



“CEAT Limited
Q3 FY2020 Earnings Conference Call”

January 23, 2020



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Moderator: Ladies and gentlemen, good day and welcome to the CEAT Limited, Q3 FY2020 Earnings Conference Call hosted by Edelweiss Securities Limited. As reminder, all participant lines will be in 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 an operator by pressing “*” then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Chirag Shah from Edelweiss. Thank you and over to you Sir!

Chirag Shah: Thank you Bikram and good morning everyone. On behalf of Edelweiss Securities, I would like to welcome you all to Q3 FY2020 post results conference call of CEAT Limited. CEAT is represented by Mr. Anant Goenka, Managing Director and Mr. Kumar Subbiah, Chief Financial Officer. I would like to thank the management for taking the time out for the call and giving us an opportunity to host the call. We will start the session with the opening comments from the management followed by Q&A. Over to you Anant!

Anant Goenka: Thank you Chirag. Good morning everyone. A very warm welcome, I am Anant Goenka and I have our CFO Kumar Subbiah here with me. I will share some financial and operational highlights for the quarter and the half year gone by which should be followed with some further financial commentary by Kumar and then we will be happy to take some questions.

For Q3 FY2020 on a standalone basis our revenue for the quarter stood at Rs.1,709 Crores, a sequential growth of 3.8% and year-on-year growth of 1.2%. Our revenue growth was majorly driven by growth in volume. The demand environment continued to be challenging. However we saw some sequential respite in this quarter both of the OEMs and replacement markets. Our overall volume growth of 3.6% was an account of single digit growth in both the OEM and replacement segments. Our overall commercial vehicle tyres saw sequential growth in high single digits while our passenger segments remained flattish as we continue to be constraint due to capacity. We are looking forward to commissioning both our plants - passenger and two wheeler - this quarter and we expect them to contribute towards an accelerated growth for CEAT in this year. Our raw material basket for the quarter went down by about 1.4% on a quarter-on-quarter basis and as a result our gross margins saw an expansion of 190 basis points, both on quarter-on-quarter and on a year-on-year basis. Our standalone EBITDA expanded marginally by about 20 basis points and continues to be in the double-digit range at 10.6%.

Some other highlights for the quarter: OEMs have been gearing up for BS6 transition from April 1, 2020 onwards and many BS6 compliant models have come out into the market. On two wheelers we continue to be the partner of choice for all leading OEMs. Various BS6 compliant models like RE Classic 350 and Himalayan, Honda Activa, Hero Motocorp Splendor iSmart have all launched on CEAT tyres. M&M Jawa, the Perak, is another new addition to our roster.

In the four wheeler space, Maruti's festive launch, the S-Presso was launched on CEAT tyres. The recent Alto VXi plus launch has also been rolled out on CEAT. With our Halol truck radial

capacity ramping up, we have started making headways on the commercial vehicle tyres as well. We gained entry to Ashok Leyland's existing truck model 1618 and we continue to work on further developing all our CV OEM relationships.

We partnered with India bike week and launched two ranges of motorcycle tyres, the Tubeless Gripp XL and the Zoom X3 series. CEAT was also the Associate Sponsor for Big Boss Tamil and the Bengali show Dadagiri to strengthen our regional equity. With this, I will hand over the call to Kumar.

Kumar Subbiah:

Thank you Anant. Ladies and gentlemen, thank you for joining our Q3 FY2020 earnings call. I will now present some key financial numbers.

Let me start with the revenue. Our consolidated net revenue for the quarter stood at 1,762 Crores, a growth of about 4.2% quarter-on-quarter and 1.8% year-on-year. The revenue growth was primarily on account of higher volumes as our Net Realizations remained flattish. Our consolidated gross margin for the quarter was 43%, an improvement of about 180 basis points quarter-on-quarter and about 150 basis points over same period the previous year. The improvement in margins was largely on account of lower raw material prices and also increase in finished goods had favourable impact on gross margins as it is reported.

Our employee cost for Q2 had a onetime reversal of lower payment of bonus for the previous year hence our Q3 employee costs would look as though it has gone up by 20 Crores as this is only a normalization of employee cost for the quarter in line with earlier quarters. Our other expenses for the quarter were higher primarily due to higher volume of activities resulting in increase in freight and outsourcing conversion costs. We also had one-time expenses to the tune of about 5 Crores which has been classified as other operational expenses.

Let me come to EBITDA now, our consolidated EBITDA for the quarter in absolute terms was 188 Crores, translating 10.7% of revenue an improvement of about 30 basis points over Q2 and 206 basis points over Q3 of previous year. Our profit after tax for the quarter stood at 53 Crores and standalone profit stood at Rs 62 Crores, improvement in EBITDA that I just now spoke about has also flowed through in our overall profit numbers.

With respect to changes in the income tax rates, we are still in the process of analysing the net impact on tax basis the changes announced by the government during Q2. We are yet to take a final decision on our approach and hence our tax rates continue to be in line with previous quarters.

Now let me come to our capital expenditure, we continued our focus on improving efficiencies in cash flow and working capital during the quarter. As a result, though we incurred a project capital expenditure of 268 Crores on a consolidated basis, our debt levels moved up by only Rs.46 Crores during the quarter. Our standalone capital expenditure for the year on projects has been around 880 Crores. Out of our total planned capex of about 3,500 Crores we have till date

spent about 1,900 Crores. Our expected capital expenditure for FY20 on projects for the standalone entity is approximately about 1,100 Crores and while we are working out our project capital expenditure requirement for the next year, our initial working indicates capex of about 800 Crores to 1000 Crores for standalone entity and for our CEAT speciality business we have to work out the final numbers.

Our continued focus on cash flow during the quarter and also during the year helped us to keep our consolidated level debt at 1,890 Crores which is an increase of about 46 Crores over the previous quarter. Our debt to equity ratio remained healthy at 0.65 on a consolidated basis, a marginal increase over the previous quarter. Our standalone debt to equity maintained at 0.5. I would also like to take this opportunity to share with you that credit rating agency care confirmed our credit rating of AA for long-term and A1+ for short-term with stable outlook. Now let us open the floor for Q&A.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Thanks for taking my question. Sir just wanted to understand this volume growth of 3.6% that you said a single digit growth in OEM and replacement, can you give us more colour because if we look at the production of OEM on a year-on-year has declined both in two wheeler segment and the CV segment, so you must have gained some market share there and in replacement segment if you can give some colour on two wheeler replacement how is doing, PV replacement, truck and what has caused this slowdown and just if dealers are facing concerns on liquidity funding or generally the demand is low?

Anant Goenka: You are talking about year-on-year or quarter-on-quarter numbers?

Hitesh Goel: You said volume growth of 3.6% YoY which is single digit growth in OEM and replacement this is YoY assuming?

Anant Goenka: This is sequential what I shared with you.

Hitesh Goel: Can you give us year-on-year numbers also Sir?

Anant Goenka: Year-on-year has been quite positive in both the passenger segments whereas commercial segment has been flattish. so year-on-year basis our growth has been at about 2% levels. Truck has been flat and between passenger and two-wheeler we have been at double-digit kind of growth level.

Hitesh Goel: This is OEM?

Anant Goenka: No, this is total.

Hitesh Goel: Any colour on the OEM?

- Anant Goenka:** OEM growth has been negative so truck has got hit quite badly if you look -25% to -30% in the truck segment and two wheeler has also been negative double digits in OEM whereas passenger car has been very strong for us in the OEM side but overall passenger has been strong positive growth between two wheeler and PCUV.
- Hitesh Goel:** Two-wheeler year-on-year has declined?
- Anant Goenka:** That is right, two wheeler OEM.
- Hitesh Goel:** Okay. Sir, some colour on the replacement segment, can you give us what is the reason for slowdown, last two quarters we have seen some slowdown, is it just economic issue or some dealers facing some funding constraint, what are you reading in the market.
- Anant Goenka:** Yes, the replacement segment has been largely flattish, it has not been at a negative territory, flattish slight positive kind of growth even quarter-to-quarter this time we have seen positive growth, high single digit replacement growth. So, to that extent the market is slow versus say 10% and 15% growth that we were seeing earlier there is a clear drop of about 5% - 7% and that is very visible in overall sentiment that is there. So large part of it is because of funding constraint but the other couple of reasons, which we have also shared in the past, are because of the efficiencies that have come up as a result of GST and the change in overloading norms particularly for the commercial segment. So, both these have caused a fair amount of excess capacity in the truck segment.
- Hitesh Goel:** Sir, my final question is on the subsidiary, can you give us some colour what is happening on the OTR segment, your revenue growth is quite good in this quarter but losses expanded so can you give us some colours on the subsidiary business?
- Kumar Subbiah:** In fact there has been some growth on the top nine quarter-on-quarter that is Q3 versus Q2 at subsidiary business to the tune of about 20 Crores or so and losses have come down by about 5 Crores that is one of reasons as to why our consolidated EBITDA is better this quarter versus last quarter and topline is about 20 Crores growth and losses have come down by about 5 Crores in Q3 versus Q2.
- Anant Goenka:** We are seeing positive growth here. I think the focus in the off-highway tyre business right now is to expand our range. Usually we are limited to adding about 100-120 types of new products per annum so I think we will be in a much better position in about 6 months to 8 months time with some more further expansion that we are looking at in our range of off-highway tyres.
- Hitesh Goel:** All the best Sir.
- Moderator:** Thank you. We have a next question from the line of Raghunandhan from Emkay Global. Please go ahead.

- Raghunandhan:** Thank you Sir for the opportunity. Just continuing on the volume side, can you indicate how was the replacement growth, year-on-year for CV, two-wheeler, PVs and also can you give some colour on how the competition intensity is?
- Anant Goenka:** Replacement growth all has been in high single digit kind of growth numbers on a year-on-year basis for truck, two-wheeler and PC/UV. Relatively similar kind of levels between say 7% - 12% kind of range.
- Raghunandhan:** Understood Sir and you think it is a sustainable run going forward?
- Anant Goenka:** Yes, I think things should be quite positive because if you look there is also the base effect that would have come into effect from November onwards. Last year November was when the IL&FS crisis started so till October things were challenging if you look at year-on-year data. From November onwards things started to slowdown last year so to that extent, I think that data will certainly show positive in replacement segment but I still say the market is weak, there is no major change that we have seen. Q3 versus Q4 will there be a big shift or Q4 versus Q1 next year will there be a big shift, it is still out to be seen. I think on our side we are investing a fair amount in our PCR capacity. With the plant coming up, that will help in PCR growth particularly. Truck radial also we have some upside capacity. I feel a little bit more positive in these two categories.
- Raghunandhan:** How are you seeing the competition part?
- Anant Goenka:** I think it is similar kind of situation just what I am sharing with you is the challenge with respect to at an industry itself.
- Raghunandhan:** On the commodity prices there has been some uptake and just wanted to understand how do you see the RMC per kg moving for the next quarter and any pricing action expected?
- Kumar Subbiah:** Natural rubber prices have moved up in the last couple of months. Natural rubber was hovering around Rs.125 to Rs.130 per kg now it is in the range of Rs.135 to Rs.140 and however the petrochemical derivatives have seen some correction particularly carbon black and synthetic rubber, as far as current quarter is concerned, I think we expect raw material prices to be in line with Q3. However, if natural rubber prices continue to stay at the current level it may have some impact in the next quarter so we will have to wait and watch in terms of how the market unfolds in the next two months. As of now at overall level it looks stable.
- Raghunandhan:** Thank you Sir. That is all from my side.
- Moderator:** Thank you. We have next question from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.
- Ashutosh Tiwari:** First question is on the TBR segment how is the utilization level with the new plant in Halol of 200 tons per day?

- Anant Goenka:** We are seeing very good growth in TBR considering especially we were at a much lower base last year, we are seeing growth of higher than 30% - 40% levels on year-on-year basis so we are happy with the growth but with the capacities that we have set up are higher so the utilization levels there is still a lot of upside. We would be still having comfortably another 20,000 to 30,000 tyres that we can sell overtime as we ramp up so we had about 40,000 tyres per month. We are going up to about 120,000 tyres per month capacity once this peaks in about a year's time. So, there is fair amount of upside that is there.
- Ashutosh Tiwari:** So, currently where we are and also per month?
- Anant Goenka:** Approximately we would be doing about 70,000 tyres or so per month.
- Ashutosh Tiwari:** So, we have let us say peak will be 120,000, around 120,000? The peak would be around 1.2 Lakhs.
- Anant Goenka:** Yes.
- Ashutosh Tiwari:** In the PCR segment I think we had undertaken a big expansion of 240 tons per day so initially will the OEM share be higher over there or how we look at it over next year six months to one year?
- Anant Goenka:** I think there is fair amount of upside opportunity on both segments even in replacement today we are short on capacity, we have also entered a few new OEMs over the past six months to eight months where the supplies will start from the coming six months time period. So both sides we should see good growth coming in. Even exports is a good opportunity because Europe is one area where we have been investing in and there also there is fair amount of upside that is there. So we see across the board passenger cars opportunity for growth.
- Ashutosh Tiwari:** Okay, but if you look at TBR obviously things are shifting bit slowly may be now from TBB to TBR and we had a void over there to fill because we were not so big in TBR compared to what our market share is in TBB but when we go to PCR essentially I think it is a crowded market where number of players having decent market share. So, what would be your strategy to basically increase market share over there especially replacement market share?
- Anant Goenka:** In the replacement PCR market it's a mix of kind of everything. So we have just launched our, not recently, but we launched our 1 lakh kilometre tyre about a year or year and half ago that is getting excellent traction in the market. We are also coming out with upgrading our product range. We will be coming out with a high-end PCR tyre for Sedans etc., going forward in the next 3-4 months; so some amount of products. With respect to brand we have always been there with the key cricket properties so continuous advertising and visibility and I think the big area of focus will be on distribution. How can we leverage distribution, increase the number of CEAT shops that we have, increased, deeper penetration because with lower capacities that we had we

were not been able to go all out in the market with respect to increasing our channel presence. So we can now do that once this plant is commissioned in this quarter.

Ashutosh Tiwari: Thank you.

Moderator: Thank you. We have a next question from the line of Siddhartha Bera from Nomura Securities. Please go ahead.

Siddhartha Bera: Thanks for the opportunity. Sir, my first question is on the TBR plant, so like indicated we are already doing around 70,000 tyres per month now. If you can indicate how much will be our market share in the replacement side this year and last year and how has the last one year trended?

Anant Goenka: Market share would be around close to 5% to 6% or so, on the TBR side. We would have been at about 3% to 3.5% about a year ago. May be about couple percentage points growth, may be half percent here or there I may be wrong in terms of data but that is the kind of market share shift that we have seen. We are between 60,000 to 70,000 tyres not 70,000 but between 60,000 and 70,000. I would like to correct that.

Siddhartha Bera: So basically, right now whatever we are producing we are selling from the plant, just operating at nearly full utilization?

Anant Goenka: No, there is upside that is there even now so the plant is not fully utilized it would be may be at about 80% utilization today.

Siddhartha Bera: Okay and on the two wheeler side how are things progressing because competition was slightly aggressive on that part also, so how are the pricing and utilization levels for our two wheeler plant?

Anant Goenka: Yes, for two wheeler plants, out of our old facilities that means our first stage of Nagpur as well the capacity that we outsource, we are at about 85% to 90% utilization. Now with the new capacity coming in, that is going to be an area where we will need to develop more of the market, this is going to be an area where we also have to wait for the market to turnaround. So here our market shares are anyways quite high close to between 27% and 30% kind of range. We are there with all the OEMs so it is more about waiting for the market. Here our capacities have come in a little bit at a time when the market is down.

Siddhartha Bera: Basically I think our Chennai plant ramp up initial plan was to do it in Q3 I think it has got now delayed to Q4 so should we expect that the full impact of the plant in terms of depreciation or interest rate should come in Q4 onwards?

Anant Goenka: Yes we will be starting to commission it from say around middle of February or so I think some amount of the interest depreciation will hit us from then.

- Siddhartha Bera:** Okay Sir got it.
- Moderator:** Thank you. We have next question from the line of Abhishek Jain from Dolat Capital. Please go ahead.
- Abhishek Jain:** Thanks for taking my question. As you said that there was a 3.6% growth on volume front but revenue grew only 2%, is there any price cut taken especially under two-wheeler on PC side?
- Anant Goenka:** No, largely because of mix there has been no impact on price.
- Abhishek Jain:** Okay, just wanted to know that what is the growth in last nine month FY2020 in CV, PCR and two wheelers?
- Anant Goenka:** So on YTD basis across all categories, approximately, volume on commercial bias has been negative whereas truck radial has grown quite well. Overall, we have been flattish in truck segment, we have also been flat on two wheeler side and passenger vehicle has shown a growth of high single digit.
- Abhishek Jain:** What was the decline in the TBB segment?
- Anant Goenka:** TBB would be kind of somewhere between 15% and 20% negative growth.
- Abhishek Jain:** How much growth in the TBR?
- Anant Goenka:** TBR would be high so on YTD basis over 30% growth.
- Abhishek Jain:** So what sort of growth you are looking from FY2021 in TBR and PCR segment?
- Anant Goenka:** No, we hope to sustain the similar kind of growth going forward also.
- Abhishek Jain:** So we can expect around 25% to 30% growth in the TBR segment?
- Anant Goenka:** We will be aiming for at least 20% growth in TBR.
- Abhishek Jain:** How much growth was it from the export front in the last nine months and what is the outlook going ahead?
- Anant Goenka:** On export in the last nine months, exports has also just been at single digit growth kind of levels but now with PCR coming in and also our off-highway tyre capacity being there, exports should grow at a better pace, somewhere may be between 5% and 10% kind of range.
- Abhishek Jain:** So what is the current contribution if we talk about last nine months export numbers because in the first half it was around 15% and last nine months what is the contribution in the revenue?

- Anant Goenka:** We will share this at the end of the second half.
- Abhishek Jain:** Sir, as the company is ramping up on the production the PCR and TBR segment while other players are also quite aggressive like the few Indian players are also adding capacity and other foreign players like Yokohama and Continental, Michelin are also quite aggressive, so what sort of the pricing pressure you are looking in the PCR segment?
- Anant Goenka:** No, we do not see any pricing pressure at this point of time. I think margins are not at abnormally high levels or anything. I also feel our position in the market we feel very confident because our brand equity is very strong so there is no pressure at this point of time. As we launch new sizes and the sizes which are better than competitors in the market, I think we can keep our pricing strong as well.
- Moderator:** Thank you. We have our next question from the line of Bharat Gianani from Sharekhan. Please go ahead.
- Bharat Gianani:** Thank you for the opportunity. I just wanted to touch base on the capex front so what would an overall guidance be as you earlier pointed out that for standalone capex we are looking at about 800 Crores to 1000 Crores for FY2021, so I guess this is slightly lower than what we are guiding earlier and so what would be our revised guidance including the OHT business, speciality business, if you can throw some light on that for FY2021?
- Anant Goenka:** FY2021 we will be looking at around 800 Crores to 1000 Crores and overall out of 3,500 that we had earlier said we would be bringing this round to about 3,000 Crores capex.
- Bharat Gianani:** Okay. So that would be from over the next three years right?
- Anant Goenka:** Right.
- Bharat Gianani:** Thanks a lot and that is all from my side.
- Moderator:** Thank you. We have the next question from the line of Ronak Sarda from Systematix. Please go ahead.
- Ronak Sarda:** Thanks for the opportunity. Anant, couple of questions, first on the gross margin expansion sequentially, would you be able to help us understand what is the contribution from mix change and the commodity price movement?
- Anant Goenka:** Yes, most of it is from commodity price drop. May be about 0.5% from net realization because of mix change and the balance is all relating to raw material.
- Ronak Sarda:** The assumption is the OEMs see some recovery given how the base is and if economy does well, so should we see some negative impact on the gross margin if OEMs recover or the other way round to look is since capacities are ramping up there would be some operating leverage benefit?

- Anant Goenka:** I think overall gross margins should be relatively intact right now. I think as we grow in the passenger car segment and in that area there can be some adverse impact with increased OEM share but on an overall basis there should not be much impact on gross margins.
- Ronak Sarda:** I mean assuming CVs recover from here as given how they have declined in the OE space that would not have a major impact on our gross margins?
- Anant Goenka:** No, should not. In my view it should be overall at a similar kind of levels if you look OE as a percentage of sales for CEAT has not even gone down too much during this downturn may be marginally here or there. So overall, I think we should be quite okay.
- Ronak Sarda:** Thank you.
- Moderator:** Thank you. We have the next question from the line Aryn Pirani from Yes Bank. Please go ahead.
- Aryn Pirani:** Thanks for the opportunity. My question was on the TBB, so you mentioned a significant decline in volume, while I understand that truck segment is going through some pain but since for TBB is significant part of it is replacement, are you saying that the replacement has been so weak or because you have been cutting capacity, lost some market share there, so what is happening on that TBB side?
- Anant Goenka:** The weaker segment has been the OEM segment here for us truck wise, even export has been weak. In fact replacement has, out of the three segments, shown the lowest negative growth. In part also this is because as we ramp up our TBR say for example in the replacement segment it is sometimes difficult for the channel to grow to the full extent of TBR so they try and convert those customers to TBR to a certain extent but most of it is because of slow growth in OEM.
- Aryn Pirani:** Understood, but overall on the truck replacement side obviously you have grown almost flattish but that is mostly because of OEM so in the truck replacement side given your high single digit growth, would you say that you have gained market share on an overall basis or is the market also growing at that rate, overall truck?
- Anant Goenka:** I think overall our market share would be quite intact. I think in the truck radial side we would have gained by about 2%. On the truck bias it has been relatively flattish it would have may be gone down by 0.5% or flat I think over the last one year in my view. This is the replacement market share.
- Aryn Pirani:** Even despite the economic slowdown the truck replacement has remained relatively okay-ish, is there any sign that you are getting from the dealer side or from the customer side like in the coming quarters do you think this could continue or we could see a delayed impact of the economic slowdown on this category? So basically given despite the slowdown in GDP and IIP the truck replacement has continued to be quite resilient. Do you expect this trend to continue or you feel that this could moderate going forward?

- Anant Goenka:** No, in my view I do not think it will really moderate much now as the adverse impact has all been largely felt. So, I do not think things will get worse than it is. It takes time for things to get better, but I do not see things getting worse than they are now.
- Amyr Pirani:** Thanks for the opportunity.
- Moderator:** Thank you. We have next question from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** My question pertains to the capex part, so you indicated the total project capex is now going to be close to about 3,000 Crores right?
- Kumar Subbiah:** No, so Anant said that last part of 500 Crores we will not spend for the next two years time that is what Anant mentioned.
- Jinesh Gandhi:** So, 500 Crores would not be in next two years. The second question pertains to the RM basket so can you indicate about the cost for average rubber and all those things for you?
- Anant Goenka:** On the raw materials side we will not be able to share our actual cost but I can share with you that on an overall basis as I said raw material has come down by about 1% to 2% points in the last from Q2 to Q3 and that has been led by largely lower pricing in natural rubber and carbon black.
- Moderator:** Thank you. We have next question from the line of Kashyap Zaveri from Emkay Investment Managers. Please go ahead.
- Kashyap Jhaveri:** Congratulations on good set of performance. One question on your capex guidance which you revised to 3,000 Crores versus 3,500 Crores earlier so I just wanted to understand this 500 Crores reduction would be the cutting down on capacity or what exactly is driving this reduction?
- Anant Goenka:** We have the option of delaying some of our capacity that is how we are largely looking at planning this. We had that flexibility to take a call at a later point so depending on how the market picks up. So, we will take a call on the last 500 later.
- Kumar Subbiah:** Our original plan was to finish Rs 3500 Crores for the standalone entity by FY2022. Based on our current estimate, we expect that to be around Rs.3000 Crores instead of Rs.3500 Crores.
- Kashyap Jhaveri:** As of date out of these 3000 Crores how much have we already spent as of 9M of this year?
- Kumar Subbiah:** Till date cumulatively we have spent about 1,900 Crores standalone. It doesn't include some Rs.500 Crores that we plan to spend for speciality where we have spent small amount of money. So out of Rs.3,500 Crores, Rs.1,900 Crores has been spent.

- Kashyap Jhaveri:** Just one question on one of our co-promoter exiting the stake, there have been bulk deals reported. I am too sure whether you can probably reply to this but I cannot find much on the new person who has entered in and they will be fourth largest shareholder of the company so can you through some light on that?
- Anant Goenka:** No, we do not have any information on this data.
- Kashyap Jhaveri:** Thank you very much Sir.
- Moderator:** Thank you. We have a next question from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.
- Ashutosh Tiwari:** What were the CWIP number in standalone as of December, capital work in progress for this?
- Kumar Subbiah:** Shall I take the question, any other questions in the meantime?
- Ashutosh Tiwari:** You said that in the investments there was some 5 Crores one off in the quarter is that correct?
- Anant Goenka:** That is right some opex.
- Ashutosh Tiwari:** Lastly on this two wheeler OEM side because two wheelers are seeing a big increase in BS6, are we feeling for extra pressure from the OEM for the price cut or cost cut over there or it is normal that we utilisation that we have?
- Anant Goenka:** No, the pricing with OEMs are at same levels there is no change. They all linked to formula based pricing or mostly linked to formula based pricing so that is how we are continuing.
- Ashutosh Tiwari:** That is all from my side. CWIP can you share...
- Kumar Subbiah:** CWIP approximately about 1,400 Crores is our capital work-in-progress and as we are commissioning our Chennai plant and Nagpur plant some of them would get capitalized.
- Ashutosh Tiwari:** Thank you.
- Moderator:** Thank you Sir. We have next question from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Just two questions, one is slightly on the two-wheeler demand side, earlier there were lot of talks about Maxxis coming in and they trying to be very aggressive in the system and Apollo was also being a new entrant. Can you share some light on that how are you finding the industry balance given that they have spent reasonable time now, because there were lot of questions raised on profitability of the industry as such?

- Anant Goenka:** Right, with respect to profitability of the industry, there was some price correction that was taken, if I recollect, in May 2017 or 2018 after which the profitability of the industry did go down. But since then I think there has been no adverse pricing action that has been taken or an overall change in profitability. We continue to maintain our market share but yes there are new players that have come in and they do have small share in the business at this point of time. As you said, I believe some of them have also entered some of the OEMs and certainly there will be new players in the market who we have to compete against. I would not be able to comment much on how they are doing etc.
- Chirag Shah:** Just a small clarification on this one-time opex that you have indicated, is it more of a maintenance kind of an opex that we have done for particular plant or how should we look at this one-off number?
- Anant Goenka:** No, I think this is some kind of R&D expense and some consulting expenditures that were there which will not get repeated going forward.
- Chirag Shah:** If I can just ask one last clarification on this effective tax rate, so we have still not moved to the new regime. Is it right to assume that we would stay in old regime and the merger of the OHT Plant will happen and hence it is getting delayed. So, we will be in the old regime of taxation for this year as well as next year, would it be the right way of looking at it?
- Kumar Subbiah:** It has nothing to do with the merger of the speciality entity. It is more to do with what happens to your accumulated balances or MAT credit and I think that would be one of the factors that would determine whether to move to new rate of tax or continue with old rate of tax. So, in the event you move to new rate of tax it appears that MAT credit is something that will not be available going forward. So that is where we are trying to understand the impact.
- Chirag Shah:** I presume MAT credit would get consumed in a year's time or two years' time. What is the max timeframe that you are looking at?
- Kumar Subbiah:** No. It is not clear to us because of large amount of capitalisation that we would be doing this year and next year. So not sure whether MAT credit will get fully utilised or it will increase, so we are still trying to understand the impact of it.
- Chirag Shah:** This is helpful. Thank you very much.
- Moderator:** Thank you Sir. We have next question from the line of Priya Ranjan from Antique Stock Broking. Please go ahead.
- Priya Ranjan:** Thanks. One thing on the speciality segment I mean what kind of run rate we are doing in terms of the production and what is overall plan for the next year, how we are looking at in terms of volume?

- Anant Goenka:** The speciality radial segment, which is where we have done the investment, is growing quite well on year-on-year basis. Where we are seeing challenges is on the domestic OEM side. So here with the mining segment and all of those segments getting hit, we are seeing a challenge as well as the domestic farm segment is weak at this point of time. So, while international business is relatively okay because anyways the base effect was low. Domestic there are fair amount of challenges with respect to headwinds at this point.
- Priya Ranjan:** Any colour in terms of kind of volume we are doing as of now and utilisation level and etc.?
- Anant Goenka:** Utilisation levels are at about 50% at this point of time of our new facilities.
- Priya Ranjan:** When do we see, I mean, at what utilisation level it can turn profitable any idea, any colour on that?
- Anant Goenka:** I would say at about 75% to 80% utilisation is what we need work towards. So that is another 40%-50% growth and I hope that we will reach there, since this is a small capacity, in about six months time.
- Priya Ranjan:** What was the one time opex, I mean the quantum of one time opex, I just missed that?
- Kumar Subbiah:** No, I think we just now clarified, there are certain expenses which are incurred in a particular quarter. We had incurred some expenses on test tyres purchases largely relating to R&D and some small amount of consulting expenses. So overall full year level there is no major issue but sometimes these expenses are incurred in a particular quarter. I think that is what Anant called out.
- Priya Ranjan:** So it is actually basically not one time it is more of which quarter you are actually incurring it in?
- Kumar Subbiah:** But the impact of it has come in Q3. It is not distributed throughout the year.
- Priya Ranjan:** Total I mean consolidated level what is the debt situation as of?
- Anant Goenka:** As of December 31, 2019 it is about 1,890 Crores, it moved up forward little over 40 Crores in Q3.
- Priya Ranjan:** Thank you. That is all from me.
- Moderator:** Thank you. We have next question from the line of Mayur Milak from IndiaNivesh. Please go ahead.
- Mayur Milak:** Just correct me if I am wrong on this. You initially said that on the volume side we have seen 20% decline in the OE sales on the truck bus and in the replacement we are seeing a double digit growth but that would be in excess of 20%. I am just trying to reconcile that we have seen a

positive volume growth but if the decline in OE is that sharp even if I assume the share of business would be higher in replacement in mathematics really does not come through.

Anant Goenka: You are talking about year-on-year growth level?

Mayur Milak: I guess you mentioned a 3.5% volume growth for this quarter right a year-on-year growth?

Anant Goenka: For truck segment?

Mayur Milak: Overall.

Mayur Milak: If you could just help me break of what is the OE growth and what is the replacement growth segment wise may be three segments CV, PV and two wheelers?

Anant Goenka: Overall year-on-year growth has been in volume terms at about 2% levels and while OE has been at single digit negative high single digit about 8% kind of negative growth, replacement export has been at about 8% or so positive growth, overall across all categories.

Mayur Milak: In the two-wheeler space I believe we would have a 50-50 share between OE and replacement?

Anant Goenka: About 60% replacement and 40% OE.

Mayur Milak: Let me just get through this and if there is a trouble I will come back to you.

Anant Goenka: Thanks.

Moderator: Thank you. We have next question from the line of Jaimin Desai from ICICI Direct. Please go ahead.

Jaimin Desai: Good morning and thanks for the opportunity. Sir, I just wanted to check from media articles suggest that government is thinking about increasing the basic custom duty on tyre imports. So, have we as industry made some representation and if it were to come going forward will it benefit us?

Anant Goenka: I am not aware about the change in custom duty. I think this there could be an anti-dumping duty. I know that there is a substantial surge in increase of tyre imports from Thailand. That is an area where we have petitioned to the government to look at to explore. We believe there is injury happening to the industry there and they are evaluating whether it is a case for duty for tyres coming to the country from Thailand. I think that is the only one that I am aware of.

Jaimin Desai: Sir, just on the basic concept wise in case there is an increase in custom duty so it will be respective of that type of tyre, it could be PCR and TBR because right now all the potential are just for the TBR category?

- Anant Goenka:** I think customs duty if I recollect will be across all tyres, but anti-dumping duty is for a particular category of tyres.
- Jaimin Desai:** Right, so industry have we made any presentation for increasing customs or not aware of?
- Anant Goenka:** I do not think so, no not across all categories.
- Kumar Subbiah:** But the government increased the custom duty on passenger cars last year in the budget but otherwise there has not been any change recently.
- Jaimin Desai:** Sir in your presentation you mentioned that we have been recent entrant in the Royal Enfield Classic 350 BS6 as well as on the Honda Activa, so were we present in the base variants as well BS4 or these are fresh entries?
- Anant Goenka:** No, we were there in the basics as well.
- Jaimin Desai:** And Sir for MG Hector and KIA, what will be an engagement as of now?
- Anant Goenka:** We have entry into MG Hector not the current launch that is there, but in their future launches we are there in one or two areas. With KIA also the future launches that they will be having somewhere in the middle of this year, expected in May June, we will be there with a few of their models.
- Jaimin Desai:** Last thing there has been increasing talk about silica replacing carbon black as a raw material part for tyre manufacturing. Any colour or any view of yours on the same will help.
- Anant Goenka:** Yes, this is a continuous endeavour that has been happening over many years time actually, so there is always a desire to move towards more and more silica because it is more environmentally friendly as a raw material. It also helps improve rolling resistance of tyres and as you move to high performance tyres, passenger car segment tyres, all these areas require more silica. So that is a shift that has been happening for some time. There is not going to be any kind of step change on this but every year we try and shift by a few percentage points. There are challenges towards fully replacing, it cannot replace 100% carbon black, but as much as possible we try and replace.
- Jaimin Desai:** So, what will be the blended percentage that we are blending silica as a raw material side?
- Anant Goenka:** I think it really depends on each mix, so we have passenger car where it will be much higher, your truck will be lower, I would not have the details right here.
- Jaimin Desai:** Thank you so much. Wish you all the best.
- Moderator:** Thank you Sir. We have next question from the line of Lokesh Manik from Vallum Capitals. Please go ahead.

- Lokesh Manik:** Good morning. Thank you for the opportunity. My question was regarding the OHT segment. If you can just give us the feedback in terms of how you are seeing the segment develop and can this be a potential growth driver going forward, say in the next five years or would our strategy be to focus on consumer side that is your PCR and your two-wheeler segments given that we have done a lot of brand expansions there?
- Anant Goenka:** We are quite optimistic about the OHT segment so we have set up the small capacity at this point of time because it was a new product for us, completely new technology, new markets so the risks were high. So we just thought let us set up a small capacity, let us get a good product out and once the feedback is positive, we will look at further expansion. Where we stand at this point of time is that our utilisation level is at about 50%, feedback on the product has been very good. The key now is to increase our range and increase our channel presence particularly in US and Europe and that is where we are. I think once we reach a capacity utilisation of about 75% to 80%, we would look at further expansion of our factory. So, this will be a good growth engine for us. It is a high margin segment once you reach a certain scale and India has established strong brand equity in these countries as well for producing good quality tyres.
- Lokesh Manik:** Any particular focus on either farm or off highway, I mean mining?
- Anant Goenka:** No by off highway, I am talking about 100% is right now farm radial tyres.
- Lokesh Manik:** All would be radials on both sides? Speciality and farms?
- Anant Goenka:** By speciality I am talking about off highway tyres right now which is farm radial. There is also some amount of bias that goes in out there. This has been going in from our old Bhandup plant anyways. I am talking farm radials this is from our new plant. There is also some amount of mining and port tyres that we have always been doing, so there is no new capacity that has come in on that front.
- Lokesh Manik:** Our focus should be exports or domestic about?
- Anant Goenka:** Exports, 100%.
- Lokesh Manik:** Thank you. That is it from my side.
- Moderator:** Thank you. We have next question from the line of Bhagat Shah from CD Equisearch. Please go ahead.
- Bhagat Shah:** Good morning. My question was that what is the current capacity utilisation for passenger vehicles?
- Anant Goenka:** Near 100% because we do not have enough capacity right now. We are not able to produce fully whatever we wanted, we are debottlenecking our plant, we made good progress out there as well, but today whatever we produce we are selling.

Bhagat Shah: What do you think Sir with the Chennai plant coming in what would be the utilisation levels then?

Anant Goenka: Chennai will be expanding over two years' time. So I think in the first four to six months we will still be fully utilised because the various OEM entries, there is enough space in the market to grow etc., but certainly we have setup a large capacity so I think, may be, once we cross a certain threshold, utilisation levels will come down and that I expect to happen may be in six, eight months' time.

Bhagat Shah: Sir you mentioned previously about replacement markets but if you could give some more colour on what are the current trends that are going there?

Anant Goenka: Current trends I think the key is this switchover to BS6 overall. That is causing some amount of uncertainty at this point of time as to when people should buy their vehicles and should they wait till April, should they look at buying now etc., so this uncertainty is happening even on the OEM side, they are all switching over until April 1 after that of course there will be an inflation of pricing that will happen so we expect the market to be weak all the way until at least August because anyways monsoon months are weak months for sales and then let us wait and see hopefully the festive season will pickup but that also depends on other macroeconomic factors such as liquidity, GDP growth rate, consumption picking up so on and so forth. There has to be some action whether it is in the budget or whether it is overall pickup in investment some of these things we have to wait and watch.

Bhagat Shah: Thank you so much that is all from my side.

Moderator: Ladies and gentlemen that was the last question. I now like to hand the conference over to the management for closing comments. Sir over to you!

Anant Goenka: Thank you everyone for your interest in CEAT. Thank you for your time and look forward to catching up with you all once again same time next quarter.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.