



CEAT Ltd. Q4 FY-14 Earnings Conference Call
hosted by Motilal Oswal Securities Ltd

April 30, 2014



MANAGEMENT: MR. ANANT GOENKA - MANAGING DIRECTOR, CEAT
MR. SUBBA RAO AMARTHALURU - CFO, CEAT



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Moderator Ladies and gentlemen, good day and welcome to the CEAT Ltd. Q4 FY-14 Earnings conference call hosted by Motilal Oswal Securities Ltd. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jinesh Gandhi of Motilal Oswal. Thank you and over to you, sir.

Jinesh Gandhi Thank you, Inba. Good afternoon everyone. On behalf of Motilal Oswal Securities, I would like to welcome you all to Q4 FY14 Post-Results Conference Call of CEAT Ltd. CEAT is represented by Mr. Anant Goenka - Managing Director, Mr. Subba Rao - CFO, and the IR team. I would like to thank the management for taking time out for the call. I will start the session with commentaries from the management followed by Q&A. I would now hand over the call to Mr. Goenka.

Anant Goenka Thanks Jinesh. Good afternoon and a very warm welcome to investors' call. I am Anant Goenka, Managing Director, and I have with me Mr. Subba Rao, CFO. Thank you very much for your interest, and I will take you through briefly our results and the key parameters relating to our results, and after that, we will be happy to take any questions. Overall for a year, 2014 has been satisfying year for the company while the auto industry itself has had quite a difficult year, yet we have grown at about 10%, and we have grown quite well higher than the industry growth. We saw a double digit growth in the replacement segment. We have also seen a solid growth of about 19% in the OEM segment. Exports have been flat for us because overall we found high volatility in currency, a slightly more challenging global environment, and an inflow of Chinese tyres as well into international economy. In terms of product categories, the passenger segment, particularly two-wheeler and utility vehicles, which are our two focus areas, have continued to grow well. We further consolidated our position in two-wheelers and UV by increasing our market share. Ad campaigns have been strong catalyst to this market share growth, and our investments in brand building will continue going forward. We recently launched a new UVR TV campaign called Pakka Bharosa this quarter where we had roped in Irrfan Khan which had been well received. In terms of overall investment for future growth, we have made an investment in Sri Lanka of 600 million Sri Lankan rupees to expand our passenger car radial and UV radial category there. We had also announced our phase-II expansion of Halol where we are currently under planing stage, and in about slightly under a year and a half, we expect the plant to be ready. The phase-I is 100% complete, and we are fully ramped up. The Bangladesh project is also on track and we expect to start production in about a year and a quarter from now. To take you through some operating details, in FY14, CEAT registered a



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revenue growth of 10% driven by volume growth of about 11%. So, the 1% was largely because of mix change improvement. The 11% volume growth was mainly on account of good growth in the OEM and replacement segments for us, and as I said, exports have largely remained flat. Fortunately, raw material prices have been stable all through the year, and we saw about 5%-7% reduction in RM from the year before to this year. Overall, as a result, we have seen an expansion of EBITDA of 320 basis points for the full year. For quarter four on a year-on-year basis, we registered a 7.5% revenue growth driven by volume growth of about 6% and mixed largely contributed to about 1.5% growth in addition to the volume growth. The volume growth was mainly on account of strong growth in domestic market passenger segment category; again our focus categories of two-wheelers, utility vehicles, and passenger car. And in terms of the key markets replacement, we grew well while we have had a challenging quarter in exports which has actually de-grown from last year same quarter. On a quarter-on-quarter basis, we have registered a growth of about 1.5% all related to volume growth, and in terms of segment wise, we have seen good growth in the replacement and OE segment again out here. Going forward, largely the environment has been quite stable whether it is in the raw material front, whether it is in terms of overall demand, so we expect growth as well as overall margins to be roughly at similar levels because nothing much is changing at this point of time. We are now even exploring whether we should look at the specialty tyre segments for further growth. We are finding this segment to be quite exciting, so we are currently just under exploration phase, but this is an area which is looking interesting for us from an export perspective. On the other hand, the non-specialty or the overall export market is looking to be a challenge in this quarter as well. So, I will now hand over our call to our CFO, Mr. Subba Rao, who will take you through key financial parameters.

Subba Rao Amarthaluru

Ladies and gentlemen, good afternoon. We are very happy to report the best ever results for CEAT, and the EBITDA margins also have reached the highest point in the history of CEAT, which is much closer to the industries' best margins. We have reached about close to 12%. Thus, EBITDA for the full year was at nice 11.9% higher by 320 bps as compared to the last year. Absolute EBITDA for the year stood at 658 crores compared to 438 crores the previous year. Consolidated profit before tax stands at 403 crores compared to 167 crores last year. This is after considering an extraordinary item of 10 crores, which is the aggregate of VRS expenses of close to 7 crores and some other provisions pertaining to the fire accident which is about 3.15 crores. We are also happy to report the declaration of 100% dividend during the year above into the best ever performance by CEAT. On debt side, the metrics have continued to improve. Our overall debt equity today considering both long term and short term debt stands at 1.1 against 1.3 of the previous year despite the increased operations and increased working capital requirements, and our interest to EBITDA is 4 times and our DSCR is more than 2 times,



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and our debt/EBITDA is less than 2. So, these are the significant improvements on the debt side. Sri Lanka JV, it continued to perform pretty well during the current period also. There was a revenue growth of 18% for the entire year, and the EBITDA margins were at 24%, and for the full year, the EBITDA was 109 crores since there is not much of interest expense. The profit before tax margins were 22% and absolute amount was at 98 crores. Profit before tax is improved because of the higher margins and lower finance cost during the year. One item I need to bring to your notice, you may have noticed a change in the objects clause of Memorandum of Association that is on the account of reported entry of the company into sports business. Let me just tell you, we are not getting into any sports diversification. This is a brand promotion strategy. There is a strange ICC rule, if you want to put your logo on the bat completely, then you need to be a manufacturer of the bat, and that is the reason why we want to get into this business technically from the alteration of objects of memorandum. We are not going to do any substantial business in this segment. Only to the extent, we need to promote our brand, we will be in this business. May be we will manufacture a few thousands of bats, and that too we will not directly manufacture. We will outsource the manufacturing of these bats to an entity which is already in the manufacturing of these bats. So, it is only brand promotion strategy. It is not getting into any new business. With this, our briefing is over. We now invite questions, and we are ready for answers.

- Moderator** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from Basudeb Banerjee of Quant Capital. Please go ahead.
- Basudeb Banerjee** Yeah, thanks for taking my question. In the initial comments, as you said that revenue growth QOQ was around 1.5% and it was yearly due to volume, but as per the volumes, the realization figure coming, QOQ is showing almost a 3% cut. So, is it yearly due to the weaker exports and/or some price cuts or due to mix change?
- Anant Goenka** What realization numbers are you talking about?
- Basudeb Banerjee** The realization per kg or tonnage?
- Anant Goenka** If at all, it could be because of lower exports because our margins in exports are higher, but net realization, I don't know how you got the number. I don't think our net realization at an overall level has gone down.
- Basudeb Banerjee** Okay.



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- Anant Goenka** Do you have our tonnage numbers or something? How did you review that?
- Basudeb Banerjee** Yeah, so the broader tonnage numbers which you disclose every quarter.
- Anant Goenka** Okay. Our net realizations are broadly been flat, so I am not sure exactly where you got this information.
- Basudeb Banerjee** Sure. And second thing is sir the gross margin has only worsened on a quarter-on-quarter basis whereas rubber prices are down almost 7%, and in previous quarter, as you said that carbon black and tyre fabric has moved up already. So, what was the reason why gross margins deteriorated QOQ instead of improving?
- Anant Goenka** See, one is the raw material prices have been flat, rubber has come down only towards end of February may be early March. So, rubber which was at about 150 rupees per kg last quarter now come to about 140-142 today, and we could possibly see some impact of that going forward. So, while in the market it has gone down, we have not started consuming that low cost rubber. So, that is the only... But otherwise raw material prices have been slashed on a quarter-on-quarter basis also.
- Basudeb Banerjee** So, your margins are presently reflecting the spot rubber prices of 150 you mean to say?
- Anant Goenka** Yes, for quarter four, it will not reflect spot, it will reflect the prices that were prevailing in December, which we would say November or December that we procure, and by the time it comes in for consumption, it is about a gap of 2 months, and what is 150.
- Basudeb Banerjee** Basically, see if I see June quarter, September quarter where spot rubber prices used to be 150 plus, and from there, it has only moved down to 150 levels and further to 140. So, even if I take 150-160, so that 6% reduction in rubber prices is yet to get reflected into the gross margin levels, leave aside 140.
- Anant Goenka** No that is because may be you are taking also into account only domestic rubber prices. So, in quarter 2 etc., we would have done very large purchase of international rubber which would have come in at lower prices. So, in the end, net raw material prices from quarter 1 to quarter 4 have largely been flat, may be a difference of 1% up and down. The improvement that has happened in quarter 4 on the spot market or international markets has not been felt in quarter 4 because it will come in quarter 1.
- Basudeb Banerjee** Sure. Next thing is sir why in the QOQ or even last two quarters, the staff cost has come down by almost 6-7 crores. Anything one-off in that?



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Subba Rao Amarthaluru There is no one-off as such. There were some extra provisions which were reversed during the last quarter.

Basudeb Banerjee And that project with McKinsey which you are undergoing that is over this quarter? This was the last quarter sir?

Subba Rao Amarthaluru We completed this. There is no outstanding item there.

Basudeb Banerjee So, this was the last quarter?

Subba Rao Amarthaluru Yes.

Anant Goenka It got done in quarter 1. Quarter 1 or quarter 2, early part of quarter 2.

Basudeb Banerjee So, broadly first half of FY-15, it will continue?

Subba Rao Amarthaluru Yes.

Basudeb Banerjee And, sir in our balance sheet numbers, there is significant working capital deterioration on a year-on-year basis both in terms of inventory and payables all around. So, that is one of the prime reasons we see your gross debt has only inched up instead of falling. So, any comments on that?

Subba Rao Amarthaluru No, it is not deterioration. It is a conscious call to build up the inventory sometimes. We have been building up the inventories to take advantage of the pricing sometimes. We make advanced budgets. So, it's a conscious call that we have taken. Even on the receivables front, the receivables front has been improving, though in one particular segment that is a fleet customer, because of the bad economy, the receivables have been going up a little bit, but on the whole, the receivables have been content. The inventory position of both the finished goods as well as the raw material, there is a conscious buildup of the inventory. It is a strategic buildup.

Anant Goenka Yeah, some of it is also because of what we are doing if we are in the middle of our long term settlement in our plant, so in this environment, we chose to keep a higher inventory because of the risk of strike during negotiations is always there. So, we have kept high finished goods inventory, which as soon as long term negotiations or say long term settlement discussions are over, inventories will be corrected.



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- Basudeb Banerjee** And sir, payables have also come down considerably?
- Subba Rao Amarthaluru** Yeah, payables have come down because we brought down the credit period for a large vendor. That is the reason.
- Basudeb Banerjee** So, one can expect this level to be the sustainable number or it can inch back?
- Subba Rao Amarthaluru** Yes, whatever reduction has happened, it is a permanent reduction because... Of course, we are getting composition in terms of the price reduction from the parties because of the reduced credit. Otherwise, it is a permanent reduction.
- Basudeb Banerjee** And sir last question is sir in this quarter, if I see the console PAT and standalone PAT, and if I see the Sri Lanka profit at 30 crores, so is there any disconnect in between, because if I take the difference of the two PATs, it is not matching to 50% of that?
- Subba Rao Amarthaluru** So, we also started operations in Bangladesh, seed marketing, during the year.
- Basudeb Banerjee** Okay.
- Subba Rao Amarthaluru** So, there is some loss in the initial period because of the seed marketing expenses.
- Basudeb Banerjee** You cannot quantify that sir?
- Subba Rao Amarthaluru** Sorry.
- Basudeb Banerjee** Can you quantify that sir?
- Subba Rao Amarthaluru** Yeah. I will inform during the course of the conversation once you complete, even during the next questions, I would inform you.
- Basudeb Banerjee** Sure sir. Thanks. That's all from my side.
- Moderator** Thank you. Our next question is from Mr. Sachin Kasera of Lucky Investments. Please go ahead.
- Sachin Kasera** Yeah, good afternoon sir. This is Sachin Kasera here. Congrats on a good set of numbers. Just 2 -3 queries, one was what is the type of volume growth we can look for FY-14?



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- Anant Goenka** In my view, volume growth would be somewhere along the same lines, I don't see any change happening right now in the economy or anything. There is nothing new, okay, but there can be some spike if we get a stable good government because of sentiments, but in the end, in my view, there will be sometime before the new government also is able to implement changes. So, I think everyone is waiting for May 16th. After that, we will get some visibility. So, if we get a stable government, commercial vehicles certainly can see a good boost in sales and higher growth out there. The only challenging area in volume we are seeing is a little bit on the export front. So, while it is an area of focus for us, we are finding that the various economies are becoming challenging and perhaps it is only the rupee that is appreciating right now in the last 6 months against the dollar in comparison to other currencies. So, volume growth, my guess is it would be somewhere similar to what we have seen in the past few months or few quarters.
- Sachin Kasera** And around 10% is the number that would took?
- Anant Goenka** Between 7% and 10% is a broad guess.
- Sachin Kasera** Surely sir. Secondly, do we have enough capacity in case demand were to revive for FY-15. Can we do 12-13% type of volume growth if there is a recovery or we are running short of capacity?
- Anant Goenka** No, we have sufficient capacity for this year. So, on the commercial vehicle segment, one is on the truck bias. Anyways, there is over capacity that is there all over the industry including CEAT. On the truck, radial segment, we have now, as I said fully able to utilize our capacity in our Halol plant, our average production of Halol in this year would have been maybe 110-115 tonnes per day which we can now take up in terms of capability perspective to 150 tonnes per day now. So, that much opportunity further is there on the radial side as well. So, clearly 10-15% growth opportunity does lie in further growth. We have also expanded our capacities in two-wheelers which we do through outsourcing by another 15% there. So, there is enough space for growth if needed.
- Sachin Kasera** Secondly, there is a small mention on an associate company, Rado Tyres where we have increased the stake. So, can you throw some light what is the strategy out there?
- Subba Rao Amarthaluru** It was a BIFR company in the past, so the loans that have been given to Rado as per the scheme have been converted into equities, and that is the result why their shareholding has gone up. It has become a subsidiary too in the current period. The strategy is it could continue as subsidiary, and we will continue to take out 100% production from this subsidiary.



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- Sachin Kasera** They mainly produce two-wheeler tyres?
- Subba Rao Amarthaluru** Yes, two-wheeler tyres. Not mainly, completely.
- Sachin Kasera** And is there been a consolidation that has been done in the consolidated numbers for Rado Tyres?
- Subba Rao Amarthaluru** Yes.
- Sachin Kasera** Could you share some numbers? Is it profitable, Rado Tyres? What are the type of key numbers there?
- Subba Rao Amarthaluru** No, the profit or loss doesn't matter in this company because it is on consolidation basis. We procure 100% of their production. If you want to give the profit, you have to pay higher conversion cost to them, which would come as expense in CEAT's main balance sheet. So, otherwise, if you pay lower, yeah the lower conversion cost and loss there. So, on the whole, the loss or profit doesn't matter in this entity.
- Sachin Kasera** Okay, because I thought we had 58% stake there. So, how does the other partner get compensated for this stake?
- Subba Rao Amarthaluru** No, most of the balance stake is held by the group company.
- Sachin Kasera** So, in that case, is there any plan to market with CEAT going ahead?
- Subba Rao Amarthaluru** We have not given a thought to it. We will have to examine this.
- Sachin Kasera** Okay. Secondly sir, coming back to...
- Anant Goenka** Just to add a little bit more, it's a very small plant. If we are producing about 700, or 750 tonnes per day is the capacity of the company, Rado's capacity is about 10 tonnes per day.
- Sachin Kasera** Ohh.
- Anant Goenka** Just 10 tonnes per day. So, it is quite insignificant in terms of the bigger picture.



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- Sachin Kasera** Secondly sir, if I remember after the September quarter, in November or December, there was a mention that the inventory had gone up and that it would correct in the month of March, but we have not seen any major improvement from there.
- Anant Goenka** Yeah, this as I said was with respect to our long term settlement which is still not closed. So, we thought by around March or April, we would be able to close the long term settlement, negotiations which are going on with the Union of Bhandup and Nashik plants. So, that is still underway, and we hope to close it soon, but till that doesn't happen, our inventories will be high.
- Sachin Kasera** As far as raw material is concerned, are we still carrying inventory at normal levels or since rubber prices had hit historic low, so we have also trying to, you know, we are having inventories which are little higher than the historical average?
- Anant Goenka** No, our inventories are at normal level at this point of time. We have sufficient inventories say for up to quarter 1 kind of inventory utilization.
- Sachin Kasera** Thank you so much sir.
- Anant Goenka** Yeah, thank you.
- Subba Rao Amarthaluru** The only query regarding Bangladesh operations results, the loss of the period is close to 4 crores on full ownership papers, yeah that was the difference in the consolidation.
- Moderator** Thank you. Our next question is from Amin Karani of Deutsche bank. Please go ahead.
- Amin Karani** Yeah, hi sir, thanks for taking my question. Sir, you have done 10% volume growth this year whereas market both OEM and replacement have been quite weak. So, it is probable that you have gain market share, so can you just highlight which segments have gain market share and what is your relative position right now?
- Anant Goenka** Yeah, so we have largely gain market share in the non-truck segment or in the passenger segment, which is in the passenger car radials, utility vehicle radials, two-wheelers, and the last mile or small commercial vehicle segments. So, these are key areas where we have seen growth of on average 20% plus or 30% kind of level where we have gain market share whereas the truck segment largely has remained flat.
- Amin Karani** Okay, okay. And cars and UVs will be what proportion of your volumes or revenues right now?



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Anant Goenka In total about 8% or so.

Subba Rao Amarthaluru Yeah, 8%, both UV as well as passenger cars put together as about 8%.

Amin Karani And two wheelers?

Anant Goenka About 15% or 17%.

Subba Rao Amarthaluru 17%.

Amin Karani Okay. So, it is still largely trucks.

Subba Rao Amarthaluru Yeah, still largely trucks, about 46% of the total revenue is from the truck and bus category, and 17% is from the two-wheeler category, passenger cars at about 8%, and LCV is about 14%.

Amin Karani Okay, okay. Thanks for that. Can you also highlight what would have been the market growth in these segments? I mean you have grown say at 20%, but what would have been the market growth say in the car and UV replacement and two-wheeler replacement?

Subba Rao Amarthaluru Two-wheelers have gone up by 41%.

Anant Goenka No, not in the market. No, the market growth would have been somewhere around between 5%-7% kind of growth in the two-wheeler space, and may be about 5% in the automobile space, but these are very broad figures. The OEM space has certainly degrown except for two-wheeler has grown by about 3% or so.

Amin Karani Right, right.

Anant Goenka OE segment has degrown by about 5%, but in the replacement segment, growth would be anywhere between 2% and 7% in both these category types.

Amin Karani Okay, replacement growth is between 2% and 7%, you said.

Anant Goenka Yes, yes.

Amin Karani And for trucks? What would have been the replacement growth broadly for the industry?



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- Anant Goenka** No, replacement, it would have been flat.
- Amin Karani** Okay. And, in the coming year, you are guiding that volume growth could be in the 7%-10% range, which would mean that you would again outperform the industry?
- Anant Goenka** We don't know what the industry would do, difficult to say how things are because as I said it depends on what happens politically, how much sentiment changes, etc., so, we are expecting to see continued growth in these areas, so while I believe truck, etc., commercial vehicle is largely dependent on what will happen on the economy, and I don't expect to beat industry in these segments. I would say certainly in the other segments like passenger, in all those passenger segments, we could do better.
- Amin Karani** Okay. And, sir can you just help us understand that this time around it seems that the industry has been quite different about pricing even though raw materials have fallen, we have not seen any significant price cuts. Can you confirm that how do you see the pricing environment assuming that rubber prices remain at current level?
- Anant Goenka** Very difficult to say how pricing would workout at an industry level, so nobody can predict that really. Today's competition decides to cut prices, one will have to take a call depending on who has cut, and do you want to follow or not, so nobody can answer, I mean, difficult to say what will happen.
- Amin Karani** Right.
- Anant Goenka** On the other hand, we are seeing an inflation happening in other areas, so whether it is labor cost or whether it is power cost, all of that is also going up, and what industry margins are at 10%-11% EBITDA, which is nothing exceptional. Okay, we have not seen that in the industry 5 years ago or 4 years ago...
- Amin Karani** Right.
- Anant Goenka** But at an industry level, it is pretty average I would say.
- Amin Karani** Right, right, sir but at least this year in fiscal 14, you would not have been priced properly. Is that a fair thing to say?
- Anant Goenka** FY-15, you are saying?



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Amin Karani FY-14. In FY-14, there was not significant price competition. Would that be a fair thing to say?

Anant Goenka Yes, I mean, yeah generally we have not cut prices in this year.

Amin Karani Okay, fair enough. Thank you. Thanks sir. Thanks for taking my question.

Moderator Thank you. Our next question is from Parin Gala of Gandhi Securities. Please go ahead.

Parin Gala Yeah, my question has been answered. Thank you.

Anant Goenka Okay, thanks.

Moderator Thank you. Our next question is from Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani Hello!

Anant Goenka Yes, hi Mayur.

Mayur Gathani Hi. Just wanted to check you said about some new ventures on tyres, specialty tyres. Can you throw some more light on that?

Anant Goenka Yes. All I wanted to say is that we are exploring that area. We have still not come out with our detailed plans yet, but all I wanted to share is it's an area that we are interested in. It is a relatively higher margin segment for us as well as for the industry. So, it is an area that we are interested in. Once we take a clear call, I will certainly elaborate more on whether we would be looking at anything specific in this area.

Mayur Gathani Just for understanding, specialty tyres would mean any specific segment that you would... Can you just throw light on? Like aerospace or...

Anant Goenka They are largely off-highway tyres.

Mayur Gathani Okay.

Anant Goenka The tyres like either for farm tyres which are generally meant for exports.

Mayur Gathani Okay.



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- Anant Goenka** Domestic farm tyres, either they could be in that category or they would be in mining, ports. So, generally for anything which is off-highway and largely export related.
- Mayur Gathani** Okay, and sir you mentioned the losses in Bangladesh. Can you just say it again?
- Anant Goenka** Yeah, about 4 crores.
- Mayur Gathani** About 4 crores. And I missed your opening remark on the brand promotion strategy where you are getting into sports care. That's only for the brand promotion. Can you throw some more light as to what was the reason to get into it?
- Anant Goenka** Yes. If you want to get a sticker on a bat of one of the batsman, you need to be a producer of bats. This is an opportunity that we have had to let go because we are not producers of bats. So, we are looking at it just from a compliance perspective. Can we look at production of bats to the extent which will aid us to allow us to get into branding? So, it is more of a branding play that can we look at get onto players bats if and when the opportunity allows itself.
- Mayur Gathani** Okay great. And sir with the project with McKinsey, are we done with it, or it still continues for another 2 quarters?
- Anant Goenka** No, it's done.
- Mayur Gathani** It's done, we are over and out. Okay, great. Thank you very much for the clarification sir.
- Anant Goenka** Thanks.
- Moderator** Thank you. Our next question is from Riken Gopani of Infina Finance. Please go ahead.
- Riken Gopani** Hello! Hi sir. Sir, I just wanted to check if I look at the mix improvement that you have seen throughout this year, any reasons why your realization would not necessarily change with the mix or, you know, if you could throw some light on this because your truck percentage in your portfolio has come down from 54% to 46%, and all the passenger vehicles and two-wheelers have gone up, but realization seems to be flat, and why? Is it because there has been some price cut that you have taken for the full year or something else?



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- Anant Goenka** Okay, I think largely it could have been because we have seen good growth in the OEM segment. So, since we have seen higher growth in that segment, it is an area where relatively realizations are lower. So, while our product mix has improved in the replacement segment as well as OEM segment, at a product level, we have seen improvement or if you look at it category wise by selling more and more of passenger car tyres, etc., but on the market mix side, as I share with you, export, which is the most profitable segment, has been flat. Replacement has grown at about 10%-12%, and OE, which is the least profitable, has grown at actually 18%-20%.
- Riken Gopani** Okay, okay.
- Anant Goenka** So, on the market side, it has been adverse, on the product side, it has been favorable.
- Riken Gopani** Okay, okay. So, on the OE side, it is because of some new cars with which you were able to launch your product which has led to better growth, I mean, what has been the reason for better growth there?
- Anant Goenka** We have increased the share of business with some large players like Hero MotoCorp, Bajaj, Mahindra & Mahindra, so we have increased our share of business substantially with some of these players, and we have entered a few new OEMs.
- Riken Gopani** Okay, okay. So, has it in anyway, though there is still a very strong improvement that you have seen in your gross margins on a year-on-year basis for the year, has the mix change impacted it in anyway for the year?
- Subba Rao Amarthaluru** Yeah, the gross margins for the current period have gone up say from 30% of the previous year to almost 35%, which is on par with the industries' best gross margins, but unfortunately, we don't have the advantage of the higher scale of business as compared to others as of now that shows that we have a headroom in the operating leverage. As and when the scale goes up on regular basis, this operating leverage will come into play that will improve our margins on this account. As of now, we are on par with the best in the industry at the gross margin level.
- Riken Gopani** Okay, okay. And one thing on the UV side that I wanted to understand, what would be the specific capacity that you would have on that space which you are now trying to promote?
- Anant Goenka** Yeah, UV capacity... So, we have a capacity of 70 tonnes per day in our Halol plant which caters to passenger car radial as well as utility vehicles, so this can be mixed



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around to a certain extent, so in terms of tonnes per day, about 40 tonnes per day would be in terms of UV, 40-45 tonnes per day.

Riken Gopani Okay, okay, okay. And on the UV side, you know, what would be the general replacement cycle there, I mean, is it more driven by replacement for you or is it more driven by OE?

Anant Goenka More driven by replacement for us, and the cycle is about 2 and a half to 3 years usage.

Riken Gopani Alright, alright. Yeah, I think that's it from my side. Thank you.

Anant Goenka Thanks.

Moderator Thank you. Our next question is from Nisarg Vakharia from Lucky Investment. Please go ahead.

Nisarg Vakharia Sir, this is coming back to the difference between standalone and consolidate. If we see, the Sri Lanka has done a profit of around 80 crores, and we earned around 50% of that so that comes to around 40 crores, and if we remove the difference, the dividend that we've received, still that differs in Bangladesh, still there is a bit of difference. Can you just make us understand what is this difference coming to?

Subba Rao Amarthaluru Yeah, profit before tax is about 403 crores. If you see the overall picture, and Sri Lanka profit is about 32...

Nisarg Vakharia I am talking sir about full year, the Sri Lanka profit is around 80 crores, so our share of that would be 40, and the reported difference is standalone and consolidated is around 17 crores.

Subba Rao Amarthaluru Yeah. Can I send you the workings? I will just mail you the workings.

Nisarg Vakharia Sure sir, I will do that. Second question was sir, on this interest on financial charges, can you just give a breakup how much is related to the interest costs and how much is related to financial charges?

Subba Rao Amarthaluru Interest is about 147 crores and finance charges about 46 crores. 46 crores is primarily on account of the hedging costs, import and export. So, we have a lot of short term dollar credit, we keep hedging that so there is substantially on account of that.



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- Nisarg Vakharia** And this 140 crores includes the interest rate we pay on dealer deposits, sir?
- Subba Rao Amarthaluru** Yes, it's all inclusive.
- Nisarg Vakharia** What would be the debt figure, the interest bearing deposits that we have from the dealer as on 31st March, what would be the total number?
- Subba Rao Amarthaluru** About 260 crores multiplied by about 10... It should be about 26 crores.
- Nisarg Vakharia** And a debt of 1 100 crores is excluding that, right? 260 crores?
- Subba Rao Amarthaluru** Yes.
- Nisarg Vakharia** Okay. Thank you so much sir.
- Moderator** Thank you. Our next question is from Ashutosh Tiwari of Equirus. Please go ahead.
- Ashutosh Tiwari** Yeah, hello sir. Just wanted to understand, how pricing has moved in the radial tyre segment over the last one year, I mean, has the profits improved in this segment or how it is?
- Anant Goenka** Pricing has been largely flat. There have been no changes in pricing.
- Ashutosh Tiwari** For radial tyres also.
- Anant Goenka** You are talking about passenger car radials?
- Ashutosh Tiwari** No, no, no, I am talking about truck radials.
- Anant Goenka** So, truck radials also have largely been flat. There have not been any changes. Maybe about a percentage or two, but not relevant.
- Ashutosh Tiwari** Okay.
- Anant Goenka** I have data, but largely there has been no change in pricing.
- Ashutosh Tiwari** Okay. So, what kind of margins the company would be making in this TBR segment as such?



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- Anant Goenka** TBR is perhaps the lowest profit segment amongst all categories.
- Ashutosh Tiwari** Okay.
- Anant Goenka** It's a very low margin as yet. While I won't be able to give you the exact number, but it will be anywhere between maybe 0% and 5% type of margin.
- Ashutosh Tiwari** So, this would be the margin in both replacement and the OEM segments for radial tyres or replacement would be higher?
- Anant Goenka** OE will be lower than replacement also.
- Ashutosh Tiwari** Okay. This is you are saying replacement margin?
- Anant Goenka** No I am saying both segments are very low. On average, it will be between 0 and 5, between both categories.
- Ashutosh Tiwari** Okay.
- Anant Goenka** I don't have the exact number here, but I am saying for example it could be 4 and 1 or something like that, or 5 and 0, or 3 and 1 along those lines.
- Ashutosh Tiwari** Okay. So, how do you see these margins moving forward? I mean, do you see any signs of improvement in those margins because basically the hypothesis is that radialization will actually improve in the truck segment then eventually this will become a bigger segment overtime, about say next 3 to 5 years. So, will the acceptance of higher pricing for radial tyres will come among the fleet operators?
- Anant Goenka** I believe so. So, first of all, yes I think once people realize the benefit of radials, radialization will grow. It is already growing at a fast pace. The Indian industry, which was close to about 15% radialized 3 years ago, is now at about 28%-29% radialized. So, percentage of radialization has doubled in three years, and we expect it to double in another 3 years' time. So, radials will be accepted, and I think, as they realize the benefits, people will start paying a premium also for those tyres. Also, the industry has done very large investments in this, so I don't see the industry being able to sustain such low pricing in the longer term. So right now, it is perhaps to get equipments in, to let people try radials, but pricing will have to adjust in the longer term in my view.
- Ashutosh Tiwari** And how would the margins in the bias segment be for the same truck bias segment?



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- Anant Goenka** For us the truck bias' margins are slightly more attractive than the truck radial margin.
- Ashutosh Tiwari** Okay. And see, I mean, you must be explaining to the truck owners about the benefits of the radial tyres versus bias tyres. So on a per tonne per kilometre basis, what kind of cost differential for the lifetime of the tyre would come for radial versus bias?
- Anant Goenka** See there are two benefits of radial tyres. I won't be able to give it to you in the exact metrics that you have asked for, but the two benefits are, one in terms of fuel efficiency, down by about 5%-7% percent lower fuel efficiency, a better fuel efficiency that a person would get, which is the main benefit. The second is in terms of life of a tyre is up by about 1.5-1.7 times increased life of a tyre.
- Ashutosh Tiwari** Okay. So despite that, I mean, you don't have pricing for, because I believe that on radial tyre prices are only say around 10% or 15% higher than the bias tyres in the market.
- Anant Goenka** Yes, about 15% higher.
- Ashutosh Tiwari** So, despite having a better fuel efficiency and tyre life also, still you are not able to convince basically truck owners to shift.
- Anant Goenka** Yes, it's a period where people have to get used to it. One is the pricing is higher. There is also a perception that in overload conditions, radials are not ideal just because they get punctured more easily or they are better for normal load conditions. So, as conditions of Indian roads improve, as we are able to educate consumers more, as they try on the tyre, and also what happens is it takes time for the consumer to try it on. So, once he tries the tyre, it takes 6-8 months of usage, he might want to try twice or thrice, so it's a long use product. It's not something which you try, you know, for a few months and you are kind of clear that it's much better.
- Ashutosh Tiwari** Okay. And see, among the fleet operators, is it that, I mean, on the same trucks a mix of bias and radial tyres are being used or you think there is uniformity, somebody shifting to radial tyres as completely all the tyres of radial only?
- Anant Goenka** No, you can have a mix also. So, once somebody converts, you can always have a mix where they say that okay 80% is radial and 20% is cross ply. So, that very much does exist amongst truck users.



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- Ashutosh Tiwari** Okay. And sir, about the rubber prices, what was the average for the 4th quarter, and what is the average right now? Just to understand how the raw material price has been moved for you on a quarter-on-quarter basis.
- Anant Goenka** Well, I won't be able to share our consumption price. The spot average price would have been around 145–150 rupees per kilo would have been the rough prevailing price, so not our consumed price, but it effects therefore to consume in quarter one.
- Ashutosh Tiwari** Okay, and what it was say three months back, I mean, the average for...
- Anant Goenka** My broad guess would be about 5 rupees more.
- Ashutosh Tiwari** Okay, and in the OEM segment, essentially it's a pass-through on a quarterly basis, right?
- Anant Goenka** No, OEM, it could be a negotiation, it is a negotiation that happens with 80% of our customers or 70% that they generally negotiate on a need-base basis.
- Ashutosh Tiwari** Okay.
- Anant Goenka** We have a formula based kind of an arrangement that is there with majority of them.
- Ashutosh Tiwari** So, what's the frequency, is it quarterly basis negotiations happen or?
- Anant Goenka** There is no fix system out here.
- Ashutosh Tiwari** Okay.
- Anant Goenka** So, at any point of time, a customer could come in and say that, you know, your cost are coming down or we would like to re-negotiate for any other reason, and that's when we have it, or we go to them.
- Ashutosh Tiwari** Okay. And sir, if I look at say you have provided the tonnage number for this quarter in domestic operations, and if we basically divide sales number from the tonnage, there is roughly a 1.8% decline in the relations on a quarter-on-quarter basis. So, is it because of some price cuts or is it because of the mix change since?
- Anant Goenka** As I said, there has been no price action taken on our side. My best guess is that it is largely because we have grown in the OEM segment, and seen a degrowth in the exports segment, so it is largely a market mix change which would have had an impact.



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- Ashutosh Tiwari** Okay, okay.
- Anant Goenka** So, the exports, which is the most profitable market, has shown negative growth, and OE which is the least profitable has shown double digit growth.
- Ashutosh Tiwari** And sir what is the reason you mentioned about China or Chinese tyres in the market. That's the reason you had mentioned about?
- Anant Goenka** Chinese tyres in export market.
- Ashutosh Tiwari** Yeah, yeah, export markets.
- Anant Goenka** We have slowdown in China in general, so there is an inflow of Chinese tyres in countries like Indonesia, middle-east, etc., where it is becoming more and more difficult to compete.
- Ashutosh Tiwari** But isn't it the same case happening in India also. Chinese tyres imports are increasing, I mean, in India?
- Anant Goenka** Not really. So, there is an anti-dumping duty that exists in part. In part, in the past year also, the rupee has helped. We have not seen much of a problem in Chinese tyres coming in. There are Chinese tyres that come in, but we have a market share of maybe 7%-8% which is where they have been for a few years' time.
- Ashutosh Tiwari** So, you don't see that as a threat as such.
- Anant Goenka** No, not in India.
- Ashutosh Tiwari** Okay sir, thank you so much.
- Anant Goenka** Thank you.
- Moderator** Thank you. Our next question is from Vishal Saraf of SBI Mutual Fund. Please go ahead.
- Vishal Saraf** Hello! Hi sir, just continuing on the previous question, what has been a decline in exports for this quarter?



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Anant Goenka Decline in exports... I can get back to you. It has been nearly about over 15%, just over 15%.

Vishal Saraf 15% in revenue terms?

Anant Goenka Yes.

Vishal Saraf And, how do you see the trend going ahead?

Anant Goenka Going forward, I actually see a challenging time. I don't think we will see a similar kind of slowdown that we saw earlier because last years' base in March which is the month end or yearend month was very high. So, I don't see that kind of degrowth, but I do see a challenge. I don't see growth, comfortable growth coming on this year. So, it could be anywhere between -5 and +5 broadly, number that I am guessing.

Vishal Saraf Okay. So, you know, like you are saying because Chinese competition is increasing and we have seen often they, you know, when they start cutting prices, it can get severe. So, what is the price differential from our tyres prices vis-a-vis Chinese?

Anant Goenka Generally, what happens is we sell largely truck and light truck bias tyres. They sell radial tyres. So, their radial tyres are cheaper than our bias tyres by as much as 15%.

Vishal Saraf So, effectively, for like-to-like, it would be 25%-30% kind of price differential?

Anant Goenka Would be 20+ percent, yes.

Vishal Saraf Okay. So, this can lead to further pressure either on realization or on volumes, right?

Anant Goenka I think not so much in terms of realization, but more in terms of volumes, there could be some impact. In the end, yes, they have their own perception in terms of quality. So, I don't see it being a substantial impact, but yes, what we have seen in this quarter, there could be some impact on that going forward also.

Vishal Saraf And this quarter, has their volume just increased or is this 10%-15% lower price which you said, so the pricing has come down for Chinese tyres in this quarter, which helped them gain market share?

Anant Goenka Their volume has gone up because they have had to export more out of China because China itself is not needing so many tyres.



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- Vishal Saraf** But price parity between Chinese and CEAT tyres globally has remained same over last one year.
- Anant Goenka** I won't have that data specifically. So, I won't have it here right now at least.
- Vishal Saraf** Okay. And, in domestic market, you don't see that, you know, again similar kind of thing can happen?
- Anant Goenka** I don't see that happening. One is there is an anti-dumping duty also that is there.
- Vishal Saraf** Okay.
- Anant Goenka** And at least until now, it has not happened. Very difficult to say whether it will happen going forward, but I don't see it as a serious issue going forward.
- Vishal Saraf** Okay. What would be the price differentials between say Indian tyres and Chinese tyres in India market now?
- Anant Goenka** I think the radial tyre, in my view, which is more anecdotal, would be in terms of... I think the radial tyre would be at a similar price as our bias tyre, but they are not able to provide the kind of service and quality guarantee that we provide. We have a much better claims resolution system, warranty system, after sales service. So, those are things that differentiate us. Also, there is a BIS marking which is now introduced by the government which will be an indirect tariff barrier in a way.
- Vishal Saraf** Okay, and how severe is this BIS marking. We believe some of the imported tyres also have got this marking now, is it?
- Anant Goenka** Yes, yes, they can get it. So, it is not that they can't, but it's a temporary barrier, and those who don't get it, at least those people will be beaten out.
- Vishal Saraf** Okay. And sir, just on the pricing side, post the quarter, have we taken any pricing action?
- Anant Goenka** No.
- Vishal Saraf** Till now, no pricing action.



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- Anant Goenka** No.
- Vishal Saraf** And sir, sorry to come back, you know, this question has been discussed earlier, but just on raw material side, you know, when we look at overall rubber prices both globally and domestically, we have been seeing at least 4-5 months, you know, trend of continuous price decline. You are explaining that possibly CEAT benefitted from low rubber cost. Can you give some indication, you know, of what would have been the average purchase cost, say 2 quarters or 1 quarter back, or what was the consumption cost of rubber in this quarter, and what was the purchase cost, and how it would compare with the current cost?
- Anant Goenka** Largely, rubber prices have been quite stable. They started coming down as I said sometime in the middle of February.
- Vishal Saraf** Okay.
- Anant Goenka** International as well as domestic prices, international and then domestic. So, benefit of that will come in quarter 1 of this year, some amount of raw material benefit could come as a result of that, but over the course of the year, the decline that you have seen in rubber, some amount of that has been compensated by some increase that has happened in other raw materials like carbon black in quarter 4. So, broadly, our raw material prices have been stable all through the year. So, in a static change, it would not be more than a couple of percentage or 1% change between quarter 1, quarter 2, quarter 3, quarter 4.
- Vishal Saraf** Okay, and like you said first quarter onwards, we are likely to see some benefit of this price decline from February, can you give some indication of the quantum?
- Anant Goenka** Quantum of benefit?
- Vishal Saraf** Yes.
- Anant Goenka** I won't be able to give it you right now, but I think we are consuming about 40% of our raw material market, that is natural rubber, and about 70% or 65%-70% of our cost is coming from raw materials, so that can be computed in that way, I would say.
- Vishal Saraf** Okay.
- Anant Goenka** But difficult to say exactly how much benefit we could get as a result of that.



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- Vishal Saraf** Right. Just on rubber, can you mention what was the natural rubber cost for this quarter and how does it compare with the current price, like-to-like?
- Subba Rao Amarthaluru** Quarter-on-quarter, the difference, we will not be able to give you the absolute value in rupees, but the difference for quarter-on-quarter is 4%, and year-on-year about 5%.
- Vishal Saraf** Okay. 4% for the actual cost of rubber which was consumed?
- Subba Rao Amarthaluru** Yes.
- Vishal Saraf** And what is the price difference between the cost of rubber for you in the fourth quarter and today's rubber price in the market?
- Subba Rao Amarthaluru** Yeah, it would be approximate... There is no significant change. It should be around the same kind of 4%-5%.
- Vishal Saraf** Okay, okay. Thanks sir. Thanks a lot sir.
- Moderator** Thank you. Our next question is from Ajay Sethia of Centrum. Please go ahead.
- Ajay Sethia** Yes sir, I just had one question. What is in the market share for CEAT in the two-wheeler segment currently in FY-14, and how it has changed with the last 2 or 3 years?
- Anant Goenka** Yeah, for the market share for two-wheeler in the replacement segment which is where really share of the profit is coming from has grown from about 12% or so 2 years ago to now around 20%.
- Ajay Sethia** And sir, if you can just also add upon the OE side, how it has moved?
- Anant Goenka** OE side also would have gone up from maybe about 8%-9% to about 17% or so, roughly.
- Ajay Sethia** Okay sir. That's all sir. Thank you so much.
- Anant Goenka** Thanks.
- Moderator** Thank you. Our next question is from Jasdeep Walia of Kotak. Please go ahead.
- Jasdeep Walia** Good evening sir. Sir, what's a sense on capacity utilization levels in the industries, if you could tell me separately for truck radials, passenger cars, and truck buyers' tyres?



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Anant Goenka For the industry or for CEAT?

Jasdeep Walia For the industry and CEAT both?

Anant Goenka Okay, for CEAT first, our capacity utilization in the truck radial segment would be about 85%.

Jasdeep Walia Okay.

Anant Goenka In my view, industry would be slightly lower because others have setup larger capacities, and sorry what was the other question?

Jasdeep Walia Other categories also, truck bias tyres?

Anant Goenka Truck bias, I think for the industry would be around somewhere about 85% kind of levels, but yes, it is also around 85%-87%.

Jasdeep Walia And car tyres?

Anant Goenka Car tyres, for CEAT is 100% because we have relatively lower capacity. So, whatever we are doing, we are fully utilizing. Industry, I would not have the data, but in my view again, my best guess is around 85%.

Jasdeep Walia Got it. Sir now, the trend in radialization has been pretty strong. I would guess that gradually bias capacities will be required, in a sense, there will be lot of over capacity on the bias tyres side. So, what is the industry planning to do with that capacity and specifically what is your company would do with that capacity?

Anant Goenka Yeah, see bias capacity, not much can be done with that. So, I agree with you absolutely that there will be an over capacity in bias. In my view, there are 2 or 3 things that can be done. One is can you export it to currently bias producing countries like Africa or, if any, in South-East Asia, etc. Second, what you can do is you can do some amount of conversion to other tyres of a similar size which are currently non-truck but bias like farm, etc.

Jasdeep Walia Okay.



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- Anant Goenka** These are some small actions that can be taken. But in my view, it might not fully compensate the slowdown that is happening. So, we can expect lower capacity utilizations in the bias segment.
- Jasdeep Walia** Hmm, hmm. Got it sir. And sir could you also talk about the new capacities which would have come online in FY-14 and the capacities which will come online in the next 2 years from various places?
- Anant Goenka** So, FY-14, we are only doing an expansion of two-wheelers in our outsourcing unit which will go up from an average of about 6.5 lac tyre production in FY-14, to FY-15 to about an average of about 8.5 lac tyres per month.
- Jasdeep Walia** This is two-wheelers?
- Anant Goenka** Two-wheelers, motorcycles largely.
- Jasdeep Walia** Okay.
- Anant Goenka** So, that is one part, so that's what will come and seen this year. Then the following year, we expect our Bangladesh plant and our further expansion of Halol facility in passenger car radials to come out stream.
- Jasdeep Walia** Got it. Sir, any sense that you can give at the industry level? What kind of capacity utilizations have happened last year and what are the kind of capacity utilizations which will happen in the next two years?
- Anant Goenka** I won't have full numbers, but what I do hear is say for example Continental started its' production in the month in April, Yokohama, you have Michelin, Bridgestone, a bunch of capacities, all coming in during this year, largely between first half of this year and second half, and mostly in the truck radial segment, but I won't have numbers like in tonnes per day or numbers?
- Jasdeep Walia** Any large capacity utilization by domestic companies/Indian companies?
- Anant Goenka** Couple of them that I have heard of, so again this is all from the news that I know. So, we have heard about, you know, JK tyre doing some expansion, MRF has recently made a news announcement, so, my information is purely whatever I have heard in the news.
- Jasdeep Walia** Got it sir. Thanks a lot, and that's all from my side.



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Anant Goenka Thanks gentleman.

Moderator Thank you. Our next question is from Saurabh Ginodia of Stewart & Mackertich. Please go ahead.

Saurabh Ginodia Hello!

Anant Goenka Hi Saurabh!

Saurabh Ginodia Hi Sir, can you help me with the CAPEX number for FY-15?

Subba Rao Amarthaluru FY-15, I mean, the total CAPEX underway is about 1000 crores. I think it would be equally split between this year and next year or about with 100 crores plus or minus. So, I would say between 500-600 crores would be the CAPEX for FY-15.

Saurabh Ginodia And sir, what would be the routine CAPEX out of this?

Subba Rao Amarthaluru This excludes the routine CAPEX. Routine CAPEX would be in the region of about 75 crores.

Saurabh Ginodia 75 crores.

Subba Rao Amarthaluru Yeah.

Saurabh Ginodia That was helpful sir. Thank you.

Moderator Thank you. Our next question is from Bharat Gianani of Reliance Securities. Please go ahead.

Bharat Gianani Yes sir, I just wanted to understand the contribution of synthetic rubber and our overall raw material basket, and also if you can throw some light on the category wise consumption. Is there some difference, I mean, say a truck tyre or a car tyre, some difference in the consumption of synthetic rubber that would be helpful?

Anant Goenka Yeah, synthetic rubber is about 11%-12% of our total utilization, total raw material basket, and there can be a big difference, for example in the truck segment, synthetic rubber can be as low as about 7%-8%, and it can go up to nearly 20% in a non-truck segment.



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- Bharat Gianani** And sir, which kind of the synthetic rubber is primarily used, I mean, if you can specify?
- Anant Goenka** PVR, SVR, butyl...
- Bharat Gianani** And sir, what would be the price of synthetic rubber consumption in this quarter if you can share?
- Anant Goenka** Price of synthetic... I will not be able to give you any absolute number, but generally it is about 5%-10% difference between natural rubber and synthetic rubber on average.
- Bharat Gianani** Okay, okay fine sir. That was helpful. Thank you so much.
- Moderator** Thank you. Our next question is a followup from Nisarg Vakharia from Lucky Investment. Please go ahead.
- Nisarg Vakharia** Yes sir, just a followup question on the export front. So, what is the... You had mentioned about the threat that we are now facing from China, and that rupee has stabilized and the market sentiment is that if you are going to get a stable government, then maybe you will see too much of weakening of rupee in the next few quarters. In such a scenario, what is our long term strategy for exports because you had also mentioned that going forward it has some of the surplus bias capacity is available due to domestic demand. You know, export is one area where we are into focus to sell that? So, if you could give some color on that?
- Anant Goenka** Yes, we want to continue to focus on exports, so we believe it's a good opportunity for sales, and we want to continue to grow in that segment. However, we have found it difficult in this quarter, and as I said that even the coming one quarter at least looks to be a little bit of a challenge in terms of growth. We will continue to focus on it. So, it is not that there is a gap in desire at all, but it is more with respect to the two challenges in the market, one is some slowdown that we are finding in the Middle East, and the second is the challenge of Chinese players coming in particularly in South-East Asia. So, both these are areas of concern, but we have to overcome that first.
- Nisarg Vakharia** My question actually was that sir as you had mentioned, it is a big focus area for you, but now since that threat has come, so what is going to be your counter strategy. How do we plan to work on this challenge?



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- Anant Goenka** Yes, so we have to do... Basically, the basics of marketing and sales is what you have to go into to make sure that we have enough people who are there to sell service, share our value proposition, make sure we are able to monitor secondary sales which is the distributor sales rather than just our sales, make sure we are able to do some amount of below the line marketing activities in those regions. If we need to change distributors in those areas, if somebody is not growing, we have to make sure changes. So, I say these are standard phase and marketing tactics that we need to adopt to overcome that. So, we need to first figure out what are the key challenges and problem areas, and then overcome really those challenges, and explore a little bit on the new geographies.
- Nisarg Vakharia** Is there something like if this gap persists and we continue to face challenge from China, at some point of time, we may have to take price correction to start competing with them or our focus is going to be more on servicing and branding to maintain market share and then grow it?
- Anant Goenka** See margins in exports are quite attractive. So, even if we take a price correction of couple of percentage points, it doesn't matter. It will not affect our overall margins substantially because our market mix will improve in the end. So, I say whether we take pricing action or not is not very important. In the end, it is about making sure whatever we want to do is effective.
- Nisarg Vakharia** Which are the key countries where we are facing this challenge?
- Anant Goenka** Largely Middle-East and some amount in South-East Asia.
- Nisarg Vakharia** And this region would account largely for our exports, mainly exports?
- Anant Goenka** About 35%-40%, I would say.
- Nisarg Vakharia** You had also mentioned that you are looking to enter some new geographies. So, these geographies are... Can you highlight which are these geographies and is the Chinese competition less out there?
- Anant Goenka** So, we would be looking at increasing our sales in Africa and Latin America. So, these are two areas. Latin America is a good truck radial market which we could look at selling those tyres, and as I said that our Halol capacity is getting more and more debottleneck, so we will have some more volumes to sell to those regions.



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- Nisarg Vakharia** You had also mentioned regarding the improvement you are trying to do in the segment mix in the domestic where you are trying to focus more on SUVs and two-wheelers. There is something also available on the export sales or there the product mix is more or less where you want it to be?
- Anant Goenka** So, on the two-wheeler space for example, we are fully utilized. So, we cannot export two-wheelers in this phase. While our capacity expansions are happening, we are fully utilized now. So, we are further expanding every month by a few lac tyres. So, as and when we reach full capacity, I feel most of it being utilized in the domestic market. On the UV side, yes, there is an opportunity. UV or passenger car side, Europe or other countries, there is an opportunity for growth.
- Nisarg Vakharia** And just one last question, you had mentioned regarding specialty tyres, you said that plants are under consideration. So, would this again involve a large amount of capacity from outside sir?
- Anant Goenka** No, I will keep you updated as and when any decisions are taken. I think that...
- Nisarg Vakharia** Thank you very much sir. Wish you all the best.
- Moderator** Thank you. Ladies and gentlemen, that was our last question. I now hand the conference back to Mr. Jinesh Gandhi for closing comments.
- Jinesh Gandhi** Thanks, Inba. On behalf of Motilal Oswal Securities, I would once again like to thank all of you for joining the call today, and also thanks to the management once again for giving us this opportunity. Thank you.
- Anant Goenka** Thank you Jinesh.
- Moderator** Thank you on behalf of Motilal Oswal Securities Ltd. That concludes this conference. Thank you for joining us, and you may now disconnect your lines.