



“CEAT Limited Q1 FY 2017 Earnings Conference Call”

July 29, 2016



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Moderator: Ladies and Gentlemen, Good Day and Welcome to CEAT Q1 FY 2017 earnings conference call hosted by Edelweiss Securities Limited. As a reminder, all participant's lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference over to Mr. Chirag Shah from Edelweiss Securities. Thank you and over to you, Mr. Shah!

Chirag Shah: Thank you, Margret. Good Evening, Everyone and Welcome to CEAT Conference Call. We thank management for giving us the opportunity. I would like to welcome Mr. Anant Goenka, Managing Director of CEAT as well as Mr. Manoj Jaiswal, CFO of CEAT to the call.

I would like to hand over the call to the management for initial comments and then we can start our Q&A. Over to you, Sir!

Anant Goenka: Thank you very much, everyone and warm welcome. I am Anant Goenka, Managing Director and I have with me our CFO Manoj Jaiswal. Thanks a lot for your interest and in the next few minutes, I will just take you through a brief update of our results and key parameters.

Some data for year-on-year analysis. CEAT India registered a 4% revenue growth on a year-on-year basis driven mainly by volume growth of 13%, price and mix resulted in a negative 9% impact. Raw material prices were lower by about 10% on a year-on-year basis and the raw material benefit was passed on to all segments i.e replacement, OEM, and export segments. The 13% volume growth that we had was largely on account of strong growth in domestic markets which grew by over 15%. Both replacement and OEM markets have grown at over 15% and passenger segment, our focus area has continued to grow well at over 25% growth on a year-on-year basis.

Some data on the quarter-on-quarter basis. India registered a 5% revenue growth again driven by volume growth of about 7% and price mix has an impact of negative 1% while Ind AS adjustment had an impact of about negative 1%.

In terms of volume by segment, replacement grew by about 10%, OEM segment grew by about 3% while exports saw a marginal decline.

In this quarter we were the first launch for the Bajaj Vikrant V15 vehicle; the Hero Splendor iSmart 110; the Datsun redi-GO; and the Suzuki Access 125 models. So we are very happy with the new OEM partnerships that we are creating. We also started supplying our truck radial tyres to Daimler.

In the replacement market, we re-launched our truck radial tyres in the market under WIN Series from the earlier PRO Series that we used to have. These are far superior tyres and we

hope to see positive impact in the replacement market going forward. This launch just happened in the last month or so.

We continue to focus on investing in our brand and we recently came out with our “Monsoon Smart Campaign” which we have been running for few years in this season. It is really about the all season bike tyre which offers superior wet grip.

We also continue to strengthen our cricket association with the IPL Strategic Time Out partnership and CEAT Cricket Rating Awards. As I shared earlier, we will continue to see healthy growth in the passenger segments which is our strategic focus area. Domestic volumes have grown well. On the truck side there has been increased competition from Chinese tyres. Truck radial imports into the country have grown by 40%. Their market share in the country is around 30% to 35% plus levels and that has certainly impacted growth in the truck segment.

Margins have seen some decline, largely due to higher investment in the brand, being a cricket focused quarter we have done, higher investment in general and we have also passed on some of the price drops as a result of the raw material price drops that we have seen over the last year.

Going forward we expect to see steady growth. We are continuing our focus on improving our product mix towards high margin and margin categories and our new capacity from Nagpur as well as our Halol expansion will result in continued better volume growth.

I will now hand over the call to Manoj Jaiswal, who will take you through some of the key financial parameters.

Manoj Jaiswal:

Thank you, Anant. Ladies and Gentlemen, Good Evening. As you are aware we have adopted Ind AS from this quarter. One of the key changes under Ind AS is company's investment in Sri Lanka JV is accounted using equity method which was earlier consolidated using proportionate consolidated method.

Another key change is prompt payment discounts from customers has been regrouped from other expenses and has been reduced from sales from this quarter under Ind AS.

I would now present the financial primarily focusing on the P&L account and the balance sheet analysis. Let me now touch upon the gross margin of the quarter. Gross margin has expanded 90 basis points from the same quarter last year to 42.8%.

EBITDA quantum declined by 13% year-on-year to Rs. 196 crores while remained flat on quarter-on-quarter basis. The margins have declined by 260 basis points year-on-year to 13.4% while remaining at same levels on Q-on-Q basis. While we continue to invest in strategic areas of our business, we have been able to strengthen our balance sheet at the same time.

Company's net worth has gone up Rs. 2069 crores as on 30th June 2016, from Rs. 1,806 crores last year. Consolidated debt of the company stood at Rs. 681 crores as of 30th June from Rs. 670 crores sequentially and Rs. 736 crores at the end of the same quarter last year.

On a year-on-year basis debt equity has improved to 0.3 times from 0.4 times last year. Debt EBITDA stood at 0.9 times from 0.8 times and ROE and ROCE (net of tax) stands at 20% and 15% respectively.

On Sri Lanka JV on a year-on-year basis revenue grew by 10% with a volume growth of 20%, EBITDA margin stands at a healthy 25%.

With this, we now open to question-and-answers. Thank you.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir, just wanted to understand what is the volume growth across segment like say two wheelers, PCR truck and tractors and all?

Anant Goenka: We can share with you at a broad level, so on a year-on-year basis we have seen over 25% growth in the passenger segment that is between scooter, motorcycle, passenger cars and SUV tyres.

Ashutosh Tiwari: Okay. And truck and tractors?

Anant Goenka: Tractors has seen a very high growth because it has been largely again strong rural demand growth again over 25% in that category. Truck is close to being flat.

Ashutosh Tiwari: Truck is flat?

Anant Goenka: That is right, marginal negative.

Ashutosh Tiwari: Okay. And so this growth of 25% plus in passenger vehicles is across OEM and replacement order the growth is higher in replacement.

Anant Goenka: No, this is across the board this is an average number that I am giving you.

Ashutosh Tiwari: Okay. The growth was in replacement or OEM?

Anant Goenka: In the passenger segment it is higher in replacement.

- Ashutosh Tiwari:** Okay. And second thing if you look at raw material cost has more or less remained flat on a Q-on-Q on per tonne basis. So how do we see the margin impact fully year raw material increase will come through I think in the second quarter?
- Anant Goenka:** Yes, so I think the whole impact will start coming, we can see a little bit further pressure in margin going forward from may be latter half of Q2 or Q3 possibly. Some impact we also working on marginal price increases wherever possible. We did take some minor price increases in the month of June and let us see what we can do going forward as well.
- Ashutosh Tiwari:** And which segment you do the price increase?
- Anant Goenka:** On the passenger segment and on or two other smaller categories, small commercial vehicles etc and TBR.
- Ashutosh Tiwari:** Okay. But sir, we are hearing lastly there is some price cut by some of the place in TBR of 2.5%-3% and also we are hearing that there are some low warranty TBRs launched by three four players in the market. So, how do we see that basically, I mean is the industry countering the Chinese through this route and will that lead to further margin pressure for industry per se?
- Anant Goenka:** Not sure about, I agree with there we do here some price cuts we are not planning to take any price cuts. We have in fact as I said taken a little bit of a price increase and we are fine with that we do here about new tyres coming in from the others as well. That is more up to them possible I do not know from what perspective that they are looking. So, we have launched our tyres, our tyres are more towards the premium end of the market, the re-launched tyres and that is what we are focusing on for now.
- Ashutosh Tiwari:** And any color on Anti-Dumping Duty I mean, how do we see that coming through?
- Anant Goenka:** Still it will take some time, I think we have to wait for a few more months.
- Moderator:** Thank you. The next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.
- Bharat Gianani:** Actually, just wanted your outlook on the rubber prices, I mean do you feel that the current levels would sustain or possibly we will see some further upside from the current levels, I mean do you foresee the rubber price to kind of more than 150 or 160 kind of a levels so, what is your view on that?
- Anant Goenka:** Yes, my view is that rubber should not go up beyond this level, difficult to say what will happen, but my view is that right now rubber supplies are very low because of monsoon season. By August September onwards I can we can start seeing likely from September onwards there can be a slight drop because supplies go up at this point of time. And November

to January time is the time when production is the highest. Usually at that time also further there should a little bit of correction.

Bharat Gianani: Okay. And my other question, really was on the Anti-Dumping Duty side, I mean it has been like almost a year or so since the industry has done representation to the government, I mean, what really is the factor that the government is not taking action on this like for because historically I think the government has responded I mean it has not taken so long historically so, I mean just wanted to get the sense like how is the things this time around like, I mean just if you can shed some light on that?

Anant Goenka: Yes, I think there was a little bit of delay, my belief is that there was some delay because they were not able to work out whether Anti-Dumping Duty if it were to be applied should it apply to OEMs as well as to the replacement markets. I think now there is some clarity that technically they cannot separate the two. So, if at all it comes in it will have to apply for all tyres coming into the country. So some of these technicalities were being worked out. The government has now taken it up more seriously in the last month two months' time. I think it will take some more time still. So it has taken a long time much longer then we had expected. We are working with the government tough to say when again it will happen and whether it will happen or not.

Bharat Gianani: Okay. So I mean so possibly some clarity would emerge like I mean some two months to three months down the line or still it takes as per your understanding?

Anant Goenka: I think it will take a little bit more than two months. Yes, I do not think it will come for the next two months' whatever decisions comes.

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

Basudeb Banerjee: Sir, if I see your sequentially raw MAT per kg is broadly flat whereas raw MAT basket including carbon black, natural rubbers, synthetic rubber, everything has moved up as such, so how to look at that and how did you manage to keep it flat and when one should expect the pending increase to get reflected in the numbers?

Anant Goenka: Yes, so I think as I mentioned last time as well. A lot of the raw material we had bought some raw material on a quarter-on-quarter basis in fact has actually gone up some has gone down. For example, carbon black to a certain extent has gone down, natural rubber went up to a certain extent. So there have been shifts in raw material pricing but net-net it is largely have been flat. I think from quarter two - quarter three there can be a little bit of increase in pricing in raw material going forward. So that will start having some impact from possibly second-half of Q2 and Q3.

- Basudeb Banerjee:** And there were some media reports that carbon black prices by few of the major suppliers are increasing by some 15%-20% effective July so, being a buyer so, any though on that sir, did you came across any such news?
- Anant Goenka:** No, for carbon black usually our prices with carbon black suppliers are indexed to a couple of different types of indices which are linked to crude prices. So the impact that will come whenever it does based on the formula would be based on these indices which are primarily based on crude what we call as carbon black feedstock, or Platts index there are various different types of indices and mixes of their raw material which will impact us. So, there may not be an increase, I do not know the specific data for the month of July specifically but nothing specific beyond the formula that will have an impact.
- Basudeb Banerjee:** Sure, sir. And the strong 13% volume growth which you showed and even on a sequentially basis volume growth is almost close to 7%, how much is from the new capacities per se that the fresh ones you added?
- Anant Goenka:** So, a lot of it has come from the new capacities, in part where the out of the old capacities where there was growth in the farm segment so, farm segment has been very positive, good demand coming in and that has helped our bias capacities also to be utilized better.
- Basudeb Banerjee:** Sure. Sir, and if I see almost for about five quarters your staff cost in the P&L is almost constant so, when during the year one should expect the annual wage inflation to get reflected in the P&L sir?
- Anant Goenka:** I think this will start coming in July is when we have our wage increments and changes so, it will come in from quarter two possibly I think.
- Manoj Jaiswal:** That is correct, the wage increase is effective July so you will see some level of impact from July onwards.
- Basudeb Banerjee:** Sure. And sir, I missed out in the initial comment you said, what is the volume growth in overall business OEM was and replacement? OEMs volume growth and replacement growth and exports volume growth?
- Anant Goenka:** Over 15%.
- Basudeb Banerjee:** No, combine sir, but break-up was discussed in the call initially?
- Anant Goenka:** No.
- Moderator:** Thank you. The next question is from the line of Disha Sheth from Anvil Research. Please go ahead.

Disha Sheth: Sir, can I get the raw material average for rubber, carbon black and nylon fabric for the quarter?

Anant Goenka: We would not be able to share that data.

Disha Sheth: How is the price increase that you have taken the margin price increase in June?

Anant Goenka: It would be around 1% to 2% in a few categories. So net effect all across the net realization of the company would not be about 1% to 2% it will be a little bit less than that.

Disha Sheth: So how much is the volume growth in passenger car and two wheelers individually?

Manoj Jaiswal: We do not share that number in specific but just to give you as Anant mentioned it is 25% above both and individually also, it would be more than 25% in each of category. But exact number at a level it will be difficult to share.

Disha Sheth: Okay. And would be driven by replacement?

Anant Goenka: Replacement and OE.

Disha Sheth: Okay. And sir, can I get the debt number I just missed on that gross and net.

Manoj Jaiswal: In terms of the debt is Rs. 680 crores

Disha Sheth: Rs. 680 crores is the gross debt.

Manoj Jaiswal: Rs. 736 crores total debt including long-term as well as short-term last year quarter one end and this year quarter end is Rs. 681.

Disha Sheth: Okay. And sir, what is your guidance on the volume growth, should this 13% continues with our new capacity coming in?

Anant Goenka: We expect good growth levels to happen going forward also this is I assume number I would not know but I can broadly say that our new capacities are coming in so, we should have better growth I mean generally good growth better growth than last year.

Disha Sheth: Okay. And sir, just one question that, we have taken a 7% price cut in April for two wheeler segment and our margins are not being impacted is it because the volume took care it or we had a better raw material?

Manoj Jaiswal: So, if you look at the margin at an overall level, I mean there is a very small impact because the price cut taking was only on two wheelers rather than across the segment and in addition to

that if you look at the raw material price while you see the raw material price that has gone up but for us because of our inventory and strategic inventory level.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Sir, what is the new capacity that is going to come to us? And in which quarter we are going to see the commercial production?

Anant Goenka: Yes, so the new capacity that we expanded was our Halol facility which is the passenger car and SUV tyre plant, by about 110 tonnes per day from 150 we have added 110 tonnes per day that we declared commercial production sometime around October of last year this is getting added phased over a period of about a year and half from then. So every quarter some increase keeps coming in. The other is we completed our Greenfield plant in Nagpur for two wheelers and three wheelers that also came into stream in quarter four of last financial year and thereto that is another 120 tonnes per day and that also will come in over a period of another year and quarter or so. So, these are the two capacities that come in. Total capacity of added capacity is therefore 240 tonnes or 230 tonnes per day and if you were to take that over say six quarters broadly I would say 30 tonnes - 40 tonnes additional for our quarter.

Saket Kapoor: So, that the 30 tonnes - 40 tonnes was the addition for the last quarter also...

Anant Goenka: Yes, approximately this is what is going to happen, it can be between 20 tonnes and 50 tonnes also but on average this is the kind of increase we can expect every quarter.

Saket Kapoor: So sir, as you were telling that since raw material prices are inching up, so there will be pressure on the margins. So these new added capacity would be compensating for the margin pressure you are going to face?

Anant Goenka: To a certain extent, yes, because there are products where margins are higher so, we expect the product mix benefit to compensate at least to a certain extent of the raw material price increase.

Saket Kapoor: Supposing sir, we are unable to pass on the increase in raw material, what kind of margin pressure are you looking forward seeing the trend in the raw material segment?

Anant Goenka: Yes, difficult to give a number again but I would say raw material prices have gone up by about 10%-15% in the last quarter but we are working on both the things some amount the volume increase and product increase...

Saket Kapoor: 10% to 15% for the basket you are telling, sir?

Anant Goenka: That's how much raw material prices have gone up.

- Saket Kapoor:** Yes, that is for the entire basket you are telling 10% to 15%.
- Anant Goenka:** That is right.
- Saket Kapoor:** Sir, give your outlook sir, on the tyre industry on a whole, how are you looking for the tyre industry for this year as a whole and with this and without even the Anti-Dumping Duty coming to play suppose it get delayed for another quarter or so, how are you seeing the tyre market shaping up for this year?
- Anant Goenka:** What would you like me to share with you on the industry?
- Saket Kapoor:** What kind of growth are we looking in this segment, which segment to face problem due to the Chinese threat and how are we going to mitigate the same?
- Anant Goenka:** Yes, I think in this year rural economy has done very well. Quarter one was good because higher anticipation of good rainfall I think going forward things will good because rainfall across the country has been positive. So I am quite optimistic about the growth in the two wheeler segment and in the farm segment. M&HCV our commercial vehicle segment saw a good growth in quarter one because of change in emission norms so, we think people have stocked up a little bit I think there will be a little bit of pressure going forward in quarter two - quarter three for M&HCV. But I think overall growth in economy level positivity impact of government initiatives and revival will start coming in the later half or last quarter of the year. Passenger car segment has largely seen a mixed growth high fluctuation between passenger car growth and UV growth a lot of new model launches happen in the last quarter so, UV growth was very good. Passenger car on the other hand was muted but overall I would say passenger car and UV may grow at about 5% to 6% at a vehicle sales level. So this is what broadly I see, from an overall auto and tyre industry Chinese competition is certainly there, that is a very high level and the commercial vehicle segment, other segments there is Chinese competition but to a lesser extent.
- Moderator:** Thank you. The next question is from the line of Mahesh Bendre from Way2Wealth. Please go ahead.
- Mahesh Bendre:** For this quarter our volumes are around 79,000 metric tonnes, so, do we think we will be able to maintain this kind of volumes over the next three quarters - four quarters. Or you see a growth since two capacities are come up on this stream?
- Anant Goenka:** I think our growth levels will be around a similar range broadly, I would say quarter two generally is a lightly lower sales month from a commercial vehicle segment other segments because of seasonality but that would happen in quarter two of last year as well. So I am not sure on a quarter-on-quarter basis but on a year-over-year basis broadly things should be at a similar kind of level. In terms of growth levels not very different, our new plants are coming in. The negative impact to a certain extent could happen on bias truck segment where there is

anyway negative growth happening as bias gets replaced with radial tyres, we are all still selling a fair amount of bias truck tyres which is showing negative growth. So that is having some adverse impact on overall growth level.

Mahesh Bendre: Sure. And sir, what are the CAPEX plan for current year and next year?

Manoj Jaiswal: In terms of CAPEX if you look at the project we have the total outlay of Rs. 1445 crores this is including the specialty business of which what we have incurred till now is almost Rs. 831 crores and capitalized close to Rs. 607 crores that is overall view of the numbers, which means that effectively we have to incur close to Rs. 460 crores - Rs. 470 crores for the full year to go which largely should be incurred this year, I mean a very marginal going into next year but significantly being incurred in this year and that is the CAPEX outflow. You wanted to go to know the loan also, that is also what you said?

Mahesh Bendre: No, this is Rs. 460 in new projects and what will be maintenance CAPEX?

Manoj Jaiswal: Maintenance CAPEX will be in the average of Rs. 100 crores on average in that business as usual.

Mahesh Bendre: So may be this year could be Rs. 600 crores of CAPEX, am I right sir?

Manoj Jaiswal: Rs. 600 crores of CAPEX including maintenance is what you are asking?

Mahesh Bendre: Yes, total CAPEX.

Manoj Jaiswal: For the full year yes, it could be around in the say range of Rs. 600 crores.

Mahesh Bendre: And sir, next year it would be a much lower number?

Manoj Jaiswal: Yes, as of now, there is no CAPEX for the project that is planned but depending on those plans the maintenance CAPEX should continue to be Rs. 100 crores, may be around Rs. 50 crores are a spillover of the project this year barring that depending on new projects this is the number that it is.

Mahesh Bendre: So last year we had also had heavy CAPEX this year. May be next year could be I mean we will be pass through a very heavy CAPEX cycle, am I right?

Manoj Jaiswal: No, the way you see it is this year and last year is the function of two projects that we have initiated and the CAPEX is happening in line with those projects. The normal business as usual CAPEX is Rs. 100 crores which would continue.

- Mahesh Bendre:** Correct. And sir, since we have incurred so much CAPEX so many capacities have come on stream do, we see a meaningful increase in the depreciation and interest cost for this year and next year?
- Manoj Jaiswal:** In terms of depreciation yes, you would see some level of increase in depreciation which will come as and when the volume is ramping up and therefore to that extent depreciation would go up. In terms of interest, I mean most of our funding is almost done with a very small amount left which has to be borrowed and to that extent interest you will see some level of flow in but if you look at the cash flows of the organization accordingly the cash flows of the organization is going up which we will also get in to some level of structuring in the debt structure that we have.
- Mahesh Bendre:** Sure. And sir, last question on margin side, we all know tyre industry is operating at maybe all time high margins. In the current quarter our operating margins are around 12.6% it has come off from 15% so, is it right to assume that this will be base margin for even if we see decline or pressure on the margins, 12% could be number one could look at for full year?
- Manoj Jaiswal:** It will be tough for us to give a full year guidance on margin but as we indicated earlier if you look at the raw material price there will be some impact of the raw material prices that we start flowing in the quarter two and quarter three for us. However, that will also be mitigated with increased volume and increased product mix to more profitable segment going forward. So there are two factors moving in different direction which will have some level of margin impact in the short run, in the long-run it will play out with the volumes and the cost that is there.
- Mahesh Bendre:** And sir, last question, what could be the tax rate which we should assume for this year and next year?
- Manoj Jaiswal:** You know we do not guide on ETR as such it is a function of our investment and some of the other factors. I do not think we guide those numbers at the moment it will be difficult for us to guide.
- Mahesh Bendre:** Last year it will be 30% so it will be higher or lower and just indicative...
- Manoj Jaiswal:** You can assume the similar number.
- Moderator:** Thank you. The next question is from the line of Ankit Jain from Mirae Asset. Please go ahead.
- Ankit Jain:** Volume growth during this quarter has been quite strong so, like what kind of market share gain we might have seen or what could have been the industry growth during this quarter?

- Anant Goenka:** The industry growth number we still do not have. I think our results were the first to come out. But I say market share growth certainly has been there in the passenger car segment and in the two wheeler segment. These are the two areas where they would have certainly been some amount of market share improvements. We do not have data therefore, difficult to give any accurate information.
- Ankit Jain:** Okay. And this other expenses have seen sharp jump like 22% Y-o-Y so, what kind of A&P spend we are working with for this particular financial year?
- Anant Goenka:** No, we have seen a sharp increase in A&P particularly in this quarter, as I said it is skewed more towards this quarter because of IPL we invested a fair amount. Our Strategic Time Out investment plus advertising at that point of time all of that has some impact. So it is a little bit skewed towards quarter one. We have seen a sharp increase from quarter one last year to this year.
- Ankit Jain:** So, can you get some absolute number like what could have the increase A&P?
- Anant Goenka:** At an increase level it is may be even more 60%-70% increase.
- Ankit Jain:** Okay. So but for the full year basis it will still be around 2%-odd of the sales?
- Anant Goenka:** I think overall A&P spend may be about 20% to 25% possibly in the year.
- Ankit Jain:** Okay. Now one point on this accounting for income from associates that is around Rs. 10 crores which has been added so does it like this quarter Sri Lanka subsidiary profitability has significantly improved?
- Manoj Jaiswal:** Yes, so there is an improvement in the profits in terms of Sri Lanka. In terms of quarter-on-quarter, I do not have the exact number right in front of me, but there is a volume increase of 20% as we talked about. In terms of the number of Rs. 10 crores I do not think the number has changed very-very significantly but from an accounting standpoint it is more explicitly visible now in the way we are doing the accounting.
- Moderator:** Thank you. The next question is from the line of Arpit Kapoor from IDFC Mutual Fund. Please go ahead.
- Arpit Kapoor:** I just wanted to get some more sense on the price increase we have taken, so is it on the four-wheeler or it is across the passenger category that is four wheelers plus two wheelers.
- Anant Goenka:** No, more on the four wheelers space.
- Arpit Kapoor:** So have we taken any price in two wheeler space as well or we are thinking about that?

- Anant Goenka:** No.
- Arpit Kapoor:** Okay. And within four-wheeler, is it within the UV portfolio or just the four wheelers as in the overall category?
- Anant Goenka:** On average across the board both in passenger car and UV.
- Sonal Gupta:** I just want to understand post the price cut that you took in the first quarter on the two wheeler side, how do we see the profitability of the two wheeler business? Is it still significantly higher profitability business relative to the rest of the business or do you think that it is coming more in line with the overall company margins and there is also I am asking this in context to the fact that we are clearly seeing new entrants also come into the market and probably the price cut was also with respect to that as well. So just how the competitive dynamics do you think will play out in the two wheeler space?
- Anant Goenka:** No, profitability continues to be strong in the two wheelers space. For us, we continue to look at focusing it in a big way and I think we have a clear competitive advantage here as well whether in terms of our relative pricing to competition or our strategic advantages in distribution and brand, etc. Going forward as our Nagpur plant comes up, at an EBITDA level there will be further benefit that will come in because our cost of manufacturing in Nagpur will be lower once we reach full capacity than our outsourced capacity at this point of time. So, that will further improve two wheeler margin.
- Sonal Gupta:** Right. And are you seeing any impact as yet of the new entrants?
- Anant Goenka:** No, not yet.
- Sonal Gupta:** Thank you. The next question is from the line of Shyam Sundar Sriram from JM Financial. Please go ahead.
- Shyam Sundar Sriram:** Sir, in Sri Lanka if I remember correctly we had flat volumes in Q4 but I believe in this current quarter we have seen some 20% kind of volume growth so, what led to this volume growth I mean any color on that front please.
- Anant Goenka:** Yes, we have seen good demand on the domestic side so while exports were still under a little bit of pressure with a very good growth in the domestic side thereto we have been growing well on the two wheeler space we have shown may be over 30%-40% growth in two wheeler space in Sri Lanka. Sri Lanka overall has been strong for us but mainly domestic.
- Shyam Sundar Sriram:** Okay. I understood, sir. Sir, if I remember correctly we took about 3% to 3.5% price cuts in Q4 and I think in the last call also you had indicated that we took a further price cut in April. So given that what gave us confidence to take price rise recently.

- Anant Goenka:** So each category is very different. The price cuts were taken more on the commercial vehicle side.
- Shyam Sundar Sriram:** Okay. Sir, this new Rs. 500 crores capex that Mr. Manoj talked about that is mostly towards CSTL is that correct?
- Anant Goenka:** That is not new, it is the same capex that we had announced earlier it is just happening in this financial year, correct.
- Shyam Sundar Sriram:** No, this is for towards the CSTL specialty tyres plant?
- Manoj Jaiswal:** So just to clarify, I talked about three project including CSTL and I said Rs. 470 crores are expected to be incurred this year. A significant portion of this is of course CSTL which is around Rs. 230 crores - Rs. 240 crores balance is the project that is anyway in progress.
- Shyam Sundar Sriram:** So, I was asking the remaining of the Rs. 470 crore, Rs 230 crore is in CSTL and the remaining is towards the ramp up of our other plans is that correct?
- Manoj Jaiswal:** That is right.
- Shyam Sundar Sriram:** Okay. And sir, one last question, we have hearing some news about Chinese dumping in the PCR segment as well but I understand it is quite low, I mean what is your view on that sir?
- Anant Goenka:** No, there has been Chinese supplies in PCR, it is just that in comparison to truck radial it has been low but there has been Chinese tyres coming in. Growth also would have been close to 20% or so I do not have the exact number but around that kind of level.
- Moderator:** Thank you. The next question is from the line of Mayur Milak from Anand Rathi. Please go ahead.
- Mayur Milak:** Could you just help us with what is your total capacity including all the plants combined together?
- Anant Goenka:** Our approximate total capacity will be between 900 tonnes and 1,000 tonnes per day.
- Mayur Milak:** All right. And of this what would be the current capacity utilization?
- Anant Goenka:** Close to 90% capacity utilization.
- Mayur Milak:** And could you share of this how much would be radial and what would be bias?
- Anant Goenka:** So radial would be largely our Halol facility which is just under 200 tonnes per day. So, about 20% capacity is radial.

- Mayur Milak:** All right. And secondly, on the two wheeler side since you have mentioned that you have taken a price increase in the four wheeler tyres and we have seen price decline in the two wheeler tyres as such. I remember last time you mentioning that you were almost commanding a 3% to 4% premium over your next best competition MRF. Does that still hold true or we are now at a discount to the MRF Tyres?
- Anant Goenka:** No, we are still at a premium.
- Mayur Milak:** So, you are saying across this segment all the players have taken a price cut in to the two wheeler segment as such?
- Anant Goenka:** That is what we feel, Yes.
- Mayur Milak:** All right and any immediate sense you have that since I believe that you are commanding a premium probably would you be the deciding factor in the two wheeler segment now as to when to take the next price hike?
- Anant Goenka:** No, nothing like that, I do not think there is any fixed methodology in this. I think if somebody takes a price increase or a drop it is a competitive call we may take at that time depending on the quantum, if we choose I do not know how others would react. So I think it depends on the dynamics at a particular time.
- Mayur Milak:** All right. So you feel any need of taking this in the near future as in to protect the margin since we have already seen some bit of pressure coming in through staff cost, some bit of pressure coming through the higher ad spend and then of course now again the raw material prices will start impacting.
- Anant Goenka:** No, I think we would first may be look at other segments before we look at two-wheeler at this point of time.
- Moderator:** Thank you. So we will move to our next question which is from the line of Kaustubh from SKS Capital & Research. Please go ahead.
- Kaustubh:** Yes, so, it is pretty evident that you have been investing in your brand heavily so, I mean I understand this is obviously the gain and capture market share from other competitors. So just a broad view I do not know if you can share numbers but if you can where do you see yourself in the long-term in terms of market share in your passenger segment or even if you cannot share numbers just a broad view on where you see yourself in this segment in the long-term?
- Anant Goenka:** In which segment?
- Kaustubh:** In passenger segment if you can break-up two- three wheelers and UVs?

- Anant Goenka:** Right. So I think in the two-wheeler, three wheeler UV segment we very well seen good growth in market share. Our approximate market shares in two wheeler - three wheeler would be somewhere around 25% to 30% range. On the UV side somewhere between 12% and 15% kind of levels. So broadly this kind, with the new capacities coming in I think we will be looking at increasing our market share certainly. We are looking at nearly an increase of 11 lakh tyres over the period of the next one year from 12 lakh tyres to 13 lakh tyres that we are doing. So a big jump, we hope that will have some impact on market share increase on the two wheeler side and similarly, passenger car also we are more than doubling our capacities. So with that coming in we will certainly see our market share increase in passenger car also.
- Kaustubh:** So I mean you have got a lot of questions on the Anti-Dumping but I have one which will frame it in a different way because otherwise I am going to get the same answer. There is one point of view in the Anti-Dumping on the side that it may not happen, that view is that unlike the steel sector or other sector where profitability was crunched because of low raw material cost with tyre industry did not face a profitability crunch. So how valid is this argument and does it actually affective or do they look at the sectors on how you are just facing pressure on revenue?
- Anant Goenka:** I think there are so many factors that go in Anti-Dumping Duty. Is there really dumping happening from China, at what prices are they supplying at? Is it below our raw material prices? Is at marginal costing? How does the tyre price in China compare to India? So, they will look at all of these factors and take a call in my view, with a (+30%) market share in India and margins if you look at the category level, it is not particularly attractive for a truck radial tyre for an Indian player. So net-net I think we do have a positive case but I agree there is a tough call to take. From an outside person perspective it may just appear that margins in the last year have been good but that is only because of raw material prices being a little bit low at this point.
- Kaustubh:** Do you have faith in the system, do you look at those other factors and not wait for the industry to get suppressed? Like how it work for the steel industry. We have waited for this full thing to get suppressed before it happened.
- Anant Goenka:** That is up to the government no, we cannot decide that.
- Kaustubh:** Okay. And just one more question, do you think you can keep EBITDA FY'16 levels based on revenue growth for this year?
- Anant Goenka:** Revenue growth will not directly affect EBITDA. I think what could happen is that at an absolute level there could be I do not have an exact number again but I think quarter one we are seeing it being largely at a flattish level on a quarter-on-quarter basis. As I said from quarter two, quarter three onwards there could be a little bit of pressure.

- Moderator:** Thank you. The next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.
- Ashutosh Tiwari:** Sir, your specialty tyres capacity is coming up in the fourth quarter you mentioned, but how do you see the market right now? Are you seeing any growth in the key market like Europe and US or what is your sense on that?
- Anant Goenka:** Outside of India I would say US has been overall quite positive. We do not sell to the US so; I cannot give a tyre specific number but generally the perception is that US has been doing quite well. Europe has been quite depressed in general. What we do not sell in Europe are things like some mining, off highway, tyres, etc., and that are has not seen particularly great growth.
- Ashutosh Tiwari:** Okay. And so, your radial plant is coming up so, how do you plan to market it, I mean, have you already started the road shows or anything like that or would you do it only after the first tyre rolls out from the plant?
- Anant Goenka:** For which tyre is this?
- Ashutosh Tiwari:** Radial tyres, specialty tyres your plant is coming up.
- Anant Goenka:** Yes, in off-highway tyres particularly agricultural tyres we think that space for another player to come in. The tyres that we are selling today are more in the range of mining or ports or things like that, we do not have agricultural radial tyres right now. So, when we do launch it is like starting from scratch and we are growing very gradually, so I have high confidence that we will be able to utilize this capacity well.
- Ashutosh Tiwari:** And currently how do you sell, is the distributor model through which you sell in Europe?
- Anant Goenka:** Yes.
- Ashutosh Tiwari:** And would agri tyres flow through the same channel or the channel is different?
- Anant Goenka:** So every tyre possibly in the same category will go through the same channel, same category means if I am selling farm tyre in Italy then that farm tyres likely to go through the fixed distributor or distributors that we have in Italy.
- Ashutosh Tiwari:** Okay. And these distributors are mostly multi brand or exclusive distributors?
- Anant Goenka:** Mostly multi-brand.
- Moderator:** Thank you. The next question is from the line of Shyam Sundar Sriram from JM Financial. Please go ahead.

- Shyam Sundar Sriram:** Sir, within the two wheeler space do we supply more to scooters or motorcycles? I mean generally asking from the sense for example commuter segment continues to remain under pressure, I understand we also supply to Honda Motorcycles. So, I mean do we supply to Honda Scooters as well and in general, are we bias more to scooter or motorcycle I mean I just want to get a sense there from you.
- Anant Goenka:** The motorcycle market is much larger than the scooter market. Motorcycle would be 80% of the entire two wheeler market, scooter will be 20%. To that extent we are quite equally balanced as per the market size. What happen though is that the scooter market has been growing at a much faster pace that is why we have not been able to keep up with the pace because we did not expect that kind of growth. This stock out level of scooter is far higher with again our new plant coming it is much more skewed towards higher scooter quantities so to that extent we will be able to fulfill the gap in supplies to our new plant coming up.
- Moderator:** Thank you. The next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.
- Bharat Gianani:** Just a couple of things, one is you highlighted that you have taken some price hikes in the passenger segment particularly the passenger car and the UV segment, so can you quantify what percentage price hike have you taken in that segment?
- Anant Goenka:** Yes, about just under 2% in the passenger car and SUV segment in the month of around June.
- Bharat Gianani:** Okay. And sir, roughly I wanted to ask that more about the CSTL, I mean just a couple of things when is the plant likely to commence operations I mean and also whether the more capacity will be directed towards the domestic market or it will be more towards the exports?
- Anant Goenka:** We will commence in quarter four of this financial year and it will be all for exports.
- Bharat Gianani:** It is all for exports, okay. And basically which markets are we targeting with this capacity?
- Anant Goenka:** Europe and US
- Bharat Gianani:** Europe and US okay, sir.
- Moderator:** Thank you. Ladies and gentlemen, that was our last question, I would now like to hand the floor over to Mr. Chirag Shah for closing comments,
- Chirag Shah:** Yes, thanks, thank you Margret. Thank you, everyone for participating in the call and also thanks management for giving us the opportunity. Have a great everyone and over to Mr. Anant for any closing comments.



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Anant Goenka: Thanks Chirag for organizing this. And thank you everyone for your time and showing interest in CEAT. Look forward to seeing you all next quarter. Thank you.

Manoj Jaiswal: Thank you, everyone.

Moderator: Thank you. On behalf of Edelweiss Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.