"CEAT Limited Q4 FY2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the CEAT Q4 FY2017 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 any assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kevin Mehta – IIFL Capital. Thank you and over to you!

Kevin Mehta: Thank you. Good day everyone. Thanks for joining us today for the CEAT Limited conference call. From the management side, we have Mr. Anant Goenka, Managing Director, Mr. Kumar Subbiah, Chief Financial Officer. I now hand over the call to the management for their opening comments. Over to you Sir!

Anant Goenka: Thanks Kevin. Good evening and a very warm welcome to CEAT's Q4 FY2017 earnings call. I am Anant Goenka and I have with me, Mr. Kumar, our CFO. I would briefly share with you our results and a few key parameters relating to our results before opening up for questions.

Some information on year-on-year data analysis for Q4: CEAT India registered a 4.7% net sales growth on a year-on-year basis driven by a volume growth of 4.4%, price and mix contributed to 0.3%. On the volumes front, we saw growth in the replacement market by over 10%, OEM and export on the other hand showed a decline. The decline in OEM market was an account of continued impact of demonetisation in the two-wheeler and passenger car segments. We were growing to about 15% in OEMs until November. In the last four months of the year, there was a negative growth of 1%. The dip in exports was on account of some import barriers, which were imposed in countries, particularly in Indonesia, which had some impact on our export sales. Raw material price has increased by about 12% on a year-on-year basis.

Some information on a quarter-on-quarter analysis for Q3 versus Q4 of FY2017 CEAT India registered 4.8% net sales growth driven by volume growth of 2.6% and price and mix contributed to 2.2%. On the volume front, we saw growth in replacement market by again over 10%, OEM market remained flat and exports saw a decline and the reasons I have already shared with you. Raw material prices increase by about 7% on a quarter-on-quarter basis.

For overall FY2017 to FY2016, CEAT India registered a 4.4% net sales growth driven by volume growth of over 10%, price and mix contributed to about negative price 5-6%. On the volume front, we saw growth in the replacement part once again by 10% and OEM and export market grew by about 5%. Raw material prices at overall level were flat compared in FY2017 compared to FY2016.

I am happy to share that CEAT was ranked highest in India by the J.D. Power 2017, India Original Equipment Tyre Customer Satisfaction Index study released on March 28 of this year. We would rank the highest in customer satisfaction with the score 893 on a 1000 point scale. The study, which is now in its 17th year largely measures customer satisfaction amongst OEM tyre owners during its first 12 to 24 months of ownership and looks at four key factors, appearance, ride, durability, and traction. J.D. Power as you all know is one of the foremost customer satisfaction ranking companies across categories globally, not only in the tyre space, but across industries as well.

In line with our overall purpose of making mobility safer and smarter, we launched our latest version of our Drive Safe Dad Campaign, which we called as Drive Safe Dad Bobbleheads. I am not sure if you had a chance to see it on YouTube, but the digital campaign focuses on discouraging dads from overspeeding their vehicle through an innovative method of placing customized Bobbleheads on their vehicle. These Bobbleheads speak out a personalized message in the voice of their kid cautioning dads not to overspeed. Overall, these digital marketing campaigns have been a huge success with over 1 million hits on YouTube.

On the product front, we rolled out our latest product CEAT Milaze Tyre for high selling taxi segment particularly the SUV segment and niche tyre provides improved life and load carrying capacity along with higher mileage of over 1 lakh kilometers. In addition, we launched our ultra high performance sports drive tyre for high-speed premium vehicles in Europe.

From a financial perspective, margins have seen some decline predominantly due to increase in raw material cost. We have tried to pass on some of the raw material impact through price increases over the course of this quarter, which largely happened around the latter half of February and March.

Going forward, we expect our focus on product mix improvement towards higher margin and passenger segment to continue. I also feel that growth may be a little bit positive in light of overall inflationary change that is happening.

I now hand over the call to Kumar Subbiah who will talk about certain other financial parameters.

Kumar Subbiah: Thank you Anant. Good evening to you all. I will present now the key financials for Q4 2017 followed by full year numbers.

First quarter four 2017, our consolidated revenue grew by about 5.2% over the previous quarter and also the quarter of previous year. Our net revenue was about 1458 Crores that compares well with Rs.1386 Crores in quarter three 2017 and the same number 1386 Crores in quarter four 2016. Our consolidated gross margin for the quarter stood at 36.5% and it contracted by about 436 basis points sequentially and about by over 660 basis points over the same quarter last year.

While our raw material cost increased by about 13% quarter-on-quarter and about 17% year-on-year, we were able to control our other expenses efficiently during the quarter. Our consolidated EBITDA stood at 137 Crores in quarter four 2017 versus 158 Crores in quarter three and 193 Crores at same period last year.

Our EBITDA margin for the quarter was 9.4% and our consolidated profit and PAT stood at 66 Crores in quarter four 2017 versus 84 Crores in the previous quarter that is quarter three and 98 Crores in quarter four of 2016. The profit margin that is PAT was 4.5%. The PAT number for the quarter includes 12.5 Crores of exceptional items that is expenses incurred towards VRS and also higher depreciation about 11 Crores versus the previous quarter.

Now, I will move to full year, financial year 2016-2017. Our consolidated debt revenue grew by about 5.1% and stood at 5722 Crores that compares favorably with the previous year number of 5447 Crores.

On margin front, our gross margin for the year stood at 40.6%, it contracted by about 270 basis points compared to previous year. EBITDA for the year was 685 Crores with the 12% margin and profit after tax for the full year stood at 361 Crores, which is about 6.3% margin. Company's networth as of March 31, 2017 was 2415 Crores and debt was about 920 Crores.

Our debt equity ratio continues to remain healthy at 0.4. I would also like to inform you that Board of Directors today approved a dividend of Rs.11.50 paisa per share for the year 2017.

Now, I will move to our performance at Sri Lanka. Sri Lanka revenue grew by about 3.5% quarter-on-quarter with the volume growth of about 7%. EBITDA margins stood at 17.3% in quarter four. EBITDA margin for a full year remained healthier 21.3%. With this I will open up for Q&A.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Nitesh Sharma from Phillip Capital. Please go ahead.

Nitesh Sharma: Good evening gentlemen. Thank you very much for the opportunity. Sir, can you throw some more colours on segment wise volume performance in the quarter both in the replacement as well as OEM by segments?

Anant Goenka: With respect to OEM side, overall as I had shared with you it has largely been flattish overall growth. So for the OEM segment, I have said largely the tractor segment has been weak, overall we have seen again a flattish or slightly negative growth on the three-wheeler side, but positive growth coming in on the passage car and UV side of nearly about 15% plus kind of levels. This is the OE data. On the replacement side, in overall positive growth, a little bit on the truck side that is because of Chinese tyres kind of coming down, tractors has grown very well at 25% plus kind of growth levels. Motorcycles and scooter also have grown well in the replacement segment, about 15% kind of growth.

Nitesh Sharma: Sir, in the two-wheeler segment in the last quarter we has faced some headwinds, so are we through in terms of the market recovering well in the two-wheeler segment per se or are we seeing that customers are still delaying their purchases?

Anant Goenka: January and February was slightly difficult in the replacement, I am talking more about replacement. OEM has been challenging all the way until March, a little bit more positive. On the replacement side, I think from March onwards we have seen some positivity, till February it was quite challenging, but March had been an excellent month for us.

Nitesh Sharma: The momentum continues in April as well in the replacement?

Anant Goenka: Yes, we feel it will continue.

Nitesh Sharma: Sir, on the pricing front, we understand that the price hikes have been pretty aggressive in February, March as well as April, so our understanding correct that the you would have taken about 8% price hike in MHCV passenger vehicle and tractors tyres cumulative from January till date?

Anant Goenka: Overall, that is not correct at all. We would have taken about 3% to 4% kind of price increase until March 31, 2017. April may be a little bit more marginally here and there, but overall it has been really 3% to 4% price increase, not 8%, but there is s till a lag with respect to what raw material prices have gone up and price increases that have happened.

Nitesh Sharma: So this year talking about blended level price increases?

Anant Goenka: Blended across the board.

Nitesh Sharma: Across the board and two-wheelers would be the lowest within categories?

Anant Goenka: That is right.

Nitesh Sharma: If my understanding is correct around 2% to 3% in two-wheelers?

Anant Goenka: Yes.

Nitesh Sharma: One clarity, on VRS, how many employees would have opted for VRS in this quarter?

Anant Goenka: We would not be able to share with you numbers, but largely they from our older plants of Nasik and Bhandup.

Nitesh Sharma: Thanks and Sir in April, how much price increase would have taken?

Anant Goenka: April we were looking at something as we speak at this point of time.

Nitesh Sharma: Thank you. I will come back in the queue.

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

Basudev Banerjee: Sir, I just missed out you said two-wheeler replacement volume growth, how much?

Anant Goenka: Talking about year-on-year or quarter-on-quarter?

Basudev Banerjee: Year-on-year.

Anant Goenka: Year-on-year growth has been about 18% to 20%.

Basudev Banerjee: Sir like since the raw material peaked out and you have taken partial price hikes, so what has been quantum of raw material basket declining from the peak as you said that Q-O-Q basis it has increased 7%, so at present themselves from Q1 perspective, how to look at that and how will the costlier inventories impact the Q1 numbers?

Anant Goenka: Yes, I think we have still not experienced the entire impact of raw material price increase that had happened between say November and February, so even going on to January, February we had purchased material at higher prices, which will now come in, in quarter one of this year, so we do expect a further raw material price increase from quarter four to quarter one. I'd say from quarter two onwards for us from a consumption perspective quarter one will peak and then it will start going down from quarter two onwards if raw materials continue to remain where they are today.

Basudev Banerjee: So slight chance or raw material basket further increasing in Q1 you meant?

Anant Goenka: Yes, only with respect to price increases as I shared we have taken in February, March so that positive impact will come in to a certain extent, so I'd say that is how the kind of, there is net realization in quarter four have not gone up as much as it will go up in quarter one.

Basudev Banerjee: Overall rupee also appreciated significantly and absolute commodity prices have also started falling, so how do you envisage the raw material basket say from Q2 angle assuming those remains status quo?

Kumar Subbiah: One of the reasons for drop in raw material prices is also because of appreciation of rupee, so as far as quarter one is concerned as Anant mentioned the average raw material cost is likely to be higher than quarter four of last year. If the rupee has appreciated approximately about 5%, so that benefit we would certainly get it on raw materials that I have imported into India or material where import parity is the way to arrive at prices, so it should have a favorable impact.

Basudev Banerjee: Sir, two more things one if I see as you said in the initial remarks you have tried to control other expenses in a quarter where gross margin was low, so it is like six quarter lower other expense, so in coming quarter being IPL quarter with so much TV advertisement should we expect that inch up significantly.

Anant Goenka: Yes, cost will go up in advertising particularly so just the way we had in last April, May, June, the advertising cost will continue to be at a similar kind of level as last year. There will be an increase.

Basudev Banerjee: Last question, Sir I missed out, why this jump in depreciation by around 11-12 Crores you said, what is the limit of one of in it?

Kumar Subbiah: We commissioned our facility at Nagpur last year and also our expansion at Halol progressively, so the impact of the depreciation was about 11 Crores for quarter four.

Basudev Banerjee: But this kind depreciation will continue down the line?

Kumar Subbiah: It will continue.

Basudev Banerjee: Sure sir, so it is sustainable number now?

Kumar Subbiah: I only mentioned that quarter four depreciation was higher by about 11 Crores.

Basudev Banerjee: Sir, tax rate was negative just as a Q4 adjustment level or some benefit you have got?

Kumar Subbiah: Lower tax rate in quarter four was because we had capitalized certain project expenses and also we have incurred R&D in the quarter four, so R&D expenses as per Income Tax Act is eligible for 200% deduction and similarly all capital expenditure incurred during last year since we have incurred more in quarter four, also we took that investment allowance benefit of 15% and when we worked out the quarter four income tax liability turned negative.

Basudev Banerjee: So we should continue with that 29%-30% effective tax rate down the line?

Kumar Subbiah: The effective rate is lower than the previous year number. As investment allowance is going away from April 2017 and R&D benefit is also come down from 200% to 150%, that benefit we will not get in 17-18 in the same amount, or R&D will still get, but little lower, investment allowance will disappear.

Basudev Banerjee: Thanks. I will get in the queue.

Moderator: Thank you very much. The next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir, traditionally this two-wheeler segment used to be less competitive your were able to increase prices quite regularly, but I think in this last three-four months price has been increase a least in the segment so are we seeing that it is becoming more competitive as it is very difficult to take price increase because market leader is also very cautious in the segment?

Anant Goenka: So on two-wheeler side, I'd say competition has not increased largely the number of players are the same. I'd say that there are various announcements made last year of players coming in, but those are still very small capacities that exist. It is still a similar kind of a competitive environment. Right now what we stand at is our pricing is at relatively high level versus competition, so at this point of time, we are not depending on competitive moves, we will take a call on pricing.

Ashutosh Tiwari: You said in truck segment industry has taken 3% to 4% price increase so far?

Anant Goenka: Truck segment is a little bit higher. This was a weighted average kind of price increase that I shared across categories; truck may be around 5% kind of level.

Ashutosh Tiwari: Again you get another price increase end of April as you said?

Anant Goenka: That is right.

Ashutosh Tiwari: Sir you mentioned replacement volume growth in two-wheeler this quarter of 15% to 20% it was for the year?

Anant Goenka: Sorry, for which category?

Ashutosh Tiwari: Two-wheeler replacement volume growth for this quarter is how much?

Anant Goenka: It was a year-on-year for quarter four is the data that I shared.

Ashutosh Tiwari: 15% to 20%?

Anant Goenka: Yes.

Ashutosh Tiwari: Sir now that our market share is also at reasonably high level in two wheelers and so we do think that the kind of growth that we are delivering earlier in two-wheeler can continue still around say 20% odd level?

Anant Goenka: Yes, I think at least for the short-term we can see a good growth level coming because scooter side has seen very high growth from an OEM side in the last two or three years. Also our capacities have been limited on the two-wheeler side particularly scooter side until say six months ago, so what we have been doing with our new Nagpur plant coming in we have added a fair amount of scooter capacity, so there we can expect some better growth going forward provided the entire demonetisation impact I am assuming comes to an end at this point of time. Second is with one or two OEMs we still have some opportunity for increased share of business as well, so these are the two positive opportunities beyond normal growth of the market that we can expect.

Ashutosh Tiwari: If I can ask one more question, on this two-wheeler side as tubeless is how much percentage is overall market as of now and how it is growing and how is the price differential between tubeless and non-tubeless tyres?

Anant Goenka: I'd say that overall the market would be about 50:50 approximately between tube type and tubeless.

Ashutosh Tiwari: 50 you are saying?

Anant Goenka: Yes, with respect to pricing I said the tube plus tyre would be same price as the tubeless tyre.

Ashutosh Tiwari: Thanks a lot.

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

Ameen Pirani: Good evening Sir. Thanks for the opportunity. My question was a slightly more long-term structural so when we were seeing the raw material prices falling initially the industry held on to prices, which led to margin expansion and then the price cuts happened slightly late in the cycle and now we have seen around three to four quarters of raw material price hike is happening and obviously price hikes on the product side has happened, but obviously with the lag compared to the previous cycle, which was like five-six years back, do you feel that the industry seems more disciplined right now or in terms of raising prices or you think that there could be a similar pain as we had seen in the last cycle where price hikes lag the raw material prices significantly?

Anant Goenka: Yes, I think raw material prices really have been going up for three-four quarters, they went up from November onwards itself and it was a very sharp increase that we saw this time nearly a 30% or 25% kind of price increase in raw material in one shot. This means literally in 45 to 60 days time. That kind of price increase is always very difficult to pass on in such a short time period and I would say that the fact that we have been able to do whatever we have in the last quarter has been positive. Good thing is raw material prices have started to come down and to me looking at the current environment possibly this is tougher time that we are going through with respect to margins at this time because now raw material will expect to, say if it flattens out or remains at current levels or improves further we do not know what will happen, but say assuming that were to happen and we get a little bit more price increase then we would be in a relatively better position in this cycle than in last cycle. Last cycle also our balance sheets, etc., structurally I'd say there was a more challenge to the industry as well as to CEAT. This time, we are far stronger as the company. Strategically also we have moved towards stronger positions in certain segments where we can be stronger with respect to pricing calls. So that is where we stand at this point of time. I think this time the impact of raw material on margins has been less what I feel, but I cannot comment whether the industry is more disciplined or what is happening, it is a more competitive market and in some cases we have to take the pricing based on competitive move sometimes we can take a call ourselves.

Ameen Pirani: Secondly on the truck side, the price increase as you are talking about I am assuming this is bias right?

Anant Goenka: Across the board, bias and radial.

Ameen Pirani: So just to get a sense the fact that the industry as well as you are being able to take reasonably aggressive price hikes on the bias that is mean that the incremental impact from dumping from China has come off significantly or are you saying that China is dumping or the Chinese imports have reached a sort of saturation point beyond which customers are not really going for that option?

Anant Goenka: Post demonetisation what happened is Chinese tyres imports in the country came down quite substantially, January, February and March overall have been quite low. In my view going forward it can come back you know when cash comes back into the system. It can come back in my view. What has happened those structurally is we are finding that Chinese tyre prices have gone up by about 10% to 15% and that is lending them a little less competitive time what has happened had happened earlier.

Ameen Pirani: So basically you are just maintaining the same gap by increasing your prices as well?

Anant Goenka: I'd say Chinese tyres to me have not really impacted the pricing as much. I may have resulted in better growth, but less on pricing impact.

Ameen Pirani: Okay, that is all from my side, thanks for the opportunity.

Moderator: Thank you. The next question is from the line of Chinmay Gandra from Future Generali. Please go ahead.

Chinmay Gandra: Thank you for the opportunity Sir. Sir what in our volumes in terms on numbers for India at this time for the quarter?

Anant Goenka: Yes, Chinmay, volumes for?

Chinmay Gandra: For the quarter India volumes, metric tonnes?

Anant Goenka: I would not be able to share metric tonne data for overall.

Chinmay Gandra: Normally quarterly you will put it on the PPT, so that?

Anant Goenka: Yes, so I do not have the data here with me.

Chinmay Gandra: So you said the volume growth was 2.6% YOY right?

Anant Goenka: That is right.

Chinmay Gandra: That would be for the India entity right?

Anant Goenka: 4.4% growth on a year-on-year for the quarter.

Chinmay Gandra: 4.4% growth on a year-on-year basis for the quarter?

Anant Goenka: Quarter FY2016 to quarter FY2017

Chinmay Gandra: That would be for the India business excluding the Sri Lankan right?

Anant Goenka: Yes.

Chinmay Gandra: Sir, regarding the price hike that we are taking right now also and you said that there would be also some impact of raw material increasing on a sequential quarter-to-quarter basis, so on a net-to-net basis, do you feel that the gross margin would also be getting Q-O-Q FY2018?

Anant Goenka: Difficult to give you an exact indication, but I think that the net realization increase may be a little bit better than the raw material price increase that we can expect in a comparison of quarter four to quarter one, marginally if at all. For us our expenditure will be quite high in quarter one because of advertising.

Chinmay Gandra: Sir what kind of volume growth do we foresee for this year and may be next year?

Anant Goenka: We do not give guidance, but broadly I'd say that from an environment or industry perspective things are similar to what they were last year excluding the demonetization part of it.

Chinmay Gandra: Thank you Sir for the opportunity.

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

Prashant Vass: Thank you for the opportunity. Sir first just wanted some update with the so-called Chinese import has obviously reduced significantly and it was recently in the news that the dealers and association are aggressively lobbying against it. So what is your take on this from an industry perspective and whether you think this will happen or whether industry is significantly or structurally has seen the Chinese reduction how will you take on that and my second question would be from a medium term perspective do you think considering the commodity cycle that we are in that it would be easy for an industry and not just for CEAT to see profitability level rise to where they were say a few years back or that would be probably difficult?

Anant Goenka: With respect to Chinese truck radials were coming in particularly at very low prices. They were being dumped into the country. Market shares of Chinese tyres had reached over 30% kind of levels, so clearly there was a fair amount of damage that was happening to the industry. Demonetisation has helped to a certain extent, but in my view if nothing is done it can go back to higher levels going forward. I do believe that the government should take some action towards large amounts of truck tyres coming into the industry at such low prices. According to me they are barely coming at raw material even if you take off our margins at 0, the Chinese tyre prices are priced lower than that. So I think there should be some corrective action that should be taken, but we do not know what will happen yet. The decision is yet to be taken and it has been nearly couple of years from the time we filed for anti-dumping duty. With respect to long term profitability, I mean for us efforts are all on to keep increasing it through product mix improvement, but taking our pricing up and by offering better value to customer. Now what is the long-term profit it is difficult to again give a number as to what number is expected going forward. Of course if the environment goes back where raw material prices come down just the way they had come last time, we can clearly go back, but I'd say that was a positive environment external environment, which helped where raw material dropped quite sharply.

Prashant Vass: Sir if I can is it fair to assume that if commodities remain where they are like mid cycle levels then profitability should be looked at also with that in the next context?

Anant Goenka: Yes of course.

Prashant Vass: Thank you.

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

Jay Kale: Thanks for taking my question. Sir my first question was of course a follow up on the pricing environment, so prices were at say 121 to 130, status quo was maintained on pricing and in fact they were on a reduction of pricing curve. They went up to 180 and the price increases the industry started. Now that the prices are back raw material prices are back to say around 140 to 150 what is the level of say raw materials that where the industry apart from quarters lag may be per the industry would say this is the raw material price that we are comfortable at and these are the say gross margins per kg that we would be comfortable at and that is where we would like to settle our prices too. So to what extent can the industry increase prices from here on and is there an element of GST coming in and hence and kind of whatever on the pricing has to be done to be done before that is that a consideration as well?

Anant Goenka: These are very difficult questions. You are expecting me to answer on behalf of the industry and I do not have that visibility. So I would say that I really cannot answer your question because of I do not have enough information. I would say right now as I said that the kind of raw material price increases that have seen we have not recovered the kind of price increase. We would of course like to take some more price increases so that our margins can go back up to either older levels or just marginally lower than that at least initially from a pricing perspective, but whether the industry will do it or what is going to happen is very difficult to say, so it depends again our areas of strength we can go first. I cannot give you an answer as to what is the level the industry is going to settle at and what kind of action is going to be taken based on that.

Jay Kale: Thanks.

Moderator: Thank you. The next question is from the line of Shyam Sundar Shriram from JM Financial. Please go ahead.

Shyam Sundar Shriram: Thanks for the opportunity. Sir my first question pertains to in the event of anti-dumping duty coming through, I presume Chinese TBR has also been eating up partly into the truck bias tyres, so will CEAT benefit from a truck bias perspective if anti-dumping duty comes through?

Anant Goenka: Yes. One it depends on as to what is the quantum of anti-dumping duty, but yes if it does come in of course we will benefit from a truck bias and radials. It is nearly like one industry. It is a little bit fungible. The pricing of course is lower than truck bias. You are right on that.

Shyam Sundar Shriram: Sir my second question is largely housekeeping question. Sir our inventory levels at the end of the year have seemed to have slightly gone up compared to last year. Any particular reasons for that?

Kumar Subbiah: See our inventory has a mix of both local as well as imports. We normally whenever we buy materials we have a cover policy we try to manage within that. So it is not about physical inventory. What we focus upon is the total cover. During this period say quarter four, we had a higher share of local purchases and lower share of imports. So when we buy locally it leads to a higher physical inventory. Normally in case of when we contract with international suppliers there is a lead-time. If we order material, the material will come say two to three months from now depending on the schedule that we give. Whereas in a commodity kind of an environment when you buy you have take physical delivery immediately. So we held a little higher inventory of natural rubber during the month of March, which we hope to bring it down during the months of April and May.

Shyam Sundar Shriram: Sir that helps, but Sir I presume these purchases would have been made at slightly higher prices, I mean given the rubber prices have been slightly cooling off. Will this also imply that there could be some sort of inventory loss in the next quarter?

Kumar Subbiah: No actually buying performance will have to be evaluated based on your total cover not based on physical holding of the materials. We took advantage of some prior benefit available in the local market. So therefore physically we had to hold it, but overall cover is actually as in March if we were to compare with the same period of earlier year or earlier quarters overall exported was less than the previous quarters. So we saw market going down and we also brought down our overall cost.

Shyam Sundar Shriram: Usually we have an inventory for the next three to four weeks Sir what is the usual inventory from a natural rubber perspective?

Kumar Subbiah: Physical inventory depends on our immediate requirement; however, it would always depend on lead times. Suppose we are importing material, it is important to cover at least two to three months in advance depending on the lead times particularly now for example natural rubber is supposed to be in off season now. The production is normally less because the tapping stops in Thailand between March and May, Vietnam April and June and things like that, so in those periods we will have to cover for say three months in advance. To give you a short reply it depends on the lead time.

Shyam Sundar Shriram: Got it Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Kunal Khatwani from CRISIL. Please go ahead.

Kunal Khatwani: Thank you for taking my question. First of all you mentioned the price hike was around 3% to 4% until March 31. Will that be Y-O-Y or quarter on quarter?

Anant Goenka: No, price increase is the price increase taken from the base of whenever it was taken.

Kunal Khatwani: Quarter on quarter approximately because in February you had mentioned that you have just taken a 0.5% hike.

Anant Goenka: That is right.

Kunal Khatwani: So that will be almost quarter-on-quarter.

Anant Goenka: That is right.

Kunal Khatwani: And that was taken post mid February?

Anant Goenka: Yes that is right.

Kunal Khatwani: For April you said you are still discussing but last time you mentioned that an 8% hike would cover the rise in raw material prices?

Anant Goenka: That is right.

Kunal Khatwani: Should it be around that level the hike?

Anant Goenka: No.

Kunal Khatwani: Lesser?

Anant Goenka: Yes. It will be certainly be lower levels. We are still discussing.

Kunal Khatwani: Got it and secondly on the inventory, so like Sir said that usually you cover 2 to 3 months; if that is the case then the November increase in prices would have hit you in February. Right the natural rubber?

Anant Goenka: That is right.

Kunal Khatwani: So, but did not you think that it would hit in Q1?

Anant Goenka: But what happened is that November was when it started going up. In October and November, but it continued to stay at high levels and peaked in February. So February purchases will start hitting us in May or June 2017.

Kunal Khatwani: Okay, that would hit you in May, June and then post that will be the biggest hit as you mentioned?

Anant Goenka: Yes, you are right.

Kunal Khatwani: Okay and also one more thing, the price hike would be highest in which segment Sir?

Anant Goenka: On the commercial vehicles side.

Kunal Khatwani: Commercial vehicles side. Thank you.

Anant Goenka: Thank you.

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

Sonal Gupta: Good evening. Thanks for taking my question. Just I wanted to understand, I mean you mentioned volume growth of 4%, which seems to be quiet low compared to I mean like for the last three quarters you were growing in double digits and even last year you were growing pretty well. So, I just want to understand why this quarter is sort of slowed down, I mean any major reasons for that?

Anant Goenka: Yes, it was mainly hit because of demonetization. OEM was a big hit where we were growing by about 10% kind of levels. Export, as I shared again on my call that Indonesia was one market that got hit because of some non-tariff barriers and so it is largely because of the big change of demonetization, our volume growth earlier with about 10%. In fact year-on-year also is at about 10% levels for the full year, but Q4 has gone down to 4%, but I do not think this level of growth will continue. It should go up higher.

Sonal Gupta: But, if I understand correctly like you mentioned, your replacement market growth is still 10% plus? Is it?

Anant Goenka: That is right. Yes, at 10%.

Sonal Gupta: For this quarter as well?

Anant Goenka: Yes.

Sonal Gupta: Okay, and how do you see this, I mean what is your expectation in terms of the two-wheeler market or the car market growth in terms of could you talk about also you have been focusing more on the SUV segment so, where do you stand in terms of market share etc?

Anant Goenka: I think growth we expect to continue to be positive itself. I think car, two-wheelers overall had seen a good growth in the OEM segment, particularly car segment and SUV. Last year was a bumper year for SUV. SUVs grew at about 30% with BRV, Brezza, huge successes in a bunch of new launches coming in. So I think actually growth will continue to be very strong. Car segment also has been positive led by high growth from Maruti and OEM side. So all of this will start reflecting in the replacement market going forward also. So car is positive. I think even the two-wheeler side is positive may be not as strong as car, but at an industry level, 7% to 8% growth is easily possible.

Sonal Gupta: For two-wheelers?

Anant Goenka: Yes.

Sonal Gupta: Thank you so much for taking my question.

Moderator: Thank you. The next question is from the line of Pavan Kumar from Unifi Capital. Please go ahead.

Pavan Kumar: My first question was regarding the elevated inventory levels in the sense we have around Rs.920 Crores of inventory versus some Rs.700 Crores reported during the first half of the year. So, has there been any recent inventory purchase or when has it been and how was it expected to effect our raw material mix?

Anant Goenka: I think we just answered the question.

Pavan Kumar: Okay, so overall we are saying that is because of physical inventory we have purchased domestically, is it?

Anant Goenka: Yes.

Pavan Kumar: Okay; and secondly what is the kind of price hike we would have to take may be in Q1 entirely to compensate for whatever raw material rates that happened in January and February?

Anant Goenka: I think I shared about that we need about 8%-9% of price increase overall to look at the overall raw material price increase; out of which we have taken about a 3.5% to 4%. This you have to maintain margin at least another 4% to 5% price increase is needed for going forward unless raw material begins to come down in Q2, Q3.

Pavan Kumar: Okay, and what is the kind of if you can throw some figures or what is the kind of expenses going up that we see in Q1?

Anant Goenka: I will say that you can just look at last year. I mean the big expense as I shared was the IPL investment.

Pavan Kumar: Should we expect higher levels than that?

Anant Goenka: Similar to last year I would say at least from an advertising side, other expenditures I would not have details on, but our ad expense between last year and this year Q1 to Q1 should be similar.

Pavan Kumar: Okay, so there is no kind of inflationary kind of effect on the expenses, but it is more on a year-on-year basis. It is going to remain relatively same?

Anant Goenka: That is right I think so. Maybe marginal inflation here and there what ever is there manpower cost, other costs that gets inflated, but I do not have details on the exact expenditure kind of increase. So maybe some marginal inflation here and there could be there, but the big expenditure at least on a quarter-on-quarter basis, Q4 to Q1 for example will be our advertising cost.

Pavan Kumar: Okay, on Ambernath, what is the kind of revenues we expect to do at full capacity on that particular unit? Since we are investing our Rs.330 Crores I suppose?

Anant Goenka: With respect to Ambernath eventually it will be a 100 tonnes per day plant in two phases; that will be may be what about Rs.800 Crores to Rs.1000 Crores kind of revenue from plant once it is fully ramped up, and we have completed all phases of expansion. All phases means at least the initial what we call as expansion in about a couple of year's time. We are going slow on this expansion, because phase-I, the products etc., still need to be tested. So that is how we look at Ambernath.

Moderator: Sorry to interrupt, but may we request you to return to the question queue for follow questions as there are several participants waiting. Thank you. We take the next question from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Thanks for the opportunity. Sir, I have two questions; one was that if rubber stays where it is around 140 levels and currency, what kind of price hike is actually yet to be required because when you gave a guidance 8% and 9% of price hike rubber was at around 160 or odd levels?

Anant Goenka: I think I have already answered the question. I think that a little bit of analysis if you could just do and check it out, we have not gone into that much of detail as to what exactly is needed. I have shared based on what had gone up it has gone up to about we would need about 8%. We have taken 4% totally.

Chirag Shah: Then if I were factoring the rubber price's correction, then their 8% number would come down significantly. So, the incremental hike may not be that big as it was earlier envisaged. Is it the right way of analyzing it?

Anant Goenka: I will say that yes it can be marginally lower with respect to the price increase needed; not much lower because I think raw material price went up quite higher. It has come down a little bit particularly natural rubber a little bit has come down, but it has not come down as if you look at an overall basis, 20% to 25% increase in raw material. It did not come down by say half or so something like that. It would have come down by 7% to 8%.

Chirag Shah: Yes, for the other basket still had not seen that kind of correction in the synthetic, carbon black, NTC has not seen that kind of correction. Is that the right way of understanding?

Anant Goenka: That is right.

Chirag Shah: So, second was that in 1H if we look we were around 12% to 13% kind of margins and reasonable strong volume growth. From Q2 onwards, when volume normalizes and commodity impact also largely normalizes, can we revert back to that kind of margin or profitability?

Anant Goenka: We do not give guidance as I shared with you. What I suggest is I think that something which depends really on what kind of price increases we are able to get over the cost of this quarter or so and I think we are working on improving our mix continuously with focusing more on the passenger segment. So, hopefully we will be able to look at improvement going forward?

Chirag Shah: The second question was in Indonesia, can you just brief what was this non-tariff barrier and it is still in continuance or not?

Anant Goenka: There is some kind of stops that they put on exports into Indonesia, so it is continuing at a smaller lever. So they have allowed some imports to come in but at a very small percentage. So, say for example if exports were hundred per month, that hundred now it came down to zero. Now it has gone up to thirty kind of level.

Chirag Shah: Yes, I am just asking a follow up on that. I will not come up another question. Is there time bound tariff restriction or it is open-ended they will decide when to allow normalization?

Anant Goenka: So, if it is not a tariff restriction that is non-tariff. So these have made exports difficult. They have added some documentation. We have stopped imports for all not only Indian tyre companies, I think it is now may be targeted to Chinese tyre companies and we are therefore getting effected as a result of this aspect. So, it is more to it; I think a little bit of political issues or things like that which should not be within our control.

Chirag Shah: So it is open ended in that sense. Thank you. This was really helpful.

Moderator: Thank you. Next question is from the line of Disha Seth from Anvil Share Stock & Broking. Please go ahead.

Disha Seth: Sir, I wanted to ask that for scooter tyres, is the realization per kg same as the motorcycle tyres and also the margin?

Anant Goenka: No, I cannot share these details with you, but I will say broadly it may not be very different.

Disha Seth: Sir, what was with the capex planned for FY2018 and FY2019?

Kumar Subbiah: Capex we will continue to have routine capex of about Rs.150 Crores. In case of projects, we expect to spend about Rs.600 odd Crores during the year. You may not capitalize the project part of it; that will get capitalized as and when the plant is commissioned or plants are commissioned. Between 150 and 600 is what we expect to spend.

Disha Seth: Sir, did you mention that two-wheeler will register 7% to 8% approx growth for the next year?

Anant Goenka: I said the industry growth is expected. Somebody asked a question on overall industry for passenger car segment, two-wheeler segment. I said that overall that the industry growth may be at around 7% to 8%.

Disha Seth: This is the last question. Sir, when Halol and Nagpur are fully utilized, what will be the turnover expected?

Anant Goenka: So, Nagpur in terms of tonnage terms is about a 120 tonnes per day capacity about 1000 Crores kind of revenue form Nagpur phase I and Halol eventually be close to about Rs.1800 Crores to Rs.2000 Crores with all of Halol.

Disha Seth: And they are right now at 50% around?

Anant Goenka: That is right, less than 50%.

Disha Seth: Thanks a lot Sir.

Anant Goenka: Halol will be at higher. Nagpur is lower.

Disha Seth: Thank you.

Moderator: Thank you. Due to time constraints we will be able to take one last question. The last question is from the line of Chinmay Gandra from Future Generali. Please go ahead.

Chinmay Gandra: Thank you Sir for the opportunity again. Sir, with respect to the volume growth right now in April have we seen some kind of revival like you mentioned last quarter was impacted by the monsoon?

Anant Goenka: No, I cannot share with you April data, but I'd say overall we do feel with respect to at least March there was some positivity that we saw. So I am hoping also it happens in summer months etc., the sale is generally a little bit higher. So, we hope that this momentum will be with external environment of summer month's higher sales in Q1 etc., will all come into effect also.

Chinmay Gandra: Last question Sir. Basically other expenses, where did we curtail in this quarter?

Anant Goenka: Other expenses?

Chinmay Gandra: Yes, so we curtail around Rs.10 odd Crores of other expenses on quarter-to-quarter basis. So, I mean broadly where did we curtail it?

Kumar Subbiah: This was discretionary operational expenses and we had also cut some advertisement during the last quarter.

Chinmay Gandra: Thank you Sir.

Moderator: Thank you very much. That would be the last question for today. I will now like to hand the conference back to the management for any closing comments.

Anant Goenka: Thank you everyone for your time and coming in and your interest in CEAT. I will look forward to seeing you once again next quarter same time. Thank you.

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