"CEAT Limited Q1 FY-18 Earnings Conference Call"

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MODERATOR: **MR. NISHIT JALAN – KOTAK SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the CEAT Q1 FY18 Earnings Conference Call hosted by Kotak Securities 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 after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishit Jalan from Kotak Securities. Thank you and over to you, sir.

Nishit Jalan: Thank you. Good afternoon everyone. On behalf of Kotak Securities, I would like to welcome you all to 1Q FY18 Earnings Call of CEAT. From the management today we have Mr. Anant Goenka – Managing Director and Mr. Kumar Subbiah – Chief Financial Officer of the company in the call with us.

Now I would hand over the floor to Mr. Anant for his opening comments post which we will have the Q&A Session. Anant, over to you.

Anant Goenka: Thanks, Nishit. Good evening and a very warm welcome to the Q1 Earnings call. I am Anant, Managing Director and I have with us Kumar Subbiah, our CFO. As you all know last quarter we had large tax reform of GST. There were challenges in the last quarter with respect to destocking which impacted the sales volumes during the transition phase however we do expect that in the long term it will be positive for the tyre as well as the overall auto industry.

With respect to taking you through our performance for the last quarter. Some analysis on a year-on-year basis. Our net revenue from operation showed a negative growth of 0.3% and stood at Rs. 1,451 crores for the quarter. On the volume front, we saw an overall decline as well as decline in all of the markets whether it is replacement, OEM as well as exports of around just around over 5%. The decline in replacement was mainly because of destocking by our channel partners in particularly May and June months.

Decline in exports was on account of continued import barriers in Indonesia. Sale of commercial categories was affected due to largely external issues in Middle East, Afghanistan, Pakistan and Iran as well. The ransomware the impact attack which happened which caused the shutdown of the terminal at JNPT also affected volumes in the last quarter.

OEM sales saw a decline partly due to lower offtake in commercial category due to BS3 to BS4 conversion which happened in the latter half of the last quarter and partly due to lower sales in passenger categories which preceded GST. From an overall segment volume perspective, our passenger segments both two-wheelers as well as four-wheeler segments saw growth while particularly the commercial segment saw a decline.

Our quarter 1 FY18 saw consumption of high cost inventory which resulted in a substantial increase in raw material prices of over 25% on a year-on-year basis. Realization could not go up to that extent to match the raw material price increase. On a quarter-on-quarter basis our net revenue remained flat. On the volume front, we saw again a decline of just a little over 5%. Replacement and export markets also declined by just over 5% on quarter-on-quarter whereas OEM segment saw a 2% growth.

Raw material prices went up by about 12% to 13% on a quarter-on-quarter basis. Despite destocking and high raw material cost in this quarter which impacted our margins however we continued to focus our investment in advertising and branding in light of the long term positive impact of this. We continued to strengthen our association with sports in addition to the CEAT's strategic timeout that we have with the IPL we also held CEAT Cricket Rating International Awards.

I am also happy to share that we were the title sponsor for the inaugural addition of the ultimate table tennis, the CEAT UTT that was held in July.The league had 24 of the best Indian and 24 international players competing through six clubs.

In line with our purpose of making mobility safer and smarter everyday7 we launched a new Monsoon Smart TV commercial called "Nehlau" which you may have seen on TV which communicates the promise of superior grip on wet roads offered by CEAT's two-wheeler tyres. The TV commercial largely addresses the core issue faced by bike riders of water splashes and getting drenched owing to the onslaught of large vehicles moving at high speeds.

With the fast-evolving pace of digital advertising, we have also launched the digital advertising series for our fuel smart range of passenger car tyres. This is the first of its kind digital advertising campaign in the industry and the idea is really based on a simple premise that people limit their understanding of savings neglecting various aspects that can make a valuable addition to their life savings.

So, with this digital campaigns CEAT aims to create awareness about how selection of the right tyre can also contribute in making a consumer's life much safer and economical. This series was well received and went viral with only a few days of its release. It got over 3 million views on YouTube.

While quarter 1 was a challenging quarter with respect to performance for us, we are quite confident of recovering in the comes months driven by better volume growth, raw material prices coming down, and the challenges of GST no longer being there possibly from the end of this quarter. We continue to focus on the passenger segment which hopefully will see some improvement going forward in the next few months' time.

I will now handover the call to our CFO, Mr. Kumar Subbiah.

Kumar Subbiah: Thank you, Anant. Good evening, ladies and gentlemen. I will now present the key financials for the quarter. I will start with the revenue. Our quarter 1 revenue declined by about 0.8%

quarter-on-quarter and about 0.7% year-on-year. The revenue was Rs. 1,460 crores in the quarter versus Rs. 1,472 crores in quarter 4 of financial year 2017 and more or less at the same level in quarter 1 of financial year 2017. The decline in revenue was largely on account of lower volumes during the quarter.

Now I will move on to gross margins. Our gross margins for the quarter stood at 34.2% which is less than the previous quarter by about 2.9% and by about 8.9% over the same quarter last year. The drop-in margin was largely on account of significant increase in raw material prices. Our raw material prices end up by 13.1% quarter-on-quarter and 27.6% versus same quarter last year in price per kg terms.

In value terms 3.9% over last quarter and 14.9% over the same quarter last year. While our margins were significantly impacted on account of increase in raw material cost we were able to mitigate the impact on margins on account of raw material through other initiatives. We managed to control our “other expenses” significantly and leading to about 2.6% deduction in other costs.

Our consolidated EBITDA stood at about Rs. 58 crores in quarter 1 financial year 2018 versus Rs. 137 crores in quarter 4 2017 and Rs. 196 crores in quarter 1 of this last year. The margin stood at about 4% in quarter 1 in the current year. Our other income includes Rs. 19 crores of dividends that we received from our joint venture in Sri Lanka. The company’s consolidated net worth as of 30 June 2017 was about Rs. 2,414 crores and consolidated debt was Rs. 1,037 crores. The exercise that right controls in our working capital particularly in raw materials where we were able to bring the overall raw material inventory down by about Rs. 170 crores versus previous quarter.

With this we will now open for our Q&A. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

We will take the first question from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale: Sir, my first question was regarding your raw materials. I mean we understand that this would be the peak quarter in terms of raw material prices. As it stands today what would be the kind of reduction that you would have seen from the peak quarter of Q1 in terms of raw material prices? You said that it increased 12% to 13% QoQ but as we stand today it would be a reduction of approximately how much percent?

Anant Goenka: Yes, I think raw material prices have come down by about on average across the board by about 10% which we expect say approximately in quarter 2. Again in the last say a couple of weeks we saw a slight increase but may be quarter 3, may be a marginally higher than quarter 2. But I would say quarter 2 for which the prices I am talking about would be around April-May-June kind of time period. It will be about a 10% approximately drop from quarter 1.

Jay Kale: And this includes the overall basket carbon black and everything, all put together?

Anant Goenka: Yes.

Jay Kale: And just on the volume side of course your volumes were impacted owing to the GST portion of destocking. So on the retail side how have you seen the volume growth has that also been impacted and may be if you can just throw some light on what the dealer inventory could be and what kind of restocking could we see going forward?

Anant Goenka: Yes, so approximately I would say our dealers are destocked by about 50%. So from whatever they were holding 50% to 60% kind of destocking happened. As a result, that really had an impact on demand. In terms of retail buying or direct consumer buying we have not seen any major change as such. And I would say still with respect to restocking looking at the month of July etcetera also I would say immediately we expected things to be continued to be muted just because of everyone shifting to IT systems. You have small dealers and small two-wheeler dealers etcetera who have still figuring out whether they want to pay tax, not pay tax, how they should kind of be complaint etcetera. So all of that understanding is still going on. So I think demand or restocking still has not happened. I do hope that from say August 15 onwards things will normalize to better demand levels. But I would still say that, that is not happened yet.

Jay Kale: Okay and sir, your core segments have performed relatively better. So if you could just throw some light on the replacement two-wheeler and replacement four-wheeler volume growth approximately how much would that be for this quarter?

Anant Goenka: Yes largely, I would say that while overall, we have shown a positive growth in two-wheeler as well as the passenger car segment have shown slightly growth. So we have seen better growth in the OEM segment for two-wheeler as well as passenger car. It has been a little bit negative with scooter particularly showing high growth. So scooter had grown at over 10% balance is in single digit negative growth between 0% and 5% between passenger car and Motgorcycles.

Jay Kale: Sir, just my last question. You have seen a good kind of increase in realization. So in terms of your price increases should we see that most of the price increases that were taken in Q4 have been flown through in Q1 and on a realization per ton basis a large part of the benefit has been flown through in Q1 itself?

Anant Goenka: Yes, most of the price increases taken were just before around March-April kind of time period. So largely realization should be similar except for some may be mix changes etcetera that could be there.

Jay Kale: Right because your OEMs have kind of increased this quarter which could?

Anant Goenka: Yes.

Moderator: Thank you. We will take the next question from the line of Nishit Jalan from Kotak Securities. Please go ahead.

Nishit Jalan: Sir, my question is also on the RM side. Will it be possible for you to share what was your natural rubber and synthetic rubber cost in terms of per kg in this quarter?

Anant Goenka: No, we will not be able to share the per kg data but broadly I can say that natural rubber on an year-on-year basis showed approximately a 30% price increase on a year-on-year basis and synthetic rubber showed over 50% increase on a year-on-year basis with respect to the kind of increase we have been at.

Nishit Jalan: And sir, generally in your natural rubber what would be your import and domestic kind of a mix in terms of sourcing broadly? I agree it will differ between quarter-on-quarter but generally how is the sense? Will import be significantly higher than the domestic sourcing?

Anant Goenka: Kumar, would you like to take that?

Kumar Subbiah: Yes, see its consumption varies and also our sourcing depends on the relative prices also. But just to give you an overall summary India consumes about 1 million tons of natural rubber and 60% is sourced locally and 40% is what is imported. So our consumption would be imports will be in the range of 40% to 70% depending on various marketing conditions.

Nishit Jalan: Okay because I asked this question because the imported prices off late have come down quite significantly and they are still like much lower.

Kumar Subbiah: See you have to compare the imported rubber of the same grades. What is produced in India is called as sheet rubber and the international prices of sheet rubber is still higher than the local sheet rubber.

Nishit Jalan: The second question. Is there any impact on pricing because of GST whether you have given any dealer compensation because of to compensate losses on GST front or anything? Is there any topline impact because of GST as well?

Kumar Subbiah: No, see GST there is no significant change. I think the GST has helped us to move to a uniform kind of a pricing across India. Our prices including taxes used to vary from state-to-state. With the common GST rates now across India our prices are similar. Consumers are benefitted in many states where the local tax rates were higher. We have also passed on the benefit of entry tax and octroi in different states wherever our finished goods were moving and then accordingly arrived at our prices. So therefore, in terms of the end price it will be more or less the same before GST.

Nishit Jalan: Sir, my question was whether there was any onetime dealer compensation that you have given in this quarter, is there any impact of that?

Anant Goenka: We have not needed to do that. I think largely the tax rate has not had any major difference. I think the prevailing tax rate was somewhere around 26.5%, 27% whereas the GST on tyres is at 28%. So there is no real major impact as such on with respect to GST.

Nishit Jalan: Okay and sir, my final question is, in terms of our specialty tyres facility in Ambernath. Where do we stand now? Have we started commercial production or we are still in that trial and testing phase with the customers right now?

Anant Goenka: So we have started rolling out some test tyres. What we are doing is that we are still at a position where we have to first test our tyres before we start producing very large quantities. So those tyres have been dispatched to Europe or the respective markets. They will be tested for a few months of time. Once we are very confident that the product is of the quality that we wanted to be we will then start picking up our production.

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

Vasudev Banerjee: Just couple of questions. One, as you said your raw material basket is going to be lower by 10% almost in coming quarter. So broader math suggests RM-to-sales being 65%. So your gross margins should recover by 600 to 700 basis points and because we have the GST transition quarter your volume declined 5%. So there were some impact of operating deleverage. So if the volumes recover you're below gross margin cost item should also push. So do you see going back to 12% margin levels in coming quarters or it will be a matter of time to reach back to that?

Anant Goenka: We do not give really guidance. So I think you have to really do the calculation. We have given you the broad levels of contours that we are looking at. We have to continue to grow in our more profitable segment to depends really on how that kind of growth comes along. But I think that I can say that the worst quarter possibly is behind us and things should get better from now on unless there are any more raw material shocks that come in.

Vasudev Banerjee: And secondly sir, like two things. One, is there any market pressure you could feel that because of this 10% decline in raw material basket there is a possibility of price cuts by the industry at present juncture?

Anant Goenka: I do not think so. I think there is fair amount of margin pressure that is being felt I think by the industry because we are buying the same raw material. We have not been able to pass on the price increase at all to the consumer in comparison to the raw material price increase that really happened. So I think we are not yet in a position where we can look at any price drops.

Vasudev Banerjee: Next thing sir, like so much news about antidumping duty coming in through media. So can you elaborate all the benefit from Ceat's angle that comes for the premium?

Anant Goenka: Yes, I believe there has been a notification of antidumping duty for Chinese truck radial tyres. There are different rates at different prices that are there. But the percentage of benefit would be anywhere between about 9% to 15% kind of impact on Chinese tyre pricing. So therefore, we do expect slowdown in imports of Chinese tyres with effect very soon because I think once this up in the news it largely importers who will start cutting down their imports.

Vasudev Banerjee: So what is your TBB utilization at this point of time?

Anant Goenka: It would be largely may be marginally on the lower side because commercial vehicle demand from OEMs were quite low. May be around 75% kind of utilization approximately.

Moderator: Thank you. The next question is from the line of Nitesh Sharma from Phillip Capital. Please go ahead.

Nitesh Sharma: Sir, Kumar highlighted that we have seen 2.6% reduction in the other cost. So this is a temporary phenomenon for this quarter or you believe that this cost control will be there for the coming quarters as well?

Kumar Subbiah: What we brought down was discretionary part of our Opex cost. And like last quarter, we intent to have similar controls quarter 2 as well. Therefore, you would see a similar reduction in our other expenses in quarter 2. And as progress depending on our financials we will decide on whether to spend the discretionary cost or increase our discretionary cost spent in the subsequent quarter. Our intention is to keep the same control in quarter 2.

Nitesh Sharma: Sir, and additional advertisement related expenses due to IPL would be in the ballpark range of Rs. 50 odd crores?

Anant Goenka: That is again a discretionary kind of spend so while the strategic timeout is at a fixed rate we chose whether we want to do our campaign or not. Approximately slightly lower than not Rs. 50 years, somewhere between Rs. 35 crores and Rs. 45 crores kind of level.

Nitesh Sharma: And what would be the capacity utilization at our new plants in Nagpur and Halol 2 during the quarter?

Anant Goenka: Yes, so for the capacities that we have put up largely Nagpur would be at somewhere around 60% kind of capacity utilization right now. This is for the capacity that has been put up and not the overall capacity of the plant. And this also would be somewhere around 75% of the capacity that we have been put up approximately.

Nitesh Sharma: Have we reduced the outsourcing production given that our in-house production has increased?

Anant Goenka: No, not really. So the in-house production is meant to supplement the outsourced production and we will continue to look at outsourcing as an option for growth or continue to purchase at least as much as we have been continuing and the growth will come in from our in-house production. I mean it is not going to replace the other, that is not the plan.

Nitesh Sharma: How much contribution would have come from two-wheelers to revenues during the quarter?

Anant Goenka: About 30% or so.

Nitesh Sharma: And passenger vehicles?

Anant Goenka: Passenger vehicle it remains largely the same about 13%, 14%.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Axis Capital. Please go ahead.

Ronak Sarda: Sir, if you can just tell us what was the price hikes which we had taken in March quarter and how much has been effectively implemented?

Anant Goenka: If I recollect right it was around 4% price increase was taken around March quarter. May be about 1% sometime around early February and then about 3% to 3.5% in March approximately that was taken. I think overall by the quarter it was about 4%.

Ronak Sarda: And this was across categories, right, two-wheelers and truck tyre as well?

Anant Goenka: Yes, it was more around the commercial segment and less on the passenger segment.

Ronak Sarda: Passenger includes your two-wheelers as well?

Anant Goenka: Yes, Overall 3.5% to 4%.

Ronak Sarda: And sir, and on anti-dumping now the news we get I mean anything is it like specific now that anti-dumping would be in place and I mean how do you see industry pricing moving assuming this come through and you still I mean do you see that there will be sufficient pricing power to increase prices now?

Anant Goenka: Yes, I think one is that clearly the Chinese tyres will reduce in the market. I think the good thing is that our capacity utilization should go up. Our pricing is something which I really cannot predict or comment on what was going to happen going forward because it depends on competitive situation. But I think utilization level should improve on the truck bias as well as radial side. Because the Chinese tyres had somewhere between 25% and 30% of the market. So with a large portion of that going out it is now something that can be replaced by our capacities.

Ronak Sarda: But I mean do you think 10% anti-dumping would be enough I mean will the TBR tyres still be cheaper than the TBR of the domestic players or it does not work like that?

Anant Goenka: No, I think their competitiveness would have come down substantially. To justify some shifting or fair amount of shifting towards domestic tyre demand. 10% to 15% is a quite a fair kind of an increase that have happened which should result in a shift.

Ronak Sarda: Sir, last question. If I look at your numbers quarter-on-quarter is our product mix better than this quarter because if I look at your competition raw material price increase is almost 700 bps while our raw material price increase was around 350 bps. So is it like I mean or we had sufficient cost savings which had reduced the impact?

Anant Goenka: I think it is largely our product mix has been the same. There is not been a major change. Yes, trucks has gone down a little bit and some other segments have gone up because truck showed a slightly higher negative growth. But I do not know about the competition is buying yet the results are also kind of not fully out. So I think yes, for us product mix has just changed a little bit more towards motorcycles and car segments, marginally.

Moderator: Thank you. The next question is from the line of Arpit Kapoor from IDFC Mutual Fund. Please go ahead.

Arpit Kapoor: Thanks for taking my question. Apologies if the question is a repeat one. Have you taken any price increase in the current quarter; did we take any price increase?

Anant Goenka: Yes, a small price increase in around May that was taken.

Arpit Kapoor: And the reason we would not have taken price increase was because of the GST implementation or because the raw material basket as we can all see is up almost 13% QoQ. So what would be the reasons why we did not take price increase in the current quarter?

Anant Goenka: Largely competitive pressure. I think that is one. Second is that with GST clearly demand was low. And third is towards the latter half of the quarter raw material prices have started coming down. And so it became even more difficult to take price increase in that environment.

Arpit Kapoor: And in terms of our product mix both on the QoQ and the YoY basis on both two-wheeler and PV how would our OE to replacement mix if you can give some color on that?

Anant Goenka: For OE replacement mix on passenger car I think is about 30% approximately that goes to the OE segment. And about 35% in the two-wheeler segment to OEM.

Arpit Kapoor: And how was it let us say last year same quarter?

Anant Goenka: I can get back to you with that data.

Arpit Kapoor: My point what I wanted to understand was given I would presume that OE margins would be slightly lower than what we would sell at the replacement market. So has there been an adverse change because of what we would have sold more to OE as compared to replacement in the current quarter?

Anant Goenka: No, not really because the volume growth overall across the board has been quite similar across categories so across markets. So our volume growth has been largely similar across. So if we have shown say minus 5% growth in one category it has been largely similar in the replacement as well as OEM segment except for the truck and bus segment where in the OEM segment we showed there was substantial negative growth because of very low demand from the key auto players. Rest of it has been largely on track. I would say in fact may be a little bit of slightly positive growth on the OE side versus replacement on the motorcycle segment.

Arpit Kapoor: And going forward do we foresee taking any price hikes in the two-wheeler, four-wheeler segment although the raw material basket has come down quite our margins even adjusting for that would be 9%, 10%. So would you be considering any pricing action going forward in the next five, six months?

Anant Goenka: No, I think difficult to say. I really cannot predict that right now. I would also say it is very difficult in this environment but yes, we will have to see how things come along from a demand side. I think demand first has to pick up.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Sort of a continuation of the last question. So just on the GST I mean like you said 26.5% was the previous rate now it is 28%. So have we taken about a 1.5%, 2% price hike to pass that on?

Anant Goenka: Yes Kumar, would you like to take that?

Kumar Subbiah: See in case of broadly there are two categories of channels for us. As far as OEMs are concerned any change in GST rate will not have any impact on them. On the replacement side what we did is that we also removed we used to recover octroi entry tax from our customers in different states like West Bengal, Rajasthan etcetera, to neutralize that. So when we looked at overall I think there the price is more or less remain the same. So when we worked back and arrived at our basic price versus what we were charging earlier and also the customer's price pre and post GST the difference is very marginal.

Sonal Gupta: Right but it would have gone up in certain places like where we were not paying the octroi and stuff and in some markets like you are saying West Bengal and other places where there is an Octroi that the benefit would have been passed on to the customer, right. So it would have changed I mean different places would have had different impact depending on the current rate of taxation?

Kumar Subbiah: True, it marginally it would have gone up in many states wherever it is not only Octroi some of the states where the VAT was higher than 14% also. Those states it had come down. In some states, there has been some marginal increase also.

Sonal Gupta: And just in terms of I think we have seen the Chinese imports decline from Q4 itself from the March quarter itself. I mean there was a big decline I think about 50% decline in imports and now potentially with this duty etcetera we should see probably further decline. So what is the sense because I mean like Chinese had about 30% of the TBR market, replacement market. So are we seeing that demand moving back to TBB or are we seeing that it shifts to the Indian TBR? Any sense on that?

Anant Goenka: Yes, I think this is something it is still too early to say. Just a notification came in may be about three days ago or so. So I think there will be a clear reduction of Chinese tyres. I think it will come to both markets between bias and radials. I do not think it will be one, I think it is really at a dealer level if we supplying to a certain customer who is looking at a low cost tyres he may move to bias. If he is particularly looking at radial so it is really at a broad level I think overall it should have a positive impact on both categories not only one. Because Chinese in a way did it competes with radial or did it compete with bias? In my view it competed with both.

Sonal Gupta: Right, no but what have you seen because like in Q4 itself like Q4 2017 itself we have seen like a post the demonetization and the price hikes taken with Chinese we had taken seen about like a 50% decline in imports. So what has been that in like Q4 and Q1 what have you seen I mean have you seen strong growth for your TBB portfolio or what has been?

Anant Goenka: Yes, we saw a kind of similar growth between both TBB and TBR. In our case we saw slightly higher growth in TBR because our base was a little low itself. So again I would say that the impact should be on both. May be slightly more on the truck radial side because it has the tailwind of radialization also happening.

Moderator: Thank you. We will take the next question from the line of Venil Shah from ICICI Securities. Please go ahead.

Nishant: This is Nishant here. Sir, first it is quite heartening to see that you have continued to expand on the brand development side even in these challenging times and actually it started the table tennis portion also. I just wanted to get a sense considering the push for your market share on the PV side is I presume more dependent on the product that you have developed I was reading the annual report of 92 new products SKUs and the brand side.

What is the let us say thought process on this spent on the branding expense as we tried to grow market share in the PV space in the next two years? Because I would presume that is an important part of your strategy along with the product development and also on the product development side what is your thought process on new products on the passenger vehicle side?

Obviously you have launched the Fuel Smarrt, what else do you think can be differentiator in the marketplace?

Anant Goenka: Yes, so for example on the two-wheeler side for us our puncture safe tyres, so tyres that even when a nail goes through it, it does not get punctured. I think that is for us a key growth area that we will be focusing on or key area of at least differentiation from a product perspective. How much it will grow is something really for the market to decide whether the consumer accepts it or not. I would also say right now we are still at a very early pilot stage where we cannot reach large volumes of production. But that is for example one product we are looking at where it can have an impact at least from a perception perspective.

With respect to the passenger car side we will be launching more and more platforms. We have the mileage platform which offers high durability. We will be continuously working on upgrading the platform itself to coming out with better and better mileage tyres. For example, we have launched a new tyre for the Innova range which possibly offers one of the best mileages amongst all of competition. Similarly, we then came out with our Fuel Smarrt and we will be overtime coming out with more platforms such as this. By platform I am talking about specifically a customer benefit which runs across different sizes across the passenger segment.

On the advertising side, I think that is again been a key area of our focus for the last say at least four to five years. We have been increasing our estimate every year and that will continue as well. It is a little bit heavier on the quarter one size generally than other quarters. But I think strategically we will continue to focus on digital as well as television spends. And focused on two-wheeler, passenger car and SUV all three segments.

Nishant: So sir, if I could ask you considering you are already become the number one JD Power player in passenger vehicles and UV side. When do you think you could look to double the passenger vehicle market share?

Anant Goenka: So our goal is always there so that is on customer satisfaction. So they measure for example product performance, quality of service, look and feel of tyre etcetera. It is about JD Power measures. So it clearly is an implication that, yes, our product and people are happy with our product. I think that is a key input to make sure that our market share goes up. So it is really now about supporting that with distribution, with capacities and that journey is on the way. So by when we will double is something I would like to say I would love to double it in six months' time. But I think the efforts are on to make sure we do it as soon as possible.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Sir, my first question is on can you just indicate what was the tonnage growth for the quarter?

Anant Goenka: Tonnage growth as I said was just a little bit below negative 5%.

Chirag Shah: Two-wheeler seems to continue to gain momentum in the overall scheme of things despite the impact of GST and we were on the distribution side. So can you just indicate how this GST thing on the replacement had affected you because we were assuming two-wheeler and three-wheeler given the model that we have of distributor should see a higher impact?

Anant Goenka: Yes, there has been.

Chirag Shah: But it is still the fastest growing business for that 11% YoY revenue growth?

Anant Goenka: So that is largely only in the scooter segment. But on the motorcycle segment we were flat. So this is in the replacement segment so we with both these categories while relatively it has done better in the commercial segments I will say a year ago we were growing at may be 18% to 20%. So that has clearly slowed down quite substantially in the last six months because of post demonetization as well as GST impact.

So while relative to our other categories it has done well, it is not really done well in comparison say to previous year's performance. So that is a clear challenge we are facing we have added capacities. The new capacities are not fully utilized. So we need to make sure we are able to sell more going forward.

Moderator: Thank you. The next question is from the line of Romil Jain from JM Financial. Please go ahead.

Romil Jain: Sir, considering that the stock levels would be very low at the dealer level and now we have clarity on the GST rates as well. What is preventing the dealers from starting to restock now because July as you mentioned have the restocking has not picked up? So if you can just throw some more light on this?

Anant Goenka: So I think as I said they just getting used to the new environment right now, how do you invoice. I think specifically in smaller dealer cases there are cases where I think they are still figuring out how do you if they have not been paying taxes or selling on cash etcetera there will be an impact on their revenues as a result of higher tax components.

So I think they are still learning and figuring out how they manage their incomes etcetera the best. So as a result of that there is some uncertainty moving to the new IT systems. The good thing is that all our dealers are all now GST registered players now and I think there should be some positivity going forward. Also I do believe that in the past because of history and years of sales etcetera that they have been doing there was higher inventory than normal in the chain.

This would have come down to a certain extent. So I do not think say if we have lost Rs. 100 crores in sales it will not go back up by Rs. 100 crores going forward in September and October and it will catch up so fast or anything. But I think there will be some amount of positivity hopefully because of restocking. And this is more of an estimate that I would be taking which I say all other companies possibly even in non-tyres and FMCG etcetera would be taking that there should be some amount of restocking coming up.

Also I think monsoon generally have been positive. Diwali is around in October. So I hope from August 15 or September 1 onwards; September and October should be positive.

Romil Jain: So we can assume that post restocking and OEM sales also picking up I think the pent-up demand can again come may be not in Q2 but going forward?

Anant Goenka: Yes, I think so.

Romil Jain: And secondly, on the Indonesian export sir, I think you mentioned that it is still the import barrier is still continuing there. So what is the status there and when it can recover and how much of your total exports would be from Indonesia?

Anant Goenka: Yes, I think things are getting a little bit better. As I shared that earlier the sales were zero to Indonesia but they have started some kind of a quota system of import. Initially it was around 30% of what we were normally selling. What I can do is I will get back to you on the latest with respect to what is the update on has that quota changed at all or not. I am not sure there has been any change in the last say 15 to 20 days' time.

Romil Jain: And the Chinese imports are still very high or post-demonetization we have seen that coming off? Because immediately post-demonetization it had come off but what is the status right now?

Anant Goenka: So it had started to go up once again from May-June onwards. But I think from now on it will come down again. So their market share as I said was about 30% when it peaked, it would have come down to may be somewhere around 15% post demonetization. And may be gone up to again about 20%, 25% kind of levels.

Romil Jain: So net-net down?

Anant Goenka: Yes.

Moderator: Thank you. The next question is from the line of Navin Kumar from IDFC. Please go ahead. As there is no response from the current participant, we will move on to the next participant from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir, you mentioned that the dealer is destocked by 50%, 60% from normal levels. So normally what are the inventory levels is held?

Anant Goenka: I would say about 15 to 20 days of inventory approximately.

Ashutosh Tiwari: So roughly around 9 to 10 days of impact is there on there because of destocking?

Anant Goenka: Yes.

Ashutosh Tiwari: And even if they do not stock essentially your I mean in this quarter the volume they take from you will be lined in retail, right? So the normal growth will come back in the 2Q?

Anant Goenka: Yes, I think if you were to look at least for couple of months or month-and-a-half I think I would say it would be normal. I would say for the first half of the quarter it could still be challenging.

Ashutosh Tiwari: So they already have destocked so I think they at least maintain some inventory and then what the retail is happening if that is normal then in this quarter the volume should be normal at least on wholesale level, may be destocking would happen so you would not get a boost but at least Q2 would grow normally, right, or?

Anant Goenka: Yes, retail sale I do not see any major issue from retail side. They will continue to sell tyres.

Ashutosh Tiwari: Okay and there would be destocking from current levels, right?

Anant Goenka: No.

Ashutosh Tiwari: So in that case there should be normal growth in 2Q?

Anant Goenka: Yes.

Ashutosh Tiwari: Sir secondly, on this OTR plant I mean you have mentioned that you guys are not doing trials so by what time frame you expect where exactly you are doing the trials and by what timeframe you expect some volume benefit will start coming through?

Anant Goenka: Yes, so one is that I think we are still waiting for our consent to operate. I think as soon as that comes in we will be able to take up our volumes. But intentionally we are not yet taking up our volumes to the extent we can. As I said, yes, the product is still not tested. So once the product gets tested it needs to be in the market and on the ground for about four months' time or so for us to start wanting to take it up.

So even if we get the consent to operate we will take some time for ramping up our production. That speed I expect to go up between November 1st and say end of March. That is the time where we will really take up our speed if the product works out well. That is why as I said say from June to October or so the product still has to be tested.

Ashutosh Tiwari: And the trial happens at your side or at the customer side in those markets like Europe and USA?

Anant Goenka: It happens in those markets.

Ashutosh Tiwari: In those markets only that must be going around right now.

Moderator: Thank you. We will take the next question from the line of Nitesh Sharma from Phillip Capital. Please go ahead.

Nitesh Sharma: Sir, we have heard some good words about your new offering in the TBR segment. So could you highlight your strategy on that and also what is the utilization of our TBR plant now?

Anant Goenka: Yes, so our first radial, we launched a new range of tyres called Win Super which we launched in September of last year. Since then we have seen a very good growth in truck radial tyres in one year's time nearly about 70% to 80% growth in the replacement segment. So to that extent the product is very well accepted doing well in the market. We still have may be about another 10%, 15% growth opportunity with respect to our current capacities that we have set up.

After that we will be looking at we have already started working on expanding our truck radial tyres in Baroda. So it will take another year at least for that project to be ready and then we can look at the next phase of growth. So we will have possibly towards the middle of next year a period of where demand is higher than supply.

Nitesh Sharma: And sir, what would be your total CAPEX you would be looking at in FY18?

Anant Goenka: Kumar, would you like to take that?

Kumar Subbiah: Yes. We expect our CAPEX on the new projects in the range of about Rs. 500 crores to Rs. 600 crores in the current financial year.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Anant, if you can just share how was your OEM versus the replacement mix for the quarter?

Anant Goenka: Across all categories?

Chirag Shah: Yes, across all categories and major deviations if at all?

Anant Goenka: So OE was about 26% of our sales.

Chirag Shah: Okay, it has not deviated significantly from our average number of around 23% odd?

Anant Goenka: So about 3% increase in OE.

Chirag Shah: And where would be the maximum impact be, was it across or it was in specific segments which has seen a big swing in OE replace mix?

Anant Goenka: No, largely if you look at volume terms all three categories have shown similar levels of negative growth. So it is not a major difference I say on a year-on-year basis.

Chirag Shah: And one question on this commodity basket and profitability aspect. So there is no scope of taking price hikes, right, even after the anti-dumping duty coming in at least on the truck side given that raw material basket seems to be heading lower at ground level. There is no case of any price hikes to improve your EBITDA margin or EBITDA per ton basis?

Anant Goenka: I think it looks difficult.

Chirag Shah: So it is about operating leverage and efficiency gain is what will drive your profitability as the industry?

Anant Goenka: Yes, some amount of product mix improvement.

Moderator: Thank you. The next question is from the line of Aditya Vora from IDFC Securities. Please go ahead.

Aditya Vora: I just had a question. Considering the competitive intensity in the two-wheeler segment heating up with Apollo and JK Tyre both upping up their game and also Bridgestone considering India two-wheeler market is good. Where do you expect long term EBITDA margins in the two-wheeler segment to shape up and considering two-wheeler segment is a bread and butter to CEAT, where do you see the margins going forward probably one or two years down the line?

Anant Goenka: Yes, I think one is that their capacity is still has not come up yet to have sufficient impact at this point of time. While we have made announcements, I think it is really the capacities need to come up then they have to of course work on the other areas of building their brand etcetera. So I think there is some time left for the impact to happen with respect to real competition coming in. So I think we have some time in the meantime to further continuing to strengthen our distribution, our brand etcetera.

Secondly, we are focusing on other areas as well of more on the passenger car side, more on the SUV side. So hopefully it is not going to be just two-wheelers that we are dependent on but we will also have one or two more categories that we are looking at. Scooter has been growing very fast. And the good thing is we have enough capacity now. So whatever opportunities the presents I will say we are better prepared than anyone else at this point of time.

Moderator: Thank you. The next question is from the line of Nishit Zota from ICICI Securities. Please go ahead.

Nishit Zota: Sir, what was the procurement cost of carbon black in the quarter?

Anant Goenka: No, we would not be able to share with you specific item wise purchase prices.

Nishit Zota: Sir, but the increase?

Anant Goenka: With reference to the increase of carbon black say on a quarter-on-quarter basis about 7% to 10% increase.

Nishit Zota: Sir, and recently one of your peers announced setting up a carbon black plant. So do we have any such plan in the near future?

Anant Goenka: No, not for us.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Anant Goenka: Thank you so much for hosting the call and thank you all for your time. Look forward to staying in touch and speaking to you again next quarter same time. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Kotak Securities, that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.