** Working capital has improved a little bit as well, working capital, our receivable generally is about 32 days with respect to debtors, and interest inventory is also about 40 days or so. Perhaps this 32 days is for the Replacement market, for the OEM and exports will be a little bit higher, so net-net debtors would be something like 40 days, so total of about 80 days.

- Amitabh Sonthalia:** And the debt level that you mentioned is including the working capital debt?
- Anant Goenka:** That is right.
- Amitabh Sonthalia:** How much would be short term and long term?
- Anant Goenka:** Long term debt would be about 400 crores, short term is another 400 crores that is how it would be.
- Amitabh Sonthalia:** What is our longer term target debt equity level? Is it that once we reduce the debt to let us say 1:1 by the end of this year, are we going to again embark on some ambitious CAPEX program or?
- Anant Goenka:** It depends really on how the market grows. So as we shared earlier with respect to our strategies we would like to grow more on an asset-light model just like how our Motor Cycle capacities are primarily outsourced, yes, we can grow through outsourcing, that is the preferred route; however, yes, if the market looks strong, we could look at growing further in Halol which would require some more capital expenditure, but no decision has been taken yet on that. So even if we are able to bring it down, yes, we could look at growth, but we have not taken any decision, so I would not be able to tell you anything right now. But our 1st choice is to look at an asset-light model where we would be perhaps looking at outsourcing as the 1st choice.
- Amitabh Sonthalia:** What is the current cost of debt?
- Anant Goenka:** About 11.5%.
- Amitabh Sonthalia:** Do you see this going up after the recent RBI measures?
- Anant Goenka:** Yes, it could go up a little bit. Short term rates have gone up so that will have some impact on our interest cost.
- Amitabh Sonthalia:** So, in the current quarter, is it safe to assume that your interest cost would be higher even on the same level of debt?
- Anant Goenka:** As a percentage it could go but as an absolute level the debt level is coming down, we can expect absolute level not to be very different.
- Amitabh Sonthalia:** A follow up to the earlier question do you have a dividend payout policy?
- Anant Goenka:** There is no fixed policy as such that we have but we look at past trends and we try and look at our profitability and take a call, so even our profits has been very low we have not given out any dividend. So it varies dependent on the profits at that point of time. Very difficult for me to say because the board takes that decision.

Amitabh Sonthalia: Right, I understand. I am not asking you to give a number of what you plan to pay this year, but given that we may have above normal profits, above average profits this year, is it reasonable to expect a higher dividend or is it mostly going to be used for debt reduction?

Anant Goenka: No, largely it will be used for debt reduction. Dividend would be paid out, yes, and at an absolute number, it could be higher, but as a percentage it does not have to be higher.

Amitabh Sonthalia: What do you mean by percentage? As in percentage of profits or usually the companies have some percentage of profits which they usually pay out as dividends. As you mentioned you omitted dividends in certain years when you did not have profits. So by that same corollary it is reasonable for investors to expect substantially higher dividend in years in which you have substantial profits?

Anant Goenka: Yes, at an absolute level it could be at a higher level, that is right, but as a percentage not necessarily. We do not have a formal policy as such. For example last year was relatively a better year for us as well, so you could use last year as a benchmark also.

Amitabh Sonthalia: Just some thoughts from you or the senior management on the target, you mentioned you wanted to have an asset-light model, so that should imply that you are looking at sustaining the current ROE levels or improve your return ratios basically, in general your industry has been plagued by very low return on capital, barring one or two players like MRF, etc., you have historically had very low returns, return on capital, return on equity. So is there any likelihood of that changing going forward where you can earn a minimum healthy return on your capital employed and similarly your shareholder equity?

Anant Goenka: If we go ahead with an asset-light model, and we are able to grow our Motorcycle business for example through outsourcing, certain our return on equity should go up. If we are looking at further investment, of course, we will be looking at an investment with a perspective of a certain targeted IRR as well, so it really depends on where we decide to grow. We will be looking at growing through outsourcing certainly. As I said, we have not taken a decision on further capital expenditure at this point of time. So, at least clearly in the short-term investments will be low and returns should continue at similar kind of levels or at good levels relatively.

Amitabh Sonthalia: And just a clarification on the earlier discussion on Rubber prices. So what prevents us from importing cheaper Rubber from overseas versus higher domestic prices? You said after duties and everything, there is still a gap of Rs. 30 a kg or thereabouts. So what are you doing on that front?

Anant Goenka: That is why we are doing heavy imports of Rubber. So that is why I said that Rubber prices should not increase substantially or not increase much despite a large increase in domestic prices. So there is nothing really preventing us from doing high imports. We can do theoretically 90% imports.

Amitabh Sonthalia: What is your outlook on Rubber prices? And for the second half, rest of the year, they have come down substantially in the last couple of years and historically our profits have been kind of inversely related to Rubber prices, so on high profits in years where the rubber prices have come down considerably.

Anant Goenka: In my view Rubber prices will remain at lower levels for the remaining part of this year, and in my view also in the next couple of years at least Rubber prices should remain a little muted because Rubber prices were very high nearly up to four to five years ago, which has resulted in a fair amount of increased plantation, which will come up for supply in the next year, year and a half, two years time and therefore supply should be pretty good for Rubber, whereas world economy generally for the next year is continuing to be a challenge. China, even growth flows from 8% to 7% at an absolute level it is quite a huge impact on Rubber demand. So I do believe Rubber prices will remain muted for the next year or so roughly. After that it is very difficult to predict.

Amitabh Sonthalia: Are you not likely to face competitive pressure with excess capacity globally especially China, what kind of pricing policy do you follow with respect to Rubber prices, just like you like to pass on higher Rubber prices, what kind of price cuts have you given in terms of your sales?

Anant Goenka: Depends on a lot of things, so there is again no fixed pricing policy. You have to see what competition does, what is the competitive environment, what is your capacity utilization, and then we take a call. So it is not based on any particular formula that if Rubber goes up by 10% we can always pass it on or if it goes down we can keep it. So it really varies, situation-to-situation, there is no fixed policy. Of course, the goal is that, yes, if we can maintain strong margins over the longer term or maintain a stable margin, it certainly is something we would prefer. As I said also, one of the things we are doing is moving more and more towards the Passenger segment. And as we move towards the Passenger segment the consumer in the passenger segment is not very price-sensitive, whereas the Commercial segment customers are far more price-sensitive, and therefore the ability to pass on price increases is much easier. As we shift our focus towards more and more Passenger segment, we should be more immune to raw material price movements.

Amitabh Sonthalia: What is your target in terms of reducing? Right now we are at 51% for the Commercial segment, right?

Anant Goenka: Right.

Amitabh Sonthalia: So, where do we see that going, how much lower in the next couple of years?

Anant Goenka: We do not have a target for that, we certainly see the Passenger segment growing much faster.

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



Amin Pirani: Just wanted to understand, you mentioned that you had volume growth of around 10% YOY in this quarter, is that correct?

Anant Goenka: That is right.

Amin Pirani: And you also mentioned that your growth was mainly driven by the OEM segment. Because obviously all segments have seen very muted growth in this quarter. So have you been gaining market share and what is the kind of OEM market share would you have right now?

Anant Goenka: Yes, it has been a mix of entry into new OEMs, for example Bajaj, we were not there at all until early last year, it is a totally new entry for us out there, so certainly our share has gone up, so entry into new OEMs is one, and yes, we have increased our share of business with each OEM, there is no fixed percentage that we generally monitor as a percentage of all OEMs, because you cannot determine the market size across categories, etc., but with each player we do monitor what is our share of business and how that is going up or changing.

Amin Pirani: And any new customers you have added on the 4-wheeler side, or is it just gaining market share with the existing players?

Anant Goenka: So we added players like Bajaj as I shared, we have added Volvo, Eicher, Daimler, Royal Enfield, so these are the key players we have entered in the last one year.

Amin Pirani: So you mentioned that around 50% of your volumes are still coming from the CV segment, and if you have seen some Replacement growth of around 5% or 6%, is it mainly driven by CVs or is it like all segments are growing on the Replacement side?

Anant Goenka: CV is growing at the slowest pace, you have far greater growth on the Passenger side, which is primarily Two Wheelers, Utility Vehicles, also what we call Last Mile, which is the Tata Ace, it was in the Commercial Vehicles, but basically the smaller tyres are growing at a much faster pace than your truck and your light commercial vehicle tyre.

Amin Pirani: Compared to the last time, we have seen a prolonged slowdown on OEM truck sales. So should it not mean that Replacement demand in that segment should pick up or that is not necessarily?

Anant Goenka: No, I am not very sure about that relation. In fact it should go down after some time, right, because your OEMs have grown at a slower pace, when the Replacement comes time after two years or so, the impact will come in after about a couple of years time, where Replacement demand will slow down.

Amin Pirani: Understood, actually I was talking more from the point of view that, say, if operators are not investing in buying new trucks, but if they are using their existing fleet more, maybe the replacement cycle could come down, but you are saying that is not necessarily the case?

Anant Goenka: I am not sure, I have not seen that trend, so I cannot comment on that.

- Moderator:** The next question is from the line of Viral Shah from Enam Holdings. Please go ahead.
- Viral Shah:** Sir, a couple of questions, I wanted to know what would be the export revenues for the quarter.
- Anant Goenka:** Export revenues, it would be in terms of percentage around 21%.
- Viral Shah:** So it will not be possible to share the number for the quarter?
- Anant Goenka:** I think just over 250 crores roughly, if you just take our total standalone sales, as a percentage it is just a little over 20%.
- Viral Shah:** My second question again pertains to export, if we look on a quarter-on-quarter basis, our volumes have almost dropped by 18% on a standalone basis. Could you tell me the reason for this sir?
- Anant Goenka:** Exports, while on a year-on-year it has grown, quarter-on-quarter exports has slowed down. Primarily it is clearly, one is Europe is in a bad shape. All of say your specialty tyres, etc. has got impacted in our case. Also, with respect to Brazil, depreciation has been very high of the Rial as well which has had some impact in their imported prices and also the Middle Eastern region, North Africa, Middle East, social unrest, that has had some impact. So, yes, exports have been a challenge in the last three months. Year-on-year growth, quarter-on-quarter it has degrown.
- Viral Shah:** So how do you see this going forward in the next three quarters?
- Anant Goenka:** Our focus is quite high on that area. So we are really trying to make sure that at least on the growing areas we are able to take advantage. In my view, exports should continue to grow at somewhere around a similar rate and we should reach a stronger level by Q4. So, on a year-on-year basis my guess is that we should see something similar in terms of growth what we have seen. As you said quarter-on-quarter, yes, we have seen some impact. I do not think it should slow down further.
- Viral Shah:** My second question is pertaining to Motorcycle in the Two-Wheeler category. Currently, what would be our market share in the Two-Wheeler category, what would be the price differential now? Probably are we the leading player now in terms of pricing?
- Anant Goenka:** Our market share in the Replacement segment would be a little bit over 20%. And with respect to our pricing, yes, we would be the highest price player at this point of time.
- Viral Shah:** And we would be at around 3-4% premium to the second player?
- Anant Goenka:** Yes.
- Viral Shah:** Pertaining to acceptances figure in the balance sheet. Would it be possible to share the acceptances figure as on 30th June?



- Anant Goenka:** Maybe we can get back to you on that.
- Moderator:** Thank you. The next question is from the line of Ajay Sethia from Centrum. Please go ahead.
- Ajay Sethia:** First question you indicated the YoY growth for OEM and Replacement market. How would that be on a quarter-on-quarter basis?
- Anant Goenka:** On a quarter-on-quarter basis, Replacement has grown at about 10% kind of growth level, whereas OEM and Exports have degrown.
- Ajay Sethia:** And that would be to what extent?
- Anant Goenka:** Somewhere between 15 to 18% level.
- Ajay Sethia:** And my second question was you have seen Bridgestone and Michelin at a premium of around 12-15% as compared to the Indian players. Are you seeing any narrowing of premium for these players in the market in terms of their pricing?
- Anant Goenka:** Bridgestone, Michelin are only selling truck bus radial tyres and I think they are selling some amount of Passenger Cars of Bridgestone has always been there. Yes, there is a gap. I would not have that detail of how much narrowing.
- Ajay Sethia:** But are you sort of hearing from the market that they are slightly sort of getting more aggressive in terms of pricing or reducing the premium?
- Anant Goenka:** In fact, with rupee devaluation they are currently doing largely imports also. So with that I think they would be taking some price increases perhaps. The imports would have become more expensive relatively.
- Ajay Sethia:** And the third question is on a longer term basis let us say for 5 to 6 years what is the kind of growth you are seeing in the Replacement Truck and Bus market?
- Anant Goenka:** Replacement Truck and Bus market has grown at in fact a slower pace than the Passenger segment. So growth in Truck and Bus, Replacement on a quarter-on-quarter basis have grown by 10%, this would have grown by about 5%.
- Ajay Sethia:** What would be the CAPEX on the Sri Lankan side for this year?
- Anant Goenka:** Let me get back to you on the exact number, I do not have the exact number here with me.
- Ajay Sethia:** And what would be our overall capacity now and what would be the ramp up at Halol plant?
- Anant Goenka:** Total capacity is about 800 tons per day including outsourced capacity.
- Ajay Sethia:** 120 would be Halol or?

- Anant Goenka:** Halol would be about 135 tons per day.
- Ajay Sethia:** And how would the spread between PCR and TBR?
- Anant Goenka:** In Halol about 135 tons, TBR is about 80 tons and PCR is about 60 tons roughly, 135, 140 type capacity.
- Ajay Sethia:** And this can go up to what levels?
- Anant Goenka:** No, this is the peak capacity.
- Ajay Sethia:** And you would be operating at what level now sir?
- Anant Goenka:** 85%.
- Moderator:** The next question is from the line of Anubhav Sharma from Credit Analysis & Research Limited. Please go ahead.
- Anubhav Sharma:** What would be your market share in OEM market?
- Anant Goenka:** There is no market share here actually that one can calculate because for each business there is a very different level, right, so I would not have a calculated market share on that.
- Anubhav Sharma:** What would be your contribution from the Bangladesh operations going forward to CEAT India?
- Anant Goenka:** Contribution would be in the form of dividend really that would come in, in the longer term. So it is about 70:30 kind of joint venture. At peak production when you are selling the entire quantity our turnover should be about 600 crores. So I leave it to you right now. It is too early to say how much contribution will come in from there but if you take an EBITDA of 15% and then work out the profit and therefore dividend payout that is how it would be.
- Anubhav Sharma:** The Bhandup labor issue that has been more or less cleared and resolved?
- Anant Goenka:** We do not have any labor issue in Bhandup. There have not been any issues.
- Anubhav Sharma:** And going forward what would be your expectations for Q2 and Q3? Any guidance if you are having on that?
- Anant Goenka:** No, we generally do not give guidance. Generally, Q2 seasonally for Replacement market is weaker, we try and make that up through higher OE and Exports but we do not give exact guidance numbers or anything.
- Anubhav Sharma:** You had said there was 43% growth in international market that was primarily in the Passenger Vehicles or?

Anant Goenka: What I was sharing was basically in our profitable segment which we identified as Exports profitable or high profit in focus markets like Exports Sri Lanka and the Passenger segment that itself we have seen strong growth.

Moderator: The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: I just have 2 questions. #1 is within two wheeler what is our sales mix between OEM and Replacement?

Anant Goenka: Roughly it would be think about 35%-40% to OEM, balance would be Replacement.

Rajesh Kothari: My 2nd question is little bit strategic in nature. In FY10 we have seen 11.5% operating profit margin and about 5.5%-6% profit after tax margin, and we have attained similar levels after probably around 3.5 years. So my question is that kind of margins we have seen in March 1999, 2000 and March 2010- and now 2014. So what is the strategy to maintain and to sustain this margin? Because the volatility in earnings in CEAT historically has been very, very high compared to other too large tier companies within the industry. Can you elaborate something on that in 5 years basically what you will do to sustain? Of course there will be some volatility which I understand because of Rubber and general economic cycle but what will be the strategy primarily to maintain the high profitability margins?

Anant Goenka: There are 2 or 3 areas that we are really focusing on to make sure that we are able to reduce the volatility. One is that our margins in Sri Lanka have been very consistent irrespective of Rubber price movements. That is one area that we are looking at growing in. Second is Bangladesh should be a very similar kind of market. That is the second area where again we would be insulated. Third is as I said earlier in the call was regarding focusing on the Passenger segment. So as the Passenger segment grows and we are able to make that a larger share of our business which say about 40%, 45% kind of size of our business then you will have largely that share of the business also been much less prone to volatility because of the nature of the consumer out there. So it is much easier to pass on price increases in the case of raw material price increases in the Passenger segment. The difference is because in the nature of the consumer. The commercial vehicle owner will really count the pennies whereas the person like you and me who will be changing the tyre once in 3 years or once in 4 years might not think too much about paying Rs 100 or Rs 200 more for a tyre. So as we move to that kind of consumer we feel that there will be a lower volatility and we are trying to increase this share of business. If you add up Sri Lanka, Bangladesh as well as this segment, if we can make it about at least half our business, we would be in a much stronger wicket. Also, we are focusing substantially on the brand. So as more and more we invest in the brand we will be able to command that higher premium. So these are the 2 or 3 things that we are doing and are pretty confident that at least we will be making a very substantial shift in the next year, year and a half towards lower volatile share of business.



- Rajesh Kothari:** So in presentation the product breakup sales, revenue breakup what you gave, that is including Sri Lanka or excluding Sri Lanka?
- Anant Goenka:** You are talking about the presentation that was posted?
- Rajesh Kothari:** Yeah, the 1st quarter presentation
- Anant Goenka:** That was only in India.
- Rajesh Kothari:** That does not include Sri Lanka and Bangladesh or both?
- Anant Goenka:** No, it does not.
- Rajesh Kothari:** Since Sri Lanka is going to be a key growth driver would it be possible for you to share some key statistics of Sri Lankan market and your market share, or any numbers in terms of volume historically, how the industry is moving, what is your market share, how we are gaining the market? Probably one slide on that or something like that so that we can understand Sri Lankan market because it is almost contributing now 20% to your profit after tax.
- Anant Goenka:** Sure, certainly we will do that. So we have about 40 plus market share in Sri Lanka.
- Rajesh Kothari:** That is primarily in which segment?
- Anant Goenka:** Across the board average.
- Rajesh Kothari:** Within that any where you are very high and in some segment you are very low?
- Anant Goenka:** Like in the Commercial Vehicles it would be above 50% whereas Two Wheeler it might be something like 20% kind of levels.
- Rajesh Kothari:** And this is primarily OEM or Replacement?
- Anant Goenka:** Sri Lanka is not OEM.
- Rajesh Kothari:** Entire market is Replacement market?
- Anant Goenka:** Yeah.
- Rajesh Kothari:** And this industry is growing at what rate in Sri Lanka?
- Anant Goenka:** Industry growth is at about 5%-7%.
- Rajesh Kothari:** Growth is very high due to primarily to pricing or brand?



- Anant Goenka:** Growth has grown because we have been able to capture market share because of brand, pricing and everything. So we are the only manufacturers of tyres in Sri Lanka. We have a clear cost advantage in terms of brand and focus we are by far out we are by far **out voice** any other competitor that is there in the market and therefore the equity of CEAT in Sri Lanka is very high. But just to correct a point which you have shared was that the future high growth engine I would not say that Sri Lanka is a very high growth engine. Yes, it will grow between may be 10%-15% every year but it will not multiply growth. The area of growth will be more likely Bangladesh because there is close to zero sales happening there and we are looking at replicating the model of Sri Lanka which would really grow substantially there.
- Rajesh Kothari:** How big is Bangladesh market there, can you share some light on that?
- Anant Goenka:** Bangladesh would be about 1200, 1300 crores size market.
- Rajesh Kothari:** Replicating the Sri Lanka experience, how many years it took for you in Sri Lanka to attain this kind of a size?
- Anant Goenka:** We are going to aim that in the next 4 years or so, we are able to get to a similar position as we are in Sri Lanka.
- Rajesh Kothari:** About say 60 crore, 70 crore kind of profit over a period of 4 years or something like that correct in terms of strategic perspective?
- Anant Goenka:** Yes.
- Moderator:** The next question is from the line of Puneet Gulati from HSBC. Please go ahead.
- Puneet Gulati:** Hi, just wanted to understand a couple of things. How difference is the margins for OEM Vs the Replacement?
- Anant Goenka:** This margin varies category-by-category but OEM margin are clearly far lower than the Replacement segment.
- Puneet Gulati:** How different would they be?
- Anant Goenka:** It varies really category-to-category but it can vary as high as 5% to 7% or so.
- Puneet Gulati:** For your Truck segment if you can give a sense?
- Anant Goenka:** The Truck could be as low as the break even kind of a situation.
- Puneet Gulati:** Secondly, if you could throw some more light on how Sri Lankan and Bangladesh markets are different from the India apart from the fact that it is just a Replacement market?

- Anant Goenka:** So the markets are much smaller first of all. It is a relatively high growing market in comparison to the world economy. So Bangladesh for example has been highlighted as Goldman Sachs would say as N-11 economy which is next 11 after the BRIC nation they have come out with the nomenclature of N-11. So Bangladesh is looking like a fast growing, fast growing in today's world is whatever 6%, 7% kind of growth is very good. So that is the kind of growth that will come in. There are primarily still bias market like India which is Crossply kind of tyres and really the challenge or the difference in this market is that the capacity needed would be very small. So in India most plants are 150 tons per day, 200 tons per day, 300 tons per day, the size of the plant in Sri Lanka and Bangladesh would be as low as 50 to 100 tons per day. These economies also enjoy duty protection. So you are competing with imported tyres where you enjoy some amount of duty protection.
- Puneet Gulati:** So, basically the advantage for you comes from the fact you have the only manufacturing unit there?
- Anant Goenka:** Yes.
- Moderator:** The next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.
- Ashutosh Tiwari:** Just wanted to know what could be your market share in LCV segment in India?
- Anant Goenka:** The market share will be somewhere like 8%, 9% kind of.
- Ashutosh Tiwari:** If I have to look at the margin profile how that would compare with say Utility Vehicles or Two Wheeler and Trucks?
- Anant Goenka:** LCV gets sold in the Export and Domestic market. So export margins at this point are quite attractive because of the rupee position but in the Domestic market the Utility Vehicles segment margin might be slightly higher but not very different.
- Ashutosh Tiwari:** And for you the best would be Two Wheeler and Three Wheeler?
- Anant Goenka:** Basically, the Passenger segment. Whether it is Two Wheeler, Utility Vehicles, Last Mile, all these areas are more profitable. Basically, the Truck is not particularly profitable. All other segments are relatively more profitable.
- Ashutosh Tiwari:** And in the LCV segment or HCV, the difference between OEM and Replacement would be very high, you said about Truck or it would not be as large?
- Anant Goenka:** Similar but maybe at a slightly higher level. So if we are making a break even in truck may be LCV, HCV would be 2, 3% margin. So the overall range would be slightly higher but yes, there will be a gap.
- Moderator:** The next question is from the line of Basudeb Banerjee from Quant Capital. Please go ahead.

- Basudeb Banerjee:** So out of this 800 tpd how much is the outsourced capacity as of now?
- Anant Goenka:** The number would be somewhere around 775 kind of tpd, out of which about 160, 170 is outsourced.
- Basudeb Banerjee:** Basically, looking at 57,000 ton is sold which means around 625 tpd production and as you said about 85% is the utilization presently so that is not matching with that 800 total capacity, so that is what I just wanted to clear up actually?
- Anant Goenka:** Our Bhandup plant for example is around 250 tons per day which is at about 90% capacity utilization, Nasik is at about 85% utilization, and Halol is at about again 80%-85% capacity utilization, so that is coming to about an average of 85%. Outsourcing our capacity I have shared with you is the ramped up capacity which is not fully ramped up yet, so currently we are at about nearly 100% capacity utilization of our outsourced capacity which is about 160, 170 tons per day. What I shared with you was about 200 tons per day which is what we will reach by December or so.
- Basudeb Banerjee:** And as you said that you want to continue the business in this asset-light model and you are favoring the outsourcing business model. So technically is it feasible to take the outsourcing model beyond Two Wheelers into TBR or PCR?
- Anant Goenka:** It will be a lot more difficult. Working for us in the Two Wheeler category, TBR you could outsource but much smaller volume. So right now 100% of our Two Wheeler is outsourced, my guess is TBR it can go up to maybe 10% or so.
- Basudeb Banerjee:** Sir, primarily then in the facilities like Nasik, Bhandup and Halol where you are running at (+85%) and primarily the TBR and the PCR plant, so the kind of volume growth you are seeing across somewhere around 5% to 10%, so it may not be long that we will looking forward to the next leg of bigger CAPEX for TBR, PCR will it be right to assume?
- Anant Goenka:** Yes, we could look at it. As I said we have not taken a decision on this yet, but yes, we could take some capacity expansion after may be 6 months 7 months we could take a decision on something.
- Moderator:** The next question is a follow up from the line of Amin Pirani from Deutsche Bank. Please go ahead.
- Amin Pirani:** Just want to understand what would be the Replacement cycle across Trucks, Two Wheelers and 4 Wheelers?
- Anant Goenka:** Truck Replacement cycle is once in about 4 months, Two Wheeler Replacement cycle is about 2.5 years and 4 wheeler is also something similar about 3 years or so.
- Amin Pirani:** Across the board most truck companies have mentioned that the truck Replacement segment is not a very profitable one, and I understand that the decision is a more commercial decision but

do you feel that the lower profitability is on account of high competition? I think in India the margin in that segment are the lowest, this is my understanding based on whatever I have been able to gather or is it not correct?

Anant Goenka: It is because of higher competition I would say, I agree with you, and also because of the nature of the customer, right. For him one pair of tyre approximately cost Rs 30,000 after fuel this is the next highest cost and he will change 10 tyres per truck and if he owns 10 trucks he is going to change 200 tyres. Rs 15,000 per tyre, he is spending quite a large amount for him even that 1%, 2% makes a big difference.

Amin Pirani: But given that the Replacement cycle is lower and obviously, the quantity of throughput is higher, on an return on capital basis also what truck tyres be less whatever..?.

Anant Goenka: Less profitable or less return, yes, of course.

Amin Pirani: Also just wanted to understand on the 2-Wheeler and 4-Wheeler side is there any kind of price increase that you have taken in the last one or two quarters?

Anant Goenka: No.

Moderator: The next question is a follow up from the line of Ajay Sethia from Centrum. Please go ahead.

Ajay Sethia: Just wanted to understand in terms of the penetration of radialization what would it be for OEMs and how much would it be for Replacement market and is that moving up in the direction where everybody is seeing that it could touch 35% over the next 2 or 3 years?

Anant Goenka: Yes, radialization is clearly happening in the commercial segment. It is currently at about 22% on average. Replacement is at about 22% I would say and OEM is slightly higher perhaps at maybe 30%, 35%. And it is a very broad estimate on OE I do not have empirical data.

Ajay Sethia: Because my interaction with at least the OEM guys indicate slightly higher figure to the extent of around 50% odd, so I thought I will just check with you?

Anant Goenka: But I know it is higher, it could be 50.

Moderator: Ladies and gentlemen. Due to time constraints that was the last question. I would now like to hand the floor back to Mr. Pramod for closing comments. Please go ahead.

Pramod: Thanks a lot Melissa and would like to thank the management and all of you for taking time out and participating in this call. Have a great day all of you. Thanks a lot. Bye.

Anant Goenka: Thank you.

Moderator: Ladies and gentlemen on behalf of IDFC Securities that concludes this conference call. Thank you for joining us and you may disconnect your lines.