# "CEAT Limited
# Q3 FY2019 Earnings Conference Call"

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**Moderator**: Ladies and gentlemen, good day and welcome to the CEAT Limited Q3 FY2019 Earnings Conference Call, hosted by IIFL Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an 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. Joseph George from IIFL Capital Limited. Thank you and over to you Sir!

**Joseph George:** Thank you Aman. Good afternoon everyone. On behalf of IIFL, I welcome you all to the post results conference call of CEAT Limited. I also take this opportunity to welcome Mr. Anant Goenka, Managing Director, Mr. Kumar Subbiah, Chief Financial Officer as well as other members of the management team. I request Anant to make his opening remarks which would be followed by Q&A. Over to you Anant!

**Anant Goenka:** Thank you Joseph. Good evening and a very warm welcome to CEAT Q3 FY2019 earnings call. I am Anant Goenka and I have with me our CFO, Kumar Subbiah here with me. I will now share with you our performance for the quarter and nine months ended December 31, 2018 followed by some financial commentary by Kumar post which we would be happy to take some questions.

For the quarter, CEAT standalone revenues from operation stood at 1673 Crores, a growth of 8% on a year-on-year basis. Our standalone EBITDA margin was at 8.3% with 139 Crores and PAT was at 3.5% at 58 Crores. The year-on-year growth was on account of about 2% volume increase coupled with increase in realization. In terms of revenue both OEMs as well as replacement channels witnessed good growth; however, exports saw a marginal decline.

Within the OEM segment, the growth was primarily driven by two wheelers and commercial vehicles and within replacements two-wheeler and PCUV performed well. On a sequential basis, CEAT standalone revenue declined by 2.6%. This was on account of 5.4% quarter-on-quarter volume decline, which was partially offset by realization improvement.

On the raw material front, our prices were up by about 2.1% on a quarter-on-quarter basis and about 10.2% on a year-on-year basis. On the pricing front, we took a price hike of about 2% to 3% across product during Q3.

I will now share a few highlights of the quarter gone by. This quarter CEAT launched a new range of Gripp X3 tyres that cater to the new motorcycle segment in India. The tyres deliver its core benefit of everlasting grip with a help of dual compound technology ensuring that it continues to maintain the same level of grip on the road throughout its lifetime hence providing a safer riding experience.

We also launched a new high speed range of Securadrive tyres, which is for the premium sedan segment of cars again for India and are specifically designed to provide a comfortable and safe driving experience at high speed.

We also renewed our association with Rohit Sharma for endorsement of his cricket bat. We have been happy with our experience with him and proud to continue our association with the batsman. With these updates for the quarter I now hand over our call to our CFO, Kumar Subbiah.

**Kumar Subbiah:** Thank you Anant. Ladies and gentlemen warm greetings. I will present before you the key financials for the quarter. Our Q3 FY2019 consolidated net revenue from operations grew by 8.9% year-on-year and declined by about 2.3% sequentially. The year-on-year revenue growth was on account of both growth in volumes as well as price. Our gross margin for the quarter remained flat versus previous quarter as our raw material prices moved up in line with increase in selling price.

Let me now cover EBITDA. Our consolidated EBITDA stood at 8.7% for the quarter, a contraction of about 72 basis points sequentially. Our EBITDA for the quarter was lower on account of lower turnover leverage vis-à-vis the previous quarter and marginally higher advertisement and distribution cost.

Our consolidated profit that is PAT for the quarter stood at 52 Crores, a sequential decline of about 17% that is 11 Crores largely on account of drop in EBITDA. Our standalone capex for the quarter was approximately 325 Crores and till date we have spent about 780 Crores, this includes our routine capex.

Our total debt moved up by 340 Crores during the quarter largely due to higher capex during the quarter and also some increase in the working capital. Our consolidated debt to equity stood at 0.47 as on end December vis-à-vis 0.34 in the previous quarter.

With this, we will now open the Q&A. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Jay Kale from Elara Capital. Please go ahead.

**Jay Kale:** Thanks for taking my questions. My first question was regarding the volume growth, if you can just give some flavour on how different segments volume growth have stacked up while overall is 2%, which was outperformance segments and which have kind of decline?

**Anant Goenka:** OEM growth was relatively strong, we saw good growth across the board largely on OEM side particularly two wheelers, commercial vehicles growth has been pretty positive, replacement growth has also been positive growth particularly in the two wheeler side. Once again off highway tyres saw some good growth as well in domestic sales, but exports is the one where there was a little bit of challenging environment in the last quarter. This was because again in Indonesia there continues to be some amount of quota challenges as well as slow down because in mining activities in Indonesia that had some impact on export sales.

**Jay Kale:** I could not get some bit of it because voice is a little bit low I will take that later, but second question was on the raw material side as you mentioned that 2% RM Q-o-Q increase, but we have seen a gross margin expansion of course, if you could just explain the inventory movement over there and how do you see that going forward because I think you have mentioned something in Q2 as well that it could reverse in the coming quarter, which has not happened, so if you can just explain, throw some light on that as well as the other expenses, which is quarterly high?

**Anant Goenka:** Yes. On the inventory side, I would like to share that yes we have increased our inventory, most of it is because we know that end of March as well as summer months are coming in and we had a little bit of limited capacities in the last year, as a result of that we have stocked up a little bit on the passenger car as well as truck side, so that is one part of intentional increased investment and in some cases we have had cases where November, December have seen a slow down in sales and so as a result of slow down inventory did come up, but majority of inventory increase we have seen about over 100 Crores in inventory. This is because of planned inventory increase for Q4, later half of Q4 and Q1 of next year.

**Jay Kale:** How should we see while the core RM has increased to 2% odd Q-o-Q, how should we see it going forward and post that raw materials have stooped in substantially what outlook would you give on raw materials?

**Anant Goenka:** I think raw material we expected to slowly start coming down. I think around March onwards we should see some visible impact, may be a little bit in January and February, but some more impact by March, April, May months.

**Jay Kale:** Just on the demand outlook side, what is your feeling that you are getting. Clearly OEM demand seems to have slowed down, is your capex plans intact given that FY2020-2021 there could be some challenges in terms of OEM growth, how are you seeing there and if you can just give a breakdown of your capex plans?

**Anant Goenka:** Yes. Demand is looking weak at this point of time; however, on the truck side we have seen some with our new alloy plant coming on stream. I think we are relatively short and relatively low in terms of market share, so we have enough growth space on the truck side. On the other side, we are relatively well balanced in fact we have been in a shortage situation even if things look a little weak demand supply should match going forward, so I am not particularly negative with respect to growth going forward. I think while it is slower than what we have seen in the first half of the year I am still okay with respect to the growth numbers going forward. With respect to our capex, right now we are going ahead with all the capex as planned. We can always have the option to defer some amount of the downstream capex that will come up. We have anyway spread it over a period of two, two-and-a-half-years' time. We will take a call at the right time when the time comes if anything needs to be spread further, but I think we are quite happy with the way we have spread it out, nothing even though we see capacity will come on stream in a particular month. They are relatively well spread out.

**Jay Kale:** Got it. I will come back for the questions. Thanks and all the best.

**Moderator:** Thank you. The next question is from the line of Amyn Pirani from Deutsche Bank. Please go ahead.

**Amyn Pirani:** Thanks for the opportunity. My first question was on pricing. You did mention that you have taken some price hikes in 3Q, but what is the scenario as we have entered 4Q because it seems that in some categories at least some competition has started rolling back some of the price hikes, so what have we done and what do you think is the outlook for pricing?

**Anant Goenka:** Yes. You are absolutely right. There were some price increases taken in the month of October then once again in November, but sometime early January there were some price rollbacks that were done particularly for the month of November price hikes that were taken were rolled-back early January. Some of these were effective even sometime towards from the end of December onwards, so there have been some changes with respect to some reversal on price hikes. It has happened a little bit before our total impact of the benefit of raw material also would have come as I said March onwards.

**Amyn Pirani:** Yes. So now everybody has done it or because I think it started with one competition, but now everybody has rolled back the price hike including us?

**Anant Goenka:** I can tell you that we have done some amount I think others also, not sure exactly on everyone, but I think people do offer it in the form of schemes or discounts or price rollbacks whatever you may want to call it is price cut that has happened.

**Amyn Pirani:** So then in that case 4Q also while obviously you cannot forecast any margin number, but 4Q also in that sense could continue to be on the weaker side because the price cut has already happened, but like you said the benefit will be seen mostly in 1Q?

**Anant Goenka:** Yes. We may have some benefit of raw material, also it is slightly higher selling month so to that extent there is positive impact that could come in, but it will not necessarily be dramatically different from what we have been seeing in the last two quarters.

**Amyn Pirani:** Okay and you mentioned that our exports were quiet weak in the quarter, so given that exports are like some 12%-13% of your revenues, did we see a significant decline because OEM generally market was a bit slow, but you are saying you did reasonably well on the OEM side, so I mean did export see like a 10%-15% kind of a decline for you to have like a 2% overall volume growth?

**Anant Goenka:** Yes. Exports did see kind of a close to double digit decline.

**Amyn Pirani:** The exports?

**Anant Goenka:** For exports.

**Amyn Pirani:** Just lastly so the Halol expansion for TBR has it already happened in 3Q or will it happen in this quarter coming on stream?

**Anant Goenka:** Yes. We just got our consent to operate on January 24, 2019, so currently some trial production is on, but we will start ramping up volumes in this quarter.

**Amyn Pirani:** I will come back in the queue for more questions. Thank you.

**Moderator:** Thank you. The next question is from the line of Arvind Sharma from Citigroup. Please go ahead.

**Arvind Sharma:** First of all on the other expenses front we were quite high this quarter, so what would be the reason for high other expenses?

**Kumar Subbiah:** During the quarter, we produced more than our sales, so therefore we ended up with little higher finished goods currently, that Anant also mentioned, in preparation for later part of Q4 and beginning of Q1, so broadly our outsourcing conversion cost in absolute sum moved up. Our distribution cost moved up. These are the two elements of cost moved up during the quarter that are classified as other expenses and there is some marginal increase in power and fuel also to the extent of higher production.

**Arvind Sharma:** Going forward could this trend be slightly reversed if you think that revenues pick up?

**Kumar Subbiah:** See what happens here the fixed portion has remained fixed, it is only the variable portion. So when you move finished goods outside your factory you incurred that particular cost, but it is not an increase in cost, it is the cost that you incurred for cutting out that activity. Once you sell it you realized that money, so going forward we have not seen any significant increase in any of the elements of course it is only because of higher level of activities we incurred that cost.

**Arvind Sharma:** Second question on your capacity utilization, can you just share what sort of capacity utilization across the segments?

**Anant Goenka:** Actually utilization from a perspective of as I said we have built up some inventory, so capacity utilization has been quite positive somewhere between 85% plus kind of levels, but as you saw inventories have also come up, so we will bring it down as and when sales happen towards March, April, May, so the capacity has been better than what we have seen in sales.

**Arvind Sharma:** A related question if I may ask when TBR capacity expands and do you think there is demand enough to absorb it, I know it will take some time to ramp up, and what is your view on the demand dually from the perspective that the company is expanding so much is there demand strong enough to absorb this or could be at the another situation there you could have some inventory buildup before demand picks up?

**Anant Goenka:** Yes. I think the initial demand we expect to be quite comfortable, so we feel that between all the three markets, OEM, export and replacement, we will be quite comfortable. It is only towards the later half of that capacity expansion that we need to start gearing up in the form of channel presence, marketing activities, below the line whatever activities that are done, so all of that something that we are going to be working on going forward, but I think the first say 20000, 30000 tyres should not be a challenge.

**Arvind Sharma:** Alright. Thank you so much. That is all from my side. Thanks a lot.

**Moderator:** Thank you. Next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.

**Nishit Jalan:** My question is again on the volume growth front, even if I assume that is a 10% kind of a decline in export it means that domestic volumes have grown only at 3% to 4%, do you think that the market has also slow down so significantly or there is a market share loss that we are seeing in some of the replacement segments.

**Anant Goenka:** No, I think it is absolutely a market impact that has happened, we are very confident while we do not have data because either the results are not out nor do we have formal data yet, but I do believe that there isn’t any market share loss anywhere. It is more to do with the market I think what happened in November and December, so October things were going very well, but November, December there was a sudden slow down with all these NBFC-related issues that came in a new insurance rule that came in about mandatory insurance for longer period of time, rupee depreciation, so all of this had quite an impact, festive season sales was down, so I say that we saw substantial slow down in the replacement market from October to November itself.

**Nishit Jalan:** You are saying the slow down was in the replacement as well not only in the OE segment, but we understand is that the OE segment slow down during festival seasons because the demand was weak, but replacement also you are saying that things slowed down significantly in November and December is it?

**Anant Goenka:** Yes.

**Nishit Jalan:** And Sir my second question is on the capex, so this Halol plant we were supposed to incur a total capex of about 1000 to 1200 Crores, right?

**Anant Goenka:** Yes, 1000 Crores.

**Nishit Jalan:** How much have we already incurred and when we are saying that we have commissioned the plant so will we capitalize the entire spent so far, which will start hitting in terms of depreciation or how will we do it?

**Kumar Subbiah:** Halol plant depreciation will hit us and start hitting us in Q4, so the commercial production is expected to start soon, as we have got the necessary approvals, so you will get may be the impact of depreciation for little less than two months as far as current quarter is concerned. In terms of our total capex is around 1000 Crores, okay and it is 45% kind of a capex, we would be able to start the commercial production, so that would be the kind of capex that we would incur at the time of commissioning our plant.

**Nishit Jalan:** 450 Crores is something which you would have incurred when the commercial production starts?

**Kumar Subbiah:** Yes, closer to that number.

**Nishit Jalan:** And basically the remaining capex you will incur as the plant capacity ramps up?

**Kumar Subbiah:** Yes over 18 months period.

**Nishit Jalan:** My final question is on interest cost. If I look at your debt is about 1280 Crores, but if I look at your interest expenses are only around 20 Crores per quarter, so there will be certain interest, which will probably be capitalizing right now maybe related to plant on Halol and your PV expansion, so can I get that amount as to how much interest you have capitalized in nine month or whatever numbers you have?

**Kumar Subbiah:** We do not share that breakup in terms of how much is P&L impact and how much is capitalized, but the debt level moved up towards December, so whatever number you are seeing 1282 Crores is as of end December, and it is not average debt for the quarter, so once we start that plant whatever is the interest cost that will go and hit our P&L.

**Nishit Jalan:** And is it fair to assume that our interest rate that at which we borrow would be about 11% to 12%?

**Kumar Subbiah:** No. It will be lower than that, it is much lower. It will be closer to 9%.

**Nishit Jalan:** Thank you.

**Moderator:** Thank you. The next question is from the line of Sidharth Bera from Nomura Securities. Please go ahead.

**Sidharth Bera:** Thanks for the opportunity. Sir my first question is on the PC capex plant, so any thoughts to when will we ramp up the plant, will it start from Q1 of FY2020 or is there any thought process that it can be delayed?

**Anant Goenka:** No, we will start from Q4 of FY2019 itself. The passenger car plant by Q2, Q3 time period we expect, so we expect to start the plant by Q2 by the time material starts reaching the market and start getting sold it would be around Q3 it is when we expect passenger car plant to start up.

**Sidharth Bera:** So are we sticking to our capex guidance of close to 1300 Crores in this year and close to 1500 Crores of next year or is there any change to that?

**Kumar Subbiah:** No. See as far as this year is concerned, our capex could be little lower, project capex is expected to be around 1100 to 1150 Crores for the year. In addition to that, we will incur some maintenance capex. As of now we are keeping it at the same level of 1500 to 1700 Crores for the next year.

**Sidharth Bera:** But given the slow down in demand we have seen in the quarter three if the demand remains slower than what we were expecting, so this can even come down further probably in the next year, is that would be the right way to look at it?

**Kumar Subbiah:** No. As Anant mentioned earlier, we have some amount of flexibility in terms of scheduling our capex, so at this point in time as far as next year is concerned you would like to keep the same 1500 to 1700 Crores and the drop in capex of this year we do not expect it to impact next year, so next year's capex will not go up to the extent of some 400 Crores of reduction in capex that we are likely to see in this current year, so put together you will see some reduction both the years put together.

**Sidharth Bera:** Got it. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Ranjit Jaiswal from Jefferies. Please go ahead.

**Ranjit Jaiswal:** Thank you for taking my question. I have a question related to employee expense, so I remember in the last quarter we had mentioned that there were something around 70 to 80 million one off expense, which was there and which was nonrecurring, but we see the employee expense to be same quarter-on-quarter, so could you please explain why we have seen a rise?

**Kumar Subbiah:** I think there are two reasons explained last time, one was that one-off expenses, second also we said we were ramping up Nagpur plant and towards later part of second quarter we added more people, so the full impact of additional people employed in Nagpur factory has come into this particular quarter in Q3. We expect employee cost to be around this level for a current level of activity.

**Ranjit Jaiswal:** Thank you. That is all from my end.

**Moderator:** Thank you. The next question is from the line of Ronak Sarda from Systematix Group. Please go ahead.

**Ronak Sarda:** Thanks for the opportunity. Sir if you can help us understand more on the nature of replacement demand, sudden slow down which kind of followed your OEM slow down, is it more of destocking at channel level or just slow down the retail offtake that dealers have also decelerated sharply?

**Anant Goenka:** Yes. I think there was a little bit of destocking that happened possibly in November because people expected price increases to happen sometime in October to a certain extent and as I shared these three of all impacts combined of liquidity crunch because of the financial issues that happened in the early part of November as well as these other slow down that we saw because of overall demand coming down in the festive season, I say some of these combined we saw quite a bit on the replacement side.

**Ronak Sarda:** But Sir I mean if someone has to replace the tyre unless is more or less kind of just to keep the tyre life, but if there is a real demand where the tyre has to change, what's the other option he has, there should not be a major slow down in the replacement demand, is that not the right way to think?

**Anant Goenka:** Right. So there is not really a major slow down, we have grown, so from that perspective there is positive growth that has come in, but what we are talking about is that there was a slow down relative to what happened in the first half of the year, so versus that there has been some amount of slow down, it could be because of postponement of purchase, some amount on even the truck side there has been larger slow down than on the passenger side, so if there is a two-wheeler passenger on the replacement side has been quite okay, but truck side has seen some slow down on the replacement side.

**Ronak Sarda:** Second question was on your other expenses on variable expenses, looking at some softening demand, how do you plan your CY2019 as a year, will you curtail some of your marketing and promotional expenses or I mean you will go for wholeheartedly to keep your brand intact?

**Anant Goenka:** No. I think we will look at growth at least at the rate of growth of sales. I do not think growth will slow down from that perspective, R&D and marketing are long term expenses and those generally do not get cut based on immediate or shorter term market position, so that will certainly not get cut, but any unnecessary cost, we are always finding ways of how do you manage your expenses and cost better, so there is something that can be managed without affecting customer experience, quality, etc., those areas will always get cut. It is something, which I say it is a continuous focus and if you will find sales or growth not having being met at for whatever our targets or aspirations are we will have to cut down expenses, so I would say that increase in cost should be lower certainly than growth of sales.

**Ronak Sarda:** Sure. Thanks and just clarification what was the rollback of the price increase in January, any average number?

**Anant Goenka:** It is about just under a percentage.

**Ronak Sarda:** The price hike was in the range of 3% to 5%?

**Anant Goenka:** Yes, I think it was about 2%-3% in October and then again about a percentage in November, so the November price hike was reduced.

**Ronak Sarda:** Sure. Thank you and all the best.

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

**Chirag Shah:** Thanks for the opportunity. Two questions, first just few on the demand side, again apologies for harping on it. Again the replacement demand slow down is even if there is a slow down to 4%-5%, is what I understand, there is a sharp slow down from an 8-9% kind of level and because generally replacement demand is the sticky demand unless and until there is a complete standstill of activity, which was not necessary the case, which we had seen, so is it possible to share more light when do you expect this demand to recover on the replacement side?

**Anant Goenka:** I guess it is somewhere may be by later half of Q4, there is a little bit of uncertainty now because of season elections and things coming up, so I say overall things are a little bit unshared, but usually March is a very strong month. I say possibly March onwards things should get better because you have year end as well as summer months coming in and hopefully things will get better around then.

**Chirag Shah:** And would it be right that across the three categories, OE demand would have seen a decline across for you?

**Anant Goenka:** So in fact OEM has seen the highest growth between the three categories of market.

**Chirag Shah:** So OEM exports and replacement these are the three markets, right?

**Anant Goenka:** OEM is the highest followed by export and replacement, these were negative.

**Chirag Shah:** And is it possible to share what kind of growth at least range wise?

**Anant Goenka:** No, I have already shared with you export approximately, we are not able to share the other.

**Chirag Shah:** Great. Sir second question was if I look at the previous concall transcripts, you indicated that there is a significant raw material cost pressure kind of 1.5% per month kind of increase, so how do we look at the raw material cost as of now because the things we have managed the raw material basket very well in the quarter?

**Anant Goenka:** Right. So, I think as per expectations raw material did go up they peaked sometime around December with largely crude leading the way where 50% of our raw material or more than that comes from crude and crude derivative products that saw some lowering of crude prices in the month of around early November and as a result our sub-products will further see reduction I mean derivative products will see reduction coming forward in the coming quarters, so if there is about a three-month lag, so as I said March or so onwards we can see some reduction in raw material prices.

**Chirag Shah:** And just a clarification on this truck plant, so can you indicate what is the capacity you have started with at this 45% capex level, do you indicate at what is the capacity of you are working with in terms of number of tyres?

**Anant Goenka:** Totally we are looking at about 80000 tyres approximately it will take about a year-and-a-half from now to be able to reach full capacity, whether we will sell, but the plant will nearly reach full capacity in about a year-and-a-half by say middle or end of next year, so from that perspective I would say it will ramp up quite proportionately during that period.

**Chirag Shah:** And you will be starting with what capacity 30000 tyres?

**Anant Goenka:** No. So first month you have kind of just doing initial sales, while I do not have the exact numbers here, but say approximately first month you may make about 5000 tyres, next month you go up to 10000 then maybe around 15000, 20000, so that is how you largely would ramp up, right. If you are going to take about at least a year and a quarter to reach full capacity, it will take about 5000-6000 tyres per month.

**Chirag Shah:** Last question on the capex while it is great that you have lowered your capex number for the year by 300-400 Crores, but what are the areas, which lead to such a reduction because it is a reasonable sharp reduction that you have indicated for a year, which is a commendable thing?

**Kumar Subbiah:** Cut across all three projects and our truck and bus radial capex for a ramp up little lower than what we had originally envisaged, okay in case of passenger car radial also the amount for capex that we expected by end of March because equipment arrival, the delivery, etc., we have slightly changed or fine tuned based on our actual requirement and in case of Nagpur actual capex will start from later part of this particular quarter, so therefore wherever possible on a regular basis we review and then finding on the delivery schedule from various vendors accordingly and lot of other expenses like civil, PEB, etc., also, we spend in line with our requirement, so it is an ongoing exercise depending on how we see the commissioning date is, the demand is accordingly, we have some amount of flexibility to manage your capex, so 300 Crores is across all three categories. I would say more in TBR, okay and less in other two.

**Chirag Shah:** Thank you very much and all the best.

**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. I just wanted to get some clarity on there is a news that going around that there is some GST conflict that has happened with tyre company, so if you can just throw some light on the same that is there a difference in taxation or the way the tyre companies interpreted taxes or anything that you can throw some light on? Thanks.

**Kumar Subbiah:** See there is a query on the classification of the product that we have received. We are examining the matter at this point in time and we are not able to comment beyond that, only assurance that we can view that we will comply with all provisions of law, and in general, so once examined we will take necessary steps.

**Arpit Kapoor:** So can there be a retrospective penalty that let us say the company need to pay?

**Kumar Subbiah:** See there is no penalty or anything as far as this is concerned, but I think I am unable to comment at this point in time, we will examine this and then revert.

**Arpit Kapoor:** And again lastly on the demand bit, so this slow down in the demand is visible across all the three segments, two wheelers, PV, CVs or is it different in different segments?

**Anant Goenka:** Of course it is different in each segment, so we have seen some positive growth on the two wheeler side particularly scooter side continues to be strong because of the strong replacement demand that strong OEM demand that we have been seeing over the years, motorcycle continues to be strong for us, so these are relatively strong areas. On the other hand, there is some slow down as I said on the export side, which has affected certain categories of LCV tyres, etc., so there is a mix of overall demand, truck demand has gone down certainly and as I said two wheeler is looking quite positive.

**Arpit Kapoor:** No, on the replacement, two wheelers, PVs, and CVs all three have slowed domestic replacement market?

**Anant Goenka:** On the replacement side I think two-wheeler has seen good growth, truck has been kind of just about flattish and PCUV has also seen a little bit of growth, so overall most of the segments have been positive on the tractor LCV side we have seen some negative growth.

**Arpit Kapoor:** Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.

**Basudeb Banerjee:** Thanks for taking questions. Couple of queries, Sir till date before this Halol TBR capacity coming in you were operating at a much smaller scale now almost going to reach 210 per day capacity, so how are you trying to present yourself in the market in terms of product differentiation or pricing per se because till date as per the dealers the pricing difference between the TBR leader and your pricing, will that remain as it is or on a larger scale your product quality improving and branding you will try to price it at par with the market leader?

**Anant Goenka:** Yes, so I think the number thing on truck radial is product because that is something that the customer is very sensitive about, they know very much in terms of the life of the product, fuel economy of the product, so I think product has to perform and we have created a winning product about a year-and-a-half ago and as a result as I said we have seen good demand for our product that resulted in stock out, etc., that we have seen. So I see that part of the journey we have kind of crossed in terms of creating a good product. We need to now work towards increasing our range a little bit, create more supporting products across the broad that is one, which is planned over the course of the year. Second is service becomes important on the truck side, so we have also enhanced our service capability that is there to make sure that we work towards making our customers more profitable, increasing their return on investment not only through long life, but also through fuel efficiencies, etc., so these are two areas that we need to continuously work on investing for the truck radial customer.

**Basudeb Banerjee:** Sure, so basically I was thinking the way you matched with the pricing of two wheeler leader, and moved up market share, so there is a huge scope for you in the TBR space if you focus on these servicing and quality of products, so that the pricing gap with the leader does not remain so elevated.

**Anant Goenka:** Right absolutely, I do not see there is a large price gap between us and say one or two top leaders maybe there is a few percentage points gap, but as we grow we will certainly look at bridging the gap.

**Basudeb Banerjee:** Sure and Sir our ballpark calculation suggest very low levels of return on capital employed for the TBR project at current level, so any internal work you must have done, which is the target ROCE for the Halol TBR project if you can share on this?

**Kumar Subbiah:** Yes, see again we look at all these capex on incremental basis, and truck and bus radial is one where scale plays a role particularly with respect to manufacturing cost.

**Basudeb Banerjee:** That is the capacity of the 1000 Crores project when it is running at full capacity what can be the potential range of returning capital employed, obviously last minute raw material prices here and there will impact, but at a steady state basis?

**Kumar Subbiah:** No, that is not the point I was saying, this plant has been set up in our existing facility, so it is a Brownfield project. Therefore in that existing plant we produced passenger car tyres as well as truck and bus radial tyres so that incremental capacity gives you leverage because the increase in fixed cost is small compared to the incremental volumes, so that gives you some economies of scale benefit with respect to manufacturing cost, overall efficiency, efficiency in the distribution, etc., so therefore while the current ROI on truck and bus radial may not be very high, but the incremental investment certainly gives better returns than the existing one because of the scale and as Anant mentioned also the reducing the price gap with competition lower level of wastages, so those things also helped in terms of improving our margins.

**Basudeb Banerjee:** Sure Sir and what is the update on the OTR project expansion and the existing capacity?

**Anant Goenka:** Yes THE OTR expansion is underway in fact we are already working on getting started with the phase 2, it was about 33 tonne per day plant, 40 tonne per day, but if you look at eventual output is about 33 tonnes per day, this will go up to around 100 tonne per day capacity, so we have already begun to order some equipment. Work is on and we expect to have this ready in about a year's time, little bit over a year's time from now.

**Basudeb Banerjee:** And the existing 33 is operating at what level?

**Anant Goenka:** It is operating a little bit under 50% utilization largely because it is a very new product, the products are doing very well, but these are very long life products, the life of our farm tyre is five years, six years, is the life of the tyre, it is also very seasonal in nature, we are quite optimistic about our product whatever we are doing internally is quite right, so we just have to have a little bit of patience. This is something, which does not ramp up particularly quickly from a nature of product perspective. If this seasonal in nature, so it has been just about a year since we have launched it, so people are still trying out the product and hopefully there will be repeat demand going forward.

**Basudeb Banerjee:** I was just trying to understand like the domestic leader in the space so it is a big exporter cut as guidance last quarter in the space, are you seeing any hurdles in terms of demand from the target export market in this segment?

**Anant Goenka:** No, right now we are hardly existent in terms of size and scale, so there is enough place for us to grow, today we are coming in with some point something market share 0.0 something, so that kind of level as long as we can enter the channels I think that is more important whether the market grows or not I am sure it will help if it grows, but I say that less important when you are so small.

**Moderator:** Thank you Mr. Banerjee. May we request you to join back to the question queue for any followup as we have several participants waiting for their turn. We have the next question from the line of Bharat Gianani from BNP Sharekhan. Please go ahead.

**Bharat Gianani:** So thank you for the opportunity. What is the consolidated debt level?

**Kumar Subbiah:** Consolidated debt is about 1280 Crores as of December 31, 2018.

**Bharat Gianani:** That is the gross debt?

**Kumar Subbiah:** Yes.

**Bharat Gianani:** Fine. That is all from my side. Thank you.

**Moderator:** Thank you. Next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

**Ashutosh Tiwari:** In terms of distribution network that we have I think there is not much change over last one year from whatever it was said one year back, so what is your strategy over there in terms of expansion of network and also can you shed some light on the expansion of the exclusive network basically and roughly what percentage of replacement sales comes from exclusive outlook that you have?

**Kumar Subbiah:** So with respect to distribution network where our strength line is on the two wheeler side, I think we have penetrated quite deep into India, we are continuously getting deeper and deeper earlier we were looking at district level, now we are looking at 10000 plus population level towns. We have closed to 80-85% coverage in these towns. In the end it is now about also continuously improving on the quality, so while we have a reach out there how do we increase debt, how do we bring more loyalty amongst small sub-dealers, mechanics, etc., so our focus is more towards that area in increasing depth of the current distribution network that we built. Also add cross-selling opportunities between passenger car, two wheeler, etc., those are the things that we are continuously exploring. On the exclusive side, we are expanding our CEAT shops. I think we moved from about 280 CEAT shops to now about close to 350 CEAT shops and we are also working on exclusive truck tyres sales units, which we call as tyre truck service hubs, so that is an another area where we have just started with a few numbers of truck service hubs as well. Overall, we will be having somewhere around between 350 and 400 exclusive outlets across all categories of tyres.

**Moderator:** Thank you. The next question is from the line of Anand Singh from Unifi Capital. Please go ahead.

**Anand Singh:** Sir with respect to price reversals, you mentioned that the normal price is reversed, can you give us a sense of competitive intensity across the various sub-segments, passenger vehicles, two-three wheelers, and TBR where you are seeing more sharper reversals where is the competitive intensity highest?

**Kumar Subbiah:** I think the tyre competitive intensity on the truck and passenger car side, on the two wheeler side there has been limited reversals at this point of time, but truck PCR total segments have seen some reversal.

**Anand Singh:** Sir with respect to raw material prices like when we look at key raw materials like carbon black, it is already down like 25 odd percent from its high, so do you expect the prices to still fall further because by this time on the fall should be kind of in the market for even the true derivatives, so you projected it at March, April should still be softer, so if you can help us understand your expectation on raw material prices and this specifically rubber chemicals, carbon black and synthetic rubber?

**Anant Goenka:** I think what I said by March, April onwards, I am not talking about change in prices from current level, but I am saying by the time they repurchase it and we start consuming it that is when we account for the relevant price of the material at that point of time. So usually there is a three to four months lag between the time when the raw material price falls in the market to the time when we start consuming it and it gets accounted in our books and we earned the benefit. So I am not saying that there is going to be further price drop from today's market level to say if crude is at 60, then I difficult to predict what rule will be going forward, but I would say what we are consuming, we will start getting those benefits from March, April onwards.

**Moderator:** Thank you. Next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

**Shashank Kanodia:** Sir I just wanted to know what is the blended procurement cost of carbon black for us in the last quarter and what is the prevailing cost price?

**Kumar Subbiah:** We do not share that data.

**Shashank Kanodia:** Secondly Sir our understand includes that normally what kind of inventory base do we keep for carbon black as key raw material?

**Kumar Subbiah:** See now we do not keep large inventory for carbon black and because it sourced large part of our carbon black from local producers and some of them are located closer to place of manufacture, so we do not keep too much of inventory of carbon black.

**Shashank Kanodia:** The price of carbon black have dropped roughly from Rs.84 to Rs.70 a kg, so why there is such a huge three months lagging that transporting to our raw material cost?

**Kumar Subbiah:** What Anant was trying to say I will just briefly explain. There are materials where the prices changed every month, there are material where the prices change every quarter and when you arrive at the prices for the subsequent quarter that we also have taken into account the previous quarters average, feedstock movements, currency rate, and so if crude had fallen toward the later part of the quarter benefit of that will not come in the subsequent quarter, will come a quarter later, I think that was a larger point, so in case of carbon black also if you look at currency we will have to be taken in to consideration, when the key field stock prices move down in Q2 and depending on that the benefit of that will come. All the benefit of lower carbon black prices will not come on Q3, I think some part of it will come in Q4.

**Moderator:** Thank you. The next question is from the line of Amyn Pirani from Deutsche Bank. Please go ahead.

**Amyn Pirani:** Thanks once again for the opportunity. I just wanted to go back to the question on capex, so you mentioned that this year it will be around 1150, does it include the OTR capex?

**Kumar Subbiah:** No, it does not include OTR, it includes only the standalone and so far we have not spent much on OTR this year, and it is about 17-18 Crores is what we have spent in the last two quarters on the specialty side. We may spend a little amount in Q4, but it is not very material.

**Amyn Pirani:** Okay and just from a long term point of view I think you had mentioned that FY2018-2022 capex of 35000 Crores, so I think last year you did something like 500 if you have 1100 this year, it is 1500-1700 next year, then we are looking at FY2021 and 2022 being really low capex here like below 500 per year, is that the correct understanding or I mean how should we look at it?

**Kumar Subbiah:** Everything that we are discussing is on CEAT standalone, it does not include specialties, so therefore 3500 Crores is what we have embarked upon in terms of our project capex expansion, so assuming we spent about 1100 Crores during that current year and another 1500 Crores next year. The residual part balance would be spent in the following two years, assuming that there is no further requirement, there could be some requirement for specialty business in the next financial year and following year, which is not part of the 3500 Crores.

**Amyn Pirani:** Understood. Thanks.

**Moderator:** Thank you. The next question is from the line of Arvind Sharma from Citigroup. Please go ahead.

**Arvind Sharma:** My question was more on the margin side, so the prices have been rolled back because competition perhaps also rolled back, is there a particular margin one looks at when you are deciding on the price, A., both on the competitive intensity that is what is the demand at a particular price and B. On the raw material cost pressure, fourth quarter raw material cost pressure is further down or go up, is there a margin in mind, which you have to maintain while deciding on the prices?

**Anant Goenka:** Yes I think we clearly have certain margin targets in mind, but pricing is largely dependent on competitive action, I say that has a larger influence on pricing than our determinant of margin. It is easier to control margin through cost and that is why you can manage to a certain extent, but pricing is more determined on competitive action than internal targets of margins, yes that does play an influence, have some impact, but in terms of mix I would say certainly the competitive impact influence has a larger impact.

**Arvind Sharma:** Alright. Thank you Sir. That is all from my side. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Jay Kale from Elara Capital. Please go ahead.

**Jay Kale:** Sir just one question regarding the farm and LCV segment, so we mentioned that they have declined, is the market declining for the last three to four quarters or how do you see those two segments while they are relatively smaller, but as an industry how do you see that segments, drivers of replacement demand for those segments?

**Anant Goenka:** I think lastly what we are seeing is that this is on the replacement side that we have seen a slow down, OEM side has seen positive growth, generally there is some positivity on the rural economy with good range, etc., also some benefits that were given by government I think early part of the year forget what it was, as a result of that, we saw some good bind from all tractors in the early part of the year, so OEM demand has been okay, but replacement has been limited. I do not have any specific information with me right now on the market position, anything is there I can come back to you on that.

**Jay Kale:** Broadly what will be replacement cycle for these two segments, for LCV and farm?

**Anant Goenka:** So farm and LCV of course are very different, farm is a seasonal product, demand picks up somewhere around the middle of the year from around May, June, September are the higher selling months periods of farm tyre. There may be three or four months where you have nearly

50-60% sales happening in those months. Whereas LCV is consistent through the year dependent on overall economic cycles that happened and also dependent on shifts in terms of loading where MCV and LCV may undergo change because of change in movement of good products for example you had the Tata ACE that came out and suddenly that became a large market, so some of those kind of where you call a technology or new product changes that have had an impact on LCV. For LCV moves a little bit say kind of like the commercial vehicle segment depending on goods movement.

**Moderator:** Thank you. The next question is from the line of Jaya Chandra Gupta from JM Financial. Please go ahead.

**Jaya Chandra Gupta:** Can you help me with expected commissioning of the different plants including the Greenfield in Bangladesh?

**Anant Goenka:** So as I said truck radial plant is going to be in Q4 of this year, this quarter, passenger car will be in Q2 with sales kind of picking up in Q3, the off highway tyre will be sometime around Q4 of next year that is about a little bit over a year from now and Bangladesh at this point I do not have any visibility at this point of time on Bangladesh, the project has not began yet, clearly over a year-and-a-half from now.

**Jaya Chandra Gupta:** Right. Thank you. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Ketul Dalal from Dolat Capital. Please go ahead.

**Kushal Shah:** Sir can you help me in the sense what is the ex-inventory increased capacity utilization rate?

**Anant Goenka:** Inventory would have gone up by a little bit over 100 Crores, so I do not have the data of minus inventory, but say if you are at about 85% capacity utilization may be about 2-3% approximately.

**Kushal Shah:** Sure Sir and in the last quarter also we had some inventory increase, right Sir, so that is why the total how much inventory increase right now?

**Kumar Subbiah:** In the last six months approximately about 180 Crores is the kind of inventory level that you have seen, but we are comparing the lowest point of year versus the highest point of the year, okay normally the inventory goes down substantially towards end June okay because when the sales peaks and the normally at end of Q3 is considered to be relatively a weak quarter vis-à-vis other quarters, and that is when your inventory goes up little higher, but see these are all an absolute values and terms with the level of activity is also picked up in the first half of the year our growth has been our average about 13% and overall in the first nine months of year we have grown by about 9% or so, so in absolute value it goes up and also goes up when the raw material cost goes up because the finished goods value increases, etc., so I would say 160 to 190 Crores is the kind of an increase in the last six months or so.

**Kushal Shah:** And Sir about next quarter how do you expect like because again the slow down expected to be continued like, whatever I have done in my general checks January is also very slow moving till now, so then again we will be seeing some more inventory increase in this?

**Anant Goenka:** No we will have to look at inventory, so I said there is some amount of inventory we are keeping for March, April, May, if we see Q4 going slow we will have to cut production, so we will not increase inventory beyond what it is today for sure.

**Moderator:** Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.

**Nishant Vass:** I had one question on the marketing spend, I just wanted to understand in terms of you made a comment earlier that it will grow in line with your revenue growth, but I just wanted to get a granules in the sense that how you look at marketing spend and considering the price elasticity bidding between various segments being very different and also because of the brand loyalty segment so branding position in say two wheeler, vis-à-vis truck will be very different, so how are you looking at marketing spend vary between those subsegments.

**Anant Goenka:** So right large amount of our marketing spend goes into only these two segments, which is passenger car and two wheeler, for truck it is primarily below the line marketing where you do things like truck fleet meets that are held or something by the transports or some events of those nature that is held, so most of our marketing spends goes only into these categories so when I am talking about marketing growth I am talking about passenger car and two wheeler segments, I mean you may not have ever seen truck tyre advertising on TV, most of the time it is two wheeler or passenger car tyre, so that is how we look at it as well. We think that these are the two modes brand conscious segments where you need to be in the consideration set for demand to be there and therefore we will continue to advertise going forward, we have been growing at possibly somewhere around 20% CAGR in terms of our marketing spend, but we feel that now we are at a very comfortable level in terms of where we stands with respect to our brand equity, etc., but we will continue to grow inflation is going to happen even on the marketing side with respect to media, etc., so we will have to maintain at least our current spends in the market.

**Nishant Vass:** But considering that we have a stronger structural plan on the PCR side, so do you that we would probably need to invest early in to the market to create the market shares that we are hoping to do over a longer period of time?

**Anant Goenka:** So I think we have been as I said growing quite comfortably. Right now this year we have seen a substantial shortage with respect to our demand in the market and we need to do more on the channel side first, we will keep doing that let our tyres coming, I think as I said by Q3 only we expect our tyres to come into the market, so if we go heavy on advertising in the first half of the year, and there is no supply of product, we are not in a good position, so certainly when our product start coming in, we will be doing increased marketing at that point of time.

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

**Chirag Shah:** My question has been answered. Thank you very much.

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

**Anant Goenka:** Thank you very much everyone for your time and your interest in CEAT and look forward to catching up with you once again in the next quarter same time and I would like to thank IIFL for organizing this call as well. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may disconnect your lines.