



“CEAT Limited
Q1 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the CEAT Limited Q1 FY2020 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Hitesh Goel from Kotak Securities Limited. Thank you and over to you, Sir!

Hitesh Goel: Thanks Nirav. Good evening, I would like to welcome you all for Ceat 1Q FY2020 results conference call. I would like to welcome the management of Ceat Limited. Today we have with us Mr. Anant Goenka, Managing Director of Ceat Limited, and Mr. Kumar Subbiah, Chief Financial Officer of the company. I will now hand over the call to Anant Goenka for his opening remarks. Over to you Anant

Anant Goenka: Thank you Hitesh. Good evening and a very warm welcome to CEAT’s Q1 call. I am Anant Goenka and I have with us our CFO, Kumar Subbiah here with me. I will now share with you some financial and operational highlights for the quarter gone by after which Kumar will share some more information, after which we can open up for questions.

For the Q1 FYT2020 performance, on a standalone basis we ended the quarter with revenue of 1704 Crores, a growth of about 1% on a year-on-year basis and a dip of the same amount on a sequential basis. The auto space as you all know has been going through very challenging times and as a result, we also saw a decline in our OEM and volumes. On the other hand, replacement growth of about 3.5% helped off set this negative impact completely and at a company level, our volume growth was flattish. Growth across replacements and exports was largely driven by two wheelers and passenger car radial segments. Our raw material cost went down by about 2% or so.

We have various capex plans that are underway. Our project implementation is largely on track, truck radial plant is ramping up as per our plans and we should fully ramp up in the next 12 to 14 months. We expect our passenger car radial capacities to come in by around December of this year and ramp up will take around two to three years time after that. The two wheeler capacity should come online by September of this year, that is just about a month and half time and we plan a ramp up of again about 18 to 24 months in the two wheeler segment.

As I told the CVI segment is growing through tough time, we are very confident of utilizing our truck radial capacities because there is enough opportunity to gain market share with respect to our brand equity and distribution in the CV segment and we have been underweight generally truck radial segment in the past.

On the passenger car space, once our passenger car facility comes in, we have a large order book from OEMs that will be coming on stream in another six months time, so fulfilment of that capacity also should not be an issue in the first six months and then hopefully after that, things in

the market should get back to better terms. So, in terms of timing, we are happy with the capacity expansion that we have planned.

In the current demand scenario we will have to wait it out a little bit longer for the two wheeler capacity to be fully utilized. We are also growing our value added services targeted towards commercial fleets, wherein we are providing tyres as a service to customers as well.

On the OEM side, we continue to make strong headway and we have strengthened our relationships with a number of OEMs. We are the exclusive tyre supplier for Maruti's new Alto, which runs on our Fuelsmart tyre, which offer better fuel efficiencies. We are also supplying tyres for Hyundai's new SUV that just got launched the Venue. We have also partnered with Hero for their new dual purpose motorcycle, the Xpulse 200 in the two wheeler space and our grip excel tyre will also be specially customized for this model.

Our investments in brand continue to be strong and consistent. We continue to partner with IPL this year as the official sponsor for the strategic timeout. This was also a period of the World Cup, where we were the associate sponsor on Hotstar, which gave us access to the young millennial as well as our entire target audience who now prefer watching cricket on online platform.

With these initial updates, I now hand over to the call to our CFO, Kumar Subbiah.

Kumar Subbiah:

Thank you Anant. Ladies and gentlemen, thank you for joining our earnings call. I will now present some key financial numbers over and above what Anant has already shared.

Our consolidated net revenue for the quarter was 1752 Crores, an increase of 1.7% versus same period last year and a decline of about 0.5% sequentially. Our standalone revenue for the quarter stood at 1704 Crores, a marginal drop of about 0.1% over the previous quarter and about 1% higher than same period last year.

Our consolidated gross margin for the quarter moved up by 30 basis points over Q4 and this was largely on account of lower raw material cost. The underlying improvement of gross margin would have been higher if we adjust the drop in finished goods inventory that happened during the Q4.

Our consolidated EBITDA for the quarter stood at 9.8%, a positive movement of 39 basis points versus Q4 and a drop of about 70 basis points versus Q4 of last year. We exercised tight control on all our discretionary costs that helped in keeping our overall cost in line with our Q4 and also same period previous year.

Our consolidated profit for the quarter stood at 81.48 Crores, an improvement of about 15% over same period of last year and about 26.6% improvement over the previous quarter. During the quarter, the company adopted Ind AS 116 leases effective April 1, 2019 using modified

retrospective method. This has resulted in recognizing right of use asset and corresponding lease liability to the extent of about 131 Crores. The effect of this adoption on our profit is very marginal.

I will give you now an update on our capital expenditure. Our total capital expenditure for the quarter was about 370 Crores at a consolidated level. We managed to bring efficiencies in working capital at an overall level and that helped to minimize our borrowings. Our debt level moved up by about 142 Crores during the quarter. We are currently reviewing our capital expenditure plan for the year. We expect our project capital expenditure to be in the range of about 1100 to 1200 Crores for the year on a standalone basis and there could be an additional about 200 Crores for our speciality business.

Our consolidated debt equity stood at a very healthy level of about 0.57 as of June 30, 2019.

Now I open up for Q&A.

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

Ashutosh Tiwari: Hello Sir. Can you share the growth rate in the replacement and OEM segment separately and also different segment like two wheeler?

Anant Goenka: With respect OEM and replacement sale on year-on-year basis approximately, OEM has been at about -5% or so in value terms. In terms of replacement and export, our replacement is somewhere between 2-5% and export has been about 8-10% kind of growth levels in value terms. We do not share generally our category wise growth numbers, but we have largely seen better growth in the two and three wheeler segments and passenger car segments.

Ashutosh Tiwari: So the growth is single digit only in both two wheeler and PCR?

Anant Goenka: Scooter has done very well because anyway they have been selling well at over 10-15% kind of growth levels on scooter. Motorcycle has been relatively subdued because that is how the past OEM growth has been, scooters have generally been growing well, but rest of the growth generally been all in single digit.

Ashutosh Tiwari: This OEM only 5% decline basically seems like our performance to market, as the market declined more, so we have gained market share over there in two wheelers and all, OEM?

Anant Goenka: It is difficult to say, this is in value terms. In volume terms it would be about 10% kind of decline in OEM.

Ashutosh Tiwari: Replacement, how much growth in volume terms?

Anant Goenka: Roughly just in low single digits, both replacement and exports.

- Ashutosh Tiwari:** Secondly, there is a big increase in the depreciation charges, can we just quantify what is the impact of Ind AS on other expenses and depreciation interest cost?
- Kumar Subbiah:** Both interest cost as well as depreciation about 10 Crores is the impact on account of changes.
- Anant Goenka:** But it does not have any impact on PAT, but that is the impact.
- Ashutosh Tiwari:** So you are saying that the interest depreciation both have gone up by 10 Crores each?
- Kumar Subbiah:** No, total both put together. It is predominantly depreciation and a small amount in interest cost.
- Ashutosh Tiwari:** Okay and the same 10 Crores is reduction from other expenses?
- Kumar Subbiah:** Yes.
- Ashutosh Tiwari:** Interest cost because of the capitalization of the TBR capacity from Q4, is that the reason?
- Kumar Subbiah:** Balance amount is on account of capitalization of TBR during the course of last quarter of last year. So, the full quarter effect of depreciation has been absorbed in Q1.
- Ashutosh Tiwari:** Lastly, even other income looks quite high in the current quarter, we have some one off in Q4 that is why it was high, but even for 15 Crores, it looks on the higher side. Any one off over there or it is normal income?
- Kumar Subbiah:** It includes, at different point in time, we dispose of some assets, so it is partly on account of that and we normally have some other income also to a tune of about 5-7 Crores every quarter, which is also over and above that.
- Moderator:** Thank you. The next question is from the line of Siddharth Bera from Nomura Securities Limited. Please go ahead.
- Siddharth Bera:** Hi Sir, thanks for the opportunity. Sir, my first question is on the TBR side, so given the current demand environment in OEM and expectation of replacement also probably slowing down because of weak freight availability, so I just wanted to check that initially we had indicated a close to 50% increase in this segment this year because of the ramp up in capacity, so any changes we expect to the ramp up in TBR given this demand scenario?
- Anant Goenka:** No, no real changes. I think TBR continues to do well, we are ramping up quite well, we were doing about 40,000 to 45,000 tyres last year and even as early as January of this year. We are now at a relatively higher level, we have gone up to close to 60,000 to 70,000 as that is ramping up. We are on track for reaching full capacity, may be somewhere between 100,000 to 120,000 in about 12 to 14 months time. There has been a slow down on the other hand on the truck buyer side, so while overall the commercial vehicle segment is weak, but for us, truck radial is where

we have been under kind of weighted because we have had always limited capacities. Now with the increased capacity coming in, we are seeing good growth there.

Siddharth Bera: Primarily in the replacement segment we are seeing the growth?

Anant Goenka: Not much growth coming on the OEM truck radial side.

Siddharth Bera: Sorry Sir, I did not get that?

Anant Goenka: It is on the OEM truck radial side because there itself there is negative growth, but on the replacement side, we are doing well.

Siddharth Bera: Sir second question is on the remaining part of the portfolios, PVs again we see that we have a very good order book which should drive growth for us, so I mean, in a scenario where the demand remains weak, I just wanted to understand what is the risk to the numbers or to our order book in case demand is weaker than anticipated?

Anant Goenka: The confidence level is quite high for new launches, so these are all new launches, these are not existing tyres that we are entering, which are old vehicles that are coming out. So when the new launches generally happen, unless the launch itself or the product itself is a failure, a large part of the market gets taken over by the new launch. For example, at the auto space you may have seen MG Hector has done so well in a declining environment, Hyundai Venue has done very well. So, while overall you find the older kind of models, which were launched a few years ago has seen a slowdown, the new ones generally do well and most of our new orders, nearly all whatever we are getting are all on new vehicles that will be launched over a course of the next say six to 12 months time.

Siddharth Bera: Last question is on the capex side. So, we are indicating overall consolidated capex are in the range of 13,00 to 14,00 Crores right for this year?

Anant Goenka: That is right.

Siddharth Bera: Sir that is basically the similar number which we had indicated earlier, so basically no change to that, because in the media I think there was some new going about lower capex number?

Anant Goenka: Yeah, so we are looking at deferring some of the capex that is there, so I think may be that had some standalone kind of numbers, I am not sure, but what we are doing is we are working on clearly deferring some amount of capex so that the total amount remains the same. We are working internally to see how do we say push it by a year or so. So, all this capex would have got spent in the next two to two and a half years time, can we do it in about three to three and a half years time. So, that is where some work is underway and we are hoping to look at deferring some of the capex that is there, say at least our downstream equipment that is there, so your mixers

etc., that come in, that is something which is unlikely to be deferred, but you have some tyre building machines or your presses, those can be deferred over time.

Siddharth Bera: Okay, but there is no change to this year's number?

Kumar Subbiah: I will just clarify. Last time we had indicated 1300 to 1400 Crores for standalone and in addition to that speciality, our estimate was about 200 Crores, now we are talking about 1100 to 1200 Crores for phased standard alone and another 200 Crores for speciality, so there is a drop of about 200 Crores. It is our standalone number is what you would have read.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Dolat Capital Market Limited. Please go ahead.

Abhishek Jain: Thanks for taking my question and congrats for the good set of numbers. There are plants, which is going to be operational in second half of FY2020, so how much this will impact our margin for FY2020 and FY2021 as the face cost will increase?

Anant Goenka: The two plants, one is truck radial, which is already on stream, so that is ramping up as we speak. So I do not see that having any adverse impact on our margins, we are growing well, most of the sale is coming from the replacement side, so I do not see any adverse impact. May be there will be some increase in interest depreciating cost as a result of that. At EBITDA level there will be no adverse impact. The other is on the two-wheeler side, right now, there is a slowdown in the market as you know, so I think on the two wheeler, we may have some challenges in utilizing the new capacities that are coming up in about two months time. On the passenger car side, as I said, we have enough OEM orders lined up to take care of our capacity for the first seven to eight months at least and then we have to see how the market does, but the initial, say 10,000 tyres per day that will come out, there is a fair amount of confidence there.

Kumar Subbiah: All this will not have an adverse impact on EBITDA for sure.

Abhishek Jain: Okay, so what is the margin guidance for FY2020 and FY2021?

Anant Goenka: No, no, we do not give margin guidance.

Abhishek Jain: Sir, my second question is related to the dealer inventory, what is the current inventory at a dealer level?

Anant Goenka: On the tyre space, it is generally not really relevant, what is the dealer inventory, because it varies. Very often dealer inventory can be even a one or two days inventory. So, dealer inventory is something which we do not even track and it is not really relevant because it is more like just in time type of sales that happens to the dealers.

Abhishek Jain: Okay Sir, just wanted to know about your dealership addition program, so how much dealers have added in last one year, can you throw some light on it?

- Anant Goenka:** We have a very large channel presence. So, if you look at our total number of sub-dealers in the two wheeler space that is there is 25,000 plus number of sub-dealers. We have about 4000 to 5000 dealers who we sell directly to as well. This is a very large channel presence that is there. What happens is we keep exiting dealers who are doing very low turnover with us, it is a long tail sometimes and you keep adding more productive dealers. So in terms of our presence all over India, we are at a very strong position. We are looking at going deeper and deeper into India and also looking at continuously increasing the depth of our current distribution that is there and therefore, again I would say that pure increase in number of dealers is not necessarily a fair indication of saying that okay if we added another 1000 dealers that means sales will go up by a certain amount.
- Abhishek Jain:** Okay, my last question is related to the outlook for the replacement market in the second half of FY2020?
- Anant Goenka:** If you see the replacement market has of course not got hit as badly as the OEM segment. Replacement market has been hit to a certain extent by sentiment, by slowdown in rural India, by increasing cost of purchasing vehicles etc., so some of those areas there has been a hit. So, clearly I would say there has been may be a 5-7% delta from what was happening in the past. I think things should be generally at either a similar or a little bit more positive level in the second half of the year. Very tough to say though, just because whatever anyone is estimating, now things are generally going worse every quarter, but I would say we have to wait and watch how the rains kind of end up and is there any government action getting taken to stimulate the economy.
- Abhishek Jain:** But growth in the replacement market was significant of one of your competitor, it was in double digits, so can we understand what is the reason of under performance of you in replacement market?
- Anant Goenka:** I am not in a position to comment on competitors, but I can clearly say that in our case, as I said truck radial growth has been quite positive. We are seeing good traction even on the passenger car side, I do not think we are under performing at our replacement market share level.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.
- Jinesh Gandhi:** Hi Sir. My question pertains to RM cost. You indicated RM cost was down 2%, is that on Q-o-Q basis or on Y-o-Y you are referring to?
- Anant Goenka:** Q-o-Q basis.
- Jinesh Gandhi:** Okay, given that natural rubber prices are along with the crude prices, what kind of cost impact do we see in coming quarters?

- Anant Goenka:** I think raw material prices generally should be at current level going forward. If you look, domestic rubber has gone up quite substantially, but on the other hand, international rubber still remains at much lower levels versus domestics, so the rubber was at about Rs.130 per kg, it went up to about Rs.136 now internationally, but domestic is about Rs.150 per kg. We can still look at increasing our imports if that gap continues, so to that extent it will not have an impact going forward. Crude has come down a little bit. If you look on say a three-month kind of basis, it was about \$73 to \$74, it is \$62 now. So, to that extent, the crude derivative raw materials will reverse that impact. Net to net, I think things should be flattish on the raw material side.
- Jinesh Gandhi:** Any pricing action we have taken in 1Q or in July?
- Anant Goenka:** We have taken a small price increase on commercial vehicle from July 1, and we will be looking at another price increase possibly in the next few days time as well, again on the CV segment. A total of about between 1.5% to 2%.
- Jinesh Gandhi:** So 1.5% to 2% between July and upcoming increase?
- Anant Goenka:** Yes.
- Jinesh Gandhi:** Second question pertains to the capacity review, which we are doing. So would this lead to any capacity deferment as well or this is more to do with the associated cost?
- Anant Goenka:** For the capex deferment?
- Jinesh Gandhi:** Capex, right.
- Anant Goenka:** No, your capacity will also get deferred to that extent.
- Jinesh Gandhi:** Can you share the revised timelines of the capacity?
- Kumar Subbiah:** I do not think we have some of the details here, I can get back to you on that.
- Jinesh Gandhi:** Sure.
- Kumar Subbiah:** Because it is usually say for example this will be along the market kind of growth. Truck radial there will be no change, but passenger cars instead of initial part of production, we know it is going to get well utilized, we will largely be spending some amount for the initial. It is largely as I said, the smaller machinery like presses, tyre building machines etc., that will get deferred. I do not have the numbers in terms of the quantum.
- Jinesh Gandhi:** So primarily deferment would be in PCR not much in TBR, even two wheelers would be deferred to some extent?
- Kumar Subbiah:** It will get deferred.

- Jinesh Gandhi:** Okay, last question pertains to the tax side. So we had seen tax write back in this quarter and previous quarter. So, do we expect further write backs for the prior period or we are largely done with this?
- Kumar Subbiah:** No, these are some old income tax related issues and pertaining to may be early 2000. So, those issues were taken up by the department and they passed an order. We have given effect to that. One order was passed in Q4 of last year and the balance order was passed in Q1. It pertains to the last 15 years or so, adjustments of various years assessments. So we do not expect any other income tax benefit going forward, which would be similar in nature.
- Jinesh Gandhi:** Okay, Sir just for this prior period write back, despite that our tax rate has been sub 30%, which is quite lower than what we have seen in last few years on consolidated basis between 35% to 39%, so do we expect this to be the run rate at around 30% for FY2020 or there will revert to 35% to 37% range?
- Kumar Subbiah:** The tax rate you should always look at a standalone basis. You should look at it in isolation and not together because the speciality business is still not making profits, but it is a separate entity. Therefore, when you look at it in totality, the profit number comes down when one entity makes money and another entity makes losses, but in general I think if you look at our ETR for the last couple of years, it has been in the range of about 33% to 34% depending on certain allowable benefits like R&D. So, I think that is the range at which it should operate. If you exclude some past related income tax favourable order.
- Moderator:** Thank you very much. The next question is from the line of Chirag Shah from Edelweiss Financial Services. Please go ahead.
- Chirag Shah:** Thanks for the opportunity and congratulations on the set of numbers. I have a question again on capex. I was trying to understand that in case a demand scenario turn bad or it does not improve, how much of this capex that you have for this year as well as next year combined, which cannot be postponed at all. What is the bare minimum capex that you will have to be give the phase of capex that you are in?
- Anant Goenka:** Just to understand your question, you are saying that what is the bare minimum capex that we have to spent?
- Chirag Shah:** Yeah, for the expansion programme that you have FY2020-2021 if I had to look at it, that this is the amount of money that you would have to put in given the nature of capex that we doing?
- Anant Goenka:** Yeah, I think roughly about 70% to 80% of it is largely fixed, so already committed or we have already gone ahead brought the land, done the civil work or done part of the civil work, order the large equipment etc., and some is on the way, so at least 70% to 80% will not be able to get cut, some deferment can happen. That is not our, I would think in terms of taking calls on because things are down now, so I think in the longer term, we are still optimistic about the auto industry,

we think things will pick up. I know we are seeing difficult times now, but there is enough scope for growth whether it is here and there can be an impact, but we are very confident of utilization and growth.

Chirag Shah: Also can you comment on your observation on the pricing trends in the recent times, especially replacement market in the last few months. Has the competitive intensity increased significantly or there is some divergent among the players?

Anant Goenka: Overall the pricing has been quite stable. There has not been a major impact on pricing across categories. Relatively, what I find is that the passenger car segment is appearing to be most competitive at this point of time. On the commercial vehicle side, as I said, particularly on truck radial, we have taken some price increase and we will be taking another price increase in the next few days. So net-to-net I would say the pricing at least has not gone down.

Chirag Shah: It can stay like that, there is no major risk that it can sharply increase, is it a right way of looking at things because pricing would be an important determinant on our cash flow?

Anant Goenka: Raw material continues to remain where it is, at least in the near term there does not look like there will be, I mean, we do not see any immediate reason for a price substantial shift, but what will happen I think is very difficult to really predict.

Moderator: Thank you. The next question is from the line of Joseph Josh from India Infoline. Please go ahead.

Joseph Josh: Thank you for the opportunity. My first question is on the standalone capex guidance that you gave. I guess that is the project capex, in addition to that how much would be the maintenance capex this year?

Anant Goenka: On an average, we do about 150 Crores of maintenance capex. It can be adjusted by again about say 20% up or down, in this scenario it at all only down, but that is a call we still need to take and there is flexibility in that space.

Joseph Josh: The second question was, when I look at the reported interest cost, at the consolidated level it is about 35 Crores, could you give us a sense of how much of interest cost has been capitalized, because it being part of the capex?

Kumar Subbiah: Normally we do not provide the breakup of interest cost, capitalized was what goes into P&L, because it varies from quarter to quarter and also depends on when you capitalize the assets and how much of borrowings, but you can work out in another way. Based on our total borrowings that is there in the investor desk, and you can apply an average rate of interest and arrive at that amount.

Joseph Josh: What would be the average rate of interest, if I may ask?

- Kumar Subbiah:** See it is again a combination of short term and long term, 8% to 8.5% could be an average rate of interest in today's context you can apply to arrive at that amount.
- Joseph Josh:** Alright Sir, the last question that I had was, when we look at the subsidiary earnings, we do a simple exercise, we get consolidated numbers, we get standalone numbers, we just deduct the standalone from the consolidated. What I notice that in FY2018 there was a loss of about 40 Crores, FY2019 was about 37 Crores, this quarter it has come off a bit about 4 Crores, I just wanted to get a sense what is the plan or when do you see the subs as we see it, you know consolidated minus standalone turning break even and may be even profitable?
- Kumar Subbiah:** The company is looking only in the speciality side we have to start breaking even, during Q1 in fact our losses were lower than Q4 to a tune of about 2 to 2.5 Crores, but it is not a simple mathematics because when you sell tyres to your own subsidiary companies outside, some profit element is also adjusted while arriving at the consolidated profit, so the gap of about 10 Crores exists today and as speciality business ramps up, I am sure that the gap between standalone and consolidated will start coming down.
- Joseph Josh:** Could you give us a sense of when you see the speciality business may be hitting break even or profitable, as per your internal plans?
- Anant Goenka:** See we have a small capacity of about 36 per day, when we are say close to about 80% utilization also, the breaking even or going into positive territory, we are targeting end of the year for that.
- Moderator:** Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Capital Private Limited. Please go ahead.
- Ashutosh Tiwari:** Sir on this speciality tyre business, what is the current utilization level of the plant?
- Anant Goenka:** Today we are at about 50% of utilization.
- Ashutosh Tiwari:** Secondly on the TBR side, where we are expanding our sales, so is it like mainly from retail channels or whether it is coming through tie-up with larger fleet operators and what is the strategy over there to ramp up the volumes?
- Anant Goenka:** We will be doing it through both, both fleet operators as well as retail are equally important to us. There is no differentiation that we do between the two in terms of which is more important to us and we target both because it is just that any fleet which is over a certain size, you can cater to them directly and service them directly and for smaller fleet owners, you very often go through a retailer, so both channels are active and from a profitability or focus point of view, it is not that one is more important versus the other.
- Ashutosh Tiwari:** For our dealers, if you can provide some colour, how the profitability of a TBR tyre versus TBB both is similar or TBR below margin for them?

- Anant Goenka:** I think generally it should be relatively similar, not very different, may be truck radial is a little bit marginally higher, but I do not see much difference in profitability at the dealer side. I do not have enough data to elaborate more, but I would say there should not be too much difference between the two, because the terms are largely similar. TBR tyres sell at a higher rate in the market but the cost is also relatively higher, credit terms are the same, so there is no real difference as such.
- Ashutosh Tiwari:** Okay, how do you see the competitive intensity in the two wheeler tyres, I think after Maxxis entered, how do you see the whole market, has it become more competitive than earlier or more or less similar to what it was last year?
- Anant Goenka:** I would say it has increased in intensity, you have a couple of existing players that have increased their sales, you also have Maxxis as you said entered, so competitive intensity in two wheeler has increased. The good thing is we have largely been able to keep our market share quite strong, we are continuing to focus on distribution, launching new products so we are happy with our growth. As I said scooters etc., particularly saw very strong growth rate of over 15% in the replacement side in this quarter, so our focus on two wheeler continues to be paramount amongst all categories.
- Moderator:** Thank you. The next question is from the line of Arvind Sharma from Citigroup. Please go ahead.
- Arvind Sharma:** Good evening Sir. Thanks for taking my question. Sir on top line you have seen a growth of almost 1% Y-o-Y, you have given the breakup between various segments, but on blend in basis, how much of this 1% could be attributed to the price hike you took last year and obviously volume would have declined, so what is the negative impact of volumes on the top line?
- Anant Goenka:** The mix is not only on pricing, it could also be on the mix itself. We have at least in the last quarter seen better growth in the more profitable replacement segment and slower growth on the OEM side, that may have caused some impact of higher net realization and therefore that difference between the two. I do not have the breakup on the price increase, but price increase versus mix, what is that impact between volume and value, I do not have the data, but roughly about 50:50 I think would be the breakup between the two, but this is at a very broad guess.
- Arvind Sharma:** Secondly again on the pricing front, you have spoken about this. Is there competitive intensity too high to take price hikes again, because we have seen in the past that there have been instances where there was a price hike and companies have been forced to roll back. What do you see going forward, is there more sanity in the competition if I may use the word as and when you will be able to take price hikes without impacting market shares or do you think that given the demand slowdown also hitting replacement market, pricing is going to get incrementally tougher, especially over the next six to eight months?

- Anant Goenka:** Competitive intensity continues to be strong, I do not think at any point of time competitive intensity has been weak in the tyre industry expect for may be certain categories at times when there was a demand supply gap, but I think at this time, there is enough supply that is there in the market, competitive intensity is high. On the other hand, there are price increases that are happening in a certain categories of tyres and the way we look at it is, we look at continuously coming out with newer and newer types of tyres with newer value added offerings and when we launch these new tyres, they are generally priced higher because the value add to the customer is higher and that is how we work towards increasing net realization. Now there is some impact on raw materials where raw material goes up or down, that can have some impact, but I see looking at today's environment, again at a judgement basis, I do not see any major change happening with respect to net realization or pricing if there is no increase in raw material prices.
- Arvind Sharma:** Sir, just one clarification on the capex part, if you could just divide the capex between this year i.e., FY2020 and FY2021, project capex?
- Anant Goenka:** This year as we have shared was about 1100 to 1200 on standalone plus another 200 in our speciality tyre business.
- Kumar Subbiah:** It should be a similar level. It depends on our next year's volume plans. It should be at similar level is what I think we expect.
- Arvind Sharma:** It would be same in FY2021, beyond that they would not be any bigger, at least project capex right, it would peak out in FY2021?
- Kumar Subbiah:** Just to give you a summary against our plan of 3500, as of now we have already spent about 1400, so what we have to spend balance is only 3500 minus 1400, everything on standalone basis. So we will decide in terms of how much to spend next year based on how the demand pattern is after adjusting for the balance amount that we intend to spend this year.
- Moderator:** Thank you. The next question is from the line of Chirag Singhal from First Water Advisors LLP. Please go ahead.
- Chirag Singhal:** Hello Mr. Goenka. I just wanted to know what is your view on the international market as in we all know that in the domestic market, there is a negative sentiment based on the liquidity crisis and various other sectors which is hurting the order sector, but why international business? I mean why there is a degrowth in international business as well? Can you throw some light on that?
- Anant Goenka:** No, international business has seen a positive growth, so there has not been a negative growth on international business. I would say that overall what has been happening as a trend over the last few years is that we have all been selling truck buyers tyres, also truck radial, but the space of negative growth of truck buyers tyres has generally been at a high level. So, that has been one area where you have been overall growing, but one element has seen some amount of slower

growth in that area. But, otherwise, I would say that the export business is relatively okay, not as bad as what we are seeing in India in terms of impact. In fact on passenger car segment, we have grown quite well, two and three wheeler in the export segment, we are doing quite well. Overall, I would say things have been quite okay at the export side.

Chirag Singhal: In the domestic market also, there are various factors which is affecting auto sector, but according to you which is the most impacted sector and how long do you think this is going to last?

Anant Goenka: Difficult to point out what one, but to me it is credit is one area which has clearly had a very clear impact on overall auto demand in India. Second, I would say is demand slowdown itself, which you can see is reflected in across categories slowdown, not only in the tyre space but other segments as well have got hit and GDP numbers.

Chirag Singhal: Lastly, you guided about the OEM segment that there is a volume degrowth, but like we can expect some good numbers in two wheelers and three wheelers and TBR segment, so is the same mix applicable for replacement sector as well?

Anant Goenka: I think what I shared was that on the passenger car side we have a strong order book for the OEM side which is where we are saying that once our new plant in Chennai comes on stream in December, we expect ramp up to be positive even though the market environment is weak because of the new order. So, that is why I am bullish about the OEM side. Rest of it, we all know what is happening on the OEM, I am not bullish on the two wheeler OEM side, not even on the truck segment in the near term.

Moderator: Thank you. The next question is from the line of Bikram Kumar from JM Financial Limited. Please go ahead.

Bikram Kumar: Thanks for the opportunity. I just missed the volume and value realization growth number on the standalone basis, can you repeat that please?

Anant Goenka: Value on a category wise, could you repeat that, I did not get your question.

Bikram Kumar: On an overall basis, what has been the volume growth and realization growth for the quarter on a standalone basis?

Anant Goenka: Volume growth was about close to flat kind of level and realization was about 2% to 3% higher on value growth.

Bikram Kumar: And RM has been down 2% sequentially?

Anant Goenka: That is right.

- Bikram Kumar:** Okay and Anant one question on the strategy side, as a lot of participants have already highlighted, the auto sector has gone through a lot of stress in recent quarters, I remember last year we had focused segments which we found to be profitable and we were planning ramp up in those segments, but now given the current dynamics, how have we re-structured our strategy?
- Anant Goenka:** Our strategy continues to be on the same track. We continue to be focused in the consumer segment. We are in a very strong position in the two wheeler space, we want to maintain that, similarly in the passenger car space, we are aiming to gain substantial market share, here we are restricted on capacity and waiting for the new plant to come up as well as our OEM presence, as we increase and ramp that up, it will help in the replacement segment in the longer term. So, to that extent, our focus on consumer and strategy continues to remain as per our original plan.
- Moderator:** Thank you. As there are no further questions, I will now hand the conference over to Mr. Anant Goenka for closing comments.
- Anant Goenka:** Thank you everyone for being with us here on a Friday night and thank you for your interest in Ceat. Have a good weekend and I look forward to catching up with you all once again same time next quarter.
- Moderator:** Thank you very much. On behalf of Kotak Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.