



## “CEAT Limited Q3FY2016 Results Conference Call”

February 16, 2016



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**Moderator:** Ladies and gentlemen, good day and welcome to the CEAT Q3 FY 2016 results conference call hosted by IIFL Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference call please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. J. Radhakrishnan – IIFL Capital. Thank you and over to you!

**J. Radhakrishnan:** Thanks. Good afternoon ladies and gentlemen. On behalf of IIFL Institutional Equities, I would like to welcome you all to the Q3 FY 2016 earnings conference call of CEAT. From the management we have Mr. Anant Goenka, Managing Director and Mr. Manoj Jaiswal, Chief Financial Officer. I would like to hand over the floor to the management for opening remarks, after which we will move on to the Q&A session. Over to you Sir!

**Anant Goenka:** Thanks Radha. Good evening and a very welcome to CEAT quarterly call. I am Anant Goenka, Managing Director, CEAT and I have with me Mr. Manoj Jaiswal, our CFO. I would briefly take you through our results and few key parameters over the next two or three minutes.

Some data on a year-on-year basis we registered a negative 2% revenue growth largely because of price drops that have taken place over the last one year. In volume terms we have actually grown by about 6%. On the raw material side, raw material prices have come down quite well on a year-on-year basis and some part of that benefit was passed on to all three of our markets to the replacement, OEM as well as export markets.

The 6% volume growth that came about was largely because of good growth in the domestic market where we have grown by over 10%. Both replacement and OEM markets have grown while export markets have actually seen quite a challenging time with negative growth of over 20%. The passenger segments, which is our focus area, which includes motorcycles, scooter, UVR and PCR have all continued to grow at well over 20% growth rate. Our product mix has also improved with motorcycles and passenger areas contributing to around 38% of our sales for YTD FY2016.

Some data on quarter-on-quarter basis, we registered a 2% revenue decline again mainly because of drop in realization; however, softer raw material prices have improved gross margins both on quarter-on-quarter and year-on-year basis. One of the challenges we see today are that of the Chinese products which continue to flood the market both in replacement as well as international markets which has impacted our topline to a certain extent; however, gross margins improved because of lower raw material as I have shared with you and our product mix has also improved.

Some other developments are that we have made an equity investment of about 25 Crores in our 100% subsidiary, CEAT Specialty Tyres Limited. We have also transferred land in Ambarnath to CEAT Specialty Tyres, which we call CSTL, which will be used for setting up of facility of manufacturing off road radial tyres and these are largely farm radial tyres. We will be investing

about Rs 330 Crores for an initial capacity of 40 tonnes per day. The facility will be largely focused on exports markets, mainly Europe and US and which will witness phased expansion over the next few years.

Some other developments that we have launched recently CEAT Tyres on the new release of Mahindra Imperio, Hero Maestro Edge, Duet, Royal Enfield Himalayan and Honda Navi models. We have also roped in one of India's finest cricketers, Rohit Sharma for a three year bat endorsement deal this quarter, this is in addition to Suresh Raina who we had endorsed in the last quarter.

Going forward we expect raw material prices to largely continue to be low in the near future. We expect steady growth in the domestic segment as we have seen in the last few quarters. On the export side I feel that our negative growth has largely resulted in a low base effect which will therefore result in more positive growth going forward in the next year.

I now hand over the call to Manoj Jaiswal who will talk to you about the key financial parameters.

**Manoj Jaiswal:**

Thank you Anant. Ladies and gentlemen, good afternoon. I would now present the financials primarily focusing on the P&L account and the balance sheet analysis. Let me just touch upon the gross margin for the quarter. Gross margins have expanded by 530-basis points year-on-year to 45.3% and by 90-basis points on a quarter-on-quarter basis.

EBITDA quantum rose by 10% year-on-year to Rs 202 Crores and remained flat on a quarter-on-quarter basis. The margins have expanded by 160-basis points year-on-year to 14.7% and by 30-basis points on a quarter-on-quarter basis.

Finance cost for the quarter has come down by Rs 12 Crores year-on-year and Rs 3 Crores sequentially largely due to reduction in borrowings and lower interest rates through replacement of high cost debt with lower cost debt. The company's networth has gone up to Rs 2019 Crores from Rs 1637 Crores year-on-year.

Consolidated debt stood at Rs 725 Crores from Rs 654 Crores sequentially and Rs 882 Crores at the end of the same quarter last year. On a year-on-year basis debt equity has come down to 0.4 from 0.5 times.

An update on Sri Lanka joint venture, our Sri Lankan JV's revenue grew by 2% sequentially; however, declined to 2% year-on-year. EBITDA margins grew by 90-basis points on a year-on-year basis; however, declined by 100-basis point on a quarter-on-quarter basis to 25.4%. I pause the presentation here and we will take up any queries and clarification in the Q&A session. Thank you. Now we will open for question and answers.

- Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Ambrish Mishra from JM Financial. Please go ahead.
- Ambrish Mishra:** Hi Anant and Team congratulations for good set of numbers. Anant, I have two questions; one in terms of ramp up of two-wheeler as well as the passenger car capacity can you just take us through the timeline and eventually how much and if there is any change in the capex plans compared to what we shared last quarter?
- Anant Goenka:** Let me first talk to you about our Halol plant. Halol plant is largely on track as per the plan. It is a phased ramp up, which will happen over the next 15 months or so. So by the end of this year we should be somewhere around, by March FY2017 we should be somewhere around 75% to 80% capacity installed whereas for the case of Nagpur also largely the project is as per plan. Ramp up will start in a very short period of time, in about a month's time or so. We expect the project to be completed very close to the time as we speak and I think ramp up there also will take from about 12 to 14 months time or so.
- Ambrish Mishra:** So when we say 75% to 80% this is basically the capacity that we will reach by the end of FY2017?
- Anant Goenka:** That is right, exit capacity.
- Ambrish Mishra:** Exit capacity, so what is the sense on the full year capacity utilization that one can look forward too?
- Anant Goenka:** I can give you an approximate number. I think the capacity utilization of the additional capacity will be somewhere around about 35%.
- Ambrish Mishra:** At Halol?
- Anant Goenka:** At Halol.
- Ambrish Mishra:** Same at Nagpur?
- Anant Goenka:** Nagpur will be somewhere around yes that side, about 35% or so.
- Ambrish Mishra:** So broadly we can think of 35% to 40% average utilization for the full year?
- Anant Goenka:** That is right.
- Ambrish Mishra:** Slightly broader question, we are now looking at CSTL as a specialized vehicle for specialty tyres. Today, as a group we are at around 5500 to 5600 Crores topline, let us say three years down the line with various businesses whether within CEAT or through a subsidiary what is the

kind of group size that we are looking at with the kind of initiatives across different categories that we are looking at?

**Anant Goenka:** It is difficult to give a number as such that there is, but broadly I think, I will leave it to you to do the calculation. See if you are looking at Nagpur, I can tell you one by one, Nagpur and Halol each will be about 1000 Crores in revenue so that is 2000 Crores coming in there, specialty depending on the phases and what we announced we are not very clear, but between 500 and 1000 Crores can come in from there whereas there is a negative growth on the truck bus bias side so some amount of that will get minus as that shows a negative growth. So that is the broad positive and negative growth movement that we expect to see.

**Ambrish Mishra:** You expect this utilization at Halol and Nagpur to peak by what timeframe, maybe FY2018 or you think given the kind of environment we are in it may take longer?

**Anant Goenka:** I think latter half of FY2018 approximately is when we expect both to be close to be getting utilized.

**Ambrish Mishra:** Just last question, Anant, on the raw material mix today, as we speak even as you mentioned that lot of benefit is already there in our cost and gross margins, can you share exactly how our raw material mix today is between natural rubber and crude derivatives and others?

**Anant Goenka:** Approximately natural rubber would be close to about 50%. If you look at overtime the kind of drop that we have seen is quite equal between crude and natural rubber. Natural rubber fell earlier about two years ago, started falling. Crude has been over the last six months where there has been a larger drop, but approximately about 40% is natural rubber and 15% would be synthetic rubber and other non-rubber would be the balance about 40% or so approximately.

**Ambrish Mishra:** Which will be crude derivative?

**Anant Goenka:** Largely crude derivatives, some amount of steel tyre code will be in that.

**Ambrish Mishra:** Is it fair to assume that Q3 numbers reflect the current market price of all these commodities?

**Anant Goenka:** No, Q4 we expect to see a slightly some more drop in raw material pricing, whereas in January of this year there was again a little bit of price cut taken, so net, net value addition may not change substantially but there will be some more drop in raw material pricing in Q4 and may go forward a little bit to Q1.

**Ambrish Mishra:** Thank you so much. All the best.

**Moderator:** Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

- Puneet Gulati:** Thank you so much. Congratulations on good numbers. Just wanted to understand a couple of things, your average realization seems to have dropped by 8%, so is that purely on account of price cut or there is a mix impact there as well?
- Anant Goenka:** There could be a little bit of market mix impact because we have grown faster in the OE category and export has shown negative growth so the market mix has changed but on the other hand to counter that product mix has also improved. So on a category wise, we have seen a higher growth on the passenger and two-wheeler side where margins are slightly higher but on a market side, we have seen actually an adverse effect. So net-net, I think there would not be a substantially large impact. It could be a percentage or two here and there, but most of it is because of prices drops that have happened.
- Puneet Gulati:** It appears you have grown faster on the replacement side, my numbers seem to say you have grown almost 11% on replacement and 8.5% on OEM side, so the mix also is positive for you?
- Anant Goenka:** No, the OEM growth has been much faster at over 15% growth.
- Puneet Gulati:** For the quarter?
- Anant Goenka:** For the quarter, on a year-on-year basis so that is what I am saying has grown faster, as a result the market mix has moved a little bit adverse.
- Puneet Gulati:** Sir, what has been the price cut in the after market segment or replacement segment in this quarter? What price cut you have taken in the replacement segment this quarter?
- Anant Goenka:** Approximately about 2% in the commercial segment.
- Puneet Gulati:** Commercial and no prices in passenger segment.
- Anant Goenka:** This is I am talking about January.
- Puneet Gulati:** But third quarter?
- Anant Goenka:** Third quarter between September 20 and October 10 we have had various price cuts approximately 2% to 3% in commercial segment and about 5% in the motorcycle segment.
- Puneet Gulati:** And car?
- Anant Goenka:** Passenger car approximately 2%.
- Puneet Gulati:** No price cut done in January?
- Anant Goenka:** January there was a price cut, commercial vehicle segment, commercial, farm, etc., would be about 2% to 2.5%.

**Puneet Gulati:** That is only in line with the market, I presume.

**Anant Goenka:** That is right.

**Puneet Gulati:** Your export has grown much weaker than the domestic. What would you attribute it to?

**Anant Goenka:** It is largely because of industry factors, nothing to do with internal issues at all. We have no issues with respect to product quality or perception or anything out here. It is largely three reasons. I had shared it in previous calls also. It is mainly because of one is that of radialization taking place in international markets, second is Chinese tyres growing in international markets and third is currency depreciation happening in a lot of the markets that we supply to.

**Puneet Gulati:** Currency is probably the main.

**Anant Goenka:** All these three, so it is overall exports as a sector has got hit in my view across the industry.

**Puneet Gulati:** Your volume growth has been impressive at 6% do you think there is enough room to grow this volume with their existing capacity, if I do not add in Nagpur and Halol, is there a scope for debottlenecking?

**Anant Goenka:** So there is some capacity in truck radial that we have. We can grow by another 10% at least out there. Our capacity utilization today, if you exclude the two new capacities are somewhere between 85% and 90%. So about 10% is there. I would exclude about 3% to 4% because of truck bias even though there is an additional capacity that is not going to grow. So that part I would minus, but in my view, if you exclude the new capacities, there is still 8% to 10% opportunity.

**Puneet Gulati:** But your radial you said it is still running 90%, it is still not 100% as of now?

**Anant Goenka:** Radial, yes, truck radials.

**Puneet Gulati:** There is 10% room in the truck radial segment as well?

**Anant Goenka:** Yes.

**Puneet Gulati:** Passenger separately, passenger cars?

**Anant Goenka:** Passenger car now at Halol, we call it Halol I and Halol II, Halol I is fully utilized. Now the new capacity of Halol II that is coming up that part is now the demand is as the supply picks up, we are able to grow along with that. We are trying to match our new capacities coming in along with the demand side. There would be a phased ramp up over a year and a quarter we are a year-and-a-half from that.

**Puneet Gulati:** Motorcycle segment?

- Anant Goenka:** Motorcycle segment, as I said, Nagpur plant is now starting up in this quarter. We are initially starting up with some scooter supplies where there is substantial shortage. As that grows we will be working on increasing our distribution so that will also grow going forward.
- Puneet Gulati:** Is there more room from your existing suppliers to increase capacity if you need?
- Anant Goenka:** No. All our capacity is outsourced. So right now all outsourced capacity is fully utilized.
- Puneet Gulati:** There is no way you can increase that outsourced component from somewhere else or that is not happening?
- Anant Goenka:** It could be possible that you introduce new suppliers etc., which is not part of the plan.
- Puneet Gulati:** The entire growth will come from Nagpur only for two-wheelers?
- Anant Goenka:** Yes.
- Puneet Gulati:** Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please proceed.
- Ashutosh Tiwari:** You mentioned that you have grown by more than 20% in two-wheelers and passenger tyres, and 20% decline in exports. So what kind of growth you have seen in other segment like commercial vehicle, LCV and all?
- Anant Goenka:** Commercial vehicle has largely been flat. LCV has shown a negative growth because we export a large amount of our LCV tyres so LCV has seen negative growth because of exports slowdown itself. Any other specific segment that you would like to know? Tractors has slowed down. Tractors we have seen a negative growth of about 5% or so on a year-on-year basis, so that largely rural economy tyres have got hit.
- Ashutosh Tiwari:** Roughly 30% to 40% of your volumes are actually growing at the moment, right, passenger segment volumes?
- Anant Goenka:** Yes, so the passenger segment is growing quite fast whereas the truck segment is largely flat, so net-net is resulting in this kind of 5% to 10% growth.
- Ashutosh Tiwari:** On this two-wheeler side, right now outsourced capacity is 11-lakhs tyres per month right?
- Anant Goenka:** It is about 11 to 12 lakh tyres per month.
- Ashutosh Tiwari:** So next year by when Nagpur capacity will come up? By year end?



- Anant Goenka:** It will start by this quarter.
- Ashutosh Tiwari:** This quarter and there would not be any constraint in terms of the growth from that side.
- Anant Goenka:** No.
- Ashutosh Tiwari:** On the four-wheeler side, your current capacity is around 3 lakh tyres per month, Halol one capacity?
- Anant Goenka:** Yes.
- Ashutosh Tiwari:** Incrementally you are adding 4.5 more?
- Anant Goenka:** Yes.
- Ashutosh Tiwari:** So out of the increment capacity, you said, 20% to 35% will be the utilization in the next year?
- Anant Goenka:** Out of the incremental capacity as I said about 30% of that will be utilized in the next year, in a phased manner, over the course of the year.
- Ashutosh Tiwari:** Sir export how much is the percentage sales in the last quarter. I think the nine months figure is 13%.
- Anant Goenka:** It would be somewhere around similar levels, because exports actually have been quite flat in that sense. Flat means it has shown negative growth year-on-year but on quarter-on-quarter it has largely been flattish, so as a percentage of sales broadly it would be somewhere around 13% to 14% only.
- Ashutosh Tiwari:** What will be the ending capex for this year and next year?
- Manoj Jaiswal:** Just to give you the number on capex, on the project side, we have incurred close to Rs 572 Crores till Q3 and of that we have capitalized Rs 240 crores. By the year end we should be able to capitalize Rs 440 Crores, which means additional 200-odd Crores we would be capitalizing this quarter.
- Ashutosh Tiwari:** Sorry how much you said?
- Manoj Jaiswal:** Additional will be 200 Crores in the current quarter will be capitalized.
- Ashutosh Tiwari:** So it is roughly Rs 440 Crores will be capitalized on the full year?
- Manoj Jaiswal:** Full year basis 440 and this is towards Halol and Nagpur. I am excluding the normal capex. It is the project capex.

- Ashutosh Tiwari:** So 572 will go to how much in the full year?
- Manoj Jaiswal:** Rs 572 crores is the money that is getting incurred which basically capitalizes, by the end of the year it will be close to 820 Crores.
- Ashutosh Tiwari:** Total capex?
- Manoj Jaiswal:** Yes.
- Ashutosh Tiwari:** Maintenance will be apart from this or it is included in this?
- Manoj Jaiswal:** Maintenance is excluding this.
- Ashutosh Tiwari:** How much is maintenance?
- Manoj Jaiswal:** Normally we run around 100-odd Crores on the maintenance side. So 900 Crores capex in the current year so just to clarify from a capitalization perspective it will be 440 on the project plus 100-run rate and rest you will probably see an increase in capital work-in-progress.
- Ashutosh Tiwari:** Next year what would be the scheduled capex FY2017?
- Manoj Jaiswal:** From a project perspective if you look at it the total project was 1080 and 440 getting capitalized, majority of the balance will get capitalized next year. It may not be 100% close to 900 to 950 will be total capitalization both years put together by the next year-end.
- Ashutosh Tiwari:** So roughly around 250 Crores will be spent in terms of the capex next year?
- Manoj Jaiswal:** In terms of cash flow yes, in terms of capitalization it will be additional 500 Crores.
- Ashutosh Tiwari:** This 350 Crores that you are saying for this new radial OTR that will be separate?
- Manoj Jaiswal:** CSTL is separate, which is correct.
- Ashutosh Tiwari:** Sir, if I talk about this CEAT OTR that is going into if you look at recently this guy Titan International moved in US for antidumping duty against Indian OTR tyre companies. So in the wake of that essentially why are we entering at this point of time, do not you think that is a risk basically?
- Anant Goenka:** I think we have a strong case with respect to antidumping duty. Antidumping duty usually applies when there is a case of dumping, which means you supply a marginal cost and there is no margins if you supply that kind of costing but the players from India at least who are supplying or getting 20% to 25% EBITDA margins so in that kind of a case, there is a very limited case of antidumping duty coming in.

- Ashutosh Tiwari:** With respect to this plant we will be targeting agriculture tyre market or construction or mining, what will be the focus area?
- Anant Goenka:** It is only agricultural.
- Ashutosh Tiwari:** Only agriculture.
- Anant Goenka:** We do currently make of port and mining tyres but the new capacity will be only agricultural.
- Ashutosh Tiwari:** But if you look at Indian companies largely they are strong in bias tyres in agriculture markets. Radial still is basically on the lower side, so you think that competitive intensity in radial will be much more, so do you think you can make some impact in that market, I mean how do you see that thing?
- Anant Goenka:** In fact radial is a much higher value adding product and the margins in radial is far more attractive than bias. So we do sell some amount of bias tyres today even to the farm market in the US, Europe, etc., but radial tyre margins are far higher.
- Ashutosh Tiwari:** Sir, I am not saying, the margins definitely are on the higher side, but if you look at Indian companies they are mostly present in the bias, so definitely they are not so up the value chain to supply radial tyres, so do you think that the competition will be much more in that segment because all the bigger players will be there in that market.
- Anant Goenka:** Not really because the Indian players that are there are largely in bias tyres, which supply into India and there are few Indian players which supply into US and Europe, which also make radial tyres. For US and Europe where the fair amount of radial capacity that goes to these countries from India. The market itself is segmented in a way that you have the high performance players like the Michelin's etc., and then there are certain value players. The value player in competitive segment is quite limited and that is the area where we feel that there is enough opportunity to enter. There is a good amount of labour arbitrage also that exists in this category and that is what we also want to take advantage of.
- Ashutosh Tiwari:** So you will be focusing on both or there is preference towards Europe or US?
- Anant Goenka:** We will be focusing both on Europe and US. Europe is a larger market than the US.
- Ashutosh Tiwari:** Sir, on the price cut, you have not taken any price cut in two-wheeler and four-wheeler post September or October?
- Anant Goenka:** Not in two-wheeler, in four-wheeler there has been some amount of price cut in January?
- Ashutosh Tiwari:** How much is that Sir?
- Anant Goenka:** About 2%.

- Ashutosh Tiwari:** Thanks so much.
- Anant Goenka:** I think just to repeat once again, I am talking of commercial vehicle in January, not passenger car.
- Ashutosh Tiwari:** Passenger cars, okay. The last part, in passenger tyres have been mainly in September and October?
- Anant Goenka:** Yes.
- Ashutosh Tiwari:** Sir in our truck 38% that you report of CVs how much of that is radial and how much is bias?
- Anant Goenka:** Could you repeat again?
- Ashutosh Tiwari:** In our CV that we report at 38% of sales is from the commercial vehicles, how much of that is coming from radial and how much is from bias?
- Anant Goenka:** About 20% comes from radial tyres, all of our CV sales.
- Ashutosh Tiwari:** And 80% around bias?
- Anant Goenka:** That is right.
- Ashutosh Tiwari:** What is the utilization level in bias capacity?
- Anant Goenka:** About 83% to 85% approximately.
- Ashutosh Tiwari:** So it is better than the industry is delivering. When you are say that CV volumes are flat YOY it means that you have seen some decline in bias and growth in radial or it is true across?
- Anant Goenka:** Exactly, we have seen a minor decline in bias and minor growth in radials but bias actually is a much larger share of the CV so net-net actually if whatever happens to bias right now is what happens to commercial vehicle.
- Ashutosh Tiwari:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Lakshminarayanan from Catamaran. Please proceed.
- Lakshminarayanan:** Thanks for taking my question. I am just going through your presentation where you mentioned the YTD FY2016 revenue breakup by product. I guess this is based on the standalone sales, right?
- Anant Goenka:** Yes that is right.

- Lakshminarayanan:** Now just to understand the breakup of two, three-wheelers and LCV and passenger cars for nine months?
- Anant Goenka:** The OE breakup?
- Lakshminarayanan:** OE & aftermarket breakup for two or three wheelers, LCV and passenger cars segment?
- Anant Goenka:** I did not get the question clearly. You want the OE to replacement breakup?
- Lakshminarayanan:** Yes, OE to replacement breakup for two/three wheeler segment, LCVs and passenger cars/UV?
- Anant Goenka:** In the case of passenger cars, these are very approximate numbers, but roughly about and we are more biased towards selling more in the replacement, approximately 65% would be going to the replacement and about 35% would be going to the OEM approximately across categories. In the commercial it is slightly higher towards replacement. In the passenger it is slightly higher towards OEM segment. I am giving you a broad kind of numbers, exact numbers, I would not be having here right now.
- Lakshminarayanan:** T&B you mentioned what is the ratio?
- Anant Goenka:** T&B could be as high as about 70% in replacement, 70% to 75%.
- Lakshminarayanan:** Sir, in terms of your Halol total capacity, how much you said it will be done over the financial year. What is the total capacity we are planning to add? It is around 120 tonnes right?
- Anant Goenka:** That is right.
- Lakshminarayanan:** It is all PCR right?
- Anant Goenka:** It is about 110 PCR, and truck radial.
- Lakshminarayanan:** On your outsourced capacity for two and three wheeler tyres, right now how much we are procuring?
- Anant Goenka:** About 12 lakhs tyres in total between motorcycle and scooter.
- Lakshminarayanan:** I will get back in queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Bharat Gianani from Angel Broking. Please proceed.
- Bharat Gianani:** Good afternoon Sir. Just had two questions; one is the CV breakup you said forms about 38% of the overall revenue if I heard that correctly?

**Anant Goenka:** That is right.

**Bharat Gianani:** 38% and out of that 20% is radial as of now and 80% is bias?

**Anant Goenka:** That is right.

**Bharat Gianani:** Sir, my last question is that the specialty tyres project investment that you are putting in what is the total capex for that?

**Anant Goenka:** About 330 Crores initially.

**Bharat Gianani:** When will the commercial production start from this plant?

**Anant Goenka:** Approximately a little bit over a year from now in early Q1 of next year.

**Bharat Gianani:** Q1 of FY2018 probably we should start production of that?

**Anant Goenka:** Yes.

**Bharat Gianani:** At full capacity utilization what would be the revenue potential for this plant?

**Anant Goenka:** Initially we are just looking at a very small plant of about 40 tonnes per day or so, it will barely be about Rs 350 to 400 Crores.

**Bharat Gianani:** Rs 350 to 400 Crores would be the initial revenue. So that would be at how much capacity utilization levels?

**Anant Goenka:** This is a peak capacity full capacity of first phase or whatever you want to call.

**Bharat Gianani:** So but the 330 Crores plant will have a full revenue potential of 350 to 400 Crores.

**Anant Goenka:** That is right.

**Bharat Gianani:** In first year probably be at 35% to 40% utilization. In the first year that is in FY2018 probably you would be at 35% to 40%?

**Anant Goenka:** Little bit higher in that because it is a very small capacity. My guess is it can go up to about 40% to 50%.

**Bharat Gianani:** This is a Brownfield or this is like we have acquired some?

**Anant Goenka:** No it is a Greenfield plant.

**Bharat Gianani:** Greenfield, where is the capacity coming in that?

- Anant Goenka:** Ambarnath outside Bombay.
- Bharat Gianani:** Thanks and all the best.
- Moderator:** Thank you. The next question is a followup question from the line of Ambrish Mishra from JM Financial. Please proceed.
- Ambrish Mishra:** Anant just wanted to check on the status on our Bangladesh project?
- Anant Goenka:** Bangladesh project has not begun yet. So but we have been getting much more positive news than we have got in the past. If all goes on track I do hope we are able to start in about a month and a half from now.
- Ambrish Mishra:** We are going to start construction?
- Anant Goenka:** Start working construction that is right.
- Ambrish Mishra:** So is there any capex if I am not wrong we had incurred something like 40, 50 Crores until a quarter, two quarters back. Is that correct?
- Anant Goenka:** We had incurred a very small capex that was largely for acquiring the land and little bit of grading work etc., that was done. There is no substantial change in the capex plan over there.
- Ambrish Mishra:** On the raw material prices given what is happening on the oil front let us assume the oil prices or the natural rubber has to go up by let us say 15% to 20% from here. What kind of recourse we have when it comes to price hikes especially in the replacement market?
- Anant Goenka:** Very difficult to say. I think at least for about another 10% raw material price if it goes up I do not think there will be a price increase is what my gut says beyond that depending on competitive pressures it could happen in certain SKUs where we are stronger if we need to take a call we could take that call but at least up to 10% increase and little doubtful on price increases happening.
- Ambrish Mishra:** Can you share the price that we consumed in third quarter FY2016 for natural rubber and other raw materials?
- Anant Goenka:** We would not be able to give you those details. We can broadly share with you what are the market rates but not our consumption rates.
- Amrish Mishra:** So market is basically you are saying what has been the average?
- Anant Goenka:** That is right.
- Amrish Mishra:** Which is publicly available?

- Anant Goenka:** Yes.
- Amrish Mishra:** Thanks.
- Moderator:** Thank you. The next question is a followup question from the line of Ashutosh Tiwari from Equirus Securities. Please proceed.
- Ashutosh Tiwari:** Sir if I look at the consolidated numbers on the EBITDA front. So there is a sharp decline in the profitability of subsidiaries in last quarter. The EBITDA was quite less as compared to what it was in the last year third quarter. So what is the reason behind that?
- Manoj Jaiswal:** So the EBITDA you would see lower consolidation is only because there is a knockoff of profit for transfer of the land to CSTL.
- Ashutosh Tiwari:** How much was that?
- Manoj Jaiswal:** That is close to 12 Crores plus.
- Ashutosh Tiwari:** That would be below EBITDA right?
- Manoj Jaiswal:** It is part of the other income.
- Ashutosh Tiwari:** I am not talking about other income if I look at the EBITDA front. So there only the numbers are quite low.
- Manoj Jaiswal:** Which number I am comparing if you can help us understand it will be good?
- Ashutosh Tiwari:** I am talking about EBITDA numbers. I will just talk about say profit from operation before other income, finance cost and exceptional item that 170 Crores in standalone and that number in consolidate is at 174 Crores and this number was much higher in last year. The difference I am talking about.
- Anant Goenka:** Can we get back to you by the end of the call we can just dig out the information?
- Manoj Jaiswal:** Let me get back to you on this Ashutosh. Let me check what number you require.
- Ashutosh Tiwari:** Thanks.
- Moderator:** Thank you. The next question is a followup question from the line of Lakshminarayanan from Catamaran. Please proceed.
- Lakshminarayanan:** Thanks for the opportunity. Just want to understand in the last one-year in market share in terms of the replacement on passenger cars and two wheelers, what is our market share in these two?



- Anant Goenka:** Lots of process of data actually to give an accurate market share but what I can give you is the broad estimate of our market share. On the UVR front our share has moved from about 13%, 14% to now about 15%, 16%. Passenger car side our market share is at about 7%. On two-wheeler side our market share is somewhere is around 27% or so.
- Lakshminarayanan:** So in two wheelers you will be number two broadly?
- Anant Goenka:** That is correct that is replacement.
- Lakshminarayanan:** On the export thing you mentioned that bulk of your exports is from the LCV thing. So if you can just tell me in terms of your export, which is around 13% of your revenues. How does it break between LCVs and T&B?
- Anant Goenka:** Large amount is between LCV and truck and bus. What I was saying is that the large amount of the LCV produce gets exported not large amount of exports is LCV actually but yes it is may be about I can give you a broad number it would be somewhere around 60% would be between T&B Bias and LCV. 60% of our exports would be between truck bus bias and LCV.
- Lakshminarayanan:** You do not export any radial right broadly?
- Anant Goenka:** Yes we do.
- Lakshminarayanan:** What would that be Sir?
- Anant Goenka:** We do not have an exact break up. But we do a fair amount of truck radial over the last few years.
- Lakshminarayanan:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of J. Radhakrishanan from IIFL. Please proceed.
- J. Radhakrishanan:** Anant Ji two questions from my side. Can you please let us know how Chinese dumping is panning for some of our key segments like two wheelers and passenger car and any status update on how the anti-dumping duty proceeding is happening at the government end?
- Anant Goenka:** As I said Chinese dumping is growing quite substantially. On the two-wheeler side there would be about 30% to 40% growth in imports. On truck radial is where the biggest problem is where over 30% of the market are, is now truck radial. Nearly 70% to 100% kinds of growth levels that we have seen in Chinese tyre are coming. Passenger car is also quite high possibly about 20% market share so Chinese tyres is certainly coming in a big way. With respect to antidumping duty it takes a fair amount of time for it to get imposed. So we applied sometime around August of last year it takes about 10 months also. My guess is by this May or June we will approximately get a response. Tough to say whether it will be favorable or for or against in a way. So that is, I would say it is a 50-50 chance.

- J. Radhakrishanan:** From each and every segment point of view what may be the differential in pricing between normal average Indian price and Chinese tyre prices?
- Anant Goenka:** Nearly 25%.
- J. Radhakrishanan:** Almost across all the segments.
- Anant Goenka:** Yes.
- J. Radhakrishanan:** Thanks. That is from my side.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Radhakrishanan for closing comments.
- J. Radhakrishanan:** I would like to thank the management for providing opportunity for this call and all the participants on this call. Anant Ji would you like to make any closing comments?
- Anant Goenka:** Thanks everyone for coming out. I think that one question to Ashutosh we have to get back. We will just get back separately we are just trying to figure out the numbers but thanks a lot for your interest and look forward to catching up next quarter.
- Moderator:** Thank you very much members of management. Ladies and gentlemen on behalf of IIFL Capital that concludes today's conference call. Thank you all for joining us. You may now disconnect your line.