"CEAT Limited Q2 FY-16 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to CEAT Q2 FY16 Results Conference Call hosted by IIFL Capital Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. J Radhakrishnan from IIFL Capital Limited. Thank you and over to you, sir.

J Radhakrishnan: Good evening. On behalf of IIFL Institutional Equities, I would like to welcome you all for 2Q FY16 Earnings Conference Call of CEAT. From the management we have with us Mr. Anant Goenka – Managing Director; Mr. Manoj Jaiswal – Chief Financial Officer; and Mr. Pulkit Bhandari – Head – Group-Corporate Finance and Investor Relations. I would now like to handover the floor to the management for opening remarks after which we will move on to the Q&A session. Over to you, sir.

Anant Goenka: Good evening and a warm welcome CEAT Quarterly Call. I am Anant Goenka – Managing Director and with me I have Manoj Jaiswal, our CFO. Thanks a lot for your interest in CEAT and I will take you through briefly our results and a few key parameters relating to our results.

On a year-on-year analysis basis we registered a 2% revenue de-growth driven mainly by a volume growth of about 6% and our price and mix contributed to a negative growth of 8%. Raw material prices were lower by about 10% on a year-on-year basis. With respect to volume growth about 6% was largely we saw a good growth in the domestic market of over 10% both replacement and OEM markets have grown well while exports has shown quite a dramatic de-growth of over 20% on a year-on-year basis.

Our passenger segments continues to do well for us. Both motorcycle and passenger car segments on average have grown at over 15% and product mix for us has improved further with higher sales in motorcycles, passenger cars and SUV contributing to over 35% of our sales in the first half of this year. On a quarter-on-quarter basis our CEAT India registered 4% revenue decline with a volume de-growth of about 2%. This is generally a time where sales are slightly lower because of seasonality of quarter two.

OEM however grew by about 10% and exports declined by about 10%. Raw material prices were lower by about 3% on a quarter-on-quarter basis and that has resulted in an improved gross margin on both quarter-on-quarter and year-on-year basis. Chinese products are flooding the market and that has impacted the industry in the last quarter in India as well as in countries outside of India where we have been exporting.

With respect to some developments we have, there were a couple of important product or vehicle launches the Mahindra TUV300 and Renault Kwid both were launched on CEAT as the first source in the last quarter. We also got approved by ICC as a bat manufacturer and has tied up with Suresh Raina for a three-year bat endorsement deal which further strengthens our association with cricket which is a religion in the country.

Going forward our phase 2 of Halol plant commenced operations and this will now ramp up over the next 16 to 18 months. This is largely a PCR, UVR capacity and will add about 4.5 lakhs tyres per month of production at peak capacity to our 3 lakhs tyre capacity already in place.

We also expect our Nagpur capacity, which is for two, three wheelers, is on track and we expect that to be ready by the end of this financial year. On the raw material front we expect raw material prices to be stable around the current level and going forward we expect domestic segment to continue to be positive OEM as well as replacement market however exports continues to look to be a challenge going forward.

I will now handover the call to Manoj Jaiswal who will take you through some of the financial parameters. Thank you.

Manoj Jaiswal: Thank you Anant. Ladies and gentlemen, good evening. I would now present the financials primarily focusing on the P&L account and the balance sheet analysis. Let me just touch up on the gross margin for the quarter.

Gross margin have expanded by 600 basis points year-on-year to 44.4% and by 170 basis quarter-on-quarter. EBITDA quantum rose by 15% year-on-year to Rs. 202 crores and declined by 9% on quarter-on-quarter basis. The margins have expanded by 210 basis points year-on-year to 14.4% and declined by 90 basis points on a quarter-to-quarter basis.

EBITDA percentage on quarter-on-quarter have declined mainly because of higher mix of outsourced production, increasing power tariff and few one-time expenses during the quarter. Other expenses have increased in this quarter by Rs. 22 crores over the previous quarter and by Rs. 34 crores over the previous year same period. This increase is primarily because of increase in outsource capacity.

Finance cost for the quarter has come down by Rs. 13 crores year-on-year and by Rs. 4 crores sequentially. Largely due to reduction in borrowings as well as lower interest rates which have come through by replacement of high cost debt with low cost debt. Company's net worth has gone up to Rs. 1,903 crores from Rs. 1,152 crores year-on-year. Consolidated debt stood at Rs. 654 crores from Rs. 736 crores sequentially and Rs. 958 crores last year.

On a year-on-year basis, debt equity has come down to 0.3 times from 0.8 times. On Sri Lanka JV our Sri Lankan JV revenue grew by 24% sequentially however declined by 9% year-on-year. EBITDA margin grew by 220 basis points on a year-on-year basis have declined by 100 basis points on quarter-on-quarter basis to 26.4%.

I would pause here my presentation and would like to take up any queries and clarifications and question answers that you may have. Thank you. We now open for question and answers.

Moderator: Thank you very much. We will now begin the question and answer session.

We will take the first question from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: If you can give some little more color on what you are seeing in the Indian market per se do you think is there a risk that Chinese could actually take much more market share than what they have taken so far?

Anant Goenka: So yes there is a large inflow of Chinese tyres over 100% or close to 100% growth over a year-on-year basis in the truck segment, over 100% growth in two wheeler segment and passenger cars has largely been flat in terms of inflow of Chinese tyres. This is clearly a threat that does exist. I would say for CEAT fortunately our focus has been more on the two-wheeler side where market share of Chinese tyres is very low and it is a far more branded segments than commercial vehicle tyres. But I would do say that I agree with you that this is a threat. The second thing is that on overall demand side, I would say largely rural dependent products of farm and two-wheeler has undergone some amount of slowdown. This is largely in the OEM category so you would have seen in terms of vehicle sales; tractor sales are quite low, even OEMs are showing negative growth. So that is something which is an area of concern, but on the other hand on the replacement side I would say that we are still seeing some positivity on the motor cycle and scooter side. We are growing by over 15% in these categories as well as showing positive growth in the farm segment in replacements.

Puneet Gulati: In your press release you have also mentioned that some strategic products have been introduced which will play a significant role. Can you give more color on what these products are and what segments are they look essentially at?

Anant Goenka: So with respect to strategic products, what we are doing is I will give you a couple of examples. We are testing a new truck radial tyre, which we hope to launch in the next few months' time. That could be a big change. We are focusing a lot on new scooter tyres, new scooter tubeless tyres as well as we have started supplying motor cycle radial tyres to Yamaha and now started supplying them to the replacement market as well, so we are one of the first suppliers of radial tyres in motor cycle going forward.

So these are some key products, some of them may grow to be large volume, some are more brand linked which will have a positive rub off on our brand, because of the technology impact for example motor cycle radial.

Puneet Gulati: And lastly the Sri Lankan market is not doing very well, do you see a scope for you to start exporting from Sri Lankan market in India at some point of time?

Anant Goenka: Yes, so the Sri Lankan market is actually not doing well for the same reasons as India. It is largely the domestic market is showing growth, but exports of tyres from Sri Lanka is showing negative growth. So we are already exporting but exports in Sri Lanka have also shown greater than minus 20% negative growth. Therefore, we are seeing an overall negative growth in Sri Lanka. Were you to take out exports it is positive.

Puneet Gulati: So the domestic market in Sri Lanka is growing.

Anant Goenka: Yes.

Puneet Gulati: Any progress on Bangladesh plant?

Anant Goenka: Yes, so Bangladesh plant has not yet begun construction. We have done some amount of grading work etcetera and then we had some problems on the land, we believe that in one month's time we hope to get some positive news and possibly as early as December start off. I think after many months we actually have some positive news in the last 15 days. We do still not have everything in writing that we can start going ahead with the plant, so we are waiting for that. But I do hope we can start off in December with construction work and then it is 12 months after that for commercial production to begin.

Puneet Gulati: Just 12 months?

Anant Goenka: Yes.

Puneet Gulati: And lastly, how much more CAPEX is left in Halol incremental 24 entity?

Anant Goenka: So basically, Halol if you look at the total capitalization as a project is close to Rs. 650 crores. And we have capitalized Rs. 178 crores this quarter that leaves us with a balance of close to Rs. 480 crores to be precise.

Puneet Gulati: So Rs. 480 crores is left and I was also referring to the expansion of capacity, which you are putting in taking it to Rs. 120 crores. So once this Rs. 120 crores will be done within Rs. 650 crores? I am saying the entire Rs. 120 crores will be done within Rs. 650 crores?

Anant Goenka; That is right.

Moderator: Thank you very much. We will take the next question from the line of Pavan Kumar from Unifi Capital.

Pavan Kumar: Two questions. Firstly, what would be the utilization of the Nasik and Bhandup plants presently?

Anant Goenka: They have already pretty well utilized surprisingly actually. So Bhandup is at about 85% utilization and Nasik is between 80%-85% utilization.

Pavan Kumar: Then whatever slow down we are seeing in the **(Inaudible 13:48)** tyres truck and bus segment, where has this actually, where is this slowdown actually being reflected?

Anant Goenka: On the truck side, in fact on the other hand as I said while overall revenues have come down largely because of exports. Domestic we have shown a growth of about 7%, 8% so there is growth I would say in fact on a year-on-year basis there would be good growth in the truck segment because the base itself was low. But if you look at the long-term yes, there has been quite a bit of de growth but if you look at it from a low base of last year there has been good growth particularly OEMs have shown a growth of 20% plus levels.

Pavan Kumar: Exports where do you produce those tyres from?

Anant Goenka: That also we produce in Bhandup and Nasik itself so that has got hit. But on the replacement side we are quite okay.

Pavan Kumar: And secondly, I wanted to understand what would be the conversion charge if we wanted to convert the bias capacity into two wheelers?

Anant Goenka: Sorry what is the conversion costs?

Pavan Kumar: The bias capacity of truck and bus segment had to be converted into two wheelers if that is possible?

Anant Goenka: It could be possible, it could be an investment largely in the downstream capacities of press etcetera. My broad guess is about Rs. 2 crores, Rs. 2.5 crores.

Pavan Kumar: And if I had to put up a fresh capacity then how much will that cost, two wheeler capacity?

Anant Goenka: I think close to Rs. 3 crores to Rs. 4 crores per ton per day.

Moderator: Thank you very much. We will take the next question from the line of Himanshu Sharma from JM Financial.

Ambrish Mishra: This is Ambrish. I just wanted to get a sense on two things. One, in case of other expenses, what exactly was the nature of this incremental outsourcing cost, if you can give some more sense on it, what exactly it is and how do you see this panning once our capacity is in place let us say starting 4Q?

Anant Goenka: So basically if you look at the sales mix, the mix of outsourced sales has increased by close to 2% and as a result we pay conversion charges to our outsourced partners and that is the incremental cost. It is in the range of close to Rs. 13 crores to Rs. 14 crores odd numbers. That has increased due to merely because of increase in volume from outsourced capacity.

Ambrish Mishra: I mean we gave some price hike to our outsourcing partners I think a quarter or so back so is there any further price hike that we have given to them?

Anant Goenka: No, not significant or rather very, very miniscule. So the impact is largely due to the volume rather than the price.

Ambrish Mishra: It is more to do with volume and that will continue in Q3 as well?

Anant Goenka: If the volume from outsourced partner increases because the outsourced partners mostly operating more or less at a very high capacity. It may not because with our Nagpur plants commencing it would see the capacity being utilized from the Nagpur plant versus necessarily outsourced capacity getting increased.

Manoj Jaiswal: Just to clarify I think Quarter 3 in my view can see some increase because we are increasing the volume from our outsourced capacities. But from Quarter 4 or Quarter 1 of next year with the Nagpur plant reaching maybe 10%, 15%, 20% kind of utilization levels then we will start seeing a reduction in average conversion cost of two wheeler tyre.

Ambrish Mishra: And also did you mentioned that there was some one off cost in the other expense for the quarter?

Anant Goenka: Yes, we did. There is a small one-time cost, which is not necessarily recurring due to few initiatives. But that is not significant but yes, there is a value there.

Ambrish Mishra: But it is not significant?

Anant Goenka: Yes.

Ambrish Mishra: And finally, if Anant you can just take us through what exactly and how the pricing environment in the domestic space is panning out specially when we talk of passenger vehicles and two wheelers, and how do you see that going forward?

Anant Goenka: Yes, so there has been quite a lot of price cuts in the last two months and largely skewed towards the second half of this quarter. So actually the entire price drop impact has not been felt in the results that you are seeing, there will be some more price drops. The entire impact will come in Quarter 3 and going forward. Early Quarter 3 there has been some amount of price drop by various people in the industry on both two wheeler as well as passenger car side. Passenger car side has been slightly lower at somewhere around 3% kind of levels. Two wheeler has been higher at about 5% to 6% level. On the other hand, we expect a little bit of further benefit on raw material prices going forward in Quarter 3. So some of the price drop will be set off. But this is a trend that was not there in the past and has now happened a little bit more in the last month, month-and-a-half.

Ambrish Mishra: And that has been a surprise for you because first the industry the capacity utilization has been at high levels, so is not that a surprising, has it surprised you by anyway?

Anant Goenka: Not really, I think raw material prices have really come down sharply and to that extent, I think it is not really a surprise.

Ambrish Mishra: And the last question. How do you see the exit capacities as a company and if you can just split that for us as to what would be the exit capacity for CEAT as at the end of March 2016 in different categories that would be helpful.

Anant Goenka: So what I will do is I will just share with you the change in capacity that could happen. So whatever is there is there as a base right now. But going forward I would say there will be some amount of increased capacity in two wheeler from outsourcing. That is about a couple of lakh tyres per month. And from in house it is difficult to say depending actually it is negligible really because our plant should start sometime in Quarter 4. So what will come up maybe half a lakh we will not be able to give you an exact number on that. So roughly I would say 2 to 2.5 lakh tyres additional on the two-wheeler side. And then on Halol side, we are talking about I am assuming maybe about a 15%, 20% capacity utilization of the expanded capacity of Halol. So that is about 20% of 120 tons per day. So that is another 20 tons per day of Halol PCR.

Moderator: Thank you very much. We will take the next question from the line of Mr. Sachin Kasera from Lucky Investment Managers.

Sachin Kasera: So just a follow up on this price in this replacement market that you mentioned. You mentioned that the cut has been higher on the two wheeler side as compared to the passenger, that is what is the industry has done. So have we also followed in line with the industry or because if I remember in the last call you had mentioned that, we in the first quarter had registered and not responded to the price cut by the industry players?

Anant Goenka: We have taken a price cut of about 5% in the end of last quarter.

Sachin Kasera: End Q2 you mean?

Anant Goenka: Q 2 that is right.

Sachin Kasera: Can you define the quantum and across which segments have you taken it sir?

Anant Goenka: No, this is two-wheeler only.

Sachin Kasera: And what about passenger car and trucks sir?

Anant Goenka: Passenger car is somewhere around 2%, 2.5%; truck is around 2%, 2.5% also.

Sachin Kasera: These cuts have also come primarily at the end of the second quarter?

Anant Goenka: Yes.

Sachin Kasera: So the full impact as you mentioned will be probably felt in Q3?

Anant Goenka: Yes.

Sachin Kasera: Secondly if we see the consolidated numbers, there is a small minority profit of Rs. 36 lakhs whereas we see the Sri Lanka numbers the reported profit is around Rs. 18 crores. So which means that there is loss in some of the other subsidiaries. Can you exactly quantify they will be mainly coming from Bangladesh or some other subsidiaries?

Anant Goenka: What we can do is we do not have the details now but we can just get back to you on this.

Sachin Kasera: And on the two wheeler side, how have we performed in Q2 versus Q1 in the sense if I remember it right your outsourcing partner was I think at peak capacity in the June quarter so have you been able to squeeze some more volumes from out there or Q2 to Q1 was almost flat?

Anant Goenka: No, Q2 to Q1 we have seen a growth. Yes, we have seen a small growth of about 5%.

Sachin Kasera: And lastly on the export markets what are the initiatives that we are taking or what is our strategy specifically in the export in the sense we have already come down from 23% of sales to 13% of sales. So we see going down further or we think has bottomed out and what are the counter measures as a company we are doing to further arrest the fall in exports?

Anant Goenka: So export side in my view there are mainly structural or big-ticket changes that has happened. The changes are competition from Chinese radial tyres, second is radialization that is happening in the industry, and third is depreciation of currencies in a number of developing countries like Brazil, etc. Now all of these are unlikely to reversed in any way, very difficult to say if anti-dumping duty will come in in some country against China or something. So broadly I think exports at this level is here to stay for some time. Going forward as our new capacity is come in of Halol passenger car tyres, some Two wheeler tyres quoted only then we will see some shift back towards going back to older levels. So I would say for the next six to eight months I do not see a change in our export levels. I do not think there may be further de-growth because we have seen quite a substantial negative growth. But I think we will not go back up as well for some time.

Sachin Kasera: And have the margins in export I believe at one point of time export was very profitable for us, but because of the pressure from the Chinese guys are there any price cuts that we have also undertaken in exports and has the profitability in export come down in the sense the correction is much higher than is the correction in prices much higher than the benefit that we got from raw materials?

Anant Goenka: So yes, you are right. So export certainly has been much more competitive. We have had to take on price cuts as much or more than the raw material price drops that has happened. So the profitability relative to other markets has come down but I still say it is relatively more profitable or nearly now matching with replacement levels of profitability.

Sachin Kasera: And just one last question on your passenger car side. You have mentioned that you are looking to almost 2.5% increase in the capacity. So when do you expect to utilize the full capacity this new 120 TPD and what are the initiatives you are taking towards that that would involve substantial increase in market share for us?

Anant Goenka: Yes, so I would say that in about 16 months' time or so we should be fully utilized. We are doing a couple of things, one is as I said looking at entering more and more OEMs, but in addition to that, we will be looking at increasing our distribution channel substantially. So we have about a year and a half ago we had about 100 CEAT shops we now have about 175 and going forward, we will be looking at substantial growth in the CEAT shop outlet. We will be also looking at focus on other distribution channels, which is through multi brand counters, etc. And more visibility from the marketing side of CEAT. So we have increased our marketing spends over the last year, and I think we will continue to spend on the brand. I hope all of this will result in good demand for the tyre.

Moderator: Thank you very much. We will take the next question from the line of Viral Shah from Enam Holdings.

Viral Shah: My question was on the M&HCV replacement so how are you seeing demand on both the bias side as well as the radial side?

Anant Goenka: Overall I would say the growth in M&HCV has been better than what it was last year. Last year we were seeing nearly flattish or very slow growth. This year I would say that it has been clearly a little bit better largely on the radial side, bias has been marginally flat-to-negative. But I would say overall on the radial side there has been good positive uptake and clearly better growth than what was there last year, close to somewhere between 7% to 10% kind of levels from an industry point of view.

Viral Shah: And do you expect this to continue in the coming quarters as well?

Anant Goenka: Yes, I think so.

Moderator: Thank you very much. We will take the next question from the line of Basudeb Banerjee from Antique Stock Broking.

Basudeb Banerjee: As you said in the presentation that two wheelers are contributing close to 26% of revenue now from 21%. Within that how much has been the shift in OEM replacement split over a year's time sir?

Anant Goenka: So within motor cycles what is our mix of OEM and replacement is it?

Basudeb Banerjee: Presently and how was it a year back?

Anant Goenka: We will not be able to have the details of the shift but approximately it would be somewhere around 60:40 kind of breakup, 60% in the replacement and 40% OEM.

Basudeb Banerjee: And any trend of increase in OEM mix within the two-wheeler segment as such?

Anant Goenka: Right now largely supplies have been quite constrained, the OEM mix I do not think will increase because the OEMs themselves are showing negative growth. So there has been in fact slightly more shift towards replacement now. Going forward I think OEMs like we entered Honda only in February of this year, we want to increase our share of business with them. So maybe our OEM sales will continue to be at current levels, because of our growth in business with Honda but with all the others I would say broadly I do not see a change whereas replacement market will grow.

Basudeb Banerjee: And sir, similar to the truck radial or to some extent the PCR do you see an entry of our acceptance of Chinese radial, Chinese tyres in the two-wheeler replacement segment down the line from a discounted price perspective?

Anant Goenka: Yes, in my view I think Chinese two wheelers have a market share of somewhere around 8% to 10%. In my view going forward that could grow, but I do not think it is becoming a serious threat because I think consumers are far more brand conscious if you compare to the truck buyer he is more of a B2B he will look at costs per kilometer if he is getting a tyre at 30% discount or lower price he will go ahead with that because his costing or commercials are better. Whereas consumers will go more for brand, they look more for safety and things like that. They also change the tyre less regularly once in two years or three years versus once in six months. So it is a little bit more of an emotional buy. So in my view it could increase but not to the extent or levels at which truck radial or truck tyres have happened.

Basudeb Banerjee: And sir, you had said that TBR from an industry angle would have increased by around 7% to 10% this year but bulk of that will be attributable to the Chinese radials per se. So as per your view what has been the decline of bias tyres in the CV segment which is primarily domestic incumbent and if you can highlight what has been the growth of the incumbents in the radial segment that is ex of Chinese radials?

Anant Goenka: Difficult to give you exact industry figures. I can just give you a very broad ballpark without any specific data. In my view negative growth of bias would be somewhere in the replacement segment would be somewhere between 0% and 5%. And radial growth may be somewhere at about 5% levels. But this is pure anecdotal without any data.

Moderator: Thank you very much. We will take the next question from the line of Mayur Malik from Anand Rathi.

Mayur Malik: I just have a couple of questions. One, what was the average rubber price for the quarter?

Anant Goenka: Average rubber price for the quarter I think rubber was somewhere around Rs. 118, Rs. 120 per kg at ex-Cochin levels. I would not be able to share with you exactly our purchase prices. But that was approximate prevailing price of natural rubber.

Mayur Malik: And what was the same in the previous quarter?

Anant Goenka: I think rubber would have come down by about 2%, 3% on a quarter-on-quarter basis.

Mayur Malik: And I saw the other income was I would not say unusually but a little high than what you reported in Q1. So was there something one-time thing in to the other income?

Manoj Jaiswal: Yes, we had dividend from our JV partner and that was reported in this quarter.

Mayur Malik: Can you mention the quantum?

Manoj Jaiswal: It is 11 crores.

Mayur Malik: And just on the export thing. So you are saying that going forward at least for the next six months to eight months we do not really have any major strategy to really revive it to the export at the same time we believe the exports might not shrink out further from these levels?

Anant Goenka: Yes.

Mayur Malik: So when we look at growth per se, so is the domestic demand intact when we talk about we can see the OE numbers coming but in the replacement market you are saying the demand seems to be intact?

Anant Goenka: Yes, I think demand in replacement is good. Overall looking better I would say. I would not say overall good but actually looking clearly on a positive trend. And I think that will only get better going forward.

Moderator: Thank you very much. We will take the next question from the line of Ashutosh Tiwari from Equirus Capital.

Ashutosh Tiwari: Sir, you mentioned that in the Chinese have 8% to 10% market share in two-wheelers. So how it has increased over last one year is it because of shorter that industry had of two-wheeler tyre or is it because of pricing?

Anant Goenka: I think it is a mix of all factors. I think there has been an excess of capacity in China. In India also there has been shortage of two-wheeler tyres. So I think both of these has caused that inflow of tyres.

Ashutosh Tiwari: But how it has increased over last one year I mean what it was say in FY15 or FY14?

Anant Goenka: It has gone up by about over 100%.

Ashutosh Tiwari: In terms of market share?

Anant Goenka: Yes, in terms of volume.

Ashutosh Tiwari: And you have mentioned you are expanding the four-wheeler capacity and how it is right now in terms of your overall capacity in four-wheelers and how it will be post expansion?

Anant Goenka: The current capacity of you are talking about passenger car tyres, right?

Ashutosh Tiwari: Yes, passenger car tyres.

Anant Goenka: It is about 3 lakhs tyres per month. With the new capacity it will go up to about 7.5 lakhs tyres per month between about 16 to 18 months' time.

Ashutosh Tiwari: And you are targeting mainly OEM for this or replacement also I mean?

Anant Goenka: No, both.

Ashutosh Tiwari: And currently how much of your volume comes from replacement on OEM of this four-wheelers?

Anant Goenka: Approximately again about 65%, 70% from replacement and less than 30% or so from OEM.

Ashutosh Tiwari: So can this mix change after you expand or how do you think it will be?

Anant Goenka: The mix will move slightly more skewed towards OEM.

Ashutosh Tiwari: And sir, what is the current difference between the margin or your own products like say four-wheeler replacement which will probably be similar to what you have on the two-wheeler tyres that you will manufacture and current outsourced two-wheeler tyres?

Anant Goenka: I think the margins would be a little bit better because there is a certain profit element that goes to our outsourcing partner. The other change that would happen is that at an above EBITDA level you are paying his interest and depreciation cost; for us it will come below EBITDA because we incur our own interest in depreciation. So those two impacts would come in. I think at a poor cost level there will be no major cost difference between the two. May be a minor cost I think we may be a little bit cheaper.

Ashutosh Tiwari: Okay on the below depreciation level at EBIT level?

Anant Goenka: Yes, at a EBITDA level or even if you exclude depreciation and interest.

Ashutosh Tiwari: And once your own capacity comes up how do you ramp up I mean because you will take major portion of sales through your own production or still you are sourcing major quantity from outsourced?

Anant Goenka: No, the outsourcing partner would continue at full capacity utilization there will be an incremental capacity that will come up. So we plan to continue outsourcing in the long term also at the similar kind of levels.

Ashutosh Tiwari: And you mentioned you had reported 15% volume growth in two-wheelers is it overall or this is only replacement?

Anant Goenka: This is overall.

Ashutosh Tiwari: And how much it would be in replacement only?

Anant Goenka: Over 20%.

Ashutosh Tiwari: And sir, four-wheeler overall volume growth?

Anant Goenka: Four-wheeler growth will be around a little bit over 10%.

Moderator: Thank you. We will take the next question from the line of Nikhil Deshpande from Sharekhan.

Nikhil Deshpande: The Chinese tyres in the TBR replacement what would be the market share a ballpark figure at the moment?

Anant Goenka: Over 20% may even 25%.

Nikhil Deshpande: Sir and is there any status on the anti-dumping duty by the Indian Government what is the status over there?

Anant Goenka: In my view it will take time. No specific status we have petitioned I think it could take even over 9 months' time it if were to happen.

Nikhil Deshpande: Sir and on your motorcycle Radial tyres what would be the cost difference between a normal tyre and a Radial tyre and what are the benefits and what is the durability of the Radial tyre and how is the acceptance going on?

Anant Goenka: Yes, so radialization in motorcycles is a trend which is of the future. It is still not really picked up as such. I say even in the long term if I were to predict 5 years or 10 years hence in my view radialization will still be under 5% of the market. It is more of making sure we are able to serve the premium tyres that will also have a rub off on all commuter bikes as well. So that is really the focus. From a cost perspective at a cost per kg basis there will not be a large difference. But you may be able to charge a higher price to the customer because you are truly offering a much better value of a very highly well engineered tyre.

Nikhil Deshpande: At present what would be the cost difference between a Radial tyre and a buyers tyre?

Anant Goenka: At a rupees per kg that as I said nothing substantial.

Nikhil Deshpande: No, at an MRP level?

Anant Goenka: At an MRP level there can be a large differences. It depends on your brand also. We have just started I would say just started supplying but that difference can be as high as 25% to 30% if you compare a MNC player it could be more than four times the price. So we are talking about 300%, 400% price difference.

Nikhil Deshpande: And you will require a special capacity for that?

Anant Goenka: Yes.

Moderator: Thank you very much. We will take the next question from the line of Aditya Sundaram from Edelweiss.

Aditya Sundaram: Sir, my first question is could you basically provide the capacity that we have at our outsourced partner and if you could may particularly give me the saleable tonnage that we did domestically and in terms of exports?

Anant Goenka: Our outsourced partner does about 12 lakhs tyres per month; which is 11 lakhs tyres per month approximately of two-wheeler tyres. And most of it is domestic; over 95% is domestic.

Aditya Sundaram: And what we do, what we manufacture, and what would be the number of tyres that we have sold in this quarter domestically and how many would be exports?

Anant Goenka: For two-wheeler?

Aditya Sundaram: Yes, for two-wheelers?

Anant Goenka: Zero we do not make barely any two-wheeler tyres.

Aditya Sundaram: What was the four-wheelers then, sir?

Anant Goenka: 20,000 to 30,000 tyres.

Aditya Sundaram: Four-wheelers at 20,000 to 30,000 you said?

Anant Goenka: No, four-wheeler tyres is about 3 lakhs tyres per month.

Aditya Sundaram: Three lakhs tyres per month; that is domestic you said?

Anant Goenka: Yes, and the four-wheelers it is passenger cars.

Aditya Sundaram: Car and how many of those would be exports?

Anant Goenka: Less than 10%.

Moderator: Thank you. We will take the next question from the line of Himanshu Sharma from JM Financial.

Himanshu Sharma: There are two questions. One on the CAPEX. Now given that Halol is out of way and a fairly large part of the CAPEX will be over either by this year-end or may be middle of the next year. How do you see the CAPEX outlook for FY16 and thereafter?

Manoj Jaiswal: I think it slightly premature in terms of new CAPEXs but from an existing CAPEXs you must be aware that we have Halol 2 which is around Rs. 650 crores and we have Nagpur which is underway in terms of capitalization which is at two-wheeler capacity which should as you rightly pointed out Halol would come in to existence significantly this year by year end and if anything leftover by the middle of next year. And Nagpur similarly should come in partly this year and mostly in the next year in terms of capacity and that is the view at the moment.

Himanshu Sharma: So can you please share roughly what would be our CAPEX for FY17 and if possible FY18?

Manoj Jaiswal: From an existing CAPEX outlay as I said I mean may be you will see 30% of Halol going in to FY17 and perhaps may be 40% or 45% of Nagpur going in to FY17. And that is what it is. And in fact any further expansions I think that has to be taken up. I do not think we have a view of that at the moment.

Himanshu Sharma: And the second question was about if I am not wrong we have raised NCD of about Rs. 2 billion is that correct?

Anant Goenka: That is correct.

Himanshu Sharma: So how do you see the utilization because our debt equity is already at about 0.3x so how do you see the utilization of the funds that we have raised?

Manoj Jaiswal: So if you look at the Rs. 2 billion that we raise from the market was largely utilized to repay our existing high cost debt and you are seeing the impact of that in our interest cost going down. And that has been mostly or rather I would say completely utilized.

Himanshu Sharma: So what would be our average cost of debt now vis-à-vis last year?

Manoj Jaiswal: It would be lower by close to 150 basis points approx.. or little more.

Himanshu Sharma: Okay, so that is the blended average cost of debt?

Manoj Jaiswal: Yes.

Moderator: Thank you. We will take the next question from the line of Mayur Malik from Anand Rathi.

Mayur Malik: Just one more question. You mentioned the other expenses had a onetime thing, which was of course the outsource capacity. The other thing was increase in power tariff. So what would be the content of this power tariff increase?

Manoj Jaiswal: It will be close to in the range of Rs. 2.5 crores to Rs. 3 crores for the quarter.

Mayur Malik: And this will continue to be so going forward as well?

Manoj Jaiswal: Yes, that is correct.

Moderator: Thank you. We will take the next question from the line of Sachin Kasera from Lucky Investment Managers.

Sachin Kasera: Just if there is any update on the specialty tyre that we are looking at the new plant for which we will incorporate a subsidiary also?

Anant Goenka: Yes, we continue to look at that very seriously. If there is any announcement on that we would let you know.

Sachin Kasera: But what stage it is in the sense what are the key things that are still untapped that we are looking to for more….

Anant Goenka: No, we are looking at the market. Right now Europe demand is a little bit low so we are just taking a call. We are looking at some internal work and then we get back to you on this.

Moderator: Thank you very much. As there are no further questions in the queue, I now hand the conference over to Mr. J Radhakrishnan for closing comments.

J Radhakrishnan: I would like to thank the management for providing opportunity for this call and all the participants on this call. Anant Ji, would you like to make any closing comments?

Anand Goenka: No, thanks a lot for your interest. Thanks for your time and look forward to seeing you again next quarter.

Moderator: Thank you. On behalf of IIFL Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.